International Monetary Fund

Ghana and the IMF

Press Release:
IMF Executive Board Completes Sixth and Seventh Reviews Under the Extended Credit Facility Arrangement for Ghana and Approves US$178.74 Million Disbursement
July 13, 2012

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

June 26, 2012

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

LETTER OF INTENT

June 26, 2012

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

Dear Madame Lagarde:

The attached Memorandum of Economic and Financial Policies (MEFP) reports recent economic developments and reviews progress in implementing the Government of the Republic of Ghana's economic program under the three-year Extended Credit Facility (ECF), approved by the IMF Executive Board on July 15, 2009. It also sets out macroeconomic policies and structural reforms that the government will pursue for the remainder of 2012.

The strong performance in 2011 met some challenges toward the end of the year and in early 2012. While policies have remained broadly on track, three quantitative performance criteria were missed. For end-December (sixth review) all quantitative performance criteria were met with the exception of net domestic arrears clearance. The government took prompt corrective action to make up most of the shortfall in the first quarter of 2012, but, as a result, missed the adjusted deficit target for end-March (seventh review). The (adjusted) floor on net international reserves for end-March was also missed, reflecting the Bank of Ghana's large foreign exchange intervention in January in support of the cedi.

The government took decisive actions in recent months to contain expenditure and stabilize the currency. On the fiscal side, the pension and payroll audits promise considerable savings to make up for higher-than-planned wage increases, while carry over spending from 2011 was fully repaid. At the same time, recent actions to tighten liquidity and hike domestic interest rates appear to have stemmed the cedi's slide. To achieve the program's fiscal objectives, the government will keep the primary deficit close to balance, by resisting pre-election spending pressures and realize expected savings. The government will continue to defend the inflation target and stand ready to adjust interest rates further, if warranted to keep inflation within its target range, while gradually replenishing its foreign reserve buffer.

Progress has also been made on the structural reform agenda, but a number of reforms were delayed relative to program benchmarks. Debt management policies and performance was strengthened, and the government remains committed to developing a robust institutional framework for integrated investment planning and debt management, which will contribute to continued prudent external borrowing. 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. Implementation delays have resulted from operational challenges of managing new financial systems (Ghana Integrated Financial Management Information System), connectivity (integration of VAT and income tax offices), and human resources (civil service payroll audit). Despite these delays, the government remains strongly committed to advance the structural reform agenda and is stepping up efforts to implement the remaining measures. In the financial sector, the government's policy priority is to strengthen banks' risk management capacity, including the completion of remaining problem banks' recapitalization.

In support of its policies, the government requests that the IMF Executive Board complete the sixth and seventh reviews of Ghana's ECF arrangement and approve the associated disbursements. The government also requests that the IMF's Executive Board grant three waivers of nonobservance of performance criteria on the limits of net domestic arrears clearance by end-2011, the overall fiscal deficit at end-March 2012, and on the floor on net international reserves at end-March 2012. In addition, the government requests a technical extension of the program by about two weeks until July 31, 2012 to allow for the final disbursement of the remaining amount (SDR 119.14 million).

The ECF arrangement has played an important role towards the consolidation of macroeconomic stability, particularly during the global economic and financial crisis. It has also created a platform for accessing technical assistance from the IMF and other institutions and provided important signals on Ghana's economic performance and prospects.

The Government authorizes the IMF to publish this letter, the attached Memorandum of Economic and Financial Policies and the related Staff Report, including placement of these on the IMF website subject to removal of market-sensitive information, following the IMF Executive Board's conclusion of the reviews.

/s/	/s/
Dr. Kwabena Duffuor	Dr. H. A. Kofi Wampah
Minister of Finance and	Deputy Governor
Economic Planning	Bank of Ghana

ATTACHMENT I. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

This document summarizes the government's assessment of Ghana's current economic situation and performance of the economy through March 2012 and discusses the projections and policy objectives for the remainder of 2012. These objectives are informed by, and consistent with, the Ghana Shared Growth and Development Agenda.

I. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

1. **Ghana benefited from a favorable economic environment in 2011, and growth prospects remain strong.** The economy grew by an estimated 14½ percent in 2011, boosted by the onset of oil production, while end-2011 inflation fell to 8.6 percent—below the government's 9 percent target. Despite a strong export performance, the current account deficit rose above 9 percent of GDP in 2011, on account of rapid import growth. In 2012, economic growth is expected to continue at a robust pace of more than 8 percent, with inflation projected to approach the upper end of the 5.7–11.7 percent target band by the end of the year.

2. **Risks to macroeconomic stability are rising.** A rapid depreciation of the cedi in the first quarter of 2012—likely reflecting a combination of seasonally strong demand for foreign exchange, a shift to cash-based transactions with new trading partners, and high domestic liquidity—has slowed in May, in response to decisive policy actions by the Bank of Ghana (BoG). International cocoa prices dropped significantly in recent months, but most cocoa export sales have been hedged through September, and still high gold prices provide a buffer. Nevertheless, Ghana's economy is exposed to upside risks to inflation from a depreciating currency and high domestic demand, as well as to a possible deterioration in the external position, resulting from a deeper global slowdown with potentially adverse repercussions on commodity prices and foreign inflows.

II. PROGRAM PERFORMANCE

3. **The strong performance in 2011 met some challenges toward the end of the year and in early 2012.** For end-December 2011, all quantitative performance criteria and indicative targets were met, with the exception of the target for net arrears clearance (Table 1). For end-March 2012, both the overall deficit target and the floor on net international reserves were missed, reflecting special circumstances outlined below. The government has since taken significant corrective actions to safeguard the program objectives to which it remains fully committed. Structural reforms have also been progressing, though with some delays and deviations from the previously agreed benchmarks (Table 2).

4. **The fiscal deficit in 2011 was below the program ceiling, but net clearance of arrears fell short, and some spending was carried over into 2012.** Revenue was broadly as programmed and grants were higher than projected, while expenditure was lower. The

wage bill, however, exceeded earlier projections, as challenges with migration to the single spine caused some overpayments. Moreover, late tax receipts created cash shortages toward the end of the year. While the program provided room for carry over of GH¢ 270 million, the actual amount (carry over, float, and residual petroleum subsidies) exceeded this level by GH¢ 404 million (about 0.7 percent of non-oil GDP). In addition, although gross arrears clearance of more than GH¢ 1.5 billion (2.7 percent of non-oil GDP) exceeded the program target, there was an accumulation of new arrears of GH¢ 720 million by end-December. As a result, the net arrears clearance target was missed by GH¢ 626 million. With the full collection of revenue in late December, the fiscal cash deficit was, in the end, lower than the (adjusted) target by GH¢ 362 million, but would have exceeded the target in the absence of the carry over.

5. **The government has adopted decisive corrective actions to settle the new arrears and the outstanding 2011 claims.** Carry-over expenditure from 2011 was fully repaid, and net arrears clearance in the first quarter of 2012 exceeded the program target by GH¢ 327 million (0.5 percent of non-oil GDP), while net domestic financing was below the program's (adjusted) indicative target. However, with these significant efforts, the (adjusted) overall deficit was missed, despite lower recurrent and capital expenditure. The floor on net international reserves was missed by US$1.1 billion, reflecting interventions by the BoG in January to stem pressures on the cedi. Since then, monetary policy has been tightened significantly to help stabilize the cedi without a further depletion of NIR.

III. Economic Objectives and Policies for the Remainder of 2012

After a successful macroeconomic outturn in 2011, the government's main challenge for 2012 will be to maintain the hard-won stabilization gains in the face of resurgent global risks and domestic spending pressures.

A. Fiscal Policy

6. **The government is committed to maintaining the agreed primary deficit target of 0.1 percent of non-oil GDP on a commitment basis.** Achieving this target will now require an adjustment of 1.8 percentage points of non-oil GDP relative to 2011, versus 0.5 percentage points targeted at the time of the 5th review. The cash deficit, however, will be higher by 1.5 percentage points at 6.7 percent of non-oil GDP, reflecting the carry-over of payments from 2011, as well as higher interest payments from tightened monetary policy. To achieve this target, higher-than-programmed wage increases awarded in early 2012 and the reemergence of domestic energy subsidies will be partially covered by savings from the completed pension audit and the ongoing payroll audit, some reductions in discretionary current and domestic capital expenditure, and higher estimates of returns from adjusting the mining tax regime.

Containing spending pressures

7. **The wage bill**. Migration to the single spine salary structure is virtually complete, with 99 percent of public servants now placed on the new structure. In October 2011, the government began paying deferred wages resulting from delays in the migration. The remaining amount of GH¢ 991 million to be paid in 2012 will be disbursed in monthly installments until July 2012. Instead of an increase in pay relativity, as originally planned, the government negotiated a base pay increase of 18 percent in late-February, which is effective January 1, 2012. Public servants started receiving the higher base pay in May 2012 and payments for January to April 2012 will be made in August. The cost of the pay increase of GH¢ 1,100 million will be partially met by savings from a payroll audit, which will begin to materialize in the second half of the year and promise to lower the overall wage bill permanently by an estimated 15–20 percent. This estimate is based on a 75 percent completion rate, covering six regions, which was achieved by end-June. The government has publicly announced that it will discontinue payments to ineligible workers in these six regions as of July 2012. While the audit was originally expected to be completed by May (structural benchmark for seventh review), completion is now anticipated by end-August at the latest.

8. **Energy pricing.** In late December, the government raised pump prices by 15 percent to restore cost recovery, but was compelled to claw back 3 percentage points of the increase in February, to avoid public unrest. Since then, prices have been kept constant, as domestic fuel price increases on top of the strong cedi depreciation were deemed intolerable, particularly for lower-income households. The implied subsidies between January and May 2012 of GH¢ 228 or 0.3 percent of non-oil GDP million were covered from the budget. In late May, domestic pump prices were about 15 percent below their cost-recovery level (implying monthly subsidies of about GH¢ 60 million), but the latest decline in international oil prices has reduced the gap to about 10 percent (implying monthly subsidies of about GH¢ 45 million). Utility tariffs, last adjusted in December 2011, have also fallen below cost-recovery levels by a similar magnitude. The government remains committed to restore cost-recovery levels in the future. In the short term, however, it has identified alternative revenue and expenditure measures to preserve its fiscal targets

9. **Other expenditure measures.** To offset the additional spending commitments, the government will also reduce discretionary current and domestically-financed capital expenditure by GH¢ 228million, relative to the 5th review target. The savings will be achieved by a GH¢ 69 million reduction in current spending and by delaying a number of identified new projects. A number of contingency measures (equivalent to 0.2 percent of nonoil GDP) have been identified in the event of revenue shortfalls or additional spending pressures.

Maintaining improvements in revenue performance

10. **Non-oil tax collections have risen substantially since the launch of the ECF program, from 12.3 percent of non-oil GDP in 2009 to 16.3 percent in 2011.** This is largely due to improvements in tax administration, including strengthened customs administration and streamlining of tax exemptions. The government is targeting an increase of the non-oil tax revenue ratio to 16.9 percent of non-oil GDP in 2012, which would stem from ongoing reform efforts as well as new tax measures.

11. **Tax administration**. The integration of VAT and direct taxation under single office heads is proceeding (structural benchmark). Three integrated offices of the Domestic Tax Revenue Division (DTRD)—the large taxpayer office as well as one medium and one small taxpayer office—were operational by end-March 2012. Six additional integrated offices are scheduled to become operational by end-June 2012, with full integration by the end of the year (for a total of 64 offices). Roll out of the information technology (IT) system under the *e-gov* reform in pilot offices is proceeding in parallel. In addition, the government is pursuing further improvements in customs administration. A review of the customs law is in progress and a new bill will be proposed to modernize customs administration.

12. **Tax policy.** In its 2012 budget, the government proposed a number of new measures to strengthen revenue performance:

- **Natural resource taxation.** The corporate tax for mining was increased from 25 to 35 percent and a uniform regime for capital allowances was established, including an annual allowance of 20 percent for five years for mining. An annual revenue yield of GH¢ 314 million (0.5 percent of non-oil GDP) from the increase in the corporate tax rate was incorporated in the 2012 budget, but refined estimates now point to a yield of GH¢ 488 million which includes additional revenues from the change in capital allowances. A windfall profit tax has been developed with IMF technical assistance and will be submitted to Parliament by end-June 2012. However, revenues from this measure are only expected to start in 2013. The government has drafted new regulations to govern ring fencing of projects in mining. New modalities were legislated with the passage of the amendment to the Internal Revenue Act in March. OECD guidelines for transfer pricing have been adopted and new regulations will be sent to Parliament in June.

- **Capital gains.** A revision of the Internal Revenue Act is underway, including provisions concerning the transfer of interest between non-resident business entities, with a view to enhance the government's ability to collect more capital gains taxes from these transactions. The amendment to the Act, already legislated, did not include provision for capital gains tax. The tax is, thus, being considered in the general revision of the Internal Revenue Act which is ongoing. A draft of the new bill will be completed in June.

- **Revised VAT legislation.** The government has undertaken a comprehensive review of the draft VAT bill which was submitted to Parliament in May 2011 and includes the extension of VAT to fee-based financial services. The new draft has been resubmitted in June 2012 after incorporating substantive comments from the IMF's Legal Department, and will be considered during the current legislative session. The delayed introduction will reduce the VAT intake by about GH¢ 107 million relative to the budget projections incorporated in the 5th review.

13. **Non-tax revenue.** The government also expects additional non-tax revenue, following changes to the tax regime for mining. For those mining companies that have stability agreements, the government approached these companies to negotiate compensation for maintaining the existing favorable terms. In addition, a number of mining companies have approached the government to negotiate new stability agreements. Fees as compensation for the stability agreements are expected to yield non-tax revenue of GH¢ 525 million (0.8 percent of non-oil GDP).

Continuing PFM reforms

14. **Management of arrears**. The government has made significant progress in arrears management. The focused implementation of its arrears clearance strategy in 2011 has reduced outstanding obligations by 2.7 percent of non-oil GDP through cash payments and an additional 1.5 percent of non-oil GDP through issuance of promissory notes and bonds. The requirement that commencement certificates be secured by line ministries before committing the government to any contractual obligations has limited the occurrence of new arrears. The latter, however, still amounted to 1.3 percent of non-oil GDP in 2011, as a result of a tight cash flow position at the end of the year and delays in the reconciliation of liabilities between the central government and utility companies.

15. **Ghana Integrated Financial Management System.** The government continues to make progress on the implementation of GIFMIS, despite some delays related to the negotiation of contractual obligations with software providers. Recent progress has been made with the set up of the general ledger module and the roll out of a unified chart of accounts, compliant with GFSM 2001. The general ledger transactions from January to November 2011 were converted into the new chart of accounts and uploaded to the Oracle General Ledger in November 2011. The implementation partner (Oracle Consulting Services) revalidated and re-setup the general ledger as part of their contract scope which commenced in December 2011, and this was rolled out to all ministries in February 2012 (structural benchmark). All MDAs have been trained in the use of the general ledger, although their ability to post transactions is at times hampered by connectivity problems. In addition, testing and training for the Procure-to-Pay (P2P) module—which includes purchasing, payables and cash management—is underway. The module will be operational in two pilot offices (MoFEP and CAGD) by end-June 2012 and the roll out to all MDAs will

begin in August 2012. Going forward reforms will focus on the next phases of implementation, including the integration of the payroll and financial systems.

16. **Cash management.** The government has made progress in the transition to a Treasury Single Account to address ongoing challenges in cash management. The number of government bank accounts at the Bank of Ghana has been reduced to 3,500 from 5,000. Of these, 410 constitute the nucleus of the TSA. Further consolidation of accounts will be undertaken as the roll out of the GIFMIS general ledger and P2P modules is completed for each MDA. The completion of the GIFMIS roll out should also facilitate the elimination of large unclassified fiscal float transactions. Going forward, the cash management team envisages 3 accounts for each MDA, but the number of remaining accounts to serve the needs of MDAs is currently under review.

Strengthening investment planning and debt management

17. **CDB loan.** Parliament has approved nine out of twelve subsidiary agreements for infrastructure development in the context of the Master Facility Agreement (MFA) with the China Development Bank. They include US$150 million to finance ICT-enhanced surveillance and monitoring for the oil and gas enclave project and US$850 million for the gas infrastructure project to be disbursed over three years. The remaining subsidiary agreements have also been submitted to Parliament for approval. As projects are being phased in, the government will ensure that all are supported by robust feasibility and financial viability studies, as required under the MFA. The government will also 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 under the MFA will not exceed US$750 million in 2012, consistent with commitments under the 5th review.

18. **Debt management.** Capacity and policies have been strengthened and a second annual debt management strategy for 2012–14 was published at end-December 2011, as foreseen under the program (structural benchmark). The reorganization of the Debt Management Division (DMD) was completed in October 2011. The main objective of the Division is now to minimize the financial cost of the public debt, while maintaining the market and operational risks at an acceptable level, taking into account the general objectives of fiscal and monetary policies.

19. **Investment planning.** A new Public Investment Division (PID) has been created to provide strategic direction and coordination in the management and delivery of public investments be it through Continental Traditional Procurement or Public Private Partnership Procurement. It (i) establishes and maintains a rolling medium-term public investment plan, consistent with GSGDA priorities; (ii) evaluates, assesses, and monitors major investment projects; and (iii) advises on the selection of Public-Private Partnership (PPP) projects. A national policy on PPP policy framework has been developed with World Bank and DFID

support and approved by Cabinet in June 2011. Work is ongoing on policy guidelines to strengthen coordination between PID, DMD, and the Economic Research and Forecasting Division at MoFEP (structural benchmark for the seventh review). The guidelines cover coordination on: (i) debt sustainability and risk analyses; (ii) establishing multi-year investment and borrowing plans that are consistent with the medium-term expenditure framework and the public debt management strategy; and (iii) managing fiscal commitments and contingent liabilities from PPP. A draft framework for managing fiscal commitments and contingent liabilities from PPPs has been developed and is currently under review.

B. Monetary, Financial, and Exchange Rate Issues

Defending the inflation target

20. **In 2012, the BoG aims to keep inflation broadly stable, with an end-year target in the range of 5.7 to 11.7 percent.** The accelerated decline in the exchange rate, however, creates upside risks. To rein in inflationary expectations and slow the cedi depreciation, the BoG has undertaken a number of measures. Since the beginning of the year, the BoG has raised its policy rate thrice to 15.0 percent, and also took additional measures in April, including: (i) a reduction in banks' maximum net open forex position (from 15 to 10 percent on single currency and from 30 to 20 percent on aggregate exposures); (ii) a shift in the currency at which banks hold mandatory reserves on forex deposits from foreign currency to cedi, to raise the supply of foreign exchange in the market; (iii) the reintroduction of BoG bills at different tenors to facilitate the mopping up of excess liquidity and (iv) the provision of a 100 percent cover by commercial banks for all *vostro* accounts, to be held with the BoG in line with operational guidelines that preclude foreign investors from participating in the short end of the money market. These measures have recently shown effect in raising market rates and halting the depreciation.

21. **The BoG stands ready to adjust interest rates further, if warranted to keep inflation within its target range, while gradually replenishing its foreign reserve buffer.** A larger buffer will facilitate the smoothing of excessive volatility in the foreign exchange market, while allowing an orderly adjustment of the exchange rate to market forces. To avoid adding further to short-term exchange rate pressures, the pace of reserve accumulation will be gradual, with the aim of restoring March levels by June and retaining a coverage of close to 3 months of prospective imports by the end of the year.

22. **The BoG, together with MoFEP support, will also implement structural improvements in the functioning of the foreign exchange market.** Several actions will be adopted in the following months to reduce volatility and ensure convergence of exchange rates in the market:

i. Enforcement of repatriation requirements and establishment of sunset clauses for concessions, to increase supply of foreign exchange.

ii. Strengthening monitoring and intervention practices in the market by improving cash-flow budgeting and facilitating timely and effective intervention at market rates. The BoG is now an active participant in the foreign exchange interbank market by offering two-way quotes on the U.S. dollar to all banks for intra-day trading in the currency. The BoG is also enhancing its cash flow budgeting, including considering the forecasted benchmark petroleum revenue to better gauge the amount that is earmarked for the annual budget funding amount as required in the Petroleum Revenue Management Act, and ensuring that all transactions occur at market rates.

iii. Enhancing transparency and providing regular and frequent information on reserve levels and reserve management policies.

23. **To strengthen monetary operations and liquidity management under the inflation targeting framework, the BoG will:**

i. Continue mopping up excess liquidity with the reintroduced BoG bills as well as treasury bills. The BoG will further tighten the policy rate, if excessive depreciation pressures persist. An account will be established for accruing interest related to the mopping up of excess liquidity from foreign participation in domestically-issued 3-year and 5-year bonds. Discussions on cost-sharing arrangements are ongoing.

ii. Continue to conduct monetary policy operations so that the short-term market rates are consistent with the policy rate.

iii. Continue to publish information regarding its monetary operations on its website and communicate regularly with market participants to promote understanding of BoG actions.

iv. Improve the liquidity forecasting framework and coordinate closely with the MoFEP to obtain better information on the government's cash flow projections.

Financial sector developments

24. **The banking system continued to record steady growth in assets and profitability in the first quarter of 2012.** Total assets increased by 24.2 percent year-on-year to end-March-2012, funded mainly by deposits. The non-performing loans (NPLs) ratio of the banking industry declined to 13.1 percent at the end-March, 2012, while the Capital Adequacy Ratio (CAR) of the sector also declined to 17.3 percent, but remained well above the statutory level of 10 percent. Most profitability indicators for the first quarter of 2012 improved compared to 2011 levels, whilst overall liquidity levels also remained high.

25. **The policy priority in the financial sector continues to be a strengthening of banks' risk management capacity.** Several specific actions are being taken**:**

- **Recapitalization of remaining problem banks**. Some progress has been made regarding the re-capitalization of the remaining nine banks yet to achieve the GH¢ 60 million minimum capitalization. One bank has since met, while another is going through due diligence checks towards compliance. Five others have presented re-capitalization plans which are being monitored for implementation. The remaining two banks may face challenges, and the BoG will put in contingency measures to deal with these. The possibility of public listing on the Ghana Stock Exchange remains an option open to under-capitalized banks. Banks that choose this option, by spreading ownership and subjecting themselves to additional oversight by the GSE, could benefit from an extension of the deadline, but this will be assessed on a case by case basis.

- **Audit of banks**. The alternative measures taken by the BoG in lieu of commissioning special audits of banks (periodic mandatory rotation of external auditors and trilateral meetings) have proved to be effective in terms of achieving more thorough audit reviews, more meaningful public disclosures of audited financial statements, and extensive dialogues with banks and their external auditors. Twelve banks have changed their auditors since the policy change, while some changes will take place from the 2012 financial year. By end-March 2012, trilateral meetings among BoG, banks and their external auditors were held with 10 banks prior to the publication of audited financial statements in newspapers. Issues raised by BoG involving prudential and accounting concerns were incorporated in the final audited statements that were published. This year's round of trilateral meetings for the rest of the banks will conclude by mid-July 2012. Those banks which had published their audited financial statements were duly advised that they will be required to republish if material issues come up during the ongoing trilateral meetings. The required rotation of external auditors also significantly improved the quality of audit and has resulted in a number of re-statements in the banks' prior year earnings and recognition of impairments in the loan portfolio. The objectives of these alternative measures were achieved, more particularly that of making external auditors aware that the BoG takes their statutory duties under the Banking Act 2004, as amended, very seriously and that failure to comply with these duties could be a ground for disqualification of external auditors from engaging in audit of banks and other financial institutions

- **Amendments to financial sector legal framework.** The two groups of legal consultants who have been engaged by BoG to review different banking and financial sector laws were required to submit their first progress reports by end-April 2012 and to complete the assignments by September 2012. The Working Committee and the IMF Banking Supervision Advisor have started providing inputs to the consultants regarding the priority amendments needed in the Acts and the weaknesses of some sections in the Acts. The priority is to draw up Regulations to give effect to the existing Banking Act 2004 and to progress with an overhaul and consolidation of the existing banking Acts. The BoG has also approached the Legal Department of the

Fund through MCM to assist with providing model laws and possible TA in reviewing laws when drafted. Indications are that these laws may not be passed until Q1 of 2013.

- **BoG equity shareholding in banks.** The BoG remains committed to its objective of reducing its direct equity interest in banks. For the remaining two banks in which it continues to hold equity interest, one requires Parliamentary approval to convert from a statutory corporation into a limited liability company so it can list on the GSE, while the other requires government approval as the principal shareholder. The Bank of Ghana will sell its shares once these hurdles are cleared.

- **Social Security and National Insurance Trust (SSNIT) equity shareholding in banks.** The Board of SSNIT has agreed to dilute its shareholdings in the banking industry. In this regard, it has disposed of all its shares in one bank in which it has majority ownership (more than 50 percent), and merged its majority stake in another participated bank, thereby reducing its equity from 61 percent to just 14 percent. For the third bank, it has had to provide tier 2 Capital to bolster its operations, while looking to a conclusion of discussions with the strategic investor to buy out SSNIT by taking a majority stake. SSNIT may need to convert this to equity to meet the impending deadline, while it continues to pursue options for divesting its shares in the bank.

- **Addressing AML/CFT deficiencies.** Following FATF's downgrading of Ghana, a number of initiatives have been undertaken to improve the AML/CFT environment. First, a National Strategy and Action Plan has been adopted to mobilize all government agencies in the fight against ML/TF offences. Secondly, Parliament is expected to pass two laws to criminalize the remaining predicate offences and also the regulations to give effect to the Anti-Terrorism Act and Mutual Legal Assistance Act. Thirdly, steps have been taken to grant the Financial Intelligence Centre technical and administrative capacity to be fully operational. Finally, the BoG continues to draw on technical assistance from the OTA and the Fund to build capacity for implementation of a risk-based approach to AML/CFT regimes in supervised institutions. The first round of on-site visits to banks began in April and will be extended to other institutions in the course of the year.

- **Strengthening consolidated supervision.** Within the framework of the Forum of Regulators (domestic) and the College of Supervisors (external), efforts continue to be made to strengthen the structures for oversight within and across the region of banking and non-bank institutions. Formal and informal information exchange between banking supervision and the capital market supervisor is helping to address cross cutting issues and institutions, while the quarterly meeting of the WAMZ College of Supervisors is facilitating the exchange of information on cross-border banking.

C. Program Design and Monitoring

26. **Program targets and benchmarks.** Quantitative program targets are documented in Appendix Table 1. Structural benchmarks are documented in Appendix Table 2.

Appendix Table 1. Ghana: Quantitative Program Targets (December 2010— June 2012) [1]

(Cumulative from the beginning of calendar year, unless otherwise indicated)

	2010	2011				Mar. 2012				Jun. 2012	
	Dec.										
	Act.	Prog.[2] 5 ECF Rev.	Adjusted Target	Act.	Target met?	Prog.[2] 5 ECF Rev.	Adjusted Target	Est.	Target met?	Prog.[3] 5 ECF Rev.	Rev. Prog.[3] 6/7 ECF Rev.
I Quantitative performance criteria											
Overall fiscal deficit of the government (ceiling; millions of cedis)	3000	2741	2751	2388	Met	857	943	979	**Not Met**	2273	3467
Increase in net international reserves of the Bank of Ghana (floor; millions of U.S. dollars)	937	518	468	574	Met	-115	24	-1074	**Not Met**	-191	-733
Net change in the stock of domestic arrears (celing, millions of cedis)	654	-1412	-1412	-785	**Not Met**	-63	-63	-327	Met	-87	-410
II Continuous performance criteria											
Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0	0	0	Met	0	0	0	Met	0	0
Contracting or guaranteeing of new medium-to-long-term nonconcessional external debt (ceiling; US$ millions)[4]	197	3400		3364	Met	810		264	Met	810	810
Oil and gas sector [5]	0	1250		1250	Met	0		0	Met	0	0
Other sectors	197	2150		2114	Met	810		264	Met	810	810
III Inflation consultation											
Twelve-month consumer price inflation (percent) [6]											
Outer band (upper limit)		12				12				12	12
Inner band (upper limit)		11				11				11	11
Central target rate of inflation	9	9		9	Met	9		9	Met	9	9
Inner band (lower limit)		7				7				7	7
Outer band (lower limit)		6				6				6	6
IV Indicative targets											
Net domestic financing of the government (ceiling, millions of cedis)	2143	2361	2387	1988	Met	844	984	741	Met	1642	2644
Net domestic assets of the Bank of Ghana (ceiling; millions of cedis)	-924	583	583	80	Met	635	635	1029	**Not Met**	955	1833
Poverty-reducing budget expenditures (floor; millions of cedis)	2411	2888		2974	Met	858	858	711	**Not Met**	1717	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: Structural Benchmarks Under the ECF Arrangement, 2011–12
(Shaded benchmarks are covered by the 6th review)

Measures	Timing	Implementation Status	Macroeconomic Rationale
1. Tax policy and revenue administration			
● 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	**Partially implemented.** Three integrated offices of the Domestic Tax Revenue Division (DTRD)—the large taxpayer office as well as one medium and one small taxpayer office—were operational by end-March 2012. Six additional integrated offices are scheduled to become operational by end-June 2012, with full integration by the end of the year (for a total of 64 offices).	Strengthen revenue mobilization as part of fiscal consolidation strategy.
● Extend self-assessment for tax purposes to all medium and large taxpayers.	End-June 2012	**Delayed.** The self-assessment regime is currently applicable to all taxpayers under the large taxpayers office and to one medium taxpayers office (MTO). Plans, including a detailed timeline, are in place to extend the self assessment to all medium taxpayers as the MTOs are rolled out, with the last office scheduled to open in December 2012.	As above.

2. Public expenditure management			
● Roll out GIFMIS to all ministries.	End-March 2011	**Partially implemented**. Progress has been made despite some delays related to the negotiation of contractual obligations with software providers. The general ledger module was rolled out to all ministries in February 2012. The Procure-to-Pay module will be operational in two pilot offices by end-June 2012 and the rollout to all MDAs will begin by August 2012.	Strengthen monitoring and control of budget execution.
● 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	**Implemented**	As above.
3. Public debt management			
● Publish a second annual debt management strategy.	End-December. 2011	**Implemented**	Support the maintenance of public debt sustainability.
● 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	**Delayed.** A first draft of the policy guidelines to enhance coordination between divisions has been completed and is under review. A final draft is expected by end-September 2012.	As above.

4. Public sector reform and payroll management			
● Migrate to the automated payroll system (IPPD2/3) all remaining non-security subvented agencies.	End-July 2010	**Not implemented.** Implementation has been delayed as resources have been allocated to the completion of the migration to the single spine salary structure. Implementation will resume, once the single spine migration and the payroll audit are completed.	To strengthen oversight and control of the high and growing public payroll.
● Complete civil service payroll audit to remove ghost workers.	End-May 2012	**Delayed.** Work on the payroll audit is ongoing with completion of six regions by end-June 2012, covering 75 percent of public employees. Completion of the audit is expected by end-August 2012.	Contain public sector wage costs.
5. Monetary and financial policy			
● Develop a strategy for addressing remaining problem banks.	End-March 2012	**Implemented.** The BoG's strategy is centered upon a two-round process of increasing banks' minimum capital (25 millions cedi by end-2011 and 60 millions cedi by end-2012) and encouraging several banks to forge new partnerships through equity shareholdings from larger banks in the region.	Support continued financial sector stability.
● Appoint international firms to conduct independent audit of remaining problem banks.	End-March 2012	**Not implemented.** Audit by international firm has been replaced by a number of corrective actions being undertaken in the banking sector, consistent with advice of long-term banking supervision consultant at the BoG.	As above.

● Submit for parliamentary approval amendments to the Banking Laws to close regulatory gaps, including with respect to bank resolution options.	End-March 2012	**Not implemented.** Following delays in appointing legal consultants to draft regulations, the Fund is providing technical assistance to strengthen the legal and regulatory framework for mergers and acquisitions, bank resolution, as well as to enhance supervisory capacity in these areas. An implementation work plan will be prepared by the Bank of Ghana by end-July 2012.	As above.

ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This technical memorandum of understanding (TMU) defines the variables subject to quantitative targets (performance criteria and indicative targets), as specified in the authorities' Letter of Intent (LOI) 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 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

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[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.

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 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

[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.

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]

[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.

(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 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, 2012
(GHc millions, cumulative from the start of the calendar year)

	2012 Mar Prov.	2012 Jun Proj.
Program grants	232	353
Program loans[1]	88	161
Project loans[1]	261	507

[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

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

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

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

36. 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, 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.