



Office Memorandum

To: Members of the Executive Board

January 6, 2012

From: The Acting Secretary

Subject: **Ghana—Modification/Deletion—Fifth Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for Modification of Performance Criteria—Supplementary Information**

Attached for the **information** of Executive Directors are a modification to and a deletion from the paper on the fifth review under the three-year arrangement under the Extended Credit Facility for Ghana and its request for a modification of performance criteria—supplementary information (EBS/11/174, Sup. 2, 12/12/11) which have been proposed by the authorities of Ghana and agreed with the staff in accordance with the policy on publication of papers. The complete modified paper will be posted on the Fund's external website.

Operational Details of Policy Intentions

Page 1, paragraph 3, lines 4–7:

for “to increase petroleum prices by 15 percent by mid-January and to full cost recovery level, if further adjustments are needed, by end-January 2012. The letter also spells out that any losses resulting from the delay in the price increase from early December to mid January, estimated at about GH¢50 million, would be covered...”

read “to increase petroleum prices to achieve full cost recovery levels. The letter also spells out that any losses resulting from the delay in the price increase would be covered...”

Page 1 paragraph 3, line 9: “by the specified dates” deleted

Questions may be referred to Ms. Daseking (ext. 37340), Mr. Baldini (ext. 38794), and Ms. Verdier (ext. 36737) in AFR.

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

Att: (1)

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Department Heads

INTERNATIONAL MONETARY FUND

GHANA

Fifth Review Under the Three-Year Arrangement Under the Extended Credit Facility and Request for Modification of Performance Criteria—Supplementary Information

Prepared by the African Department
(In consultation with other departments)

Approved by Michael Atingi-Ego and Dominique Desruelle

December 12, 2011

1. The following information has become available to staff since the issuance of the staff report (EBS/11/174, 11/30/11).
2. **Prior Action on increasing domestic petroleum prices.** On December 7, the Ghanaian authorities have informed staff that they will not be able to raise petroleum pump prices before the scheduled Board date, a prior action for the fifth review. The authorities had taken the decision in November to implement the measure before the Board meeting, but implementation has been frustrated by a ruling, on November 28, of the High Court of Ghana. The ruling has ordered the National Petroleum Authority (NPA) to remove a margin introduced in the petroleum pricing formula, which was judged by the court to be illegal. The authorities have mounted an appeal of the ruling, which, in their view is based on a misunderstanding of the petroleum pricing system, and have already filed a motion for stay of execution. In light of the ruling, however, the authorities' concern is that raising petroleum prices now—without having the opportunity to explain their position to the court and the public—could be perceived as frustrating the court's orders. They became aware of these implications only after the staff report was issued.
3. **Corrective actions.** Since the prior action will not be met, the authorities have taken two corrective actions that demonstrate their ongoing commitment to eliminate petroleum subsidies, as soon as possible: First, the government, via a letter from the Vice President, has informed staff of its commitment to increase petroleum prices ~~by 15 percent by mid-January and to achieve full cost-recovery levels, if further adjustments are needed, by end-January 2012~~. The letter also spells out that any losses resulting from the delay in the price increase ~~from early December to mid-January, estimated at about GH¢50 million~~, would be covered by holding back domestically-financed capital spending and the reserve expenditure vote (reserve fund). Second, as further evidence of their commitment to implement the price adjustment ~~by the specified dates~~, the authorities have issued a press release that clarifies the government's position on the court ruling and informs the public of the need to remove costly subsidies and let prices adjust to market conditions.