International Monetary Fund

Ghana and the IMF

Press Release:
IMF Executive Board Completes Third ECF Review for Ghana, and Approves US$116.2 Million Disbursement
September 29, 2016

Country's Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

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

September 16, 2016

Letter of Intent

Accra, September 16, 2016

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 completes the third review of Ghana's Extended Credit Facility (ECF) arrangement and approves the disbursement of the fourth tranche of the loan based on the satisfactory implementation of performance criteria (PC).

2. The program remains broadly on track and the Government is committed to the reforms supported by the ECF. Fiscal consolidation is on track, as indicated by a lower than programmed primary fiscal deficit in 2015. We are taking corrective steps to address the slippages for end-2015 PCs on net domestic assets and the wage bill, which were missed by a small margin. We also stepped up structural reforms.

3. Economic conditions have been difficult, owing to slow economic growth and tight financing conditions. Weak commodity prices, a shortfall in cocoa production and unreliable electricity supply contributed to the 2015 economic slowdown. Inflation, still high, has started to subside. An ambitious fiscal adjustment and a modified program financing strategy will help contain financing needs, stabilize public debt and avoid accumulation of arrears. We will implement additional fiscal measures, as detailed in the attached MEFP, to achieve a primary fiscal surplus in 2016. The BoG remains committed to bringing inflation down to its medium target by maintaining tight monetary policy, as indicated by the monetary policy rate remaining at 26 percent.

4. We have tightened debt service procedures and did not incur any delayed payments on external debt service to official creditors. To avoid any future delays in the debt service, we have been implementing the recommendations of technical assistance provided by the Commonwealth Secretariat and the IMF on improving debt management processes. We have no overdue external debt payments.

5. The MEFP describes government policies for the remainder of 2016 which would support achieving program objectives under the ECF. We request the IMF Executive Board to approve a waiver for the non-observance of performance criteria on net domestic assets (now an indicative target), and the wage bill, with the test dates at end-December 2015.

6. The government believes that the measures and policies set forth in the attached MEFP are appropriate and sufficient to achieve the objectives of the 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 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 related performance criteria.

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 third review under the ECF.

Sincerely yours,

/s/	/s/
Seth Emmanuel Terkper	Abdul-Nashiru Issahaku
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 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 estimates indicate total real GDP growth of 3.9 percent in 2015, slightly above previous projections. Non-oil real GDP growth edged up slightly to 4.1 percent in 2015 from 4.0 percent in 2014. Growth in the agricultural sector was lower compared to 2014, mainly due to the impact of adverse weather conditions, which led to a slowdown in crop production, especially cocoa. Industrial growth in 2015 was marginally higher than in 2014 (1.2 percent compared to 0.8 percent), driven by a pickup in growth in Q4. The services sector grew robustly at 5.7 percent, supported by the strong performance of trade and information and communication sectors. With higher inflation and increases in indirect taxes, total nominal GDP at market prices is now estimated to have grown by 23.5 percent, about 5.5 percentage points higher than previously projected. Preliminary estimates show that overall real GDP grew at 4.9 percent in the first quarter of 2016 (year-on-year) despite a decline in oil production. Non-oil real GDP grew at 6.6 percent in the same period.

3. Inflation pressures have remained high. Inflation was 18.4 percent in June 2016, up from 17.7 percent in December 2015, but fell to 16.7 percent in July 2016. The decline in inflation in July was driven by the continued tight monetary policy stance, a moderation in imported goods inflation, due to the stability of the cedi, as well as a decline in utility and fuel inflation. Underlying inflationary pressures also started to decline: inflation excluding energy fell from 18.6 percent in December 2015 to 16.5 percent in July 2016.

Fiscal Performance

4. Fiscal performance in 2015 was satisfactory. The overall fiscal deficit on a cash basis was substantially lower than budgeted, declining from 10.1 percent of GDP in 2014 to 6.9 percent in 2015, and the small primary deficit of 0.4 percent of GDP was better than programmed. While tax collection fell short of expectation, non-tax revenue was stronger than expected, supported by an unbudgeted dividend transfer from BoG. A breakdown by tax type shows that corporate tax collection was in line with projection, reflecting efforts to strengthen compliance. Lower than expected economy-wide wages have led to a shortfall in personal income tax. At the same time

trade taxes also remained subdued. In contrast, tax policy and administration measures and the depreciation of the cedi boosted indirect tax revenues, including the VAT and petroleum products tax. To adjust to lower-than-budgeted revenue, the government contained expenditures, in particular outlays on goods and services and domestically-financed capital spending. Despite higher-than-budget allowances payments that led to an overrun in the nominal wage bill, the wage bill ratios to GDP and tax revenue improved, declining from 8.3 percent and 52.9 percent in 2014 to 7.5 percent and 49.2 percent in 2015, respectively. The over-run in allowances largely occurred in the last quarter of 2015 when payments of GHc 232 million were made against a projection of about GHc 30 million for Categories 2, 3 & 4 allowances, reflecting overtime allowances, transfer grants, trainee allowances, rent allowances, car maintenance allowances, fuel allowances, disability allowances, overnight allowances, out of station allowances, and travel & transport allowances. Implementation of a prudent debt management strategy contributed to lower domestic interest payments. The government used the available space to clear more arrears than budgeted.

5. Fiscal consolidation efforts have continued but faced challenges during the first half of 2016. The fiscal balances were better than programmed, with a much smaller overall cash deficit and a larger primary surplus (0.9 percent of GDP against a programmed 0.4 percent of GDP). This was achieved despite weak revenue performance: personal income tax was weak due to low growth in employees' income; corporate income taxes underperformed due to eroded profit margins because of high operating costs; and oil revenues were lower due to lower international oil prices and a shortfall in oil production. Indirect taxes and trade taxes were also below budget projections. To compensate for the overall weak revenue performance, the government compressed domestically-financed capital spending, while earmarked mandatory transfers were reduced according to the revenue sharing formula. Repayments of domestic arrears were also delayed because of delays in finalizing the audit of the oil importing companies' claims. On the other hand, wage payments were slightly higher than budgeted because of back-payments for promotions and salaries of new hires granted in 2013-14, which were validated by the auditor general only during the first half of 2016. The wage bill (excluding deferred wage payments) has remained within the program ceiling.

Financing and Public Debt

6. Central government financing for 2015 was met through net external financing of 4.2 percent of GDP and net domestic financing of 2.1 percent of GDP. External financing included program and project loans and a new Eurobond. The net marketable domestic financing was entirely covered by T-bill issuance, resulting in a further shortening of the average time to maturity of domestic marketable securities to 10.2 months at end-December 2015, compared to 14.6 month at end-December 2014. Domestic market conditions improved significantly during the course of 2016 with robust participation of non-resident investors, enabling a shift in the financing mix towards greater reliance on medium-term securities and firmly reversing the average time to maturity close to the end-December 2014 level.

7. The issuance of a new Eurobond in October 2015 despite difficult international market conditions helped with the rollover and partial redemption of a domestic 3-year bond maturing in

October and mostly held by non-resident investors. In November, the government also issued a fresh domestic 5-year bond with large participation of non-residents, which helped offset the partial redemption by non-residents in October. T-bill issuance increased towards the end of the year, as domestic banking system liquidity conditions improved. The fiscal over-performance and larger than expected domestic market financing enabled the government to save about US$ 500 million of the Eurobond proceeds, which were deposited into an escrow account and are being used solely to refinance existing debt.

8. The government maintained a net cash position of GHc 1.8 billion at end-2015, or 1.2 percent of GDP, in anticipation of zero financing from the Bank of Ghana in 2016. This helped in managing cash flow, including domestic debt redemption during the first half of 2016. The issuance of a US$ 750 million Eurobond in September 2016 has further reduced financing pressures for the remainder of 2016 and first half of 2017, while the buyback of part of the 2017 Eurobond has reduced external refinancing risk for that year.

9. As a result of the large fiscal adjustment achieved in 2015, debt accumulation subsided markedly. The central government debt ratio increased only slightly from 70.2 percent of GDP at end-2014 to 71.8 percent of GDP at end-2015, with domestic and external debt of 29.0 percent of GDP and 42.8 percent of GDP, respectively. The share of debt to official creditors in total central government debt declined somewhat, while that of commercial debt increased by 5 percentage points. The share of short-term domestic debt has slightly increased while the share of non-resident holdings in total domestic debt stood at 17 percent.

Monetary and Financial Sector Developments

10. In view of still elevated inflationary pressures, the Monetary Policy Committee (MPC) has held its benchmark policy rate at 26 percent since November, following an increase of 500bp during 2015. The interbank rate has remained between 25 and 26 percent over this period, within the policy rate corridor (+/- 1 percent). The nominal exchange rate has been relatively stable depreciating by 3.3 percent against the US dollar during the first half of 2016. The cedi has been supported by increases in domestic interest rates and inflows of foreign exchange from a cocoa loan, renewed non-resident participation in the domestic market, and FX intervention by the BoG. Strong foreign exchange inflows also enabled the BoG to increase its net foreign exchange reserves (from US$ 1.3 billion at end September 2015 to US$ 2.7 billion at end March 2016) and contributed to excess liquidity in the domestic banking system. The BoG hence withdrew liquidity on a net basis in its open market operations during the fourth quarter of 2015 and the first quarter of 2016, through its overnight repo facility and issuance of 14-day BoG bills.

11. There was a further deceleration of growth in broad money and credit to the private sector. Although growth in reserve money was robust on a year-on-year basis, at 29.9 percent in June 2016, growth in broad money (including foreign currency deposits) declined from 34.9 percent in June 2015 to 12.0 percent in June 2016. Growth in credit to the private sector slowed even more sharply than broad money, from 36.3 percent to 9.0 percent over the same period. Banks' average lending

rates have also tightened significantly, to 32.7 percent in June 2016 from 27.5 percent at end 2015, while deposit rates remained broadly stable.

12. The banking system remains profitable in aggregate, although asset quality has deteriorated over the past year. The non-performing loan ratio increased from 11.2 percent in June 2015, to 18.8 percent in June 2016, reflecting the impact of exchange rate volatility and disruptions to energy supply but also the reclassification of some banks' portfolios following the Asset Quality Review. Banks' provisions have increased over this period from 5.1 to 7.9 percent of gross loans and the ratio of regulatory capital to risk-weighted assets has remained around 16 percent. As a result, profitability has declined, although it remains strong: return on equity was 23 percent in February (from 29 percent in June 2015).

External Sector

13. The external current account strengthened in 2015, with a deficit estimated at 7.5 percent of GDP, compared with 9.6 percent of GDP in 2014. External adjustment was somewhat weaker than originally programmed, as export growth was affected by poorer cocoa harvest in the previous crop season and declining gold production due to the energy crisis. Weak oil prices led to a significant decline in oil imports, while non-oil imports rebounded from a large decline seen in 2014 despite further exchange rate depreciation. FDI and nonresidents' holdings of domestic debt remained broadly stable in 2015. Overall, gross international reserves increased to $4.4 billion in 2015 from$4.3 billion in 2014, despite a lower than expected Eurobond issuance and significant reductions in BoG's short-term swaps and external borrowing for reserves management purposes. Reserves have declined in the first half of 2016, but by less than during the same period in previous years due to robust nonresidents' investment into domestic debt. At the same time, the exchange rate has remained very stable, supported by the tight monetary policy and diminishing concerns over external sustainability.

Quantitative performance criteria and structural benchmarks

14. End-December performance criteria (PC) were met, with few exceptions. The PC on the primary fiscal balance was comfortably met, along with those on net international reserves, gross credit to government and net stock of arrears. The wage bill, however, exceeded the program ceiling by a small margin, due to overruns in late 2015. The PC on net domestic assets (NDA) (now an indicative target) was also missed by a small margin. The indicative targets on inflation and social protection spending were met.

15. Status of structural benchmarks:

a. The end-December 2015 SB on migrating employees of subvented agencies into the mechanized payroll was not met. The authorities had to suspend the migration of selected subvented agencies such as the public universities, Ghana Revenue Authority, and the security agencies, in part due to (i) security concerns and (ii) specific needs of subvented agencies. The authorities now plan to interface the payroll of these agencies with the central government mechanized payroll (see ¶61 below).

b. The end-December SB on the submission to Parliament of the PFM bill was not met. The consultative process with stakeholders and development partners took longer than expected. The bill was adopted and passed into Law by Parliament in July 2016.

c. The end-December SB on the adoption by Cabinet of a comprehensive public reform strategy was not met. The strategy was submitted to Cabinet in March 2016 and approved in June.

d. The end-December SB on the submission to Parliament of the amendments to the Bank of Ghana Act of 2002 (Act 612) was not met. However, the amendment was submitted to Parliament in July 2016 and was passed and assented to in August 2016.

II. THE GOVERNMENT'S ECONOMIC PROGRAM

Macroeconomic Framework for 2016 and the Medium-Term

16. **Outlook for 2016.** GDP growth is expected to slow down to between 3 to 4 percent in 2016, mainly due to a slowdown in oil and gas production resulting from technical problems with the FPSO at the Jubilee Oil Field (production was shut down for almost 2 months and is expected to be at 90 percent of capacity for the rest of the year). Inflation (end of period) is expected to moderate to between 13 and 14 percent, helped by tight monetary policy, a more stable exchange rate and the ongoing fiscal consolidation.

17. **Medium term Outlook.** Medium-term projections remain broadly unchanged. Non-oil growth is projected to rebound to reach an average of about 6 percent over the medium term. The Jubilee field is expected to shut down for another month in 2017 for necessary repairs, with a risk of longer downtimes depending on how the repairs progress. However, with the TEN and Sankofa fields coming online over the next two years, the oil and gas sector is expected to grow strongly in the medium term, with production peaking in 2020. Inflation is expected to reach the target band of 8% +/- 2% during 2017 and stabilize thereafter. Current account deficits would further narrow, on the heels of fiscal consolidation and expected increases in oil and gas production over 2016-20. Gross international reserves would stay comfortably above 3 months of imports.

Fiscal Policy for 2016 and the Medium Term

18. Fiscal policy continues to aim to progressively reduce the fiscal deficit to 3.5 and around 3 percent of GDP in 2017 and 2018, respectively. This reduction in the fiscal deficit will be driven mainly by pursuing the revenue and expenditure measures that 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.

19. To achieve the medium-term fiscal target, the government remains committed to achieving the 2016 budget deficit objective of the program. The overall fiscal deficit is projected at about 5¼ percent of GDP, with a primary surplus of about 1 percent of GDP, the first surplus in a decade. This would lead to a relatively large decline in the government debt ratio to GDP of about 5 percentage points of GDP. The government intends to reinforce its strict expenditure control, ensuring that the wage bill remains within the approved budget limits, by strictly enforcing compliance with the policy of net freeze on recruitment, using ESPV system to effectively reduce the incidence of "ghost workers", strictly enforcing of the Financial Clearance system for payment of new recruitment and granting of allowances, while using the mechanism of budget allocation to contain discretionary spending in line with the budget envelope, including the election costs. Despite the revenue measures introduced by the government, tax collection has not increased as much as expected. An increase in the exemption threshold contributed to lower-than-expected personal income taxes, as many households in the low income group became exempted and many households were moved from the marginal rate of 25% to 17.5%. The impact of the new Income Tax Act, which introduced a 15% withholding tax on Petroleum Sub-contractors and a 3% withholding tax on unprocessed minerals by small scale miners, was below expectation. Most of the contractors and subcontractors had a stabilization agreement keeping their withholding tax at 5%, while lower gold world market price reduced profits in the gold sector. At the same time, the introduction of the ECOWAS Common External Tariff (CET) appears to have been close to neutral on import duties instead of the anticipated positive revenue impact. The revenue shortfall will be offset mainly by reducing the domestically financed capital spending through delaying transfers to the Ghana Infrastructure Fund (GIF) and smaller cuts in goods and services. Should the revenue performance improve during the second half of the year as a result of the tax administration measures, these categories of spending would be brought back closer to their budgeted amounts.

Arrears Clearance Strategy

20. The government remains committed to its medium-term arrears clearance plan. It plans to clear the remaining stock of arrears in the amounts of GHc 2.3 billion in 2016 and GHc 2.0 billion in 2017. These include mainly arrears to utility companies, other SOEs, statutory funds, the pension fund and deferred wages. In addition, the government has provisioned GHc 800 million for the repayment of arrears that are being 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. This audit is near final, and a first repayment to oil importers is planned by end-October.

Program Financing and Debt Management Strategy

21. The Medium-Term Debt Management Strategy (MTDS) for 2016-2018 envisaged a financing mix for 2016 that included the issuance of a new Eurobond in the amount of $750 million to (i) finance priority capital expenditure for 2016; (ii) support international reserves; and (iii) extend domestic public debt maturities. After market conditions improved, the government was able to

issue a $750 million Eurobond with an average maturity of 5 years, to be repaid in three equal installments in 2020, 2021 and 2022, and with a coupon of 9.25 percent. Proceeds of this Eurobond will be used to buy back the outstanding amount of the Eurobond maturing in 2017 and to finance capital spending. The cash resources of $500 million in unused 2015 Eurobond proceeds available at the beginning of 2016 have provided another option for managing refinancing of maturing debt. Net domestic financing, which was strong during January-June, could exceed the original program objective. The government intends to aggressively pursue the strategy of lengthening domestic debt maturities and reducing future annual gross borrowing requirements. The government will also seek additional donor financing. Over the medium-term, the financing mix will shift to greater reliance on domestic debt, with reduced net external borrowing in 2017 and 2018, when foreign exchange inflows to the balance of payments will be boosted by oil and gas production. The cash buffer accumulated in the Sinking Fund has been used to retire US$ 131 million of the previously outstanding US$ 531 million Eurobond maturing in October 2017.

22. The Government continues to implement reforms to deepen the domestic debt market. Reopening of securities at auction has been introduced in order to build benchmark securities and to improve the liquidity of the secondary market and facilitate price discovery. The goal is to have a handful of benchmark securities outstanding. The auction frequency of the 1-year and 2-year notes has been reduced since September 2015, and the number of securities outstanding has already been reduced. The government intends to consolidate the remaining non-fungible securities currently outstanding through switches/exchange offers, buyback operations and reverse auctions, in order to accelerate the process of building up benchmark securities. These operations will also help to manage large redemptions of benchmark securities ahead of maturity dates. The review of the primary dealer system has been finalized, and privileges will be awarded to those primary dealers (PDs) who strictly satisfy the agreed obligations. Over time, strict enforcement of the conditions and criteria could lead to a further reduction in the number of PDs. Greater price transparency and an increase in trading activities in the secondary market has been observed since the introduction of the new electronic trading platform. The SEC and the CSD are working together to enable same day settlement of securities. The Securities Lending and Short Selling Act has been submitted to Parliament. These reforms will further enhance secondary market trading and liquidity. The MOF has requested IMF technical assistance to support the implementation of these reforms.

23. 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**. The government has made significant progress in ensuring that loans signed for SOEs and MDAs for commercial projects are matched with on-lending agreements that 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 is receiving funds (forex) from excess over the cap of the Stabilization Fund. Transfers to the Sinking Fund will not take place through additional borrowing for the budget financing need. The Fund will form the basis

for spreading repayment of both principal and interest over time. The goal is to minimize the rollover risk associated with Treasury securities and Eurobonds.

Monetary Policy and Exchange Rate Issues

24. Monetary policy is 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. 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 has helped to stabilize the exchange rate and contain inflation 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, the inflation objectives under the program are now monitored through a monetary policy consultation clause (MPCC).

25. The BoG implemented several important reforms to its monetary operations during 2015 and 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, and set up a financial market analysis unit to ensure synergy between the monitoring and forecasting of liquidity and monetary operations, with AFRITAC WEST 2 technical assistance. To enhance monetary operations, 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.

26. The BoG is also taking important steps to enhance market development. To improve the functioning of the repo market, the Central Securities Deposit (CSD) platform became fully functional and the BoG has also been promoting a classic interbank repo transaction. To this end, the BoG will request, by November 2016 a qualified legal opinion on the enforceability of agreements of interbank repo transactions carried out on the CSD repo platform, and review by December 2016 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 has launched a formal consultation with commercial banks in order to revise the calculation of the base rate which is expected to be finalized by November 2016. Finally, the BoG has reviewed the list of monetary counterparties and non-banks have been excluded since June 2016, in order to encourage more flows to be intermediated by the market.

27. The BoG has also continued to strengthen its monetary policy formulation process and communication, consistent with best IT practices and 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. The restructuring of the Research Department into a new Economics Department, which houses forecasting activities, and a separate new Statistics Department, which focuses on ensuring the integrity and quality of data, is completed. A further important reform underway is the adoption of a new external communications strategy which would involve an enhanced public communication

outreach program to promote economic literacy and the stabilizing role of the BoG in the economy and the financial system. The Bank of Ghana has also, beginning from June 2016, started publication of a Monetary Policy Report and revamped its Financial Stability Report.

28. In order to deepen the foreign exchange (FX) market and promote its smooth functioning, the BoG has implemented the first stage of a phased plan for the elimination of FX surrender requirements. In the first stage, the regulatory and monitoring framework for the repatriation requirement and its enforcement have been strengthened and the new regulations published on the BoG website. To ensure that all eligible export proceeds reach the Ghanaian economy, any new concessional retention agreement will incorporate the following elements: i) standardized sector-wide retention clause, ii) retention, if any, in Ghana only and, iii) the introduction of a sunset clause for the retention of export earnings. The strategy for the elimination of surrender requirements and its rationale was communicated to banks and the wider public in May 2016 and the surrender requirement for gold and residual cocoa export proceeds was redirected to commercial banks effective July 1, 2016. In the second stage, the BoG will develop a settlement mechanism to address the stock of matured letters of credit (LCs) to oil importers which was outstanding as at May 2015, following an audit to determine which LCs are eligible for such resolution. The completion of this audit was delayed but is expected to be completed by September 2016. In the final phase, the pre-payment lump-sum cocoa export proceeds will be surrendered to commercial banks, following an interim period (to commence in October 2016) during which BoG will continue to receive the lump-sum pre-payment export proceeds from cocoa for but will sell them to commercial banks through a rule-based and market-determined system.

29. The draft BoG Amendment Bill was submitted to Parliament in July 2016 and was passed and received presidential assent in August 2016. The proposed amendments were drafted by a committee within the BoG, in consultation with the MOF and other stakeholders, and incorporated recommendations from IMF staff. The amended Act makes some improvements to the governance of the central bank, although some of the proposed amendments did not receive parliamentary support. The key changes include the following:

- *Reduced scope of Government influence over the BoG.* The Act enhances the institutional autonomy of the central bank by i) removing ministerial influence over the power of appointment for external MPC members, and iii) introducing an explicit prohibition for third parties to influence the BoG in the exercise of its statutory duties.
- *Clarification of the BoG's mandate.* The Amendment maintains the hierarchy between the primary objective (price stability) and its other objectives and introduces a financial stability objective.
- *Improvements to Governance,* through i) improvements to the appointment procedure, the number and tenure for non-executive Directors, ii) improvements to the eligibility and disqualification criteria for Board membership, including a requirement to be found guilty by a

court of law, iii) strengthened independence of the Chief Internal Auditor, and iv) introduction of a requirement to prepare accounts in accordance with international standards.

- *Introduces powers for Emergency Liquidity Assistance (ELA*). New provisions allowing extension of Emergency Liquidity Assistance (ELA) and specifying that such assistance may be extended to solvent financial institutions with temporary liquidity challenges are introduced.

30. The previous Act stipulated a net domestic financing limit for government of 10 percent of current year's projected revenue. Despite the GoGs recommendation to eliminate central bank financing, Parliament included a provision in the Amended BoG Act to still allow government borrowing from the central bank. The limit on central bank financing is set at 5 percent of previous year's revenues. The government, however, remains committed to the zero financing principle under the program and views this provision as providing financing only in the case of emergencies. Moreover, GoG will seek to eliminate this provision through a further Amendment of the BoG Act in the course of 2017 (proposed structural benchmark, September 2017) and has meanwhile extended the existing Memorandum of Understanding between the MOF and BoG to ensure zero financing over 2016 and 2017.

31. Other key amendments that were submitted to Parliament by the GoG but did not receive sufficient support include the following: i) limiting the role of the MOF representative on the Board to a non-voting member; ii) introducing an explicit disqualification of Government representatives (except for the MOF Board representative), MPs, public servants other than those working in tertiary education, and managers and employees of SOEs or government agencies from appointment to the Board and MPC; iii) a prohibition on providing guarantees for loans granted by foreign institutions to the Government and/or state owned entities; iv) introduction of a new requirement for the Government to recapitalize the BoG, if it suffers losses; v) prevention of the BoG to own shares in financial institutions that are not clearly related to its core functions for the future, while existing holdings will be grandfathered for a transitional period; vi) elimination of the possibility for the Board to authorize exemptions from the list of prohibited activities; vii) specification of the roles and responsibilities of both the executive (day-to-day management), and nonexecutives (strategy-setting, oversight, incl. budget and audit related matters) Board members. The GoG will also seek Parliamentary support for these provisions following the elections, in the course of 2017 (proposed structural benchmark, September 2017) and, as an interim measure, the BoG and MOF have signed an updated Memorandum of Understanding, extending the zero financing principle until the end of 2017.

32. With the strengthening of the institutional framework contained in the new central bank Act and in the further amendments expected next year, together with the improvements to monetary operations, the functioning of money and FX markets, and the policy formulation process, the inflation targeting framework will become more effective.

Financial Sector Issues

33. The legal framework for the supervision and regulation of the financial sector has been further strengthened, through the passing by Parliament in July 2016 of two new banking sector Acts. The Banks and Specialized Deposit-Taking Institutions Act provides the BoG with enhanced powers to resolve banks that are deemed to be unviable. The Ghana Deposit Protection Act provides protection to small depositors in the event of resolution, through the establishment of a new deposit insurance scheme. Further reviews of the Acts by IMF staff identified a number of weaknesses that warrant further amendments to fully enable the authorities to minimize risks to financial stability in the case of bank failure. The authorities will seek the adoption by Parliament of appropriate amendments, in accordance with staff recommendations, to address these residual weaknesses by March 2017 at the latest (proposed structural benchmark, March 2017). Submission of amendments to that effect will be subject to Parliament reconvening and the Speaker's admittance of those submissions. The authorities will also ensure that the DPA will not be implemented before all conditions are met for its well-functioning (including its funding) and until it can apply to all banks.

34. The BoG Board adopted a roadmap to strengthen the resilience of the banking system in response to the results of the Asset Quality Review (AQR), finalized at the end of 2015 (structural benchmark, end-September 2015). Although in aggregate, the banking system is profitable and has adequate levels of capital and liquidity, the AQR revealed weaknesses in loan classification and provisioning practices at some banks, particularly regarding loans to SoEs and the petroleum sector. In a first stage, the BoG will conduct an updated AQR by end-November 2016 (proposed structural benchmark), based on terms of reference that have been agreed with IMF staff. Similar to the 2015 AQR, the AQR update will review banks' observance of the BoG' (prudential) provisioning requirements, together with the adequacy of current impairment allowances for credit losses, calculated in accordance with International Financial Reporting Standards. The exercise will take GoG's comprehensive strategy for the financial rehabilitation of SoEs and resolution of their legacy debt (MEFP ¶72-75) into account, as well as the GoG's clearance of arrears to the petroleum sector. The BoG will review banks' recapitalization/restructuring plans, prepared as needed, by end-February 2017 (proposed structural benchmark) and stands ready to initiate resolution procedures for banks found to be unviable, in accordance with the provisions of the Banks and SDI Act. In addition, the BoG is strengthening its regime for providing liquidity support to solvent but temporarily illiquid banks through the adoption of a new Emergency Liquidity Assistance framework in line with international best practice, and is reducing risks to its balance sheet by requesting banks to collateralize existing facilities. A new regime for continuous monitoring of banks' liquidity position will be introduced in September 2016 and the supervisory review of large exposures will be stepped-up, including by requiring bank-specific plans for addressing regulatory breaches. A new directive that aims at clarifying some grey areas of the IFRS will be issued by end-December 2016.

35. The BoG is conducting a review of its institutional capacity in the area of bank resolution, with assistance from the International Financial Institutions. A concept paper, outlining the

envisaged organizational model for its resolution function, as well as milestones that will guide the necessary reforms, shall be prepared by end-December 2016.

36. The BoG is strengthening its supervision of the microfinance sector. Measures to be taken include i) a temporary freeze on new licenses (there were 555 institutions at end March 2016), ii) an enhanced supervisory capacity through the hiring and training of staff, and iii) a review of the liquidity and solvency of existing institutions and an intensified monitoring of those with challenges.

37. The BoG has been building capacity for the implementation of Basel II/III with the assistance of a long-term advisor from the Fund and the BoG intends to complete Pillar I by mid-2017. The BoG has also requested Fund staff to conduct a Financial Sector Assessment Program in FY 2018.

III. STRUCTURAL REFORM AGENDA

Tax Policy and Tax Administration

38. **Tax Policy.** The new Income Tax Act 2015 (Act 896) came into effect in January 2016 repealing the former Internal Revenue Act 2000 (Act 592). The new Act has introduced several new measures to simplify the existing tax regime, improve tax compliance and reduce the cost of tax compliance. It expanded the residents' income taxation from modified worldwide to a full worldwide basis. The new Act also abolished the capital gains tax, meaning that gains from disposal of assets will be included in the business or investment income and taxed at the applicable rate. Similarly, gifts received will not be subject to the Gift tax, but will be included in the calculations of gains and profits from employment, business and investment. Finally, the Act also introduced a new tax regime for small taxpayers. While the threshold for VAT registration was increased to 200,000 GHc, the Act also introduced the principle of modified taxation for taxpayers below this threshold. These taxpayers will be subject to a 6 percent tax on their turnover, although this provision is not going to be implemented until 2017 to provide time for sensitizing the stakeholders. The government prepared regulations for the new Tax Act, which have been submitted to and adopted by parliament in July 2016.

39. Some new revenue generating measures were amended in early January, due to taxpayers' concerns. The withholding tax rate on services was reduced from 15 to 7.5 percent. Similarly, the 10 percent withholding tax rate on the sale of minerals by small-scale miners was reduced to 3 percent. The 1 percent withholding tax on interest income of individuals was also scrapped. The GoG believes that these measures could help reduce tax non-compliance. The government intends to compensate part of the estimated revenue losses from these amendments with additional compliance measures.

40. **Controls of Exemptions**. The government will strengthen its policies to rein in exemptions in 2016. In 2015, the total amount of exemptions granted stood at GHc 2,103.31 million, compared to GHc 1,216.01 million in 2014.

41. The Ministry of Finance is also exploring the use of a Treasury Credit Note as a measure to facilitate MDAs clearance and introduce more transparency in the system. This system will allow

cashless transactions by MDAs within a ceiling and help check excessive requests by these government agencies. The GoG has also eliminated the VAT Relief Purchase Order (VRPO) to minimize abuses in the system and enhance compliance, and replaced it with a General Refund scheme where investors and beneficiaries who are granted exemptions on domestic taxes, particularly VAT, will pay VAT to their suppliers and apply for refund. The GoG will continue to assess the prospects for renegotiating the tax incentives in the mining and oil sectors with investors who are willing to do so, without negatively affecting Ghana's attractiveness as a foreign direct investment destination.

42. On the basis of the various studies conducted on tax expenditures, the GoG has requested technical assistance (TA) to review the existing exemption regime with a view to rationalize the number of exemptions and develop sector specific policies. The GoG will also aim to develop a Tax Expenditures Policy, that will lay down principles and policies for introduction or continuation of a tax incentive.

43. **Tax Administration.** The implementation Plan for GRA Reform Strategy has been prepared. GRA has set up key performance indicators for 2016 for the Large, Medium and Small Taxpayers office. A Monitoring and Evaluation (M&E) Unit has been established, and a Monitoring Plan has also been developed. Remaining activities include acquiring a (M&E) software system and a baseline survey on Customer and Employee satisfaction.

44. **Revenue Administration Act.** The government enacted a new Revenue Administration Act in July 2016. This new Act harmonizes the various tax administration laws that currently exist in Ghana. The aim of the new law is thus to improve coordination among the various revenue agencies, while making easier for taxpayers to comply with tax laws. The new Act will effectively complete the integration of the various revenues agencies which occurred when the GRA was established in 2009. For this law and other tax laws adopted over the last two years, the GoG has already initiated the preparation of regulations and operational guidelines, which have been completed, with the help of technical assistance, in July 2016.

45. **TRIPS roll-out** The system has been roll-out to thirteen offices so far, and will be rolled-out to twenty-six offices by end-2016. It will be further rolled-out to the remaining twenty-eight offices in 2017. Since the TRIPS has been fully rolled out to the LTO and some MTOs, 85 percent of domestic tax revenue is processed with the TRIPS. The business modeling workflow for the refund process is being finalized, to include linkages to the General Refund Account, leveraging on case management to avoid the current manual intervention in processing refunds. This will become operational by end-December 2016. The independent review of TRIPS implementation is being performed by DFID, and its results will be available in the third quarter of 2016.

46. **VAT refund system** GRA will continue improving the functioning of the VAT refund system. To ensure timely refunds, the General Refund Account, instituted in June 2015, has been receiving 6 percent of total revenues since March 2016. However, as of February 2016, the stock of delayed VAT credits amounted to 275m GHc. The beneficiaries of these credits were in particular LTOs (mainly from the mining sector) – GHc 244.1 million and MTOs (mainly from the non-traditional export

sector) – GHc 30.91 million. The GRA intends to reduce the amount of VAT refund arrears by half by end of the year. The GRA has started a "fast track" VAT refund system. Under this new scheme, the refunds are processed for the first two months of each quarter without prior verification, or audit. The refund claims for the last month of the quarter are verified and settled along with the claims for the two previous months. While it is too early to assess the benefits of the system, GRA will continue improving its functioning by enhancing its risk-based approach for processing refunds, improving automation and prioritizing the refund claims in terms of amount and overdue time.

47. **Tax compliance risks.** The GRA has recently established a Risk Management Unit (RMU) to identify and alleviate compliance risks. The risk-based approach to audit case selection represents one of the pillars of GRA's compliance improvement strategy. Over the last year, GRA has continued expanding the use of third-party data available across various government agencies for the goals of enhancing compliance and widening the tax net. The results for 2015, show that through third party data, GRA could effectively increase the number of registered taxpayers by 15 percent. The tax recovery related to risk-based audits was 2 percent of total tax revenues but as a ratio of risk based audit assessment it was about 64 percent. For 2016, the GRA has set objectives in its operational plans to increase the number of registered taxpayers. A report on the results of the risk-based audit program was produced. It will be used to draw lessons for improvement with the aim to develop a risk-based audit plan.

48. **Taxpayer identification number.** As stated in the 2016 Budget, GRA will continue to expand the use of Taxpayers Identification Number (TIN) to facilitate the identification of eligible taxpayers and to ensure that registered taxpayers comply with filing and payment requirements. To date, GRA required all importers to obtain a TIN. All the taxpayers at the LTOs and three MTOs offices have been re-registered, and will continue the implementation during 2016. GRA will educate and sensitize these new tax payers to ensure compliance with record keeping requirements, filing tax returns and payment of taxes.

49. **Administration of taxes and duties on imports**. Since September 2015 the GRA is in charge of the pre-arrival classification and valuation process for imports. The Pre-Arrival Assessment Reporting System has helped reducing time for import classification and compliant transactions from 2 weeks to 48 hours. The Ghana National Single Window (GNSW) Project was officially launched in December 2015, with actual commencement in September 2015. The GNSW Feasibility study is underway and the resulting GNSW strategy will present a range of recommendations for the rollout of the GNSW. Compliance Management Committee (CMC) of Customs Administration has started monthly meetings to review the Compliance Management Program Development and address any inherent challenges. As a priority, the CMC will select the compliance priority areas, and identify best practices to follow in terms of compliance management systems.

Reforms to Improve Public Financial Management

50. **Public financial management (PFM) reform.** The government made progress in implementing the PFM Reform Project, with the first progress report submitted to the Steering Committee in December 2015. To better guide the implementation of the PFM reform strategy and

strengthen engagement with development partners (DPs), the GoG intends to strengthen the capacity of the PFM Coordinating Office to enhance Monitoring, Evaluation and Communication. The Office will engage Monitoring and Evaluation and Change Management specialists to develop and institute the reforms, and provide training of staff as well as strengthen the coordination and implementation of an action plan for the PFM reform strategy and the project.

51. **The PFM Act.** The government stepped up efforts and completed the drafting of the PFM Bill, which incorporates the contributions of various stakeholders, including members of parliament, and civil society organizations. The Bill was approved by Cabinet and was adopted by Parliament in July 2016. The new Act is a significant improvement over the existing PFM legal framework, specifically: 1) it codifies in the law the medium-term orientation to fiscal policy making, as reflected in the Medium-Term Fiscal and Expenditure Framework; 2) it establishes principles of fiscal responsibility and accountability; 3) it introduces a more consultative budget calendar; 4) it enhances fiscal transparency by expanding reporting to parliament; 5) it enhances commitment and expenditure controls; 6) it expands the provisions for debt management; 7) finally, it enhances the role of external and internal audit. The government will begin working on the drafting of the related regulations, to be adopted at the beginning of the new legislation (proposed structural benchmark, September 2017).

52. **Strengthening budget transparency and credibility.** In line with GoG's program commitments and best international practice, elements of the fiscal strategy were included into the budget guidelines which were published on the MOF website in July 2016. The document reflected some of the provisions of the new PFM Act by including (i) the government's deficit target for 2017; (ii) recent fiscal developments; (iii) medium-term fiscal forecasts; (iv) the medium-term fiscal framework.

53. **Budget Execution Reports.** The GoG will continue publishing budget performance reports on the website of the Ministry of Finance. To further enhance fiscal transparency, beginning from the third quarter of 2016, the GoG will start publishing quarterly budget execution reports, which will provide an overview of recent macroeconomic trends, information on the performance of budgetary revenue and expenditure, and an explanation of their deviations from budget estimates. The first quarterly budget execution report will be published in September 2016.

54. **Extending GIFMIS coverage.** The Financial Accounting Modules have been rolled-out to all MDAs on the consolidated fund since 2012 plus 250 national Spending Units (SUs), 350 Regional SUs and 7 MMDAs out of 216. The GIFMIS has been rolled out to 46 IGF-generating Institutions out of 59 as at July 2016. The Fixed Assets module is rolled out at 5 headquarters MDAs, while the Budget Modules was rolled-out to all MDAs since 2014. GIFMIS will be rolled out to the remaining 37 IGF institutions by end-December 2016. The Road Fund, Energy Fund and GET Fund will go-live by the end of 2016 and the additional Statutory Funds will be completed in 2017. In 2017 and 2018 the remaining donor Funds will also be brought onboard the GIFMIS and there will be complete rollout to additional 83 MMDAs. In 2016, system usage at the seven pilot MMDAs will be strengthened and site preparation for additional 53 MMDAs will start

Payroll Management and Controls

55. **Payroll data clean-up.** GoG has made further progress in implementing the payroll cleaning plan, with assistance from the World Bank. A consulting firm, which was hired in June, will be tasked with eliminating specific shortfalls identified in the payroll system between March and September 2015. To this end, the firm would help GoG to develop a system validation approval process for continuous data input and ensure that the system contains employees' names, their date of birth, their start date, the current grade, their bank account and social security numbers. In addition, the electronic salary payment voucher (ESPV) validation process will be integrated with the payroll system. The payroll cleaning plan is expected to be fully implemented by the end of March, 2017. Another consultant has been procured to fix the gaps that were identified. Remaining security gaps will be eliminated by end-March 2017. Capacity of staff will be developed through training on the new payroll and documentation.

56. **Biometric Validation.** The SSNIT is currently registering all employees paid through the CAGD mechanized payroll. Subsequently an interface with SSNIT biometric system for the continuous verification of employees will be achieved. As of end-August 2016, two-thirds of the staff on CAGD payroll have been re-enrolled by SSNIT with their biometric data. The remaining staff across the country were given a notification to register under the biometric system by the end of September 2016. The proposed payroll interface with the SSNIT biometric data for continuous verification has been ceded to PSC as part of the implementation of HRMIS. With the progress made in the biometric registration, PSC has begun technical discussions with SSNIT to interface the biometric system of SSNIT with the HRMIS. The interface will be completed by March 2017 and continuous verification of employees' records will start in the second quarter of 2017.

57. **Human Resource Management**. The Public Services Commission (PSC), in collaboration with the MOF and the CAGD, has been conducting Human Resource Audit (HR Audit). It would strengthen controls around entrance and exit, progressions, and positions across the various public service organizations, optimize utilization of human resources, ensure elimination of "ghost employee" names on the payroll and ultimately promote efficient financial management of the public service. An HR technical team, consisting of the PSC, the Office of the Head of Civil Service (OHCS), Local Government Service (LGS), MOF, CAGD, Internal Audit Agency (IAA) and the Fair Wages and Salaries Commission (FWSC) has so far completed the field work in all the regions. The draft reports are being reviewed by the Project Quality Assurance Team (QAT). Three reports have been already produced. As of December 2015, the salaries of 2,700 staff on the payroll in Ashanti region who were absent during the HR audit were suspended. To date only 37 names have been reinstated on the payroll after appropriate verification.

58. A monitoring exercise to evaluate the implementation of the HRMIS was conducted at the head offices of 7 pilot MDAs: the PSC, OHCS, GHS, GSS, Prisons, MoFA and LGSS. The exercise aimed to ascertain the readiness of their respective sites for the take-off of the HRMIS. The preliminary results were positive and revealed significant improvement related to the recruitment process. The test revealed that, the use of HRMIS would help reduce the overall recruitment process to less than two months. The PSC will ensure that, before any organization actively uses HRMIS, an independent

verification will be conducted to ensure the full matching of the Established Posts and the active payroll. The rollout of HRMIS to remaining MDAs will be finalized by end-year.

59. **Payroll processes.** Since January 2016, the Electronic Salary Payment Voucher (E-SPV) system validation has been carried out in all regions. For the month of February 2016, the validation process identified anomalies related to 14,845 employees, whose salaries were terminated. These anomalies, consisting of either discontinued, unverified or invalidated staff are currently being investigated. The roll out of E-zwich, which will allow biometric validation of employees at the point of payment, which was expected to be done on a regional basis, starting with Greater Accra in May 2016, has been temporarily put on hold because of protest by Labour Union about transaction fees. The GoG has reduced the average time lag between the completion of the recruitment process and the payroll enrollment from 18 months to two months. The CAGD has created a special desk to monitor the payroll of subvented agencies prior to the release of funds. The E-form, when completed, would bring the risk of payroll errors down and further reduce the time period required for updating it. The implementation of the E-forms is expected to be completed by March, 2017.

60. **Payroll of Ghana Education Service**. The migration of the Ghana Education Service (GES) payroll from IPPD3 onto IPPD2 system, as a part of HRMIS implementation program, is ongoing. As of February 2016, the data on both IPDD2 and IPDD3 were reconciled in both systems. A parallel running of payroll on both systems started in March 2016. The migration of the GES payroll onto the mechanized IPPD2 system is on course and expected to be fully completed by end-September 2016. By the same date, the IPPD3 payroll system will cease to process GES payroll. The payroll has been integrated with GIFMIS Financials. The GoG is confident that by June 2017, the integration of the HRMIS and Hyperion with the GIFMIS financial in the Health and Education sectors will be completed. This will allow greater control over the payroll cost.

61. **Migration of Subvented Agencies to the mechanized payroll.** The CAGD is continuing the process of migrating subvented agencies to the mechanized payroll to enhance controls. The Veterans' Association of Ghana, Africa Biofuel and Centre for Distance and Open Learning were migrated at end-February 2016—a first batch out of the remaining subvented agencies which would be migrated to a mechanized payroll. An interface appears feasible for those institutions which have a good payroll management software, fully integrated with a financial and human resource system (the biggest universities and GRA), and whose payroll will be eventually weaned-off from the government subvention (the largest universities). For these agencies, the interface approach will be a solution to enhance central oversight and control of their payrolls. The GoG is planning to implement the following alternative actions to replace the migration of the payroll of these subvented agencies:

- the interfacing of the GRA payroll was completed in August 2016; the interface will be used once the Ghana Audit Service has completed the audit of the sufficiency of the checks conducted by CAGD (by September 2016);
- Produce a detailed project plan for design and testing of the universities and Police payroll interfaces (by end-September 2016); complete the tender process by November 2016;

- Go-live with the interfaces of three universities (University of Ghana, Kwame Nkrumah University of Science and Technology, University of Cape Cost) and the police (by end-December 2016); this will include full access by the Controller and Accountant General Office to the nominal roll of these agencies;

- Go-live with the with the interface of the remaining universities by August 2017;

- Enhance the checks that the Ghana Audit Service does for the Army's payroll (by end-November 2016);

- Perform, through the Ghana Audit Service, an audit of the payroll interfaces and manual control checks for the three largest universities and the Police by end-February 2017;

62. **Publication of a report on status of implementation of the payroll clean-up plan.** The CAGD has been publishing quarterly reports 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 report for December 2015 was posted in April 2016. The latest report for the first half of the year was posted in September 2016.

Improve Treasury and Cash Management

63. **Bank Accounts Classification.** A committee composed of members of the CAGD, the MOF and BoG has begun in April the review and reclassification of the GoG's bank accounts, for the purpose of determining the central government cash position and thus fully harmonize the fiscal reporting framework of the BoG and the MOF. While the Statement of Accounts (SOA) of the BoG uses a wider definition of government, which include special and statutory funds, the MOF reports fiscal operations only in relation to the central government. The committee finalized a first review of the 3818 GoG's bank accounts at BoG in June, but was not able to finalize the reconciliation. The Committee has then requested technical assistance to both the Statistics and Fiscal Affairs Department of the IMF to review the work done with BoG accounts, expand the coverage of the exercise to commercial bank accounts, and provide advice on how to harmonize the fiscal reporting of the MOF and that of BoG. The TA mission is planned around end-September 2016. The next step is to rationalize the bank accounts by closing dormant and unnecessary accounts and limit the number of MDAs/MMDA accounts to no more than four. Balances in the accounts, which are to be closed, will be transferred into rationalization accounts. The final part of the exercise is to code all bank accounts and link them to the Chart of Accounts on GIFMIS. While the bank account classification will help harmonize fiscal reporting framework of the MOF with that of BoG, the coding and linking of bank accounts to the Chart of Accounts will improve the reconciliation of accounts, strengthening cash forecasting and management. The accounts classification, coding and rationalization exercise is expected to be completed by end-November, 2016.

64. The GoG has initiated an analysis of the impact of government banks' asset transfers on commercial banks' liquidity. A preliminary examination suggests that the MDAs cash balances are evenly spread across the banking system. Therefore, the BoG should easily manage the withdrawal

of the liquidity through open market operations. The CAGD will work with BoG to prepare a bank-by-bank analysis by November 2016. The results will be reviewed in light of the CAGD's plans for liquidity transfer, and solutions for the affected banks will be discussed accordingly with BoG.

65. The GoG remains committed to implement the TSA through the following actions. The GoG is extending GIFMIS coverage to all Internally Generated Funds (IGFs) and Statutory Funds (SFs) by (para. 54), while the extension to Donor Funds (DFs) will be done in consultations with DPs. As these new entities are brought onto GIFMIS, they will retain sub-accounts at the BoG, to give them time to familiarize themselves with new arrangements and trust them. Progressively, the control through bank accounts will be replaced by the control through GIFMIS. The TSA will be implemented in two steps. First, BoG will link the sub-accounts of all central budgetary government entities that are identified with the bank accounts reclassification exercise. In a second step, BoG will link the sub-accounts of the central government entities (including SFs), as entities are brought onto GIFMIS. This will allow the government to properly monitor the zero-financing requirement from the BoG, changing the base from T-Main to a central budgetary government TSA by December 2016 (proposed structural benchmark) and then a central government TSA by August 2017 (proposed structural benchmark). The CAGD will prepare a project plan by end-September 2016 to ensure that all the technical teams work on the same schedule. In the meantime, the CAGD will sensitize all MDAs of these proposed changes. Given the important implications that the TSA has for improvement of fiscal management in Ghana, its implementation has already received high-level support from the President.

66. **Cash Management.** The GoG intends to ensure that cash management functions improve, alongside the implementation of the TSA. An AFRITAC West 2 mission has reviewed the current cash management activities in Ghana. Currently, the cash flow forecasting process involves monthly forecast for the year. The framework focuses on the balance between cash inflows and outflows on a weekly basis for the ensuing month. These forecasts are matched against actual cash flows and appropriate adjustments are made to the outer months as necessary. The PEMU and CAGD intend, starting September 2016, to progressively extend the forecasts from the existing one-month horizon to three-months and then six months ahead. The latter horizon will allow coordination with the financing program prepared by the DMD.

67. The CAGD plans to invest idle cash balances with commercial banks. The CAGD has issued a request to a number of banks in terms of the instruments and possible interest rates that would be available for short-term investments. A panel of five banks (plus the B-tracking platform provider) has been chosen for an initial contract term of two years. The term of the deposits is likely to be initially overnight, and extended progressively as the cash management functions continue to improve. These short-term investments will be made out of the cash swept into the bank accounts which will form the TSA. The CAGD intends to use collateralized investment, to avoid credit exposure. Furthermore, it will develop these investment policies in close cooperation with the DMD.

68. **Debt service management**. To avoid delays in debt service, the government has been implementing the recommendations of the technical assistance provided by the Commonwealth Secretariat aiming at strengthening the system. The government has also been working with the IMF

on improving debt management processes and procedures. The GoG has simplified payment procedures among the ministries and the BoG; strengthened the coordination between the MOF and the BoG for a weekly monitoring of payments; established a monitoring database alerting the forthcoming payments based on original loan agreements well in advance of due dates; and requested creditors to send payments notices prior to due dates.

69. **Public Sector Reform.** The National Public Sector Reform Strategy (NPSRS) was submitted to Cabinet in December 2015. Its implementation spans over a 10-year horizon, along three phases: phase 1 (2017-2022) will focus on strengthening the public sector; phase 2 (2022-2027) and phase 3 (2025-2027) will focus, respectively on modernization and on attaining world-class public service delivery. The technical committee of the NPSRS Task Force will review the comments from cabinet and incorporate them in the NPSRS. Then, the technical committee will hold workshops on the NPSRS for all relevant stakeholders. This is to build consensus and seek their validation of the Strategy. The NPSRS envisions the creation of dedicated institutions which will ensure its implementation. The reform will be coordinated by the Public Sector Reform Inter-Ministerial Committee. The NPSRS also envisions the creation of a new Ministry of Public Sector Reform and the formation of the Public Sector Reform Implementation Committee within the implementing MDAs and MMDAs, and of the Public Sector Reform Working Group. The Cabinet will maintain the overall supervisory responsibility of the NPSRS. The Public Sector Reform Inter-Ministerial Committee will produce by end-December 2016 a Results Matrix with quantifiable and achievable targets for the monitoring and evaluation of the progress of the various programs. Measures will be taken to seek funding for various programs in the strategy from both Development Partners and through GoG budget.

70. **Reform of Subvented Agencies.** A committee has been constituted to assess the performance of 12 subvented agencies with the view of recommending their weaning off government subvention. The twelve identified subvented agencies were: University of Ghana, University of Cape Coast, Kwame Nkrumah University of Science and Technology, Accra Polytechnic, Securities and Exchange Commission, Forestry Commission, Ghana Standards Authority, Environmental Protection Agency, Driver and Vehicle Licensing Authority, Food and Drugs Authority, Korle-bu Teaching Hospital, Komfo Anokye Teaching Hospital. In 2016, six agencies were weaned-off: The Environmental Protection Agency (EPA), the Energy Commission, the Driver and Vehicle Licencing Authority, The Gaming Commission, the Data Protection Commission, the Securities and Exchange Commission. The GoG will evaluate the activities and financials for another set of subvented agencies; two more have been identified in June 2016. Requests for assessment have been received from the National Pensions Regulatory Authority (NPRA) and West African Examination Council (WAEC). The Tertiary Educational Institutions, Food and Drugs Authority and the Ghana Standards Authority could also be included in the assessment.

71. **Statutory Funds.** The government continues to realign financing of the statutory funds with government's expenditure needs. In effect, part of transfers to statutory funds will be used to cover programs that have been executed by the central government. This is the 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.

State Owned Enterprises (SOEs)

72. The GoG has taken a number of initiatives to improve the performance of energy sector SOEs. Although the PURC acts independently, the GoG is recommending the authority to promptly enforce the quarterly automatic tariff adjustment formula, so that tariffs are set at full cost recovery. Furthermore, with the introduction of price liberalization in the downstream petroleum sector, the GoG will ensure that Oil Marketing Companies (OMCs) set their own prices, subject to National Petroleum Authority (NPA) supervision.

73. The GoG has agreed with domestic banks on a plan to restructure the debt of VRA and TOR, which will make the energy sector SOE and the banking sector more stable. The plan will rely on the proceeds from the recently introduced Energy Sector Levies Act (ESLA), which will provide cash for power generation and infrastructure spending of the utility SOEs (ECG, VRA, GRIDCO), but also will help the restructuring of the debt of TOR, the Bulk Distribution Companies and VRA, for the repayment of the restructured loans and as collateral. The plan involves the restructuring and repayment of an amount of about GHc 2.2 billion of VRA debt over 3-to-5 years, with an upfront payment of GHc 250 million from the Price Stabilization Levy. Other features of the deal include the following:

- reduction of interest rate on the domestic component of the VRA debt from an average of 30 percent to 22 percent (below the current Policy Rate and Treasury Bill rate);
- reduction of the interest rate on the foreign component from an average of 11 percent to 8.5 percent;
- ring-fencing the legacy debt and repayment flows from two (2) Escrow Accounts—Energy Sector Levy Act 2015 (Act 899); and Debt Service Reserve (DSR)—into a Debt Service (DS) account;
- flows of all or part of VRA’s receivables (currently used to service the restructured debt) into the DS account to boost the repayment of principal and interest;
- placing a limit on the contracting of new loans and credits by VRA, without the express permission of the Ministries of Power and Finance; and
- conversion of the proceeds of the levies used to liquidate the existing debt into on-lent or Equity funds on VRA’s Balance Sheet.

The agreement for TOR follows a model similar to that for VRA. Under this plan, GHc 0.9 billion of TOR debt to banks are restructured by way of a 10-year cedi-denominated loan with a 20 percent annual interest rate.

74. It is envisaged that the model will be used to restructure the remaining VRA debt, wholly or partially, as well as those of other energy-sector SOEs. This may involve loans contracted by VRA on its Balance Sheet from foreign sources. Also, savings of about GHc 350 million are anticipated from the improved repayment terms over the maturity period of the new facility. Furthermore, the deal is expected to re-open the credit lines to enable VRA begin the establishment of Letters of Credit (L/Cs) to support its imports of light crude oil and other materials or equipment—in particular, for its Thermal and other plants.

75. In order to develop a more detailed strategy for addressing the financial situation of SOEs in the energy sector, GoG is requesting reputable audit firm to perform a comprehensive audit and financial viability analysis of these SOEs, including the following tasks:

- Analysis of financial performance in 2015,
- Validate SOEs' debt and review status of payables, including cross arrears,
- Assess SOEs' financial needs as of end-June 2016,
- Viability analysis: 3-year Business Plan review to assess future recurring earning capacity; in case losses would be expected, determination of the break-even price/tariffs and/or needs for government support
- Setting up of a Financial reporting template for future reports to Ministry of Finance and Economy to allow proper regular monitoring

The work will start by end-September 2016 and be completed by end-2016, with an interim report prepared after 1½ month.

IV. POLICIES TO SUPPORT GROWTH AND POVERTY REDUCTION

Supporting growth

76. Economic growth is expected to be supported by less erratic electricity supply. The electricity crisis eased towards the end of 2015 as the expansion of power generating capacity by 800 MW helped balance rapidly growing demand with supply. Although electricity generation capacity is now adequate, there is a risk of shortages reappearing due to disruptions in gas supply (both from the Jubilee field as well as from Nigeria) which can adversely impact electricity generation. The government has been working on a quick resolution of a breakdown of the Jubilee field FPSO to eliminate the risk of power cuts in the immediate future.

77. 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 Mechanization Centers (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 to facilitate export diversification.

78. **The Ghana Export-Import (EXIM) Bank** was established to "support and develop directly or indirectly trade between Ghana and other countries and build Ghana's capacity and competitiveness in the international market place". EXIM will offer credit, guarantees, insurance and development finance to support Ghanaian exporters. EXIM will be financed from a levy of 0.675% on the dutiable value of imports of non-petroleum products which was hitherto payable to the Export Development and Agricultural Investment Fund now replaced by Ghana EXIM. EXIM is set up to be independent in the performance of its duties but is accountable to the Minister of Finance on the achievement of its object and compliance with its enabling Act. A Board of Directors with representatives from the private sector, Ministry of Finance, Bank of Ghana, Ministry of Trade and Industries and the Ghana Export Promotion Authority is responsible for oversight of the Bank.

79. **Infrastructure expenditure** will be targeted at projects that have the potential to induce transformative growth. To this end, 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 it becomes fully operational.

Reducing poverty

80. Ghana's poverty reduction strategy is anchored in the medium-term development plan — the Ghana Shared Growth and Development agenda for 2014-17 (GSGDA II). Social interventions, which amounted to GHc 5.3 billion, or 4 percent of GDP in 2015 supported (i) targeted cash transfer programs—the Livelihood Empowerment Against Poverty (LEAP) and Social Inclusion Transfers (SITs); (ii) health measures, including exemptions of low-income households from health insurance payments; and (iii) education measures, including Ghana School Feeding Program. Some 89 thousand households benefited from the LEAP program in 2015 through by-monthly cash grants, with total allocation of GHc 6.7 million. In 2016, the LEAP program is expected to be expanded to cover over 250,000 beneficiaries, at a cost of GHc50 million. SITs (implemented by the Social Investment Fund), aiming at social inclusion at the local level, provide support to poor urban communities under the Urban Poverty Reduction Project ("UPRP"). Some 3,356 households and 10 thousand individuals benefited from quarterly cash transfers at a total cost of GHc0.7 million. We are rolling out an electronic payment system to improve controls over benefit payment and also have been working on further strengthening benefit targeting. Given the high level of unemployment, the GoG has been developing conditions for small business development, including through public infrastructure and training.

V. STATISTICAL ISSUES

81. 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 2018) and a new annual benchmarking methodology will be introduced, as well as new sectoral surveys including an Integrated Business Establishment Survey (IBES) and an Agricultural Census. 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. The MOF will ensure timely publication of fiscal data on its website.

VI. RISKS AND CONTINGENCIES

82. Key downside risks to the program include tight government financing; fiscal revenue and expenditure risks; global financial market volatility leading to lower or reversal of private capital inflows; commodity price volatility (gold, cocoa and oil); economic slowdown in main trading partners; slowdown in credit growth, as banks rebuild balance sheets, following recent increases in non-performing loans; and unhinging of inflation expectations. On the revenue side risks are likely to arise from the shortfall of oil revenue, if oil prices further decline and/or the oil production from Jubilee, not restored. Expenditure overruns, particularly on wages and salaries, and election costs, could affect the budget. If (some of) these risks 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

83. The GoG has completed the following measures to ensure that the program, including the implementation of structural benchmarks, remains on track:

a) Interface of the payroll of GRA, and implementation of the first steps for the interface of universities and the police.

b) Passing by Parliament in July 2016 of the PFM Act.

c) Passing of the amendments to the BoG Act by Parliament in August 2016, albeit not in line with the recommendations provided by Fund Staff.

d) Passing of the Banks and Specialized Deposit-Taking Institutions Act and the Deposit Insurance Act by Parliament in July 2016.

e) Agreed with IMF staff on steps to address the financial situation and legacy debt of energy sector SOEs.

f) Finalized a plan, agreed with IMF staff, to strengthen the resilience of the banking system in response to the results of the Asset Quality Review. The plan will be approved by BoG’s Board in September 2016.

84. The non-concessional debt limits (PC) were set at US$ 2.5 billion for 2015 in the context of the first review to accommodate Eurobond issuance of up to US$ 1.5 billion, some projects integral to the development program for which concessional financing was not available (US$ 500 million), a GNPC loan (US$ 350 million), and a World Bank loan (US$ 150 million). In addition, an indicative ceiling (IT) of US$ 100 million on concessional loans was created to comprehensively address the vulnerabilities associated with external debt. With financing conditions facing frontier markets tightening, Ghana limited its Eurobond issuance in October 2015 to US$ 1 billion, compared with the planned $1.5 billion. Up to end-December, total contracting of non-concessional external loans for projects and concessional external loans reached US$ 359 million and US$ 461 million, respectively. GNPC's loan equivalent to US$ 350 million, which was included in the non-concessional debt limit for 2015, was not contracted in time by end-2015 due to an unforeseen delay in negotiations. Non-concessional loans used for a debt management purpose amounted to US$ 1,150 million, including the US$ 1 billion Eurobond.

85. From 2016 onwards the non-concessional debt limit was separately established for debt management purpose and for projects critical for national development, for which concessional financing is not available. At the time of the third review, a non-concessional debt ceiling for debt management purposes will be slightly modified upward to US$ 1,175 million for 2016, to cover a possible increase in a World Bank Development Policy loan to US$ 175 million. In February 2016, VRA has contracted a non-concessional loan of US$ 75 million to repay more expensive domestic debt owed to domestic commercial banks; this loan will be counted against the debt limits for debt management purpose. We request to create an additional separate limit on GNPC's non-concessional borrowing to accommodate the delayed GNPC loan of US$ 350 million in the context of the third review. The debt ceiling for priority infrastructure projects was set at US$ 1,000 million on a cumulative basis from the beginning of 2015. A list of priority projects (¶ 31 of the TMU) is based on the priorities of the GSGDAII, the Budget, Cabinet Decisions, and the need for continuation of priority growth-enhancing existing projects which have to be completed. Concurrently, an indicative target of US$ 400 million was 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. The cumulative non-concessional debt limits for critical projects by end-2017 would be set at US$ 1,500 million from the beginning of 2015, while those for debt management purpose is set at US$ 1,150 million, including a Eurobond or other form of external market borrowing.

86. The program will continue to be monitored based on periodic quantitative program targets for end-June, end-September and end-December 2016 set out in Tables 2 and 3, and for end-March and end-June 2017 set out in Table 3. Structural benchmarks set out in Table 6 will be used for monitoring progress on structural reforms. 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 fourth, fifth and sixth reviews under the program is expected on or after October 15, 2016, on or after April 15, 2017, and on or after October 2017, with end-June 2016, end-December 2016 and end-June 2017 as test dates, respectively.

Table 1. Ghana: Quantitative Program Targets 1/

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

	2014		Apr 2015			Aug 2015				Dec 2015				
	Act.	Revised	Target	Adjusted target	Actual	Target	Revised	Adjusted target	Actual	Target	Revised	Adjusted target	Actual	Met/Not met
I Quantitative Performance Criteria														
Primary fiscal balance of the government (floor in millions of cedis)	-4,322	...	-544	-536	46	-380	...	-282	237	-422	...	-580	328	Met
Wage Bill (ceiling; in millions of cedis)	9,449	...	3,413		3,341	6,857	...		6,815	10,359	...		10,556	Not Met
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	2,237	2,238	Met
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		4,682	Not Met
Net change in stock of arrears (ceiling, millions of cedis)	428	...	-424		-565	-1,001	...		-1,525	-1,561	...		-2,699	Met
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		15,612	Met
Non-accumulation of external arrears (ceiling; millions of U.S. dollars) [5]	...	...	0		1.7	0	...		0	0	...		0	Met
Non-accumulation of domestic arrears (ceiling; millions of cedis)	...	...	0		0	0	...		0	0	...		0	Met
Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions U.S. Dollars)	...	...	0		0	1,000	...		152	1,000	2,500		1,510	Met
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		17.7	Met
Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	...		...		...	...	...			100	...		461	Not Met
Social Protection (floor, in million of cedis) [6]	947	...	388		316	806	...		954	1,294	...		1,368	Met
Memorandum item:														
Primary fiscal balance of the government (excluding discrepancy)			-544	-536	-196	-380		-282	419	-422		-580	-511	

[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.

[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	
	Actual	Target	Adjusted target	Actual	Target	Adjusted target	Prel.	Target	Revised	Target	Revised
I Quantitative Performance Criteria [2]											
Primary fiscal balance of the government (floor in millions of cedis)	328	13	-76	-1,016	723	939	-586	1,227	...	2,083	...
Wage Bill (ceiling; in millions of cedis)	10,556	2,928		2,845	5,853		5,791	8,783	...	11,723	...
Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) [3]	2,238	-555		-473	-357	-432	-798	-928	-1,161	832	600
Net change in stock of arrears (ceiling, millions of cedis)	-2,699	-630		-136	-1,476		-352	-2,313	...	-2,313	...
II Continuous Performance Criteria											
Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) [4]	15,612	15,814		15,606	15,814		15,301	15,814	...	15,814	...
Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0		0	0		0	0	...	0	...
Non-accumulation of domestic arrears (ceiling; millions of cedis)	0	0		0	0		0	0	...	0	...
Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions U.S. Dollars) [5]											
o/w: Debt for a debt management purpose [6]	1,150	1,000		75	1,150		75	1,150	1,175	1,150	1,175
Debt for projects (cumulative from the beginning of 2015) [7]	359	1,000		359	1,000		578	1,000	...	1,000	...
Debt for project (GNPC) [8]	0	...		...	...		...	...	350	...	350
III Monetary Policy Consultation Clause											
Twelve-month consumer price inflation (percent)											
'Outer band (upper limit)	20.7	20.5			19.0			16.9	19.0	13.0	16.5
'Inner band (upper limit)	19.7	19.5			18.0			15.9	18.0	12.0	15.5
Central target rate of inflation	17.7	17.5		19.2	16.0		18.4	13.9	16.0	10.0	13.5
'Inner band (lower limit)	15.7	15.5			14.0			11.9	14.0	8.0	11.5
'Outer band (lower limit)	14.7	14.5			13.0			10.9	13.0	7.0	10.5
IV Indicative Target											
Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) [9]	4,682	4,031		5,782	3,818		10,748	6,447	12,101	265	6,667
Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	461	400		4	400		94	400	...	400	...
Social Protection (floor, in million of cedis)	2,489	522		471	1,050		723	2,573	...	3,022	...
Memorandum item:											
Primary fiscal balance of the government (excluding discrepancy)	-511	13		841	723	939	1,424	1,227	...	2,083	...

[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 two subceillings, one for a debt management purpose and the other for projects, apply 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] Debt for projects does not include GNPC's loan equivalent to US$ 350 million.

[8] Associated with nonconcessional debt to be contracted by GNPC, which had been counted against the 2015 limits but delayed for unseen reasons.

[9] 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. Ghana: Proposed Quantitative Program Targets 1/

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

		Dec 2016 Target	Mar 2017 Target	Jun 2017 Target
I	**Quantitative Indicative Targets** [2]			
	Primary fiscal balance of the government (floor in millions of cedis)	2,083	652	1,393
	Wage Bill (ceiling; in millions of cedis)	11,723	3,424	6,850
	Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) [3]	600	-420	-832
	Net change in stock of arrears (ceiling, millions of cedis)	-2,313	-518	-696
II	**Continuous Indicative Targets**			
	Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) [4]	15,814	15,814	15,814
	Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0	0
	Non-accumulation of domestic arrears (ceiling; millions of cedis)	0	0	0
	Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions U.S. Dollars) [5]			
	o/w: Debt for a debt management purpose [6]	1,150	1,150	1,150
	Debt for projects (cumulative from the beginning of 2015)	1,000	1,500	1,500
III	**Monetary Policy Consultation Clause Indicative Targets**			
	Twelve-month consumer price inflation (percent)			
	'Outer band (upper limit)	16.5	14.5	13.0
	'Inner band (upper limit)	15.5	13.5	12.0
	Central target rate of inflation	13.5	11.5	10.0
	'Inner band (lower limit)	11.5	9.5	8.0
	'Outer band (lower limit)	10.5	8.5	7.0
IV	**Other Indicative Target**			
	Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) [7]	6,667	7,694	9,408
	Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars)	400	400	400
	Social Protection (floor, in million of cedis)	3,022	…	…

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

[2] Indicative targets for end-March and end-June 2017.

[3] Program definition excludes foreign currency deposits in BOG. Defined as a change from end-2016.

[4] Defined as a level.

[5] The two subceillings, one for a debt management purpose and the other for projects, apply 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 4.0 per U.S.$1 for 2016 and GHc 4.4 per U.S.$1 for 2017 and as defined in the attached Technical Memorandum of Understanding (TMU). Defined as a level.

Table 4. Ghana: Prior Actions for the Third Review

Category		Status
Payroll Management	Interface of GRA payroll with controller and Accountant General department.	Completed
SOE	Implementation of first steps of a strategy to comprehensively address financial vulnerabilities of energy sector SOEs, including agreement with domestic banks on restructuring plans of VRA and TOR debt and signing of contract with external auditors for an audit of energy sector SOEs debt and analysis of their financial viability.	Not yet completed
Asset Quality Review	Adoption by BoG Board of a formal, timebound roadmap by the BoG Board to comprehensively address weaknesses in the banking sector revealed by the Asset Quality Review. The strategy will be agreed with Fund Staff and formally communicated to banks.	Not yet completed

Table 5. Ghana: Past Structural Reform Benchmarks

Category	Proposed structural benchmarks	Economic rationale	Indicative timeframe	**Status**
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	**Met (MEFP ¶46)**
Human Resource Management	- 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	**Not Met. Proposed to be reset to June 2017 (MEFP ¶56-59)**
Payroll Management	- Migrating employees of subvented agencies into the mechanized payroll	To strengthen control on net hiring and the wage bill	May 2016	**Not met. (MEFP ¶ 60) Prior Action and New SB on interfacing of payrolls**
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	**Not Met. Partially implemented.1/ (MEFP ¶69)**
Budget Preparation	- Publication of a pre-budget statement, including explicit debt and deficit target for the 2017 Budget.	To improve budget credibility	June 2016	**Met. /2 (MEFP ¶51)**
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	March 2016	**Not Met. Implemented with delay. (MEFP ¶50)**
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	**Not Met. Implemented with delay (MEFP ¶68)**
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	Strengthen autonomy and governance of the	December 2015	**Not met. Partially implemented**

	Governor and Board members; sets rules for emergency lending to banks in distress; and ensures compliance with IFRS.	BoG; eliminate central bank financing of government.		**with delay (MEFP ¶29).**
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	**Not met. Partially implemented (MEFP ¶28).**

1/ The weaning off for two subvented agencies identified in June will begin in January 2017.

2/ The document followed the format agreed with staff, except for the indication of an explicit debt target.

Table 6. Ghana: Proposed Structural Reform Benchmarks for 2016-2017

Category	Proposed structural benchmarks	Economic rationale	Indicative timeframe	Paragraph
Non-Tax Revenue	-Adopt and implement legal and regulatory changes 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 of December 2015 MEFP
Human Resource Management	-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 2017	57-60
	- Finalize roll out the HRMIS to remaining MDAs	To strengthen control on net hiring and the wage bill.	December 2016	57-60
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
	- Complete the central budgetary government TSA	To reduce borrowing costs	December 2016	63-67
	- Complete the central government TSA	To reduce borrowing costs	August 2017	63-67
Payroll of Subvented Agencies	-Interface the payroll of the following agencies: University of Ghana, University of Cape Coast, Kwame Nkrumah University of Science and the Police.	To strengthen control on the wage bill	December 2016	61
Legal Framework	- Adopt regulations for the implementation of the new PFM act.	To strengthen the PFM system	March 2017	51
Monetary Policy	- Adoption by Parliament of amendments to the BoG Act, which would include i) elimination of central bank financing of Government, ii) removal of the voting rights of the MOF member of the Board, iii) disqualification of government members, members of Parliament and civil servants from the Board and MPC, iv) removal of the provision allowing BoG to provide guarantees for loans granted by foreign institutions to	To strengthen the inflation targeting framework	September 2017	30-31

	government and government agencies; v) a requirement for the government to recapitalize the BoG in the event that the BoG suffers losses, and vi) prohibition of the BoG from owning shares in financial institutions not related to supporting the Bank's core functions (including disposing of existing shares after a transitional period).			
Financial Stability	- Completion of an updated Asset Quality Review of the banking system by BoG, in accordance with Terms of Reference that have been agreed with IMF Staff, and supervisory follow-up measures communicated to the participating institutions.	Strengthen resilience and stability of the banking system	November 2016	34
	- Banks' recapitalization/restructuring plans and liquidity support exit plans reviewed by BoG Board and decision communicated to banks.	Strengthen resilience and stability of the banking system	February 2017	34
	- Submit to Parliament Amendments to the Banks and SDI Act, in consultation with IMF staff, to address important weaknesses in the current legislation.	Strengthen resilience and stability of the banking system	March 2017	33
	- Submit to Parliament Amendments to the Deposit Protection Act, in consultation with IMF staff, to address important weaknesses in the current legislation.	Strengthen resilience and stability of the banking system	March 2017	33

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 (GHc) to the U.S. dollar will be GHc 3.40 per US$ 1 for 2015 and GHc 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-June 2016, end-December 2016, and end-June 2017. 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 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 bands.

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 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 central 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 central government's tax and non-tax net proceeds from the sale of oil, excluding any revenue allocated to GNPC.

9. The **wage bill** of the central government is defined as the sum of basic wages and 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** are payments not made "when due". These 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** of the central government (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
11. Provide 10 million 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

[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.

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 average of buying and selling exchange rates against the U.S. dollar as 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. In accordance with the treatment for net international reserves, government deposits at the BoG from disbursements of Fund resources for budget financing are also subtracted.

21. **Outstanding gross credit to government and public enterprises by the Bank of Ghana** for program monitoring purposes is defined as the total amount of (i) all BoG loans and advances to government and public 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

[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.

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 and BoG reversible market transactions involving government securities that don't result in a change of security ownership.

C. Monetary Policy Consultation Clause

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 12-month rate of CPI inflation falls outside the lower or upper outer bands specified in the Performance Criteria table for the end-December 2016 test date, 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 (GHc).[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

---

[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.

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 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

[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).

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 Foodfor 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
- KARPOWER PROJECT B
- Takoradi 4 Thermal Power Project (T4)
- Renovation of Ghana Missions Abroad
- Works at Kumasi Airport
- Development of Tamale Airport- terminal building and related infrastructure phase
- Eastern University
- Damango Yendi Water project
- Tema to Akosombo - Western Railway Line Construction Project in Ghana

32. Further an additional sub-ceiling of US$ 350 million for a project is established for 2016 in the context of third review to accommodate GNPC’s non-concessional borrowing, which was counted against debt limits for 2015 but did not materialize due to unforeseen delays in its loan negotiation with the creditor.

F. Adjustors to the Program Targets

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

Primary fiscal deficit of the government

33. 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

34. 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/] (GHc millions, cumulative from the start of the calendar year)						
	April 2015		**August 2015**		**December 2015**	
	Prog.	Act.	Prog.	Act.	Prog.	Act.
Program grants	0	0	750	733	915	945
Program loans	0	0	748	612	789	822
Oil revenues, net of transfers to GNPC	371	160	603	894	998	955

[1/] Used to compute adjustors for performance criteria for end-April, end-August, and end-December.

Budget Financing and oil revenues, 2016 [1/] (GHc millions, cumulative from the start of the calendar year)						
	March		**June**		**September**	**December**
	Prog.	Act	Prog.	Act.	Prog.	Prog.
Program grants	0	15	0	29	112	133
Program loans	0	0	600	0	844	844
Oil revenues, net of transfers to GNPC	325	118	460	234	785	1,164

[1/] Used to compute adjustors for performance criteria for end-March, end-June, end-September, and end-December.

Budget Financing and oil revenues, 2017 [1/] (GHc millions, cumulative from the start of the calendar year)		
	March	**June**
Program grants	0	7
Program loans	0	193
Oil revenues, net of transfers to GNPC	391	619

[1/] Used to compute adjustors for performance criteria for end-March and end-June.

G. Provision of Data to the Fund

35. 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
Updated list of (prioritized) projects to be financed by non-concessional loans and concessional loans.	Monthly, within six weeks of the end of each month.
Cash flow of the central government and cash flow projections.	Monthly, within six weeks of the end of each month
Income, cash flow, and debt service projections for the state-owned energy utilities.	Monthly, within six weeks of the end of each month
Itemized data on the proceeds from the energy sector levies.	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

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

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)
Composition of banking system and nonbanking system net claims on government.	Monthly, within four weeks of the end of each month.
Financial soundness indicators.	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, and (ii) debt service paid and 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.

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

Disbursements of grants and loans by creditor	Quarterly, within four weeks of the end of each quarter.
Other data (to be provided by GSS)	
Overall consumer price index.	Monthly, within two weeks of the end of each month.
National accounts by sector of production, in nominal and real terms.	Annual, within three months of the end of each year (switching to quarterly when they become available).
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.