

**FOR
AGENDA**

EBS/10/86
Supplement 1

June 8, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Ghana—Combined First and Second Reviews Under the Arrangement Under the Extended Credit Facility, Request for Waiver of Nonobservance of Performance Criteria, Modification of Performance Criteria and Rephasing of Disbursements—Supplementary Information, Revised Proposed Decision, and Supplement to the Letter of Intent**

The attached supplement to the paper on the combined first and second reviews under the arrangement under the Extended Credit Facility for Ghana, and its request for a waiver of nonobservance of performance criteria, a modification of performance criteria and rephasing of disbursements (EBS/10/86, 5/17/10), which is tentatively scheduled for discussion on **Wednesday, June 9, 2010**, has been prepared on the basis of new information on nonconcessional external borrowing. A revised proposed decision appears on pages 5–8. Unless an objection from the authorities of Ghana is received prior to the conclusion of the Board's consideration, the document will be published. Any requests for modifications for publication are expected to be received two days before the Board concludes its consideration.

Questions may be referred to Mr. Allum (ext. 38535) and Mr. Kovanen (ext. 35620) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat forthwith; and to the African Development Bank, the European Commission, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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INTERNATIONAL MONETARY FUND

GHANA

Combined First and Second Reviews Under the Arrangement Under the Extended Credit Facility, Request for Waiver of Nonobservance of Performance Criteria, Modification of Performance Criteria and Rephrasing of Disbursements—Supplementary Information, Revised Proposed Decision, and Supplement to the Letter of Intent

Prepared by the African Department

Approved by Michael Atingi-Ego and Dominique Desruelle

June 8, 2010

1. **Since the staff report was issued, new information has become available on nonconcessional external borrowing.** The Ghanaian authorities have informed staff that Ghana contracted a loan on November 25, 2009 with the ECOWAS Bank for Investment and Development (EBID) in an amount of \$30 million (0.2 percent of GDP) that breached the continuous performance criterion on nonconcessional external borrowing under the ECF arrangement. The loan has a grant element of 33 percent, just below the minimum 35 percent threshold under the Fund-supported program, and was regarded as important to finance a high return project to extend the electricity grid to eight districts in the Ashanti and Brong Ahafo regions.
2. **The authorities are taking actions to correct this breach of the performance criterion.** Specifically, they are negotiating with EBID an extension of the grace period under the loan beyond the current six years to make it concessional. In addition, as reflected in the new structural benchmarks in the ECF, the authorities are taking steps to strengthen debt management practices and project appraisal to safeguard against future breaches of the borrowing limit.
3. **Staff supports the authorities' request for a waiver of nonobservance of the performance criterion on nonconcessional external borrowing on the basis of these corrective actions.**

June 7, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. Strauss-Kahn:

This updates our letter to you of May 13, 2010.

This is to inform you that Ghana contracted a loan on November 25, 2009 with the ECOWAS Bank for Investment and Development (EBID) in an amount of \$30 million that breached the continuous limit on nonconcessional external borrowing under our Fund-supported program (Tables 1 and 2 attached). The loan had a grant element of 33 percent, just below the minimum 35 percent threshold under the Fund-supported program, and was regarded as important to finance a high return project to extend the electricity grid to eight districts in the Ashanti and Brong Ahafo regions.

No funds have been disbursed under the loan to date, and we have requested that EBID amend the terms of the loan to bring the grant element above the minimum threshold of 35 percent under our Fund-supported program. EBID has indicated their willingness to revise the loan terms, and new terms consistent with a grant element of more than 35 percent are expected to be adopted by the end of June 2010.

We regret this breach of the debt limit under our program, and are taking measures to strengthen debt management as outlined in our Memorandum of Economic and Financial Policies.

/s/

Dr. Kwabena Duffuor
Minister of Finance and
Economic Planning

/s/

Mr. K.B. Amissah-Arthur
Governor
Bank of Ghana

Table 1. Ghana: Quantitative Program Targets (December 2008 - December 2009) ¹
(Cumulative from the beginning of calendar year, unless otherwise indicated)

	2008 Dec. Act.	2009									
		Mar. Act.	Jun. Act.	Sep. (MEFP, 7/09)				Dec. (MEFP, 7/09)			
				Prog. ²	Adjusted Target	Act.	Met or Not met	Prog. ²	Adjusted Target	Prel.	Met or Not met
I Quantitative Performance Criteria											
Overall fiscal deficit of the government (ceiling; in millions of cedis)	2,558	344	922	1,470	1,459	1,629	Not met	2,034	2,249	2,131	Met
Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) ³	1,301	-404	-626	-728	-143	-30	Met	-404	49	1,159	Met
II Continuous Performance Criteria (cumulative from July 15, 2009)											
Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0	0	0	0	0	Met	0	0	0	Met
Contracting or guaranteeing of new medium-to-long-term nonconcessional external debt (ceiling; US\$ millions)	...	...	...	300	300	0		300	300	130	
Oil and gas sector	...	...	...	300	300	0	Met	300	300	0	Met
Other sectors	...	...	...	0	0	0	Met	0	0	130	Not met
III Inflation Consultation											
Twelve-month consumer price inflation (percent)											
Outer band (upper limit)	...	...	...	19.5	19.5			17.6	17.6		
Inner band (upper limit)	...	...	...	18.5	18.5			16.6	16.6		
Central target rate of inflation	18.1	20.5	20.7	16.5	16.5	18.4	Met	14.6	14.6	16.0	Met
Inner band (lower limit)	...	...	...	14.5	14.5			12.6	12.6		
Outer band (lower limit)	...	...	...	13.5	13.5			11.6	11.6		
IV Indicative Targets											
Net domestic financing of the government (ceiling, in millions of cedis)	1,735	243	674	828	903	826	Met	1,033	1,108	1,042	Met
Net domestic assets of the Bank of Ghana (ceiling; millions of cedis) ⁴	64	331	698	990	990	462	Met	605	605	-342	Met

Sources: Ghanaian authorities, and IMF staff estimates and projections.

¹ All variables and adjustors the targets are defined in the attached Technical Memorandum of Understanding (TMU).

² Performance criterion.

³ September and December 2009 targets after adjustment for SDR allocation.

⁴ The program ceiling has been adjusted to reflect the reclassification of SDR liabilities in the accounts of the Bank of Ghana as long-term foreign liabilities.

Table 2. Ghana: Quantitative Program Targets (December 2009 - June 2011) ¹
(Cumulative from the beginning of calendar year, unless otherwise indicated)

	2008 Dec.	2009 Dec.	Mar. Rev. Prog. ³	Prov.	2010 Jun. Rev. Prog. ²	Sep. Prog. ³	Dec. Prog. ²	2011 Mar. Prog. ³	Jun. Prog. ²
	Act.	Act.							
I Quantitative Performance Criteria									
Overall fiscal deficit of the government (ceiling; in millions of cedis)	2,558	2,131	500	...	1,186	1,958	2,077	444	746
Net international reserves of the Bank of Ghana (floor; millions of U.S. dollars) ⁴	1,301	2,459	-83	...	-15	-98	315	104	207
Net change in the stock of domestic arrears (ceiling, in millions of cedis) ⁵		1,429	-28	...	-55	-83	-110	-257	-405
II Continuous Performance Criteria (cumulative from July 15, 2009)									
Non-accumulation of external arrears (ceiling; millions of U.S. dollars)	0	0	0	...	0	0	0	0	0
Contracting or guaranteeing of new medium-to-long-term nonconcessional external debt (ceiling; US\$ millions)	...	130.0	300.0	...	649.1	649.1	649.1	649.1	649.1
Oil and gas sector ⁶	...	0.0	300.0	...	200.0	200.0	200.0	200.0	200.0
Fire-fighting equipment	...	...	0.0	...	49.1	49.1	49.1	49.1	49.1
Ada coastal protection project	...	...	0.0	...	100.0	100.0	100.0	100.0	100.0
Any sectors	...	130.0	0.0	...	300.0	300.0 ⁷	300.0	300.0	300.0
III Inflation Consultation									
Twelve-month consumer price inflation (percent)									
Outer band (upper limit)	...		15.2	...	12.7	12.5	12.5	12.0	12.0
Inner band (upper limit)	...		14.2	...	11.7	11.5	11.5	11.0	11.0
Central target rate of inflation	18.1	16.0	12.2	13.3	9.7	9.5	9.5	9.0	9.0
Inner band (lower limit)	...		10.2	...	7.7	7.5	7.5	7.0	7.0
Outer band (lower limit)	...		9.2	...	6.7	6.5	6.5	6.0	6.0
IV Indicative Targets									
Net domestic financing of the government (ceiling, in millions of cedis)	1,735	1,022	875	...	1,234	1,650	1,688	385	471
Net domestic assets of the Bank of Ghana (ceiling; millions of cedis) ⁴	-76	-278	-103	-165	-278	-8	50	-350	-451
Poverty-reducing budget expenditures (floor; in millions of cedis)	1,687	1,856	444	...	820	1,463	2,106	554	1110

Sources: Ghanaian authorities, and IMF staff estimates and projections.

¹ All variables and adjustors the targets are defined in the attached Technical Memorandum of Understanding (TMU).

² Performance criterion.

³ Indicative target.

⁴ December 2009 target after adjustment for SDR allocation. March 2010 indicative ceiling from the original July 2009 ECF program.

⁵ Cumulative from December 31, 2009. The end-of-period stock is GHc 1,429 million.

⁶ For the GNPC to finance oil and gas exploration and production projects in Ghana and to acquire equity stakes in companies undertaking oil and gas exploration and production in Ghana.

Ghana—First and Second Reviews under the ECF Arrangement

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

PROPOSED DECISION

1. Ghana has consulted with the Fund in accordance with paragraph 4(A)(b) of the three-year arrangement for Ghana under the Extended Credit Facility (ECF) (EBS/09/109, 6/30/09) in order to review program implementation.
2. The letter from the Minister of Finance and Economic Planning and the Governor of the Bank of Ghana dated May 13, 2010 (the “May 2010 Letter”), together with its attached Memorandum of Economic and Financial Policies (the “May 2010 Memorandum”) and Technical Memorandum of Understanding (the “May 2010 TMU”), and the letter dated June 7, 2010, with its attached tables 1 and 2, shall be attached to the ECF arrangement for Ghana, and the letters from the Minister of Finance and the Governor of the Bank of Ghana dated June 26, 2009 and March 24, 2010 shall be read as supplemented and modified by the May 2010 Letter, and its attachments.

3. Accordingly, the ECF arrangement for Ghana shall be amended as follows:
 - (a) In paragraph 1(b) the references to “SDR 202.95 million” and “SDR 299.82 million” shall be revised to read “SDR 149.15 million” and “SDR 257.85 million” respectively.
 - (b) In paragraph 2(b) the reference to “SDR 67.65 million” shall be revised to read “SDR 16.00 million”
 - (c) In paragraphs 2(c) and 2(d) the references to “SDR 67.65 million” shall be revised to read “SDR 65.50 million”
 - (d) New subparagraphs (e) and (f) shall be added to paragraph 2 to read as follows:

“(e) the fifth disbursement, in an amount equivalent to SDR 43.20 million, will be available on or after March 15, 2011, at the request of Ghana and subject to paragraphs 4 and 5 below.”

“(f) the sixth disbursement, in an amount equivalent to SDR 43.20 million, will be available on or after September 15, 2011, at the request of Ghana and subject to paragraphs 4 and 5 below.”
 - (e) In paragraph 4.A(a) the references to “Table 1 of the MEFP and as further specified in the TMU” shall be revised to read, with respect to the fourth disbursement, “Table 2 of the May 2010 MEFP and as further specified in the May 2010 TMU”
 - (f) A new paragraph 4.B shall be added to read as follows:

“4.B. The fourth disbursement under this arrangement specified in paragraph 2(d) above if the Managing Director of the Trustee finds that the data as of June 30, 2010 indicate that the ceiling on the net change in the stock of domestic arrears, as specified in table 2 of the May 2010 MEFP and further specified in the May 2010 TMU, was not observed”

(g) A new paragraph 4.C shall be added to read as follows:

“4.C. The fifth and sixth disbursements under this arrangement specified respectively in paragraphs 2(e) and 2(f) above:

(a) If the Managing Director of the Trustee finds that, with respect to the fifth disbursement, the data as of December 31, 2010 and, with respect to the sixth disbursement, the data as of June 30, 2011, indicate that:

- (i) The ceiling on the overall fiscal deficit; or
- (ii) The floor on net international reserves of the Bank of Ghana; or
- (iii) The ceiling on the net change in the stock of domestic arrears

as specified in Table 2 of the May 2010 MEFP and as further specified in the May 2010 TMU was not observed”

(b) Until the Trustee has determined, with respect to the fifth disbursement, that the fourth review, and with respect to the sixth disbursement, that the fifth review, of Ghana’s program referred to in paragraph 47 of the MEFP has been completed.”

(h) Subparagraph (a) of paragraph 5 shall be amended to read as follows:

“(a) Ghana contracts or guarantees any new medium-to long-term nonconcessional external debt above the ceilings set out in Table 2 of the May 2010 MEFP and further specified in the May 2010 TMU”

(i) All references in paragraph 5 to “Table 1 of the MEFP” and to “TMU” shall be revised to refer to “Table 2 of the May 2010 MEFP” and “May 2010 TMU”, respectively.

4. The Fund decides that the first and second reviews contemplated in paragraph 4(b) of the ECF arrangement for Ghana are completed, and that Ghana may request the second and third disbursements referred to in paragraphs 2(b) and 2(c), notwithstanding the non-observance of the continuous quantitative performance criterion on the contracting or guaranteeing of nonconcessional external debt set out in paragraph 5(a) of the arrangement, and, with respect to the second disbursement, notwithstanding the non-observance of the September 30, 2009 quantitative performance criterion on the overall fiscal deficit set out in paragraph 4(a)(i) of the arrangement, on the condition that the information provided by Ghana on the observance of the performance criteria referred to above in this paragraph and on the implementation of the measure specified as a prior action in Table 3 of the May 2010 MEFP is accurate.