International Monetary Fund

Ghana and the IMF

Press Release:
IMF Executive Board Completes Second ECF Review for Ghana, and Approves US$114.6 Million Disbursement

January 13, 2016

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

December 23, 2015

Letter of Intent

Accra, December 23, 2015

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

Dear Ms. Lagarde,

1. The government requests that the IMF Executive Board complete the second review of Ghana's Extended Credit Facility (ECF) arrangement and approves disbursement of the third tranche of the loan, based on the successful implementation of all performance criteria (PC) at end-August, except for the continuous PC on non-accumulation of external arrears that was not met, and a broadly satisfactory implementation of key structural reforms, as explained in the attached MEFP.

2. The program remains on track and the Government is committed to the reforms supported by the ECF. We continued fiscal consolidation, as indicated by a lower than programmed primary fiscal deficit in January-August. We implemented measures broadening the tax base and enhancing tax compliance; and approved the new PFM reform strategy. We published the report on the audit of the payroll database and security system and made progress toward completing the biometric validation of all employees on mechanized payroll. The Bank of Ghana (BoG) further tightened monetary policy. The reduction in the stock of arrears exceeded that envisaged by the program.

3. Economic conditions remain difficult, as the economic slowdown continues and financing becomes increasingly expensive. Weak commodity prices and ongoing energy crisis continue to affect economic growth. Lower exports and a lack of market confidence have added significant volatility to the exchange rate putting pressures on interest and foreign capital spending. Government financing needs remain high and access to finance is increasingly tight. A more ambitious fiscal adjustment envisaged by the 2016 budget and the modification of the program financing strategy will help to contain financing needs, stabilize public debt and avoid accumulation of arrears. The 2016 budget includes the necessary measures to achieve these objectives, as detailed in the attached MEFP. The BoG remains committed to bringing inflation down to its medium target, through setting its policy rate at an appropriate level and stands ready to take any further action required to combat inflation.

4. There were delayed payments in external debt service to official creditors in small amounts mainly due to discrepancies on the external debt database projections and variations from expected payments to some creditors especially with regards to loans with variable rates. In addition, the authorities raised some queries on some debt obligations to some creditors whose resolution resulted in the delayed payments. All external debt payments have been honoured as at now. Going forward, the Authorities have arranged for Technical Assistance on the integration of the debt management software with the budget and accounting software and requested Technical Assistance

from the IMF to conduct an in-depth review of the debt management system, its organization and procedures. This is expected to speed up the processes for dealing swiftly with queries and honouring payments on schedule.

5. The MEFP describes government policies for the remainder of 2015 and 2016 which would support achieving program objectives under the ECF. We request the IMF Executive Board to approve the waiver for the non-observance of the continuous performance criterion on non-accumulation of external arrears and the establishment of performance criteria and structural benchmarks for 2016, with test dates at end-June and end-December, and to change monetary conditionality to a Monetary Policy Consultation Clause, based on quarterly inflation targets with inner and outer bands.

6. The government believes that the measures and policies set forth in the attached MEFP and the 2016 Budget are appropriate and sufficient to achieve the objectives of its program, and it stands ready to take any additional measures that may be necessary to that end. We will consult with the IMF on the adoption of such measures in advance of any revision of the policies contained in the MEFP, in accordance with the Fund's policies on such consultation. The authorities will hold timely consultations with the IMF staff on the possible terms of a Eurobond and other non-concessional external borrowing to ensure that such borrowing strengthens confidence in the program, does not jeopardize debt sustainability and is in line with the Fund's debt limit policy.

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

Sincerely yours,

/s/	/s/
Seth Emmanuel Terkper	Henry Akpenamawu Kofi Wampah
Minister for Finance	Governor of Bank of Ghana

Attachments:

Memorandum of Economic and Financial Policies

Technical Memorandum of Understanding

Attachment I.
Memorandum of Economic and Financial Policies, 2015–17

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

I. RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

Growth and Inflation

2. Preliminary national accounts estimates indicate that the economy expanded by 4.1 percent in the first half of 2015, compared with the growth of 4.0 percent in 2014, as a whole. Growth in the first two quarters was driven by a pick-up in the construction industry, ICT, and financial services, while manufacturing and the services sector exerted a drag on growth.

3. Inflation pressures remain high, boosted by pass-through from the depreciation of the Cedi. Inflation stood at 17.4 percent in October, slightly down from the 17.9 percent peak in July.

Fiscal Performance

4. Fiscal performance in January–August 2015 was satisfactory. The overall fiscal deficit on a cash basis was substantially lower than budgeted, and the primary surplus exceeded expectations. Strong revenue performance benefited largely from tax administration and policy measures and the depreciation of the cedi, boosting indirect tax revenues, including the VAT, petroleum products tax and export tax, along with the corporate income tax collections. Lower than expected economy-wide wages have led to a shortfall in personal income tax. The central government wage bill remained within the budget envelope, but payments of deferred wages were above the budget projections. With higher-than-projected repayment of arrears and capital spending, total government spending was slightly higher than budgeted.

5. Government remains on course with its medium-term domestic arrears clearance strategy. No new domestic arrears were accumulated so far and higher-than-programmed arrears were cleared in January-August 2015. Of the stock of arrears to Bulk Distribution Companies (BDCs) related to foreign exchange losses and price under recoveries as at end 2013 and 2014 that was identified by independent auditors, the government has repaid GH¢ 300 million, by using part of proceeds from the BoG dividend, and is planning to clear the remaining GH¢ 300 million before year-end. To preclude any further accumulation of arrears to BDCs related to foreign exchange losses and underpricing, the government liberalized the pricing of petroleum products in July.

Financing and Public Debt

6. Consistent with the program, government financing needs in January-September were covered mainly through domestic debt issuance, which amounted to GH¢ 2.5 billion (1.9 percent of GDP) on a net basis. Demand for shorter maturities exceeded that for medium- and long-term securities, which shortened the average time to maturity of domestic marketable securities to 9.7 months at end-October, compared with 10.8 months at end-April. Continued net redemptions of medium-term securities and the shortening of remaining maturities of the outstanding medium term securities boosted the share of T-bills in total domestic marketable securities.

7. Net external borrowing amounted to GH¢ 2 billion, or 1.5 percent of GDP in January-September, with disbursements of GH¢ 4 billion (2.9 percent of GDP) over the same period. In October, the government issued a US$ 1 billion Eurobond, with a coupon rate of 10.75 percent and 15-year final maturity. Although the issue was oversubscribed, the government decided to issue only US $1 billion, compared with US$1.5 billion approved by Parliament, to contain the cost of debt. The proceeds have been deposited into an escrow account and will be used solely to retire maturing domestic debt. Other financing included donor support in the amount of about US$ 160 million (0.5 percent of GDP).

8. Outstanding public debt reached 69.1 percent of GDP at end-September 2015, with domestic and external debt of 28.3 of GDP and 40.9 percent of GDP, respectively.

Monetary and Financial Sector Developments

9. The Monetary Policy Committee (MPC) increased its benchmark policy rate to 26 percent, raising it by 200 basis points in August, by 100 basis points in September and a further 100bp in November. The increase led to (i) a closing of the gap between policy and market interest rates and (ii) a tightening in monetary conditions. Reflecting the less accommodative policy stance, lower new central bank financing to government and higher net BoG foreign exchange sales to the market, excess liquidity in the banking system declined sharply. The BoG started to inject liquidity on a net basis in its open market operations during the second and third quarters of 2015, although net liquidity withdrawals recommenced in September.

10. Tight monetary policy and weak domestic demand led to a further deceleration of growth in monetary aggregates and credit to the private sector, and rise in market interest rates. Reserve money growth slowed on a year-on-year basis, from 30 percent in December 2014 to 12 per cent in October 2015. Consistent with growth in reserve money, growth in broad money (including foreign currency deposits) declined from 37 percent in December 2014 to 27 percent in October 2015 and private credit growth slowed from 42 percent to 23 percent over the same period. Regarding interest rates, the interbank rate and banks' base rate both increased by 42 and 78 basis points respectively between July and October. The increase in T-bill rates was more muted, with the interest rate on the 91 day and 182 day bills increasing by 13 and 25 basis points respectively over the same period. More recently, since the issuance of the Eurobond, T-Bills rates have declined markedly.

Exchange Rate Developments

11. Following a sharp depreciation in the first half of the year, the cedi has been very volatile since early July. After depreciating by 26 percent in the first half of the year—reflecting a seasonal pattern and still large current account deficit—the cedi appreciated by 14 percent against the US dollar in July, following BoG's announcement to intensify intervention in the foreign exchange market, resumption of disbursements from key development partners, indications that fiscal consolidation was on track, and confirmed expectations of foreign exchange inflows from a new Eurobond and cocoa crop financing. This was followed by large fluctuations in both directions from mid July onwards. The depreciation from end-December 2014 to September 2015 was around 8 percent in nominal effective terms. The BoG was able to increase its foreign exchange reserves so that gross foreign assets as at end of October stood at US$ 5.7 billion.

Financial Sector Developments

12. The banking system remains generally well capitalized, liquid, and profitable, although there is substantial variation across banks. However, the impact of currency depreciation during the first half of the year and the slowdown in economic activity have started to feed through a deterioration in asset quality, reflected in a pick-up in nonperforming loans (NPLs) which reached 14.1 percent of the banks' loan portfolio in October 2015, up from 13.0 percent of the banks' loan portfolio in August 2015, and 11.2 percent in June. NPL growth has risen most sharply in the manufacturing sector which has been particularly affected by exchange rate volatility and the energy crisis. To address the issue of rising NPLs, banks have increased their capital buffers, as indicated by an increase in tier one capital to risk weighted assets from 13.3 percent to 14.3 percent between June and October 2015. Moreover, the BoG has required banks with Capital Adequacy Ratios (CAR) below 13 per cent (but above 10 percent) to pay only half dividend to shareholders until they raise the CAR to 13 percent and improve their risk managements systems. Banks with CAR of less than 10 per cent are to suspend dividend payments altogether until their capital levels are enhanced and risk management systems improved.

External Sector

13. The current account in 2015 is projected at 8.2 percent of GDP, as envisaged at the time of the first review. A poor cocoa harvest and declining gold production, affected by the energy crisis, weakened exports. Non-oil imports were slightly higher than projected, despite the exchange rate depreciation, but were offset by a compression in oil imports. Reflecting the lower than projected Eurobond issuance, the overall balance and reserves accumulation are expected to be somewhat lower than projected at the time of the first review.

Quantitative performance criteria and structural benchmarks

14. All performance criteria (PC) at end-August 2015 were met, except for the continuous PC on non-accumulation of external arrears. The PCs on BoG's net international reserves (NIR), net

domestic assets (NDA) and gross credit to government were met, along with the PCs on the primary fiscal surplus, the wage bill and net reduction in the stock of arrears.

15. The indicative target on inflation was missed by more than 2 percentage points mainly due to the pass-through effects of the exchange rate depreciation that occurred during the period. Social protection spending picked up and exceeded the end-August indicative target. Despite measures to strengthen debt service monitoring, the continuous PC on non-accumulation of external arrears was not met as new delays in payments occurred led to small arrears on external debt to official creditors. These delayed payments in small amounts were mainly due to discrepancies on the debt management database projections and variation from expected payments to some creditors especially with regards to loans with variable rates. In addition, the authorities raised some queries on some debt obligations to some creditors whose resolution resulted in the delayed payments. All external debt payments have been honoured as at now.

16. Status of structural benchmarks (SBs):

a. The end-August SB requiring an approval by cabinet of a new PFM reform strategy and action plan, including a strategy for the completion of the Treasury Single Account was met.

b. The end-September SB on completing the diagnostic asset quality review of banks was met. The BoG has reviewed the report and is developing a plan to strengthen the provisioning of loans to SOEs.

c. The October SB on adopting the presumptive income tax and revising VAT thresholds was partially implemented. The presumptive income tax was introduced as part of the new Income Tax Act, 2015 (Act 896) in September. The 2016 Budget, presented in November, has proposed to revise the threshold for VAT registration to GH¢ 200,000. The threshold to classify large taxpayers will be then increased to GH¢ 10 mil.

d. The October SB on exemptions to be eliminated was partially implemented. The tax income exemptions for free zones companies after tax holiday have been reduced. The new tax rate is set at 25% for free zones operating in the domestic market and 15% for those exporting outside the domestic market. The 2016 Budget has proposed to review the GIPC act and suggests administrative measures to limit the impact of exemptions on the tax base.

II. THE GOVERNMENT'S ECONOMIC PROGRAM

Macroeconomic Framework for the remainder of 2015, 2016 and the Medium-Term

17. **Outlook for 2015.** Real GDP growth is expected to reach between 3 and 4 percent in 2015, affected by the continued energy crisis, and weak agricultural and gold production. Average

inflation is projected at 17.3 percent in 2015, reflecting the pass through of exchange rate depreciation in the first half of the year, and the increase in utility tariffs implemented in December 2015 (59 percent for electricity and 67 percent for water). The 2015 current account deficit is projected to narrow to 8.2 percent of GDP. The proceeds from the 2015 Eurobond and a Cocoa Board loan helped reserve accumulation late in the year, and gross reserves at end-2015 would cover 3 months of imports of goods and services.

18. **Outlook for 2016.** GDP growth is expected to increase to 5.4% in 2016, as oil and gas production would pick up strongly and the energy crisis is resolved. Average inflation is expected to moderate to 15 percent (10 percent end of period), under the effects of tight monetary policy and the ongoing fiscal consolidation. While the external current account is expected to be somewhat smaller than in 2015, the overall balance could reach a surplus of around US$ 1 billion assuming inflows associated with a Eurobond of US$750 million.

19. **Medium term Outlook.** Medium-term projections remain broadly unchanged. Nonoil growth is projected to rebound to reach an average of about 6 percent over the medium term. Oil production, however, is projected to start declining from 2018, exerting a drag on headline GDP growth. Inflation is expected to reach the target band of 8% +/- 2% during 2017 and stabilize thereafter. As oil production increases, the current account deficits are expected to further shrink, and gross international reserves would stay comfortably above 3-month of imports.

Fiscal Policy for the Remainder of 2015, 2016, and the Medium Term

20. The government is committed to achieving the 2015 overall fiscal deficit of 7.3 percent, corresponding to a primary deficit of about 0.3 percent of GDP, through continued strict expenditure control. To keep the wage bill within the budget target, the government intends to continue with the policy of net hiring freeze, except in health and education, while using the mechanism of budget allocation to control discretionary spending in line with the budget envelope for the remainder of the year. At the same time, it will be important to use the available space to continue protecting the pro-poor and other priority spending. Another key element of the consolidation strategy that government will continue to pursue is the arrears clearance strategy, while staying current on this year's budget execution. Supporting the government continued expenditure restraint policy is the expectation that revenue collection will remain in line with the performance over the first three quarters of the year.

21. Fiscal policy over the medium-term will aim to progressively reduce the fiscal deficit to 3.7 and 3.0 percent of GDP by 2017 and 2018, respectively. This reduction in the fiscal deficit will be driven mainly by continuing the revenue and expenditure measures which have been implemented since 2013, strengthening the ongoing revenue administration reforms, improving public financial management and expenditure rationalization to enhance the efficiency of public spending, as well as the implementation of new debt management strategies.

22. The 2016 budget not only aims at consolidating the fiscal gains so far, but intends to further deepen the fiscal consolidation. The government will be facing additional fiscal pressures next year

stemming from the challenges to cover the election cost (estimated at about 0.5 percent of GDP) and the increase in the wage bill while ensuring that the budget would be financed amidst adverse financing conditions. To help restore investor's confidence and strengthen the public debt dynamics, the government is aiming for a further fiscal adjustment of about 2 percentage points of GDP to bring the fiscal deficit to about 5.3 percent of GDP in 2016. The 2016 budget includes a package of measures, including one-off measures, to boost revenue mobilization and expenditure rationalization to ensure the achievement of the government's fiscal objectives;

- Sale of communication spectrum (0.4 percent of GDP). Government has started the process for the auctioning of the first Digital Dividend in 800MHz frequency band to enable analogue TVs receive the digital signals. This sale is expected to be completed by the end of the first half of 2016 and the net proceeds estimated at 0.4 percent of GDP lodged in the third quarter of the year.

- Full implementation of the Income Tax Act starting in January 2016, which was passed by Parliament. The new Act which seeks to simplify the income tax regime and improve tax compliance through new withholding mechanisms in key sectors is expected to yield additional revenue equivalent to 0.3 percent of GDP.

- Implementation of the Common External Tariff (CET). Following the approval by the authority of Heads of States and Governments of ECOWAS states, the implementation of CET came into effect on 1st January, 2015. Ghana will join eight ECOWAS countries which are already implementing the CET after Parliament has passed the CET Bill in August. The implementation of the CET will imply that some tariff lines will change which will result in net increase in import duties (0.2 percent of GDP).

- Enhancing tax compliance. The government intends to continue with its policy of additional revenue mobilization through tax base broadening and increased compliance, which is expected to increase tax revenues by about 0.2 percentage point of GDP,

- Realignment of mandatory transfers to statutory funds (0.7 percent of GDP): To address the increasing rigidities in the budget that limits the room for policy maneuver, the government intends to realign part of the transfers to statutory funds (about 0.3 percent of GDP) to cover priority spending of goods and services in the 2016 Budget and reduce other earmarking by about 0.4 percent of GDP. The approved amounts will be deducted at source from the statutory funds and used for funding the respective central government programs. At the same time, for transparency purpose, the government has identified in the budget additional earmarking of about 0.5 percent of GDP, including the corresponding tax revenue, therefore ensuring budget neutrality.

- Rationalization of Internally Generated Funds (IGFs) (0.1 percent of GDP). As part of the rationalization of IGFs (funds collecting fees and charges), MDAs that are authorized to retain IGFs will be required to transfer a minimum of 15 percent of their revenue for use by their sector

Ministries and/or umbrella organizations (e.g. Commissions and Councils) to fund activities programmed in the budget.

- Wage bill restraint. Following the agreement with the labor unions on a 10 percent salary increase for next year, ahead of the budget presentation, the government intends to continue with the policy of net hiring freeze for the civil service, excluding the health and education sectors, while also weaning off at least four subvented agencies.

The authorities are committed to implement corrective measures if fiscal risks materialize. The government intends to address any deviation from the fiscal targets stemming from possible revenue shortfall or additional and unforeseen expenditure pressure, possibly through reducing discretionary non-priority spending in a similar way as they compensated for the shortfall in oil revenue early in 2015.

Arrears Clearance Strategy

23. The government remains committed to its medium-term arrears clearance plan. It plans to clear the remaining stock of arrears in the coming two years: GH¢ 2,313.2 million in 2016 and GH¢ 2,816.8 million in 2017. These include mainly arrears to utility companies, other SOEs, statutory funds, and the pension fund. In addition, the government has provisioned GH¢ 800 million for the repayment of potential arrears that may be identified through the ongoing audit of the additional claims by oil importers related to losses due to underpricing and foreign exchanges losses in 2014 and early 2015.

Program Financing and Debt Management Strategy

24. Financing of the program will be underpinned by the Medium-Term Debt Management Strategy (MTDS) covering the period 2016-2018. The goal is to move to sustainable debt levels and reduce the cost of debt service while taking due account of the risks. The strategy aims to continue the course begun in the 2015-2017 MTDS, with the aim to ease supply pressures on the domestic market and achieve a reduction in domestic yields. The financing mix will include the issuance of a new Eurobond in the amount of $750 million to $1 billion in 2016 (i) to facilitate the elimination of government financing by the BoG; (ii) to support international reserves; and (iii) to retire short-term domestic debt. The Eurobond, together with sustained fiscal consolidation, will help to continue reducing the volume of domestic debt issuance. The reduction in supply of domestic securities will coincide with renewed efforts to lengthen the maturities of domestic debt issuances. Consistent with this objective, the government recently opened the 2-year maturity segment to non-resident investors. The Ministry of Finance will also explore the possibility of credit lines arrangement or bridge financing for liquidity management purpose, in conjunction with a possible new BoG short-term credit window (with amount and duration strictly capped).

25. Over the medium-term, the financing mix will shift back to greater reliance on domestic debt, with further cuts in external borrowing in 2017 and 2018, when foreign exchange inflows will be boosted by oil and gas exports.

26. The Government has been implementing reforms which would deepen the domestic debt market. The auction frequency of the 1-year and 2-year notes has been reduced to enhance the role of the secondary market. Benchmark securities will be introduced to improve the liquidity of the secondary market and facilitate price discovery. Ultimately, the goal is to have a handful of benchmark securities, and retire over 270 non-fungible securities currently outstanding. The government plans to reopen existing securities to build benchmark securities. It would also implement exchange offers, in line with international best practices, in order to manage debt redemptions before maturity dates. The ongoing review of the primary dealer system is expected to be finalized in 2016. Greater price transparency and an increase in trading activities in the secondary market would be facilitated by a recently introduced new electronic trading platform. Additional reforms in 2016 will aim at revamping the repo market

27. The Government will continue to reinforce its debt management policy to reduce debt vulnerabilities through the use of additional initiatives including:

- On-lending and Escrow Arrangements - Government has made significant progress in ensuring that loans signed for SOEs and MDAs for commercial projects are matched with on-lending agreements to ensure recovery and reduce the burden on the taxpayers.
- Sinking Fund - To manage the orderly redemption of sovereign bonds and other foreign and domestic debt instruments, the Sinking Fund Account has been set up and is receiving funds from excess over the cap of the Stabilization Fund. Transfers to the Sinking Fund will not take place through borrowing additional to the budget financing need. The fund will form the basis for spreading repayment of both principal and interest. The goal is to minimize the roll over risk associated with Treasury Bills, Domestic bonds and Eurobonds.
- Sovereign Guarantees - Government will continue to encourage SOEs and SPVs to borrow on the strength of their own balance sheet. This approach does not only ensure the efficient running of these SOEs but also removes the need for Government to backstop SOE payment default in purely commercial agreements. It prevents the situation under which SOE debt increases the State's contingent liability and potentially, when they crystallize, add to public debt stock.

Monetary Policy and Exchange Rate Issues

28. Monetary policy will continue to be guided by the BoG's inflation targeting framework, which aims to maintain headline inflation at the midpoint of the target range (8±2 percent) in the medium term, in the context of a floating exchange rate regime. After a short-lived decline of inflation to 16.4 percent in January, it increased to 17.4 percent in October 2015. To bring inflation back to the target band in the medium term, the BoG increased its policy interest rate cumulatively by 500bp between May and November 2015. The increase in the policy rate should help stabilize the exchange rate and contain inflationary expectations. The BoG stands ready to further tighten monetary conditions, if necessary, to ensure that inflation and inflation expectations move gradually towards the target. In recognition of the strengthening of the BoG's inflation targeting framework, it is proposed that the inflation objectives under the program be monitored through a monetary policy consultation clause (MPCC), although developments in BoG's net domestic assets would

continue to be monitored, as an indicative target. The MPCC would consist of a performance criterion on 12 month headline CPI inflation projection with an inner band set at +/- 2pp and an outer band set at +/- 3pp. A deviation from the inner target band would lead to a consultation with Fund staff, while a deviation from the outer target band would trigger a formal consultation with the Executive Board.

29. The BoG has been reforming its monetary operations, in consultation with Fund staff, in order to facilitate money market development and enhance the effectiveness of the inflation targeting framework. In August, the BoG introduced a new fixed-rate full-allotment 7-day reverse repo to serve as its main instrument for injecting liquidity in the interbank market. Together with the introduction of a weekly auction of 14-day BoG bills in February to serve as the main liquidity draining instrument, these reforms provided banks with greater flexibility in liquidity management and helped bringing the interbank money market rate closer to the policy rate, hence strengthening the signaling effect of the latter and its role as the monetary policy operational target.

30. The BoG is taking further steps to enhance liquidity forecasting, its monetary operations and the framework for repo transactions. The BoG will adopt disaggregated liquidity forecasting techniques, with AFRITAC WEST 2 technical assistance, and set up a financial market analysis unit to ensure synergy between the monitoring and forecasting of liquidity and monetary operations. To enhance the latter further, the BoG will: (i) develop guidelines for the use of fine-tuning operations (quick tenders) based on liquidity forecasting and market monitoring; (ii) increase the reserve maintenance period to two weeks once monetary conditions start to normalize; (iii) launch a formal consultation with commercial banks in order to revise the calculation of the base rate. Regarding the functioning of the repo market, the BoG will request a qualified legal opinion on the enforceability of agreements of interbank repo transactions carried out the Central Securities Deposit (CSD) repo platform, and review the terms at which the BoG conducts repos with its own counterparties, to ensure the guidelines on collateral adequately protect the BoG from credit risk. The BoG will also promote a classic interbank repo transaction, once the CSD platform becomes fully functional in March 2016. Finally, the BoG will review the list of monetary counterparties and exclude non-banks, in order to encourage more flows to be intermediated by the market.

31. The BoG is also strengthening its monetary policy formulation process and communication. Consistent with the recommendations of IMF technical assistance, the BoG has introduced a pre-MPC meeting to enhance the quality of policy deliberations, boosted the capacity of the core forecasting team and redesigned the MPC press release. Further reforms under way include expansion of the Public Affairs Office, adoption of a new external communications strategy, the improvement of the quarterly projection model and the reorganization of the Research Department into a new Economics Department, which would house forecasting activities, and a separate new Statistics Department focusing on ensuring the integrity and quality of data used in the policy formulation process.

32. In order to deepen the foreign exchange (FX) market and promote its smooth functioning, the BoG will implement a phased plan for the elimination of FX surrender requirements from exporters to the BoG, based on Fund-staff recommendations. In the initial phase, to be completed

by end March 2016, the regulatory and monitoring framework for the repatriation requirement and its enforcement will be strengthened, through: the issuance of new regulations to be published on the BoG website, the cessation of discretionary exemptions and initiation of the review and subsequent amendment of existing concessional export retention agreements (the latter should be completed by end-June 2016). The authorities will also ensure that any new concessional retention agreement should incorporate the following elements: i) standardized sector-wide retention clause, ii) retention, if any, is allowed in Ghana only and, iii) introduction of sunset cause in respect of retention of export earnings. This will ensure that all eligible export proceeds reach the Ghanaian economy. The strategy for the elimination of surrender requirements and its rationale will also be communicated to banks and the surrender requirement for gold and residual cocoa export proceeds will be redirected to commercial banks. Finally, a rule-based and market-determined system will also be designed for the sale of FX that the BoG continues to receive. In an intermediate phase, to be completed by end June 2016, the settlement mechanism to address the stock of matured letters of credit (LCs) to oil importers will be agreed, following an audit to determine which LCs are eligible for such resolution (the BoG stopped providing foreign exchange to new oil import LCs from July 2015 onwards). In the final phase, the pre-payment lump-sum cocoa export proceeds will be surrendered to commercial banks, after an interim period (to commence by end September 2016), whereby the BoG will continue to receive the export proceeds but will sell them to commercial banks through implementation of the new the rule-based and market-determined system.

33. Amendments to the Bank of Ghana Act have been drafted by a committee within the BoG led by the Legal Department in consultation with the MOF and other stakeholders. The draft will also seek to incorporate relevant comments from the IMF's Legal and Monetary and Capital Markets departments as well as recommendations of the latest IMF Safeguards Assessment Mission. The amendments will strengthen the autonomy of the central bank to implement monetary policy effectively, by reinforcing the independence of the Board and Monetary Policy Committee and putting clear limits on central bank financing of government. The amended Act would allow for a short-term credit line to the government that will be strictly temporary (allowed to have a non-zero balance only during 90 business days of the calendar year) and limited (capped at 2 percent of previous year's government revenues). Following approval by the BoG Board, the final draft Act will be delivered to the Cabinet for their consideration and onward submission to the Attorney General for their review, before the final submission to Parliament by end-December 2015.

34. With these improvements to the monetary operations framework, the functioning of money and FX markets, the policy formulation process and the institutional framework, as well as eliminating BoG credit to the government, the inflation targeting framework will become fully effective.

Financial Sector Issues

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

have been submitted to Parliament and, once approved, the BoG will develop regulations needed to fully implement these laws by June 2016, with assistance from the long-term IMF advisor.

36. A special diagnostic external audit of commercial banks to review asset classification and valuation, provisioning and loan restructuring practices, according to both the BoG prudential requirements as well as International Financial Reporting Standards (IFRS), was completed in September (end-September 2015 SB) and a final report is due by the end of December. In parallel, the BoG has evaluated non-performing government guaranteed/quasi-fiscal exposures and their effect on banks' loan books. The preliminary results indicate some differences in the interpretation of the guidelines relating to impairments. After reviewing these discrepancies with the banks, the BoG will take action to remedy under-provisioning and require banks to increase capital, if necessary, in line with a timeline, which will be agreed with the banks. The BoG will also issue a guideline to consolidate earlier directives issued on the IFRS as well as give a position clarifying grey areas of the standard. Areas of the prudential norms, which are not too clear are also being reviewed.

37. The BoG has been collaborating with AFRITAC WEST 2 to build capacity for implementing Basel II/III and a long term advisor (from the Fund) commenced duty in October to assist the Bank on banking supervision. The BoG has also requested Fund staff to conduct a Financial Sector Assessment Program in 2017.

III. STRUCTURAL REFORM AGENDA

Tax Policy and Tax Administration

38. **Tax Policy.** A new Income Tax Act (Act 896) came into law in September, which introduced a new simplified scheme for small businesses, the Presumptive Income Tax. The new Income Tax Act introduces a presumptive income tax, which simplifies the taxation regime for small taxpayers. Taxpayers with turnover below GH¢ 120,000 and not required to register for VAT, are subject to a 3% tax on their turnover. To avoid that small taxpayers in the informal sector are liable to VAT registration, the Government of Ghana (GoG) intends to increase the value of the threshold for VAT registration. Starting in 2016, the threshold will be increased to GH¢ 200,000 by adopting an amendment to the VAT Act by end-2015.

39. To increase oversight over the granting of exemptions, the Ministry of Finance has issued a circular to all MDAs and other government agencies stating that no tax exemption can be granted without being authorized by the Minister of Finance, before being submitted for approval by Cabinet and ratification by Parliament. The GoG has introduced administrative measures to make it mandatory for GIPC to seek the Ministry of Finance's approval before submitting investor status requests to the President. As part of the overall review of tax incentives, the GoG will seek to introduce this requirement in the law by amending the Ghana Investment Promotion Act.

40. The Tax Expenditures Committee (TEC) at the Ministry of Finance has finalized an assessment of tax expenditures for the period 2008-2015. The GoG has also asked the World Bank to conduct in

parallel an independent assessment. Both studies evaluated tax expenditures related to customs duties and the corporate income tax. The World Bank study has quantified also tax expenditures related to indirect taxes, although only for 2013 because of data availability. Both studies have reached similar conclusions for what concerns the amount of customs duties and income tax expenditures, roughly close to 1 percent of GDP. Additionally, the World Bank estimated VAT tax expenditures close to 4 percent of GDP. The Government will request for Technical Assistance from the Fund to guide the reforms aimed at reducing exemptions substantially.

41. Following the recommendations of these studies, the GoG has agreed to progressively use tax credit schemes instead of outright exemptions and explore the use of Double Taxation Agreement (DTA) provisions to our advantage instead of granting outright exemptions. The Budget 2016 has also introduced further administrative measures to reduce the negative impact of exemption on the tax base including: limits on the use of permits to clear goods from our ports; administrative review of the free zones regime following recent amendments; improvement in warehousing practices including the licensing of software requirements; Customs and Domestic tax office to revalidate all existing exemptions on file leading to a new list and new implementation guidelines from January 2016.

42. The Government will strengthen monitoring and control of tax expenditures by enhancing data sharing among various stakeholders (GRA, Free Zone Board, GIPC, the Ministry of Finance). The MoF will strengthen reporting requirements for income taxes and will start processing past and future income data electronically, to prevent errors in data collection.

43. **Tax Administration.** The Ghana Revenue Authority (GRA) started implementing its second Strategic Plan for 2015-2017. GRA benefited from two AFRITAC West 2 technical assistance missions in September, which helped to enhance project governance structures and implement operational plans, performance monitoring and evaluation practices. GRA will finalize an operational plan for 2016 by end-December 2015.

44. The roll-out of TRIPS is ongoing, with all the modules already rolled-out at twelve pilot sites as of August 2015, and staff being trained for their implementation. However, the refund module is yet to be configured. An independent evaluation, performed by AFRITAC West 2, will assess by end-June 2016 the implementation of the modules at the pilot offices.

45. GRA will further improve the functioning of the VAT refund system. The General Refund Account was instituted in June 2015 to alleviate the problems related to the availability of funds to repay excess VAT credits. The General Refund Account is funded with 4 percent of total revenues. While the monthly inflows of revenues into the refund account has more than doubled in comparison to the old scheme, the available funds are not yet sufficient to avoid the accumulation of VAT refunds arrears, estimated at GH¢ 217 million in October 2015. The GRA will speed up the refund process by adopting the following measures: i) establishing a monitoring and workload management system for VAT refunds; ii) implementing a risk-based approach in VAT refund processing; iii) increasing the share of revenues paid into the General Refund Account to at least 6

percent; iv) strengthening penalties for overstated VAT refund claims effective January 2016; and v) paying interest on all legitimate VAT refund claims filed which are in arrears.

46. GRA has recently established a Risk Management Unit (RMU) to identify and alleviate compliance risks. Following the recommendations of previous FAD technical assistance, the GRA will establish a Compliance Risk Committee (CRC) by end-December 2015 to direct the use of RMU resources, evaluate completed projects, and initiate and monitor effectiveness of the GRA response to identified risks. The CRC will oversee the development and implementation of a cross-functional compliance strategy for 2016 and beyond, with comprehensive annual action plans, monitoring, and ex post evaluation of tax payments by end-June 2016.

47. To improve the performance of tax audit outcomes, GRA has started to apply the Risk Base Audit (RBA) program to enhance the detection and deterrent effect of audits. The RBA has started to use both GRA and third party information (e.g. government contracts payments, import declarations) as a tool to improve enforcement results and voluntary compliance. GRA will regularly prepare quarterly reports starting end of June 2016, on progress made in the actual use of RBA, highlighting in particular its effectiveness in widening the tax net.

48. The GoG will implement the Electronic Point of Sales Device. Cabinet has granted approval and the Bill is being prepared by the Attorney-General. It is expected that the successful implementation of this policy will eliminate revenue leakages, and exact better compliance from targeted taxpayers. Implementation is expected to start in the second half of 2016.

49. Customs senior management will continue implementing several initiatives already started in 2015 and which aim at: strengthening the controls of the Free Zones and Warehousing Regime; strengthening the controls of the Temporary Vehicle importation Regime; strengthening export and re-export controls.

50. **Natural Resource Management.** The GoG will continue strengthening its capacity in managing oil and gas revenues, with the assistance from the Fund. A technical assistance mission from the IMF in August has provided training on the key economic concepts for fiscal regime design and revenue forecasting, introducing the Fiscal Analysis of the Resource Industries (FARI) model, developed by the Fiscal Affairs Department (FAD) of the IMF. The training also covered interpretation of the key provisions of the PRMA, addressing practical implementation and interpretation issues. The GoG has requested further training, and intends to eventually extend the use of the FARI model to the mining sector.

Reforms to Improve Public Financial Management

51. **PFM reform action plan**. Following the approval by Cabinet of the PFM reform strategy document for the period 2015-2018 in June 2015, the Government has developed in August with help of technical assistance from AFRITAC West 2 a monitoring framework and an action plan. The GoG intends to submit quarterly implementation reports of the action plan to the Steering Committee starting in the first quarter of 2016.

52. **Review of the PFM legal framework.** The work on the new PFM bill is ongoing, and the GoG will conduct further consultations to prepare the drafting instructions to finalize some provisions of the law. The GoG will seek further technical assistance to introduce in the law fiscal principles and procedures that will guide the macro-fiscal policy planning process, including the adoption of a pre-budget statement approved by the Cabinet and shared with Parliament that presents and includes the Medium-Term Fiscal Framework (MTFF) with fiscal objectives and targets and medium term macro-fiscal forecasts. The GoG will also seek further technical assistance to reduce rigidities associated with budgeting for expenditure under statutory funds and their interaction with other aspects of the budget. After a second round of consultation with stakeholders and the IMF, the draft bill will be presented to Cabinet for approval by end-March 2016. The GoG intends to submit the PFM bill to parliament for approval by end-June 2016, and will adopt regulations for its implementation by December 2016.

53. **Strengthening credibility of the Budget.** The GoG intends to strengthen the fiscal planning process. A technical assistance mission from the IMF in August has reviewed the status of fiscal planning in Ghana and provided several recommendations. The GoG intends to start making publicly available by May 2016 a pre-budget statement approved by Cabinet. The content of the pre-budget statement will be aligned with the provisions in the draft PFM law that will be approved by Cabinet in March 2016. At a minimum, the pre-budget statement will include: the government's debt and deficit targets for 2017; recent fiscal developments; medium-term fiscal forecasts; broad outline of fiscal policy measures to achieve the fiscal objectives and targets; and the medium-term fiscal framework. The pre-budget statement will be made publicly available on MoF's website.

54. **Extending GIFMIS coverage.** In line with the goal to enhance comprehensiveness and transparency in PFM, the GoG intends to incorporate IGFs, statutory funds, and donor funds on the GIFMIS and the Treasury Single Account (TSA). These funds are equivalent to 34% of the budget expenditures, are presently operated outside the GIFMIS and their expenditure transactions do not form part of the GIFMIS reports. A stakeholder workshop was held on October 15, 2015 in which the roadmap was agreed for the full implementation of all IGF transactions on GIFMIS. In all, 50 IGF generating institutions were identified and targeted for inclusion on the GIFMIS. The agreed roadmap involves a three-stage implementation process: (a) completion of pilot implementation at 5 IGFs generating MDAs by March, 2016 and closure of their commercial bank accounts, (b) rollout to the 20 MDAs generating the highest IGF by December 2016 and closure of their commercial bank accounts, (c) rollout to remaining 25 IGF generating MDAs by December 2017 and closure of their commercial bank accounts

55. **Improve controls in Budget Execution.** The GoG intends to introduce a provision in the new PFM law and its regulations, to restrict MDAs from entering into new or making adjustments to existing contracts which involve off-budget financing or for which funding is not guaranteed within the approved budget or projections over the medium term.

56. **Budget Execution Reports.** The GoG will continue publishing budget performance reports on the website of the Ministry of Finance. To further enhance fiscal transparency, starting in the second quarter of 2016, the GoG will publish quarterly budget execution reports. The budget

execution reports will present: an overview of the most recent macroeconomic trends; information on how budget revenues and expenditure are performing during the year; and an explanation of their deviations from budget estimates.

57. **Procurement Management.** The GoG will enhance the on-line procurement systems and require MDAs to prepare procurement plans, as part of budget preparation process. The Public Expenditure Management Unit (PEMU) will be informed on a regular basis on the implementation of procurement plans.

Payroll Management and Controls

58. **Data Clean-up.** The process of payroll clean-up began by the inter-ministerial Committee of Cabinet on payroll in March 2015. As part of this clean-up exercise, the Government is currently focusing on improving the quality of data entry and eliminating historical duplicates. To this end, the GoG has hired a consultant for the development of the E-form, which will allow automation in the submission of payroll input forms so as to improve the quality of the data entry. The IPPD2 does not have a system verification check on the input of the original data. The GoG intends to implement by March 2016 an approval step, which will require a second check on the inputs of the key data which drive the payment process.

59. **Biometric Validation.** The GoG plans to interface the mechanized payroll to the biometric database of SSNIT and use that database to do periodic validation of staff. To complete this integration, SSNIT has to first biometrically register all the members on the mechanized payroll. So far, the biometric registration exercise of SNNIT has resulted in the registration of 222,444 out of the existing 467,781 eligible SSNIT contributors on the mechanized payroll. It is expected that the remaining 245,337 will be biometrically registered in the SSNIT database by end of March, 2016. As the initiative is undertaken, a joint technical working group of CAGD/SSNIT has been constituted to identify the optimal way to interface the mechanized payroll with the SSNIT database by June, 2016.

60. **Payroll processes.** The GoG intends to significantly reduce the delays that employees currently experience during the update of payroll following the finalization of recruitment process. These delays occur over the entire payroll process, with the largest delay occurring when MDAs have to input forms on behalf of employees. The GoG intends to start tracking the status of the payroll input recruitment forms from the start of the process until the data is updated on the mechanized payroll Government will also update the payroll policies and procedure manuals. The E-form, when introduced, will also significantly reduce the time lag experienced with the update of the payroll. The implementation of the E-forms is expected to be completed by September, 2016.

61. **Human Resource Management.** Human Resource Audits have been undertaken by the Public Service Commission (PSC) to reconcile the mechanized payrolls with the GoG Established Posts strength. The report of the audit is currently being prepared and is expected to be finalized by Mid-November. The reconciliation will pave the way for the integration of IPDPD2 with HRMIS. Before any organization actively uses HRMIS, the GoG intends to perform an independent

verification to ensure the full matching of the Established Posts and the active payroll. To facilitate integration with HRMIS, the GoG intends to use the IPDD2 as the only active government payroll.

62. **Migration of Subvented Agencies to the mechanized payroll.** The migration of subvented agencies (SAs) on the mechanized payroll will improve controls over the public sector workforce and the wage bill. The total number of employees of SAs is 176,575 as of September 2015, of which 71,000 (40 percent of the total) are part of the National Service Personnel (NSP). Due to the transient nature of the employees in the NSP, their migration on the mechanized payroll could be highly inefficient and uneconomical, and so the decision has been taken not to migrate them on the mechanized payroll. The GoG plans to migrate first 1,420 (0.8 percent) employees belonging to smaller organizations by end-December 2015. The migration of employees belonging to eight public universities and all remaining SAs' employees (37 percent), including the GRA and the police but not the army, will be completed by end-May 2016. Control of the army payroll will be strengthened using payroll verification mechanisms.

63. **Publication of a report on status of implementation of the payroll clean-up plan.** The GoG intends to publish a quarterly report on the status of implementation of measures to clean-up the payroll. The first quarterly report was published on the CAGD website in September 2015. The second report (covering third quarter) was published in October, 2015. The third report (covering fourth quarter) on the implementation of the payroll clean-up plan will be published in January 2016.

Improve Treasury and Cash Management

64. **Cash Management.** The GoG will continue working to improve cash management and avoid the build-up of arrears. In this regard, the Cash Management Working Group (CMWG) intends to obtain technical assistance to enable them to adopt the following measures: finalize the cash flow forecasting model and implementing it at the Ministry of Finance; develop a cash management database to improve the accuracy of data used for forecasting; improve control of budget execution by issuing payment advice notices only on the basis of cash availability.

65. **Treasury Single Account.** The GoG has submitted to Cabinet in October the strategy for the implementation of the Treasury Single Account (TSA). The GoG, in collaboration with the BoG, intends to develop an action plan to implement the strategy by January 2016. The GoG will produce by March 2016, together with the BoG, an inventory of all government bank accounts at the commercial banks regardless of budgetary fund (internally generated funds, statutory funds, donor funds, etc.…) to be used to establish a cash position. This is to enhance controls over cash holdings by establishing payment rules (by December 2016) that govern the disbursements from TSA Bank accounts. It is also expected to eliminate the use of bank accounts to separate accounting transactions based on cash sources. Instead, this shall be accomplished through the correct use of the national chart of accounts established in the GIFMIS (¶ 54). The inventory will include the following information: stock at the beginning and close of the fiscal year; owners of the account; deposit institution where the account is currently located. The GoG will provide an update of the

table every quarter. The BoG and the MoF will also perform, by March 2016, a joint exercise to analyze the impact of government banks' asset transfers on commercial banks' liquidity.

66. **Public Sector Reform.** The GoG has concluded a first round of consultations to develop a Public Sector Reform Strategy and has prepared a zero draft of a Public Sector Reform Strategy 2016 - 2020. Recognizing the failure of past strategies to implement reforms effectively, the new strategy has an institutional arrangement for the implementation of various initiatives envisioned in the new strategy to ensure continuity. The strategy has identified, among others, programs to: rationalize the public sector; link remuneration to productivity; enhance supervision and productivity in the public sector; establish a reliable public sector human resource management information system; improve responsiveness of public service to service delivery; and strengthen public sector management and oversight. A second round of consultations with stakeholders on the zero draft of the strategy was completed on December 2, 2015, and an engagement with Development Partners (DPs) on a revised draft (including a set of fully costed reforms) is scheduled for December 15, 2015. The new reform strategy, reflecting the inputs and comments from stakeholders and DPs, is expected to be adopted by cabinet by end-December, 2015.

67. **Reform of Subvented Agencies.** The reform of Subvented Agencies (SA) is guided by the application of the Subvented Agencies Act (706). With the aim to free up resources in the budget, the Act prescribes that the PSRS categorizes the SAs in the following groups: those that need to be closed as being no longer relevant to the government's development objectives; those that could be partially or fully commercialized; and those for which a review of the appropriate level of subvention is needed. In pursuit of this, Government intends to withdraw subvention to Driver and Vehicle Licensing Authority (DVLA); Environmental Protection Agency (EPA); Energy Commission (EC); Data Protection Commission (DPC); Gaming Commission (GC); and Securities and Exchange Commission (SEC); and eventually convert them into Companies in accordance with the Statutory Corporation (Conversion to Companies) Act, 1993, (Act 431).

68. Furthermore, the Government will engage another set of subvented agencies in consultations during a national NTR/IGF conference with the objective of changing the institutional, administrative, legal and regulatory arrangements on NTR/IGF mobilization and management and gradually reducing their dependence on GoG subvention. The target subvented agencies are: Teaching Hospitals; Tertiary Educational Institutions; Forestry Commission; Minerals Commission; Ghana Broadcasting Corporation; Ghana Investment Promotion Council; Ghana Standards Authority; Food and Drugs Authority; and Ghana Free Zones Board.

69. The Retention of Funds Acts, 2007, (Act 735) will be amended such that all MDAs and subvented agencies that subsist on GoG subvention and are authorized to retain all of their NTR/IGF, will be required to transfer a minimum of 15 percent of their revenue for use by their sector Ministries and/or umbrella organizations such as Commissions and Councils to fund related social intervention expenses. For the other subvented agencies, guidelines would be provided for the use of NTR/IGF. Pending the amendment, this measure was already introduced in the 2016 budget.

70. **State Owned Enterprises (SOEs).** The GoG has strengthened monitoring and evaluation of the state-owned enterprises (SOEs). Performance management contracts, rigorous training of senior managers, and a platform facilitating monitoring of the SOEs by the Office of the President, the Ministry of Finance, the Speaker of Parliament and relevant sector Ministers will help strengthening operational and financial discipline. To improve the financial viability of utility companies and avoid risks of fiscal contingent liabilities, GoG will include targets for reducing technical and non-technical losses in the performance contracts of senior managers and restore the practice of quarterly tariff adjustments in accordance with the formula. The authorities have also been working on partial privatization of selected SOEs.

71. SOEs' governance and accountability frameworks will be strengthened, in collaboration with development partners. To this end, the authorities will conduct an assessment of SOEs' governance and prepare an action plan by end-May 2016 and will establish a single entity to improve the oversight of the SOEs by end-September 2016. The government has conducted an assessment of arrears between the government and SOEs and cross-SOEs' arrears and prepared an action plan and a timeline for their elimination. This will include the repayment of the "legacy debt" to ECG in the amount of GH¢728 million over five years, and the government started making quarterly payments of GH¢36 million—financed from the budget and the sales of liquid natural gas from the National Gas processing plant. The government will also ensure not to accumulate any new arrears to SOEs.

72. The GoG will restore the operational and financial soundness of the energy sector to ensure reliable electricity supply in Ghana. The implementation of the Millennium Challenge Compact in the amount of US$498.2 million will, among other things, support the Financial and Operational Turnaround of the ECG and strengthen its governance and management by bringing on board a strategic private sector partner to develop a long-term program to reduce losses and improve the quality of service. The IFC has been selected as a Transaction Advisor to advise on the options for the selection of a suitable private partner. By end-January 2016, tender documents will be issued to prospective bidders.

73. **Statutory Funds.** The Cabinet has approved proposals to align central government expenditures to the Statutory Funds. In effect, part of transfers to statutory funds will be used to cover programs that have been executed by the central government. This is a very good first step towards aligning statutory fund expenditures with government priorities. The GoG intends to use the budget process and the budget implementation instructions to ensure smooth implementation of this high-level expenditure management decision.

IV. POLICIES TO SUPPORT GROWTH AND POVERTY REDUCTION

Supporting growth

74. The short-term priority will be to **resolve the electrical power crisis** which has contributed to a recent contraction in the performance of manufacturing. Towards redressing this crisis, Government will continue making investments that are aimed at rehabilitating and expanding the country's energy infrastructure. Government will also provide appropriate support through the use

of the World Bank and African Development Bank Partial Risk Guarantees (PRGs) and put/call options for power projects to encourage private sector participation.

75. In **Agriculture**, the policy will be largely towards modernization and interventions will aim at rehabilitating and improving irrigation infrastructure, continuing the Fertilizer Subsidy Programme, and expanding the Agriculture Mechanisation Centres (AMSECS). In the cocoa subsector, the policy of direct intervention will continue in the form of the provision of free seedlings, free fertilizer application, and mass spraying of crops. Alternative cash crops such as Shea and coffee will be developed in line with the broader policy direction of export diversification.

76. GoG will also provide improved access to **export finance and export insurance** through the establishment of an Export and Import (EXIM) bank. In this regard, the Ghana Export and Import Bank (EXIM) Bill has been laid before Parliament.

77. **Infrastructure expenditure** will be targeted at projects that have the potential to induce transformative growth. To this end, a Ghana Infrastructure Investment Fund (GIIF) has been established with a legal backing. Some current projects that are commercially viable will be transferred to the GIIF for execution as soon as GIIF will be fully operational.

Reducing poverty

78. Ghana's current medium-term development plan (the GSGDA II, 2014-2017), which serves as the anchor for policy direction for economic development, was prepared within the context that Ghana attained lower middle income status in 2010 and recorded significant expansion in the economy over the period of the previous GSGDA (2010-2013). It, however, admits to the fact that the expansion has not fully manifested itself in adequate job creation and decent work, and poverty levels remain relatively high, especially in the three northern regions and among some socio-economic groups. Economic growth initiatives have been largely pro-poor with a steady rise in pro-poor spending. However, challenges still remain. The targeting mechanism for poverty reduction interventions continues to be weak, leading to growing income disparities among socio-economic groups and between geographical areas. Lack of adequate poverty data for mapping, planning and decision-making adversely affects the effective implementation of policies and programs. Poverty among women continues to be high due to lower literacy rates, heavier time burdens, lower access to productive resources, and weak implementation strategies of Government policies on women's economic empowerment.

79. The key policy objectives to be pursued to improve the administration of social policy, poverty reduction and the provision of social protection are: enhancing the institutional arrangements for sectoral collaboration on poverty reduction; developing targeted economic and social interventions for vulnerable and marginalised groups; reducing poverty among food crop farmers and fisher folks; reducing income disparities among socio-economic groups and between geographical areas; and ensuring the provision of reliable poverty data at all levels. Poverty-focused social expenditure in the education sector include those on the provision of free School Uniforms;

Free Exercise Books; Core Text Books; Capitation Grants; School feeding; Construction of Community Day SHS. In the Health Sector, programs on poverty reduction includes: Completion and equipping of nationwide CHPS compounds; Procurement of Psychotherapeutic Medicines; Expanded Program on Immunization (EPI) Vaccines; Procurement of Antiretroviral Medicines; Procurement of Commodities for TB; Malaria vector Control: Labiofam; and Counterpart funds for HIV/ AIDS Programs. In the Agriculture Sector, the Fertilizer and seed subsidy program will be continued. In the Energy Sector, the Self-Help Electrification Project will be strengthened. Other poverty-focused programs including the Livelihood Empowerment Against Poverty (LEAP), where GH¢50 million has been provided for in the 2016 Budget.

V. STATISTICAL ISSUES

80. The Ghana Statistical Service (GSS) and the BoG will implement improvements to economic and monetary statistics, in order to improve the quality of data used for policy making. The National Accounts will be rebased to 2014 (to be published in 2017) and a new annual benchmarking methodology will be introduced, as well as new sectoral surveys. In the interim, the GSS will continue to analyze the expenditure estimates to determine the cause of the significant statistical discrepancy, with the assistance of the AFRITAC WEST 2 regional advisor for statistics. All forecasting activities will be housed in the MoF, allowing the GSS to focus its resources on measurement. The BoG will request technical support to assist with the creation of a new statistics department and improvement of the collection, compilation and warehousing of monetary statistics.

VI. RISKS AND CONTINGENCIES

81. Key downside risks to the program include further tightening in government financing, global financial market volatility leading to lower private capital inflows, a further and sustained decline in key commodity prices (gold, cocoa and oil), economic slowdown in main trading partners, an unhinging of inflation expectations, and a prolongation of the domestic energy crisis. If (some of) these risks associated materialize, the government stands ready to adjust its policies, in close consultation with IMF staff, to ensure the achievement of a sustainable external position by the end of the program period.

VII. PROGRAM DESIGN AND MONITORING

82. The non-concessional debt limits (PC) were increased from US$ 1 billion to US$ 2.5 billion in the context of the first review to accommodate the originally-panned Eurobond issuance of up to US$1.5 billion, some projects integral to the development program for which concessional financing is not available, and a World Bank loan. In addition, an indicative ceiling (IT) of US$ 100 million on concessional loans was created to comprehensively address the vulnerabilities associated with external debt. Growing uncertainties surrounding frontier markets allowed Ghana to issue only a Eurobond of US$ 1 billion in October. In accordance with the thrust of the World Bank's guarantee, the proceeds of the Eurobond will be purely used for debt management purposes by retiring expensive domestic debt. Up to end-August, zero non-concessional external loans for projects and

concessional external loans of US$ 200 million had been contracted. The World Bank has released a US$ 150 million loan in August.

83. For 2016 the non-concessional debt limit would be separately set for debt management purpose and for projects critical for national development for which concessional financing is not available. The former would be used to improve the overall public debt profile and set at US$ 1,150 million, including up to US$ 1 billion for a Eurobond and other form of nonconcesional borrowing, up to US$ 150 million for a World Bank loan. The latter would be set at no more than US$ 1,000 million on a cumulative basis from the beginning of 2015. A list of priority projects was established based on the priorities of the GSGDAII, the Budget, Cabinet Decisions, and the need for continuation of growth-oriented existing projects for which a stoppage could prove to be inefficient. This list is specified in paragraph 30 of the TMU. Concurrently, an indicative target of US$ 400 million would be established for concessional external borrowing. Going forward, the Ministry of Finance will hold timely consultations with the IMF staff on the possible terms of a Eurobond and other commercial external borrowing to ensure that such borrowing strengthens confidence in the program, does not jeopardize debt sustainability and is in line with the Fund's debt limit policy.

84. The authorities made significant efforts to prevent the reoccurrence of payments delays on external debt service, including by: simplifying the payment procedures among the ministries and BoG; strengthening the coordination between the Finance Ministry and BoG for a weekly monitoring of payments; establishing a monitoring database alerting the forthcoming payments based on original loan agreements well in advance of due dates; and requesting creditors to send payments notices prior to due dates (including proactively engaging with creditors based on the early alerting system). Despite these efforts, some small arrears were accumulated between September and November 2015 to official creditors. The authorities are going to eliminate the risk of delays in external debt payments by strengthening the debt management system, organization and procedures. To this end, the authorities have requested technical assistance from the Commonwealth Secretariat to strengthen the system and from the IMF to conduct an in-depth review of the debt management system, its organization and procedures. The implementation of TA recommendations will help eliminate the risks of delayed debt service payments in the future. The authorities will be working with the Secretariat and the IMF to ensure the complementarities of TA provided by both institutions. The authorities are fully committed to avoiding delays in debt service in the future.

85. The program will continue to be monitored based on periodic performance criteria, continuous performance criteria, Monetary Policy Consultation Clause, and indicative targets as at end-June 2016 and end-December 2016, set out in Table 2, with indicative targets for end-March 2016 and end-September 2016. To monitor progress on the structural reforms previously described, structural benchmarks are set out in Table 4. Detailed definitions and reporting requirements for all performance criteria are contained in the Technical Memorandum of Understanding (TMU) attached to this letter, which also defines the scope and frequency of data to be reported for program monitoring purposes. During the program period, the government will not introduce or intensify restrictions on payments and transfers for current international transactions or introduce or modify

any multiple currency practice without the IMF's prior approval, conclude bilateral payments agreements that are incompatible with Article VIII of the IMF's Articles of Agreement, or introduce or intensify import restrictions for balance of payments reasons. Completion of the third, fourth and fifth reviews under the program is expected on or after April 15, 2016, on or after October 15, 2016, and on or after April 15, 2017 with end-December 2015, end-June 2016 and end-December 2016 as test dates, respectively.

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

		2014		Apr 2015			Aug 2015				Dec 2015	
		Act.	Revised	Target	Adjusted target	Actual		Revised	Adjusted target	Actual		Revised
I	**Quantitative Performance Criteria**											
	Primary fiscal balance of the government (floor in millions of cedis)	-4,465	...	-544	-536	46	-380	...	-282	237	-422	...
	Wage Bill (ceiling; in millions of cedis)	9,449	...	3,413		3,341	6,857	...		6,815	10,359	...
	Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) [2]	1,415	...	1,042		1,186	331	147		566	1,962	2,278
	Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) [3]	3,107	...	5,755		5,561	8,772	...		7,846	4,914	3,410
	Net change in stock of arrears (ceiling, millions of cedis)	428	...	-424		-565	-1,001	...		-1,525	-1,561	...
II	**Continuous Performance Criteria**											
	Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) [4]	13,603	19,723	14,614		14,873	14,614	15,814		15,017	14,614	15,814
	Non-accumulation of external arrears (ceiling; millions of U.S. dollars) [5]	...	...	0		1.7	0	...		0	0	...
	Non-accumulation of domestic arrears (ceiling; millions of cedis)	...	...	0		0	0	...		0	0	...
	Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions U.S. Dollars)	...	...	0		0	1,000	...		150	1,000	2,500
III	**Indicative Target**											
	Program central target rate of inflation (12 month percentage change)	17.0	...	15.4		16.8	13.8	15.0		17.3	12.0	19.6
	Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	...		...		...	...	...			100	...
	Social Protection (floor, in million of cedis) [6]	947	...	388		316	806	...		954	1,294	...

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

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

[3] Net domestic assets for 2015 is computed using the program's exchange rate of GHc 3.40 per U.S.$1 as defined in the attached Technical Memorandum of Understanding (TMU). Defined as a level.

[4] Defined as a level.

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

[6] The April 2015 data has been revised upwards.

Table 2. Ghana: Proposed Quantitative Program Targets 1/
(Cumulative from the beginning of the calendar year, unless otherwise indicated)

		2015	Mar 2016	Jun 2016	Sep 2016	Dec 2016
		Projections	Target	Target	Target	Target
I	**Quantitative Performance Criteria** [2]					
	Primary fiscal balance of the government (floor in millions of cedis)	-220	13	723	1,227	2,083
	Wage Bill (ceiling; in millions of cedis)	10,286	2,928	5,853	8,783	11,723
	Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) [3]	863	-555	-357	-928	832
	Net change in stock of arrears (ceiling, millions of cedis)	-1,561	-630	-1,476	-2,313	-2,313
II	**Continuous Performance Criteria**					
	Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) [4]	15,814	15,814	15,814	15,814	15,814
	Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0	0	0	0
	Non-accumulation of domestic arrears (ceiling; millions of cedis)	0	0	0	0	0
	Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions U.S. Dollars) [5]	2,000	2,000	2,150	2,150	2,150
	o/w: Debt for a debt management purpose [6]	1,500	1,000	1,150	1,150	1,150
	Debt for projects (cumulative from the beginning of 2015)	500	1,000	1,000	1,000	1,000
III	**Monetary Policy Consultation Clause**					
	Twelve-month consumer price inflation (percent)					
	'Outer band (upper limit)	22.6	20.5	19.0	16.9	13.0
	'Inner band (upper limit)	21.6	19.5	18.0	15.9	12.0
	Central target rate of inflation	19.6	17.5	16.0	13.9	10.0
	'Inner band (lower limit)	17.6	15.5	14.0	11.9	8.0
	'Outer band (lower limit)	16.6	14.5	13.0	10.9	7.0
IV	**Indicative Target**					
	Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) [7]	3,410	4,031	3,818	6,447	265
	Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	100	400	400	400	400
	Social Protection (floor, in million of cedis)	2,489	522	1,050	2,573	3,022

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

[2] Performance criteria for end-June and end-December, and Indicative targets for end-March and end-September 2016.

[3] Program definition excludes foreign currency deposits in BOG. Defined as a change from end-2015.

[4] Defined as a level.

[5] The USD 2000 million ceiling, with the two subceillings, applies starting from the date of completion of the second review. Prior to this date, the ceiling remains as specified in Table 1 of the August 25, 2015 Supplementary Letter of Intent, and as specified in the August 2015 TMU.

[6] Nonconcessional debt used to improve the overall public debt profile, including a Eurobond.

[7] Net domestic assets is computed using the program's exchange rate of GHc 3.4 per U.S.$1 for 2015 and GHc 4.0 per U.S.$1 for2016 as defined in the attached Technical Memorandum of Understanding (TMU). Defined as a level.

Table 3: Structural Benchmarks for 1st and 2nd Reviews

Category	Structural benchmarks	Economic rationale	Indicative timeframe	**Status**
	Revenue Administration and Tax Policy			
Revenue administration	- Adoption of the presumptive income tax, followed by revision of VAT thresholds	To enhance compliance in tax payments.	October 2015	**Not Met. Partially implemented (MEFP ¶ 16)**
Tax policy	- Identify exemptions to SOEs and free zone companies that will be eliminated in 2016, to be included in the 2016 budget, and further eliminate GIPC's role in granting exemptions.	Broaden tax base	October 2015	**Not Met. Partially implemented (MEFP ¶ 16)**
	Public Financial Management			
Payroll management	- Audit of the payroll database and security system.	Improve security of the payroll system	May 15, 2015	**Not Met. Implemented with delay 1/**
	- Biometric validation of all employees on the mechanized payroll, as well as publication of the public audit of payroll management	Cleaning of the payroll database	June 2015	**Not Met. Partially Implemented 2/; Delayed 3/**
PFM reform strategy	- Approval by Cabinet of a new PFM reform strategy and action plan, including a strategy for completion of the Treasury Single Account (TSA)	To revamp PFM reform effort	August 2015	**Met**
	Public Debt Management			
Debt management strategy	- Approval by Cabinet of a medium-term debt management strategy with clear risk priorities and plans on how these will be addressed, and its publication	To have a clear financing strategy communicated with the market to reduce uncertainty and borrowing costs	June 2015	**Met**
	Monetary Policy and Financial Sector			
Exchange rate	- Adopt a plan to eliminate the compulsory requirement of foreign exchange to BoG and stop provisions of foreign currency funding for priority sector imports	Support market-based determination of the exchange rate and deepening of the foreign exchange market.	April 2015	**Not Met. Implemented with delay 4/**

Table 3: Structural Benchmarks for 1st and 2nd Reviews (concluded)

Prudential supervision	- Submit to parliament a new Banks and Specialized Deposit-Taking Institutions Bill which provides BOG with the authority for prompt corrective action, liquidity support instruments, clear triggers for bank resolution, and a range of bank resolution tools.		May 15, 2015	**Met**
	- Submit to parliament a Deposit Insurance Bill which is consistent with the Banks SDI bill; that establishes an institution with the responsibility of paying deposits from recovered assets of failed banks; and ensures that incentives are appropriate and does not undermine market discipline		May 15, 2015	**Met**
Diagnostic Review	- Complete an asset quality review of the banks, undertaken by independent third parties, in consultation with IMF staff	Ensure prudent standards in bank's underwriting and credit evaluation practices.	September 2015	**Met**

1/ "The audit of the security system was completed by Mid-May, but a preliminary draft of the assessment was provided only in mid-June."
2/ "Biometric data is already used to validate payment of salaries, although through manual processes. Automated biometric validation of all employees will be completed by June 2016."
3/ "The public audit is delayed. The Internal Audit Agency has conducted a partial audit in the Accra region. The revised plan is to use the HR audit by the Public Service Commission, with private sector support, to update the payroll which will be completed by end-year".
4/ "A first draft plan to eliminate the compulsory surrender requirements of foreign exchange was completed before the end-April 2015 target. A revision of the plan addressing comments from the IMF was completed and adopted by the BoG Board in end-July."

Table 4. Ghana: Proposed Structural Reforms Benchmarks for 2015–16

Category	Proposed structural benchmarks	Economic rationale	Indicative timeframe	Paragraph
	Revenue administration and tax policy			
Revenue administration	-Publish the first quarterly report on the results of the risk-based audit of taxpayers program.	To enhance compliance in tax payments.	June 2016	47
Non-Tax Revenue	- Adopt and implement legal and regulatory changes to improve to improve management of Internally Generated Funds and channel a larger share of revenues through the central government budget.	To enhance mobilization of non-tax revenues	December 2016	69
	Public Financial Management (PFM)			
Human resource Management	- Finalize roll out the HRMIS to remaining MDAs	To strengthen control on net hiring and the wage bill.	December 2016	61
	- Integration of the GIFMIS Payroll, financial HRMIS and Hyperion in the Health and Education sectors.	To strengthen control on net hiring and the wage bill.	June 2016	61
Payroll Management	- Migrating employees of subvented agencies into the mechanized payroll	To strengthen control on net hiring and the wage bill	Proposed to be reset to May 2016	62
Subvented Agencies	-Wean-off the remaining eight subvented agencies from government payroll that were identified as commercially viable.	To strengthen control on the wage bill	June 2016	68
Budget Preparation	- Publication of a pre-budget statement, including explicit debt and deficit target for the 2017 Budget.	To improve budget credibility	June 2016	53
TSA	- Roll-out GIFMIS to 25 central government MDAs generating IGFs, including the 20 highest generating IGF, and close all related bank accounts in commercial banks.	To reduce borrowing costs	December 2016	54/65
Legal framework	- Submit to Parliament the draft PFM bill to amend existing PFM legal framework with the aim to: clarify the scope of application of the legislation and the institutional arrangements; strengthen budget formulation and execution, treasury management, accounting and reporting; introduce provisions on fiscal responsibility and on debt management 1/	To strengthen the PFM system	Proposed to be reset to March 2016	52

Table 4. Ghana: Proposed Structural Reforms Benchmarks for 2015–16 (concluded)

	- Adopt regulations for the implementation of the new PFM act.	To strengthen the PFM system	December 2016	
	Public sector reform			
Public sector reform	- Adoption by Cabinet of a comprehensive public sector reform strategy designed with the assistance of development partners.	To rationalize the size and increase the efficiency of public sector	December 2015	66
	Monetary policy and financial sector			
Bank of Ghana Act	- Submit to Parliament a revised Law that: strengthens the functional autonomy of BoG; sets a zero limit on monetary financing to the government and public institutions; establishes appointment durations for Governor and Board members; sets rules for emergency lending to banks in distress; and ensures compliance with IFRS (as described in MEFP ¶85).	Strengthen autonomy of the bank; set mechanisms for emergency lending.	December 2015	33
Elimination of foreign exchange surrender requirements	- Fully implement the first two stages of the set of measures to deepen the foreign exchange market. This includes: redirect the surrender requirement for gold and residual cocoa export proceeds from the BoG to commercial banks; design of a rule-based competitive system to intermediate FX flows to market, and; establish a settlement mechanism agreed with all stakeholders for the resolution of the outstanding stock of matured LCs to oil importers, following an audit to determine eligibility.	Deepen the foreign exchange market to reduce volatility.	June 2016	32

1/ The formulation of the benchmark has been changed from last review. It now says "Submit to Parliament" rather than "Approval by Cabinet".

Attachment II.
Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) defines the variables subject to quantitative targets (performance criteria and indicative targets), as specified in the authorities' Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) of March 20, 2015. It also describes the methods to be used to assess the program performance and the information requirements to ensure adequate monitoring of the targets. The authorities will consult with the Fund before modifying measures contained in this letter, or adopting new measures that would deviate from the goals of the program, and provide the Fund with the necessary information for program monitoring.

2. **Program exchange rate:** The exchange rates for the purpose of the program of the Ghanaian cedi (GH¢) to the U.S. dollar will be GH¢ 3.40 per US$1 for 2015 and GH¢ 4.00 per US$1 for 2016, which is calculated as the average of buying and selling exchange rates reported by banks to the Bank of Ghana (BoG). The exchange rates to other currencies will be calculated as the average of buying and selling exchange rates against the U.S. dollar.

I. QUANTITATIVE PROGRAM INDICATORS

3. For program monitoring purposes, the performance criteria and indicative targets are set for end-December 2015, end-June 2016 and end-December 2016. Performance criteria, indicative targets, and adjusters are calculated as cumulative flows from the beginning of the calendar year, unless indicated otherwise.

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

- a floor on the primary cash fiscal balance of the government, measured in terms of financing;
- a continuous ceiling on gross credit to government by the Bank of Ghana (level);
- a floor on the net international reserves of the Bank of Ghana (level);
- a ceiling on wages and salaries;
- a ceiling on the net change in the stock of domestic arrears;
- a continuous non-accumulation of domestic arrears;
- a continuous non-accumulation of new external arrears;

- a ceiling on the contracting or guaranteeing of new external non-concessional debt, with two sub-ceilings on (i) debt for debt management purposes and (ii) debt for projects integral to the development program for which concessional financing is not available; and

- a proposed monetary policy consultation clause set for the twelve-month rate of **consumer price inflation,** with discussions with the Fund to be held if inflation is outside the target band.

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

- a floor on poverty-reducing government expenditures.

- a ceiling on the contracting or guaranteeing of new external concessional debt

- a proposed ceiling on net domestic assets of Bank of Ghana (level);

A. Government

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

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

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

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

10. **The program primary fiscal balance** is cumulative from the beginning of the fiscal year and is measured from the financing side as the sum of net financial transactions of the government (as defined in paragraph 6 above)—comprising the sum of net foreign borrowing (as defined in

paragraph 14 below), net domestic financing (defined in paragraph 13 below), receipts from net divestitures and net drawing out of oil funds—and domestic and external interest payments.

11. **Domestic payments arrears** will be measured as the sum of five components. The first component, arrears to the government's statutory funds, represents any delay of more than one month in revenue transfers to these statutory funds, relative to the normal payment schedule (typically monthly or quarterly, and defined as a specific percentage of the previous month or quarter's revenue collections).[1] The second component, employees compensation arrears (consisting of wages and salaries, pensions, gratuities, and social security arrears), is defined as payments outstanding after the agreed date for payment to staff or the social security fund. The third component, debt service arrears, is defined as payments of domestic and external interest, amortization, promissory notes, that are due and not settled within the grace period specified in the contract. The fourth component, the MDAs expenditure arrears (road and other MDAs expenditure arrears), is defined as approved invoices on the GIFMIS system that remain unpaid three months after the quarter in which the invoices were approved by the MDA. The fifth component, arrears to SOEs,[2] is defined as payments for debt owed to SOEs that are due and not settled within 30 days after the end of the quarter.

12. **Budgeted expenditures on social protection programs** (as defined in text table below) will be taken from each year's final appropriations bill and will include only spending financed by the government or from internally generated funds. Actual spending on social protection programs, including LEAP, will be supplemented with the transfers to the National Health Fund (NHF)—which the government considers as poverty-related. Accordingly, actual poverty spending will exclude all donor-supported expenditure.

Overview of Social Protection programs:	
1. National Health Fund (NHF)	2. Provide free school uniforms
3. Livelihood Empowerment Against Poverty (LEAP)	4. Provide Government's subsidy for Senior High Schools
5. Fertilizer Subsidy	6. Implement progressively free Senior High School Program
7. Basic Education Certificate Examination	8. Provide feeding grant for special schools for the handicapped
9. Capitation grant for Public Basic Schools across the country	10. Printing and Distribution of Exercise Books to Basic School Pupils under the Social Intervention Program

[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.

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

11. Provide 10million free exercise books to Public Basic Schools across the country	12. Implement First Phase of Maths and Science Reforms for 13000 KGS, 14000 Primary School and 8000 JHS
13. Provide core textbooks	14. Capitation Grant
15. Establishment supplies for all Public Basic Schools across the country	16. Feeding fee for levels 100 & 200 students of colleges of education across the country

13. **Net domestic financing of government** is defined as the change in net credit to government by the banking system (i.e., the Bank of Ghana plus deposit money banks) plus the net change in holdings of treasury bills and other government securities by the nonbank sector, excluding divestiture receipts.

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

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

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

17. **Nonbank financing** is the difference between total net cash receipts to the treasury main cash account (issues/redemptions account when it becomes operational) from the sale/repurchase of government securities, less the corresponding net cash value received from the BoG and DMBs as indicated on the Debt Registry by holder at discount value, plus deferred accrued interest on their holdings of inflation-indexed bonds.

B. Bank of Ghana

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

deposits of international institutions at the BoG and swaps with non-resident commercial banks. Long-term foreign assets and liabilities are comprised of: other foreign assets, investments abroad, other long-term liabilities to nonresidents, and bilateral payment agreements. All values not in U.S. dollars are to be converted to U.S. dollars at the program exchange rate defined in paragraph 2. A more detailed listing of accounts to be included in the measure of net foreign assets is contained in the monetary template provided to the IMF on January 21, 2015.

19. **Net international reserves** of the BoG are defined for program monitoring purposes[3] as short-term foreign assets of the BoG, minus short-term external liabilities. To the extent that short-term foreign assets are not fully convertible external assets readily available to and controlled by the BoG (that is, they are pledged or otherwise encumbered external assets, including assets encumbered by BoG guarantees issued to third parties), they will be excluded from the definition of net international reserves. All values not in U.S. dollars are to be converted to U.S. dollars at the program exchange rate defined in paragraph 2.

Net international reserves are defined as:

- Short term assets (composed of: Gold, Holdings of SDR, Foreign Notes and Coins, Foreign Securities/Short term dep., Disposal Balances with Correspondent Banks, Fixed Deposits (excludes encumbered pledged assets), any other short term foreign assets).

- Minus foreign short term liabilities (composed of: Deposits of International Institutions, Liabilities to Int. Commercial Banks, Swap Deal Payable foreign with non-resident banks). Short term liabilities should exclude liabilities with an asset counterpart that is encumbered (which are excluded as well from the asset side),

- Minus all liabilities to the IMF, SAF/ESAF/PRGF,

- Minus all positive foreign currency deposits at the BoG held by resident deposit money banks (which includes the stock of swaps deal payable foreign with resident banks), public institutions, nonfinancial public enterprises, other financial institutions, and the private sector.[4]

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

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

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

[4] This item is not deducted from NIR in the Balance of Payments and Monetary survey definition which is based on the standard residency criteria.

21. **Outstanding gross credit to government by the Bank of Ghana** is defined as the total amount of (i) all BoG loans and advances to central government and state-owned enterprises, (ii) all government overdrafts, (iii) the absolute value of government deposits reflected as negative values in the monetary survey; iv) the face value for all outstanding Government of Ghana treasury bills, notes and bonds purchased by BoG in the primary and the secondary market. For purposes of this technical memorandum of understanding the stock of gross credit to government by Bank of Ghana includes all called guarantees given by Bank of Ghana for all operations between the central government or state owned enterprises and a third party. For purposes of this technical memorandum of understanding stock of gross credit to government does not include: BoG holdings of government T-bills as collateral from commercial banks; BoG reversible market transactions involving government securities that don't result in a change of security ownership; and the balance of a new short-term credit line which BoG plans to establish in 2016 (this credit line will be capped at 2 percent of previous year's government revenues and would be allowed to have a non-zero balance only during 90 business days of the calendar year).

C. Monetary Policy Consultation Clause (proposed)

22. The consultation bands around the projected 12-month rate of inflation in consumer prices (as measured by the headline consumer price index (CPI) published by the Ghana Statistical Service), are specified in the Performance Criteria table in the MEFP. If the observed average for the latest three months of the 12-months rate of CPI inflation falls outside the lower or upper outer bands specified Performance Criteria table for end-June 2016 and end-December 2016 test dates, the authorities will complete a consultation with the IMF Executive Board which would focus on: (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for program deviations, taking into account compensating factors; and (iii) on proposed remedial actions if deemed necessary. When the consultation with the IMF Executive Board is triggered, access to Fund resources would be interrupted until the consultation takes place and the relevant program review is completed. In addition, the authorities will conduct discussions with Fund staff should the observed year-on-year rate of CPI inflation fall outside the inner bands specified for the end of each quarter in the Performance Criteria table.

D. Non-accumulation of New External Arrears

23. For the purpose of the ceiling on the accumulation of external payment arrears, external payment arrears will accrue when undisputed payments such as interest or amortization on debts of the government (as defined in paragraph 6) to non-residents are not made within the terms of the contract. This performance criterion will be monitored on a continuous basis.

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

24. For the purposes of this technical memorandum of understanding, the definition of debt is set out in paragraph 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements (Executive Board's Decision No.15688-(14/107). It not only refers to debt as defined in paragraph 8 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:

> 8 (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 8(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.

25. **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 24, which is denominated in foreign currency, i.e., currency other than Ghanaian cedis (GH¢).[5]

26. Nonconcessional external debt is defined as external debt contracted or guaranteed by the government (defined in paragraph 6), the BoG, and specific public enterprises (defined in paragraph 27) on non-concessional terms (defined in paragraph 28) [6]. External debt and its concessionality will be reported by the Debt Management Division of the Ministry of Finance and Economic Planning, and will be measured in U.S. dollars at current exchange rates.

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

28. 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 signing date of an underlying loan agreement is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent.

29. For loans carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the loan would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the loan contract. The program reference rate for the six-month USD LIBOR is 3.34 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -250 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -300 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -100 basis points. For interest rates on currencies other than Euro, JPY, and

[5] Excluded from this performance criterion are the use of Fund resources, rollover of BOG's existing liabilities, normal import-related credits, pre-export financing credits of public enterprises, cocoa loans collateralized by cocoa contracts, and individual leases with a value of less than US$100,000.

[6] For a program monitoring purpose, debt is considered as contracted or guaranteed when all conditions precedent for effectiveness of the underlying loan agreement are satisfied. Only debt signed since the beginning of 2015 will be counted against this performance criterion.

GDP, the spread over six-month USD LIBOR is -200 basis points.[7] Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added.

30. Starting from the completion of the second review, the performance criterion on new non-concessional external debt includes two sub-ceilings on (i) debt for debt management purposes and (ii) debt for projects integral to the development program for which concessional financing is not available. Debt for debt management purposes is defined as non-concessional debt used to improve the overall public debt profile. The debt management sub-ceiling shall be cumulative from the beginning of each calendar year.

31. The sub-ceiling on any contracting or guaranteeing of non-concessional external debt for projects integral to the development program for which concessional financing is not available refers to debt for those projects specified in the list below. Any contracting or guaranteeing of non-concessional external debt for projects other than those listed below results in the nonobservance of the PC. The total amount of contracting of non-concessional external debt for projects on this list will be strictly limited to US$ 1,000 million on a cumulative basis from the beginning of 2015. Amounts applied toward this limit do not count toward the sub-ceiling on non-concessional borrowing for debt management purposes.

- Takoradi Port Expansion 2
- Supply Agricultural equipment under Food for Africa programme
- Electricity Company Ghana Limited Prepaid meter distribution
- Construction and Equipping of Ten (10) Polyclinics in the Central Region
- Self-help electrification project (SHEP) - 4 -Hunan
- 4 District Hospitals and accident and emergency center in Bamboi, Somanya, Tolong, Weta, and Buipe
- Kumasi market phase 2
- SHEP five regions-CWE
- Strengthening of Lots 1, 2 & 4 Central Corridor
- Eastern Corridor Road Project Refinancing for Section I: Asikuma Junction - Have and Section II: Nkwanta - Oti Damanko
- Obetsebi Lamptey Drainage network and Interchange
- Bekwai Hospital Rehabilitation
- Sugarcane Development and Irrigation Project

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

- KARPOWER PROJECT B
- Takoradi 4 Thermal Power Project (T4)

F. Adjustors to the Program Targets

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

Primary fiscal deficit of the government

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

i) Downward (upward) by 50 percent of any excess (shortfall) in **oil revenue**.

ii) Downward by 50 percent of any **shortfall in concessional program loans**.

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

iv) Downward by the full amount of **any excess of program grants less any use of program grants** used to repay outstanding domestic arrears at a more rapid pace than programmed.

v) Upward by 50 percent of any **shortfall in program grants.**

Net international reserves of the Bank of Ghana

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

Budget Financing and oil revenues, 2015 [1/] (GH¢ millions, cumulative from the start of the calendar year)					
	April 2015		**August 2015**		**December 2015**
	Prog.	Act.	Prog.	Act.	Prog.
Program grants	0	0	750	733	915
Program loans	0	0	748	612	789
Oil revenues, net of transfers to GNPC	371	160	603	894	998
[1/] Used to compute adjustors for performance criteria for end-April, end-August, and end-December.					

Budget Financing and oil revenues, 2016 [1/] (GH¢ millions, cumulative from the start of the calendar year)				
	March	**June**	**September**	**December**
Program grants	0	0	112	133
Program loans	0	600	844	844
Oil revenues, net of transfers to GNPC	325	460	785	1,640
[1/] Used to compute adjustors for performance criteria for end-March, end-June, end-September, and end-December.				

G. Provision of Data to the Fund

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

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

Item	Periodicity
Fiscal data (to be provided by the MoF)	
Central budget operations for revenues, expenditures and financing, including clearance of arrears.	Monthly, within six weeks of the end of each month.
Divestiture receipts received by the budget (in cedis and foreign exchange, net of divestiture transactions costs).	Monthly, within six weeks of the end of each month.
The stock of domestic payments arrears by sub-category (as defined in para. 11 of the TMU).	Quarterly, within six weeks of the end of each quarter
Public investment Plans execution.	Monthly, within six weeks of the end of each month.
Expenditures committed but not paid and within the legal period before they become arrears (float).	Monthly, within six weeks of the end of each month.
Wage bill monthly reports including breakdown of developments per MDAs.	Monthly, within six weeks of the end of each month.
Monetary data (to be provided by the BoG)	
Net domestic assets and net international reserves of the BoG.	Monthly, within two weeks of the end of each month.
Detailed balance sheet of the monetary authorities.	Monthly, within four weeks of the end of each month.
Monetary survey detailing the consolidated balance sheet of commercial banks.	Monthly, within six weeks of the end of each month.
Weekly balance sheet of the central bank, including gross international reserves, net international reserves.	Weekly, within a week of the end of each week
Summary position of government committed and uncommitted accounts at BoG, and total financing from BoG.	Monthly, within four weeks of the end of each month.

(continued)

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

Composition of banking system and nonbanking system net claims on government.	Monthly, within four weeks of the end of each month.
Stock of BoG swaps and encumbered and non- encumbered loans with resident and non-resident commercial banks.	Monthly, within two weeks of the end of each month.
Daily computations for the BoG benchmark exchange rate, including all transactions used to derive it.	Monthly, within two weeks of the end of each month.
Debt registry showing structure and holders of domestic government debt, at face value and at discount. Similar table showing holders of treasury bills for open market operations.	Monthly, within four weeks of the end of each month.
Balance of payments (to be provided by the BoG)	
Export and import data on value, volume, and unit values, by major categories and other major balance of payments variables.	Quarterly, with a maximum lag of two months.
Foreign exchange cash flow.	Monthly, within four weeks of the end of the month.
Monthly foreign exchange cash flow projections (with actual historical figures updated)	Monthly update, with a maximum lag of two weeks of the end of the month.
External debt and foreign assistance data (to be provided by MoF)	
Information on the concessionality of all new external loans contracted by the government or with a government guarantee.	Quarterly, within four weeks of the end of each quarter.
For the coming quarter: (i) total debt service due by creditor, (ii) amount of HIPC Initiative relief on each transaction, and (iii) debt service paid and the transfers to the HIPC Initiative account by creditor for the previous month. Report should cover government and government-guaranteed debt (as defined in this document).	Quarterly within four weeks of the end of each quarter.
External debt and external debt service incurred by enterprises with government ownership above 50 percent, even if loans have not been explicitly guaranteed by the government.	Quarterly, within three weeks of the end of each quarter.
Short-term liabilities to nonresidents (maturity in one year or less), including overdraft positions and debt owed or guaranteed by the government or the BoG. 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.

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

Other data (to be provided by GSS)	
Overall **consumer price index.**	Monthly, within two weeks of the end of each month.
National accounts by sector of production, in nominal and real terms.	Annual, within three months of the end of each year (switching to quarterly when they become available).
Quarterly financial statements of main state-owned enterprises. (i) Tema Oil Refinery; (ii) Ghana National Petroleum Company; (iii) Ghana National Gas Company; (iv) Volta River Authority; and (v) Electricity Company of Ghana; vi) GRIDCO; vii) Ghana Water Company Limited.	Quarterly, within three months of end of quarter
Quarterly financial statements of GIIF	Quarterly, within three months of end of quarter
Annual financial statements of main state-owned enterprises. (i) Tema Oil Refinery; (ii) Ghana National Petroleum Company; (iii) Ghana National Gas Company; (iv) Volta River Authority; and (v) Electricity Company of Ghana; vi) GRIDCO; vii) Ghana Water Company Limited.	Annual, within six months of end of year
Electricity pricing (to be provided by the Ministry of Energy) Data on the tariff structure and the cost of producing electricity.	Quarterly, within four weeks of the end of each quarter.
Petroleum pricing (to be provided by the Ministry of Energy)	
(i) a breakdown of costs, including the ex-refinery price, duties, levies, and margins, for each of the individual petroleum products; and	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.