**International Monetary Fund**

Ghana and the IMF

**Press Release**:
IMF Executive Board Completes Fourth Review Under the ECF, Approves US$94.2 Million Disbursement and Program Extension; and Concludes 2017 Article IV Consultation with Ghana
September 6, 2017

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

July 31, 2017

# Letter of Intent

Accra, July 31, 2017

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

Dear Ms. Lagarde,

1. The government of Ghana requests the IMF Executive Board to complete the fourth review of the Extended Credit Facility (ECF) arrangement and to approve the disbursement of the fifth tranche of the loan based on partial implementation of end-June 2016 performance criteria (PC) and satisfactory implementation of prior actions.

*2.* As documented in the attached Memorandum of Economic and Financial Policies (MEFP), economic performance was off-track in 2016 and the program was severely compromised and further exacerbated in the run-up to the elections held in December 2016. When we came into office in January 2017, we inherited a weakened economy (a budget deficit of 9.3 percent of GDP, a negative primary balance of 2.4 percent of GDP and a debt-to-GDP ratio of 73 percent) that made it impossible to achieve the program objectives by year-end 2017. In addition, reflecting the lag in policy implementation due to the change of government (our budget, although prepared and approved in record time, was only enacted in late March), we will need more time to fulfil the original program objectives and strike the right balance between adjustment and growth. To ensure that we bring the program back on track and achieve its objectives, we would like to request the IMF Executive Board to approve waivers for the non-observance of the program targets in 2016, including the primary fiscal balance, net international reserves, net change in the stock of arrears, and non-accumulation of domestic arrears. We will complete the program through our budget cycle of January 2018 through December 2018 and therefore request approval to modify the length of the arrangement by one year and reschedule disbursements evenly. Additionally, as a sign of our commitment to the program, we have implemented three prior actions, with two to be completed in time for the Board discussion.

3. The MEFP lays out specific government policies for 2017 that will strengthen program implementation, enabling us to meet program objectives by the end of 2018. We will implement fiscal measures to contain financing needs, stabilize public debt, and avoid arrears accumulation through the enforcement of the Public Financial Management Act, and the expanded rollout of the Ghana Integrated Financial Management Information System (GIFMIS). The Bank of Ghana (BOG) also remains committed to bringing inflation down to its medium-term target by maintaining a tight monetary policy and refraining from providing any financing to the government. Finally, we are continuing with the implementation of the financial sector Roadmap, with the aim to buttress financial stability and achieve sustainable credit growth.

4. The government believes that the measures and policies set forth in the attached MEFP are appropriate and sufficient to achieve the 2017 objectives. However, we stand ready to take any additional measures, if necessary. We will work with the IMF on the adoption of such measures in advance of revising any policies in the MEFP, in accordance with the Fund's policies. We will hold timely discussions with the IMF staff on the possible terms of non-concessional external borrowing to ensure that such borrowing strengthens confidence in the program, does not jeopardize debt sustainability, and is in line with the Fund's debt limit policy.

5. 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 fourth review under the ECF.

Sincerely yours,

| | |
|---|---|
| /s/ | /s/ |
| Ken Ofori-Atta | Ernest Addison |
| 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, 2017–18

**1.** This memorandum provides the government's assessment of economic developments and program implementation, and outlines policies aiming to achieve objectives under the IMF-supported ECF.

## I. INTRODUCTION

**2.** In January 2017, the New Patriotic Party (NPP) took office in Ghana, after another peaceful election and successful transition process. The new administration inherited a difficult economic situation, resulting from weak economic management, compounded by challenges with domestic revenue mobilization and several policy reversals including unconstrained expenditures which ended 2016 with a large fiscal deficit and rising debt stock. The first order of business of the new government and its Economic Management Team, is to return the economy to the path of macroeconomic stability and boost the productive sectors of the economy.

**3.** Given the depth of the challenges, the government moved swiftly to present its maiden budget in March 2017, highlighting very bold policy initiatives to tackle structural rigidities in the budget, boost productivity through the abolishment of nuisance taxes while plugging revenue leakages and reducing import exemptions, tightening expenditure controls to minimize inefficiencies, and reducing the incidence of poverty through initiatives that will generate jobs.

## II. RECENT ECONOMIC DEVELOPMENTS

**4. Ghana's economic growth decelerated in 2016, affected by a significant decline in oil production.** GDP growth slowed further to 3.5 percent in 2016, compared with 3.8 percent in 2015. Improved performance of the non-oil economy, particularly strong growth in the services sector, only partially offset the decline in oil production. Limited access to finance—private sector credit growth slowed in 2016—affected private sector growth. Growth picked up in the first quarter of 2017 to 6.6 percent, driven by a 59 percent increase in oil and gas production.

**5. Inflation has been declining, supported by tight monetary policy.** Inflation reached 15.4 percent at end-December 2016, compared with 17.7 percent in December 2015. It further declined to 12.1 percent in June 2017, as a result of base effects and lower domestic food price pressures. In view of the consistent declines in headline inflation and inflation expectations, easing underlying inflation pressures and some improvement in the macroeconomic fundamentals, the Monetary Policy Committee (MPC) lowered the monetary policy rate by 50 bps in November to 25.5 percent, 200 bps in March 2017 to 23.5 percent, 100 bps in May to 22.5 percent, and by another 150 bps in July to 21 percent.

**6. Fiscal consolidation was reversed in 2016**. The overall fiscal deficit was higher than envisaged, reaching 9.3 percent of GDP on a cash basis, compared with 7 percent of GDP in 2015. The slippage resulted from a significant revenue shortfall and expenditure overrun. In addition to a decline in oil revenues, tax and non-tax revenues weakened across the board, particularly in the second half of the year. Tax compliance and enforcement were weak, and some programmed non-tax revenue proceeds from sale of goods and services and dividends were not realized.

Government expenditures increased in the run-up to elections, exceeding budgeted targets, particularly outlays on goods and services and foreign-financed capital spending. The higher-than-budgeted foreign-financed capital expenditure was due to faster disbursements of project loans. In spite of the wage bill overrun, the wage bill as a share of GDP and tax revenue continued to decline moderately; for example, the wage-to-GDP ratio declined from 7.7 percent of GDP in 2015 to 7.2 percent in 2016. Outstanding payments and claims of some 3 percent of GDP at end-2016 were also reported. The government has initiated a special audit to verify the legality, magnitude and nature of these unpaid commitments. Gross public debt increased by 1.2 percentage point of GDP, reaching 73.4 percent of GDP at end-2016.

**7. The fiscal outturn through May of 2017 was in line with expectations.** The overall deficit on a cash basis was 2.3 percent of GDP from above the line (2.2 percent from financing), remaining on track at the end of May of 2017. Although revenues were slightly below target, the trend is expected to be reversed over the rest of the year as the government's new policies take effect. Expenditures will be strictly monitored and constrained to match revenue inflows to ensure that the target deficit is achieved.

**8. Financing conditions have improved.** Following a US$750 million Eurobond issuance in September 2016, Ghana's credit spreads have been tightening. On the domestic front, T-bill yields have been declining, to 12½ percent at end-July, compared with 22¾ percent a year ago. Investors' interest in the domestic debt market remains strong, supporting the government's effort to reprofile debt by extending maturities. Non-concessional debt limits for end-June and end-December 2016 were met. Up to end-2016, total contracting of non-concessional external loans for projects (cumulatively from 2015) and concessional external loans reached US$ 1,006 million and US$ 101 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-2016 due to a delay in negotiations. Non-concessional loans used for debt management purposes amounted to US$ 919 million, including the US$750 million Eurobond. The proceeds of this Eurobond were partly used to buy back the 2017 Eurobond, with $200 million set aside to finance full repayment at maturity (October 2017), reducing the vulnerabilities associated with the bullet nature of the Eurobond.

**9. External pressures have subsided with improved reserve buffer**. The exchange rate was relatively stable for most part of 2016. However, the cedi came under pressure in the last two months of 2016 resulting in the currency depreciating by 9.6 percent in the year. Pressures continued in the first two months of 2017, which led to a further depreciation of 6.2 percent by end-February. The cedi has since regained ground, unwinding most of the depreciation seen earlier in the year. The cumulative depreciation for the year to mid-July was 3.3 percent. The local currency has been supported by significant inflows of foreign exchange from renewed non-resident participation in the domestic bond market and improvement in the external sector. The foreign exchange inflows have enabled the Bank of Ghana (BoG) to increase its gross international reserves from US$ 4.9 billion (2.7 months of import cover) at end-December 2016 to US$6.2 billion (3.2 months) at end-May 2017.

**10. The overall banking sector remains profitable, despite some weaknesses.** The sector recorded return on assets and returns on equity of 2.4 percent and 17.7 percent respectively at end-June 2017. However, a recently-undertaken Asset Quality Review (AQR) highlighted provisioning and capital shortfalls. Some banks exceeded single obligor limits, with capital erosion following the AQR generating further pressures. There were also instances where a few banks were granted single obligor exemptions under the previous Banking Act mainly to the energy sector. Taking into account that the new Banks and SDI Act does not provide for waivers of single obligor exposures, waivers granted under the previous legislation are being phased out. Some banks have accessed the BoG's emergency liquidity facility for more than the three month-maximum stipulated in regulations. The weak economy and problems in the power sector adversely affected the banking system, as indicated by high nonperforming loans, which reached 21.2 percent of total gross loans in June 2017.

## III. PROGRAM PERFORMANCE

**11. Ghana signed on to a three-year IMF-supported ECF Program in April 2015**. Since then, there have been three Program reviews culminating in the disbursement of US$464 million. The fourth review assesses program performance criteria up to end-June 2016.

**12. End-June 2016 quantitative performance criteria (PC) were mostly missed (Table 1).** The strong performance in 2015 was derailed during 2016. Several PCs, including the primary fiscal balance, net international reserves, and net change in the stock of arrears, were not achieved, while the continuous PC on non-accumulation of domestic arrears was breached in the first quarter of 2017.[1] While the end-June 2016 government wage bill was within the target, the end-December 2016 wage bill ceiling was exceeded by a small margin. Inflation exceeded the inner band of the Monetary Policy Consultation Clause (MPCC) in June 2016 and a consultation was held with IMF staff.[2] However, the end-December 2016 inflation of 15.4 percent was within the inner band of the MPCC. Zero central bank financing of the government was observed at end-June 2016 and for the rest of the year. Arrears' clearance picked up and was brought in line with the program target by end-December.

**13. Implementation of structural benchmarks (SB) saw little progress (Table 3)**. Out of eleven SBs which were set at the time of the third review (and whose test dates have passed), only one—rolling out GIFMIS to twenty-five central government Ministries, Departments, and Agencies (MDAs) generating IGFs—was met, while two others were implemented with delay. Structural reforms further slowed in the run-up to the elections. Little progress was made in the following areas:

- Strengthening control of net hiring and the wage bill. The work on developing the interface between the payroll of subvented agencies and the centralized mechanized payroll was stalled, due to the objections by the subvented agencies, particularly the Police;

[1] As per the arrear definition in the TMU, the continuous PC was breached in Q1 2017 because the outstanding payments from 2016 that were recorded in the GIFMIS were not yet cleared, pending the results of the audit.

[2] See Staff Report for the third review under the Extended Credit Facility Arrangement, ¶26.

- Reducing borrowing costs. The central budgetary government Treasury Single Account (TSA) was not completed, because of weak coordination between the Controller's and Accountant General's Office and MDAs;

- Strengthening financial stability. Completion of the AQR took longer than anticipated as further information was necessary on the restructuring of the obligations of the Bulk Distribution Companies (BDC). Final results were distributed in March 2017, prompting the BoG to engage with undercapitalized banks on corrective actions. Banks are now implementing their recapitalization plans in accordance with the timeframes prescribed by the Banks and Specialized Deposit-Taking Institutions (SDI) Act. The two SBs relating to amendments of the (i) Banks and SDI Act and (ii) Deposit Protection Act have not yet been met mainly because of a reconstitution of Ghana's Parliament in January 2017, making it impossible for Parliament to consider amendments to these Acts by March 2017 as scheduled. Besides, it is critical that the BOG collates views of all stakeholders to be able to present a holistic set of amendments to Parliament.

## IV. THE GOVERNMENT'S ECONOMIC PROGRAM IN THE PERIOD AHEAD

**14.** To set the foundation for becoming the most business-friendly country and fastest growing economy in SSA region by 2019, the government's macroeconomic program in the period ahead will be guided by the macroeconomic objectives as set out in the 2017 Budget Statement. Currently, the government is working towards a successor medium-term development plan which will encompass the government's overarching economic strategy for both economic and social transformation.

**15.** The government, therefore, with its 2017 Budget has introduced a significant number of initiatives aimed at addressing some of the major structural deficiencies in the management of economy: low revenue collection, expenditure overruns and corruption, high wage bill, rigidity of the fiscal structure caused by heavy earmarking of tax revenue and high debt service payments.

### Macroeconomic Framework for 2017 and the Medium Term

**16.** **Outlook for 2017.** GDP growth is expected to pick up to about 6 percent in 2017, with a major contribution from the petroleum sector. Petroleum production is expected to increase by 39 percent, as oil production at the new (TEN) Field is expected to increase markedly, with first gas having already been realized in May 2017. Growth in the non-oil sector is expected to be constrained by ongoing fiscal consolidation and weak commodity prices, though this is likely to be offset by improved power supply and easing of domestic private sector bank credit conditions.

**17.** **Medium-Term Outlook.** The economy is expected to grow at an average rate of about 7 percent per annum from 2017 to 2019, with the major contribution from the non-oil sector. The non-oil sector would benefit from improved macroeconomic conditions, including price and exchange rate stability, better access to finance, and growth-enhancing measures to be implemented by the government, including reducing infrastructure gaps and improving business environment.

**Fiscal Policy for 2017 and the Medium Term**

**18. The 2017 budget aims at restoring fiscal discipline and takes important steps to mobilize revenue and tackle budget rigidities**. Although a number of "nuisance" taxes have been abolished as part of the government's vision of moving the country from a taxation-based to a production-based economy, measures to broaden the tax base, improving tax compliance and plugging of revenue leakages are vigorously being pursued. Domestic revenue mobilization is being revamped with the strengthening of tax administrative and compliance measures. Additionally, revenue leakages are being tackled holistically to include personnel and system changes. Non-oil tax revenue is estimated at 16 percent of GDP in 2017. The new government has moved in record time to address the structural rigidities in the budget by enacting into law the capping and realignment of earmarked funds to twenty-five percent of tax revenue in 2017 (although the Act gives the Minister the option to top up funds which are deemed a priority area). This has freed up resources for government's priority programs. The reduced allocations to statutory funds is close to 0.9 percent of GDP relative to baseline. The Act also allows for a larger share of internally generated funds of agencies to be channeled through the central government budget (Structural Benchmark under the Third Review), which will generate 0.6 percent of GDP in non-tax revenue. The budget also includes provision for raising 1.2 percent of GDP from the sale of thermal power plants and shares in publicly listed companies.

**19. Expenditures will be controlled to meet the deficit target of 6.3 percent of GDP.** As reflected in the mid-year budget review presented to Parliament on July 31, we have adjusted expenditures downwards in goods and services and capital expenditure by 0.8 percent of GDP relative to the budget. Most of these savings will arise from multi-year projects which were budgeted for in 2017 but will take longer to execute. We also revised allotments of MDAs in GIFMIS to reflect the lower spending envelope. Given updated revenue projections, these measures will allow us to meet the deficit target of 6.3 percent of GDP, compared with the target of 6.5 percent of GDP in the budget (6.8 percent of GDP in IMF presentation, due to the difference in treatment of the sale of shares).

**20. If revenues underperform, we will make further adjustments to meet the fiscal deficit target.** These adjustments could take the form of further curtailment of discretionary spending on goods and services and capital and we will also consider revenue measures.

**21. The government plans to further reduce the deficit in 2018 and the medium term with the aim of putting debt on a clearly declining path**. We plan to bring the deficit down from 6.3 percent in 2017 to 3.8 percent in 2018. Over the medium term we will generate primary surpluses, sufficient to eliminate a potential risk of debt distress and strengthen Ghana's debt sustainability.

**22. We are striving to eliminate all government arrears by end -2019**. The government will refrain from accumulating any new arrears in 2017 and will repay all outstanding arrears by end- 2019 following the outcome of an audit of outstanding commitments generated as at end-2016. The audit is expected to be completed by October. The government has made provision to clear arrears worth 1.8 percent of GDP in 2017, which will eliminate all arrears recognized under the program (including the GHC 1,048 million of new arrears accumulated in 2016). Any further arrears that are verified by the audit will be settled in 2018 and 2019.

### Monetary Policy Issues

**23. Monetary policy will continue to be guided by the Bank of Ghana's inflation targeting (IT) framework.** Inflation is projected to fall inside the target band of 8±2 percent in 2018, following expected further improvement in macroeconomic fundamentals. However, the MPC will continue to monitor developments and take necessary action towards the attainment of its inflation target.

**24. The 2016 Amendments to the BoG Act reduced fiscal dominance**. The BoG has continued to strengthen its monetary policy formulation process and communication, consistent with best IT practices. The amended BoG Act was passed in August 2016 and among others seeks to improve governance and enhance autonomy of the central bank in the pursuit of price and financial stability. The new Act also stipulates that central bank financing of government should not exceed 5 percent of the previous fiscal year's total revenue. This is expected to reduce fiscal dominance in the policy formulation process and enhance the inflation targeting framework. Despite this provision in the Amended Act, the BoG and the MOF have signed an MOU committing to the central bank's zero-financing of government. A zero limit on central bank financing, together with other provisions to enhance the BoG's autonomy, will be considered for future amendments of the Act.

**25. FX auctions have been suspended following problems in implementation.** On the recommendation of the IMF, the BoG started an auction of FX to the market in November 2016 to intermediate the proceeds from the syndicated cocoa loan in a market-determined and transparent way. After six auctions, however, the process was stopped as the BoG perceived it to have an undesirable impact on the exchange rate – on auction days, the cedi's depreciation spiked. The BoG has since reverted to bilateral interventions in the FX market to smoothen volatilities by providing FX liquidity as needed. This has contributed positively to the relative stability of the cedi.

### Financial Sector Issues

**26. The BoG has been implementing the Roadmap for Financial Stability to address the weaknesses in the banking sector.** The BoG launched the AQR Update in September 2016 and is currently implementing follow-up actions that seek to protect the interests of depositors and ensure the soundness and stability of the Ghanaian financial sector. As part of the its commitment to address banking sector weaknesses in accordance with the legal framework, the BoG has requested for recapitalization plans from all solvent banks that have been identified as undercapitalized. Implementation of the plans is being closely monitored by the BoG and, based on progress to date, these banks are expected to meet the minimum capital adequacy ratio within the timeframe prescribed by the Banks and SDI Act. In addition, the BoG started daily and bi-monthly liquidity monitoring of banks in September 2016 and approved a Guide for Financial Publication and a Guideline for Emergency Liquidity Assistance also in September 2016. Going forward, the BoG is ensuring strict compliance with the new guidelines on emergency liquidity assistance, including through strict collateralization requirements, continuous monitoring of repayment plans and punitive interest rates. Finally, the BoG is addressing the elevated level of non-performing loans through more concerted efforts to step up recoveries and write-offs by banks; more timely enforcement of collaterals; and more stringent oversight of banks' credit risk management frameworks and lending policies.

**27. The legal framework for financial sector supervision and regulation has been strengthened, with the approval of the new laws**. The new Banks and Specialized Deposit-Taking Institutions Act, 2016 (Act 930) was enacted and became operational in February 2017. The BoG is currently reviewing the Act, reflecting input from the industry as appropriate, and will submit additional enhancements to Parliament, in consultation with IMF staff, that will further strengthen the regulatory framework and resolution regime. The authorities are developing an implementation plan for the new deposit insurance scheme that will seek to ensure that the scheme does not enter into force before all conditions for its effective functioning have been met and financial sector vulnerabilities have been substantially ameliorated.

**28. The BoG is strengthening the supervision of the microfinance sector.** Serious weaknesses in the sector have posed challenges for regulation and supervision. These include undercapitalization, unlicensed operations, the large numbers of licensed MFIs vis-à-vis limited staffing numbers and supervisory resources, the lack of good corporate governance structures and sound risk management practices among licensed MFIs, and the lack of regular and accurate prudential reporting by licensed MFIs. The BoG is currently preparing a comprehensive action plan for the reform of the sector, including measures to improve supervision and regulation, enforce prudential rules and strengthen the financial soundness of individual institutions. Measures taken so far have targeted improvements in returns submission and risk-based supervision and tougher sanctions against non-compliance and capacity building of supervision staff. Future plans include the regular publication of licensed MFIs in good standing and the establishment of an Apex body to assist the BoG in regulating and supervising the sector.

## V. STRUCTURAL REFORM AGENDA

### A. Tax Policy and Revenue Administration

**29. While the government's focus is on reducing taxes to enhance production, we are also determined to tackle the systemic abuse in the exemptions regime and improve compliance**. There is an ongoing review of the regime on import duty exemptions and tax reliefs with a view to eliminating abuses and improving efficiency in the applications of these incentives. To this end, beneficiaries of import exemptions have been asked to pay the duties upfront and later apply for a refund. The government has opened an escrow account to process the refunds and plans have been put in place to process these refunds within 3 weeks instead of the initial 30 days. The policy has resulted in a drop in total exemptions. For instance, total exemptions as at May 2017 was GH¢825.37 million as compared to GH¢1,154.13 million for the same period in 2016. Exemption beneficiaries have complained about cash flow challenges. However, after assuring them of timely refunds, beneficiaries have generally accepted the policy. Initial indications have shown that some beneficiaries after paying the taxes are not able to prove justification for the refund.

**30.** The **Ghana Revenue Authority (GRA) will also undertake warehousing and re-performance audits as well and audits of free zones to reduce leakages and improve compliance**. Data-matching exercises which compare customs and VAT data filings of companies are also being conducted to identify tax-leakages. This work is providing important information with respect to sources of non-compliance. Preliminary findings suggest large discrepancies between various source of tax declarations. An action plan has been developed to tackle these compliance risks, including a strong communication campaign to inform and sensitize taxpayers. Companies that have already been identified as non-compliant have received notice of the discrepancies and are requested to provide explanations, or make payments within 30 days, beyond which they are subject to penalties. Some companies have already started to make full payments.

**31. The government in the medium term will focus on enhancing tax revenue generation and modernisation of the tax administration.** A new nine-member board of the GRA has been inaugurated in May, with the aim to revamp and boost the revenue collection effort. Furthermore, the GRA has received Technical assistance to use the Tax Administration Diagnostic Assessment Tool (TADAT). TADAT provides an assessment baseline of tax administration performance that can be used to determine reform priorities. Further technical assistance has already been requested to help design a new reform agenda. Subsequent assessments will manage to highlight reform achievements.

**32. The government also plans to institute the following measures to broaden the tax base:**

- **Pass an Act to support the Common Reporting Standards and Automatic Exchange of Information (AEOI) protocols.** This is part of our international obligations on exchange of information. This will ensure that local financial institutions collate and report financial information of non-resident account holders of participating countries to the GRA for the purposes of compliance and vice-versa. This Act is in addition to current requirements for the provision of information;

- **Commence implementation of the Excise Tax Stamp Act, 2013 (Act 873) to boost revenue collection and curtail under-invoicing and smuggling.** The policy has faced a number of technical challenges, which have delayed implementation. Most of the technical issues have been resolved and implementation will begin in the fourth quarter of the year in a phased-in basis;

- **Complete the roll-out of the Geographic Positioning System Project** which is currently being deployed on a pilot basis to identify potential taxpayers and to register them to pay taxes;

- **Roll-out the National Identification Scheme** to broaden the tax base and accelerate financial inclusion. The scheme would help formalize the economy through the establishment of a national database, which can be linked to the databases of other institutions such as the Police, National Health Insurance Scheme (NHIS), Passport Office, Immigration, Courts, GRA, and the Driver and Vehicle Licensing Authority (DVLA).

- **Use third party information such as GIFMIS data on payments**, data from regulatory bodies such as Financial Intelligence Centre, Economic and Organized Crime Office, to identify new taxpayers and for further assessment purposes;

- **Systematically implement the TIN system** under the Revenue Administration Act. Since the passage of the Act in 2016, several fora have been held for stakeholders to discuss their role in the exercise and the obligations placed on them by the Act. Teams were sent to all MDAs to carry out on-site registration of their staff. Employers have also been granted the mandate to collect and submit forms on behalf of their employees. Approximately 200,000 forms have been received and processed since the exercise commenced in November 2016; and

- **Complete the roll-out of TRIPS™:** The TRIPS™ has been rolled out in 33 GRA offices with 31 offices outstanding as at the end of June. The remaining offices will be included by the end of 2017. The main risk is the timeliness of relocation of some offices, which are moving to new locations.

### B. Public Finance Management

33. **We have started to implement the Public Financial Management (PFM) Act approved in 2016.** There is now an urgent need to draft regulations in support of the new Act, with planned submission to Parliament by December 2017. An important area to cover is budget execution and commitment controls. During the preparation of the 2017 budget, it emerged that MDAs had unpaid commitments in excess of budgetary allocations, by roughly GHc5.0 billion. Currently, an audit is taking place to validate these unpaid commitments and to ascertain whether financial rules and regulations were adhered to. The audit will also allow the review of the system of controls and provide recommendations on appropriate remedial actions where weaknesses and abuses existed in the awarding process.

34. **We are working to improve the operations of the MOF to enhance budget execution, credibility and transparency**. Current organizational arrangements and existing functions at the MOF have not kept abreast with the pace of PFM reforms. A technical assistance mission has reviewed the functions of the MOF, to ensure that they take full advantage of the automation introduced with GIFMIS and adequately reflect the thrust of the PFM Act. We intend to hire a long-term consultant to implement the mission recommendations. This will involve among other: establishing a cash management unit to better link commitment approvals to cash availability; centralizing forecasting function to help develop a Medium-Term Fiscal Framework, with more credible revenue projections and realistic medium-term aggregate expenditure ceilings. We are also working to improve the capacity to enhance fiscal risks management and control of SOEs, including the setting-up of a fiscal risk unit in the MOF by October 2017. As a complementary step, we are considering a number of initiatives to enhance fiscal transparency. We have recently published for the first time an aggregate report on the performance of SOEs. We will also publish the budget of statutory funds.

35. **We introduced a legal cap on revenue earmarking as a first step to addressing the rigidities in the budget and to allow the government to better manage public funds**. In 2016, three budget items, wages and salaries, interest payments and statutory payments have

accounted for more than 100 percent of government revenues. The lack of fiscal space and the associated rigidities in the budget have hindered our ability to direct public spending to high-priority areas and respond to external shocks. We therefore introduced the Earmarked Funds Capping and Realignment Bill, passed into law under a certificate of urgency in March 2017. The new Act introduces a cap on the transfers to Earmarked Funds to 25 percent of tax revenues in any year (these funds have represented more than one third of government revenue). Over time, we plan to review the operations of statutory funds to reduce spending inefficiencies and improve transparency and accountability, as their spending occurs outside the budget. We have introduced a provision allowing the Minister to commence a review of the legislative basis of statutory funds, to determine whether the funds have outlived their usefulness, and in that case, proceed with their elimination.

**36. We are strengthening expenditure controls to generate savings and create space for financing priority needs**. We will continue working toward tightening the controls of the government payroll. As of April 2017, we suspended the salaries of 26,589 workers who had not been biometrically registered with the Social Security and National Insurance Trust (SSNIT). Since then, the salaries of 24,609 workers have been activated following submissions from SSNIT. Currently, 1,980 employees remain suspended. We will continue to implement strategies aimed at cleaning up the payroll and rationalizing the payroll costs, including completing a study on subvented agencies, revamp the civil service reform strategy and finalize the roll-out of the HRMIS to all MDAs. The GIFMIS processes are being reinforced to ensure that expenditure controls are strengthened. The interface of payroll for selected public universities to the GIFMIS will be completed by end December 2017. Interface to GRA on pilot basis has been completed. We have subsequently engaged a consultant to completed the interface with the three Universities.

**37. We are planning to make the Treasury Single Account operational by end-August.** As a first step, the government has evaluated the impact on the banking system of transferring government bank balances from commercial banks to the TSA. The evaluation, conducted by the Controller and Accountant General's Department (CAGD), together with the BoG, with the help of technical assistance, concluded that no adverse impact is expected on the banking system. However, we are phasing the implementation to minimize any unintended impact on liquidity. We are therefore developing a work plan to complete the TSA by August 2017. The plan involves continuous consultations between the MOF, BoG, CAGD, individual banks and MDAs to, among others, identify specific bank accounts to be transferred or closed.

### C. Debt Management

**38. Our debt management strategy will focus on bringing down the cost of debt and minimizing refinancing risks**. Some re-profiling operations have been conducted, including the debut issuance of a 15-year callable bond, to alleviate refinancing risk, in accordance with the Medium-Term Debt Management Strategy. We are seeking to further lengthen the maturity profile and reduce refinancing risks through a program of buy-backs and exchanges while also maintaining adequate cash buffers. We have increased transparency in the primary market with publication of an improved quarterly auction calendar and will also publish an Annual Borrowing Plan. To develop the secondary market in the medium term, we plan to create a limited number of benchmark securities, and operationalize securities lending, short-selling and repurchase agreements.

**39. For 2017 the non-concessional external debt will continue to be subject to two ceilings: (i) for debt management purpose and (ii) for projects critical for national development, and for which concessional financing is not available.** The debt ceiling for debt management will be set to zero, reflecting no planned Eurobond issuance. The debt ceiling for priority infrastructure projects would be set at US$ 2,250 million on a cumulative basis from the beginning of 2015—an increase of US$520 million, compared with the end-June 2017 indicative target in the Third Review. A separate limit on GNPC's non-concessional borrowing to accommodate the delayed GNPC loan of US$ 350 million will be maintained. The use of non-concessional external loans will be restricted to projects included in the priority project list (¶31 of the TMU), which would help reduce the infrastructure gap and implement development objectives explained in the Ghana Shared Growth and Development Agenda (GSGDA) II and the 2017 Budget. Concurrently, an indicative target on concessional external borrowing would be raised by US$300 million to accommodate the World Bank's budget support and project loans, which are supposed to be provided on concessional terms under the IDA's new multi-year lending program (IDA18).

**40. We have been strengthening our debt management system to avoid delays in debt service and associated penalties.** We are working on recommendations, especially on the processes for debt payments with IMF technical assistance. This is being done in conjunction with the provisions in the PFM law on debt payments.

### D. Restructuring of Energy Sector State-Owned Enterprises (SOEs)

**41. We have been developing a plan for strengthening the, particularly in the energy SOEs.** The MOF and the MOE have completed an extensive review of the final draft of the Debt Validation and Viability Analysis of the SOEs prepared by Ernst and Young (and are in the process of reverting to them for finalization), covering the Electricity Company of Ghana (ECG), the Volta River Authority (VRA), GRIDCO (electricity transmission company), Ghana Gas (GNGC), and the Tema Oil Refinery (TOR). The report estimated these companies' end-June 2016 stock of debt at GHc23.78 billion (14 percent of GDP), of which GHc 22 billion (13 percent of GDP) was validated. Specifically, the validated stock of loans amounted to GHc 10.8 billion (6.4 percent of GDP), of which loans contracted or guaranteed by the government amounted to GHc 6.25 billion (3.7 percent of GDP). The stock of arrears to creditors and suppliers amounted to GHc 6.7 billion (4 percent of GDP) and inter-SOE arrears, to GHc 3.2 billion (1.9 percent of GDP). To address concerns raised by the audit about the financial viability of the SOEs, we decided to take a three-pronged approach: (i) to restructure the SOE debt; (ii) to strengthen the payment discipline; and (iii) to introduce private sector participation in distribution, by concessioning the ECG under the Second Compact with the Millennium Challenge Corporation (MCC). More specifically:

(i) The government intends that the current indebtedness in the three power sector utilities –VRA, ECG, GRIDCO as well as arrears relating to the validated foreign exchange under-recoveries in the downstream petroleum sector—will be paid off under an ESLA receivable backed instrument through the incorporation of an SPV. Under the proposed SPV arrangement, a debt service Escrow Account will be created to which all future receivables will be assigned.

(ii) We decided to reactivate a clearinghouse mechanism to manage the inter-utility and utility-government liabilities to improve collection rates. The mechanism would include all SOEs and the government.

(iii) We have been working with the MCC on concessioning the ECG by end-2018. Out of six companies, which expressed interest in concession, five remain interested, following the May 2017 bidding conference. We are completing the work on the new Tariff Methodology, which will be presented to our development partners and to the bidders by end-June 2018.

**42. We are strengthening monitoring of the financial performance of the SOEs**. To this end, E&Y in response to our request, has developed a financial reporting template for all energy sector SOEs. We shall rigorously enforce its operation. Additionally, we are putting in place a standing technical committee to oversee the successful implementation and subsequent monitoring of the proposed plan (funding solution, greater efficiency mechanisms and corporate governance solutions) to ensure optimum results. Under the above plan, for example, we envisage monitoring the financial situation of the VRA and the ECG on regular (monthly, quarterly) basis, using an "overall balance" defined as the sum of net after tax profits, excluding government subsidy on an accrual basis, with a zero ceiling on the accumulation of gross payables.

## VI. POLICIES TO SUPPORT GROWTH AND POVERTY REDUCTION

**43. In spite of the major macroeconomic and structural challenges we face as a nation, we are setting the stage for creating job opportunities, easing hardships and securing a bright future for our citizens, businesses and industries**. We have, therefore, designed policy initiatives to help improve the business environment, instill fiscal discipline and promote investment in critical infrastructure especially in rural and deprived communities.

### Supporting Private Sector Development

**44. We have embarked on the implementation of growth-enhancing initiatives which would be integrated into our National Development Strategy.** The National Industrial Revitalization Program (NIRP) is one of our initiatives established to provide technical and financial support to existing companies currently distressed or facing operational challenges, but are deemed to be viable to benefit from the stimulus package which will put them in operation in the shortest possible time.

**45. The National Entrepreneurship and Innovation Plan (NEIP) is a flagship initiative which will be the primary vehicle for providing an integrated support for early stage (start-ups and small) businesses**. It will focus on the provision of business development services, business incubators, and funding for youth-owned businesses. The NEIP will enable qualified new businesses to emerge and give them the space to grow, position them to attract financing, and provide business development support services. The programme will assist these businesses to secure markets during the critical formative years, and tap into a wide supply chain and network during their growth years.

**Supporting Economic Growth Across the Board**

a. **The government intends to pursue an inclusive development strategy aimed at radically improving basic infrastructure at the constituency level, especially in rural and deprived communities**. The Infrastructure for Poverty Eradication Program (IPEP) will be our main vehicle for tackling these challenges. The IPEP is designed to direct our capital expenditure towards local, constituency-level specific infrastructure and economic development priorities, with particular emphasis on rural and deprived communities. Under the IPEP, every one of our 275 constituencies will be allocated the equivalent of US$1 million annually. It is expected that the projects selected, under standardized guidelines, will fall in the following categories: (a) One-District-One-Factory; (b) One-Village-One-Dam; (c) Small Business Development; (d) Agricultural Inputs (including equipment); (e) "Water for All" Projects; and (f) Sanitation Projects.

**46. In the agriculture sector**, the government will focus on promoting the Fertilizer Subsidy program and the Agricultural Mechanization Service Centers, among others.

**Supporting the Poor and Vulnerable**

**47. We will alleviate poverty through regional development and social assistance to the most vulnerable.** In order to fight extreme poverty and vulnerabilities, the government continues to improve Ghana's social protection policy implementation and systems. The government, through the Ghana Social Opportunities Project (GSOP) worked to improve targeting in social protection spending, increase access to conditional cash transfers nationwide, increase access to employment and cash earning opportunities for the rural poor during the agricultural off-season, and improve economic and social infrastructure in target districts. In 2016, the Ministry of Gender, Children and Social Protection, together with the Ministry of Local Government and Rural Development and various development partners collaborated in the implementation of programs such as Labour Intensive Public Works (LIPW); the Livelihood Empowerment Against Poverty (LEAP), among others.

**48. The government will continue to demonstrate its commitment to poverty eradication through poverty-related expenditures incurred by MDAs and MMDAs on activities geared towards the reduction of poverty.** These are cross-functional expenditures which support the provision of basic education, primary health care, poverty-focused agriculture, rural water, feeder roads and rural electrification.

- **In education**, the policy is to improve access to education at all levels. The government will implement the comprehensive free public Senior High School (SHS) programme starting with the 2017/18 academic year. This will include technical and vocational institutes. 58 percent of the total allocation to the sector will be used to improve basic education.

- **In health care,** the government is focusing on improving primary health care. It will devote about 56.7 percent of the total sector allocation to primary health care programmes.

## VII. PROGRAM MONITORING

**49.** The program will continue to be monitored based on periodic performance criteria, continuous performance criteria, Monetary Policy Consultation Clause, and indicative targets as of end-August 2017 and end-December 2017, set out in Table 2, with indicative targets for end-September 2017. Structural benchmarks set out in Table 5 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 memorandum, 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 fifth and sixth reviews under the program is expected on or after September 15, 2017, and on or after February 15, 2018 with end-August 2017, and end-December 2017 as test dates, respectively.

## Table 1. Ghana: Quantitative Program Targets[1]

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

| | 2015 | End-March 2016 | | | End-June 2016 | | | | End-September 2016 | | | | End-December 2016 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Actual | Target | Adjusted target | Actual | Target | Adjusted target | Actual | Met/Not met | Target | Revised target | Adjusted target | Actual | Target | Revised target | Adjusted target | Actual |
| **I Quantitative Performance Criteria** [2] | | | | | | | | | | | | | | | | |
| Primary fiscal balance of the government (floor in millions of cedis) | 328 | 13 | -75 | -1,706 | 723 | 941 | -2,126 | Not met | 1,227 | ... | 1,401 | -2,688 | 2,083 | ... | 2,133 | -2,344 |
| Wage bill (ceiling; in millions of cedis) | 10,556 | 2,928 | | 2,845 | 5,853 | | 5,791 | Met | 8,783 | ... | | 8,910 | 11,723 | ... | | 12,110 |
| Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) [3] | 2,241 | -555 | | -489 | -357 | -430 | -798 | Not met | -928 | -1,161 | -1,274 | -1,239 | 832 | 600 | 480 | 329 |
| Net change in stock of arrears (ceiling, millions of cedis) | -2,699 | -630 | | -331 | -1,476 | | -611 | Not met | -2,313 | ... | | -1,652 | -2,313 | ... | | -2,438 |
| **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 | Met | 15,814 | ... | | 15,624 | 15,814 | ... | | 15,394 |
| Non-accumulation of external arrears (ceiling; millions of U.S. dollars) | 0 | 0 | | 0 | 0 | | 0 | Met | 0 | ... | | | 0 | ... | | ... |
| Non-accumulation of new domestic arrears (ceiling; millions of cedis) | 0 | 0 | | | 0 | | | Not met | 0 | ... | | | 0 | ... | | 0 |
| Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions of U.S. Dollars) [5] | | | | | | | | | | | | | | | | |
| o/w: Debt for a debt management purpose [6] | 1,150 | 1,000 | | 75 | 1,150 | | 75 | Met | 1,150 | 1,175 | | 825 | 1,150 | 1,175 | | 919 |
| Debt for projects (cumulative from the beginning of 2015) [7] | 589 | 1,000 | | 589 | 1,000 | | 808 | Met | 1,000 | 1,230 | | 808 | 1,000 | 1,230 | | 1,006 |
| Debt for project (GNPC) [8] | 0 | ... | | ... | ... | | ... | | ... | 350 | | 0 | ... | 350 | | 0 |
| **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 | Not met | 13.9 | 16.0 | | 17.2 | 10.0 | 13.5 | | 15.4 |
| 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 | | 5,685 | 3,818 | | 7,766 | Not met | 6,447 | 12,101 | | 10,554 | 265 | 6,667 | | 7,654 |
| Contracting or guaranteeing of new external concessional debt (ceiling; millions of U.S. Dollars) | 202 | 400 | | 4 | 400 | | 86 | Met | 400 | ... | | 86 | 400 | ... | | 101 |
| Social Protection (floor, in million of cedis) | 2,489 | 522 | | 471 | 1,050 | | 715 | Not met | 2,573 | ... | | 1,180 | 3,022 | ... | | 1,641 |
| **Memorandum item:** | | | | | | | | | | | | | | | | |
| Primary fiscal balance of the government (excluding discrepancy) | -511 | 13 | | 151 | 723 | 939 | -540 | Not met | 1,227 | ... | | -2,152 | 2,083 | ... | | ... |

[1] Targets as defined in the 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 Eurobonds.

[7] Debt for projects does not include GNPC's loan equivalent to US$ 350 million. The debt limits for projects were raised by US$230 million to accommodate World Bank's project loans.

[8] Associated with nonconcessional debt to be contracted by GNPC, which had been counted against the 2015 limits but delayed for unforeseen 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 2. Ghana: Proposed Quantitative Program Targets[1]

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

| | | 2016 | End-Mar 2017 | | | End-Aug 2017 | End-Sep 2017 | End-Dec 2017 |
|---|---|---|---|---|---|---|---|---|
| | | Actual | Target[9] | Adjusted target | Actual | Target[10] | Target | Target |
| **I** | **Quantitative Performance Criteria** [2] | | | | | | | |
| | Primary fiscal balance of the government (floor in millions of cedis) | -2,344 | 652 | 609 | 831 | 1,186 | 1,144 | 361 |
| | Wage Bill (ceiling; in millions of cedis) | 12,110 | 3,424 | | 3,190 | 9,345 | 10,520 | 14,047 |
| | Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) [3] | 329 | -420 | | -469 | 731 | 188 | 805 |
| | Non-accumulation of new domestic arrears (ceiling; millions of cedis) | 0 | 0 | | 1,048 | 0 | 0 | 0 |
| | Net change in stock of arrears (ceiling, millions of cedis) | -2,438 | -518 | | -92 | -1,000 | -1,555 | -3,220 |
| **II** | **Continuous Performance Criteria** | | | | | | | |
| | Gross financing of BoG to the Government and SOEs (ceiling; in millions of cedis) [4] | 15,394 | 15,814 | | 15,356 | 15,394 | 15,394 | 15,394 |
| | Non-accumulation of external arrears (ceiling; millions of U.S. dollars) | ... | 0 | | 0 | 0 | 0 | 0 |
| | Contracting or guaranteeing of new external nonconcessional debt (ceiling; millions of U.S. Dollars) [5] | | | | | | | |
| | o/w: Debt for a debt management purpose [6] | 919 | 1,150 | | 0 | 0 | 0 | 0 |
| | Debt for projects (cumulative from the beginning of 2015) | 1,006 | 1,730 | | 1,534 | 2,250 | 2,250 | 2,250 |
| | Debt for project (GNPC)[7] | 0 | | | 0 | 350 | 350 | 350 |
| **III** | **Monetary Policy Consultation Clause** | | | | | | | |
| | Twelve-month consumer price inflation (percent) | | | | | | | |
| | Outer band (upper limit) | | 14.5 | | | 14.4 | 14.0 | 13.0 |
| | Inner band (upper limit) | | 13.5 | | | 13.4 | 13.0 | 12.0 |
| | Central target rate of inflation | 15.4 | 11.5 | | 12.8 | 11.4 | 11.0 | 10.0 |
| | Inner band (lower limit) | | 9.5 | | | 9.4 | 9.0 | 8.0 |
| | Outer band (lower limit) | | 8.5 | | | 8.4 | 8.0 | 7.0 |
| **IV** | **Indicative Targets** | | | | | | | |
| | Net Domestic Assets of Bank of Ghana (ceiling; millions of cedis) [8] | 7,654 | 7,694 | | 6,792 | 3,615 | 5,910 | 5,653 |
| | Contracting or guaranteeing of new external concessional debt (ceiling; millions U.S. Dollars) | 101 | 400 | | 0 | 700 | 700 | 700 |
| | Net after tax profit of ECG and VRA (floor; millions of cedis) | | | | | | | 107 |
| | Change in accounts payables of ECG and VRA (ceiling; millions of cedis) | | | | | | | 0 |
| | Social Protection (floor, in million of cedis) | 1,641 | | | | 1,627 | 1,835 | 2,425 |

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

[2] Performance criteria for end-August and end-December, and Indicative targets for end-March and end-September 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 subceilings, 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 Eurobonds.

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

[8] 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.

[9] Indicative target set during 3rd Review.

[10] August performance criteria replace June indicative targets set during 3rd Review.

## Table 3. Ghana: Performance with respect to Structural Reform Benchmarks from 3rd Review[1]

| Category | Proposed Structural Benchmarks | Indicative Timeframe | Remarks |
|---|---|---|---|
| **Non-Tax Revenue** | - Adopt and implement legal and regulatory changes to improve management of Internally Generated Funds (IGFs) and channel a larger share of revenues through the central government budget. | December 2016. **Not met.** | Later implemented with the adoption of the Earmarked Funds Capping and Realignment Act in April 2017. |
| **Human Resource Management** | - Finalize roll-out of the HRMIS to remaining MDAs. | December 2016. **Not met.** | Proposed to be reset to December 2017. |
| **TSA** | - Roll-out GIFMIS to 25 central government MDAs generating IGFs, including the 20 highest generating IGFs, and close all related bank accounts in commercial banks. | December 2016. **Met.** | |
| | - Complete the central budgetary government TSA. | December 2016. **Not Met.** | Proposed to be reset to August 2017. |
| **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. | December 2016. **Not met.** | Proposed to be reset to December 2017. |
| **Legal Framework** | - Adopt regulations for the implementation of the new PFM Act. | March 2017. **Not met.** | Proposed to be reset to December 2017. |
| **Human Resource Management** | - Integrate the GIFMIS Payroll, financial HRMIS and Hyperion in the Health and Education sectors. | June 2017 **Not met.** | Proposed to be reset to August 2017 (Health) and December 2017 (Education) |
| **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. | November 2016. **Not met.** | Partly due to delays in the completion of the third-party review. Measure was implemented in March 2017. |

[1] This Table covers only structural conditionality whose test date has already passed. For a complete list of measures, see also Table 5.

**Table 3. Ghana: Performance with respect to Structural Reform Benchmarks from 3rd Review (concluded)**

| | | |
|---|---|---|
| - Review of banks' recapitalization/restructuring plans and liquidity support exit plans by the BoG and communication of decision to banks. | February 2017. **Not met.** | Partly due to delays in the completion of the third-party review. Included in the prior action on the financial sector. |
| - Submit to Parliament Amendments to the Banks and SDI Act, in consultation with IMF staff, to address important weaknesses in the current legislation. | March 2017. **Not met.** | Mainly due to the reconstitution of Parliament in January 2017 and delayed publication of the Act in February 2017. Proposed to be reset to October 2017. |
| - Submit to Parliament Amendments to the Deposit Protection Act, in consultation with IMF staff, to address important weaknesses in the current legislation. | March 2017. **Not met.** | Mainly due to the reconstitution of Parliament in January 2017 and delayed publication of the Act in February 2017. Proposed to be reset to December 2017. |

**Table 4. Ghana: Prior Actions for Completing the Fourth Review under the ECF**

| Prior Action | Economic Rationale | Status |
|---|---|---|
| Complete the audit and financial viability analysis of SOEs being conducted by external auditors and share report with IMF staff. | Strengthen oversight of SOEs | Met |
| Approval by the BoG, in consultation with IMF staff, of credible and time-bound recapitalization plans for banks found to be undercapitalized, and initiation of resolution proceedings for insolvent banks that cannot demonstrate credible recapitalization measures. | Strengthen resilience and stability of the banking system | Not yet met |
| Initiate audit of unpaid commitments. | Ascertain fiscal costs from commitments outside PFM system | Met |
| Submit to Parliament, in consultation with IMF staff, legislation to reduce the level of existing revenue earmarking, and strengthen oversight of statutory funds by integrating them into the budgetary process. | Reduce budget rigidities and increase fiscal transparency | Met |
| Submission to Parliament of mid-year budget review in line with program objective and recording of revised spending limits in the Ghana Integrated Financial Management Information System (GIFMIS). | Restore fiscal discipline | Not yet met |

**Table 5. Ghana: Proposed Structural Benchmarks for 2017-18**

| Proposed Structural Benchmarks | Economic Rationale | Indicative Timeframe |
|---|---|---|
| Submit to Parliament regulations for the implementation of the new PFM Act. | Strengthen the PFM system | November 2017 **Reset Structural Benchmark missed in March 2017.** |
| Finalize roll out of the HRMIS to remaining MDAs. | To strengthen control on net hiring and the wage bill | December 2017. **Reset Structural Benchmark missed in December 2016.** |
| 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 2017 **Reset Structural Benchmark missed in December 2016.** |
| Complete roll-out of GIFMIS to all Internally Generated Funds (IGFs), except DVLA and the Free Zone Board; and all Statutory Funds, except DACF and NHIS. | Increase fiscal transparency | August 2017 |
| Complete roll out of GIFMIS to DVLA and the Free Zone Board, DACF, and NHIS. | Increase fiscal transparency | December 2017 |
| Integrate the GIFMIS Payroll, financial HRMIS and Hyperion in the Health sector. | To strengthen control on net hiring and the wage bill | August 2017 **Reset Structural Benchmark missed in June 2017.** |
| Integrate the GIFMIS Payroll, financial HRMIS and Hyperion in the Education sector. | To strengthen control on net hiring and the wage bill | December 2017 **Reset Structural Benchmark missed in June 2017.** |
| Complete the central government TSA. | Reduce borrowing costs | August 2017 |
| Re-establish the clearing house mechanism to prevent arrears accumulation between the government and SOEs, and between SOEs. | Improve SOEs performance | August 2017 |

**Table 5. Ghana: Proposed Structural Benchmarks for 2017-18 (concluded)**

| | | |
|---|---|---|
| Publish budgets of statutory funds, including expenditure details. | Increase fiscal transparency | December 2017 |
| Establish a Fiscal Risk Unit at the Ministry of Finance, to start monitoring, among others, risks associated and SOEs. | Improve fiscal risk management | September 2017 |
| Publish a report detailing the implementation of the Subvented Agencies Act containing: (i) an assessment of the relevance of each agency to meet government's objective; and (ii) the potential savings to the budget from their closure/commercialization. | Contain expenditures | December 2017 |
| Submit to Parliament legislation to restructure the tax incentives regime in Ghana, in line with IMF recommendations. | Increase tax revenues | June 2018 |
| Adopt (by Parliament) 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 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 BoG's core functions (including disposing of existing shares after a transitional period). | Strengthen the inflation targeting framework | September 2017 |
| Fully enforce the ELA guidelines, including approval by the BoG of plans, submitted by all of ELA beneficiaries, for the timely repayment of the outstanding facilities. | Strengthen resilience and stability of the banking system | August 2017 |
| Submit to Parliament legal amendments to the Banks and SDI Act, prepared in consultation with IMF staff, to address important weaknesses in the current legislation. | Strengthen resilience and stability of the banking system | October 2017 |
| Submit to Parliament legal amendments to the Deposit Protection Act, prepared in consultation with IMF staff, to address important weaknesses in the current legislation. | Strengthen resilience and stability of the banking system | December 2017 |
| Approval, by the BoG Management, of an action plan for improving the resilience and oversight of the MFI sector, prepared in consultation with IMF staff. | Strengthen financial stability and increase financial inclusion | December 2017 |

# 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 TMU, 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:** For the purpose of the program, the exchange rates of the Ghanaian cedi (GH¢) to the U.S. dollar will be GH¢4.00 per US$1 for 2016 and GH¢4.40 for 2017. 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-August 2017 and end-December 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 fiscal balance of the government on a cash basis, measured in terms of financing (below the line);
- 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 ceiling on non-accumulation of new domestic arrears;
- a continuous ceiling on 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 ceiling on the change in accounts payable of Electricity Company of Ghana (ECG) and Volta River Authority (VRA); and

- a floor on the net after tax profit (excluding government subsidies) of ECG and VRA.

### 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 Ghana National Petroleum Corporation (GNPC).

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

10. **The program primary fiscal balance** is cumulative from the beginning of the fiscal year and is measured from the financing side. The primary deficit is defined 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, minus 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. Provision of free school uniforms |
| 3. Livelihood Empowerment Against Poverty (LEAP) | 4. Provision of government's subsidy for Senior High Schools |
| 5. Fertilizer Subsidy | 6. Progressive implementation of free Senior High School Program |
| 7. Basic Education Certificate Examination | 8. Feeding grant for special schools for the handicapped |
| 9. Capitation grant for Public Basic Schools across the country | 10. Printing and Distribution of Exercise Books to Basic School Pupils under the Social Intervention Program |

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

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

| | |
|---|---|
| 11. Provide 10million free exercise books to Public Basic Schools across the country | 12. First Phase of Maths and Science Reforms for 13,000 KGS, 14,000 Primary School and 8,000 JHS |
| 13. Provide core textbooks | 14. Capitation Grant |
| 15. Establishment supplies for all Public Basic Schools across the country | 16. Feeding fee for levels 100 & 200 students of colleges of education across the country |

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

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

15. **Outstanding net credit to the government by the Bank of Ghana** comprises the sum of claims on government including overdrafts of the government with the BoG, and 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** (NIR) of the BoG are defined for program monitoring purposes[3] as short-term foreign assets of the BoG, minus short-term external liabilities. The definition of NIR will exclude short-term foreign assets that 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). 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 Deposits, Disposal Balances with Correspondent Banks, Fixed Deposits (excludes encumbered assets), any other short-term foreign assets),

- **Minus:** foreign short-term liabilities (composed of Deposits of International Institutions, Liabilities to International Commercial Banks, Swap Deal Payable 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,

- **Minus** MoF's liabilities to the IMF used for budget support,

- **Minus** all positive foreign currency deposits at the BoG held by resident deposit money banks (which includes the stock of swaps deal payable 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

[3] Note this definition differs from the one reported in the Balance of Payments and Monetary Survey which reflects 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.

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 and the secondary market. For purposes of this TMU 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 the purposes of this TMU, the 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 do not 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 Performance Criteria table for end-August 2017 and end-December 2017 test dates, the authorities will complete a consultation with the IMF Executive Board which would focus on: (i) the stance of monetary policy and whether the Fund-supported program remains on track; (ii) the reasons for program deviations, taking into account compensating factors; and (iii) 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 test date 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 TMU, 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). The definition also refers to commitments contracted or guaranteed for which value has not been received. The definition of debt is as follows:

> 8 (a) For the purpose of these guidelines, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of financial and nonfinancial assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
>
> > (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
> >
> > (ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and
> >
> > (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.
>
> (b) Under the definition of debt set out in point 8(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

25. **For the purposes of the ceiling on the contracting or guaranteeing of new non-concessional external debt,** external debt is any debt as defined in paragraph 24, which is denominated in foreign currency, i.e., currency other than Ghanaian cedis (GH¢).[5]

[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.

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

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

28. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The NPV of debt at the time of its signing date of an underlying loan agreement is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent.

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

[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.

[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).

available. Debt for debt management purposes is defined as non-concessional debt used to improve the overall public debt profile. The debt management sub-ceiling shall be cumulative from the beginning of each calendar year.

31. The sub-ceiling on any contracting or guaranteeing of non-concessional external debt for projects integral to the development program for which concessional financing is not available refers to debt for those projects specified in the list below. Any contracting or guaranteeing of non-concessional external debt for projects other than those listed below results in the nonobservance of the PC. The total amount of contracting of non-concessional external debt for projects on this list will be strictly limited to US$ 2,250 million on a cumulative basis from the beginning of 2015. Amounts applied toward this limit do not count toward the sub-ceiling on non-concessional borrowing for debt management purposes.

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

- Secondary Education Improvement (World Bank)

32. Further an additional sub-ceiling of US$ 350 million for a project is established for 2017 in the context of third review to accommodate GNPC's non-concessional borrowing, which was counted against debt limits for 2016 but did not materialize due to unforeseen delays in its loan negotiation with the creditor.

## F. SOEs

33. The net after tax profit of ECG is defined as the difference between total operating revenues and total costs as reported in the unaudited income statement. Total operating revenues are defined as the sum of: (i) sales of electricity; and (ii) all other operating income, excluding proceeds from central government transfers or payments of ECG's obligations on ECG's behalf. Total costs are defined as the sum of: (i) power purchases and all operating costs related to electricity distribution to be borne by ECG; (ii) administrative expenses, including on wages and remuneration of the board of directors, and provisions; (iii) depreciation; (iv) interest expense and any other financial costs.

34. The net after tax profit of VRA is defined as the difference between total operating revenues and total costs as reported in the unaudited income statement. Total operating revenues are defined as the sum of: (i) sales of electricity; and (ii) all other operating income, excluding proceeds from central government transfers or payments of VRA's obligations on VRA's behalf. Total costs are defined as the sum of: (i) generation of electric power and all operating costs related to electricity generation to be borne by VRA; (ii) administrative expenses, including on wages and remuneration of the board of directors, and provisions; (iii) depreciation; (iv) financial expenses and any other financial costs, including foreign exchange gain/losses from foreign currency denominated transactions and exchange fluctuation gains/losses on foreign currency denominated loans.

35. The zero ceiling on change in gross payables of VRA and ECG applies to the total stock of payables, current and non-current, due to trade creditor, related parties and other creditors.

## G. Adjustors to the Program Targets

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

**Primary fiscal deficit of the government**

36. 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**

37. The net international reserve (NIR) floors will be adjusted upward for any excess of budget grants and loans relative to the program baseline excluding the IMF's budget support (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 excluding the IMF's budget support.

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

| Budget Financing and oil revenues, 2017 1/ (GH¢ millions, cumulative from the start of the calendar year) | | | | |
|---|---|---|---|---|
| | March | August | September | December |
| Program grants | 0 | 0 | 73 | 73 |
| Program loans | 0 | 211 | 617 | 1902 |
| o/w: IMF Program loan for budget support | 0 | 0 | 406 | 811 |
| Oil revenues, net of transfers to GNPC | 391 | 800 | 800 | 1138 |
| 1/ Used to compute adjustors for performance criteria and indicative targets for end-March , end-August, end September, and end December. | | | | |

## H. Provision of Data to the Fund

38. 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. |
| Itemized overview of outstanding liquidity support, granted to financial institutions, | Monthly, within four weeks from 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. |