

Ghana: 2003 Article IV Consultation, and Requests for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Staff Report; Staff Supplement and Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Ghana

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2003 Article IV consultation with Ghana, and requests for a three-year arrangement under the Poverty Reduction and Growth Facility and for additional interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries, the following documents have been released and are included in this package:

- the staff report for the combined 2003 Article IV consultation, and requests for a three-year arrangement under the Poverty Reduction and Growth Facility and for additional interim assistance under the enhanced Initiative for Heavily Indebted Poor Countries, prepared by a staff team of the IMF, following discussions that ended on **February 3, 2003**, with the officials of Ghana on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on April 2, 2003.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff supplement of **April 24, 2003** and staff statement of **May 9, 2003** updating information on recent economic developments.
- a Public Information Notice (PIN) and Press Release, **summarizing the views of the Executive Board as expressed during its May 9, 2003, discussion** of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.
- a statement by the Executive Director for Ghana.

The document(s) listed below have been or will be separately released.

Joint Staff Assessment of the Poverty Reduction Strategy Paper
Letter of Intent sent to the IMF by the authorities of Ghana*
Memorandum of Economic and Financial Policies by the authorities of Ghana*
Poverty Reduction Strategy Paper
Selected Issues Paper and Statistical Appendix
Technical Memorandum of Understanding*
*May also be included in Staff Report

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GHANA

Staff Report for the 2003 Article IV Consultation, and Requests for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

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April 2, 2003

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Executive Summary

Overview and recent developments

- Program implementation in 2002 was mixed. Further gains were made on inflation, and the reserve accumulation target was met. Good progress was made on certain parts of the structural reform agenda, including in the areas of tax administration, financial sector reform, the move to full cost recovery for utilities (albeit with a delay), and governance. However, the broad objectives of the program were undermined by serious fiscal and quasi-fiscal slippages, and associated weaknesses in public expenditure management; as a result, the fifth and final review under the 1999-2002 PRGF arrangement could not be completed.
- Budget execution was adversely affected by a large wage bill overrun, nonimplementation of the program's key revenue measure, delays in moving forward with the divestiture program, and a shortfall in donor financing. These setbacks were only partly offset by improved tax administration and cutbacks in the capital spending program, with the result that recourse to net domestic financing was 3.3 percent of GDP higher than the program target of 0.3 percent of GDP, in 2002, even after full application of the program adjuster for shortfalls in external financing.
- Nonimplementation of the petroleum pricing formula led to a second round of losses (2 percent of GDP in 2002) by the state-owned oil refinery. In mid-January 2003, the authorities raised petroleum prices by 90 percent on average, going beyond what was needed for full cost recovery at the refinery, to allow for higher distributors' margins and increased budgetary levies. Altogether, the slippages meant that the end-2002 stock of domestic government debt (the reduction of which was a key parameter for both the fiscal and monetary programs) was nearly 29 percent of GDP, 8½ percent of GDP higher than envisaged.

Medium-term outlook and overview of key issues

- The government's medium-term macroeconomic strategy for 2003-05, as articulated in the finalized Ghana Poverty Reduction Strategy (GPRS), aims to raise real GDP growth to an average of 5 percent, reduce inflation to mid-single digits, and build up gross reserves to three months of import cover. The GPRS also outlines a broad array of structural reforms and governance measures geared toward promoting private sector-led growth, including financial sector reforms, which will be a particular focus of the proposed PRGF-supported program.
- Despite recent improvements in the terms of trade, Ghana's economy remains vulnerable to external shocks (notably regarding oil prices—Ghana is wholly reliant on crude oil imports and is a net importer of refined products), as well as to uncertainties regarding policy implementation. On the fiscal side, however, the

medium-term outlook will be strengthened substantially by a significant increase in tax revenues under the 2003 budget.

Program for 2003

- In line with the medium-term plan, the program for 2003 is based on a projection of 4.7 percent for real GDP growth, an ambitious target for inflation of 9 percent by year's end, and an accumulation of gross external reserves to 2.3 months of imports.
- The 2003 program is founded on strong up-front actions, including passage of a budget with new revenue measures totaling 3½ percent of GDP in a full year, steps to ensure tight control over the wage bill, and the establishment of full cost recovery in petroleum pricing, which will also cease to be subject to government intervention. The budget provides for a substantial increase in capital and poverty-related spending, in order to ensure that the GPRS objectives are achieved.
- The program targets progress in the divestiture strategy, including sale of the country's largest commercial bank and of government holdings in a number of joint venture companies.

Main issues raised in the staff appraisal

- The actions taken to launch the 2003-05 program are designed to deliver on the ambitious medium-term goals set out in the GPRS. The strong new revenue measures are appropriately designed and will make room for increased spending in poverty-related areas and on development needs, and will be bolstered by improvements in tax administration.
- Major challenges for the program will include successful implementation of the budget, which is dependent on strengthened public expenditure management, and of a tight monetary policy to bring down inflation. The continued rise in the civil service wage bill is a cause for concern and increases the urgency for reform of the civil service reform. Also, vigorous implementation of energy and utility pricing is essential.
- A broad range of institutional and structural reforms will be needed to promote growth and support the government's implementation of the GPRS. Ghana's statistical base should also be improved. Ghana's exchange system is free of restrictions on the making of payments and transfers for current international transactions.
- In view of the strength of the authorities' program, including the prior actions to be taken, **the staff supports their request for a three-year PRGF arrangement in the amount of SDR 184.5 million (50 percent of quota), and for additional interim HIPC relief.**

I. INTRODUCTION

1. IMF missions visited Accra during December 2002 and January 2003 to conduct discussions on the 2003 Article IV consultation, the joint staff assessment of the poverty reduction strategy paper, and a program that could be supported by a new three-year arrangement under the Poverty Reduction and Growth Facility (PRGF). An earlier mission in September 2002 was unable to conclude the fifth and final review under the 1999-2002 PRGF arrangement, owing to significant policy slippages relating to civil service wage overruns, and nonimplementation of petroleum price increases and a new revenue measure.¹ As a result, that arrangement was allowed to expire on November 30, 2002 without disbursement of the final tranche.

2. The 2001 Article IV consultation with Ghana was concluded on June 27, 2001 (EBS/01/88; 6/14/01). At that time, Directors stressed the importance of fiscal tightening to lower the domestic interest burden on the budget, thereby making room for higher social and other priority spending, and to help bring about a more rapid decline in inflation. Directors noted the importance of moving toward full cost recovery in the energy sector, with regular automatic price adjustments to avoid a recurrence of the large quasi-fiscal deficits incurred in 2000. In concluding the fourth review under the PRGF arrangement on February 22, 2002 (EBS/02/16; 2/1/02), Directors noted the progress the authorities had made in stabilizing the macro-economy in 2001. They urged the rigorous implementation of structural reforms, including a strengthening of public expenditure management, implementation of a utility price reform plan, and progress with divestiture and in establishing an interbank foreign exchange market.

3. On May 16, 2002, Ghana signed an agreement with Paris Club creditors on the provision of debt relief and rescheduling in accordance with the terms of Ghana's decision point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative) (EBS/02/20; 2/5/02). This was preceded by a Consultative Group meeting in April, at which donors agreed to fill the residual financing gap identified for 2002. In late 2002, discussions began on the components of a Multi-Donor Budget Support (MDBS) package in support of implementation of the Ghana Poverty Reduction Strategy (GPRS), and with the World Bank on the broad elements of a policy-based program of assistance covering the period 2003-05.

4. Ghana's statistical data remain weak. The quality of fiscal data has improved recently, with more consistent use of procedures for reconciliation with banking data, but the inability of the present payroll system to track all components of wage expenditure is a

¹ Staff teams for the missions of September 12-25, 2002, December 2-11, 2002, and January 24-February 3, 2003 comprised Mr. Bredenkamp (head), Ms. Muttardy and Mr. Engstrom (both AFR), and Mr. Mansilla (PDR). In addition, Ms. Purfield (FAD) and Mr. Mfunwa (AFR) participated in the September mission, Mr. Annett (FAD) in the December 2002 and January 2003 missions, and Mr. Haley (Research Assistant, AFR) in the September and December missions. The missions were assisted by Mr. de la Piedra (Resident Representative).

continuing vulnerability. Recent work by a peripatetic Fund advisor to the Ghana Statistical Service (GSS) has indicated that, as a result of a methodological change in the compilation of the consumer price index (CPI) in 1999, the level of the CPI, and the national accounts at current prices derived from it, may have been substantially underrecorded for the period since 1999. Problems with the availability of balance of payments and monthly trade data also persist. During the past 12 months, Ghana has received technical assistance from FAD, MAE, and STA in the areas of public expenditure management (including by way of a long-term resident advisor), tax administration, financial sector statistics and monetary reform, and national accounts. These efforts will be reinforced under the proposed new three-year arrangement.

5. In the course of the discussions, the staff also met with donors, nongovernmental organizations, trade unions, think tanks, private sector entities, and the press. These outreach efforts covered a broad range of topics, including macroeconomic policies, the constraints on private sector-led growth, microfinance, and labor reforms.

II. RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

6. **Performance under the 2002 program was mixed; there were further gains on inflation and the rebuilding of foreign reserves, and progress on parts of the structural reform agenda, but significant weaknesses persisted in budget implementation and parastatal finances.** Twelve-month inflation (based on current CPI data)² continued to fall, from 21 percent at end-2001 (down from a peak of 42 percent in March 2001) to 15.2 percent at end-2002 (compared with the program target of 13 percent). The pace of monetary expansion exceeded program targets, however, driven in part by heavy government borrowing (Figure 5 and Table 6). Larger-than-normal inflows of foreign exchange from the prefinancing of the cocoa crop contributed to an acceleration in money growth in the final quarter of 2002. The cedi depreciated by 14.7 percent against the U.S. dollar in the 12 months ended December 2002 (Figure 1), broadly in line with inflation, while gross international reserves recovered to nearly two months of imports despite a shortfall in external support. While data on GDP growth in 2002 are not yet available, the stimulus from a sharp improvement in the terms of trade and a pickup in credit to the private sector suggest that the 4½ percent growth rate for the economy envisaged under the program may have been achieved.

7. **The inflation rate began to rise in the fourth quarter of 2002 (Figure 1), reaching 16.3 percent in January 2003, and jumping to 29.4 percent in February.** Some increase in the inflation rate in February 2003 had been expected, on account of the hike in petroleum prices. (The petroleum price increases were much larger than the staff had advised or expected, but following their announcement, the program was adjusted to try to reflect their

² The STA advisor working with the authorities on revisions to the CPI data has indicated that, although the *level* of the current CPI may be understated, recent changes in the index (i.e., measured inflation) are not likely to be revised significantly.

likely impact on inflation and the budget.) The inflation outturn for February, however, was significantly above the program assumption, for reasons which remain unclear. One possible explanation is that the petroleum price increases triggered a sudden, unexpected shift in inflation expectations, prompting a reversal of the buildup in real money balances that had taken place in the latter part of 2002.³ The authorities believe that there may also have been some opportunistic, or speculative, price rises in the retail sector in the wake of the petroleum price shock, some of which may prove temporary. It is hoped that March inflation data will give a clearer picture of the underlying tendencies, and staff will provide an assessment of these data in advance of the planned Executive Board meeting. In the meantime, the central bank has raised its prime interest rate in two steps since the beginning of 2003 by a combined 3 percentage points (to 27.5 percent) and has stepped up open market operations to withdraw liquidity from the system.

8. On the structural front, progress was made in 2002 in the areas of tax administration, financial sector reform, and governance:

- **Tax administration.** The creation of a Large Taxpayers' Unit (LTU) was announced with the 2002 budget and a timetable drawn up with FAD advice. Preparations for the launch have been slow but are under way, and it is expected that the LTU will become operational in June 2003. A Taxpayer Identification Number (TIN) System Bill was approved in July 2002, along with adoption of TINs by the customs authority. While tax revenues fell short of the program target owing to nonimplementation of a key revenue measure (see below), strengthened collection efforts by the revenue agencies contributed to an underlying improvement in tax revenues of some 0.3 percent of GDP.
- **Financial sector reforms.** Work continued on an extensive agenda to modernize the legislative framework for Ghana's financial system, including the finalization of a banking bill that will strengthen the Bank of Ghana's supervisory powers, and the drafting of new bills on insolvency, the insurance sector, and a Companies Code. With a view to increasing the effectiveness of its monetary instruments, the Bank of Ghana established a "prime" central bank interest rate in March 2002.⁴ Work began, in consultation with commercial banks, on creation of a new interbank foreign exchange trading system, which is expected to begin operations in the first half of 2003. In September 2002, the Bank of Ghana lowered the secondary reserve requirements of rural banks to place them in line with those of commercial banks, and permitted commercial banks to meet the primary reserve requirement on foreign

³ The exchange rate showed no signs of sudden weakness, however: as of March 21, 2003, the cedi had depreciated by only around 3 percent against the U.S. dollar since the beginning of the year.

⁴ The prime rate is the rate charged to commercial banks for borrowing from the central bank under a Lombard overnight facility (with treasury bills as collateral).

exchange deposits in foreign exchange, rather than in cedis. An external audit of the 2001 Bank of Ghana accounts was completed, confirming weaknesses highlighted in the Financial Sector Assessment Program (FSAP) and safeguards assessment, which are now being addressed.⁵

- **Governance.** The establishment of a “fast-track” court system aimed at shortening the lag for civil and commercial cases withstood a constitutional challenge, and the courts are now functioning. As a follow-up to recent forensic audits of public enterprises and operations of the Divestiture Implementation Committee (DIC), the government stepped up prosecutions and tax enforcement through the fast-track courts, and replaced the head of the customs authority.

9. **However, the broad objectives of the 2002 program were undermined by serious fiscal and quasi-fiscal slippages and associated weaknesses in public expenditure management; as a result, the fifth and final review under the PRGF arrangement could not be completed.** Particular problem areas included: wage bill and other spending overruns which significantly distorted the expenditure allocations, relative to the 2002 budget; nonimplementation of the program’s key revenue measure; and a failure to adjust petroleum prices in line with the automatic formula, which led to a further buildup of losses by the state-owned oil refinery.⁶

10. **The government’s recourse to net domestic financing was 3.3 percent of GDP higher than the program target of 0.3 percent for 2002, even after applying the full (capped) program adjuster for shortfalls in external financing.** Principal factors underlying the slippage—quantified in Box 1—included:

- an overrun in the civil service wage bill, owing to unbudgeted pay and grade increases, primarily in the education sector;
- payments in early 2002 relating to previously unreported and unbudgeted expenditures made in late 2001;
- delays in the divestiture program, which resulted not only in smaller realized proceeds but also in a further shortfall in donor support (i.e., beyond what the program adjuster would accommodate) because of divestiture-related conditionality;

⁵ The main issue arising out of the audit is the continued report of long-standing unreconciled assets and liabilities on the Bank of Ghana’s balance sheet. An MAE peripatetic advisor has been working with the bank to address this problem, strengthen internal audit procedures, and prepare for the 2002 audit which will be conducted according to International Accounting Standards.

⁶ Ghana is wholly reliant on imports for its crude oil supplies, and is also a net importer of refined products.

- nonimplementation of the programmed midyear revenue increase; and
- a three-month delay in raising electricity and water tariffs (which came into effect only on August 1), adding to the subsidy bill for utilities.

11. **To offset wage overruns, capital spending was compressed, and arrears to statutory funds built up,⁷ further distorting budgetary execution.** The failure to control wages sufficiently, moreover, indicated continuing problems with public expenditure management, the improvement of which was a key objective under the program.⁸ The nonimplementation of the midyear revenue measure more than offset the gains from improved tax administration and postponed the achievement of a sustainable revenue base for the medium term.

12. **At the same time, large quasi-fiscal losses estimated at 2 percent of GDP for 2002 emerged as a result of the failure to raise petroleum prices in line with movements in world market prices and the depreciation of the cedi.** The losses, which were financed by the state-owned Ghana Commercial Bank (GCB), threatened the solvency of the bank and complicated its divestiture (delaying a US\$27 million tranche under a World Bank loan that was assumed to disburse in mid-2002). Recognizing that this situation was unsustainable, the authorities raised pump prices by an average 90 percent in mid-January 2003; the increase went further than had been expected, reflecting not only current costs (in line with staff advice), but also including an implicit factor that would defray the budgetary cost of debts arising from past nonadjustment of prices and raising distributors' margins. In anticipation of the price rise, the government in mid-December 2002 assumed a further ₵1.4 trillion (2.9 percent of GDP) in debt of the refinery by issuing special bonds to the GCB.⁹ This, combined with the fiscal slippages and financing shortfalls, increased the stock of domestic government debt at end-2002 to almost 29 percent of GDP, 8½ percent of GDP higher than programmed.

⁷ Although there was a faster-than-planned paydown of arrears outstanding as of end-2001, an audit of nonroad arrears as of end-June 2002 indicated that the net stock of arrears, including to statutory funds, had grown as new arrears had arisen.

⁸ Officials reported that they did not have the political mandate to apply the established control mechanisms to the wage bill.

⁹ These are additional to the Tema Oil Refinery (TOR) bonds that were issued in 2001, which amounted to almost ₵1 trillion.

13. **Several other important reforms were also delayed (Table 2):**

- The Public Utilities Regulatory Commission's (PURC) strategy for achieving full cost recovery in the public utilities (electricity and water) was launched with an initial increase in tariffs on August 1, 2002.¹⁰ This was some three months later than planned, with the result that unbudgeted subsidy payments (equivalent to 0.2 percent of GDP) had to be made to the utility companies.
- Elimination of the special import tax was announced in the budget in March 2002, but not approved by parliament until July (its elimination in March 2002 was a structural performance criterion under the program).
- The production of monthly expenditure reports, which were envisaged as a cornerstone of the authorities' efforts to improve the monitoring and control of public expenditure, was subject to persistent delays and quality control problems through most of 2002. Significant improvements were made in this area in late 2002, however, owing mainly to the commencement of regular and comprehensive reconciliations of ministry and banking data.

14. **No receipts were realized from the divestiture program in 2002, although progress was made on some asset sales late in the year.** The program had envisaged the sale of the government's holdings in several joint venture companies during 2002, as well as the divestiture or offer for sale of GCB, the National Investment Bank (NIB), the Cocoa Processing Company (CPC), and the Electricity Company of Ghana (ECG). Preparatory work (including valuations) on the joint venture sales and on GCB was substantially delayed, a decision on how to proceed with the sale of NIB is still pending, and the plan to sell ECG has been shelved. However, the sale of CPC, through a public share offering, was completed in late 2002 (with receipts due in early 2003), and by January 2003 agreements had been reached with buyers for the stakes in four joint venture companies.

15. **Looking back over the past four years (the period covered by the previous PRGF arrangement), the sustained improvements in Ghana's economic performance that had been hoped for were undermined by recurrent policy weaknesses.** The medium-term strategy set out in 1999 had envisaged real GDP growth rising to 6 percent, inflation falling to 5 percent, and gross international reserves reaching 3 months of import cover.¹¹ Domestic government debt was to be maintained at or below 20 percent of GDP, and the reform agenda included the divestiture of several major public enterprises, including TOR, Ghana Airways, Ghana Railways, and the Electricity Company of Ghana. In the event, erratic fiscal and monetary policies and persistent delays in structural reforms have left the

¹⁰ Electricity tariffs were raised by 60 percent, and water tariffs by 40 percent.

¹¹ See EBS/99/57 (4/16/99).

Box 1. Sources of Estimated Fiscal Slippage in 2002
(In percent of GDP)

Overrun in net domestic financing: (after application of program adjuster for shortfalls in external financing ¹)	3.3
Sources:	
Civil service wage bill overrun	1.8
Payment of unbudgeted 2001 expenditures	1.2
Delay in divestiture proceeds	0.8
Non-implementation of mid-year revenue increase	0.7
Delay in raising utility tariffs	0.2
Shortfall in donor support beyond program adjuster ²	0.9
Underlying improvement in revenues (tax plus nontax)	-0.4
Increase in domestic arrears, net of excess repayment ³	-0.7
Cuts in domestic capital spending (discretionary)	-0.9
Other, net	-0.3

¹ Program adjuster is capped at US\$75 million (1.2 percent of GDP).

² Half of this shortfall reflects nondisbursement of a World Bank tranche owing to delay in divestiture of Ghana Commercial Bank.

³ i.e., new arrears minus amount by which old arrears exceeded program assumption (- represents a net accumulation).

economy little stronger (and in some respects, such as the domestic debt burden, weaker) than it was four years ago.¹² The implications of this experience for policies in the years ahead are addressed in the next section.

III. POLICY DISCUSSIONS

16. **The Ghana Poverty Reduction Strategy provided the basis for the discussions on the medium-term policy agenda.**¹³ The focus was on highlighting those priorities in the strategy that fall clearly within the macroeconomic domain, and which it would be appropriate to support and monitor in the context of a new PRGF arrangement. The authorities held parallel discussions with bilateral donors and the World Bank on how these development partners could support implementation of the GPRS. The precise modalities for this support and the specific policies that would be monitored (including as conditionality), have yet to be finalized, but collectively they are expected to cover:

- civil service reform;
- public financial management, including auditing, accounting, and refinement of the medium-term expenditure framework;
- reforms to promote growth, incomes, and employment (with a particular focus on the energy, financial, and nontraditional export sectors);
- human resource development (improving service delivery and outcomes in the health and education sectors);
- decentralization (improving capacity and service delivery at the local government level); and
- governance (strengthening the transparency and accountability of government, including through legislative action and institution building).

A. Medium-Term Macroeconomic Issues and Policy Framework

17. **The GPRS targets long-term declines in poverty and improvements in social indicators that are broadly in line with—and, as regards reducing extreme poverty, more ambitious than—the Millennium Development Goals (MDGs).** Accordingly, the

¹² The 4.5 percent real GDP growth and 15.2 percent (end-year) CPI inflation figures for 2002 compare with 4.7 percent real GDP growth and 15.8 percent inflation recorded in 1998. The domestic debt stock rose by some 9½ percent of GDP over the period. The four major companies targeted for privatization remain in state hands.

¹³ The GPRS was issued as EBD/03/22 (3/5/03).

strategy aims to raise real GDP growth during 2003-05 to an average of almost 5 percent, and to reduce inflation to the mid-single-digit range (Table 3).¹⁴ As noted in the joint staff assessment of the GPRS, the growth objective would appear to be attainable; the acceleration from recent levels is comparatively modest, and could be expected to result from the reforms that are outlined in the GPRS to promote private sector activity, and from the planned increase in infrastructure investment. The strategy's poverty targets may be somewhat optimistic, given the assumed growth rates, but a simple extrapolation of recent growth and poverty reduction trends would suggest that Ghana is probably on track to meet the MDG of halving extreme poverty by 2015.¹⁵

18. The GPRS acknowledges that attainment of its growth and poverty reduction objectives will depend in large part on achieving and maintaining macroeconomic stability. Starting from this premise, a principal theme underlying the discussions was how best to put the government budget on a sustainable footing, taking into account the spending priorities underlying the GPRS, and to protect it against some of the key vulnerabilities to which macroeconomic policies have been subject in recent years.

19. As regards medium-term fiscal sustainability, the two key parameters are the domestic revenue effort and the size of the civil service wage bill. The 2003 budget addresses the first of these decisively, with durable measures that will increase tax revenues by an estimated 3½ percent of GDP in a full year (see below). Together with the assumed levels of external support, this revenue increase should allow the authorities to achieve their twin objectives of increasing poverty-related and other priority expenditures while halving the ratio of domestic debt to GDP from its end-2000 level by 2005 (Table 4). The civil service wage bill, however, has expanded rapidly in recent years, and the authorities agreed with the staff that fundamental civil service reform was essential to contain and, preferably, reduce the wage bill in relation to GDP.¹⁶ This would permit a better allocation of scarce budgetary resources, as well as creating scope to improve the quality and effectiveness of the civil service.

20. Among the macroeconomic vulnerabilities that could undermine the strategy, recent experience has highlighted domestic energy pricing, and its implications for

¹⁴ The importance of moderate and stable inflation for poverty reduction, as well as for growth, is broadly accepted in Ghana, and recognized in the GPRS.

¹⁵ See the selected issues paper on "Determinants of Growth and Poverty Reduction in Ghana," for more detailed information on the growth trends, the possible impact of planned reforms on growth, and the possible implications for long-term poverty reduction.

¹⁶ It is expected that a detailed civil service reform plan will be worked out during 2003, with support from the World Bank and other donors.

parastatal finances, as a key risk factor.¹⁷ The GPRS recognizes this issue, stresses the importance of pricing regimes that ensure full cost recovery in the energy (and water) sector, and, in the case of petroleum, envisages that this would be achieved through liberalization of the sector. The staff strongly endorsed petroleum price liberalization as the most effective way to insulate pricing decisions from political influence, and the authorities agreed, albeit with a preference for a more extended timetable than the staff had advocated. In the electricity and water sectors, which are less amenable to competitive pricing, the authorities acknowledged the importance of allowing the automatic tariff adjustment formula to operate unimpeded. The staff also urged further improvements in the monitoring of the finances of the broadly defined public sector, including not only those of the major public enterprises but also of the state pension fund and of local government entities.

21. **As regards the disinflation strategy, the principal lesson from the experience of recent years is that little can be achieved unless fiscal discipline is maintained.** This provides an additional motivation for measures to reinforce expenditure control and protect against quasi-fiscal losses in the parastatal sector. A further avenue that could be explored, with a view to improving adherence to the inflation targets, is the possible desirability of giving more weight to inflation outcomes directly, and less to monetary aggregates, in the conduct of monetary policy. Indeed, the authorities have already begun to move in this direction, given concerns that the monetary aggregates have not provided very clear signals with respect to inflation in the recent past, and have indicated an interest in considering the merits of a formal inflation targeting framework for Ghana. This issue will be taken up in future program discussions.

22. **Underpinning the macroeconomic framework, the GPRS sets out an extensive structural reform agenda aimed at promoting private sector-led growth.** In the discussions with the authorities and with the private sector on the constraints on faster growth in Ghana, the difficulties encountered—particularly by small and medium-sized enterprises and the rural population—in accessing bank credit and other sources of financing on appropriate terms were a constant refrain.¹⁸ The authorities therefore decided to give financial sector reforms particular emphasis in their proposed PRGF-supported program. In 2003, most of the government's efforts in this area will be focused on pushing ahead on various relevant pieces of legislation that are already in train (see Section III. B), but a number of other reforms are planned over the program period, including:

¹⁷ The important influence of the parastatal finances on medium-term fiscal sustainability, broadly defined, is highlighted in an accompanying selected issues paper, "The Challenge of Fiscal Sustainability in a Post-HIPC Era." This paper presents data showing that the consolidated deficit of five of the largest public enterprises in Ghana averaged almost 9½ percent of GDP during 1999-2001, which exceeded the average deficit of the general government over the same period.

¹⁸ See the accompanying selected issues paper, "Reforming Ghana's Financial Sector."

- legislation to allow the creation of private pension schemes, in order to help mobilize long-term funds for the business sector;
- establishment of a legal framework for credit reference agencies, to address one of the key obstacles to accessing credit in Ghana, namely, the difficulty for potential borrowers to establish a “certified” credit history;
- increased funding and technical support for rural and microfinance institutions; and
- recapitalization of the Bank of Ghana, to permit greater flexibility in conducting open market operations, thereby increasing the credibility of the disinflation strategy and facilitating a gradual decline in real interest rates.

The financial sector reform program will be further fleshed out, in terms of measures for medium-term implementation, following an FSAP follow-up exercise planned for mid-2003. The authorities’ structural policy agenda will also be informed by proposals and feedback from the (local and foreign) business community via the Ghana Investors’ Advisory Council, a forum created under President Kufuor’s leadership in May 2002.

23. **The authorities have confirmed their intention to participate in the proposed West African Monetary Zone (WAMZ), as a means of promoting wider regional economic integration.** The staff acknowledged the potential benefits from monetary union (increased economic confidence, trade, and cross-border investment), but stressed the challenging institutional requirements, the extent of the needed macroeconomic convergence,¹⁹ and, above all, the potential risks arising from the dissimilar economic structure of prospective members.

B. Economic and Financial Program for 2003

24. **The macroeconomic framework for 2003 incorporates the following assumptions:** (i) real GDP growth of 4.7 percent; (ii) a further reduction in 12-month inflation to 9 percent by year’s end; and (iii) a buildup in gross international reserves to 2.3 months of imports (Table 3). The conservative growth target takes into account uncertainties in the world economy and in relation to the ongoing crisis in neighboring Côte d’Ivoire (see the memorandum of economic and financial policies (MEFP) ¶12).²⁰ Achieving

¹⁹ As of June 2002, Ghana had achieved only one out of the four primary convergence criteria for entry (most other prospective members were also some way from meeting the criteria). The common currency was to be introduced this year, but the timetable has now been extended to July 1, 2005, so as to enable countries to apply fresh measures to meet the criteria.

²⁰ The economic effects of the Côte d’Ivoire crisis on Ghana are complex and difficult to quantify, but in net terms are not thought to be large so far. Anecdotal evidence suggests that a considerable volume of regional transit trade has been diverted from Côte d’Ivoire to Ghana, increasing business for Ghanaian ports and ancillary services, but also imposing costs in terms of congestion and wear on

(continued)

the 2003 macro-objectives will require concerted implementation of appropriate fiscal and monetary policies, and of key structural reforms, including improvements in public expenditure management and governance (see Box 2).

Monetary and exchange rate policies

25. **Monetary policy during 2003 will aim to achieve the program's inflation and growth targets while making room for further accumulation of net international reserves** (MEFP ¶13-15). In the discussions, the staff noted that the objective of reducing inflation to 9 percent by end-2003 was clearly ambitious, in light of the petroleum price and utility tariff hikes and the large budgeted wage increase for civil servants. The authorities were determined, however, to adhere to their stated goal of achieving single-digit inflation in 2003, and believed it was attainable. Broad money (excluding foreign currency deposits) is programmed to increase by 21 percent by end-2003; this incorporates a modest tightening relative to the assumed nominal GDP growth, to reflect a partial reversal of the above-trend increase in broad money in late 2002 (Table 6). The elimination of domestic borrowing by the government in 2003 (see below) is expected to lead to some reduction in real interest rates while making room for an expansion in bank credit to the private sector.²¹ The exchange rate will continue to be market determined, with intervention limited to smoothing short-term fluctuations and achieving the targeted accumulation of US\$130 million in net international reserves.²² The competitiveness of Ghana's economy is not considered to have been impaired by the modest appreciation of the real exchange rate in 2002, which was outstripped by the improvement in Ghana's terms of trade (Table 3).

Fiscal policy

26. **To support the monetary objectives and begin reducing the burden of domestic debt on the budget, fiscal policy will aim for a zero flow of net domestic financing in 2003.** Net repayments of domestic debt of 1½ -2½ percent of GDP are planned in subsequent years. The authorities reconciled this objective with the need to increase poverty-related and other priority spending by incorporating a substantial up-front revenue effort in their 2003 budget. There are two principal tax measures:

the roads system. Increased policing of borders and care of refugees will imply some budgetary costs, but these are likely to be modest, and to be more than offset by the positive impact of the crisis on cocoa prices.

²¹ Given the seasonality in revenues, the government will need to borrow domestically in the first half of the year, but on a scale that is significantly (around 1½ percent of GDP) lower than in 2002, and the borrowing will be repaid as revenues pick up in the second half.

²² Ghana has accepted the obligations under Article VIII, Sections 2, 3 and 4 of the Fund's Articles of Agreement and has an exchange system free of restrictions on the making of payments and transfers for current international transactions.

Box 2. Structural Conditionality

Coverage of structural conditionality under the proposed PRGF arrangement

The structural conditions in the first year of the proposed new arrangement (see Table 2, Appendix 1, Attachment 1) cover policy measures that are considered critical to the effective implementation of the GPRS macroeconomic framework. The key areas include:

- **strengthening the revenue base**—durable tax measures to be included in the 2003 budget;
- **public expenditure management**—with a special focus on controlling the wage bill, in light of 2002 overruns in this area, through enforcement of quarterly ceilings; and on regular reporting to a cabinet sub-committee on budget execution, to ensure that any slippages are quickly identified and corrected;
- **parastatal finances**—full implementation of the automatic adjustment formulas for petroleum, electricity, and water sectors, to prevent quasi-fiscal losses at TOR and in the public utilities; and divestiture of GCB, to close off TOR's principal source of quasi-fiscal financing.

Status of structural conditionality in earlier program

The status of structural performance criteria and benchmarks for 2002 is presented in Table 2; items carried over to 2003 include full implementation of the petroleum-pricing formula, and improvements in public expenditure management.

Structural areas covered by World Bank lending and multidonor support

The precise conditionality for new World Bank and multi-donor support has yet to be finalized, but the broad areas that are likely to be covered are described in paragraph 16. Areas of ongoing World Bank lending (described more fully in Appendix V) include: (i) economic management and reform (budgetary management, public enterprise divestiture, and banking sector reform); (ii) infrastructure support (electricity supply, roads, and water); (iii) agriculture and rural development; and (iv) private sector development (including Trade Gateway).

Status of areas covered by HIPC Initiative floating completion point

The list of HIPC Initiative completion point triggers and their status of implementation are provided in Appendix II.

- a new National Health Premium (NHP) of 2½ percent on value added, which is expected to generate 0.5 percent of GDP in 2003 (1.0 percent in a full year; Table 4b); the NHP will be administered on the same base and with the same technical features as the value-added tax (VAT), but half of the first-year proceeds will be devoted to funding the start-up costs of a new (eventually self-financing) national health insurance scheme;²³ and

²³ A National Health Insurance System (NHIS) bill is expected to be passed in March 2003. Every citizen will be required to make NHIS contributions (except the aged), while the government will provide seed money for the system to be launched in all 110 districts. The plan will replace the “cash-
(continued)

- a Debt Recovery Levy (DRL) equal to 640 cedis per liter on petroleum products, which is estimated to generate 1.6 percent of GDP in 2003 (1.9 percent in a full year).²⁴

Other revenue measures (with a combined net yield of 0.7 percent of GDP) include (i) extension of the National Reconstruction Levy for one additional year, (ii) an increase in the road levy on petroleum to fund higher allocations for road maintenance, and (iii) a rise in stumpage fees and the opening up of timber concessions to public auction (MEFP ¶18).

27. **In selecting the two principal tax measures, the authorities gave due consideration to their likely social impact.** A distributional analysis indicated that the new NHP will be relatively progressive, with the highest quintile of income earners bearing nearly two-thirds of the new tax burden, and the lowest quintile bearing only 3 percent (see Box 3). As regards the DRL, the authorities considered that the existing level of support to low-income groups in the form of a cross subsidy between kerosene and liquefied petroleum gas (LPG) on the one hand (both consumed disproportionately by the poor), and premium gasoline on the other, was sufficient and did not need to be augmented.²⁵ To the extent that both revenue measures make room for added social and poverty-related spending and/or delivery of services that previously were unavailable to the poor, their impact on the poor will be further ameliorated.

28. **Improvements in tax administration are expected to boost underlying revenues further (MEFP ¶19).** With assistance from FAD, the LTU is scheduled to begin operating in mid-2003, and will be reinforced with full implementation of the TIN database in all revenue agencies. Also, the main revenue agencies will retain up to 3 percent of their revenues to strengthen collection rates, and staff salaries will include a performance element linked to increases in collection rates. The staff had cautioned against building assumptions into the budget for such improvements until they were actually realized, but the authorities noted that some gains had already been achieved in 2002, that the incentive system for agencies to achieve further gains was strong, and that each agency's performance would be closely monitored. Accordingly, the budget assumes 5-6 percent increases in collection rates in 2003.

and-carry" system of user fees for the provision of health services in Ghana, giving the beneficiaries the risk protection inherent in any insurance scheme. The start-up of the NHIS is assumed to absorb one fourth of NHP proceeds in 2004, and zero thereafter.

²⁴ The levy was so named because its primary motivation is to defray the costs to the budget of servicing the so-called TOR bonds (the bonds issued to banks in lieu of the oil refinery's debts arising from past nonadjustment of petroleum prices). It is equivalent to approximately 14 percent of the prebudget retail price for premium gasoline.

²⁵ See EBS/02/16 (2/1/02), Box 6, for a discussion of the social impact of petroleum price changes in Ghana, and a description of the cross-subsidy mechanism.

29. **On the expenditure side, a major objective during 2003 will be to bring the wage bill under control.** The authorities plan to apply a hard budget constraint to wages (MEFP ¶20), a move that will be explicitly endorsed by cabinet in March 2003. In addition, civil service wage negotiations were advanced, with a view to reaching a conclusion before the 2003 budget is considered by parliament. The government will aim to limit the overall wage bill to no more than $\text{¢}5,450$ billion, implying a 22 percent increase on the underlying base for 2002. The staff argued that the implied further real rise in the wage bill (from 8.5 percent to 9.0 percent of GDP over 2002-03) was high, given the substantial pay increases granted in earlier years (which have reportedly raised average civil service wages nearly to private sector levels) and the need to meet the key objective of curbing inflation.²⁶ The authorities felt, however, that a smaller wage increase was not politically feasible at a time when petroleum and utility prices were rising sharply and new taxes were being imposed.

30. **The 2003 budget provides for a substantial increase in capital expenditures to fund the priority programs identified and costed in the GPRS (Table 4).** Total capital expenditures (including donor-financed projects) are budgeted to rise to almost 9½ percent of GDP in 2003, from just over 6 percent of GDP in 2002.²⁷ Poverty-related expenditures, on the GPRS definition, are projected to rise to 6 percent of GDP, up from 4½ percent of GDP in 2001 (the last year before the HIPC Initiative decision point), an increase that slightly exceeds the designated HIPC relief of 1.4 percent of GDP (Table 5).²⁸

Public expenditure management

31. **The program slippages in 2002 underscored the need to reinforce Ghana's public expenditure management system.** Progress was made in recent months through the initiation of routine reconciliation of the Controller and Accountant General's accounts with

²⁶ The estimates of the wage bill as a share of GDP are, however, subject to the caveat that nominal GDP may be underestimated in the current data (see Box 5).

²⁷ The 2002 figure, however, was unusually low, owing to smaller-than-expected donor project disbursements; the 2003 budget amount is close to the average level of capital spending (in percent of GDP) that was achieved in 1999-2000, and lower than that in 2001.

²⁸ As explained in EBS/02/16 (2/1/01), the total debt relief accruing to Ghana under the enhanced HIPC Initiative is considered to comprise a "traditional" component (what Ghana would have received under Naples terms) and a "HIPC" component (the remainder). Of the latter, Ghana has committed to devote 80 percent to additional poverty-related expenditures, and 20 percent to domestic debt reduction (see EBS/02/20; 2/5/02).

Box 3. Social Impact of the National Health Premium

As part of the 2003 budget, the government introduced a new National Health Premium (NHP) on value added at a rate of 2½ percent. Half of the revenue from the NHP will be earmarked as seed money for a recently established national health insurance fund, with earmarking to be phased out by 2005. The new tax will be administered alongside the VAT and will apply to the same taxable base. A social impact analysis of the NHP has been conducted by World Bank staff (based on an analysis that assumes the NHP behaves in the same manner as an increase in the VAT rate), the results of which are as follows.

While all income groups consume significant amounts of goods in the VAT net, such consumption is most pronounced among wealthy households. The World Bank analysis suggests that, accounting for both cash and home consumption, 54 percent of total applicable expenditure is accounted for by households in the top quintile (nearly 40 percent in the top decile). Only 4 percent of expenditure is attributable to households in the bottom quintile. While the share of goods subject to VAT is fairly large across all income categories (exceeding 45 percent of total expenditures), the top quintile spends significantly more (two-thirds) of its income on VAT-able goods and services. The major exempt items are foodstuffs, health and education, and utility bills.

Accordingly, most of the added tax burden from the NHP is borne by the better off. The share of the burden is defined as the ratio between each household's incidence—the change in expenditure as a consequence of the tax change—and the aggregate incidence. While only 3 percent of the added burden is borne by households in the bottom quintile, the top quintile accounts for almost two-thirds of the burden, with almost half affecting the top decile alone. This result can be traced to a skewed expenditure distribution, combined with the fact that the top decile spends a significantly higher proportion of its income on goods and services in the VAT net. Although this analysis assumes zero demand elasticities, the result holds for more realistic quantity assumptions.

Based on the above analysis, the reform is progressive. It should be even more so if net incidence (i.e., including the benefits accruing from additional poverty-related spending financed by the revenue) is taken as the measure for assessing the tax's impact.

Ghana: Distributional Impact of VAT Increase¹
(In Percent)

Quintile (household expenditure)	1	2	3	4	5
Share of total expenditure	4.3	8.4	12.9	20.1	54.4
Mean percent expenditure on goods subject to VAT	45.6	46.8	47.4	51.4	65.2
Share of burden from tax increase	3.1	6.4	9.9	16.8	63.9

Source: World Bank staff estimates.

¹Assumes taxes paid on intermediate inputs are borne by the household.

banking data, reform of the direct debits system,²⁹ and an audit of the rosters of civil service personnel that led to the removal of more than 3,000 “ghost workers” (MEFP ¶25). In addition, the first “fiscal early warning” report will be submitted to the economic subcommittee of cabinet in March (MEFP ¶28) and will be provided monthly throughout the year, to ensure that any slippages in budget execution can be quickly identified and corrected. Further measures planned for 2003 include:

- the launch of a new computerized budget and public expenditure management system (BPEMS) to cover five key ministries by year’s end (MEFP ¶26);
- increased ministry accountability for verification of wage rosters (MEFP ¶27); and
- the introduction of a new cash management system, based on rolling (updated and prioritized) cash projections submitted by each ministry, to improve commitment control (MEFP ¶29).

Public enterprise reforms

32. **A major objective of the program will be to bring about a fundamental change in the petroleum pricing regime**, so as to eliminate the potential for a further accumulation of quasi-fiscal losses associated with the maintenance of prices at below-market levels. To this end, as soon as parliament approves the increase in the road fund levy and the introduction of the DRL, prices will be brought into line with a newly modified automatic adjustment formula. Thereafter, responsibility for the calculation and implementation of monthly price changes will be passed to the National Petroleum Tender Board, which has been given independent powers and a publicly stated mandate (see Box 4). The staff had advocated moving, as a next step, to the liberalization of petroleum prices by mid-2003 (assuming the turmoil in world oil markets had subsided by then), but the authorities preferred a longer period during which the population could become accustomed to regularly changing prices; hence they will wait until end-2003 before considering liberalization (MEFP ¶30).

33. **Actions will also be taken to bring the finances of other parastatals under control (MEFP ¶31-33)**. The restructuring of TOR’s debt in December 2002 should clear the way for the sale of GCB in the second half of 2003, with a significantly improved loan portfolio. Since GCB is the largest commercial bank in Ghana, this should improve the overall soundness of the banking system. The government will continue to monitor closely the (recently improved) financial performance of Ghana Airways while searching for a

²⁹ Direct debits are a payment instrument that circumvented the normal treasury system, leading to long lags in reporting on the associated expenditures. The reforms entail: tagging all direct debits with unique identification numbers; registering all direct debit instructions at the Controller and Accountant General’s Department (CAGD) before they are dispatched; and immediate entry of the amounts to be debited in the expenditure accounts at the CAGD.

qualified buyer, and will resist entreaties to assume the airline's commercial debt. The PURC has announced a second round of electricity and water tariff increases in March 2003, designed to bring the state-owned electricity distribution and water companies to full cost recovery, after which the respective pricing formulae will automatically apply. The Volta River Authority (VRA), however, will continue to incur sizable losses as a result of preferential tariffs granted to a large private aluminum company.³⁰ These tariffs are currently the subject of international arbitration proceedings, pending the outcome of which the authorities will develop an interim plan for managing VRA's financial burden (MEFP ¶35). The authorities are also intent on improving the efficiency of the energy and water companies, including through private sector management agreements; such efficiency gains will be essential if these companies are to move from mere break-even point to a situation where they can afford to invest in upgraded and expanded infrastructure, and thereby improve service delivery.

34. The divestiture of government holdings in eleven joint venture companies is expected to be largely completed by 2004. Holdings in six of these companies are expected to be sold in 2003; in four of the cases, sales are agreed and awaiting presidential assent. Receipts from these sales, together with the proceeds from the already completed divestiture of the CPC, are expected to yield about 0.7 percent of GDP in 2003.

Financial sector reforms

35. The modernization of Ghana's financial sector will require an extensive overhaul of the relevant legislative framework, and the government's priority for 2003 is to move forward on several important draft bills to that end. Several of these—covering banking supervision, the payments system, payments instruments, and the insurance industry—are expected to be submitted for parliamentary approval in the course of this year (MEFP ¶37). A new Companies Code which will, among other things, strengthen the accounting and reporting requirements on companies—and thereby, it is hoped, improve access to investment and credit resources—is also expected to be finalized in 2003. Work

³⁰ The aluminum company is currently paying VRA (per unit) less than a quarter of VRA's average cost of generation; if these rates remain unchanged, the financial loss to VRA is estimated at approximately 400 billion cedis (0.7 percent of GDP) in 2003.

Box 4. Petroleum Prices: Modifications to the Formula and Program Adjusters

Previous pricing formula and latest modifications

The petroleum-pricing formula that was adopted in June 2001 compared Ghana's ex-refinery prices for ten petroleum products in cedi terms during the past 30 days to corresponding prices for those products in northwest Europe (plus shipping and port charges), and computed the total value difference between the two (using product consumption volumes for the current month in Ghana). The formula was deemed to be triggered, leading to an adjustment of prices, when the weighted value of domestic products diverged by more than 2.5 percent from the equivalent value based on European prices ("import parity"). A cross subsidy was applied between kerosene and LPG (both consumed heavily by the poor) on the one hand, and premium gasoline on the other. The formula also incorporated a number of earmarked levies, the most important of which was the road fund levy, which provided resources for road maintenance.

On January 17, 2003, pump prices for petroleum products were raised by 90 percent on average. This increase was sufficient to bring ex-refinery prices roughly in line with import parity according to the prevailing formula, and to revise upward various margins accruing to the refinery and oil marketing companies. It also built in a positive "k factor" to reflect the inefficiency of TOR relative to refineries abroad, and an implicit charge to begin recovering the budgetary costs arising from past nonadjustment of prices. The authorities have since proposed to parliament an increase in the road levy from 230 to 400 cedis per liter, and the introduction of an explicit debt recovery levy of 640 cedis per liter (replacing the implicit charge), with enactment expected in March 2003.

The authorities also intend to modify the formula to use a three-month average of imported crude prices in U.S. dollars, converted to cedis at the exchange rate prevailing on the last day of the preceding month. This is intended to smooth fluctuations in the pump price.

All these changes will take effect as soon as the new or increased levies are enacted, at which point prices will be adjusted if needed to achieve full cost recovery (ex-refinery) plus all applicable taxes, levies, and margins. Thereafter, the National Petroleum Tender Board will recompute the formula on a monthly basis, and has been given independent responsibility for implementing any adjustments called for by the formula.

Design of adjusters on net international reserves (NIR) and net domestic assets (NDA)

In addition to the new smoothing element built into the formula, the program incorporates adjusters to cushion against the financial effects of increases in the world price of oil relative to the baseline assumption (an average US\$28 per barrel during 2003). The adjusters will reduce the program floors on NIR and increase the program ceilings on central bank NDA by a fixed multiple of each U.S. dollar deviation (relative to baseline) in the average spot price for crude petroleum, up to a maximum of US\$30 million (or cedi equivalent). The fixed multiple is based on the estimated impact of a one dollar price change on Ghana's oil import bill (see technical memorandum of understanding, Appendix I, Attachment II). If the full oil adjuster of US\$30 million were to be used, other things being equal, the end-2003 target for gross international reserves would be reduced from US\$811 million (2.3 months of imports) to US\$781 million (2.2 months).

will continue, too, on a new Money Laundering Bill, with a view to obtaining parliamentary approval in 2004.³¹

External sector policies

36. **Long-awaited reforms of the interbank foreign exchange market in Ghana are expected to begin by mid-2003 with the launch of a new computerized real-time trading system.** It is hoped that this crucial first step will pave the way for the phasing out of surrender requirements, and consequently of the central bank's role in intermediating cocoa and gold proceeds (MEFP ¶39).³²

37. **Ghana's medium-term plans for reform of its tariff regime are bound up with those of the Economic Community of West African States (ECOWAS), the members of which have yet to agree on a timetable for the next phase of tariff reforms.**³³ In the meantime, the 2003 budget proposed several increases in external tariffs, to provide increased protection to certain industries.³⁴ The staff argued that such measures were likely to be damaging to the authorities' growth and poverty reduction strategy, as they would raise the consumer prices of two of Ghana's staple foods (rice and chicken), and damage long-run competitiveness in the affected sectors. The authorities have committed that these tariff increases will not be implemented during the period of the proposed arrangement (MEFP ¶40). The staff also discouraged the authorities from pursuing a so-called Domestic Content Bill, which would set targets for (if not actually require) companies operating in Ghana to source a minimum proportion of their inputs domestically, rather than from abroad.³⁵ The staff argued that such a measure could impair the efficiency of local producers

³¹ LEG has reviewed the current draft Money Laundering Bill and concluded that it provides a strong and appropriate legal and institutional framework for the deterrence of money-laundering activities. The bill incorporates (i) preventive measures that meet international standards; (ii) the criminalization of money laundering, with appropriate penalties; (iii) the establishment of an anti-money laundering authority; (iv) requirements for reporting of suspicious transactions and appropriate recordkeeping; and (v) provisions for international cooperation, including exchange of information and mutual legal assistance. In September 2002, Ghana ratified the International Convention for the Suppression of the Financing of Terrorism.

³² Repatriation requirements are likely to be retained, primarily for monitoring purposes.

³³ The only major change in Ghana's trade regime in the past two years has been the abolition in July 2002 of the special import tax.

³⁴ The main changes proposed were: an increase in duty on a range of imported finished products from 10 to 15 percent; an increase in the duty rate on rice imports from 20 to 25 percent; and a supplementary duty of 20 percent on poultry products.

³⁵ The authorities recognize that *requiring* minimum domestic content could contravene Ghana's World Trade Organization obligations.

and deter potential investors in Ghana, and that a better approach would be to identify and address the underlying factors that discouraged more voluntary use of domestic content. On a more positive note, the Ministry of Trade is considering (with help from two bilateral donors) how Ghana's trade regime could be simplified and made more transparent, so as to reduce the compliance burden on foreign businesses wishing to trade with, or invest in, Ghana. On the exports side, the authorities report tangible beneficial effects for Ghana (especially in the textiles sector) from the U.S. African Growth and Opportunity Act, and have established a special secretariat to help exporters exploit the potential this measure has created.

Governance

38. **In line with priorities spelled out in the GPRS, the government is fully committed to improving economic governance, and has a stated policy of zero tolerance toward corruption.** Governance reforms aim at increasing transparency and the rule of law through improvements to the effectiveness of the Auditor General's office, enactment of an anticorruption plan (including passage of freedom of information and whistle-blower legislation), and publication of the 2002 Bank of Ghana external audit in line with International Accounting Standards (MEFP ¶41-42). The authorities also view the introduction in 2003 of an open auction system for timber concessions, in place of the previous regime of discretionary allocations, as important not only from a revenue perspective (see above) but also to improve transparency and reduce the scope for corruption in this important sector of Ghana's economy.

Statistical issues

39. **Ghana's economic and financial statistics remain in need of improvement,** especially with regard to prices, national accounts, trade and balance of payments data (Appendix VI). Work is ongoing to improve monetary statistics and Bank of Ghana accounting procedures (with assistance from STA and MAE). In connection with the rebasing and updating of associated price surveys, work is proceeding with assistance from the STA peripatetic advisor to correct for an underrecording of the CPI and national income (see Box 5). The staff also encouraged the authorities to resume publication of timely trade data, and to commence quarterly estimations of the balance of payments. The authorities agreed with the staff advice that the management and resources of the Ghana Statistical Service should be strengthened in order to carry out the necessary work. Following passage of the 2003 budget in March, the authorities are expected to complete the questionnaire and request assistance in preparing a fiscal Report on Observance of Standards and Codes.

IV. EXTERNAL FINANCING, RISKS TO THE PROGRAM, AND CAPACITY TO REPAY THE FUND

40. **In 2003, Ghana will be exposed to the effects of a potential conflict in the Middle East on oil and gold prices, and to higher cocoa prices associated in part with continuing supply disruptions in Cote d'Ivoire, the largest cocoa producer in the world.** Higher oil prices and increased consumption caused by a change in the mix of electricity

generation from hydro to thermal are expected to boost oil imports by 16 percent in 2003. Nonoil imports, which dropped in 2002, are also expected to recover in 2003, mainly on account of larger project loan and grant disbursements.

41. **Cocoa export earnings are projected to increase by 32 percent in 2003, owing to a good harvest, reduced smuggling to neighboring countries, and higher international prices.** The price effect is limited in the near term, however, by the fact that Ghana sells the bulk of its cocoa production in the forward market. Since the prices for the main 2002/03 crop were contracted in September 2002, before the most recent run-up in world prices, only the portion of the crop sold in the spot market and the cocoa products exported later in 2003 will benefit from the high prices expected for this year. Gold export receipts are projected to increase by almost 10 percent in 2003, reflecting higher international prices.

42. **Ghana's gross external financing requirements in 2003 amount to almost US\$1 billion (Table 8).** The resources are expected to come mainly in the form of official grants (US\$286 million, excluding HIPC grants), concessional loans (US\$296 million), and interim HIPC relief (US\$266 million).³⁶ The remaining financing gap (US\$38 million) is expected to be filled through additional donor support and HIPC relief from non-Paris Club bilateral and commercial creditors that is still under negotiation.³⁷ It is expected that a significant portion of the US\$205 million in program loans and program grants projected for 2003 will be provided through a new common framework, the Multi-Donor Budget Support (MDBS) arrangement, under which participating donors will coordinate the phasing of their disbursements and conditionality.

43. **As regards HIPC relief, the authorities are close to concluding bilateral agreements with Paris Club creditors, but progress in discussions with non-Paris Club bilateral and commercial creditors has been limited.** Paris Club creditors are already providing interim relief in line with the agreed minute of May 2002. The consolidation period under that agreement expired together with the previous PRGF arrangement at end-November 2002, but it is expected that, once a new PRGF arrangement is in place, the Paris Club will extend retroactively the consolidation period from December 1, 2002, and provide similar terms to those of May 2002.³⁸ Most of the debt with multilateral institutions is at present subject to interim relief, but some creditors (the Arab Bank for Economic Development in Africa, the International Fund for Agricultural Development, and the Nordic

³⁶ The financing assumptions include expected program support from Canada, Denmark, European Union, Italy, the Netherlands, Switzerland, the U.K., and the U.S.

³⁷ Possible sources of additional donor support include the African Development Bank and Germany (both expected participants in the MDBS).

³⁸ The signing of bilateral agreements with Paris Club creditors is well advanced. Ghana's debt-service profile is also affected by a deferral granted by Paris Club creditors in December 2001.

Box 5. Possible Impact of Methodological Change in the Consumer Price Index

During a mission to Accra in August 2002, an STA peripatetic advisor concluded that, starting in 1999, a change in the procedure to compute the consumer price index (CPI) had resulted in a significant underrecording of the CPI inflation rate, particularly during 2000 when inflation was high. Preliminary calculations suggest that, at end-2000, the inflation rate may have been closer to 65 percent than the reported rate of 40 percent. The effect of the modified calculation method declines after 2000, however, and the advisor has suggested that current inflation rates are unlikely to be significantly affected in any upcoming revisions.

The methodological change

According to the advisor, the change in methodology leading to the underestimation related to a practice of forcing a "no price change" into the system when a missing observation first occurred. Although the practice is accepted among some statisticians, it is not thought to be appropriate in periods when inflation is sharply rising. Moreover, the distortive effect was compounded by a procedural error—namely, use of a percent change over a previous missing period, which is thereafter always missing—that maintained the zero price change even when data became available for subsequent months. If the CPI is revised upward as expected, the level of calculated GDP in current prices would also rise, since the GDP series is derived by multiplying volumes by respective prices, some of which are substituted by the CPI when specific prices are unavailable. Accordingly, the advisor is currently working to recompute the CPI indices using a revised treatment for missing data, and to reestimate nominal GDP, with a view to publishing both revisions by mid-2003.

Possible effect of data revisions on program projections

If nominal GDP were higher from 1999-2000 onward, this would affect program projections based on this series. As regards the monetary program, the effect would be to render the apparent downward trend in money velocity during 2000-01 to one of a flat trend after accounting for seasonal factors. A flat trend has been used to project broad money growth for 2003.

In the fiscal program, a higher nominal GDP series would obviously reduce revenue and expenditure ratios for the recent past and the program period, but the rationale for the domestic financing constraint in the 2003 program would stand (since this is based primarily on the need to make room for adequate growth in private sector credit), as would the need for measures to cover the prospective fiscal gap. One particular implication of the data revisions would be that the projected wage bill for 2003 would fall from 9 percent of GDP on the existing data to a lower ratio with revised GDP, though it would likely remain above the 5-6 percent range that is typical in low-income developing countries.

Development Fund) have decided to provide relief only at the completion point, while others (the Organization of Petroleum Exporting Countries, the European Union, and the European Investment Bank) are still considering the terms and modalities of relief they intend to give Ghana. Among non-Paris Club bilateral creditors, agreements have been reached only with China, the Kuwait Fund for Arab Economic Development, and the Saudi Fund for Development. India and Korea have expressed their willingness to provide relief, but there are no agreements in place yet. Most commercial creditors, with the exception of the Commonwealth Development Corporation (the claims of which will be written off by the

U.K. government) and South African creditors (where negotiations are in progress), have yet to respond to the authorities' requests for discussions on debt relief.

44. **The medium-term outlook for Ghana's balance of payments is favorable, reflecting the combined effects of debt relief and improving terms of trade.** Even on cautious assumptions regarding export performance (with export volumes projected to grow somewhat less than GDP over the medium term), the current account deficit, excluding official transfers, is expected to decline from an average of 9½ percent of GDP during 1998-2002 to around 5½ percent of GDP during 2003-07 (Table 7). Deficits of this order would be more than covered by (non-HIPC) grants and concessional loans, which are expected to average almost 8 percent of GDP during 2003-07. This would imply a steady improvement in the country's external debt position even before allowing for the impact of debt relief. When HIPC relief averaging 4 percent of GDP per year is factored in, debt service paid is expected to fall to about 5 percent of total exports on average (down from 10 percent in 2001-02). As a result, the country is expected to rebuild its international reserves position throughout the program period, bringing gross reserves to three months of imports by end-2005.

45. **The program is subject to a number of risks, both external and domestic:**

- On the external front, the principal concern is the possibility that **world oil prices** may rise further in the event of hostilities in the Middle East. As noted in Box 4, the program includes adjusters designed to address the direct financial implications of such a shock, but only if the price spike is reasonably short-lived. Moreover, a significant oil price increase could weaken the authorities' resolve to ensure full pass-through to the retail level, in which case new quasi-fiscal losses could be incurred at the state oil refinery.
- The objective of reaching single-digit **inflation** by end-2003 will be extremely difficult to attain unless the sharp price rises recorded in February are promptly reversed. As further data become available, it may be necessary to reassess not only the stance of monetary policy but also the target itself.
- Although the **public expenditure management** system is being further strengthened under the 2003 program, ultimate success in controlling spending (the allocations as well as the aggregate level) will depend on determined application of the rules and procedures by all the relevant officials. Also, the introduction of the new computerized system (BPEMS), although an important advance, may encounter teething problems that could hamper effective monitoring in the short run.
- The **revenue gains** that are assumed to accrue from improved tax administration and from the auctioning of timber concessions are inevitably uncertain. To address this risk, the authorities have committed to adjust the quarterly expenditure ceilings (particularly on non-priority capital programs) in the event of a revenue shortfall, while protecting poverty-related expenditures (MEFP ¶19).

- Looking ahead to 2004, presidential and parliamentary **elections** are due in November of that year. The previous three general elections in Ghana have all been preceded by a significant deterioration in macroeconomic discipline. The current government has made clear its determination not to repeat this pattern, but some weakening of policies as the elections approach cannot be ruled out.

46. **Proposed access under the PRGF arrangement is SDR 184.5 million, equivalent to 50 percent of Ghana's quota, to be disbursed in seven equal tranches (Table 9).** This level of access is considered appropriate in view of the need to reconstitute Ghana's international reserves position, and taking into account the country's external vulnerabilities. The Fund's outstanding claims on Ghana amounted to SDR 267.3 million at end-2002 (72.4 percent of quota). The proposed PRGF arrangement would increase this exposure to a maximum of 93 percent of quota by 2005 (Table 10). Debt service to the Fund would peak at a comparatively modest 1.7 percent of total exports, and, hence, Ghana is expected to remain able to service its debt to the Fund on a timely basis. A full safeguards assessment will be conducted before the first review under the proposed arrangement.

V. STAFF APPRAISAL

47. **After a strong initial start during the government's first year in office, progress toward restoring macroeconomic stability faltered in 2002.** Some further gains were made in reducing inflation, and the Bank of Ghana did well to meet its target for rebuilding the official reserves position, despite shortfalls in external support. On the structural side, significant improvements were achieved in tax administration, thanks to strong leadership from the Ministry of Finance, and progress was made on far-reaching and important reforms of the legal framework for Ghana's financial system. But the 2002 program was ultimately undermined by weaknesses in expenditure control, nonimplementation of the program's key revenue measure, delays in the divestiture plan, and a failure to adjust petroleum prices.

48. **Despite these setbacks, the staff believes that the up-front actions taken by the authorities to launch their program for 2003-05 will regain the momentum needed to deliver on the ambitious medium-term goals set out in the GPRS.** The strong revenue measures, restoration of full cost recovery in the petroleum sector, steps to eliminate government intervention in petroleum pricing, and the measures taken to reinforce the expenditure control system are all directed towards ensuring improved policy implementation in those areas where problems were encountered in recent years.

49. **In particular, the tax measures incorporated in the 2003 budget imply an exceptional effort to boost the country's fiscal resources**—going beyond what was envisaged for the medium term at the time of last year's budget. Together with the anticipated external support, including in the form of debt relief under the enhanced HIPC Initiative, the strengthened revenue base should make possible the significant increases in poverty-related and other priority expenditures required under the growth and poverty reduction strategy, while reducing the burden of domestic debt. From a tax policy perspective, the staff had expressed reservations about the scale of the petroleum tax

increases at a time when world oil prices were on the rise, but on a longer-term view the merits of increasing reliance on fuel taxes is clear; even with the new levy, petroleum product prices in Ghana remain low by regional standards. The National Health Premium is, in the staff's view, a second-best alternative to increasing the standard VAT rate, but will be an effective measure provided that it is administered in full harmony with the VAT (applying to the same base, the same registered tax payers, and using the same returns and filing periods) and does not increase the extent of formal earmarking in Ghana's revenue system.

50. **The expenditure allocations in the 2003 budget are closely aligned with the priorities established in the GPRS, but the continued rise in the civil service wage bill is a cause for concern.** The staff does not believe that a further significant, across-the-board real increase in civil service salaries this year was the best use of scarce fiscal resources, and had advocated a more selective approach, targeting real increases on those sectors (such as health) where there are evident problems in retaining essential skilled workers. Looking ahead, the rise in the wage bill has increased the urgency of moving forward on fundamental reform of the civil service, and the staff encourages the authorities to make this a priority in their collaboration with the World Bank and other donors under the MDBS. Every effort should be made in the coming years to reduce the share of primary government expenditures absorbed by wages, by tackling overstaffing in the civil service and moderating future pay increases.

51. **Successful implementation of the GPRS will depend critically on strengthened public expenditure management.** The staff commends the authorities' recent efforts to improve the quality of the expenditure data, and the steps taken to bring wage outlays firmly within the scope of the expenditure control system. It is vitally important that budget execution be tracked closely and continuously this year, to ensure that these measures are having the desired effect and to allow early corrective action if problems are encountered. Care will be needed also to ensure that the accuracy of expenditure data is not compromised during the transition to the new computerized expenditure management system (BPEMS).

52. **The achievement of single-digit inflation by end-2003 is a commendable but undoubtedly challenging goal.** The recent data, showing inflation running well above program in the first two months of the year, cast serious doubt on the feasibility of the end-year target unless a good portion of the recent price rises proves to be temporary. The scale of the civil service pay rise may also generate further upward pressure on the general price level, which the central bank will need to resist strenuously, including by action to reverse some of the excess expansion of liquidity in late 2002. In doing so, it will need the full support of the fiscal authorities, in terms of adherence to the program limits on net domestic financing, to ease pressure on interest rates. Given the positive terms of trade outlook, the market may seek a strengthening of the exchange rate this year. The staff believes this could be accommodated in the interests of helping to bring down inflation without unduly compromising external competitiveness, which is considered to be satisfactory at the current real exchange rate. Ghana's market-determined, floating exchange rate regime is appropriate to its circumstances as an economy subject to sizable terms of trade fluctuations, and should be maintained.

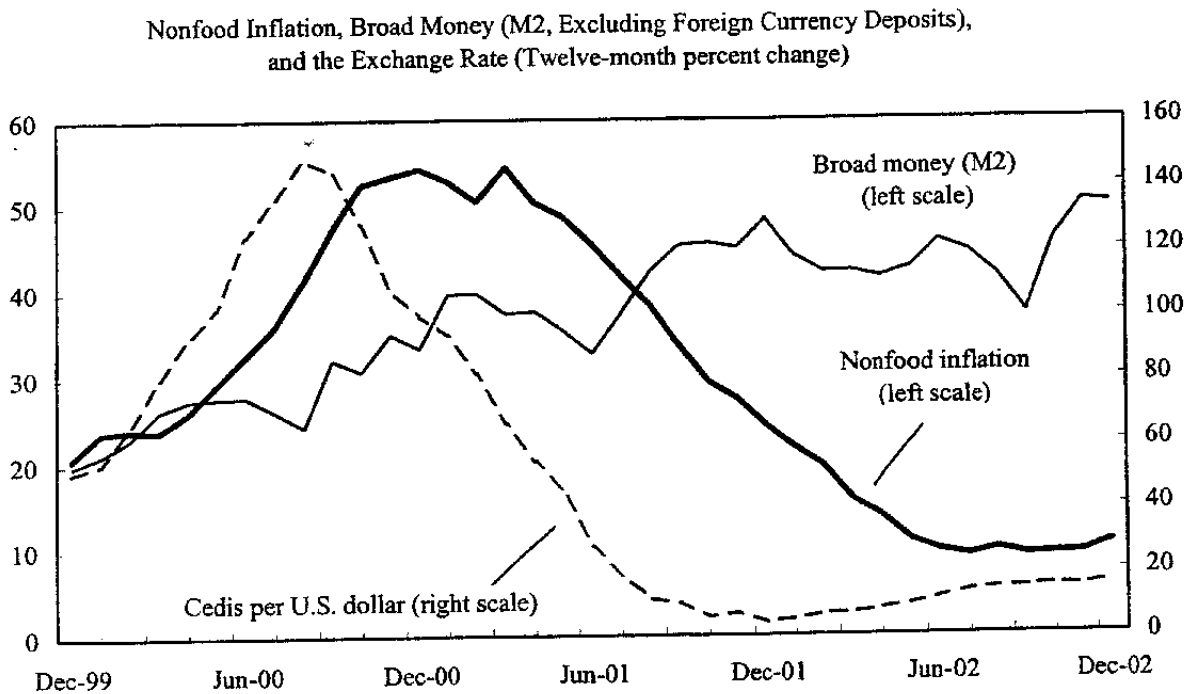
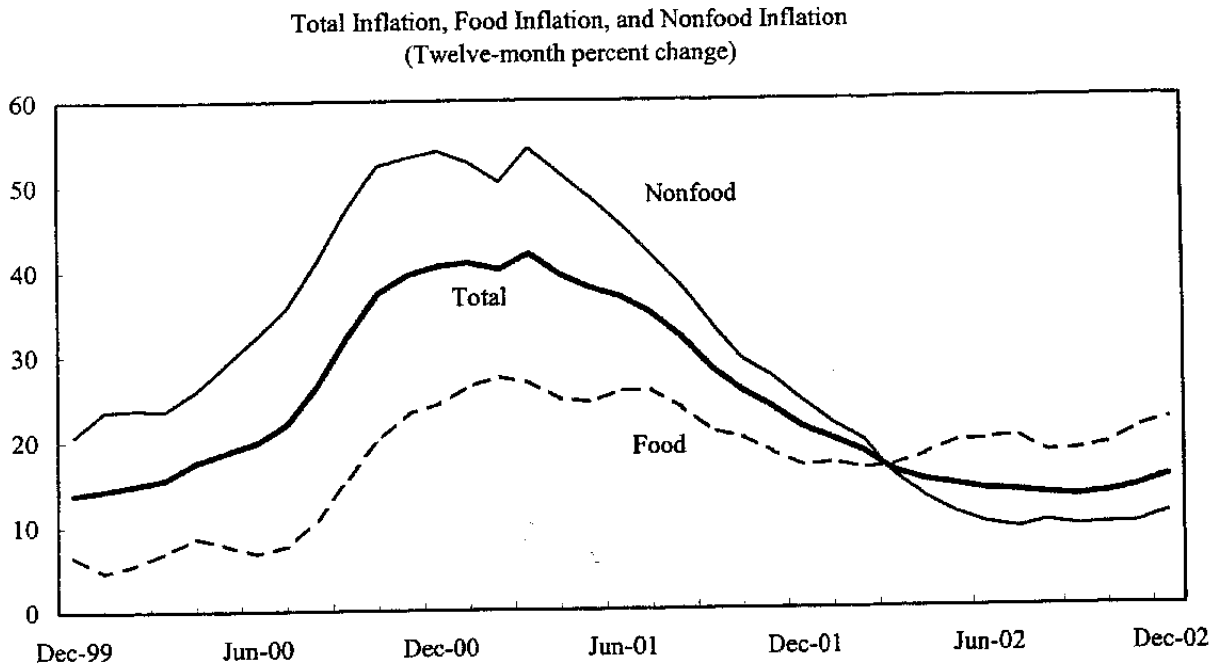
53. **The staff welcomes the authorities' commitment to strengthen the finances of the major public enterprises.** This commitment, especially with regard to the state oil refinery (TOR), has featured prominently in a number of recent speeches by the head of state, and is reflected in the actions taken on the petroleum pricing regime. The staff understands the authorities' hesitancy in moving to full petroleum price liberalization under current world market conditions, but urges that this step—which would further reduce the exposure of pricing decisions to political influence—be taken at an early stage in the 2003-05 program. Rapid progress on the divestiture of GCB, TOR's principal banker, will also help to ensure that the petroleum sector operates henceforth on a commercial basis. In the electricity sector, the staff hopes that it will be possible to reach an early resolution to the pricing dispute with the major private aluminum company on terms that allow the electricity generation company to cover its costs.

54. **The GPRS encompasses a broad range of institutional and structural reforms, the determined implementation of which will be vital to the strategy's success.** Some of these reforms, notably in the financial sector, will be monitored and supported under the proposed PRGF arrangement. But in most areas, the authorities will need to draw on the technical and financial support of other development partners. The staff urges the government to work expeditiously to prepare and begin implementing timebound action plans for reform in these areas, including the agricultural and energy sectors, the civil service, and governance. As regards the trade regime, the staff welcomes the authorities' decision not to implement the recent proposals to raise the level of tariff protection, in view of the harmful effects on consumers and long-run competitiveness, and urges them to seek instead measures that will, over time, facilitate the expansion of Ghana's international trade. Considerable further progress is also needed on the quality and timeliness of Ghana's economic statistics—especially on prices, the national accounts, and trade—to allow effective monitoring of GPRS outcomes, and for surveillance purposes, but the data required for program monitoring are considered to be adequate.

55. In view of the strength of the authorities' program, including the prior actions to be taken, the staff supports their request for a three-year PRGF arrangement in an amount equivalent to SDR 184.5 million, and for an additional disbursement of interim assistance from the Fund under the enhanced HIPC Initiative in an amount equivalent to SDR 15.15 million.

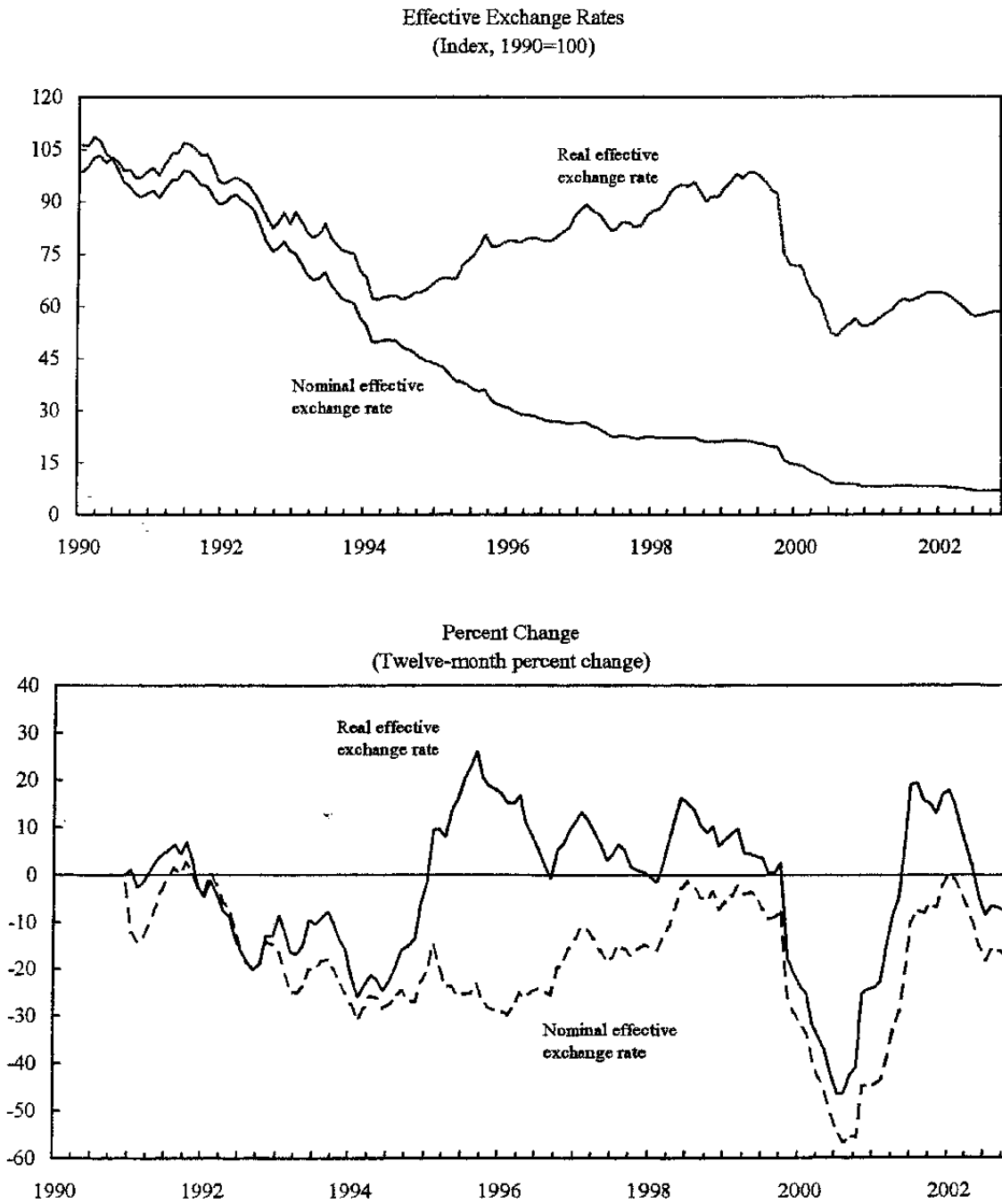
56. It is proposed that the next Article IV consultation with Ghana be held in accordance with the provisions of the decision on consultation cycles approved on July 15, 2002.

Figure 1. Ghana: Inflation, Broad Money (M2), and the Exchange Rate, December 1999-December 2002



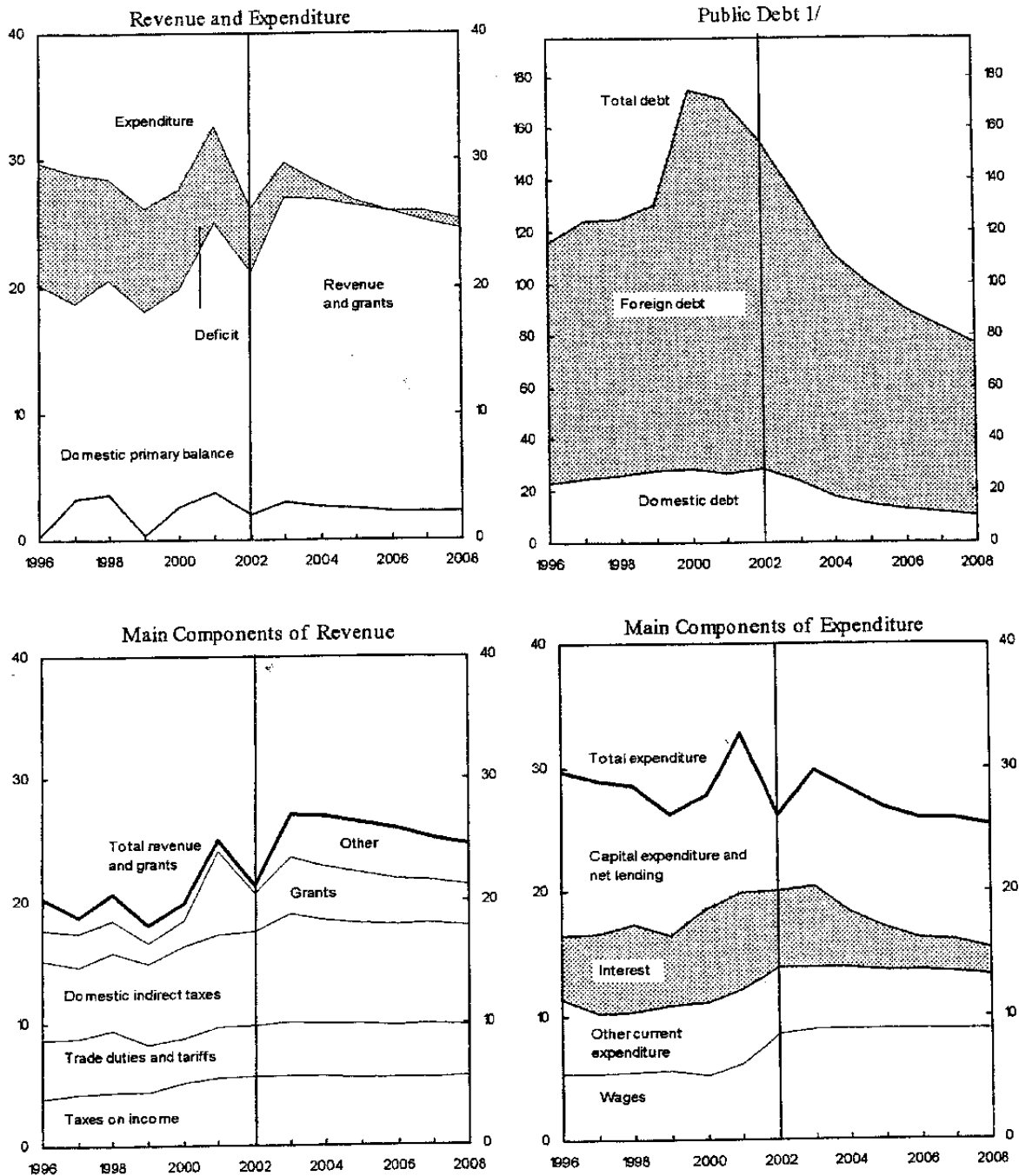
Sources: Ghana Statistical Service; and Bank of Ghana.

Figure 2. Ghana: Real and Nominal Effective Exchange Rates, January 1990 - November 2002



Sources: Ghanaian authorities; and Fund staff estimates.

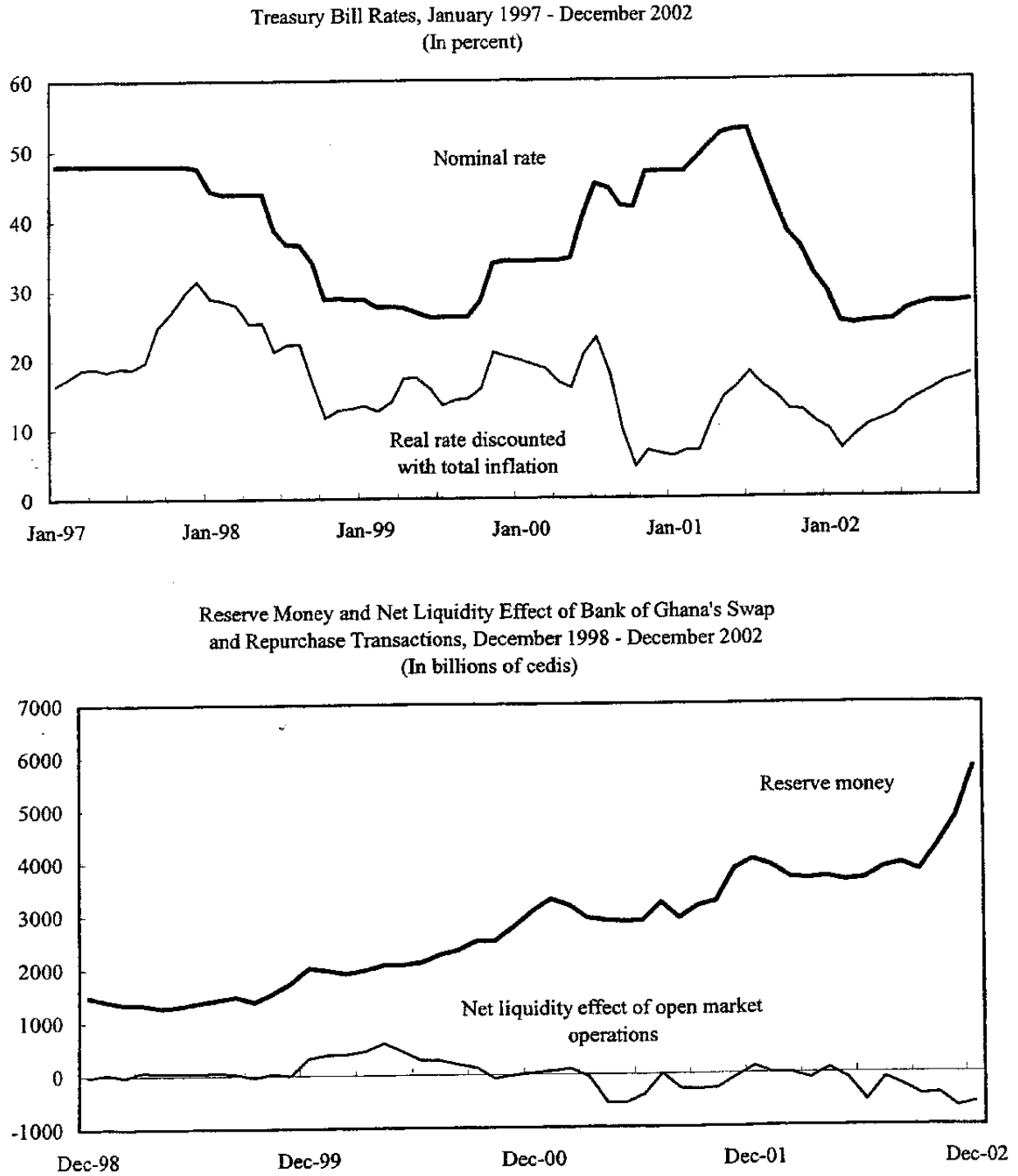
Figure 3. Ghana: Central Government Finances, 1996-2008
(In percent of GDP)



Sources: Ghanaian authorities; and Fund staff estimates and projections.

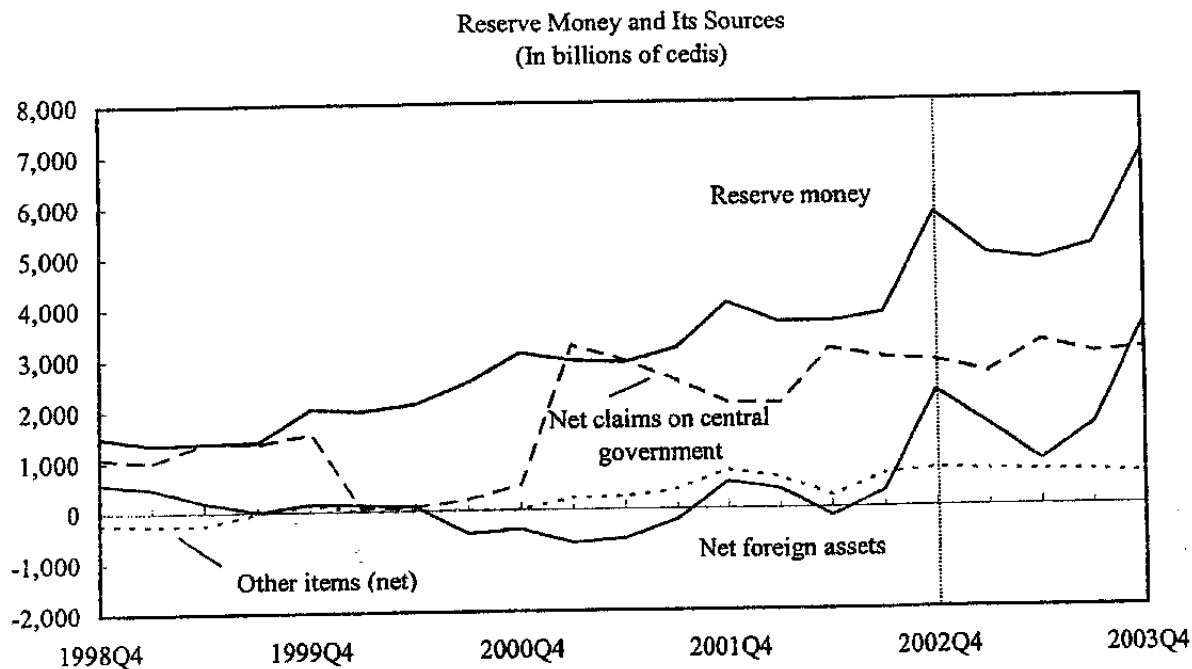
1/ Including guarantees and short-term external debt. External debt stock is evaluated at the period-average exchange rate and valued in nominal terms, before relief under the enhanced HIPC Initiative.

Figure 4. Ghana: Treasury Bill Rates, Reserve Money, and Open Market Operations

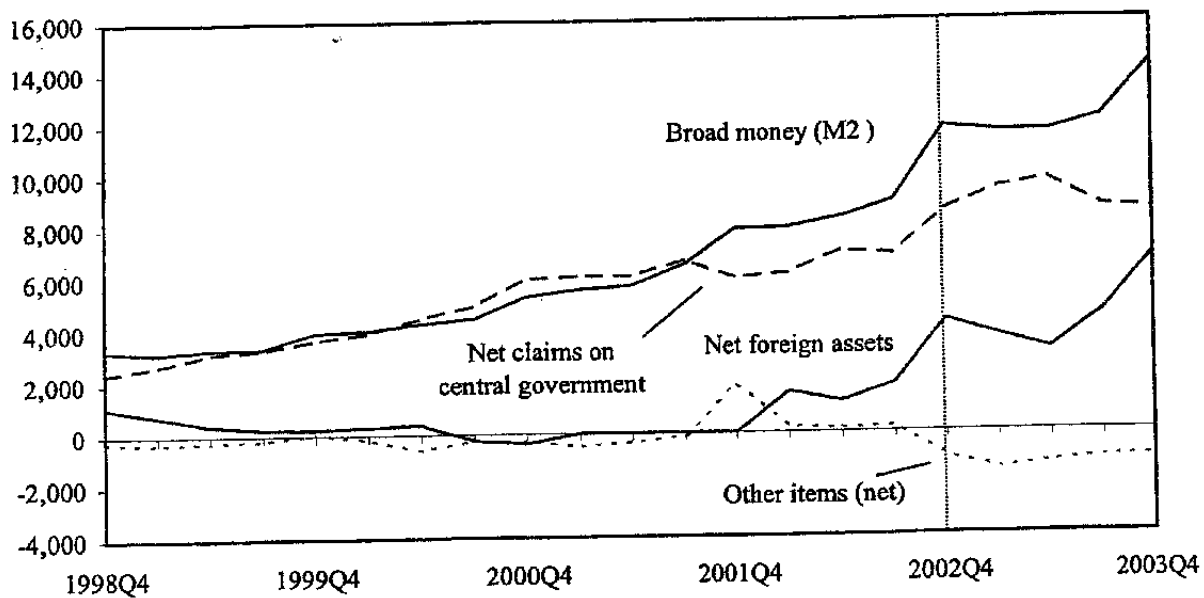


Sources: Bank of Ghana; and Fund staff estimates.

Figure 5. Ghana: Reserve Money and Broad Money (M2), 1998:Q4-2003:Q4

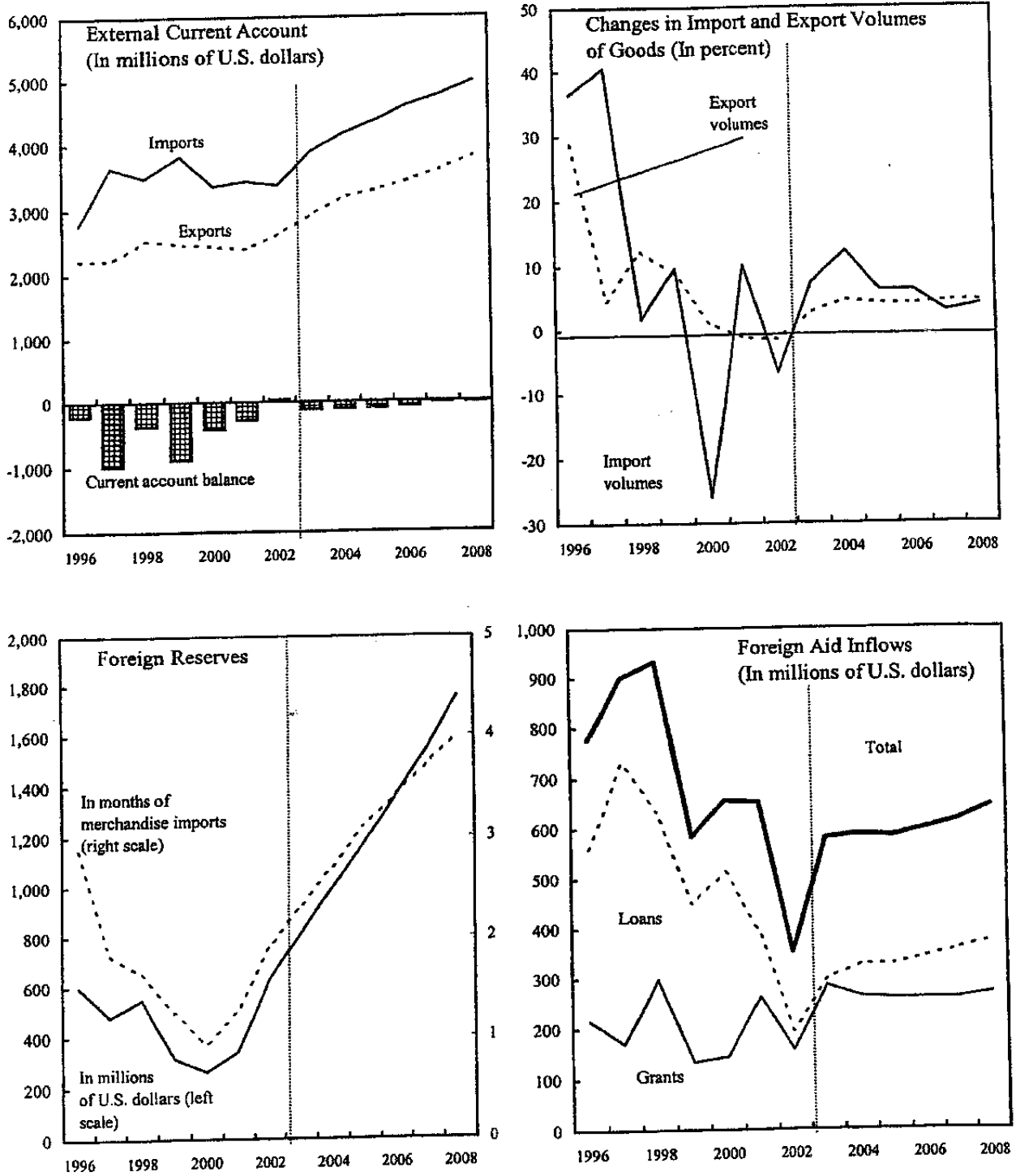


Broad Money (M2, Excluding Foreign Currency Deposits) and Its Sources
(In billions of cedis)



Sources: Bank of Ghana; and Fund staff estimates and projections.

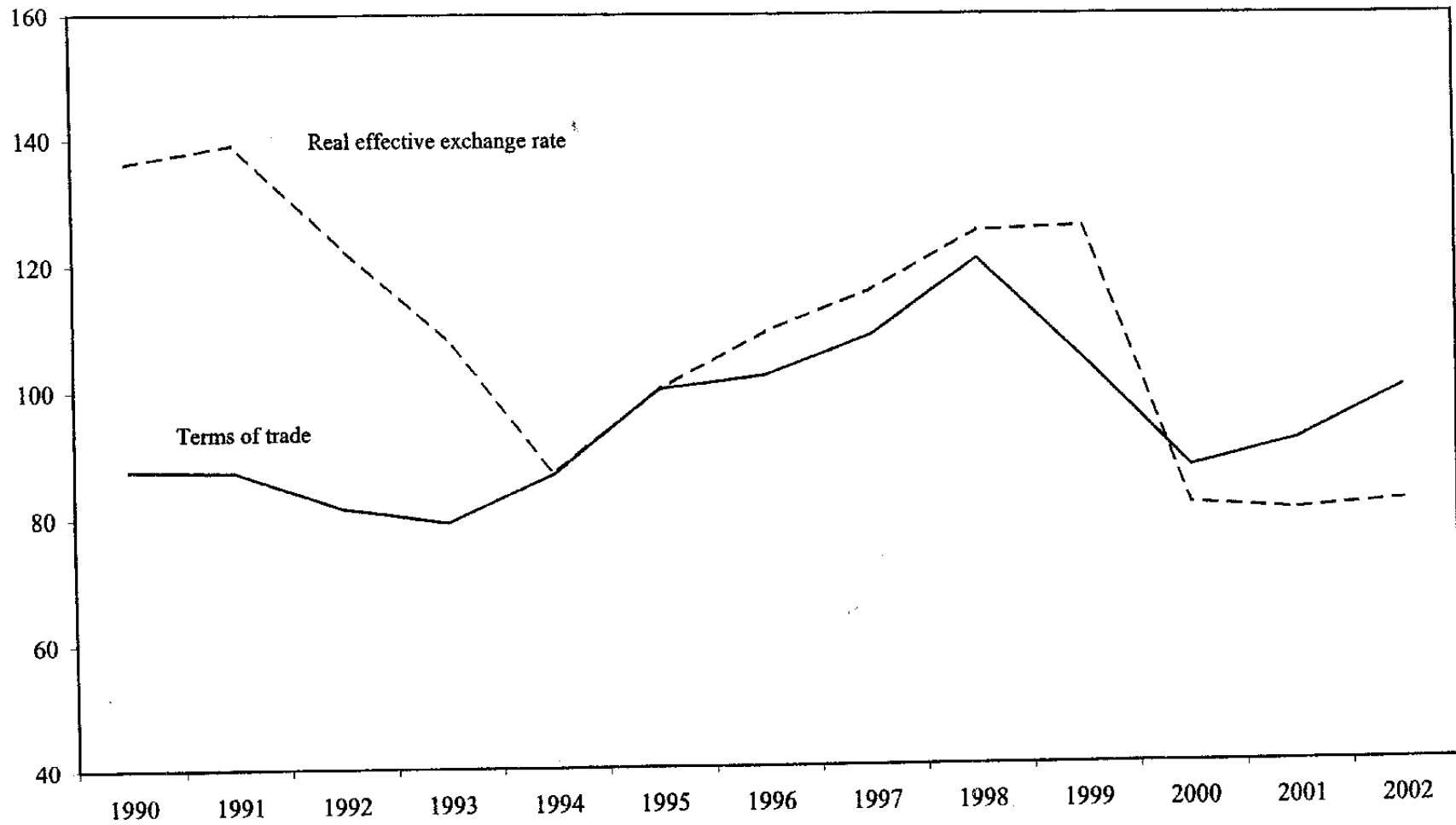
Figure 6. Ghana: Main External Indicators, 1996-2008



Sources: Ghanaian authorities; and Fund staff estimates and projections.

Figure 7. Ghana: Terms of Trade and the Real Effective Exchange Rate, 1990 - 2002

(Index, 1995 = 100)



Sources: Ghanaian authorities; and Fund staff estimates.

Table 1. Quantitative Performance Criteria and Benchmarks, PRGF Arrangement, 2002 1/
(Cumulative flows from beginning of calendar year to end of month indicated, unless otherwise indicated)

	March Benchmark			June Perf. Criterion			September Benchmark			December Benchmark		
	Prog. 2/	Prog. 3/	Actual	Prog. 2/	Prog. 3/	Actual	Prog. 2/	Prog. 3/	Actual 4/	Prog. 2/	Prog. 3/	Actual 4/
(In billions of cedis)												
Performance criteria												
Net domestic financing of government (ceiling)	543	1,009	733	418	1,021	1,732	183	797	1,958	141	778	2,332
Net domestic assets of the Bank of Ghana (ceiling) 5/ 6/	157	623	-217	-131	472	278	-46	569	11	-390	248	319
(In millions of U.S. dollars, unless otherwise specified)												
Net international reserves (NIR) of the Bank of Ghana (floor) 7/	-50.8	-111.6	-7.8	-36.0	-111.0	-93.8	-4.7	-79.7	-69.9	156.1	81.1	157.2
New nonconcessional external loans contracted or guaranteed by the government or the Bank of Ghana (greater than or equal to one year maturity) (ceiling)	0		0	0		0	0		0	0		0
Stock of short-term external debt outstanding contracted or guaranteed by the government or the Bank of Ghana (with an initial maturity of less than one year) (ceiling)	75.0		27.6	75.0		50.7	75.0		16.6	75.0		15.1
Stock of government road sector arrears (in billions of cedis)	123		...	0		...	0		...	0		220
(In billions of cedis)												
Indicative benchmarks												
Government domestic primary surplus (floor)	137		305	261		450	827		637	1,438		964
Reserve money stock	3,715		3,664	3,533		3,664	3,844		3,814	4,659		5,767
Government revenue, excluding grants and divestiture proceeds (floor)	1,754		1,616	3,743		3,724	6,137		6,028	8,785		8,800
(In millions of U.S. dollars)												
Memorandum items:												
External program support (loans and grants)	34.1		37.8	143.5		48.2	199.3		90.6	226.5		103.7
Paid public and publicly guaranteed debt service (after debt relief) 8/	21.8		86.4	67.4		170.7	103.9		203.1	149.6		252.4
Divestiture receipts	0.0		0.0	30.0		0.0	50.0		0.0	50.0		0.6
of which: in foreign exchange	0.0		0.0	30.0		0.0	50.0		0.0	50.0		0.0

1/ The definitions of line items and terminology are elaborated in the technical memorandum of understanding (TMU) in EBS/02/16 (2/1/02).

2/ Before application of adjusters, as indicated in EBS/02/16.

3/ After application of adjusters.

4/ NIR and reserve money affected by reclassification of accounts and net foreign assets (NFA) by reclassification and new definition from July 2002 onward.

As a result, NIR declined by about \$0.5 million, reserve money grew by about #2 billion, and NFA grew by about \$2.5 million (#20 billion) in July.

The net effect on net domestic assets was a decline of about #20 billion in July.

5/ Based on fixed exchange rate of #7,205 per U.S. dollar, the rate prevailing at end-March 2001.

6/ Value at end of month indicated. Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with an upside cap of \$75 million, as explained in the TMU in EBS/02/16.

7/ Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with a downside cap of -\$75 million, as explained in the TMU in EBS/02/16.

8/ Debt service to be paid by Ghana after assumed HIPC relief in 2002.

Table 2. Ghana: Structural Performance Criteria and Key Benchmarks for 2002 Program

Structural performance criteria	Status
<ul style="list-style-type: none"> • Elimination of the special import tax in the 2002 Budget, effective immediately (end-March 2002). • Announcement in the 2002 Budget of intent to create a full-service Large Taxpayers' Unit (LTU) for the 500 largest taxpayers, covering filing and payment, collection enforcement, and audit for all domestic tax liabilities, and adoption of a timetable for its establishment (end-June 2002). 	<p>Not met on time. Passage of required legislation not completed until July 2002.</p> <p>Met. Creation of LTU announced in Budget. Timetable drawn up with FAD advice; implementation underway but delayed, with launch of LTU scheduled for June 2003.</p>
<p>Structural Benchmarks</p> <ul style="list-style-type: none"> • Issuance of disaggregated expenditure ceilings for each MDA for the second, third, and fourth quarters of 2002, consistent with the budget and cash flow forecasts (end-April 2002). • Production by CAGD of monthly reports for November 2001-March 2002 on aggregate budget outcomes and MDAs expenditure commitments and cash outlays, by function, with a maximum 6-week delay (end-May 2002). • Completion and publication of audit of 2000 non-road expenditure arrears (end-June 2002). 	<p>Met. Disaggregated spending ceilings for relevant quarters issued to MDAs on April 25, 2002.</p> <p>Not met. Reporting delays exceeded 6 weeks until second half of 2002.</p> <p>Partly Met. Audit report completed (April) but not published.</p>
<p>Prior Actions for Fifth Review</p> <ul style="list-style-type: none"> • Passage of a Budget for 2002 in line with the program framework described in EBS/02/16, and of revenue measures consistent with that Budget. • Publication by the PURC of its strategy for achieving full cost recovery in the public utilities, and implementation of automatic tariff adjustment formulae for electricity and water. • Completion of an external audit of the Bank of Ghana's financial accounts for 2001. 	<p>Not Met. Key revenue measure not implemented.</p> <p>Met. On July 22, 2002, PURC announced tariff increases of 60 percent for electricity and 40 percent for water effective August 1.</p> <p>Met. Audit completed April 2002.</p>

Table 3. Ghana: Selected Economic and Financial Indicators, 2000-08

	2000	2001	2002		2003	2004	2005	2006	2007	2008
		Prel.	Prog.	Est.	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
			1/							
(Annual percentage change, unless otherwise specified)										
National income and prices										
Real GDP	3.7	4.2	4.5	4.5	4.7	5.0	5.0	5.0	5.0	5.0
Real GDP per capita	1.2	1.6	1.9	1.9	2.1	2.4	2.4	2.4	2.4	2.4
Nominal GDP	31.9	40.2	23.3	28.2	24.3	18.4	12.1	11.4	11.0	11.3
GDP deflator	27.2	34.6	18.0	22.7	18.8	12.8	6.8	6.1	5.7	6.0
Consumer price index (annual average)	25.2	32.9	15.9	14.8	15.1	8.0	6.0	5.0	5.0	5.0
Consumer price index (end of period)	40.5	21.3	13.0	15.2	9.0	7.0	5.0	5.0	5.0	5.0
External sector										
Exports, f.o.b.	-3.5	-3.6	7.6	10.6	12.1	11.0	3.4	4.2	4.6	5.8
Imports, f.o.b.	-15.2	2.6	7.8	-4.1	16.4	7.4	5.1	5.8	3.6	4.9
Export volume	1.0	-1.3	3.7	-1.5	2.7	4.6	4.0	3.9	4.4	4.4
Import volume	-26.0	10.0	11.1	-6.8	7.3	12.2	6.2	6.2	2.8	3.9
Terms of trade	-16.6	4.8	6.9	9.1	0.7	10.9	0.5	0.7	-0.6	0.3
Nominal effective exchange rate (avg.)	-46.3	-24.0	...	...	...	...	...	...	...	...
Real effective exchange rate (avg.)	-35.5	-1.4	...	1.7	...	...	...	...	...	...
Cedis per U.S. dollar (avg.)	5,431	7,179	...	7,947	...	...	...	...	...	...
Government budget										
Domestic revenue (excluding grants)	42.9	43.5	38.1	27.5	53.8	19.7	11.1	10.6	11.6	10.4
Total expenditure	39.6	65.5	34.0	2.4	41.6	12.4	6.2	7.6	11.1	8.6
Current expenditure	48.9	50.5	22.8	28.8	26.6	6.6	4.1	6.1	9.6	7.3
Capital expenditure and net lending	24.1	95.7	39.4	-38.7	90.8	24.9	9.9	10.4	13.5	10.8
Money and credit										
Net domestic assets 2/	49.1	13.5	6.6	14.1	0.1	1.2	-1.3	-3.1	-5.4	-6.5
Credit to government 2/	57.7	0.0	1.8	32.5	0.0	-7.5	-7.7	-8.6	-6.3	-7.7
Credit to public enterprises 2/ 3/	19.2	9.7	1.9	-9.0	0.7	0.5	0.3	0.3	0.3	0.3
Credit to the private sector 2/ 3/	34.4	12.0	17.1	17.7	14.7	18.6	12.6	11.6	6.9	7.5
Broad money (excluding foreign currency deposits)	33.4	48.4	25.2	50.0	21.2	18.4	12.1	11.4	11.0	11.3
Reserve money (excluding foreign currency deposits)	52.6	31.3	18.7	42.6	20.7	18.3	12.1	11.4	10.9	11.2
Velocity (GDP/end-of-period broad money)	5.1	4.8	4.9	4.1	4.2	4.2	4.2	4.2	4.2	4.2
Treasury bill yield (in percent; end of period)	42.0	28.9	...	26.1	...	...	...	...	...	...
(In percent of GDP, unless otherwise specified)										
Investment and saving										
Gross investment	24.0	26.6	22.3	19.7	23.0	23.7	23.8	24.0	24.7	24.9
Private	14.8	13.8	13.1	13.6	13.6	13.8	14.1	14.4	14.5	14.8
Public	9.2	12.8	9.2	6.1	9.4	9.9	9.7	9.6	10.2	10.1
Gross national saving	15.6	21.3	16.3	20.3	21.2	22.2	22.6	23.1	24.4	24.7
Private	14.3	16.1	11.6	19.2	17.3	17.0	16.5	16.7	17.9	18.1
Public	1.3	5.1	4.7	1.2	3.9	5.2	6.1	6.4	6.5	6.7
Government budget										
Total revenue	17.7	18.1	18.7	18.0	22.3	22.5	22.3	22.2	22.3	22.1
Grants	2.1	6.9	4.2	3.1	4.7	4.4	4.1	3.8	3.5	3.3
Total expenditure	27.7	32.7	28.4	26.1	29.7	28.2	26.7	25.8	25.8	25.2
Overall balance (excluding grants) 4/	-10.0	-14.6	-9.7	-8.1	-7.5	-5.7	-4.4	-3.7	-3.6	-3.1
Overall balance (including grants) 5/	-9.7	-9.0	-7.0	-6.8	-3.6	-1.6	-0.6	-0.2	-0.3	0.1
Domestic primary balance	2.6	3.8	3.1	2.0	3.0	2.6	2.4	2.3	2.3	2.3
Divestiture receipts	1.2	0.0	0.8	0.0	0.7	0.6	0.0	0.0	0.0	0.0
Net Domestic Financing	8.5	2.3	0.3	4.8	0.0	-2.4	-2.1	-2.3	-1.8	-1.8
External sector										
Current account balance 6/	-8.4	-5.3	-6.4	0.6	-1.7	-1.5	-1.2	-0.9	-0.2	-0.2
External debt outstanding	169.7	131.5	124.0	112.4	94.3	82.1	74.3	68.0	62.7	58.4
External debt service, including to the Fund	11.2	8.5	6.8	7.8	6.6	5.5	5.2	4.4	4.2	4.2
(in percent of exports of goods and nonfactor services)	23.0	18.9	15.9	18.4	15.6	13.4	13.1	11.7	11.4	11.4
(in percent of government revenue)	56.5	34.1	29.4	37.1	27.0	23.6	22.7	17.2	16.5	16.3
(In millions of U.S. dollars, unless otherwise specified)										
Current account balance 6/	-419	-283	-393	38	-120	-114	-103	-80	-23	-21
Overall balance of payments	-123	-2	-146	39	-66	-71	-39	24	108	166
Change in external arrears (decrease -)	27	61	0	-61	0	0	0	0	0	0
Gross international reserves (end of period)	264	344	629	630	811	997	1170	1354	1536	1755
(in months of imports of goods and services)	0.9	1.2	2.0	1.9	2.3	2.7	3.1	3.4	3.7	4.0
Nominal GDP (in billions of cedis)	27,153	38,071	46,875	48,819	60,705	71,899	80,609	89,804	99,666	110,886

Sources: Ghanaian authorities; and Fund staff estimates and projections.

1/ Based on MEFP of 1/31/02 (EBS/02/16).

2/ In percent of broad money at the beginning of the period.

3/ Credit from deposit money banks to public enterprises and the private sector respectively.

4/ Before domestic arrears clearance.

5/ After domestic arrears clearance.

6/ Including official grants.

Table 4a. Ghana: Central Government Budgetary Operations and Financing, 1999-08 1/

	(In billions of cedis, unless otherwise specified)		2001		2002		2003		2004		2005		2006		2007		2008	
	1999	2000	Revised Prog.	Prov. Outturn	Annual Prog.	2002 Prov. Outturn	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	
Total revenue and grants	3,709	5,385	8,060	9,532	10,468	10,333	16,412	19,369	21,278	23,271	25,703	28,201	25,703	28,201	25,703	28,201	25,703	28,201
Total revenue	3,366	4,811	6,360	6,904	8,486	8,800	13,534	16,197	17,987	19,901	22,204	24,507	19,901	22,204	19,901	22,204	19,901	22,204
Tax revenue	3,056	4,415	6,045	6,557	8,336	8,542	11,452	13,193	14,619	16,149	18,039	19,874	16,149	18,039	16,149	18,039	16,149	18,039
Direct taxes	918	1,409	1,978	2,124	2,548	2,790	3,424	4,055	4,496	4,954	5,558	6,252	4,496	4,954	4,496	4,954	4,496	4,954
Company tax	446	697	836	967	1,086	1,162	1,517	1,796	2,014	2,244	2,490	2,770	2,014	2,244	2,014	2,244	2,014	2,244
Other direct taxes	472	713	1,143	1,157	1,462	1,629	1,907	2,259	2,482	2,710	3,068	3,481	2,482	2,710	2,482	2,710	2,482	2,710
Indirect taxes	1,353	2,018	2,711	2,865	4,002	3,757	5,294	6,021	6,633	7,315	8,163	8,993	6,633	7,315	6,633	7,315	6,633	7,315
Sales tax/VAT on dom. goods	323	385	581	509	784	729	943	1,117	1,252	1,395	1,548	1,722	1,252	1,395	1,252	1,395	1,252	1,395
Sales tax/VAT on imports	469	887	1,259	1,455	1,764	1,598	2,119	2,420	2,656	2,924	3,214	3,487	2,656	2,924	2,656	2,924	2,656	2,924
Petroleum	394	532	599	647	1,119	1,080	1,780	1,949	2,125	2,326	2,658	2,957	1,780	1,949	1,780	1,949	1,780	1,949
Other indirect taxes	167	215	271	254	335	350	452	536	601	669	743	826	601	669	601	669	601	669
Trade taxes	785	987	1,356	1,568	1,787	1,995	2,733	3,116	3,490	3,881	4,319	4,630	3,490	3,881	3,490	3,881	3,490	3,881
Import duties	531	808	1,076	1,060	1,313	1,669	2,100	2,489	2,843	3,132	3,472	3,734	2,843	3,132	2,843	3,132	2,843	3,132
Cocoa export duty	254	179	280	300	388	326	634	627	647	749	847	896	647	749	647	749	647	749
Non-tax revenue 2/	310	396	315	348	150	258	395	468	525	584	649	722	395	468	395	468	395	468
2003 revenue measures	...	...	...	...	...	...	1,687	2,536	2,844	3,168	3,516	3,912	1,687	2,536	1,687	2,536	1,687	2,536
Health Levy (2.5 percent of value added)	...	...	...	...	...	...	306	725	813	906	1,005	1,119	306	725	306	725	306	725
Retain National Reconstruction Levy	...	...	...	...	...	...	146	0	0	0	0	0	146	0	146	0	146	0
Debt recovery charge on petroleum products	...	...	...	...	...	...	945	1,376	1,543	1,719	1,907	2,122	945	1,376	945	1,376	945	1,376
Timber licenses	...	...	...	...	...	...	290	433	488	543	603	671	290	433	290	433	290	433
Grants	343	574	1,700	2,627	1,982	1,533	2,878	3,175	3,291	3,370	3,500	3,693	3,291	3,370	3,291	3,370	3,291	3,370
Project grants	193	337	633	1,566	923	467	1,087	1,219	1,267	1,304	1,342	1,475	1,267	1,304	1,267	1,304	1,267	1,304
Program grants	150	238	1,067	1,061	588	558	1,149	922	920	947	975	1,004	920	947	920	947	920	947
HIPC assistance (multilateral)	0	0	0	0	471	508	643	1,031	1,104	1,119	1,182	1,215	643	1,031	643	1,031	643	1,031
Total expenditure	5,389	7,525	9,945	12,451	13,324	12,751	18,059	20,293	21,589	23,254	25,829	28,063	21,589	23,254	21,589	23,254	21,589	23,254
Recurrent expenditure	3,382	5,034	6,806	7,578	8,359	9,761	12,355	13,169	13,711	14,546	15,943	17,102	13,711	14,546	13,711	14,546	13,711	14,546
Noninterest	2,232	3,001	3,809	4,593	5,304	6,763	8,409	9,962	10,965	12,290	13,413	14,696	10,965	12,290	10,965	12,290	10,965	12,290
Wages and salaries 3/	1,161	1,423	2,059	2,317	3,122	4,142	5,450	6,455	7,237	8,062	8,948	9,955	7,237	8,062	7,237	8,062	7,237	8,062
Goods and services 3/	485	700	576	703	1,115	1,452	1,871	2,216	2,485	2,768	2,980	3,216	2,485	2,768	2,485	2,768	2,485	2,768
Subventions 3/	287	445	666	788	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Transfers	298	432	509	785	1,067	1,168	1,088	1,291	1,244	1,459	1,485	1,525	1,244	1,459	1,244	1,459	1,244	1,459
o/w utility subsidy	...	...	...	257	354	480	50	59	66	74	82	91	50	59	50	59	50	59
o/w National Health Fund	...	...	...	...	...	...	210	239	65	72	80	89	210	239	210	239	210	239
Interest	1,150	2,033	2,997	2,985	3,055	2,999	3,946	3,207	2,746	2,257	2,530	2,407	3,946	3,207	3,946	3,207	3,946	3,207
Domestic (accrual)	872	1,446	2,298	2,310	2,136	2,210	3,108	2,157	1,659	1,134	1,341	1,134	3,108	2,157	3,108	2,157	3,108	2,157
of which interest on 2003 TOR bond issue	...	...	...	...	...	...	262	178	149	135	135	0	262	178	262	178	262	178
External (accrual)	278	587	699	675	919	789	838	1,051	1,087	1,123	1,189	1,272	838	1,051	838	1,051	838	1,051
Capital expenditure (total)	2,007	2,491	3,139	4,873	4,965	2,990	5,704	7,124	7,877	8,707	9,887	10,961	5,704	7,124	5,704	7,124	5,704	7,124
Capital expenditure (domestic)	851	1,145	1,036	1,341	2,043	1,338	3,060	4,226	4,867	5,488	6,441	7,176	3,060	4,226	3,060	4,226	3,060	4,226
o/w discretionary expenditure	727	611	355	417	886	475	1,303	2,051	2,445	2,801	3,457	3,878	1,303	2,051	1,303	2,051	1,303	2,051
Capital expenditure (foreign)	1,157	1,346	2,103	3,532	2,922	1,652	2,643	2,897	3,010	3,219	3,446	3,785	2,643	2,897	2,643	2,897	2,643	2,897
Overall balance (before arrears clearance, modified cash basis) 4/	-1,680	-2,140	-1,885	-2,920	-2,856	-2,418	-1,647	-923	-311	18	-126	138	-1,647	-923	-1,647	-923	-1,647	-923
(in percent of GDP)	-8.2	-7.9	-2.8	-7.7	-5.5	-5.0	-2.7	-1.3	-0.4	0.0	-0.1	0.1	-2.7	-1.3	-2.7	-1.3	-2.7	-1.3
Overall balance (before arrears clearance, excl. grants) 4/	-2,023	-2,714	-3,585	-5,547	-4,838	-3,951	-4,525	-4,096	-3,601	-3,352	-3,626	-3,556	-4,525	-4,096	-4,525	-4,096	-4,525	-4,096
Road arrears (clearance)	-130	-328	-214	-44	-288	-208	-220	0	0	0	0	0	-220	0	-220	0	-220	0
Other domestic payment arrears (clearance)	156	-156	-442	-442	-337	-630	-197	-97	-97	-97	-97	0	-197	-97	-197	-97	-197	-97
o/w statutory funds	0	0	...	-235	...	-247	-97	-97	-97	-97	-97	0	-97	-97	-97	-97	-97	-97
VAT refunds	0	0	-55	-27	-76	-55	-92	-106	-117	-130	-143	-156	-92	-106	-92	-106	-92	-106
Unspent releases 2/	...	...	...	...	299	0	0	0	0	0	0	0	299	0	299	0	299	0
Overall balance (modified cash basis after arrears clearance) 4/	-1,654	-2,624	-2,597	-3,433	-3,258	-3,310	-2,156	-1,126	-525	-209	-366	-19	-2,156	-1,126	-2,156	-1,126	-2,156	-1,126
Overall balance from below the line	-1,862	-2,585	-2,597	-2,961	-3,258	-2,991	-2,330	-1,126	-525	-209	-366	-19	-2,330	-1,126	-2,330	-1,126	-2,330	-1,126
Discrepancy between above and below line data 5/	-208	39	0	472	0	319	-174	0	0	0	0	0	-174	0	-174	0	-174	0
Divestiture receipts	53	323	120	12	387	5	413	436	0	0	0	0	413	436	413	436	413	436
o/w costs of divestiture	...	...	...	-144	0	-6	-16	0	0	0	0	0	-16	0	-16	0	-16	0
Total non-divestiture financing	1,809	2,262	2,477	2,949	2,871	2,986	1,917	690	525	209	366	19	1,917	690	1,917	690	1,917	690
Foreign (net)	448	-485	1,111	1,428	515	-782	-363	-169	-133	181	715	726	-363	-169	-363	-169	-363	-169
Project loans	964	1,009	1,470	1,966	1,999	1,185	1,557	1,678	1,743	1,915	2,103	2,310	1,557	1,678	1,557	1,678	1,557	1,678
Program loans	236	802	1,235	1,056	725	160	669	945	982	1,010	1,040	1,071	669	945	669	945	669	945
Amortization due	-751	-2,296	-1,594	-1,593	-2,209	-2,126	-2,589	-2,792	-2,858	-2,744	-2,428	-2,655	-2,589	-2,792	-2,589	-2,792	-2,589	-2,792
Exceptional financing	71	429	1,006	659	2,098	1,241	2,034	2,427	2,174	1,952	1,339	1,198	2,034	2,427	2,034	2,427	2,034	2,427
External payments arrears	71	429	-630	-467	0	-461	0	0	0	0	0	0	0	0	0	0	0	0
Additional donor financing	0	0	0	0	426	0	132	370	256	425	250	266	426	0				

Table 4b. Ghana: Central Government Budgetary Operations and Financing, 1999-08 1/
(In percent of GDP, unless otherwise specified)

	1999	2000	2001 Revised Prog.	2001 Prov Outturn	2002 Annual Prog.	2002 Prov Outturn	2003 Proj.	2004 Proj.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.
Total revenue and grants	18.0	19.8	21.2	25.0	22.3	21.2	27.0	26.9	26.4	25.9	25.8	25.4
Total revenue	16.4	17.7	16.7	18.1	18.1	18.0	22.3	22.5	22.3	22.2	22.3	22.1
Tax revenue	14.8	16.3	15.9	17.2	17.8	17.5	18.9	18.3	18.1	18.0	18.1	17.9
Direct taxes	4.5	5.2	5.2	5.6	5.4	5.7	5.6	5.6	5.6	5.5	5.6	5.6
Company tax	2.2	2.6	2.2	2.5	2.3	2.4	2.5	2.5	2.5	2.5	2.5	2.5
Other direct taxes	2.3	2.6	3.0	3.0	3.1	3.3	3.1	3.1	3.1	3.0	3.1	3.1
Indirect taxes	6.6	7.4	7.1	7.5	8.5	7.7	8.7	8.4	8.2	8.1	8.2	8.1
Sales tax/VAT on dom. goods	1.6	1.4	1.5	1.3	1.7	1.5	1.6	1.6	1.6	1.6	1.6	1.6
Sales tax/VAT on imports	2.3	3.3	3.3	3.3	3.8	3.3	3.5	3.4	3.3	3.3	3.2	3.1
Petroleum	1.9	2.0	1.6	1.7	2.4	2.2	2.9	2.7	2.6	2.6	2.7	2.7
Other indirect taxes	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Trade taxes	3.8	3.6	3.6	4.1	3.8	4.1	4.5	4.3	4.3	4.3	4.3	4.2
Import duties	2.6	3.0	2.8	2.8	2.8	3.4	3.5	3.5	3.5	3.5	3.5	3.4
Cocoa export duty	1.2	0.7	0.7	0.8	0.8	0.7	1.0	0.9	0.8	0.8	0.8	0.8
Nontax revenue 2	1.5	1.5	0.8	0.9	0.3	0.5	0.7	0.7	0.7	0.7	0.7	0.7
2003 revenue measures	...	...	...	...	...	...	2.8	3.5	3.5	3.5	3.5	3.5
Health Levy (2.5 percent of value added)	...	...	...	...	...	...	0.5	1.0	1.0	1.0	1.0	1.0
Retain National Reconstruction Levy	...	...	...	...	...	...	0.2	0.0	0.0	0.0	0.0	0.0
Debt recovery charge on petroleum products	...	...	...	...	...	...	1.6	1.9	1.9	1.9	1.9	1.9
Timber licenses	...	...	...	...	...	...	0.5	0.6	0.6	0.6	0.6	0.6
Grants	1.7	2.1	4.5	6.9	4.2	3.1	4.7	4.4	4.1	3.8	3.5	3.3
Project grants	0.9	1.2	1.7	4.1	2.0	1.0	1.8	1.7	1.6	1.5	1.3	1.3
Program grants	0.7	0.9	2.8	2.8	1.3	1.1	1.9	1.3	1.1	1.1	1.0	0.9
HIPC assistance (multilateral)	0.0	0.0	0.0	0.0	1.0	1.0	1.1	1.4	1.4	1.2	1.2	1.1
Total expenditure	26.2	27.7	26.1	32.7	28.4	26.1	29.7	28.2	26.8	25.9	25.9	25.3
Recurrent expenditure	16.4	18.5	17.9	19.9	17.8	20.0	20.4	18.3	17.0	16.2	16.0	15.4
Noninterest	10.8	11.1	10.0	12.1	11.3	13.9	13.9	13.9	13.6	13.7	13.5	13.3
Wages and salaries 3/	5.6	5.2	5.4	6.1	6.7	8.5	9.0	9.0	9.0	9.0	9.0	9.0
Goods and services 3/	2.4	2.6	1.5	1.8	2.4	3.0	3.1	3.1	3.1	3.1	3.0	2.9
Subventions 3/	1.4	1.6	1.7	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers	1.4	1.6	1.3	2.1	2.3	2.4	1.8	1.8	1.5	1.6	1.5	1.4
o/w utility subsidy	...	...	...	0.7	0.8	1.0	0.1	0.1	0.1	0.1	0.1	0.1
o/w National Health Fund	...	...	...	...	...	...	0.3	0.3	0.1	0.1	0.1	0.1
Interest	5.6	7.5	7.9	7.8	6.5	6.1	6.5	4.5	3.4	2.5	2.5	2.2
Domestic (accrual)	4.2	5.3	6.0	6.1	4.6	4.5	5.1	3.0	2.1	1.3	1.3	1.0
of which interest on 2003 TOR bond issue	...	...	...	...	...	...	0.4	0.2	0.2	0.2	0.1	0.0
External (accrual)	1.4	2.2	1.8	1.8	2.0	1.6	1.4	1.5	1.3	1.2	1.2	1.1
Capital expenditure (total)	9.8	9.2	8.2	12.8	10.6	6.1	9.4	9.9	9.8	9.7	9.9	9.9
Capital expenditure (domestic)	4.1	4.2	2.7	3.5	4.4	2.7	5.0	5.9	6.0	6.1	6.5	6.5
o/w discretionary expenditure	3.5	2.2	0.9	1.1	1.9	1.0	2.1	2.9	3.0	3.1	3.5	3.5
Capital expenditure (foreign)	5.6	5.0	5.5	9.3	6.2	3.4	4.4	4.0	3.7	3.6	3.5	3.4
Road arrears (clearance)	-0.6	-1.2	-0.6	-0.1	-0.6	-0.4	-0.4	0.0	0.0	0.0	0.0	0.0
Other domestic payment arrears	0.8	-0.6	-1.2	-1.2	-0.7	-1.3	-0.3	-0.1	-0.1	-0.1	-0.1	0.0
o/w statutory funds	...	...	...	-0.6	...	-0.5	-0.2	-0.1	-0.1	-0.1	-0.1	0.0
VAT Refunds	...	...	-0.1	-0.1	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Unspent releases 2	...	...	...	...	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (modified cash basis after arrears clearance) 4/	-8.0	-9.7	-6.8	-9.0	-7.0	-6.8	-3.6	-1.6	-0.7	-0.2	-0.4	0.0
Overall balance from below the line	-9.0	-9.5	-6.8	-7.8	-7.0	-6.1	-3.8	-1.6	-0.7	-0.2	-0.4	0.0
Discrepancy between above and below line data 5/	-1.0	0.1	0.0	1.2	0.0	0.7	-0.3	0.0	0.0	0.0	0.0	0.0
Divestiture receipts	0.3	1.2	0.3	0.0	0.8	0.0	0.7	0.6	0.0	0.0	0.0	0.0
o/w costs of divestiture	...	...	...	-0.4	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total non-divestiture financing	8.8	8.3	6.5	7.7	6.1	6.1	3.2	1.0	0.7	0.2	0.4	0.0
Foreign (net)	2.2	-1.8	2.9	3.8	1.1	-1.6	-0.6	-0.2	-0.2	0.2	0.7	0.7
Project loans	4.7	3.7	3.9	5.2	4.3	2.4	2.6	2.3	2.2	2.1	2.1	2.1
Program loans	1.1	3.0	3.2	2.8	1.5	0.3	1.1	1.3	1.2	1.1	1.0	1.0
Amortization due	-3.7	-8.5	-4.2	-4.2	-4.7	-4.4	-4.3	-3.9	-3.5	-3.1	-2.4	-2.4
Exceptional financing	0.3	1.6	2.6	1.7	4.5	2.5	3.4	3.4	2.7	2.2	1.3	1.1
External payment arrears	0.3	1.6	-1.7	-1.2	0.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Additional donor financing	...	...	...	0.0	0.9	0.0	0.2	0.5	0.3	0.5	0.3	0.2
Traditional rescheduling	0.0	0.0	4.3	3.0	3.0	3.0	2.4	2.1	1.7	1.1	0.6	0.5
HIPC assistance (non-multilateral)	...	...	...	...	0.6	0.5	0.7	0.7	0.7	0.6	0.4	0.4
Savings due to inflation indexed bonds	0.0	0.0	...	...	0.3	0.4	0.4	0.2	0.1	0.1	0.0	0.0
Domestic (net) 4/	6.3	8.5	0.9	2.3	0.3	4.8	0.0	-2.4	-2.0	-2.3	-1.7	-1.7
Banking system	6.2	8.5	0.9	-2.6	0.3	2.3	0.0	-1.5	-1.6	-1.8	-1.3	-1.6
Nonbanks	0.1	0.1	...	4.8	0.0	2.4	0.0	-0.9	-0.4	-0.4	-0.3	-0.1
Memorandum items:												
Total enhanced HIPC relief	...	...	...	...	1.6	1.6	1.8	2.2	2.1	1.8	1.6	1.5
Total poverty spending (GPRS definition) 6/	...	...	...	4.5	...	5.6	6.0	...	...	...	...	...
Domestic primary balance (2001 prov. includes discrepancy)	0.4	2.6	4.0	3.8	3.1	2.0	3.0	2.6	2.5	2.2	2.2	2.2
Stock of domestic debt 4/	28.2	28.9	24.7	26.8	20.4	28.9	23.6	17.8	14.8	12.6	11.4	10.2
o/w TOR debt restructuring bonds	0.0	0.0	2.6	2.6	2.1	4.9	4.0	2.9	2.2	1.6	1.4	0.0

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

1/ From 2001 above the line data for domestic recurrent and capital expenditure are presented on a cash basis (payment vouchers), arrears not reflected in line expenditures. Prior to 2001 domestic capital expenditure contained a balancing item.

2/ Prior to 2002, non tax revenues included positive balances on committed accounts outside the consolidated fund. From 2002 onwards, this is treated separately as unspent releases.

3/ From 2002, subvented agency expenditure for wages and salaries and goods and services are subsumed under their respective line items.

4/ Domestic debt stock estimates include TOR bonds issued in 2001 and 2003 but exclude government overdraft at BOG.

5/ Projected discrepancy in 2003 reflects float.

6/ The GPRS dedicates 80 percent of E-HIPC relief to poverty spending and 20 percent to domestic debt reduction. Projections for poverty spending from 2004 onwards are not available.

Table 5. Ghana: Poverty-Related Expenditure, 2001-03
(In percent of GDP, unless otherwise specified)

	2001 Act.	2002 Est.	2003 Proj.
Total poverty-related expenditures	4.5	5.6	6.0
(as a percent of total government expenditure)	13.9	21.3	20.0
Basic education	2.8	3.4	2.5
Primary health care	0.7	0.6	0.8
Agriculture, poverty focused	0.1	0.2	0.1
Rural water	0.0	0.1	0.0
Feeder roads	0.2	0.3	0.3
Rural electricity	0.0	0.1	0.1
Other poverty-related expenditure	0.6	0.8	0.7
HIPC relief not yet allocated	0.0	0.0	1.4
Memorandum items:			
HIPC relief 1/	0.0	1.2	1.4
Total government expenditure (billions of cedis)	12,451	12,751	18,059
Nominal GDP (billions of cedis)	38,071	48,819	60,705

Sources: Ghanaian authorities; and Fund staff estimates and projections.

1/ Excluding 20 percent of relief that is allocated to domestic debt reduction.

Table 6. Ghana: Monetary Survey, 2001-2008

	2001	2002		2003				2004	2005	2006	2007	2008
	Dec. Act.	Dec. Prog. 1/	Dec. Prov.	Mar. Prog.	June Prog.	Sep. Prog.	Dec. Prog.	Dec. Proj.	Dec. Proj.	Dec. Proj.	Dec. Proj.	Dec. Proj.
Bank of Ghana	(in billion of cedis, unless otherwise specified; end of period)											
Net foreign assets	524	1,792	2,265	1,591	879	1,586	3,606	5,261	6,899	8,976	11,727	15,071
(in millions of U.S. dollars)	72	222	266	184	100	177	396	551	702	887	1,126	1,406
Net domestic assets	3,521	2,867	3,502	3,374	3,958	3,529	3,357	2,980	2,336	1,309	-317	-2,380
Claims on government (net)	2,076	2,025	2,867	2,624	3,225	2,983	3,063	3,056	2,711	2,043	856	-661
Claims on deposit money banks	787	544	-375	-226	-223	-388	-598	-756	-879	-1,009	-1,149	-1,308
of which: foreign currency reserves	-277	...	-635	-487	-483	-648	-858	-1,017	-1,140	-1,270	-1,409	-1,568
Claims on rest of the economy	-100	-25	271	271	271	271	271	271	271	271	271	271
Other items, net (assets +)	758	322	739	706	685	664	621	410	234	5	-295	-682
Reserve money (RM)	4,044	4,659	5,767	4,965	4,836	5,115	6,963	8,241	9,235	10,284	11,410	12,691
Currency outside banks	3,090	3,650	4,672	3,979	3,885	4,019	5,626	6,663	7,471	8,323	9,237	10,277
Bank reserves	932	974	1,056	947	912	1,056	1,298	1,538	1,725	1,922	2,134	2,375
Cash	195	148	273	165	160	223	344	408	458	510	566	630
Deposits	736	825	783	782	752	833	953	1,130	1,267	1,412	1,568	1,745
Nonbank deposits	23	35	40	40	40	40	40	40	40	40	40	40
Deposit money banks												
Net foreign assets	942	1,197	2,034	2,113	2,282	3,000	3,178	3,984	4,623	5,299	6,026	6,859
(in millions of U.S. dollars)	129	148	239	244	259	335	349	417	470	524	579	640
Reserves	932	974	1,056	947	912	1,056	1,298	1,538	1,725	1,922	2,134	2,375
Credit from Bank of Ghana	-787	-544	375	226	223	388	598	756	879	1,009	1,149	1,308
Domestic credit	10,147	12,282	12,598	13,946	14,286	13,897	14,214	15,872	17,101	18,387	19,757	21,303
Claims on government (net) 2/	3,913	4,942	5,685	6,791	6,516	5,691	5,489	4,416	3,457	2,492	2,337	2,053
Claims on non-government 2/	6,234	7,340	6,913	7,155	7,771	8,206	8,725	11,456	13,644	15,895	17,421	19,250
Public enterprises (PE) 2/	1,715	1,262	893	950	996	982	971	...	...	...	...	...
Private sector	4,472	6,030	5,863	6,163	6,724	7,145	7,596	...	...	...	...	...
Other items, net (assets +)	-4,099	-5,574	-5,407	-5,724	-5,976	-5,896	-5,835	-6,210	-6,452	-6,698	-6,955	-7,239
Total deposits	7,135	8,334	10,656	11,509	11,727	12,446	13,452	15,940	17,876	19,919	22,111	24,605
Monetary survey												
Net foreign assets	1,466	2,989	4,299	3,704	3,160	4,586	6,784	9,244	11,522	14,274	17,753	21,930
(in millions of U.S. dollars)	200	370	506	428	359	512	745	968	1,173	1,411	1,705	2,046
Net domestic assets	8,782	9,031	11,069	11,823	12,491	11,918	12,334	13,399	13,864	14,007	13,635	12,991
Domestic credit	12,123	14,283	15,736	16,841	17,782	17,151	17,547	19,199	20,082	20,700	20,884	20,912
Claims on government (net) 2/	5,989	6,968	8,552	9,414	9,741	8,674	8,552	7,472	6,168	4,535	3,193	1,392
Claims on non-government 2/	6,134	7,315	7,184	7,426	8,042	8,477	8,996	11,726	13,914	16,166	17,692	19,521
Other items, net (assets +)	-3,341	-5,252	-4,668	-5,018	-5,292	-5,232	-5,213	-5,800	-6,218	-6,693	-7,250	-7,921
Broad money (M2+) 3/	10,248	12,020	15,368	15,527	15,651	16,505	19,118	22,643	25,386	28,281	31,387	34,921
Broad money (M2)	7,874	...	11,815	11,633	11,625	12,170	14,315	16,954	19,008	21,176	23,502	26,147
Currency	3,090	3,650	4,672	3,979	3,885	4,019	5,626	6,663	7,471	8,323	9,237	10,277
Deposits 2/	7,158	8,369	10,696	11,548	11,766	12,485	13,492	15,979	17,915	19,959	22,151	24,644
Memorandum items:	(annual percentage change, unless otherwise specified)											
Broad money (M2)	48.4	25.2	50.0	46.5	39.7	36.1	21.2	18.4	12.1	11.4	11.0	11.3
Reserve money (RM)	31.3	18.7	42.6	35.5	32.0	34.1	20.7	18.3	12.1	11.4	10.9	11.2
Velocity (GDP/end-of-period M2)	4.835	4.856	4.132	4.432	4.683	4.724	4.241	4.241	4.241	4.241	4.241	4.241
Reserve money multiplier (M2/RM)	1.947	2.072	2.049	2.343	2.404	2.379	2.056	2.057	2.058	2.059	2.060	2.060
Bank reserves-to-deposits ratio 4/	0.195	0.162	0.148	0.124	0.118	0.130	0.149	0.149	0.149	0.150	0.150	0.150
Broad money (M2+) 3/	41.4	21.5	50.0	44.5	39.0	36.0	24.4	18.4	12.1	11.4	11.0	11.3
Reserve money (RM+) 5/	32.7	...	48.2	39.4	36.2	34.3	22.2	18.4	12.1	11.4	10.9	11.2
Velocity (GDP/end-of-period M2+)	3.715	3.900	3.177	3.320	3.478	3.483	3.175	3.175	3.175	3.175	3.175	3.175
Reserve money multiplier (M2+/RM+)	2.372	...	2.400	2.848	2.942	2.864	2.444	2.446	2.447	2.448	2.448	2.449
Foreign currency deposits to total deposits	0.332	0.283	0.332	0.337	0.342	0.347	0.356	0.356	0.356	0.356	0.356	0.356
Currency-to-deposits ratio 3/	0.432	0.436	0.437	0.345	0.330	0.322	0.417	0.417	0.417	0.417	0.417	0.417
Currency/M2+ ratio	0.302	0.304	0.304	0.256	0.248	0.244	0.294	0.294	0.294	0.294	0.294	0.294
Credit to non-government 2/	37.1	26.1	17.1	14.2	16.5	8.2	25.2	30.4	18.7	16.2	9.4	10.3
Credit to the private sector 6/	16.6	28.0	31.1	29.1	28.7	26.9	29.6	35.1	20.8	17.7	10.1	11.0
Net international reserves (millions of U.S. dollars)	-28	111	129	46	-38	40	259	414	565	750	989	1,269
Exchange rate (cedis per U.S. dollar)	7,322	8,086	8,504	...	...	...	...	...	...	...	...	...

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

1/ According to EBS/02/16.

2/ TOR debt swap moved 1,421 billion cedis from credit to public enterprises to government in December, 2002.

3/ Including foreign currency deposits.

4/ Excluding foreign currency deposits.

5/ Including deposit money banks' foreign currency reserves with Bank of Ghana.

6/ Credit from deposit money banks to the private sector.

Table 7. Ghana: Balance of Payments, 2000-08
(In millions of U.S. dollars, unless otherwise specified)

	2000	2001	2001	2002	2002	2003	2004	2005	2006	2007	2008
	R. Prog. 1/	Prel.	Prog. 1/	Prov.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Exports f.o.b.	1,936	1,893	1,867	2,037	2,064	2,314	2,568	2,656	2,768	2,896	3,065
Cocoa beans and cocoa products	437	416	381	469	463	614	774	768	792	803	826
Gold	705	647	618	679	689	755	797	841	861	890	951
Timber and timber products	175	169	169	177	182	185	203	222	241	272	293
Others	619	661	699	712	730	761	794	825	873	930	995
Imports, f.o.b.	-2,759	-2,652	-2,831	-2,858	-2,714	-3,158	-3,391	-3,563	-3,768	-3,904	-4,097
Non-oil	-2,239	-2,206	-2,314	-2,489	-2,206	-2,570	-2,872	-3,053	-3,257	-3,368	-3,522
Oil	-520	-446	-517	-369	-508	-588	-519	-510	-511	-536	-575
Trade balance	-823	-759	-964	-822	-650	-844	-823	-907	-1,000	-1,008	-1,032
Services (net)	-246	-236	-182	-321	-214	-291	-327	-338	-328	-310	-291
Of which: interest payments	-109	-99	-106	-150	-124	-113	-128	-133	-129	-137	-141
Private transfers (net)	496	521	600	521	680	656	662	768	877	921	918
Current account balance, excluding official transfers	-573	-474	-546	-622	-183	-479	-488	-477	-451	-397	-405
Official transfers (net)	154	265	263	229	221	359	374	374	372	374	384
Of which: HIPC grants	0	0	0	60	62	73	111	114	112	115	115
Current account balance, including official transfers	-419	-210	-283	-393	38	-120	-114	-103	-80	-23	-21
Capital account	163	217	192	247	-65	99	157	118	157	186	187
Official capital (net)	97	129	104	147	-115	12	56	61	96	121	123
Medium and Long-term loans											
Inflows	513	416	391	420	195	296	326	326	341	357	375
Amortization	-416	-288	-288	-274	-309	-284	-270	-266	-246	-237	-251
Private capital	65	88	88	100	50	87	100	57	61	66	64
Of which: divestiture receipts	51	0	0	50	0	37	47	0	0	0	0
Other capital and errors and omissions	134	46	89	0	67	-45	-113	-53	-53	-55	0
Of which: change in net foreign assets of commercial banks	27	0	-131	0	-111	-110	-68	-53	-53	-55	0
Of which: errors and omissions	95	73	290	0	117	0	0	0	0	0	0
Overall balance	-123	53	-2	-146	39	-66	-71	-38	24	109	166
Change in arrears	27	-89	61	0	-61	0	0	0	0	0	0
Financing	96	36	-59	-187	21	28	2	12	-67	-133	-192
Debt deferral	0	228	150	-30	-35	-35	-35	-35	-35	0	0
Net international reserves (negative is increase) 2/	96	-192	-209	-156	-157	-130	-155	-151	-185	-239	-280
Of which: Use of Fund credit	-2	1	1	121	54	51	31	22	-2	-56	-61
Disbursements (PRCF)	35	67	67	135	68	72	72	72	36	0	0
Repayments (PRCF)	-37	-66	-66	-14	-14	-21	-40	-49	-38	-56	-61
Change in reserves (negative is increase)	52	-87	-79	-277	-286	-181	-186	-173	-183	-183	-219
Exceptional financing 3/	0	0	0	0	214	193	192	198	153	106	88
Financing gap	0	0	0	333	0	38	69	26	43	24	25
Of which: HIPC not yet agreed	0	0	0	0	0	23	29	0	0	0	0
Additional donor financing	0	0	0	54	0	15	40	26	43	24	25
Memorandum items:											
Current account deficit (in percent of GDP)											
Excluding official transfers	11.5	9.0	10.3	10.2	3.0	6.9	6.3	5.7	5.0	4.1	3.9
Including official transfers	8.4	4.0	5.3	6.4	-0.6	1.7	1.5	1.2	0.9	0.2	0.2
Gross international reserves											
End of period (US\$ millions)	264	352.0	344	629	630	811	997	1,170	1,354	1,536	1,755
In months of imports of goods and services	0.9	1.2	1.2	2.0	1.9	2.3	2.7	3.1	3.4	3.7	4.0
Cocoa exports											
Volume (in thousands of tons)	389	395	370	431	367	395	403	419	436	444	453
Price (in US\$ per ton)	1,092	1012	1,021	1,051	1,266	1,500	1,900	1,800	1,780	1,760	1,772
External debt service paid											
In percent of exports of GNPS	21.9		10.1		10.2	5.6	4.1	4.7	5.0	5.3	6.1
In percent of government revenue	60.2		25.2		24.1	10.6	7.5	8.3	8.5	8.8	10.0

Sources: Bank of Ghana; and Fund staff estimates and projections.

1/ According to EBS/02/16.

2/ Definition changed from Net Foreign Assets to Net International Reserves at the end of 2000.

3/ Includes interim relief from Paris Club creditors comprising Naples and Cologne flow terms, as described in EBS/02/20.

Table 8. Ghana: External Financing Requirements and Sources, 2000-05
(In millions of U.S. dollars)

	2000	2001	2002	2003	2004	2005
Gross Financing requirements	-704	-722	-698	-958	-1,034	-997
Current account (excluding official transfers)	-573	-546	-183	-479	-488	-477
Exports, f.o.b.						
Imports, f.o.b.	1,936	1,867	2,064	2,314	2,568	2,656
Services (net)	-2,759	-2,831	-2,714	-3,158	-3,391	-3,563
Private transfers	-246	-182	-214	-291	-327	-338
Capital account	496	600	680	656	662	768
Scheduled amortization	-253	-176	-207	-262	-323	-311
IMF repayments	-416	-288	-309	-284	-270	-266
Other capital (net) 1/	-37	-66	-14	-21	-40	-49
Change in official reserves (increase -)	199	177	117	42	-13	4
Other net reserves (- increase)	52	-79	-286	-181	-186	-173
Change in arrears (decrease -)	45	-131	75	0	0	0
Deferral of debt payments	27	61	-61	0	0	0
Available Financing	0	150	-35	-35	-35	-35
Expected disbursements	702	721	697	920	964	970
Grants	702	721	483	728	772	772
Project and other	154	263	221	359	374	374
Program	112	105	75	155	164	165
HIPC 2/	42	158	84	130	99	95
Concessional loans	0	0	62	73	111	114
Project and other	513	391	195	296	326	326
Program	369	256	175	221	225	225
IMF 3/	144	135	20	75	101	101
Exceptional financing 4/	35	67	68	72	72	72
Financing gap	0	0	214	193	192	198
HIPC not yet agreed	0	0	0	38	69	26
Expected donor support	0	0	0	23	29	0
	0	0	0	15	40	26

Sources: Ghanaian authorities; and Fund staff estimates and projections.

1/ Historical figures include errors and omissions.

2/ Includes interim relief from the IMF, World Bank, and African Development Bank.

3/ Includes projected disbursements under new PRGF arrangement.

4/ Includes interim relief from Paris Club creditors comprising Naples and Cologne flow terms, as described in EBS/02/20.

Table 9. Ghana: Schedule of Disbursements Under the Proposed PRGF Arrangement, 2003-06

Date	Amount		Conditions
	In SDRs	In percent of quota 1/	
April 2003	26,350,000	7.1	Board approval of PRGF arrangement.
November 2003	26,350,000	7.1	Observance of end-June 2003 performance criteria and completion of first review.
May 2004	26,350,000	7.1	Observance of end-December 2003 performance criteria and completion of second review.
November 2004	26,350,000	7.1	Observance of end-June 2004 performance criteria and completion of third review.
May 2005	26,350,000	7.1	Observance of end-December 2004 performance criteria and completion of fourth review.
November 2005	26,350,000	7.1	Observance of end-June 2005 performance criteria and completion of fifth review.
April 2006	26,400,000	7.2	Observance of end-December 2005 performance criteria and completion of sixth review.
Total	184,500,000	50.0	

1/ Ghana's quota is SDR 369 million.

Table 10. Ghana: Indicators of Fund Credit, 2000-08

	2000	2001	2002	2003	2004	2005	2006	2007	2008
				Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Outstanding Fund credit 1/									
In millions of U.S. dollars	296.1	287.2	346.1	415.3	446.7	469.3	467.3	411.1	350
In millions of SDRs	224.5	225.6	267.3	304.9	328.0	344.4	342.8	301.7	257
In percent of quota	60.9	61.1	72.4	82.6	88.9	93.3	92.9	81.8	69.6
In percent of GDP	5.9	5.4	5.6	6.0	5.8	5.6	5.2	4.2	3.3
In percent of exports of goods and nonfactor services	12.1	12.0	13.2	14.3	14.0	14.3	13.6	11.4	9.2
Debt service due to the Fund 1/									
In millions of U.S. dollars	40.9	68.1	15.9	24.0	44.1	53.4	42.2	59.8	64.6
In millions of SDRs	31.0	53.5	12.3	17.7	32.4	39.2	31.0	43.9	47.4
In percent of quota	8.4	14.5	3.3	4.8	8.8	10.6	8.4	11.9	12.8
In percent of exports of goods and nonfactor services	1.7	2.8	0.6	0.8	1.4	1.6	1.2	1.7	1.7
In percent of debt service due	7.3	15.0	3.5	5.8	10.3	12.4	10.5	14.5	14.8
In percent of gross official reserves	15.5	19.8	2.5	3.0	4.4	4.6	3.1	3.9	3.7
Gross Fund financing 1/									
In millions of U.S. dollars	35.3	67.0	68.1	71.8	71.8	71.8	36.0	0.0	0.0
In millions of SDRs	26.8	52.6	52.6	52.7	52.7	52.7	26.4	0.0	0.0
Net Fund financing (in millions of SDRs)	-1.3	0.8	41.6	37.6	23.1	16.4	-1.6	-41.1	-44.8
Memorandum items:									
Exchange rate (U.S. dollars per SDR)	1.319	1.273	1.295	1.362	1.362	1.362	1.363	1.363	1.363
Quota (in millions of SDRs)	369	369	369	369	369	369	369	369	369
GDP (In millions of U.S. dollars)	5,000	5,303	6,143	6,897	7,712	8,322	9,007	9,718	10,512
Gross official reserves (in millions of U.S. dollars)	264	344	630	811	997	1,170	1,354	1,536	1,755

Sources: Ghanaian authorities; and staff calculations.

1/ Includes proposed PRGF disbursements from 2003 onward.

Table 11. Ghana: Selected Social and Demographic Indicators

	Ghana			Sub-Saharan Africa	Low-Income Countries
	1975	1985	1995-2000 1/	1995-2000 1/	1995-2000 1/
Population					
Total population, midyear (millions)	9.8	12.6	18.1	619.9	2,345.5
Growth rate (annual average in percent)	2.2	3.6	2.4	...	2.0
Urban population (population in percent) 2/	8.8	9.4	37.2	32.9	30.8
Total fertility rate (births per woman)	6.6	6.4	4.4	5.5	3.8
Population age structure (percent)					
0-14 years	45.5	45.5	44.1	44.5	37.6
15-64 years	52.0	51.8	53.3	52.5	58.1
65 and above	2.5	2.7	3.1	2.9	4.3
Life expectancy at birth (years)					
Total	51.2	55.2	59.0	48.2	58.7
Male	49.6	53.5	57.5	47.0	57.8
Female	52.9	56.9	60.7	49.4	59.7
Mortality					
Infant (per 1,000 live births)	103	85	56	94	78
Under age of 5 (per 1,000 live births)	172	138	107	159	116
Adult (aged 15-59)					
Male (per 1,000 population)	430	367	297	472	284
Female (per 1,000 population)	355	302	249	425	252
Income					
Gross national income per capita (U.S. dollars)	310	360	380.0	511.7	423.3
Consumer price index (1995=100)	6	8	204.0	118.8	124.5
Food price index (1995=100)	...	8	149.7	121.3	...
Social indicators					
Public expenditure (percent of GDP)					
Health	...	...	1.6	2.3	1.2
Education	4.6	2.5	3.0	...	3.7
Social security and welfare	...	...	1.4	...	...
Health and nutrition					
Access to safe water					
(percent of population in 1990)					
Total	...	56.0	64.0	55.4	70.3
Urban	...	83.0	87.0	81.9	89.4
Rural	...	43.0	49.0	41.4	63.6
Immunization rate					
(percent of children under 12 months)					
Measles	...	34	73	57	61.2
DPT	...	29	72	59	60.9

Table 11. Ghana: Selected Social and Demographic Indicators (concluded)

	Ghana			Sub-Saharan Africa	Low-Income Countries
	1975	1985	1995-2000 1/	1995-2000 1/	1995-2000 1/
Labor force					
Total labor force (in millions)	4.6	5.9	8.6	271.0	1,052.8
Participation rate (in percent)					
Male	46.7	46.5	49.4	57.8	62.4
Female	47.3	47.5	50.6	42.2	37.6
Education (1993)					
Enrollment rates (in percent of age group)					
Primary enrollment	...	...	76	...	...
<i>Of which : female</i>	...	...	70	...	...
Secondary enrollment	...	...	36	...	...
<i>Of which : female</i>	...	...	28	...	...
Literacy (percent of population 15 years and older)					
Total	36.4	51.1	68.4	58.8	60.5
Male	50.3	64.0	78.0	67.4	70.1
Female	23.0	38.6	59.1	50.5	50.7
Poverty incidence (percent of population below the poverty line) 3/					
		<u>1991/92</u>	<u>1998/99</u>		
National head count index		50.8	42.6	...	...
Urban head count index		27.5	22.8	...	...
Rural head count index		62.4	51.6	...	...

Sources: Ghana Statistical Service, *Quarterly Digest of Statistics*; IMF, *International Financial Statistics*; and the World Bank.

1/ Latest available data in the period 1995 to 2000.

2/ Percent of population living in agglomerations of 1 million inhabitants or more.

3/ Poverty line estimated at \$900,000 a year at mid-1992. Based on living standards surveys conducted by the Ghana Statistical Service in collaboration with the World Bank during 1991-92 and 1998-99.

March 31, 2003

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Köhler:

1. On behalf of the government of Ghana, we hereby transmit an attached memorandum of economic and financial policies (MEFP) that sets out the objectives and policies that the government intends to pursue in 2003-05. The MEFP is consistent with the finalized Ghana Poverty Reduction Strategy, which was forwarded separately to you and the President of the World Bank on February 20, 2003. Our reforms center around measures to substantially raise revenue to make room for increased poverty-related spending and development needs, strengthen public expenditure management, further reform energy and utility pricing, and use appropriate monetary policy to deliver on the single-digit inflation target. The government intends to make the contents of this letter and those of the attached MEFP and technical memorandum of understanding (TMU), as well as the staff report on the request for the three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), available to the public and authorizes you to arrange for them to be posted on the IMF website, subsequent to Board approval.
2. The prior actions, performance criteria, and benchmarks under the program are set out in Tables I.1 and I.2 of the MEFP. The first review under the PRGF arrangement is expected to be completed by November 14, 2003.
3. In support of these objectives and policies, the government of Ghana hereby requests a three-year arrangement under the PRGF, in an amount equivalent to SDR 184.5 million (50.0 percent of quota), including a disbursement equivalent to SDR 26.35 million upon Board approval of the PRGF arrangement, and an additional disbursement of interim assistance under the enhanced HIPC Initiative in an amount equivalent to SDR 15.15 million covering the next 12 months commencing with Board approval. We understand that the provision of the additional interim assistance would be conditioned on the accuracy of the information provided by Ghana with respect to the prior actions set forth in Table I.2 of the

MEFP. In support of its overall economic program, the government will also be requesting support from bilateral and multilateral donors and creditors.

4. The government of Ghana will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

5. The government of Ghana believes that the policies and measures set forth in the MEFP are adequate to achieve the objectives of the program supported by the PRGF arrangement, but will take further measures to that end if deemed necessary. With respect to inflation, in particular, we note that the rate recorded in February 2003 was substantially higher than expected under our program. If this jump in inflation is not promptly reversed toward the trend underlying the program, we stand ready to take additional appropriate policy measures, in consultation with Fund staff. During the implementation of the arrangement, Ghana will consult with the Managing Director on the adoption of any measures that may be appropriate, at the initiative of the government or whenever the Managing Director requests such a consultation.

6. We can assure you, Mr. Managing Director, that the government of Ghana is determined to fully implement the program and we hope we can count on the support of the Fund in our endeavors.

Yours sincerely,

/s/

Hon. Yaw Osafo-Maafa, MP

Minister of Finance

/s/

Hon. Paul A. Acquah

Governor of the Bank of Ghana

Attachments (2)

Memorandum of Economic and Financial Policies for 2003-05

Technical Memorandum of Understanding

**Memorandum of Economic and Financial Policies
of the Government of Ghana for 2003-05**

March 31, 2003

I. INTRODUCTION

1. Following broad discussions held with public and private stakeholders, the Government of Ghana in February 2003 finalized and published its comprehensive Ghana Poverty Reduction Strategy (GPRS). The donor community has expressed its intent to support the GPRS, including through a Multi-Donor Budget Support (MDBS) package to be launched in early 2003, that will be coordinated and aligned with a medium-term financial program from the World Bank.

2. This memorandum presents a brief summary of developments under the government's 2002 program, outlines the medium-term objectives and policy framework through 2003-05, and sets out the economic and financial policies of a program for 2003 for which we are seeking support under a new three-year PRGF arrangement with the Fund. Policies described in the memorandum are consistent with the GPRS framework, and the 2003 budget which has been presented to parliament for passage in March 2003. Following satisfactory performance under the PRGF arrangement in 2003 and implementation of other applicable conditions, we hope that Ghana will qualify for completion point status under the enhanced HIPC Initiative in the early part of 2004.

II. PROGRAM PERFORMANCE DURING 2002

3. Against a background of strong efforts in 2001 to stabilize the economy from the effects of a severe terms of trade shock the year before, the 2002 program (our letter of intent dated January 31, 2002) aimed to further consolidate the gains and achieve a continued reduction in inflation and a strengthening of economic growth. The budget sought to strengthen Ghana's tax base, allocate resources (including HIPC relief) toward priority areas identified in the GPRS, and reduce significantly the burden of domestic debt. The program emphasized improved public expenditure management, to ensure that the budget was implemented as envisaged, further pricing reforms to place the finances of key public enterprises on a sustainable footing, the launch of the divestiture strategy, and a continued reduction in inflation.

4. Notable progress was made in 2002 on a number of fronts. Twelve-month inflation, which had been cut by half in 2001 to 21.3 percent, continued to fall to 15.2 percent at end-2002. The Bank of Ghana strengthened its gross international reserve position from the equivalent of 1.2 months of import cover at end-2001 to 1.9 months of imports at end-2002, in line with program objectives. Prices for electricity and water were raised by 60 percent and 40 percent respectively from August 1, 2002, substantially improving the finances of the

utilities and containing their subsidy burden on the budget. Considerable progress was made on our program to modernize the legal framework for Ghana's financial sector. The divestiture process began to move forward in late 2002, with the offer for sale of the Cocoa Processing Company and substantial completion of the preparatory work for the sale of other "targeted" assets, although the proceeds will not be realized until 2003-04.

5. Audits of the key public enterprises were completed, and cross arrears with the government were settled. Similarly, road arrears were liquidated as they were verified. Progress was less than satisfactory in other areas relating to the execution of the budget and operation of public enterprises. A particular challenge related to higher-than-anticipated payments for wages and salaries (especially to teachers and doctors), commencing in late 2001, that exceeded the budget target in 2002 by 1.8 percent of GDP. Among the factors contributing to the wage bill overrun were (i) unbudgeted wage increases to select groups of staff, notably in the Ministries of Health and Education, in part to stem a mass exodus of staff and service disruption; and (ii) unbudgeted increases in allowances, mostly to doctors and nurses. Ministries, departments, and agencies (MDAs) did not universally apply the established procedures for controlling wage and salary expenditures. Domestically financed capital expenditure was curtailed by 1.7 per cent of GDP to almost offset the higher wage payments.

6. Unbudgeted expenditures incurred in late 2001 but paid in 2002 necessitated net additional financing of 1 percent of GDP. There were also large unplanned payments to utilities (including the Volta River Authority) in settlement of cross-public enterprise arrears. The postponement of the new revenue measure (for timing considerations) entailed a fiscal revenue loss of 0.7 percent of GDP, more than offsetting an underlying improvement in revenue collections. In these circumstances, the domestic primary balance in 2002 was 2.0 percent of GDP (compared with the 3.1 percent of GDP programmed). Delays in the divestiture program to allow for better asset valuations and to achieve greater transparency and efficiency meant that the programmed 0.8 percent of GDP in divestiture proceeds were not realized. External program support also fell short of the expected amount, by about 1.4 percent of GDP, and only half of the planned foreign-financed capital expenditures could be executed, reflecting in part delays in donor disbursements. Moreover, the nonadjustment of retail petroleum prices in the face of rising world oil prices and depreciation of the cedi led to an accumulation of further substantial financial losses (of around 2 percent of GDP) by the Tema Oil Refinery (TOR).

III. MEDIUM-TERM OBJECTIVES AND POLICY FRAMEWORK

7. In light of developments in 2002, the government has revised the medium-term macroeconomic framework, and recast the policy matrix and program costings contained in the GPRS. The framework will bring about a halving of the ratio of domestic debt to GDP (from its end-2000 level) by 2005. In addition to updating the medium-term envelope for fiscal operations and poverty spending, the improved GPRS is intended to provide a more direct correspondence between the assessment of the poverty situation, the identification of key measures to address poverty, and the prioritization and costing of government programs,

all of which were developed with broad public consultation. This facilitates the incorporation of the GPRS into the budget and the identification of those additional spending programs that could be implemented, should additional external resources become available.

8. As highlighted in the GPRS, Ghana's basic infrastructure continues to remain in very poor shape. The building of roads, ports, and communication networks to open the country, as well as the provision of reliable energy to fuel the modernization process and improve the lives of the Ghanaian people at a more rapid pace than was previously possible, have been driving forces behind the government's efforts to secure a predictable flow of external financing for infrastructure development. Accordingly, it is hoped that domestic stakeholders as well as international partners will be supportive in raising the additional resources that will be needed to fund Ghana's poverty reduction strategy.

9. In line with the medium-term objectives laid out in the revised GPRS, the government's economic program for 2003-2005 is intended to:

- improve the standard of living of ordinary Ghanaians by raising real growth to at least 4.9 percent on average per year;
- increase poverty spending, financed in part through debt relief under the HIPC Initiative;
- reduce inflation from 15 percent at end-2002 to single digits in 2003 and beyond; and
- rebuild gross official reserve holdings to three months of imports of goods and services by 2005.

Key policies needed to deliver these outcomes, and to lay the foundations for further gains in subsequent years, include:

- reducing the government's domestic debt as a share of GDP, from 29 percent at end-2002 to around 15 percent at end-2005, by maintaining domestic primary budget surpluses, and using any unprogrammed receipts from divestiture or program aid, as well as a portion of HIPC relief, to retire domestic debt;
- reinforcing effective monitoring, control, and transparency in public expenditure operations, in particular the tracking of poverty spending and the wage bill;
- containing the losses and indebtedness of the main parastatals, through full implementation of the automatic adjustment formula for petroleum prices, phased adjustments to achieve and maintain full cost recovery in utility pricing, implementation of the divestiture program, and further restructuring of parastatal debt;

- removing the source of quasi-fiscal financing of state enterprise debt, and improving overall banking soundness, through the sale of the largest state-owned bank;
- Continued development of the financial sector, including improved banking supervision and policies to facilitate increased credit by the banking system in support of private sector development; and
- Improving the quality and timeliness of economic statistics.

10. The government's medium-term plan has benefited from discussions with representatives from civil society and business (including the new Ghana Investors' Advisory Council) on the constraints to growth and private sector investment in Ghana, and especially on ways in which the contribution of the financial sector can be strengthened. A number of consistent themes have emerged from these discussions, including:

- the importance of macroeconomic stability;
- the need to curtail excessive government domestic debt and public enterprise borrowing, so as to reduce crowding out and lower real interest rates;
- the problem of infrastructure deficiencies, especially in telecommunications and energy;
- inefficiencies in customs and ports;
- the need for legal reforms and improved land title registration to enable banks to enforce loan contracts and obtain collateral for lending; and
- the need to develop equity finance in Ghana.

The medium-term program is designed to take concerted action in all of these areas.

11. It is envisaged that the medium-term measures described in this memorandum would be complemented by additional policy reforms to be supported under a Multi-Donor Budget Support (MDBS) program, aimed at enhancing the effectiveness of the civil service, the budgetary process, public sector accountability, governance, and decentralization. Assistance is also being sought from the World Bank in the areas of power sector reform, development of a strategic plan for agriculture, road construction, civil service reform, and implementation of a computer-based public sector financial management system. All measures defined under these programs will be drawn from the GPRS, or elaborate on broad GPRS objectives.

IV. THE PROGRAM FOR 2003

A. Growth and Inflation Objectives

12. The main challenges for 2003 will be to encourage a continued strengthening in economic growth, while ensuring effective implementation of the poverty reduction programs in the budget, and reducing inflationary pressures further. In light of the deterioration in the outlook for the world economy, the government has revised downward its projection for real growth in 2003, to about 4.7 percent (compared to an earlier GPRS projection of 5.0 percent). Ghana's economy is also subject to risks associated with the ongoing crisis in neighboring Côte d'Ivoire, and the uncertainties involved strengthen the case for caution in projecting growth for the year ahead.

13. The government aims to bring CPI inflation down to below 10 percent by end-2003. This will represent a challenge, given recent increases in petroleum product prices, the need for enacting revenue measures, and the scheduled utility price increases, all during the first few months of 2003 (see below). However, we view the targeted reduction in inflation as an important factor underpinning continued economic growth and poverty reduction.

B. Monetary Policy

14. To achieve the inflation target, monetary policy will need to be prudently tight. We estimate that the growth of broad money (excluding foreign currency deposits) will need to be reduced from 50 percent at end-2002 to around 21 percent by end-2003. A primary intermediate target is reserve money growth (excluding banks' foreign currency deposits) of 21 percent during 2003. In order to secure a desired buildup in net international reserves of at least US\$130 million, the central bank's net domestic assets (calculated at the program exchange rate) will be increased by no more than ₵92 billion in the year to December 31, 2003. The corresponding quarterly targets are shown in Table I.1. The Bank of Ghana will use open market operations and adjustments in its prime rate, as necessary, to achieve its monetary objectives.

15. Given the support of a strengthened fiscal position, as outlined below, the targeted slowdown in money growth is assumed to be consistent with some decline in real interest rates during 2003. This will help promote expansion in bank credit in real terms to the private sector of about 20 percent in 2003, with further real increases projected in outer years.

C. Fiscal Policy

16. The principal fiscal policy objective is to stabilize and cut the domestic debt stock in order to stem the increase in interest payments and to achieve the desired easing in real interest rates. The 2003 budget is framed to achieve the elimination of reliance on net domestic financing. This will be a challenging goal in view of the ratcheting up of the wage bill in 2002, the burden of servicing the accumulated TOR debt (see below), and the continued objective of maximizing social and development spending.

17. To offset these factors and place public finances on a permanently sound footing, we have proposed to parliament two substantial new revenue measures:

- A new broad-based tax, the National Health Premium, at a rate of 2½ percent on expenditures and transactions. We expect that this tax will be introduced in March 2003, effective from May 1 with speedy passage of an accompanying legislative instrument. It will yield an estimated 0.5 percent of GDP in 2003, of which half will be used to fund the start-up of a new National Health Insurance Scheme, and the full-year yield will be 1 percent of GDP.
- A Debt Recovery Levy on petroleum products, at the rate of ¢640 per liter. We will seek passage of this measure, which will yield an estimated 1.6 percent of GDP in 2003 and 1.9 percent of GDP in a full year, in March 2003, for immediate implementation.

Aside from its fiscal benefits, we expect the National Health Premium to have a positive distributional impact: the direct burden on lower income groups will be limited, because a high proportion of their consumption basket falls outside of the applicable tax base, while the poor will benefit from extra poverty-reducing expenditure to be financed by the additional budget resources that will become available. As for the Debt Recovery Levy, the government decided to implement it across-the-board, since the structure of petroleum product prices already includes significant cross subsidization in favor of products consumed primarily by low-income households.

18. Other revenue measures to help finance the 2003 budget include:

- extension of the National Reconstruction Levy (which expired at the end of 2002), yielding 0.2 percent of GDP;
- an increase in the Road Levy on petroleum products, yielding 0.9 percent of GDP to fund larger allocations for road maintenance; and
- in the timber sector, higher stumpage fees, which will support development projects in rural communities, and increased revenues (estimated at 0.5 percent of GDP) from the opening up of timber concessions to public auction.

19. A number of measures are being taken to further improve on tax administration. A Large Taxpayers' Unit (LTU) will be ready for launch by mid-June 2003, and initially will cover about 350 taxpaying entities. In support of the LTU and other initiatives, a Taxpayers Identification Number (TIN) law was passed in 2002, and during 2003 we intend to build the TIN database and enforce TIN implementation in all revenue agencies. Additional efforts to improve tax administration systems will be financed by a retention fund for the responsible agencies, equivalent to no more than 3 percent of their revenues. As a result of these measures, the rates of efficiency in collection by the main revenue agencies are assumed to improve by at least 5-6 percent in 2003. We also hope to enhance revenue generation from

the national lotteries by bringing these under direct government control, supervised by the Revenue Agencies Governing Board; to be prudent, however, expected gains from this reform have not been included in the budget revenue projections. Should revenues fall short of the budget projections, expenditure ceilings will be adjusted accordingly to ensure adherence to the domestic financing targets; savings would be sought primarily in the non-priority capital expenditure programs, and poverty-related expenditures would be protected.

20. Every effort will be made to bring the wage bill under control in 2003. For the first time, the government will begin to apply a hard budget constraint to wages, and will limit the overall wage bill to no more than ₵5,450 billion, a 22 percent increase on the underlying base for 2002. Our policy in this respect will be supported by the following immediate measures:

- the rigorous enforcement of quarterly expenditure ceilings on wages, with the effect that any MDA in breach of a quarterly ceiling will be required to make offsetting savings in subsequent quarters (a cabinet decision endorsing this regime will be adopted in March 2003).
- advancing the timetable for 2003 wage negotiations (including collective bargaining agreements of non-GUSS agencies) with a view to completing all negotiations before the 2003 budget is passed by Parliament;
- requiring that any MDA engaged in negotiations relating to wages or allowances will do so strictly within its 2003 budget ceiling, in cedi levels; and
- requiring that all MDAs present complete monthly rosters of employees paid through block payments to subvented agencies.

In the medium term, it is envisaged that the National Institutional Renewal Program will address pay reform, the rationalization of government and subvented agencies, and the restructuring of the civil service to carry out the objectives of the GPRS.

21. With the second round of adjustments in utility prices in March 2003 (see below), subsidies to utilities will be limited to ₵50 billion and directed to finance lower-than-market rates for low-income consumers of electricity and water.

22. The government will remain current on its statutory payments to the District Assembly Common Fund and the Ghana Education Trust Fund. It has also provided for the clearance of end-2002 arrears to these funds in five equal parts during 2003-2007. The 2003 budget includes an allowance for the clearance of expenditure arrears in the roads sector totaling ₵220 billion, and ₵100 billion for other domestic expenditure arrears. An audit of 2002 expenditure arrears will be concluded by mid-2003.

23. Aggregate poverty-related expenditure, as defined in the GPRS, is budgeted at 4.6 percent of GDP in 2003, before use of HIPC resources, or around 6 percent of GDP including HIPC-financed expenditures. This compares with estimated poverty-related

expenditures of 4.5 percent of GDP in 2001, the year before Ghana began to receive relief under the enhanced HIPC Initiative.

24. The 2003 budget is framed on the expectation of external program support totaling 3 percent of GDP, and a further 4.2 percent of GDP in external debt relief. Taking these contributions into account, the government intends to keep net domestic financing of the budget to zero in 2003, subject to application of the adjusters defined in the technical memorandum of understanding (TMU).

D. Public Expenditure Management

25. The government attaches the highest importance to the effective control and monitoring of public expenditure, as a means of ensuring that the spending priorities identified in the GPRS and reflected in our 2003 budget are implemented as planned. A number of steps have recently been taken to improve public sector monitoring and control in 2003, including the:

- routine monthly reconciliation of MDA accounts with banking data.
- regular reporting by MDAs of their internally generated funds.
- reform of the direct debits system, to ensure registration of debits at the Controller and Accountant General's Department (CAGD) before their issuance, and immediate entry into the CAGD's expenditure accounts;
- elimination of 800 dormant accounts at the Bank of Ghana (out of about 4,000 government accounts in total);
- completion of a personnel audit of the civil service, which led to the removal of approximately 3,000 names (out of a total of about 450,000) for the civil service and pension payrolls; and
- issuance of a circular to MDAs that all payment vouchers with respect to 2002 expenditure commitments should be issued no later than December 15, 2002.

26. A fully integrated, computerized budget and public expenditure management system (BPEMS) financial and accounting system, developed with assistance from the World Bank, is slated to replace the existing system by the end of 2003. All MDAs will gradually be brought into the BPEMS, with the CAGD and the Ministry of Finance (MOF) having migrated as of January 31, 2003, to be followed by the Ministries of Health, Education, and Roads and Transport by end-2003. During 2003, the BPEMS will be tested and operated in parallel with the current reporting system.

27. Further efforts are needed to tighten up controls on the validation of payroll lists, and on the implementation of additions, deletions, and changes to payroll rosters in the two main payroll databases (IPPD for workers on the Government Unified Salary Structure, and a

second database for remaining subvented agencies). Some internal controls and audit trail capabilities will become available when IPPD2 is installed in late 2004. In the meantime, existing control systems will be tightened, MDAs will be required to ensure that all staff are registered on one of the two databases, and supervisors will be held accountable for the accurate and timely validation of their payroll lists.

28. To ensure effective and continuous monitoring of budget implementation, the MOF will submit monthly “fiscal early warning” reports to the Economic Management Team via the Economic Policy Coordinating Committee (EPCC), and the Minister of Finance will brief cabinet on fiscal developments on a quarterly basis. The reports (fully reconciled and with no more than an eight-week lag) will summarize fiscal outturns for revenue, expenditure, and financing developments for the year to date, and relative to budget, and will draw policy implications for the remainder of the year. The first such report, covering developments in December 2002, has already been provided to the Economic Management Team.

29. To improve control over expenditure commitments while enhancing flexibility at the MDA level, the current practice of releasing monthly funds on a prorated basis will be discontinued and replaced in 2003 with a cash management system underpinned by quarterly expenditure ceilings. Specifically, quarterly ceilings issued by the MOF for each expenditure item will be based on updated and prioritized cash projections to be submitted by MDAs. Poverty-related expenditures, as defined in the GPRS, will be closely monitored using the poverty expenditure tracking system, which will generate monthly reports with a lag of no more than eight weeks. MDAs and donors will be asked to improve the reporting of donor-financed expenditures and internally-generated funds, so that the coverage of data on poverty-related spending can be broadened to include these resources.

E. Public Enterprise Reform

30. The delay in implementing the automatic adjustment formula for petroleum prices was a setback for the 2002 program, and the government believes that a durable solution is required. As a first step, on January 17, 2003, we raised retail petroleum prices by 90 percent on average, bringing them fully in line with world market levels. To mitigate the impact on the poorer segments of Ghana’s population (and as envisaged in the pricing formula), the cross subsidization of kerosene and liquefied petroleum gas (products used heavily by the poor) was maintained. We also announced that the National Petroleum Tender Board will henceforth have the mandate and independent authority to make monthly adjustments in maximum petroleum product prices according to the automatic adjustment formula, without further approval by the Ministry of Energy. The formula (the parameters of which are specified in the TMU) will become operational immediately following parliamentary approval of the Debt Recovery Levy. At that time, full cost recovery (ex refinery), plus all applicable levies and margins, will be assured and subsequently maintained. Before the end of 2003, the government will review the experience with setting petroleum prices flexibly according to the automatic adjustment formula, and on that basis consider the possible liberalization of petroleum product prices in 2004.

31. The delay in adjusting petroleum prices has meant that the short-term debt of Tema Oil Refinery (TOR) has again risen to unsustainable levels. Estimates are that TOR's short-term debt rose by around ₵1,000 billion (2.0 percent of GDP) in 2002. To make TOR viable, the entire amount of short-term debt to the banking system that is quasi-fiscal in origin had to be recognized as government debt. Accordingly, in December 2002, ₵1,400 billion of TOR's bank debt was exchanged for government TOR bonds paying a 4.5 percent real rate of interest, bringing the total amount of TOR debt assumed by the government to approximately ₵2,400 billion and leaving around ₵2,100 billion of short-term debt on TOR's books. Accommodation has been made in the medium-term fiscal framework for the servicing and amortization of the TOR bonds, funded by the Debt Recovery Levy.

32. The restructuring of TOR's debt should clear the way for the privatization of Ghana Commercial Bank (GCB), the refinery's main creditor. The divestiture of GCB is sufficiently important from the point of view of the overall soundness of the banking system that it will serve as a structural benchmark under the government's PRGF-supported program for 2003, with a target date of no later than September 30, 2003 for cabinet approval of the winning bid.

33. The government is considering options for the partial divestiture of Ghana Airways. The airline's current stock of outstanding debt to creditors is estimated at about US\$140 million (2.4 percent of GDP), and following recent cost-cutting measures, its cash flow has been sufficient to service its debt in recent months. The government will resist any entreaties to assume Ghana Airways' commercial debt, which would not be in keeping with our priorities under the poverty reduction strategy, and will instead require the company to work out with its creditors a satisfactory solution to its debt problem.

34. By the end of 2004, the government intends to complete action on the divestiture of state holdings in joint venture companies. These and other asset sales are expected to yield around ₵400-450 billion per year in 2003 and 2004.

35. The government remains committed to achieving and maintaining full cost recovery in electricity and water pricing. On March 1, 2003, a second round of price increases (12 percent each for electricity and water) came into effect, following which the Electricity Company of Ghana and the Ghana Water Company Limited should be able to cover their costs. Thereafter, the rates of cost recovery will be maintained through the implementation of the established automatic adjustment formulas. The Volta River Authority (VRA) will continue to incur losses as a result of the preferential tariffs granted to a large aluminum company. This problem is currently the subject of international arbitration, and a durable solution must await the conclusion of that process. However, the government will develop a plan by September 30, 2003, for managing the interim financial burden on VRA.

F. Financial Sector Reform

36. Significant progress has been made in financial sector reform over the past 12 months. Key elements include:

- the finalization of a new Banking Bill, to reinforce the central bank's powers to conduct effective supervision of the banking system, and of bills to modernize the legal framework for the payments system;
- the preparation of an Insurance Bill that will strengthen the regulatory framework for insurance companies operating in Ghana;
- an intensification of supervision activity for both banks and nonbank financial institutions (NBFIs), and a tightening of the regulatory framework;
- enhancement of the operating environment for rural banks, including through the opening of an Apex Bank to act as central clearing agent for rural banks and the reduction in reserve requirements for rural banks to commercial bank levels;
- initiation of legislation on money laundering;
- drafting of tighter regulations and oversight of securities dealers;
- preparation of an improved corporate investment plan for the state pension institution (SSNIT); and
- drafting of new insolvency legislation and a new Companies Code.

37. In the course of 2003, the government expects to submit for parliamentary approval the Banking, Payments System, Bills and Cheques, and Insurance bills, as well as the new Companies Code, and to reach an advanced stage on the money-laundering legislation. In addition, plans are being drawn up, based on the relevant sections of the GPRS, for a range of further reforms during 2003-05 that will enhance the financial sector's contribution to private sector development. Proposed measures are expected to include:

- legislation to allow the creation of private pension schemes, to help mobilize long-term funds for the business sector;
- the establishment of a legal framework for credit reference agencies, with a view to enhancing the access of individuals and small businesses to credit; and
- increased funding for rural and micro-finance institutions.

G. External Sector Policies

38. A further improvement in Ghana's terms of trade is expected in 2003, reflecting higher world prices for cocoa and gold, which, together with the expected increase in donor support, should result in a stronger external position this year. The government will strive to ensure that all necessary actions are fully implemented, notably in the areas of divestiture and public management reform, to facilitate timely donor disbursements. The government will pursue negotiations aimed at securing HIPC relief from non-Paris Club creditors and completing bilateral agreements with Paris Club creditors. The Bank of Ghana will continue to allow the cedi exchange rate to be market determined, limiting interventions to smoothing short-term fluctuations in the exchange rate and ensuring achievement of the targeted buildup of net international reserves. Given the prevailing uncertainties in world oil markets, the program floors on the accumulation of net international reserves will be adjusted downward (by a maximum of US\$30 million) in the event of higher-than-programmed U.S. dollar prices for oil imports, as specified in the TMU, with a corresponding upward adjuster on the ceilings on the net domestic assets of the Bank of Ghana.

39. Following extensive preparatory work with market participants, the Bank of Ghana plans during the first half of 2003 to launch (for the first time in Ghana) a computerized dealing room as the platform for a real-time interbank foreign exchange market. If the new trading system works effectively, we intend to begin phasing out surrender requirements and to eliminate these requirements in due course, placing the emphasis instead on effective monitoring of repatriation requirements for statistical and analytical purposes.

40. In the 2003 budget, the government proposed increases in tariffs on a range of imported finished goods, rice, and poultry products. These measures will not, however, be implemented during the period of the PRGF arrangement.

H. Good Governance and Statistical Transparency

41. The Government of Ghana came into office with a pledge of zero-tolerance for all acts of corruption and, in 2003-05, will strive to continue to improve good governance in Ghana. Envisaged policies consistent with the GPRS include:

- an increase in the operational efficiency of the Auditor General's office, and assurance of full staffing of internal audit positions (a HIPC completion point trigger);
- implementation of the Anti-Corruption Action Plan, including through the passage of a freedom of information act and whistle-blower legislation;
- the definition of clear roles and responsibilities for the Office of Accountability, the Commissioner for Human Rights and Administrative Justice, and the Serious Fraud Office; and

- the provision of regular government reports to parliament on the implementation of the GPRS, and a strengthening of parliament's capacity to exercise oversight (including through additional research staffing).

42. The government notes that the Bank of Ghana (BOG) has conducted an external audit of its 2001 financial statements, and plans to conduct a similar audit for 2002 in conformity with International Accounting Standards. Efforts of the BOG to strengthen internal audit procedures are expected to be bolstered by a full safeguards assessment in 2003 by the IMF.

43. The government is committed to the production of more timely and accurate statistics, in support of transparency and to allow a better assessment of developments in the economy. To this end, work is underway to review the calculation of the CPI from 1999 onwards and, related to it, the series on nominal GDP. Every effort will be made to expedite the revision of the CPI and national accounts series (supported by technical assistance from the IMF's Statistics Department), now expected to be completed by mid-2003.

V. PROGRAM MONITORING FOR 2002

44. **Technical Memorandum of Understanding.** The program will be monitored using the definitions, data sources, and frequency of monitoring set out in the accompanying TMU. The government will make available to Fund staff all core data, appropriately reconciled and on a timely basis, as specified in the TMU.

45. **Prior Actions.** The government will undertake a number of actions prior to the IMF Board meeting to consider the request for a three-year arrangement under PRGF, in order to ensure effective implementation of the economic strategy described in this memorandum (Table I.2).

46. **Performance criteria.** Table I.1 shows the quantitative performance criteria and benchmarks set for June 2003, with indicative benchmarks for March, September, and December 2003. The end-December 2003 targets will be converted to performance criteria at the time of the first review. Structural performance criteria and benchmarks with corresponding dates are identified in Table I.2. In addition, the nonaccumulation of external payment arrears (as defined in the TMU) will constitute a continuous performance criterion, as will the standard injunctions against imposing or intensifying restrictions on current payments introducing or modifying multiple currency practices, concluding bilateral payments agreements that are inconsistent with Article VIII, or imposing or intensifying import restrictions for balance of payments reasons.

47. **Program review.** The first review under the PRGF arrangement will be completed by November 14, 2003. This review will focus on implementation of (i) the public expenditure management and control system, (ii) the reforms of energy and utility pricing, and (iii) the divestiture of GCB, as well as on progress in developing the next phase of reforms of the financial sector.

Table 1.1 Quantitative Performance Criteria and Benchmarks, PRGF Arrangement, 2003 1/
(Cumulative flows from beginning of calendar year to end of month indicated, unless otherwise indicated)

	end-March Benchmark	end-June Perf. criterion	end-September Benchmark	end-December Benchmark
	Prog. 2/	Prog. 2/	Prog. 2/	Prog. 2/
(in billions of Cedis)				
Performance Criteria				
Net domestic financing of government (ceiling) 3/	863	1,189	122	0
Net domestic assets of the Bank of Ghana (ceiling) 4/ 5/	-101	485	106	92
(in millions of U.S. dollars)				
Net international reserves of the Bank of Ghana (floor) 6/	-82	-167	-89	130
The contracting or guaranteeing of new nonconcessional external debt with original maturity greater than or equal to 1 year by the government or the Bank of Ghana (ceiling) 7/	0	0	0	0
Outstanding stock of external debt with original maturity of less than one year owed or guaranteed by the government or the Bank of Ghana 8/	75	75	75	75
Stock of external payment arrears 9/	0	0	0	0
(in billions of Cedis)				
Indicative Benchmarks				
Government domestic primary surplus (floor)	-438	-4	849	1,798
Reserve money stock	4,965	4,836	5,115	6,963
Government revenue, excluding grants and divestiture proceeds (floor)	2,499	5,717	9,421	13,534
Stock of government road sector arrears	165	110	55	0
(in millions of U.S. dollars, unless otherwise specified)				
Memorandum items:				
External program support (loans and grants)	29	85	175	220
Paid public and publicly guaranteed debt service (after debt relief) 10/	22	74	94	143
Divestiture receipts	6	13	49	49
o/w: in foreign exchange	0	2	37	37
Average petroleum spot price (APSP in \$/barrel) 11/	30.8	30.0	29.0	28.0

1/ The definitions of line items and terminology are elaborated in the Technical Memorandum of Understanding (TMU).

2/ Before application of adjusters, as indicated in the TMU.

3/ Value at end of month indicated. Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with an upside cap of \$75 million, as explained in the TMU.

4/ Based on a fixed exchange rate of 8,504 cedis/\$, the rate prevailing at end-December 2002.

5/ Value at end of month indicated. Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with an upside cap of \$75 million, and for higher-than-programmed oil prices, with an upside cap of \$30 million, as explained in the TMU.

6/ Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with a downside cap of -\$75 million, and for higher-than-programmed oil prices, with a downside cap of -\$30 million, as explained in the TMU.

7/ This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/85) of August 24, 2000 but also to commitments or contracted for which value has not been received, as specified in paragraph 15 of the TMU.

8/ The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/85) of August 24, 2000, as specified in paragraph 14 of the TMU.

9/ This is a continuous criterion. The TMU stipulates the precise program definition of payment arrears.

10/ Debt service to be paid by Ghana after projected HIPC relief in 2003.

11/ Average from beginning of 2003 to end of month indicated, as explained in the TMU.

Table I.2. Prior Actions, Structural Performance Criteria and Benchmarks for 2003

Prior actions for approval of new PRGF arrangement

1. Obtain parliamentary passage of a 2003 budget with aggregate revenues, expenditures, and net domestic financing that are consistent with the MEFP.
2. Obtain parliamentary passage of revenue measures, including those specified in paragraphs 17 and 18 of the MEFP, with an estimated yield of at least $\text{¢}1,687$ billion in 2003.
3. Obtain a cabinet decision, issued to all MDAs, that the 2003 quarterly expenditure ceilings on personal emoluments (Item 1) will be applied by the responsible MDAs and enforced by the Ministry of Finance, and that any MDA in breach of a quarterly ceiling will be required to make offsetting savings in subsequent quarters.
4. Bring petroleum prices into line with the automatic adjustment formula, ensuring full import cost recovery and incorporating all applicable taxes and levies, and announce publicly that future adjustments will be made in line with the formula without further government review or authorization.
5. Submit to the Economic Management Team the first monthly fiscal report, as described in paragraph 28 of the MEFP, covering December 2002.

Structural performance criteria

6. Implement fully the automatic adjustment formula for petroleum product prices, as specified in the Technical Memorandum of Understanding [June 30, 2003].

Structural benchmarks

7. Approval by cabinet of final purchase agreement for Ghana Commercial Bank [September 30, 2003].
8. Submit to the Economic Management Team the monthly fiscal reports described in the MEFP, with a maximum lag of eight weeks, for January-April 2003 [June 30, 2003] and May-July 2003 [September 30, 2003].
9. Implement the published plan for adjusting electricity and water tariffs, including 12 percent tariff increases in March 2003, and automatic adjustments in line with the published cost recovery formulas thereafter [September 30, 2003].

GHANA

Technical Memorandum of Understanding

1. This technical note contains definitions and adjuster mechanisms that are intended to clarify the measurement of items in Table I.1, Quantitative Performance Criteria, PRGF Arrangement, 2003, attached to the Memorandum of Economic and Financial Policies. Unless otherwise specified, all quantitative performance criteria and benchmarks will be evaluated in terms of cumulative flows from December 31, 2002.

PROVISION OF DATA TO THE FUND

2. Data with respect to all variables subject to performance criteria and indicative benchmarks will be provided to Fund staff on a monthly basis with a lag of no more than eight weeks (two weeks for data on the net domestic assets and net international reserves of the Bank of Ghana). The authorities will transmit promptly to Fund staff any data revisions. For variables that are relevant for assessing performance against program objectives but are not specifically defined in this memorandum, the authorities will consult with Fund staff as needed on appropriate measurement and reporting.

DEFINITIONS

3. **Government** is defined for the purposes of this memorandum to comprise the central government as well as all special funds (the Education Trust Fund, the Road Fund, the District Assembly Common Fund) and various subvented and other government agencies that are classified as government in the Bank of Ghana (BOG) Statement of Accounts (SOA). SSNIT and public enterprises, including Cocobod, are excluded from the definition of government.

4. **Government domestic revenue** comprises all tax and non-tax revenues of government (in domestic and foreign currency), excluding foreign grants and divestiture receipts. Revenue will be measured on a cash basis as gross inflows to government uncommitted treasury collections accounts. Revenue will not include an adjustment for unspent balances on committed accounts.

5. **Government domestic expenditure** comprises all spending from uncommitted accounts for Items 1-4, as captured by the accounts of the Controller Accountant General's Department (CAGD). Reporting will be based on the current NETS accounting system, and its associated 15-digit chart of accounts, and will be fully reconciled with BOG bank statements on spending (outflows) from the 42 newly created MDA Operational Accounts (plus any residual use of existing Treasury Drawing/overdraft accounts). Expenditure will also be verified by comparing it to accounts produced by the BPEMS accounting system, until such time as the latter system becomes fully operational.

6. **Within the above total, poverty-related expenditures** refer to those expenditures identified in Table 6 of the Decision Point Document for the Enhanced Heavily Indebted

Poor Countries Initiative The last three digits of the 15-digit chart of accounts of the current NETS system will be used to identify budget expenditures that are poverty-related, and the sub-component which is financed by HIPC relief. These data will be supplemented with that proportion of transfers to the District Assembly Common Fund, Ghana Educational Trust Fund, and Road Fund which are deemed by those entities to be poverty-related. Poverty spending will exclude some donor-supported expenditure not currently captured by CAGD.

7. **Net domestic financing (NDF) 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, but excluding divestiture receipts. Outstanding net credit to the government by the Bank of Ghana is comprised of the sum of claims on government (SOA codes 0401 and 050101-4) less government deposits (1101 and 1202 as defined in the Template of the BOG Statement of Accounts dated March 13, 2003) which include the main HIPC receiving and disbursement accounts. Outstanding net credit by deposit money banks is comprised of DMB holdings of government securities at cash value, as reported by the BOG Treasury Department's Debt Registry, plus overdrafts less government deposits as reported by DMBs in their current BSD2 and 20R report forms (and defined in the template for reporting of DMBs dated March 13, 2003). Nonbank financing will be the difference between total net cash receipts to the OMO account 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. For each test date, any adjustment by the BOG to the data reported by individual DMBs, on account of their misclassification of government or for other reasons, will be reported to the Fund.

8. The **domestic primary balance** is defined as the difference between government domestic revenue and noninterest government expenditure as reported by the CAGD (i.e., payment vouchers issued for expenditures on items 1-4). It will exclude foreign-financed capital expenditure, for which data are reported by the Aid and Debt Management Unit. The measurement will be on a cash basis, with any positive (negative) discrepancy between the above- and below-the-line measure of the overall balance being added to (subtracted from) the measure of the domestic primary balance (including unspent balances remaining in committed accounts).

9. The **program exchange rate** for the purposes of this memorandum will be 8504 cedis per dollar, i.e., the simple average of the buying and selling interbank transactions rates for December 31, 2002.

10. **Reserve money** is defined as the sum of currency in circulation (BOG statement of accounts codes 901 plus 902), commercial banks' deposits at the Bank of Ghana excluding foreign exchange (and excluding accounts which are overdrawn, blocked, or owned by banks in liquidation) plus private and other non-government demand deposits at the Bank of Ghana in cedis (excluding blocked accounts). A more detailed listing of accounts to be included in the measure of reserve money is contained in the Template of the BOG Statement of Accounts. If any bank fails to meet its legal reserve requirement, currently 9 percent of bank

deposits, then reserve money will be adjusted upward to the extent of any shortfall in compliance with that reserve requirement.

11. **Net foreign assets (NFA)** are defined in the monetary survey as short and long term foreign assets minus liabilities of the Bank of Ghana which are contracted with non-residents. Short-term foreign assets include: gold (valued at the spot market rate for gold, US\$/fine ounce, London), holdings of SDRs, reserves and investments in the IMF, the HIPC umbrella SDR account (all as reported by the IMF), foreign notes and travelers checks, foreign securities, positive balances with correspondent banks, and other positive short-term or time deposits. Short-term foreign liabilities include foreign currency liabilities contracted by the Bank of Ghana at original maturities of one year or less (including overdrafts), plus outstanding liabilities to the IMF. Long-term foreign assets and liabilities are comprised of deposits of international institutions, assets (303), investments abroad (a subset of 60201), other long-term liabilities to nonresidents (a subset of 1103), and bilateral payment agreements (305). All values are to be converted to U.S. dollars at actual market exchange rates prevailing at the test date. A more detailed listing of accounts to be included in the measure of NFA is contained in the Template of the BOG Statement of Accounts.

12. **Net international reserves (NIR)** of the Bank of Ghana are defined for program monitoring purposes and in the balance of payments as short-term foreign assets of the Bank of Ghana, minus short-term external liabilities. To the extent that short-term foreign assets are not fully convertible external assets readily available to and controlled by the Bank of Ghana (i.e., they are pledged or otherwise encumbered external assets, including, but not limited to, the HIPC umbrella SDR account, assets used as collateral or guarantees for third party liabilities) these will be excluded from the definition of NIR. Net international reserves are also defined to include net swap transactions (receivable less payable), and exclude all positive foreign currency deposits at the BOG not held by the central government. All values are to be converted to U.S. dollars at actual market exchange rates prevailing at the test date. A more detailed listing of accounts to be included in the measure of NIR is contained in the Template of the BOG Statement of Accounts.

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

14. The performance criterion on **short-term external debt** refers to the outstanding stock of external debt with original maturity of one year or less, including overdraft positions and debt owed or guaranteed by the government or the Bank of Ghana.¹ Data on the Bank of

¹ (A) The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000). This includes overdrafts on accounts with correspondent banks. (B) Excluded from this performance criterion are 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. Also excluded are obligations that may be established at the conclusion of negotiations with a foreign

(continued)

Ghana's short-term external debt are those reported from the statement of accounts template as short-term liabilities to non-resident commercial banks (1201 plus 301 overdrafts plus Crown Agent). The limit on short-term external debt will exclude US\$15.2 million in overdrafts with correspondent banks which are in dispute, until such time as these assets are re-classified.

15. The performance criterion on **nonconcessional medium- and long-term external debt** (Table I.1) refers to the contracting or guaranteeing of external debt with original maturity of more than one year by the government or Bank of Ghana.² Medium- and long-term debt will be reported by the Aid and Debt Management Unit of the Ministry of Finance and (as appropriate) the Bank of Ghana, measured in U.S. dollars at current exchange rates.

16. The **stock of payment arrears in the road sector** will include any arrear on a duly certified expenditure commitment that was not paid during a period of 90 days after the date the bill was issued. Any arrear in foreign currency will be converted into cedi at the actual exchange rate prevailing at the end of period date. Data on the stock of road arrears will be reported to the IMF staff monthly (with a lag of no more than 4 weeks) by the monitoring and evaluation department of the Ministry of Roads and Highways. At end-October 2002 the stock of road arrears was recognized to be C219.8 billion, and is expected to be paid down according to the quarterly schedule in Table I.1, which will be an indicative benchmark under the program.

17. **External payment arrears** occur when undisputed interest or amortization payments are not made within the terms of the debt contract, or in conformity with the terms for interim relief provided under the enhanced HIPC Initiative and the deferral agreed with the Paris Club on December 10, 2001. This is a continuous criterion.

shareholder in Ghana Telecom relating to a US\$50 million payment made by the shareholder to the Government of Ghana in 2000, and a loan (not exceeding US\$60 million) that may be contracted to securitize future reimbursements from the United Nations in connection with Ghana's participation in UN peacekeeping operations.

² (A) This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000) but also to commitments contracted or guaranteed for which value has not been received. (B) Excluded from this performance criterion are: individual leases with a value of less than US\$100,000; debts with a grant element equivalent to 35 percent or more, calculated using currency-specific discount rates based on OECD commercial interest reference rates; a loan (not exceeding US\$60 million) that may be contracted to securitize future reimbursements from the United Nations in connection with Ghana's participation in UN peacekeeping operations; and loans or purchases from the IMF. The grant element of each loan will be assessed only with regard to (i) the interest rate and repayment schedule of the loan and (ii) any grants or other concessional loans provided by a foreign official entity in connection with the loan in question. Loans provided by a private entity will not be considered concessional unless accompanied by a grant or grant element provided by a foreign official entity equal to at least 35 percent of the combined loan.

18. **Official external program support** is defined as grants and loans provided by foreign official entities that are received by the budget, excluding project grants and loans, and other exceptional financing. Amounts assumed in the program consistent with this definition are shown in the memorandum item entitled "external program support" of Table I.1.

19. **Divestiture receipts** are payments received by the government (in domestic and foreign currency) in connection with the sale of state assets. The programmed amounts consistent with this definition are shown in Table I.1. Divestiture receipts in foreign exchange are those recorded as such in the Bank of Ghana's Cash Flow.

20. The **automatic adjustment formula for petroleum prices** is defined to ensure full cost recovery at the Tema Oil Refinery (TOR), by passing on to ex refinery prices the net cedi cost of imported refined petroleum products according to the specification provided to the IMF on March 7, 2003. The formula will become effective in late March 2003, following parliamentary approval of the debt recovery levy, at which time the ex pump product prices will be aligned with the formula to ensure full cost recovery ex refinery plus all applicable taxes, levies, and margins. Subsequent calculations of petroleum prices will be made by the National Petroleum Tender Board on the first working day of each month, beginning May 1, 2003. The trigger for a petroleum price adjustment will be a change in the calculated ex-refinery price of plus or minus 2½ percent.

ADJUSTERS

21. **Deviations in official external program support, external debt service payments, and divestiture receipts** from the amounts programmed in Table I.1 will trigger adjusters for domestic financing of government, net domestic assets of the Bank of Ghana and net international reserves as indicated below. These and other adjusters as set out below will be measured cumulatively from the beginning of 2003.

22. **Ceilings on net domestic financing (NDF) of the government and net domestic assets (NDA) of the Bank of Ghana.** Monthly differences between projected and actual official external program support, external debt service payments, and divestiture receipts in foreign exchange will be converted to cedis at the actual monthly exchange rate and cumulated to the test date. The ceilings on net domestic financing of government and NDA will be reduced by the sum of: (i) excess official external program support; (ii) excess divestiture receipts; and (iii) the shortfall in external debt service payments. The adjustment to the ceiling on the NDA of the Bank of Ghana with respect to deviations in divestiture receipts will apply only to foreign exchange receipts. Both ceilings will be increased by 100 percent of any cumulative shortfall in official external program support or excess in external debt service, but will not be adjusted for a shortfall in divestiture receipts. The upward adjustment is capped at the equivalent of US\$75 million, converted to cedis at actual exchange rates.

23. **Floor on net international reserves (NIR) of the Bank of Ghana.** Quarterly differences between projected and actual official external program support, external debt service payments, and divestiture receipts in foreign exchange will be converted to U.S. dollars at the actual exchange rates prevailing at the test date. The floor on NIR will be raised by the sum of: (i) excess official external program support; (ii) excess divestiture receipts in foreign exchange; and (iii) any shortfall in external debt service payments. The floor will be lowered by 100 percent of any shortfall in official external program support or excess in external debt service payments, but will not be adjusted for any shortfall in divestiture receipts. The downward adjustment is capped at the equivalent of US\$75 million.

24. **Oil price adjustor.** NIR floors will be adjusted downward, and NDA ceilings upward, when world oil prices exceed the baseline price path assumed in the program. The floor on NIR will be reduced by the cumulative quarterly difference (if positive) between actual oil prices and projected prices as defined in Table I.1, multiplied by a coefficient of 20 (a multiplier which quantifies the approximate impact that a US\$1 rise in oil prices has on the value of Ghana's oil imports in US\$millions) on an annual basis. For March the adjustor will be computed as the difference (if positive) between the average actual and forecast prices during the first quarter, times a coefficient of 20/4; for June, the adjustor will be the difference (if positive) between the half-year actual and forecast prices, times a coefficient of 20/2. The adjustor at all test dates will be capped at US\$30 million. The ceiling on the NDA of the Bank of Ghana will be raised by the same adjustor amounts as for NIR, converted to cedis at actual exchange rates, up to a cap equivalent to US\$30 million.

REPORTING OF FISCAL DATA

25. The Ministry of Finance will provide to IMF staff:

a) Monthly data on central budget operations for revenues, expenditure and financing with a lag of no more than 6 weeks after the end of the month.

b) Monthly reports showing the functional breakdown by Ministry, Department, and Agency of expenditure authorizations, payments vouchers issued, payment vouchers liquidated, and arrears with a lag of no more than 6 weeks after end of the month. These reports will also identify poverty-related and HIPC financed expenditures, as well as the inflows and disbursements from the HIPC receiving and drawing accounts at the BOG.

c) Monthly reports prepared by the Ministry of Road and Highways on the stock of road arrears with a lag of no more than 4 weeks after the end of the month.

26. The BOG will provide the IMF staff:

a) Monthly summary tables reporting the government's position on BOG committed and uncommitted accounts as well as financing within 4 weeks of the end of the month. This table should be accompanied by the table showing the composition of other receipts and other expenditure.

b) Monthly tables showing the composition of banking system and non-banking system net claims on government, within 4 weeks of the end of the month.

c) Monthly tables showing the structure and holders of domestic government debt, at face value and at discount, within 4 weeks of the end-of the month.

EXTERNAL DATA, DEBT AND DEBT SERVICE, AND HIPC RELIEF

27. The BOG will report value, volume, and unit value export data, and import data, by major categories on a monthly basis with a maximum lag of 3 months. The BOG will report other major balance of payments variables on a quarterly basis with a lag of no more than 3 months.

28. To improve the transparency and accountability of external debt management, the Minister of Finance has written to the Controller Accountant General (CAGD) and the Governor of the Bank of Ghana setting down the formal procedures for settlement of debt and specifying the functions that the CAGD and the Bank of Ghana are expected to fulfill in carrying out those procedures. In addition, the following measures have been initiated and will be maintained:

a) All Ministries, Departments and Agencies (MDA) have been informed that the Aid and Debt Management Unit (ADMU) in the Ministry of Finance is the only entity authorized to contract or guarantee external debt, and all leases with a total value above US\$ 100,000 should be submitted to ADMU for authorization. ADMU will report to the IMF with a lag of not more than one month on the concessionality of all new loans contracted.

b) The Minister of Finance has sent a circular to all donor desks officers in the Minister of Finance requesting that arrangements be put in place to ensure that the ADMU is informed of all correspondence with creditors, including the latest information on disbursements and project financing developments and any notices of payment due. All new loan documents should also state clearly that the ADMU is the main initial point of contact for settlement of all debt obligations.

c) Formal procedures have been established requesting donors and creditors to confirm with ADMU debt payment obligations – including for government guaranteed obligations – in advance of payment due dates.

d) Formal delegations have been put in place in the Ministry of Finance and at the CAGD to ensure that an absence of sufficient signing authority does not delay payment requests. In addition, a register will be kept of the timing of formal debt payment actions. This register should be signed by the various institutions involved in the payment of external debt.

e) In the event that a shortage of foreign exchange results in a queuing of debt service obligations at the Bank of Ghana, delaying payments beyond their due dates, the Ministry of

Finance is responsible for issuing any instructions needed to revise payment priorities and for maintaining a record of payment arrears. Formal reporting and follow-up procedures have been established for the Bank of Ghana to confirm the transactions to CAGD and the ADMU in the MOF on a daily basis. These reports contain information on the transactions completed as requested, transactions previously queued and paid and transactions added to the queue. These reports are copied to both the governor of the Bank of Ghana and the Minister of Finance and his senior officials, and to the IMF staff on a monthly basis.

f) The procedures for verifying data to the Fund have been formalized, so that a senior officer from the Bank of Ghana has been formally delegated with the responsibility for the compilation and verification of data on program conditionality to be reported to the Fund. Formal reconciliation procedures to verify both the derivation of data reported to the Fund and the Bank of Ghana internal audit procedures have been amended to include a periodic check that procedures are followed.

g) A HIPC account has been established at the BOG for the receipt and disbursement of HIPC relief. When each debt service payment falls due, the Government of Ghana (or the BOG for IMF repurchases) will transfer to the HIPC account that proportion of the amount due which, under the terms of the HIPC Initiative, does not have to be paid to the creditor. For debt owed by public enterprises under the HIPC Initiative, the Government of Ghana will transfer to the HIPC account the debt-relieved portion of the debt service payment if the enterprise fails to do so on the due date. ADMU will issue, in advance of the due date, a request for payment to the CAGD indicating the portions due to the creditor and the HIPC account. ADMU will prepare a monthly report indicating for the coming month (i) the total debt service due by creditor, (ii) the amount of HIPC relief on each transaction, as well as (iii) the debt service paid and the transfers to the HIPC account by creditor for the previous month. This report will be provided within 2 weeks of end-month to the CAGD and to the IMF.

Status Report on Triggers for the HIPC Floating Completion Point

Triggers	Current Status
<p>PRSP. Preparation of a full PRSP and satisfactory implementation for at least one year, as evidenced by the joint staff assessment of the country's annual progress report.</p> <p>Macroeconomic stability. Continued maintenance of macroeconomic stability as evidenced by satisfactory implementation of the PRGF-supported program.</p>	<p>The full PRSP was finalized and sent to the IMF and World Bank in February 2003.</p> <p>The final review of the PRGF program could not be completed. A new three-year PRGF-supported program is proposed for Board consideration in April 2003.</p>
<p>Use of budgetary savings. The use of budgetary savings from interim debt service relief have been used in the priority areas indicated in Table 6 and monitored in the framework for poverty reduction expenditures. Information on the use of these savings and on poverty expenditures has been published in time to be considered in a public review of GPRS implementation, as input to the annual progress report on the GPRS. The increase in total spending on these priorities must equal or exceed HIPC relief (less relief used for domestic debt reduction) during the interim period.</p>	<p>The tracking system is in place and HIPC relief is additional to budgetary spending on social sectors. The GPRS has just been finalized and therefore there is not yet an annual progress report.</p>
<p>Governance</p> <ul style="list-style-type: none"> • <i>Procurement reform.</i> Regulatory and oversight body to implement new procurement code has been established. • <i>Internal audit.</i> Operational internal audit capacity has been established through full staffing of existing internal audit positions. 	<p>New procurement code has been approved by cabinet and will be sent to parliament in early 2003. Preparatory work for the new regulatory and oversight body is expected to begin once the bill has been approved. Staffing efforts underway, but unattractive pay and conditions reportedly hampering recruitment.</p>
<p>Public expenditure management</p> <ul style="list-style-type: none"> • Reports on cash expenditures and commitments by MDAs, classified by function, have been published monthly in the government gazette, following implementation of new reporting system. • A computer-based financial management information system to underpin the new expenditure reporting system has been installed on a pilot basis in the Ministry of Finance, CAGD, and at least two key sector ministries. 	<p>New reporting system implemented, but not yet published.</p> <p>System has been installed on a pilot basis at the MoF and CAGD. It is envisaged to test the new system before it will be rolled out to other ministries.</p>
<p>Decentralization of government functions</p> <ul style="list-style-type: none"> • Devolution of responsibilities to local districts, as evidenced by (i) submission to Parliament of a local service bill to enable the decentralization of human resource management to local authorities; and (ii) development of District Composite Budgets in pilot districts. 	<p>Local service bill sent to parliament in early 2003. District Composite Budgets not yet implemented in pilot districts.</p>

<p>Education</p> <ul style="list-style-type: none"> • The primary gross enrollment rates for girls has increased from 72 percent in 2000 to 74 percent. 	<p>The primary gross enrollment rate for girls reached 77 percent in 2001/02.</p>
<p>Health</p> <ul style="list-style-type: none"> • The percentage of households with access to safe water has increased from 40 percent in 2000 to 46 percent in rural areas. • Recurrent health expenditures at district and lower level governments have risen from 42 percent of the total recurrent health budget in 2000 to 45 percent. 	<p>Rural water coverage is estimated at 44 percent.</p> <p>Estimated share of expenditures on health at district and lower levels remained at 42 percent in 2001.</p>
<p>Energy Sector</p> <ul style="list-style-type: none"> • An automatic price adjustment mechanism has been put in place and implemented monthly to reflect changes in international market prices in local currency in the petroleum sector, and includes all taxes incorporated into the adjustment formula at end-March 2002. • A strategy for achieving full economic pricing in the electricity sector, including lifeline pricing to ensure affordability for low income users, has been implemented. 	<p>Pricing formula not implemented in 2002. Will be applied from March 2003.</p> <p>Strategy established and implemented since August 2002.</p>

**Ghana: Expenditure Accountability Assessment and
Action Plan (AAP): Update Table
January 31, 2003**

	Indicator	Actions to Strengthen – From Agreed Action Plans¹ and time horizon (S/M²)	Stat- us³	Progress to Date on Action Plans and Indicated Improvements (Outcomes)
VI. BUDGET FORMULATION				
1	Composition of budget entity	Definition of institutional units to be covered by the general government sector (S)	II	A review of government accounts in the banking system is under way. Progress needed in defining institutional units that go into (i) central government (e.g., subvented agencies, PURC, State Enterprise Commission), (ii) subnational levels, and (iii) on including fiscal and quasi-fiscal activities (e.g., utility subsidies, student loans by SSNIT, rural extension services by Cocoa Board).
2	Limitations to use of off-budget transactions	N/A		Government activities funded to a significant extent through special funds (Roads, Energy, Oil exploration, DACF, and GETF) and education and health fees plus some subvented agencies have substantial own revenue resources ⁴ .
3	Reliability of budget as guide to outturn-level	N/A		In 2002, there were considerable deviations in the composition of expenditure, particularly on the wage bill. New cash management system underpinned by quarterly expenditure ceilings introduced in early 2003. Commitment control is also being enhanced, especially over the wage bill.
4	Data on donor financing	Improve reporting on donor activities (M)	II	Problems with the reliability, periodicity and timeliness of data reported by MDAs and donors. MoF has prepared action plan to enforce compliance. Data are improved for health, but remain weak for education, agriculture and road sectors.
5	Classification of budget transactions	Develop a new chart of accounts (S)	FI	New Chart of Accounts was adopted in late 2002. It will allow classification of budget data on an administrative, economic and (with an appropriate bridge table) functional basis.
		Implement BPEMS in MoF, CAGD and key ministries (S). Complete BPEMS implementation (M).	II	Implementation initiated at MoF and CAGD in early 2003. Roll-out during 2003 to Accra sites of the ministries of health; education; and roads and transport (covering about 65 percent of total primary expenditure).

¹ Action plans were agreed between the Government, the IMF, and World Bank.

² S = short term, i.e., action that is expected to be completed in one year. M = medium term, i.e., action that is expected to be completed in 2-3 years.

³ Progress to date should include: short description of progress and improvements; note degree of implementation, i.e., whether implementation has been initiated (II), is not yet started (NS), or is complete (FI, for fully implemented).

⁴ Estimated to represent between 3 percent and 10 percent of total expenditures.

6	Identification of poverty reducing expenditures	Create unit in the MOF to develop estimates of actual poverty-reducing expenditure (S)	FI	The unit is in place and operational.
		Establish classification system to track poverty spending using GPRS and budget classification (S)	FI	Poverty and HIPC Accounting Manual adopted in May 2002. System is in place and produces reports. Currently excludes donor-financed expenditure.
7	Quality of multi-year expenditure projections	Rejuvenation of the MTEF (M)	II	MTEF used for costing of GPRS and preparation of 2003 budget. MTEF unit moved into the Budget Division Unit. Current MTEF contains too many activities and needs to be standardized. Process to simplify MTEF launched and to be made effective in 2004.
BUDGET EXECUTION				
8	Level of payment arrears	Enforce compliance with regulations on commitments to control better expenditure path and arrears (S)	II	Improvement of controls necessary, especially as regards capital expenditure. Operating Manual to strengthen the commitment control system to be made effective by MoF by Mid-March 2003. Audit of 2002 arrears expected by mid-2003.
9	Quality of internal audit	Reformed and augmented internal audit capacity with clear guidelines and consistent methodology (S)	II	Existing internal audit in CAGD and some MDAs requires significant upgrading. Cabinet approval of law to strengthen the internal audit functions (e.g., establishment of a Central Internal Audit Agency) expected by mid-March 2003.
10	Use of tracking surveys	Conduct PETS (M)	FI	PETS in education and health available. Beneficiary assessment of the agriculture extension services in the pipeline.
11	Quality of fiscal/banking data reconciliation	Review and improve structure of government bank accounts (S)	FI	Monthly reconciliation between CAGD and BOG in place since July 2002. Reconciliation will be facilitated by the further rationalization of bank accounts (see item 1 above).
		Establish HIPC subaccount (S)	FI	Account established in 2001.
A. BUDGET REPORTING				
12	Timeliness of internal budget reports	Meet Ghanaian budget law regulations on reporting (M)	II	Fully reconciled reports issued within 4-6 weeks. Authorities seeking to reduce this to 4 weeks as required by law.
13	Classification used for budget tracking	Develop comprehensive functional classification (both domestic and externally financed expenditures) for within year reporting (S)	II	New chart of accounts in place, but development of bridge table will be required to produce reports with functional breakdown. As reported in 4 above, data on external financing is still problematic.
14	Timeliness of accounts closure	CAGD presents set of annual public accounts and financial statements to the Auditor General within statutory 3-months after the end of year (no timeframe)	FI	In 2002, CAGD succeeded in presenting a set of accounts and financial statements for the previous year, based on accounting data from his treasuries, by end-March. Expected to comply again this year.
15	Timeliness of final audited accounts	Strengthen Auditor-General department (S)		Legal requirement is 6 months from the end of the year Auditor General working to eliminate backlog. Final audited accounts for 2000 were sent to parliament in September 2002. Accounts for 2001 still pending.

Ghana: Relations with the Fund
As of December 31, 2002

I. Membership Status: Joined: September 20, 1957; Article VIII.

II. General Resources Account	SDR Million	%Quota
Quota	369.00	100.0
Fund Holdings of Currency	369.00	100.0

III. SDR Department	SDR Million	%Allocation
Net cumulative allocation	62.98	100.0
Holdings	2.71	4.31

IV. Outstanding Purchases and Loans	SDR Million	%Quota
ESAF arrangements	267.29	72.43

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESAF/PRGF	05/03/1999	11/30/2002	228.80	176.22
ESAF	06/30/1995	05/02/1999	164.40	137.00
ESAF	11/09/1988	03/05/1992	388.55	388.55

VI. Projected Obligations to Fund:

(SDR million; based on existing use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Principal	15.07	29.62	36.26	28.04	41.07
Charges/interest	<u>2.47</u>	<u>2.36</u>	<u>2.19</u>	<u>2.03</u>	<u>1.85</u>
Total	17.54	31.97	38.45	30.07	42.93

Projected Payments to Fund (with Board-approved HIPC Assistance)
(SDR million; based on existing use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Principal	12.54	29.62	36.26	28.04	41.07
Charges/interest	<u>2.47</u>	<u>2.36</u>	<u>2.19</u>	<u>2.03</u>	<u>1.85</u>
Total	15.00	31.97	38.45	30.07	42.93

VII. Implementation of HIPC Initiative:

Commitment of HIPC assistance	<u>Enhanced Framework</u>
Decision point date	Feb 2002
Assistance committed by all creditors (US\$ Million) 1/	2,186.00
Of which: IMF Assistance (US\$ Million)	112.10
(SDR equivalent in millions)	90.05
Completion point date	Floating
Disbursements of IMF assistance (SDR Million)	
Assistance disbursed to the member	9.91
Interim assistance	9.91
Completion point	--
Additional disbursement of interest income 2/	--
Total disbursements	9.91

1/ Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point.

2/ Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Safeguard Assessment:

Under the Fund's safeguards assessment policy, the Bank of Ghana was subject to the transitional procedures with respect to the Poverty Reduction and Growth Facility arrangement which expired on November 30, 2002. The transitional procedures required a review of only the Bank of Ghana's external audit mechanism. This assessment determines whether the Bank of Ghana publishes annual financial statements that are independently audited in accordance with internationally accepted standards. It was recommended that the Bank of Ghana strengthen its external audit mechanism by commissioning larger accounting firms and that the BOG adopt International Accounting Standards. The 2001 financial

statements were audited by KPMG, and a qualified audit opinion was issued. The Fund is providing technical assistance to the Bank of Ghana, including in the implementation of IAS. The BOG is subject to a full safeguards assessment in connection with its request for a three-year arrangement under the PRGF. The required assessment documentation is being received from the BOG, and the assessment is scheduled to be concluded prior to the first review under the arrangement.

Exchange Rate Arrangement

Ghana accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the Fund's Articles of Agreement on February 2, 1994. Accordingly, Ghana maintains a flexible exchange rate system (using the U.S. dollar as the intervention currency) that is free of restrictions on payments and transfers for current international transactions. At end-December 2002, the midpoint exchange rate for transactions in the interbank market was C8,412 per U.S. dollar.

Article IV Consultation and Current Fund Arrangement

The 2001 Article IV consultation (EBS/01/88; 6/14/01) was concluded by the Executive Board on June 27, 2001 under a twelve month cycle. Conclusion of the fourth review of Ghana's PRGF arrangement permitted Ghana to draw SDR 52.58 million in March 2002. The PRGF arrangement expired on November 30, 2002 without disbursement of the final tranche. Ghana has been subject to several instances of misreporting, the most recent relating to a July 2001 disbursement, for which waivers were granted on the grounds that the objectives of the program had nevertheless been preserved (EBS/02/9).

FSAP Participation

Ghana participated in the FSAP during 1999–2000. A Financial System Stability Assessment (FSSA) was issued to the Executive Board as background for the 2001 Article IV Consultation (SM/01/177). Since then, follow-up work in banking supervision and other areas identified by the FSAP has been carried out by the World Bank under the Ghana NBFII Project.

Technical Assistance, 1999–2002

<p>Fiscal Affairs Department: All Ministry of Finance: public expenditure management, June 2000; tax policy, October 2000; (with Bank of Ghana) fiscal data quality assessment, February and May 2001; external debt including for HIPC, June and August, 2001; public expenditure management, budget and debt advisor, August 2001-February 2003; tax and customs administration, September 2001; peripatetic advisor on the establishment of a large taxpayers unit, February 2002–January 2003; review of public expenditure management reforms and assessment of long-term advisor, August 2002 and March 2003.</p>
<p>IMF Institute: Ghana Institute of Management and Public Administration: financial programming course, March 2000.</p>
<p>Information Technology Services: Bank of Ghana: implementation of data management system, April 1999.</p>
<p>Legal Department: All Ministry of Finance: drafting of internal revenue regulations, January 2001; advice/draft of new income tax laws, February-March 2001.</p>
<p>Monetary and Exchange Affairs Department: All Bank of Ghana: monetary operations, January and February 1999; banking supervision, March 1999; foreign exchange markets, July 1999; development of the foreign exchange market and aspects of liquidity and debt management, May 2000; (with Ministry of Finance) recording and reporting external debt flows, February 2001 (with FAD); foreign exchange/monetary operations, August 2001; (with Ministry of Finance) monetary and fiscal data reporting, November and December 2001; accounting and internal audit reform, July 2002 and November 2002.</p>
<p>Statistics Department: Bank of Ghana: balance of payment statistics, March 2000; money and banking statistics, August 2000, November and December 2001, and July 2002. Ghana Statistical Service: national accounts statistics, September and October 2001, August 2002, and November and December 2002.</p>

Resident Representative

A Fund Resident Representative has been stationed in Accra since June 1985. Mr. de la Piedra is the current Resident Representative, having assumed the post in October, 2001.

Ghana: IMF-World Bank Relations Annex

(As of November 30, 2002)

Partnership in Ghana's Development Strategy

1. Ghana's poverty reduction strategy is set forth in the Ghana Poverty Reduction Strategy (GPRS). The broad objectives of the GPRS are to create an environment favorable to private sector-led growth and sustainable poverty reduction, and to make room within the government's budget for increased expenditures on education, health, and other priority services. The GPRS therefore focuses on: (i) achieving macroeconomic stability; (ii) stimulating employment and production; (iii) improving access to basic social services; (iv) strengthening the protection of the vulnerable and excluded; and (v) improving public sector performance and governance. Preparation of the GPRS started in 2001 and continued throughout 2002 to ensure extensive discussion of the document within the civil society and the donor community. The final version was circulated in early 2003.

2. The IMF has taken the lead in the policy dialogue on macroeconomic policies including overall fiscal and monetary policies. The IMF has supported Ghana's poverty reduction efforts in the context of several arrangements under the Poverty Reduction and Growth Facility (PRGF), and the government is expected to request a new three-year arrangement in 2003. The Fund-supported programs have focused on reducing inflation through reduction in domestic government borrowing. The strategy relies on refocusing government expenditure and improving expenditure controls, in collaboration with Bank staff.

3. The World Bank has taken the lead in policy dialogue on structural and institutional reforms in a number of sectors. The current portfolio, outlined more fully below, includes projects in the agricultural, education and health sectors, as well as lending operations to finance basic infrastructure development, and to improve financial budgetary management, reform government institutions, and strengthen governance.

The Country Assistance Strategy (FY01-03) and the Bank Portfolio

4. The World Bank's support strategy for Ghana is described in the Country Assistance Strategy (CAS), which was presented to the Board on March 30, 2000. The overriding goal of the Government of Ghana's Development Strategy for Poverty Reduction and the World Bank Group is to eliminate persistent poverty. Within that broad goal, the strategy of the Bank Group described in the CAS is to help the Government to: (i) raise the growth rate of the economy; (ii) redefine the role of the State; and (iii) implement their strategy more effectively on the ground. A key component of the program is its support of public sector management reform, including budgetary management, governance, decentralization and public enterprise reform. A new CAS for Ghana is due to be presented to the Bank's Board during 2003.

5. IDA's strategy in Ghana emphasizes working more effectively with partners outside the Government, especially civil society, and deepening its collaboration with other development partners through the institutional mechanisms of the Comprehensive Development Framework (CDF). The Government, in cooperation with donors, has carried out substantial work in the context of the CDF. This process has strengthened the Government's role in managing donor resources more effectively. Under the umbrella of the "Mini-CG", 14 partner groups are now functioning, and each has prepared a sector status and strategy report. The CDF facilitates a continued shift to sector-wide, coordinated programs by taking into account the role of other partners, and allows IDA to step back in sectors where other donors have a comparative advantage, and are more active.

6. Ghana launched the Economic Recovery Program in 1983, and the Bank's first Structural Adjustment Credit was approved in 1987. Since 1983, the Bank has approved approximately US\$1.1 billion in the form of adjustment support for policy reform, covering not only macroeconomic policies, but also sectoral reforms in education, agriculture, the financial sector and private sector development. The Bank's cumulative commitments to Ghana as of November 30, 2002, amount to US\$4.4 billion, and total 134 operations.

7. **Current Portfolio.** As of December 2, 2002, there were 23 active projects totaling US\$1242 million, of which US\$535 million remains undisbursed. The Bank's active portfolio in Ghana is as follows:

Economic Management and Reform. Adjustment lending over the past five years has been in the form of Economic Reform Support Operations (ERSO). The active portfolio includes ERSO II and ERSO III, which account for US\$340 million, and represent 27.4 percent of total commitments. ERSO III, the latest in the series, was approved and disbursed in mid-2001, and provides support for continuing reforms in budgetary management, public enterprise divestiture, banking sector reform, and cocoa export marketing. In particular, ERSO III supported the preparation of the Ghana Poverty Reduction Strategy (GPRS) within a broad participatory consultation process.

8. Six operations, totaling 43.5 percent of commitments, provide assistance to **infrastructure**. Ghana Thermal (US\$175m) supports several measures to maintain electricity supply, including new regulatory arrangements and steps to encourage private sector participation in developing power supply. The Roads program (US\$220m) aims to improve the supply and performance of road and road transport services, while Community Water II (US\$25m) supports water and sanitation services in villages and small towns in four regions. Two Urban projects (totaling US\$81m) and Local Government Development (US\$38.5m) respond to the Government's desire to improve the urban environment in five main cities, strengthen the management capacities of 23 District Assemblies, and support decentralization.

9. IDA's strategy in **Agriculture and Rural Development** is supported by seven operations, which account for 11 percent of total lending. Among these, the Agriculture Sector Investment Program (US\$67m) aims to increase rural incomes and improve food

security through higher agricultural productivity and diversification. Rural Financial Services (US\$5m) seeks to broaden and deepen financial intermediation in rural areas. The Fisheries project's (US\$9m) key objective is to establish the long-term sustainability of the fisheries resources. Natural Resource Management (US\$9.3m) aims to protect and rehabilitate land, forest and wildlife resources in a sustainable manner, and increase incomes realized by rural communities who own the resources. The Village Infrastructure Project (US\$30m) supports capacity building of District Assemblies to enable them to better plan and manage infrastructure investments, and empower rural beneficiary groups and associations through training and other forms of technical assistance to operate and maintain these investments at the community level.

10. **Human Development**, with four projects, accounts for 9 percent of total lending. The Basic Education Sector Investment Program (US\$50m) aims to assist the Government to implement its policy to achieve free, compulsory, universal basic education. National Functional Literacy (US\$32m) attempts to increase the number of Ghanaian adults (15-45 years of age), particularly women and the rural poor, who acquire literacy and functional skills. To reduce the spread of HIV infection, and the impact of AIDS on those infected and their families, the AIDS Response project (US\$25m) provides prevention and care services. Community Development (US\$5m) tests approaches for delivering, monitoring and evaluating community-based poverty reduction actions through community nutrition and food security interventions, and builds capacity for coordinating, monitoring and evaluating community-based poverty reduction programs.

11. **In Public Sector Management**, two projects—Public Sector Management (PSMRP) and the Public Financial Management and Reform Program (PUFMARP I)— totaling US\$35.2m (2.9 percent of total commitments) aim to promote greater efficiency of public services and overall fiscal management through better monitoring and control of public expenditures, allocation of resources consistent with national priorities, and enhanced accountability and transparency in the use of public resources.

12. IDA's strategy in **Private Sector Development** is supported by two projects totaling US\$77 million, and 6.2 percent of commitments. Trade Gateway and Investment's (US\$50m) objective is to attract a critical mass of export-oriented investors to Ghana, to accelerate export-led growth as well as facilitate trade. The Public Enterprise and Privatization technical assistance (US\$27m) aims to improve the business environment through policy and regulatory reform in key sectors such as energy and infrastructure, including telecommunications.

13. **Proposed lending program.** Six projects, totaling US\$285 million, are expected to be presented to the Bank's Board in FY03. In Human Development, the Health Sector Investment Program (US\$75m) will continue to improve health services and linkages, such as population growth and malnutrition, provided under Health Sector Support, which closed on June 30, 2002. The Education Sector Project (US\$50m) would support improvements to the access and quality of education, and include a pilot programmatic approach in basic education. Other projects planned for FY03 are: Public Financial Management II (US\$55m),

which would continue the program under the present PUFMARP I; Promoting Partnerships with Traditional Authorities (US\$5m); Land Administration (US\$25m); and the Poverty Reduction Support Credit (US\$75m).

14. In FY04, three projects—Water Restructuring (US\$100m), Public Sector Management II(US\$80m), and Decentralization (US\$26m)—are due to be presented to the Bank’s Board. Urban V, phase 2 (US\$80m) is envisaged for Board presentation in FY05.

Bank – Fund Collaboration in Specific Areas

15. The IMF and World Bank staff maintain a close collaborative relationship in supporting the Government’s structural reforms in several areas, as outlined below.

Budgeting, public expenditure management and control. A joint Bank-Fund assessment of the Government’s capacity to track poverty reducing expenditures highlighted the need to substantially improve budgetary management. IMF technical assistance missions and a resident advisor have provided technical advice to Government on budget formulation, monitoring of budget execution, and expenditure control. The Bank’s Public Financial Management Technical Assistance Project (FIMTAP) has been providing financial assistance to implement key components of the government’s comprehensive Public Financial Management Reform Project (PUFMARP). In particular, since 1996 FIMTAP has financed the hardware and software development of a computerized budget and public expenditure management system (BPEMS) that will be rolled to different ministries out starting in 2003. BPEMS incorporates a budget formulation, budget execution, and financial management system.

16. **Tax policy and tax administration reform.** The Bank and the Fund have over the past few years expended significant effort to help Ghana enhance its domestic revenue effort. The Fund has taken the lead in tax policy issues and provided technical assistance for the creation of a large-taxpayer unit. The Bank has provided financial support to strengthen tax administration through FIMTAP, especially through operationalizing the Revenue Agencies Governing Board (RAGB).

17. **Public sector reform.** The Fund closely follows public service reforms through their impact on macroeconomic aggregates (wage bill, overall government expenditure) and discusses the macroeconomic trade-offs the government is facing in supporting a large public sector. In recent years the Government has launched a number of major initiatives to redefine the functions of the state and to improve performance of the public sector. Among these reforms, the Bank’s Public Sector Management Reform Project (PSMRP) plays a central role. Bank support takes the form of a series of results-based credits under the adaptable program loan (APL) framework. The government and the Bank agreed on the program’s long-term goals, the phasing and sequencing of investment activities, policy/institutional changes that would contribute to realizing these goals, and the specific objectives and associated performance measures and milestones for each phase. PSMRP aims at (i) restructuring the functions of the core central management agencies and subvented agencies (including the formulation of performance contracts for government ministries); (ii)

reforming public sector pay policy (including salary enhancement schemes); (iii) rightsizing of government (functional reviews of agencies, redeployment of staff and development of alternative employment programs for retrenched staff); (iv) developing a revised regulatory framework for state enterprises (focusing on clarification of roles and responsibilities). Triggers for moving to the next phase of PSMRP include (i) closing down of 5 and restructuring of 12 subvented agencies; (ii) reorganizing central management agencies and realigning their roles and functions; (iii) introducing a human resource management system in pilot agencies.

18. **Public enterprise reform and divestiture.** The Fund closely monitors the financial position of large public enterprises, mostly in the energy and financial sectors, because of their importance for public finances and macroeconomic stability. The Bank is providing support through several projects. In the energy sector, the government needs to prepare an overall energy sector strategy to underpin further Bank investment lending. Divestiture of a large government-owned commercial bank is part of the adjustment lending second Economic Reform Support Operation, and public enterprise management reform and divestiture of other public enterprises selected by the government for privatization is being supported under a Bank technical assistance project.

Financial Relations with the World Bank Group
(As of November 30, 2002, in millions of U.S. dollars)

Credit Number	Fiscal Year	Sector	IDA	Undisbursed
C25680-GH	1994	Local Government Dev.	38.5	1.7
C26820-GH	1995	Ghana Thermal Power	175.6	26.5
C27130-GH	1995	Fisheries	9.0	0.6
C28360-GH	1996	Urban Sanitation	71.0	7.3
C28770-GH	1996	Public Enterprise & Privatization	26.5	8.1
C28850-GH	1996	Basic Education	50.0	0.6
C29250-GH	1997	Public Finance Management	20.9	5.1
CN0200-GH	1997	Village Infrastructure	30.0	11.6
C30910-GH	1998	Natural Resource	9.3	0.7
C20412-GH	1998	Forest Biodiversity	8.9	6.3
C31140-GH	1999	Trade Gateway	50.5	30.3
C31190-GH	1999	Public Sector Management	14.3	4.3
C32280-GH	1999	Economic Reform Support-2	230.0	51.2
C32370-GH	1999	Community Development	5.0	4.6
C32460-GH	1999	National Literacy	32.0	24.8
C32820-GH	2000	Community Water II	25.0	18.2
C33300-GH	2000	Urban-5	10.8	6.7
C33740-GH	2000	Rural Financial Service	5.1	4.8
C34050-GH	2001	Agricultural Services	67.0	63.7
C34580-GH	2001	Aids Response	25.0	21.6
C35530-GH	2002	Economic Reform Support-3	110.0	0.0
C35540-GH	2002	Road Sector Development	220.0	228.0
C50723-GH	2002	GEF Northern Savanna	8.0	8.0
Total (number of credits: 23)			1241.7	534.7

Source: World Bank.

For additional information, please contact Nichola Dyer, Country Program Coordinator, Tel. 473-8742 or Marcelo Andrade, Senior Country Economist, Tel. 473-8378.

Ghana: Statistical Issues

1. **There are notable deficiencies in the quality and timeliness of core surveillance data reported by Ghana.** Addressing these should be given high priority by the government. Areas where improvements need to be made are identified below.

Prices

2. **In order to review the problems in the compilation of price statistics and national accounts, a peripatetic advisor has been assigned to Ghana** and three other African countries. The advisor conducted an initial one-week mission to Ghana in 2001 and a follow-up visit in 2002. The advisor has finalized a work plan with the Ghana Statistical Service (GSS), which is the agency responsible for compiling price statistics and national accounts statistics. The plan focuses on improving the source statistics and methods for compiling CPI and GDP by type of activity at current and constant prices.

3. **A computational error has been made in the published CPI from 1999 onward.** Changes for missing data have been effectively entered as no change, a feature that persisted even when price data once again became available. As a result, the rate of inflation may be significantly understated in the 1999-2001 period in particular, with the error declining in the most recent period. Work is also under way to rebase the CPI to 1998, using the fourth Ghana Living Standard Survey (GLSS4), and analysis reveals that the basket of consumed goods has not changed significantly since the previous rebasing. It is hoped that these tasks will be completed and revised CPI data published by mid-2003.

National accounts

4. **Nominal GDP may be significantly underestimated.** Ghana's GDP is estimated using a value added approach, multiplying volumes by observed movement in different market prices, including the CPI index. The expected underestimation of the CPI index, therefore, affects nominal GDP. It is hoped that a revised series for nominal GDP will be completed together with the new CPI, around mid-2003.

5. GSS is currently using 1993 as the base year for its national accounts data. There are breaks in the national accounts series between 1992 and 1993, as data before 1993 has not been revised. A comprehensive overhaul of the basic sources of national accounts data is needed, as existing sector surveys are outdated. An earlier review of the GDP compilations led to a number of recommendations: (1) private household expenditure should be estimated independently using detailed information from the household expenditure surveys; (2) total consumption should be split into private and government consumption, deflating the former by the CPI and the latter by a price index for government output; and (3) the constant price estimates for gross fixed capital formation in machinery and equipment should be calculated by deflating current price estimates by the relevant import unit values of that particular type of imported good. In addition, the calculation of construction investment should be replaced

by more recent base-year data.

6. The investment to GDP ratio was revised downward significantly after consultations with a staff mission in March 2001. According to previous data, gross fixed capital formation measured in current prices increased from about 20 percent of GDP in 1995 to 30 percent in 1996 and 35 percent in 1999. Gross fixed capital formation remained in the range of 20 to 25 percent of GDP after the revisions. Data compiled by the Ghana Investment Promotion Council show a decline of foreign direct investments (a subcomponent of capital formation) during 1999-2001.

Labor statistics

7. **The paucity of labor statistics is a cause for concern.** Wage statistics are almost nonexistent, although some wage indicators are available from the Social Security National Insurance Trust (SSNIT). The Ministry of Employment has been receiving technical assistance from the UNDP and the ILO in the design and compilation of labor statistics.

Public finance

8. **Steps were taken in 2001-02 to improve Ghana's fiscal data.** The Controller Accountant General's Department (CAGD) currently compiles monthly budget implementation reports, but the data are available with long lags and are not yet published. There remain discrepancies in the data reported by the CAGD and the Bank of Ghana (BOG): above-the-line data from the CAGD are narrower in coverage than below-the-line BOG data. The lack of comprehensive and timely reconciliation of monthly treasury data with bank accounts had undermined the reliability of the data, though action was taken to rectify this problem in late 2002. The government has also formed a committee to define the nature of "broad" and "narrow" government, and has moved to a system of immediate booking for so-called direct debits and more frequent reporting of government account balances.

9. **There are problems of data comprehensiveness and arrears.** The CAGD and the BOG miss a substantial part of central government spending, such as donor flows disbursed directly to ministries, internally generated funds, and expenditures undertaken by extra-budgetary funds. The authorities continue to experience difficulties in adapting their systems to properly record and control payment commitments and arrears for on-budget flows, although they have requested that all donor project support be disbursed through CAGD controlled accounts.

10. **Central government fiscal developments are primarily monitored from below-the-line BOG data.** As no comprehensive audited accounts have been published during the last few years, above-the-line fiscal aggregates are monitored by a combination of cash flow data from the BOG and various identifiable components of revenue and expenditure provided by the Ministry of Finance (MOF) and the CAGD. BOG produces revenue, debt service, and domestic financing data. The Aid and Debt Management Unit (in the MOF) provides external

debt data and information on foreign project loan and grant disbursements. The CAGD provides the data on non-interest recurrent expenditure and domestically financed capital expenditures.

11. Comprehensive solutions to some of the data problems may have to await the complete implementation of the new World Bank sponsored public expenditure management system (expected in 2004) and possibly Fund technical assistance. Various missions from FAD have suggested a number of short-term, temporary solutions aimed at alleviating current data quality problems. A long-term advisor from FAD has been working on public expenditure and debt management issues in the Ministry of Finance since August, 2001.

12. **The coverage and timeliness of the data reported for publication in the *Government Finance Statistics Yearbook (GFSY)* are seriously deficient.** The latest available data relate to the fiscal year ended December 31, 1993. The authorities reported fiscal data for the 1996 *GFSY*, but the data could not be published, as they were not sufficiently detailed to allow conversion to the government finance statistics format. No monthly or quarterly data are reported for publication in *IFS*.

Monetary Statistics and International Reserves

13. A STA monetary and financial statistics mission in 2000 proposed a plan of action to address the classification by residency of foreign-currency-denominated deposits in commercial banks and the proper treatment of repurchase agreements between the BOG and the commercial banks. As a result, gross foreign reserves, net international reserves, and net foreign assets were redefined. Reporting according to the new definitions started in 2001.

14. **Ghana's monetary and international reserve data were significantly revised in early 2002, and are now based on a detailed mapping and automated software system that extracts the data directly from the BOG's underlying financial accounts.** Fund staff were informed in October 2001 that the BOG had revised the reported series on reserve money upward, beginning in November 1999. The previous under-recording reflected adjustments to data on currency in circulation. Two TA missions in November and December 2001 examined and recompiled the reserve money data and encountered considerable difficulty in reconciling previously reported data on BOG net credit to government and net foreign assets with the underlying financial accounts, which were traced to accrual and other adjustments made. The missions concluded that most adjustments were not well founded, and together the BOG and the Fund staff agreed that the most reliable source for monetary data and international reserve data would be the BOG's unadjusted financial accounts.

15. **A July 2002 STA mission confirmed that the bridge table used to automatically generate data on central bank monetary variables and international reserves from BOG's underlying financial accounts is complete and reliable.** BOG currently reports the data monthly with a lag of 4 to 6 weeks. The mission detected shortcomings in the quality of data submitted by commercial banks, especially in the treatment of foreign-currency-denominated assets and liabilities, and in the reporting of government securities. The mission

drafted a new report form for commercial banks, recommending its introduction in 2003. BOG reports data from the commercial banks with a lag of 8 to 10 weeks.

Debt statistics

16. **The responsibility for external debt recording and payment is divided among three independent agencies.** The MOF, through its Aid and Debt Management Unit (ADMU), maintains the external debt database, and it is responsible for recording debt payment obligations, issuing payment requests, and tracking HIPC debt relief. The CAGD confirms the legality of the payment and authorizes the release of public funds and is responsible for accounting of debt payments and rendering reports to parliament. The BOG is the payment agent for the government and verifies payments made to ADMU and CAGD.

17. A FAD technical assistance mission in 2001 concluded that **the three institutions involved need to improve the transparency and accountability of external debt management.** The authorities should: i) develop a unique computerized database that is available to all the relevant institutions; ii) formalize procedures used for settlement of debt payments (including: obtaining debt notification by donors, delegation of signing authorities by officials within the relevant organizations, and creation of registers tracing the movement of documents required to effect external debt payment transactions); and iii) improve the analytical content and timeliness of reported data, which is not reported on a periodic basis at present.

18. To enable systematic comparison between the budget, the balance of payments, and the BOG cash flow data, the authorities should clearly identify the various government subsectors for which data are reported and prepare a clear classification of (financing as well as) debt data and guaranteed debt data.

Trade and Balance of Payments Statistics

19. **Currently, GSS is not publishing timely monthly trade statistics, although the data are available from the Customs Excise and Preventive Service (CEPS).** The staff has recommended that the GSS should collaborate with the CEPS to process customs data within 6 weeks and join forces with the Ministry of Trade and Industry (MOT) and the BOG, to identify and to reduce the discrepancies in trade statistics and to ensure that imports into bonded warehouses are not double counted. Data collection procedures of the CEPS need to be improved and there is room for improving trade volume data collected by the CEPS through customs invoices, which would help the GSS to develop meaningful import and export unit values. The staff has also recommended that the GSS and the MOT seek the co-operation of VALCO in reconciling discrepancies in aluminum exports data.

20. **The staff has recommended that GSS develop export unit values for major export commodities such as gold and cocoa.** A high coverage of the country's export bundle can be obtained by including just three major exports—cocoa, gold, and unwrought aluminum. In contrast, the deflation of imports is likely to involve an iterative procedure in

order to strike a balance between coverage of the index and its stability due to heterogeneity of the basket.

21. **Ghana does not currently produce quarterly balance of payments data.** A technical assistance mission on balance of payments statistics in 2000 found that improvements in the quality of BOP statistics would necessitate the introduction of surveys of key establishments, the training of staff in the BOP unit of the BOG, improved collaboration between the various government agencies responsible for data collection, and additional computer resources. Survey data like surveys of various travel agents and tour operators are also needed for the BOP services account.

22. **The BOG has been unable to directly estimate foreign direct investment flows** into Ghana as commercial banks do not report such flows, although such data are surveyed by the Ghana Investment Promotion Center (GIPC) as required under the 1994 GIPC Act. The technical assistance mission suggested that BOG work closely with the Ghana Investment Center and the Attorney General's Office in sharing FDI data from the survey of these establishments.

Publication

23. **In general, statistical information from official sources is not disseminated to the public on a timely basis.** The reporting of data to the Fund for purposes of publication in the *IFS* has improved, but data on international transactions are still reported with a lag of about four to five months in the *IFS*. The *Quarterly Economic Bulletin of the Bank of Ghana* is now published more regularly, but the data show lags of up to six months. The GSS publishes the *Quarterly Digest of Statistics* with even longer lags. The government has agreed to take steps to ensure that both quarterly bulletins are published regularly, with a lag of not more than 60 days. The staff has encouraged the authorities to make this information available on the government and the BOG web sites.

Ghana: Core Statistical Indicators
(As of February 7, 2002)

	Exchange Rates	International Reserves 1/	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Bal 2/	GDP/ GNP	External Debt 3/	Debt Service 3/
Date of Latest Observation	Dec 2002	Dec 2002	Dec 2002	Dec 2002	Nov 2002	Feb 2003	Dec 2002	Oct 2002	2001	Dec 2002	2001	Dec 2002	Dec 2002
Date Received	Jan 2003	Jan 2003	Jan 2003	Jan 2003	Jan 2003	Feb 2003	Jan 2003	Jan 2003	June 2002	Jan 2003	June 2002	Jan 2003	Jan 2003
Frequency of Data 4/	D	M	M	W	M	W	M	M	A	M	A	M	M
Frequency of Reporting 4/	W	M	M	M	M	W	M	V	A	V	A	V	V
Source of Data	BOG	BOG	BOG	BOG	BOG	BOG	MOF	BOG	BOG	MOF	MOF	BOG, MOF	BOG, MOF
Mode of Reporting 5/	E,R	E,V	E,V	E,V	E,V	E,R	C,R	R,V	R,V	R,V,M	R,V	R, V	R,V
Confidentiality	N	C	C	C	C	N	N	C	C	C	C	C	C
Frequency of Publication	D	Q	Q	Q	Q	W	M	A	A	...	V	A	A

1/ Both gross official reserves and net international reserves reported each month with a lag of 4 to 6 weeks.

2/ Central government. 3/ Monthly data reported infrequently. 4/ D=daily; W=weekly; M=monthly; Q=quarterly, A=annually; and V=infrequently.

5/ C=cable or facsimile; E=electronic data transfer; M=mail; R=provided to Resident Representative; and V=staff visits.

INTERNATIONAL MONETARY FUND

GHANA

Staff Report for the 2003 Article IV Consultation and Requests for a Three-Year Arrangement Under the Poverty Reduction and Growth Facility and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Supplementary Information

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by Donal Donovan and Shigeo Kashiwagi

April 24, 2003

1. In light of additional data on inflation that have become available since the staff report was issued, the authorities have proposed modifications to the macroeconomic framework and some of the quantitative performance criteria set out in their letter of intent of March 31, 2003. These modifications are described in the attached addendum to the letter of intent (Attachment I). This supplement reports on the latest inflation data and provides a staff assessment of the modifications to the authorities' program.

Background

2. As noted in the staff report, the consumer price index (CPI) increased in February 2003 by 12.8 percent over the preceding month, raising the 12-month inflation rate from 16.3 percent in January to 29.4 percent in February. Inflation had been expected to rise in February, as a result of the government's decision to increase retail petroleum prices by an average 90 percent, but by much less than the data show. Taking into account the experience of the last major adjustment in petroleum prices (in February 2001, when the average product price was increased by about 60 percent), the forecast was for a CPI increase of about 3 percent in February 2003. The outturn therefore exceeded expectations by over 9 percentage points. The disaggregated CPI data showed that, while the largest price increases were in categories affected directly or indirectly by petroleum prices, there were also unusually large adjustments across all the major components of the index.

3. The authorities interpreted the jump in prices in February as a one-time realignment, as traders throughout the economy marked up their prices in response to the larger-than-anticipated hike in petroleum prices. In their view, the impact of the petroleum price shock

was proportionately greater this time than it had been two years previously because people had become accustomed in the intervening period to relatively low and stable rates of inflation.¹

4. Since the staff report was issued, data for March have become available, and show a sharp fall in the monthly inflation rate, to 2.5 percent. The 12-month rate rose slightly, to 29.9 percent. The monthly increase was only about one percentage point higher than had been assumed in the program. This outcome tends to support the authorities' view that the February CPI increase represented a "level adjustment" rather than a shift to a higher underlying rate of inflation.² It is also telling that the exchange rate has shown no signs of weakening, as might have been expected if inflation expectations had increased markedly. As of April 15, the cedi had depreciated by only 3½ percent against the U.S. dollar since the beginning of 2003.

Modifications to the program

5. While there is a good case for believing that the underlying inflation rate for the remainder of the year may stay broadly in line with program assumptions, it is clear that the level of prices in 2003 will be significantly higher than programmed. This has two principal implications. First, the existing program target of reaching single-digit (9 percent) inflation by end-2003 is no longer realistic, and the related monetary targets need to be reconsidered. Second, maintaining the nominal levels of public expenditure approved in the 2003 budget would unduly compress real spending levels, and disrupt the government programs on which effective implementation of the Ghana Poverty Reduction Strategy (GPRS) depends.³ In the view of the staff and the authorities, therefore, an adjustment to components of the nominal expenditure framework is warranted.

6. As regards **inflation**, the proposed target for the 12-month rate in December 2003 has been revised up from 9 percent to 22 percent (Table 1). This revision corresponds broadly to the overrun in inflation observed during the first quarter of 2003, and assumes that prices

¹ In February 2001, the 12-month inflation rate still exceeded 40 percent, and would peak the following month before beginning a period of steady decline through late 2002.

² In the addendum to their letter of intent, the authorities also note that the March inflation figure included the impact of a 12 percent increase in electricity and water tariffs. The size and timing of these tariff increases had been publicized months in advance, however, and had been factored into the program's inflation projections. The staff do not, therefore, view them as contributing significantly to the higher-than-expected inflation in March.

³ A budget in line with the original program was approved by parliament on March 28, 2003.

evolve approximately in line with the original program for the rest of the year.⁴ The achievement of single-digit inflation would thus be deferred by only a few months (i.e., until the February 2003 CPI increase drops out of the 12-month growth rate). The original inflation targets for end-2004 and beyond have consequently been retained.

7. In order to ensure that inflation in the coming months remains subdued, the authorities have decided to make only a modest upward revision to the original targets for **monetary growth**. The modified program provides for an expansion of both broad money (M2) and reserve money of around 25 percent in 2003, compared to 21 percent in the original program (Table 3). The underlying assumption is that the sharp price rises in the first quarter of 2003 contributed to a necessary erosion of excess real money balances that had emerged in late 2002.⁵ The revised monetary targets are therefore only partially accommodating with respect to the higher level of prices. Bank credit to the private sector is set to grow by around 16 percent in real terms, down from 20 percent in the original program.

8. Tighter monetary conditions (in real terms) are expected to imply temporarily higher interest rates and a more appreciated real exchange rate than in the original program. Indeed, the central bank already increased its prime lending rate by two percentage points, to 27.5 percent, following publication of the February inflation data, pushing up interest rates in the treasury bill market commensurately.⁶ Nevertheless, the authorities decided to maintain their objective of 4.7 percent **real GDP growth** for 2003. They argued that the envisaged policy tightening was limited and temporary, and that any effects on demand would be felt only with a lag. They therefore preferred to take stock of the growth outlook at the time of the first program review. The staff's view is that the tightening of monetary policy creates a downside risk for growth, but that this is countered on the upside by preliminary reports of a significantly better-than-expected cocoa crop. In any event, growth prospects will be reassessed at the time of the first review.

9. In revising the **fiscal program** for 2003, the authorities have set out to protect the real value of the expenditure categories that are crucial for the implementation of the GPRS, while maintaining their original objective of zero net domestic financing of the budget this year. On

⁴ The objective for inflation in the remainder of 2003 is ambitious, but attainable. It implies a path for the CPI during the last three quarters of the year similar to that achieved during the same period in 1998 and 1999. Seasonal factors typically push food prices down during the second half of the year, and in 2003, the assumed decline in retail petroleum prices should help to restrain nonfood inflation.

⁵ In addition, as the authorities note in the addendum to their letter of intent, nominal reserve money growth slowed in the first quarter of 2003, falling to 30 percent on a year earlier, compared to 43 percent growth in the year ending December 2002.

⁶ The rate on the benchmark 91-day treasury bills increased to over 30 percent in early April, up from 27.2 percent in February.

the **revenue** side, most tax revenues are expected to rise in line with the higher expected price level.⁷ The main exceptions are specific duties, which are fixed in nominal terms, and taxes based on imports, where projected receipts are depressed by the assumed appreciation of the real exchange rate. Because of these factors, the aggregate tax revenue-to-GDP ratio in 2003 is expected to be about 0.5 percentage points lower than in the original program, at 18.4 percent (Table 2b).

10. On the **expenditure** side, higher interest rates are expected to increase the domestic interest bill in 2003 by around 0.4 percent of GDP on an accrual basis, although the rise in cash terms is mitigated in the short run by the deferral of the inflation component on index-linked bonds. The civil service wage bill, which already provides for an agreed 22 percent average increase in civil service salaries, is assumed to remain unchanged at the original program levels; given the higher level of nominal GDP, the wage bill is now projected at around 8.4 percent of GDP in 2003, compared to 9 percent of GDP previously. Expenditures on goods and services and domestically-financed capital projects are programmed to be increased broadly in line with the higher level of prices (as measured by the GDP deflator), as is aggregate poverty-related expenditure.⁸ Given a small rise in external donor financing (US\$10 million, or 0.1 percent of GDP), these revised expenditure plans are consistent with the new revenue projections and the (unchanged) policy assumption of zero net domestic financing for the budget in 2003. The government will seek parliamentary approval for the higher levels of spending when it reports to parliament in September on the mid-year review of the budget.

11. The net adjustments to fiscal policy for 2003 imply a small increase in the **budget deficit** (excluding grants), from 7.5 percent of GDP in the original program to 7.7 percent of GDP. The domestic primary surplus would be reduced slightly from 3.0 to 2.9 percent of GDP.

12. The **balance of payments** effects of the program revisions are expected to be minor. The assumption of a more appreciated real exchange rate in 2003 is projected to imply slightly higher imports than originally programmed. Competitiveness in the major export sectors (cocoa, gold, and timber) is not expected to be materially affected, however, and so export volume growth is assumed to be unchanged. As a result, the current account worsens in 2003 by around US\$10 million. The program target for accumulation of **net international reserves** is unchanged (at US\$130 million for the year), so the financing gap increases by US\$10 million. It is expected that this gap can be filled by a larger-than-programmed

⁷ Even corporate income tax receipts are likely to be correspondingly higher in 2003, because companies are required to make payments on the basis of their *expected* nominal incomes for the current year.

⁸ The latter is predominantly capital spending, purchases of goods and services, and administrative expenses. The wage component is very limited, and hence no adjustment has been made for lower-than-programmed real wages.

disbursement by the World Bank under the proposed Poverty Reduction Support Credit (PRSC) for Ghana.⁹

Staff appraisal

13. The staff considers that the modifications to the program proposed by the authorities are appropriate, and that the stated policies will be sufficient to achieve the revised program objectives. The authorities' decision to maintain the original target for real GDP growth is justified, in the staff's view, but this target is subject to additional uncertainties in view of the tighter monetary stance and will need to be reassessed at the time of the first program review. It will be particularly important to monitor inflation developments closely over the next few months, and for the Bank of Ghana to take additional measures if needed to keep inflation on the target path. If this is done effectively, and the budget is implemented as planned, the medium-term objectives set out in the GPRS can be preserved. The staff therefore supports the authorities' requests for a three-year PRGF in an amount equivalent to SDR 184.5 million, and for an additional disbursement of interim assistance from the Fund under the enhanced HIPC Initiative in an amount equivalent to SDR 15.15 million. Revised versions of the proposed decisions and the text of the arrangement are attached.

⁹ It is envisaged that the PRSC will be considered by the World Bank Executive Board in June 2003.

Table 1. Ghana: Selected Economic and Financial Indicators, 2000-08

	2000	2001	2002 Est.	2003		2004 Proj.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.
				Prog. 1/	Rev. Prog.					
(Annual percentage change, unless otherwise specified)										
National income and prices										
Real GDP	3.7	4.2	4.5	4.7	4.7	5.0	5.0	5.0	5.0	25.0
Real GDP per capita	1.2	1.6	1.9	2.1	2.1	2.4	2.4	2.4	2.4	2.4
Nominal GDP	31.9	40.2	28.3	24.3	33.6	18.9	12.5	11.5	11.0	11.3
GDP deflator	27.2	34.6	22.8	18.8	27.6	13.3	7.1	6.2	5.7	6.0
Consumer price index (annual average)	25.2	32.9	14.8	15.1	26.9	8.3	6.0	5.0	5.0	5.0
Consumer price index (end of period)	40.5	21.3	15.2	9.0	22.0	7.0	5.0	5.0	5.0	5.0
External sector										
Exports, f.o.b.	-3.5	-3.6	10.6	12.1	12.1	11.0	3.4	4.2	4.6	5.8
Imports, f.o.b.	-15.2	2.6	-4.1	16.4	16.8	8.3	4.4	5.8	4.5	4.4
Export volume	1.0	-1.3	-1.5	2.7	2.7	4.6	4.0	3.9	4.4	4.4
Import volume	-26.0	10.0	-6.8	7.3	7.6	13.2	5.4	6.2	3.7	3.3
Terms of trade	-16.6	4.8	9.1	0.7	0.7	10.9	0.5	0.7	-0.6	0.3
Nominal effective exchange rate (avg.)	-46.3	-24.0	-11.7	...	...	...	...	...	...	...
Real effective exchange rate (avg.)	-35.5	0.7	-0.6	...	...	...	...	...	...	...
Cedis per U.S. dollar (avg.)	5,431	7,179	7,947	...	...	...	...	...	...	...
Government budget										
Domestic revenue (excluding grants)	42.9	43.5	27.5	53.8	60.3	22.7	12.1	10.6	11.9	10.1
Total expenditure	39.6	65.5	2.4	41.6	50.0	12.7	7.4	8.3	10.7	8.4
Current expenditure	48.9	50.5	28.8	26.6	33.5	4.1	3.9	6.0	10.0	7.4
Capital expenditure and net lending	24.1	95.7	-38.7	90.8	104.1	30.9	13.3	11.7	11.7	9.8
Money and credit										
Net domestic assets 2/	49.1	13.5	14.0	0.1	-1.7	1.8	-4.0	-0.3	-9.8	-1.4
Credit to government 2/	57.7	0.0	32.6	0.0	0.0	-7.9	-6.0	-6.8	-6.6	-5.5
Credit to public enterprises 2/ 3/	19.2	9.7	-9.0	0.7	1.5	0.5	-0.1	0.3	0.3	0.3
Credit to the private sector 2/ 3/	34.4	12.0	17.7	14.7	18.8	18.5	9.6	10.2	7.7	7.7
Broad money (excluding foreign currency deposits)	33.4	48.4	50.0	21.2	25.0	18.9	12.5	11.2	11.5	11.0
Reserve money (excluding foreign currency deposits)	52.6	31.3	42.6	20.7	24.5	18.8	12.4	11.2	11.4	10.9
Velocity (GDP/end-of-period broad money)	5.1	4.8	4.1	4.2	4.4	4.4	4.4	4.4	4.4	4.4
Treasury bill yield (in percent, end of period)	42.0	28.9	28.2	...	...	...	...	...	...	...
(In percent of GDP, unless otherwise specified)										
Investment and saving										
Gross investment	24.0	26.6	19.7	23.0	23.0	24.2	24.6	25.0	25.4	25.7
Private	14.8	13.8	13.6	13.6	13.6	13.8	14.1	14.4	14.5	14.8
Public	9.2	12.8	6.1	9.4	9.4	10.4	10.5	10.6	10.9	10.9
Gross national saving	15.6	21.3	20.3	21.2	21.2	22.6	23.4	24.3	25.0	25.6
Private	14.3	16.1	19.2	14.5	14.9	13.4	13.2	13.8	14.4	14.9
Public	1.3	5.1	1.2	6.7	6.3	9.3	10.3	10.5	10.6	10.7
Government budget										
Total revenue	17.7	18.1	18.0	22.3	21.6	22.3	22.2	22.1	22.3	22.0
Grants	2.1	6.9	3.1	4.7	4.6	4.4	4.2	3.8	3.6	3.4
Total expenditure	27.7	32.7	26.1	29.7	29.3	27.8	26.5	25.8	25.7	25.0
Overall balance (excluding grants) 4/	-10.0	-14.6	-8.1	-7.5	-7.7	-5.5	-4.3	-3.7	-3.4	-3.0
Overall balance (including grants) 5/	-9.7	-9.0	-6.8	-3.6	-3.9	-1.3	-0.4	-0.1	-0.1	0.3
Domestic primary balance	2.6	3.8	2.0	3.0	2.9	2.7	2.6	2.2	2.4	2.5
Divestiture receipts	1.2	0.0	0.0	0.7	0.7	0.6	0.0	0.0	0.0	0.0
Net Domestic Financing	8.5	2.3	4.8	0.0	0.0	-2.9	-2.3	-2.3	-2.0	-2.2
External sector										
Current account balance 6/	-8.4	-5.3	0.6	-1.7	-1.8	-1.6	-1.6	-0.7	-0.4	-0.1
External debt outstanding	169.7	131.5	112.3	94.3	96.4	81.1	78.3	67.7	66.3	58.3
External debt service, including to the Fund	11.2	8.5	7.8	6.6	6.3	5.6	5.3	4.5	4.3	4.2
(in percent of exports of goods and nonfactor services)	23.0	18.9	18.4	15.6	15.6	13.4	13.1	11.7	11.4	11.4
(in percent of government revenue)	56.5	34.1	37.1	27.0	24.2	20.8	20.0	17.5	16.8	16.7
(In millions of U.S. dollars, unless otherwise specified)										
Current account balance 6/	-419	-283	38	-120	-131	-121	-129	-60	-37	-11
Overall balance of payments	-123	-2	39	-66	-77	-85	-33	38	110	149
Change in external arrears (decrease -)	27	61	-61	0	0	0	0	0	0	0
Gross international reserves (end of period)	264	344	631	811	811	997	1170	1354	1536	1755
(in months of imports of goods and services)	0.9	1.2	1.9	2.3	2.3	2.7	3.1	3.4	3.7	4.0
Nominal GDP (in billions of cedis)	27,153	38,071	48,862	60,705	65,262	77,620	87,287	97,290	108,007	120,197

Sources: Ghanaian authorities; and Fund staff estimates and projections.

1/ As in EBS/03/42.

2/ In percent of broad money at the beginning of the period.

3/ Credit from deposit money banks to public enterprises and the private sector respectively.

4/ Before domestic arrears clearance.

5/ After domestic arrears clearance.

6/ Including official grants.

Table 2a. Ghana: Central Government Budgetary Operations and Financing, 1999-2008 1/

	(in billions of cedis, unless otherwise specified)													
	1999	2000	2001	2001	2002	2002	2003	2003	2004	2005	2006	2007	2008	
			Revised Prog	Prov. Outturn	Annual Prog	Prov. Outturn	Prog. 2/	Revised Prog	Proj.	Proj.	Proj.	Proj.	Proj.	
Total revenue and grants	3,709	5,383	8,060	9,532	10,468	10,333	16,412	17,099	20,757	23,060	25,204	27,912	30,560	
Total revenue	3,366	4,811	6,360	6,904	8,486	8,800	13,534	14,108	17,317	19,420	21,473	24,037	26,472	
Tax revenue	3,056	4,415	6,045	6,557	8,336	8,542	11,452	12,003	14,278	16,003	17,664	19,809	21,766	
Direct taxes	918	1,409	1,978	2,124	2,548	2,790	3,424	3,678	4,374	4,864	5,362	6,018	6,771	
Company tax	446	697	836	967	1,086	1,162	1,517	1,629	1,937	2,179	2,428	2,696	3,000	
Other direct taxes	472	713	1,143	1,157	1,462	1,629	1,907	2,049	2,437	2,685	2,933	3,322	3,770	
Indirect taxes	1,353	2,018	2,711	2,865	4,002	3,757	5,294	5,484	6,506	7,271	8,012	8,978	9,863	
Sales tax/VAT on dom. goods	323	385	581	509	784	729	943	1,013	1,204	1,354	1,510	1,676	1,865	
Sales tax/VAT on imports	469	887	1,259	1,455	1,764	1,598	2,119	2,174	2,647	2,950	3,238	3,595	3,874	
Petroleum	394	532	599	647	1,119	1,080	1,780	1,811	2,077	2,317	2,540	2,902	3,230	
Other indirect taxes	167	215	271	254	335	350	452	486	578	650	724	804	895	
Trade taxes	785	987	1,356	1,568	1,787	1,995	2,733	2,841	3,398	3,867	4,290	4,814	5,132	
Import duties	531	808	1,076	1,060	1,313	1,669	2,100	2,188	2,718	3,132	3,461	3,876	4,139	
Cocoa export duty	254	179	280	300	388	326	634	653	680	715	829	938	992	
Non-tax revenue 3/	310	396	315	348	150	258	395	395	470	528	589	654	727	
2003 revenue measures	...	...	...	...	...	...	1,687	1,710	2,569	2,889	3,220	3,575	3,978
Health Levy (2.5 percent of value added)	...	...	...	...	...	...	306	319	758	853	950	1,055	1,174
Retain National Reconstruction Levy	...	...	...	...	...	...	146	157	0	0	0	0	0
Debt recovery charge on petroleum products	...	...	...	...	...	...	945	945	1,376	1,547	1,725	1,915	2,131
Timber licenses	...	...	...	...	...	...	290	290	435	489	545	605	674
Grants	343	574	1,700	2,627	1,982	1,533	2,878	2,991	3,440	3,640	3,731	3,874	4,088	
Project grants	193	337	633	1,566	923	467	1,087	1,130	1,322	1,401	1,444	1,486	1,632	
Program grants	150	238	1,067	1,061	588	558	1,149	1,193	999	1,018	1,049	1,079	1,111	
HIPC assistance (multilaterals)	0	0	0	0	471	508	643	668	1,118	1,221	1,239	1,309	1,345	
Total expenditure	5,389	7,525	9,945	12,451	13,324	12,751	18,059	19,132	21,553	23,152	25,064	27,742	30,064	
Recurrent expenditure	3,382	5,034	6,806	7,578	8,359	9,761	12,355	13,029	13,566	14,101	14,951	16,447	17,659	
Noninterest	2,232	3,001	3,809	4,593	5,304	6,763	8,409	8,602	10,233	11,295	12,665	13,820	15,138	
Wages and salaries 4/	1,161	1,423	2,059	2,317	3,122	4,142	5,450	5,450	6,482	7,289	8,125	9,020	10,038	
Goods and services 4/	485	700	576	703	1,115	1,452	1,871	2,047	2,434	2,737	3,051	3,286	3,547	
Subventions 4/	287	445	666	788	0	0	0	0	0	0	0	0	0	
Transfers	298	432	509	785	1,067	1,168	1,088	1,106	1,317	1,268	1,489	1,514	1,554	
o/w utility subsidy	...	...	...	257	354	480	50	50	59	67	75	83	92
o/w National Health Fund	...	...	...	...	...	...	210	216	248	65	73	81	90
Interest	1,150	2,033	2,997	2,985	3,055	2,999	3,946	4,427	3,333	2,806	2,286	2,627	2,521	
Domestic (accrual)	872	1,445	2,298	2,310	2,136	2,210	3,108	3,537	2,193	1,604	1,044	1,311	1,112	
of which interest on 2003 TOR bond issue	...	...	...	...	...	...	262	444	181	149	135	135	0
External (accrual)	278	587	699	675	919	789	838	870	1,139	1,202	1,243	1,317	1,408	
Capital expenditure (total)	2,007	2,491	3,139	4,873	4,965	2,990	5,704	6,103	7,987	9,050	10,113	11,295	12,405	
Capital expenditure (domestic)	851	1,145	1,036	1,341	2,043	1,338	3,060	3,355	4,846	5,720	6,548	7,481	8,215	
o/w discretionary expenditure	727	611	355	417	886	475	1,303	1,563	2,562	3,159	3,709	4,319	4,728	
Capital expenditure (foreign)	1,157	1,346	2,103	3,532	2,922	1,652	2,643	2,749	3,142	3,330	3,564	3,815	4,190	
Overall balance (before arrears clearance, modified cash basis) 4/	-1,680	-2,140	-1,885	-2,920	-2,856	-2,418	-1,647	-2,034	-796	-91	140	169	496	
(in percent of GDP)	-8.2	-7.9	-2.8	-7.7	-5.5	-4.9	-2.7	-3.1	-1.0	-0.1	0.1	0.2	0.4	
Overall balance (before arrears clearance, exclud. grants) 5/	-2,023	-2,714	-3,585	-5,547	-4,838	-3,951	-4,525	-5,024	-4,236	-3,732	-3,591	-3,705	-3,593	
Road arrears (clearance)	-130	-328	-214	-44	-288	-208	-220	-220	0	0	0	0	0	
Other domestic payment arrears (clearance)	156	-156	-442	-442	-337	-630	-197	-197	-97	-97	-97	-97	0	
o/w statutory funds	0	0	...	-235	...	-247	-97	-97	-97	-97	-97	-97	0	
VAT refunds	0	0	-55	-27	-76	-55	-92	-96	-116	-129	-142	-158	-172	
Unspent releases 3/	...	...	...	...	299	0	0	0	0	0	0	0	0
Overall balance (modified cash basis after arrears clearance) 5/	-1,654	-2,624	-2,597	-3,433	-3,258	-3,310	-2,156	-2,546	-1,009	-318	-99	-86	324	
Overall balance from below the line	-1,862	-2,585	-2,597	-2,961	-3,258	-2,991	-2,330	-2,720	-1,006	-318	-99	-86	324	
Discrepancy between above and below line data 6/	-208	39	0	472	0	319	-174	-174	0	0	0	0	0	
Divestiture receipts	53	323	120	12	387	5	413	429	473	0	0	0	0	
o/w costs of divestiture	...	...	...	-144	0	-6	-16	-17	0	0	0	0	0
Total non-divestiture financing	1,809	2,262	2,477	2,949	2,871	2,986	1,917	2,292	536	318	99	86	-324	
Foreign (net)	448	-485	1,111	1,428	515	-782	-363	-366	-184	-147	201	792	803	
Project loans	964	1,009	1,470	1,968	1,999	1,185	1,557	1,619	1,819	1,929	2,120	2,328	2,557	
Program loans	236	802	1,235	1,056	725	160	669	712	1,024	1,086	1,119	1,151	1,185	
Amortization due	-751	-2,296	-1,594	-1,593	-2,209	-2,126	-2,589	-2,696	-3,027	-3,162	-3,038	-2,688	-2,939	
Exceptional financing	71	429	1,006	659	2,098	1,241	2,034	2,204	2,776	2,341	2,007	1,467	1,527	
External payment arrears	71	429	-630	-467	0	-461	0	0	0	0	0	0	0	
Additional donor financing	0	0	0	0	426	0	132	226	544	219	317	262	495	
Traditional rescheduling	0	0	1,636	1,126	1,406	1,451	1,478	1,537	1,655	1,514	1,127	713	563	
HIPC assistance (non-multilateral)	0	0	0	0	266	252	424	441	576	609	563	492	469	
Savings due to inflation indexed bonds	0	0	...	...	118	194	246	453	163	128	113	0	0
Domestic (net) 5/	1,290	2,319	360	862	141	2,332	0	0	-2,219	-2,005	-2,222	-2,173	-2,654	
Banking system	1,267	2,295	360	-979	141	1,144	0	0	-1,168	-1,050	-1,342	-1,460	-1,336	
Nonbanks	23	24	0	1,841	0	1,188	0	0	-1,051	-955	-881	-713	-1,318	
Memorandum items:														
Total enhanced HIPC relief	...	...	...	...	737	760	1,066	1,108	1,695	1,829	1,802	1,801	1,814
Total poverty spending (GPRS definition) 7/	...	...	...	1,730	...	2,711	3,621	3,916	...	...	...	...	...
Domestic primary balance (2001 prov. includes discrepancy)	77	704	1,515	1,442	1,438	964	1,798	1,881	2,123	2,276	2,117	2,579	2,946	
Stock of domestic debt 5/	5,797	7,842	9,415	10,195	9,569	14,106	14,352	14,559	12,503	11,428	10,761	10,761	10,761	
o/w TOR debt restructuring bonds	0	0	979	979	979	2,400	2,400	2,400	2,074	1,747	1,421	1,421	0	
GDP at current market prices	20,580	27,153	38,071	38,071	46,875	48,862	60,705	65,262	77,620	87,287	97,290	108,007	120,197	

Sources: Ghanaian authorities; and Fund staff estimates and projections.

1/ From 2001 above the line data for domestic recurrent and capital expenditure are presented on a cash basis (payment vouchers); arrears not reflected in line expenditures.

Prior to 2001 domestic capital expenditure contained a balancing item.

2/ As in EBS/03/42.

3/ Prior to 2002, non tax revenue included positive balances on committed accounts outside the consolidated fund. From 2002 onwards, this is treated separately as unspent releases.

4/ From 2002 subvented agency expenditure for wages and salaries and goods and services are subsumed under their respective line items

5/ Domestic debt stock estimates include TOR bonds issued in 2001 and 2003 but exclude government overdraft at BOG.

6/ Projected discrepancy in 2003 reflects float.

7/ The GPRS dedicates 80 percent of E-HIPC relief to poverty spending and 20 percent to domestic debt reduction. Projections for poverty spending from 2004 onwards are not available.

Table 2b. Ghana: Central Government Budgetary Operations and Financing, 1999-2008 1/ (In percent of GDP, unless otherwise specified)

	1999	2000	2001	2001	2002	2002	2003	2003	2004	2005	2006	2007	2008
			Revised	Prog	Annual	Prog	Prog.	Revised	Proj.	Proj.	Proj.	Proj.	Proj.
			Prog	Outturn	Prog	Outturn	2/	Prog.					
Total revenue and grants	18.0	19.8	21.2	25.0	22.3	21.1	27.0	26.2	26.7	26.4	25.9	25.8	25.4
Total revenue	16.4	17.7	16.7	18.1	18.1	18.0	22.3	21.6	22.3	22.2	22.1	22.3	22.0
Tax revenue	14.8	16.3	15.9	17.2	17.8	17.5	18.9	18.4	18.4	18.3	18.2	18.3	18.1
Direct taxes	4.5	5.2	5.2	5.6	5.4	5.7	5.6	5.6	5.6	5.6	5.5	5.6	5.6
Company tax	2.2	2.6	2.2	2.5	2.3	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Other direct taxes	2.3	2.6	3.0	3.0	3.1	3.3	3.1	3.1	3.1	3.1	3.0	3.1	3.1
Indirect taxes	6.6	7.4	7.1	7.5	8.5	7.7	8.7	8.4	8.4	8.3	8.2	8.3	8.2
Sales tax/VAT on dom. goods	1.6	1.4	1.5	1.3	1.7	1.5	1.6	1.6	1.6	1.6	1.6	1.6	1.6
Sales tax/VAT on imports	2.3	3.3	3.3	3.8	3.8	3.3	3.5	3.3	3.4	3.4	3.3	3.3	3.2
Petroleum	1.9	2.0	1.6	1.7	2.4	2.2	2.9	2.8	2.7	2.7	2.6	2.7	2.7
Other indirect taxes	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Trade taxes	3.8	3.6	3.6	4.1	3.8	4.1	4.5	4.4	4.4	4.4	4.4	4.5	4.3
Import duties	2.6	3.0	2.8	2.8	2.8	3.4	3.5	3.4	3.5	3.6	3.6	3.6	3.4
Cocoa export duty	1.2	0.7	0.7	0.8	0.8	0.7	1.0	1.0	0.9	0.8	0.9	0.9	0.8
Non-tax revenue 3/	1.5	1.5	0.8	0.9	0.3	0.5	0.7	0.6	0.6	0.6	0.6	0.6	0.6
2003 revenue measures	...	...	...	...	...	...	2.8	2.6	3.3	3.3	3.3	3.3	3.3
Health Levy (2.5 percent of value added)	...	...	...	...	...	...	0.5	0.5	1.0	1.0	1.0	1.0	1.0
Retain National Reconstruction Levy	...	...	...	...	...	...	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Debt recovery charge on petroleum products	...	...	...	...	...	...	1.6	1.4	1.8	1.8	1.8	1.8	1.8
Timber licenses	...	...	...	...	...	...	0.5	0.4	0.6	0.6	0.6	0.6	0.6
Grants	1.7	2.1	4.5	6.9	4.2	3.1	4.7	4.6	4.4	4.2	3.8	3.6	3.4
Project grants	0.9	1.2	1.7	4.1	2.0	1.0	1.8	1.7	1.7	1.6	1.5	1.4	1.4
Program grants	0.7	0.9	2.8	2.8	1.3	1.1	1.9	1.8	1.3	1.2	1.1	1.0	0.9
HIPC assistance (multilateral)	0.0	0.0	0.0	0.0	1.0	1.0	1.1	1.0	1.4	1.4	1.3	1.2	1.1
Total expenditure	26.2	27.7	26.1	32.7	28.4	26.1	29.7	29.3	27.8	26.5	25.8	25.7	25.0
Recurrent expenditure	16.4	18.5	17.9	19.9	17.8	20.0	20.4	20.0	17.5	16.2	15.4	15.2	14.7
Noninterest	10.8	11.1	10.0	12.1	11.3	13.8	13.9	13.2	13.2	12.9	13.0	12.8	12.6
Wages and salaries 4/	5.6	5.2	5.4	6.1	6.7	8.5	9.0	8.4	8.4	8.4	8.4	8.4	8.4
Goods and services 4/	2.4	2.6	1.5	1.8	2.4	3.0	3.1	3.1	3.1	3.1	3.1	3.0	3.0
Subventions 4/	1.4	1.6	1.7	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers	1.4	1.6	1.3	2.1	2.3	2.4	1.8	1.7	1.7	1.5	1.5	1.4	1.3
o/w utility subsidy	...	...	...	0.7	0.8	1.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
o/w National Health Fund	...	...	...	...	...	...	0.3	0.3	0.3	0.1	0.1	0.1	0.1
Interest	5.6	7.5	7.9	7.8	6.5	6.1	6.5	6.8	4.3	3.2	2.4	2.4	2.1
Domestic (accrual)	4.2	5.3	6.0	6.1	4.6	4.5	5.1	5.5	2.8	1.8	1.1	1.2	0.9
of which interest on 2003 TOR bond issue	...	...	...	...	...	...	0.4	0.7	0.2	0.2	0.1	0.1	0.0
External (accrual)	1.4	2.2	1.8	1.8	2.0	1.6	1.4	1.3	1.5	1.4	1.3	1.2	1.2
Capital expenditure (total)	9.8	9.2	8.2	12.8	10.6	6.1	9.4	9.4	10.3	10.4	10.4	10.5	10.3
Capital expenditure (domestic)	4.1	4.2	2.7	3.5	4.4	2.7	5.0	5.1	6.2	6.6	6.7	6.9	6.8
o/w discretionary expenditure	3.5	2.2	0.9	1.1	1.9	1.0	2.1	2.4	3.3	3.6	3.8	4.0	3.9
Capital expenditure (foreign)	5.6	5.0	5.5	9.3	6.2	3.4	4.4	4.2	4.0	3.8	3.7	3.5	3.5
Road arrears (clearance)	-0.6	-1.2	-0.6	-0.1	-0.6	-0.4	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0
Other domestic payment arrears	0.8	-0.6	-1.2	-1.2	-0.7	-1.3	-0.3	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1
o/w to statutory funds	...	...	...	-0.6	...	-0.5	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
VAT Refunds	...	...	-0.1	-0.1	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Unspent releases 3/	...	...	...	...	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (modified cash basis after arrears clearance) 5/	-8.0	-9.7	-6.8	-9.0	-7.0	-6.8	-3.6	-3.9	-1.3	-0.4	-0.1	-0.1	0.3
Overall balance from below the line	-9.0	-9.5	-6.8	-7.8	-7.0	-6.1	-3.8	-4.2	-1.3	-0.4	-0.1	-0.1	0.3
Discrepancy between above and below line data 6/	-1.0	0.1	0.0	1.2	0.0	0.7	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0
Divestiture receipts	0.3	1.2	0.3	0.0	0.8	0.0	0.7	0.7	0.6	0.0	0.0	0.0	0.0
o/w costs of divestiture	...	...	...	-0.4	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total non-divestiture financing	8.8	8.3	6.5	7.7	6.1	6.1	3.2	3.5	0.7	0.4	0.1	0.1	-0.3
Foreign (net)	2.2	-1.8	2.9	3.8	1.1	-1.6	-0.6	-0.6	-0.2	-0.2	0.2	0.7	0.7
Project loans	4.7	3.7	3.9	5.2	4.3	2.4	2.6	2.5	2.3	2.2	2.2	2.2	2.1
Program loans	1.1	3.0	3.2	2.8	1.5	0.3	1.1	1.1	1.3	1.2	1.1	1.1	1.0
Amortization due	-3.7	-8.5	-4.2	-4.2	-4.7	-4.4	-4.3	-4.1	-3.9	-3.6	-3.1	-2.5	-2.4
Exceptional financing	0.3	1.6	2.6	1.7	4.5	2.5	3.4	3.4	3.6	2.7	2.1	1.4	1.3
External payment arrears	0.3	1.6	-1.7	-1.2	0.0	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additional donor financing	...	...	...	0.0	0.9	0.0	0.2	0.3	0.7	0.3	0.3	0.2	0.4
Traditional rescheduling	0.0	0.0	4.3	3.0	3.0	3.0	2.4	2.4	2.1	1.7	1.2	0.7	0.5
HIPC assistance (non-multilateral)	...	...	...	...	0.6	0.5	0.7	0.7	0.7	0.7	0.6	0.5	0.4
Savings due to inflation indexed bonds	0.0	0.0	...	...	0.3	0.4	0.4	0.7	0.2	0.1	0.1	0.0	0.0
Domestic (net) 5/	6.3	8.5	0.9	2.3	0.3	4.8	0.0	0.0	-2.9	-2.3	-2.3	-2.0	-2.2
Banking system	6.2	8.5	0.9	-2.6	0.3	2.3	0.0	0.0	-1.5	-1.2	-1.4	-1.4	-1.1
Nonbanks	0.1	0.1	...	4.8	0.0	2.4	0.0	0.0	-1.4	-1.1	-0.9	-0.7	-1.1
Memorandum items:													
Total enhanced HIPC relief	...	...	...	...	1.6	1.6	1.8	1.7	2.2	2.1	1.9	1.7	1.5
Total poverty spending (GPRS definition) 7/	...	...	...	4.5	...	5.5	6.0	6.0	...	...	...	...	...
Domestic primary balance (2001 prev. includes discrepancy)	0.4	2.6	4.0	3.8	3.1	2.0	3.0	2.9	2.7	2.6	2.2	2.4	2.5
Stock of domestic debt 5/	28.2	28.9	24.7	26.8	20.4	28.9	23.6	22.3	16.1	13.1	11.1	10.0	9.0
o/w TOR debt restructuring bonds	0.0	0.0	2.6	2.6	2.1	4.9	4.0	3.7	2.7	2.0	1.5	1.3	0.0

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

1/ From 2001 above the line data for domestic recurrent and capital expenditure are presented on a cash basis (payment vouchers); arrears not reflected in line expenditures.

Prior to 2001 domestic capital expenditure contained a balancing item.

2/ As in EBS/03/42.

3/ Prior to 2002, non tax revenue included positive balances on committed accounts outside the consolidated fund. From 2002 onwards, this is treated separately as unspent releases.

4/ From 2002 subvented agency expenditure for wages and salaries and goods and services are subsumed under their respective line items.

5/ Domestic debt stock estimates include TOR bonds issued in 2001 and 2003 but exclude government overdraft at BOG.

6/ Projected discrepancy in 2003 reflects float.

7/ The GPRS dedicates 80 percent of E-HIPC relief to poverty spending and 20 percent to domestic debt reduction. Projections for poverty spending from 2004 onwards are not available.

Table 3. Ghana: Monetary Survey, 2001-2008

	2001	2002			2003				2004	2005	2006	2007	2008
	Dec. Act.	Sep. Act.	Dec. Act.	Mar. Rev. Proj.	June Rev. Proj.	Sep. Rev. Proj.	Dec. Proj. 1/	Dec. Rev. Proj.	Dec. Proj.	Dec. Proj.	Dec. Proj.	Dec. Proj.	Dec. Proj.
(in billion of cedis, unless otherwise specified; end of period)													
Bank of Ghana													
Net foreign assets (in millions of U.S. dollars)	524 72	312 38	2,273 267	1,662 187	977 106	1,784 185	3,606 396	3,969 397	5,645 552	7,877 703	9,660 888	13,357 1,127	16,239 1,407
Net domestic assets	3,521	3,502	3,494	3,303	3,860	3,414	3,357	3,211	2,886	1,712	1,002	-1,477	-3,061
Claims on government (net)	2,076	2,939	2,867	2,968	3,516	3,184	3,063	3,271	3,213	2,347	1,809	-32	-1,428
Claims on deposit money banks	787	10	-375	-767	-703	-764	-598	-945	-1,112	-1,243	-1,376	-1,527	-1,688
of which: foreign currency reserves	-277	-477	-635	-708	-644	-705	-858	-885	-1,053	-1,184	-1,317	-1,468	-1,629
Claims on rest of the economy	-100	-98	271	433	433	433	271	433	433	433	433	433	433
Other items, net (assets +)	758	650	731	669	615	561	621	452	352	175	137	-350	-378
Reserve money (RM)	4,044	3,814	5,767	4,965	4,837	5,197	6,963	7,180	8,531	9,589	10,663	11,881	13,178
Currency outside banks	3,090	2,955	4,672	3,979	3,885	4,084	5,626	5,802	6,899	7,758	8,629	9,618	10,672
Bank reserves	932	757	1,056	946	912	1,073	1,298	1,339	1,592	1,791	1,993	2,222	2,466
Cash	195	163	273	165	160	226	344	355	423	475	529	589	654
Deposits	736	594	783	782	752	847	953	983	1,170	1,316	1,465	1,633	1,812
Nonbank deposits	23	102	40	40	40	40	40	40	40	40	40	40	40
Deposit money banks													
Net foreign assets (in millions of U.S. dollars)	942 129	1,560 190	2,034 239	2,300 259	2,582 279	3,224 335	3,178 349	3,489 349	4,337 424	4,999 446	5,493 505	6,460 545	6,604 572
Reserves	932	757	1,056	946	912	1,073	1,298	1,339	1,592	1,791	1,993	2,222	2,466
Credit from Bank of Ghana	-787	-10	375	767	703	764	598	945	1,112	1,243	1,376	1,527	1,688
Domestic credit	10,147	11,878	12,601	13,786	14,098	14,102	14,214	14,596	16,298	17,775	19,040	21,165	23,161
Claims on government (net) 2/	3,913	3,944	5,687	6,409	6,241	5,413	5,489	5,283	4,172	3,988	3,185	3,566	3,626
Claims on non-government 2/	6,234	7,934	6,914	7,377	7,857	8,690	8,725	9,313	12,126	13,787	15,855	17,599	19,535
Public enterprises (PE) 2/	1,715	2,225	892	980	1,000	1,025	971	1,070	...	...	...	...	...
Private sector	4,472	5,630	5,864	6,197	6,757	7,565	7,596	8,085	...	...	...	...	...
Other items, net (assets +)	-4,099	-5,105	-5,408	-6,292	-6,569	-6,516	-5,835	-6,493	-6,834	-7,243	-7,246	-8,346	-8,363
Total deposits	7,135	9,078	10,657	11,508	11,726	12,647	13,452	13,875	16,505	18,566	20,657	23,029	25,555
Monetary survey													
Net foreign assets (in millions of U.S. dollars)	1,466 200	1,872 229	4,307 507	3,963 446	3,559 385	5,008 521	6,784 745	7,458 746	9,982 976	12,876 1,149	15,154 1,394	19,818 1,672	22,843 1,979
Net domestic assets	8,782	10,264	11,061	11,564	12,092	11,763	12,334	12,259	13,462	13,488	14,172	12,870	13,424
Domestic credit	12,123	14,719	15,738	17,187	18,046	17,719	17,547	18,300	19,944	20,555	21,282	21,565	22,166
Claims on government (net) 2/	5,989	6,883	8,554	9,377	9,757	8,597	8,552	8,554	7,386	6,336	4,994	3,534	2,198
Claims on non-government 2/	6,134	7,836	7,185	7,810	8,290	9,123	8,996	9,746	12,559	14,220	16,288	18,032	19,968
Other items, net (assets +)	-3,341	-4,455	-4,678	-5,623	-5,954	-5,956	-5,213	-6,041	-6,482	-7,068	-7,109	-8,696	-8,741
Broad money (M2+) 3/	10,248	12,136	15,368	15,527	15,651	15,772	19,118	19,717	23,444	26,363	29,326	32,687	36,267
Broad money (M2)	7,874	8,944	11,815	11,633	11,625	12,367	14,315	14,763	17,554	19,740	21,958	24,475	27,155
Currency	3,090	2,955	4,672	3,979	3,885	4,084	5,626	5,802	6,899	7,758	8,629	9,618	10,672
Deposits 3/	7,158	9,180	10,696	11,548	11,766	12,687	13,492	13,915	16,545	18,606	20,697	23,069	25,595
Memorandum items:	(annual percentage change, unless otherwise specified)												
Broad money (M2)	48.4	37.4	50.0	46.5	39.7	38.3	21.2	25.0	18.9	12.5	11.2	11.5	11.0
Reserve money (RM)	31.3	20.7	42.6	35.5	32.0	36.3	20.7	24.5	18.8	12.4	11.2	11.4	10.9
Velocity (GDP/end-of-period M2)	4.835	5.133	4.136	4.515	4.858	4.909	4.241	4.420	4.422	4.422	4.422	4.422	4.422
Reserve money multiplier (M2/RM)	1.947	2.345	2.049	2.343	2.403	2.379	2.056	2.056	2.058	2.059	2.059	2.060	2.061
Bank reserves-to-deposits ratio 4/	0.195	0.126	0.148	0.124	0.118	0.130	0.149	0.149	0.149	0.150	0.150	0.150	0.150
Broad money (M2+) 3/	41.4	43.0	50.0	44.5	39.0	38.2	24.4	28.3	18.9	12.5	11.2	11.5	11.0
Reserve money (RM+) 5/	32.7	22.9	48.2	45.1	40.4	37.5	22.2	26.0	18.8	12.4	11.2	11.4	10.9
Velocity (GDP/end-of-period M2+)	3.715	3.783	3.179	3.383	3.608	3.620	3.175	3.310	3.311	3.311	3.311	3.311	3.311
Reserve money multiplier (M2+/RM+)	2.372	2.828	2.400	2.737	2.855	2.842	2.444	2.445	2.446	2.447	2.448	2.449	2.449
Foreign currency deposits to total deposits	0.332	0.348	0.332	0.337	0.342	0.347	0.356	0.356	0.356	0.356	0.356	0.356	0.356
Currency-to-deposits ratio 3/	0.432	0.322	0.437	0.345	0.330	0.322	0.417	0.417	0.417	0.417	0.417	0.417	0.417
Currency/M2+ ratio	0.302	0.244	0.304	0.256	0.248	0.244	0.294	0.294	0.294	0.294	0.294	0.294	0.294
Credit to non-government 2/	37.1	35.1	17.1	20.1	20.1	16.4	25.2	35.7	28.9	13.2	14.5	10.7	10.7
Credit to the private sector 6/	16.6	30.5	31.1	29.8	29.3	34.4	29.6	37.9	33.9	15.5	16.1	11.6	11.6
Net international reserves (millions of U.S. dollars)	-28	-98	129	49	-33	47	259	259	414	565	750	989	1,269
Exchange rate (cedis per U.S. dollar)	7,322	8,188	8,504	...	...	...	...	...	...	...	...	...	...

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

1/ As in BEB/03/42.

2/ TOR debt swap moved 1,421 billion cedis from credit to public enterprises to government in December, 2002.

3/ Including foreign currency deposits.

4/ Excluding foreign currency deposits.

5/ Including deposit money banks' foreign currency reserves with Bank of Ghana.

6/ Credit from deposit money banks to the private sector.

Table 4. Ghana: Balance of Payments, 2000-2008
(In millions of U.S. dollars, unless otherwise specified)

	2000	2001	2002		2003		2004	2005	2006	2007	2008
		PreL	Prog. 1/	Prov.	Prog. 2/	Rev. Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Exports f.o.b.	1,936	1,867	2,037	2,064	2,314	2,314	2,568	2,656	2,768	2,896	3,065
Cocoa beans and cocoa products	437	381	469	463	614	614	774	768	792	803	826
Gold	705	618	679	689	755	755	797	841	861	890	951
Timber and timber products	175	169	177	182	185	185	203	222	241	272	293
Others	619	699	712	730	761	761	794	825	873	930	995
Imports, f.o.b.	-2,759	-2,831	-2,858	-2,714	-3,158	-3,169	-3,432	-3,581	-3,788	-3,957	-4,130
Non-oil	-2,239	-2,314	-2,489	-2,206	-2,570	-2,580	-2,913	-3,071	-3,277	-3,420	-3,555
Oil	-520	-517	-369	-508	-588	-588	-519	-510	-511	-536	-575
Trade balance	-823	-964	-822	-650	-844	-854	-854	-925	-1,020	-1,061	-1,065
Services (net)	-246	-182	-321	-214	-291	-291	-294	-345	-288	-271	-248
Of which: interest payments	-109	-106	-150	-124	-113	-113	-128	-133	-129	-137	-141
Private transfers (net)	496	600	521	680	656	656	662	768	877	921	918
Current account balance, excluding official transfers	-573	-546	-622	-183	-479	-490	-495	-502	-431	-411	-396
Official transfers (net)	154	263	229	221	359	359	374	374	372	374	384
Of which: HIPC grants	0	0	60	62	73	73	111	114	112	115	115
Current account balance, including official transfers	-419	-283	-393	38	-120	-131	-121	-129	-60	-37	-11
Capital account	163	192	247	-65	99	99	157	118	157	186	187
Official capital (net)	97	104	147	-115	12	12	56	61	96	121	123
Medium and Long-term loans											
Inflows	513	391	420	195	296	296	326	326	341	357	375
Amortization	-416	-288	-274	-309	-284	-284	-270	-266	-246	-237	-251
Private capital	65	88	100	50	87	87	100	57	61	66	64
Of which: divestiture receipts	51	0	50	0	37	37	47	0	0	0	0
Other capital and errors and omissions	134	89	0	67	-45	-45	-120	-22	-59	-40	-27
Of which: change in net foreign assets of commercial banks	27	-131	0	-111	-110	-110	-75	-22	-59	-40	-27
Of which: errors and omissions	95	200	0	117	0	0	0	0	0	0	0
Overall balance	-123	-2	-146	39	-66	-77	-85	-33	38	110	149
Change in arrears	27	61	0	-61	0	0	0	0	0	0	0
Financing	96	-59	-187	21	28	28	2	12	-67	-133	-192
Debt deferral	0	150	-30	-35	-35	-35	-35	-35	-35	0	0
Net international reserves (negative is increase) 3/	96	-209	-156	-157	-130	-130	-155	-151	-185	-239	-280
Of which: Use of Fund credit	-2	1	121	54	51	51	31	22	-2	-56	-61
Disbursements (PRGF)	35	67	135	68	72	72	72	72	36	0	0
Repayments (PRGF)	-37	-66	-14	-14	-21	-21	-40	-49	-38	-56	-61
Change in reserves (negative is increase)	52	-79	-277	-286	-181	-181	-186	-173	-183	-183	-219
Exceptional financing 4/	0	0	0	214	193	193	192	198	153	106	88
Financing gap	0	0	333	0	38	49	83	20	29	23	42
Of which: HIPC not yet agreed	0	0	0	0	23	23	29	0	0	0	0
Additional donor financing	0	0	54	0	15	25	54	20	29	23	42
Memorandum items:											
Current account deficit (in percent of GDP)											
Excluding official transfers	11.5	10.3	10.2	3.0	6.9	6.9	6.5	6.2	4.9	4.3	3.8
Including official transfers	8.4	5.3	6.4	-0.6	1.7	1.8	1.6	1.6	0.7	0.4	0.1
Gross international reserves											
End of period (US\$ millions)	264	344	629	630	811	811	997	1,170	1,354	1,536	1,755
In months of imports of goods and services	0.9	1.2	2.0	1.9	2.3	2.3	2.7	3.1	3.4	3.7	4.0
Cocoa exports											
Volume (in thousands of tons)	389	370	431	367	395	395	403	419	436	444	453
Price (in US\$ per ton)	1,092	1,021	1,051	1,266	1,500	1,500	1,900	1,800	1,780	1,760	1,772
External debt service paid											
In percent of exports of GNFS	21.9	10.1		10.2	5.6	5.6	4.1	4.7	5.0	5.3	6.1
In percent of government revenue	60.2	25.2		24.1	10.6	10.6	7.6	8.5	8.7	9.0	10.3

Sources: Bank of Ghana; and Fund staff estimates and projections.

1/ As in EBS/02/16.

2/ As in EBS/03/42.

3/ Definition changed from Net Foreign Assets to Net International Reserves at the end of 2000.

4/ Includes interim relief from Paris Club creditors comprising Naples and Cologne flow terms, as described in EBS/02/20.

April 24, 2003

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Köhler:

1. With regard to our requests for a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) and additional interim assistance under the enhanced HIPC Initiative, we wish to amend our Letter of Intent dated March 31, 2003 (EBS/03/42) to account for a sharp increase in prices in early 2003. The rise in prices resulted from the positive shock of a 90 percent increase, on average, in domestic petroleum product prices and further adjustment in utility tariffs toward full cost recovery. Our policy orientation will ensure that this surge in prices is temporary. Nevertheless, the general price level in 2003 is now expected to be substantially higher than assumed in our original program.

2. Accordingly, we have modified the macroeconomic framework underlying the 2003 program. The revisions are aimed at (i) setting monetary targets to continue to apply firm downward pressure on inflation, without risking economic growth prospects, and (ii) avoiding the disruption to our priority public expenditure programs that would result if expenditure ceilings were left unchanged in nominal terms, while retaining our goal of no recourse to net domestic financing of the budget in 2003. These assumptions and policies are incorporated in a revised set of quantitative performance criteria and benchmarks for 2003 which are attached to this letter (Table I.1). All other aspects of the medium-term program set out in our March 31 letter, but not amended in this letter, continue to apply.

3. The facts regarding recent inflation are as follows. In February 2003, the consumer price index (CPI) jumped by 12.8 percent from the previous month. This increase was almost 10 percentage points higher than had been assumed in the program for that month, and took the 12-month inflation rate to 29.4 percent. The largest increases were recorded in the categories of the CPI directly or indirectly affected by petroleum prices, which had been increased by an average 90 percent in January 2003. But larger-than-expected price increases were also observed in other categories, as suppliers of goods and services across the economy realigned their prices. In March 2003, the monthly inflation rate dropped sharply back toward the program path. The CPI rose by 2.5 percent over the February level (compared to 1.4 percent programmed), bringing the cumulative impact of the shock to 15 percentage points, while the 12-month inflation rate increased only slightly to 29.9 percent. This confirms our belief that the rise in prices has been largely a one-time increase.

4. In light of the above, our target for the 12-month inflation rate has been raised. Instead of bringing inflation down to single digits (9 percent) by end-2003, we aim to reduce the rate to 22 percent by December 2003. Reflecting the largely one-time nature of the price level

increase, we expect inflation to fall to single digits in early 2004, and hence our end-year inflation targets for 2004 and the medium term remain as set out in the memorandum of policies attached to the letter of intent of March 31, 2003.

5. Consistent with our disinflation strategy, broad money (M2) and reserve money will be programmed to increase by 25 percent in the year to December 2003, compared to around 21 percent in our original program. The required tightening of monetary conditions (in real terms) has already been initiated by the Bank of Ghana, which increased its prime lending rate from 25.5 to 27.5 percent at end-March, on top of a one percentage point rise in January 2003. The Bank of Ghana has also been using open market operations to withdraw liquidity from the banking system, contributing to a sharper decline in reserve money during the first quarter of 2003 than originally programmed, and bringing the 12-month growth rate for reserve money down from almost 43 percent at end-2002 to 30 percent at end-March 2003. This combination of interest rate policy and open market operations will continue to be used to keep reserve money growth in line with the revised program target.

6. The targeted accumulation of net international reserves during 2003 remains unchanged at US\$130 million, and the increase in the central bank's net domestic assets (calculated at the program exchange rate) will be limited to ₵494 billion at end-June 2003 and ₵318 billion at end-December 2003 (Table I.1). The revised monetary program allows for an expansion of bank credit to the private sector of 16 percent in real terms during 2003, down from 20 percent in our original program.

7. The revised macroeconomic framework retains the assumption that real GDP growth will rise to 4.7 percent in 2003, as in the original program, but we will reassess this assumption at the time of the first review under the PRGF arrangement.

8. On March 28, parliament approved a 2003 budget with expenditure plans and revenue measures consistent with the assumptions of the original program. With the higher level of prices now expected for 2003, however, the budgeted nominal expenditure allocations will be inadequate to implement the spending programs that underpin the Ghana Poverty Reduction Strategy. The government will therefore seek supplementary appropriations from parliament at the time of the mid-year review of the budget in September 2003. Our revised expenditure plans are based on the following assumptions:

- Fiscal revenue in 2003 will be higher than in the 2003 budget, but by less than the upward revision to nominal GDP, owing to taxes which are fixed in cedi terms or based on imports; we expect total tax revenues to reach 18.4 percent of GDP, compared to 18.9 percent of GDP in our original program.
- There will continue to be no recourse to net domestic financing of the budget for 2003 as a whole. An increase in donor support of US\$10 million (0.1 percent of GDP) is assumed, as a result of a slightly larger external financing gap.

- Government purchases of goods and services, domestic capital expenditure, and total poverty-related expenditures will be maintained at broadly the same levels in real terms as in our original program.

9. The government of Ghana considers that the revisions to the 2003 program strike an appropriate balance between maintaining downward pressure on inflation and protecting Ghana's poverty reduction and growth objectives. In accordance with paragraph 5 of our March 31 letter of intent, the revisions have been made in consultation with Fund staff, and we stand ready to take any further corrective actions that may be needed to achieve the objectives of the program, including at the time of the first review of the PRGF arrangement.

Sincerely yours,

/s/

Hon. Yaw Osafo-Maafa, MP

Minister of Finance

/s/

Hon. Paul A. Acquah

Governor of the Bank of Ghana

Attachments (1)

Table 1.1 Quantitative Performance Criteria and Benchmarks, PRGF Arrangement, 2003 1/
(Cumulative flows from beginning of calendar year to end of month indicated, unless otherwise indicated)

	end-March Benchmark	end-June Perf. criterion	end-September Benchmark	end-December Benchmark
	Prog. 2/	Prog. 2/	Prog. 2/	Prog. 2/
(in billions of Cedis)				
Performance Criteria				
Net domestic financing of government (ceiling) 3/	823	1,203	43	0
Net domestic assets of the Bank of Ghana (ceiling) 4/ 5/	-121	445	127	307
(in millions of U.S. dollars)				
Net international reserves of the Bank of Ghana (floor) 6/	-80	-162	-82	130
The contracting or guaranteeing of new nonconcessional external debt with original maturity greater than or equal to 1 year by the government or the Bank of Ghana (ceiling) 7/	0	0	0	0
Outstanding stock of external debt with original maturity of less than one year owed or guaranteed by the government or the Bank of Ghana 8/	75	75	75	75
Stock of external payment arrears 9/	0	0	0	0
(in billions of Cedis)				
Indicative Benchmarks				
Government domestic primary surplus (floor)	-421	35	928	1,881
Reserve money stock	4,965	4,837	5,197	7,180
Government revenue, excluding grants and divestiture proceeds (floor)	2,608	5,958	9,819	14,108
Stock of government road sector arrears	165	110	55	0
(in millions of U.S. dollars, unless otherwise specified)				
Memorandum items:				
External program support (loans and grants)	31	90	182	230
Paid public and publicly guaranteed debt service (after debt relief) 10/	22	74	94	143
Divestiture receipts	6	13	49	49
o/w: in foreign exchange	0	2	37	37
Average petroleum spot price (APSP in \$/barrel) 11/	30.8	30.0	29.0	28.0

1/ Revised from that contained in EBS/03/42. Definitions of line items and terminology are elaborated in the Technical Memorandum of Understanding (TMU).

2/ Before application of adjusters, as indicated in the TMU.

3/ Value at end of month indicated. Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with an upside cap of \$75 million, as explained in the TMU.

4/ Based on a fixed exchange rate of 8,504 cedis/\$, the rate prevailing at end-December 2002.

5/ Value at end of month indicated. Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with an upside cap of \$75 million, and for higher-than-programmed oil prices, with an upside cap of \$30 million, as explained in the TMU.

6/ Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with a downside cap of -\$75 million, and for higher-than-programmed oil prices, with a downside cap of -\$30 million, as explained in the TMU.

7/ This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/85) of August 24, 2000 but also to commitments or contracted for which value has not been received, as specified in paragraph 15 of the TMU.

8/ The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/85) of August 24, 2000, as specified in paragraph 14 of the TMU.

9/ This is a continuous criterion. The TMU stipulates the precise program definition of payment arrears.

10/ Debt service to be paid by Ghana after projected HIPC relief in 2003.

11/ Average from beginning of 2003 to end of month indicated, as explained in the TMU.

Statement by the IMF Staff Representative
May 9, 2003

1. This statement reports on (i) implementation of the prior actions for approval of Ghana's arrangement under the Poverty Reduction and Growth Facility, as specified in the staff report, Appendix I, Attachment I, Table I.2, and (ii) provisional fiscal and monetary data for the first quarter of 2003. This information does not alter the thrust of the staff appraisal.
2. The Ghanaian authorities informed the staff on April 30, 2003, that all of the prior actions had been implemented:
 - On March 28, 2003, parliament passed a budget for 2003 with aggregate revenues, expenditures, and net domestic financing that are consistent with the memorandum of economic and financial policies (MEFP).
 - The budget passed by parliament included the revenue measures specified in paragraphs 17 and 18 of the MEFP, with an estimated yield of ₵1,687 billion in 2003.
 - On April 3, 2003, a circular was issued to all ministries, departments, and agencies (MDAs), requiring them to adhere strictly to the 2003 quarterly expenditure ceilings on personal emoluments (Item 1) and notifying them that any MDA in breach of a quarterly ceiling will be required to make offsetting savings in subsequent quarters. This circular was issued pursuant to an order of the President of Ghana, in his capacity as chairman of the cabinet.
 - On April 30, 2003, the authorities provided the staff with calculations showing that the current level of petroleum prices (as established in January 2003) remained in line with the automatic adjustment formula, providing full import cost recovery and incorporating all applicable taxes and levies. In consultation with the staff, the authorities computed the formula using the cost of imported crude oil in April 2003—rather than a three-month average of crude oil prices, as had originally been intended—to abstract from the effect of the temporary spike in world oil prices that had occurred during February and March 2003 as a result of the conflict in Iraq. For June 2003, the formula will use the average prices of imported crude oil during April and May, and from July 2003 a three-month average price will be used. In their letter of April 30, communicating this information, the authorities also proposed some minor technical modifications to the cost build-up in the formula. The staff considers these modifications to be appropriate, and for program purposes the modified formula will replace that previously transmitted to the staff and cited in the technical memorandum of understanding. The government has announced publicly that future price adjustments will be made in line with the formula without further government review or authorization.

- The first monthly fiscal report covering December 2002, as described in paragraph 28 of the MEFP, was submitted to the cabinet (including the Economic Management Team) on March 31, 2003.
3. The authorities have provided provisional data for budget execution and the central bank's balance sheet for the first quarter of 2003. These data show that:
- Net domestic financing of the government totalled ¢369 billion during the first quarter of 2003, well below the applicable program ceiling of ¢823 billion. Tax revenues exceeded the program target for the quarter by more than 10 percent.
 - Reserve money contracted by ¢978 billion (17 percent) between December 31, 2002 and March 31, 2003. As a result, the stock of reserve money was around 3 ½ percent below the program's indicative benchmark at end-March.
 - The net domestic assets of the Bank of Ghana (valued at the program exchange rate) declined by ¢725 billion during the first quarter of 2003, or some ¢600 billion more than was programmed.
 - The net international reserves of the Bank of Ghana declined by US\$17 million during the first quarter of 2003, compared to a decline of US\$80 million envisaged under the program.

While the data needed to apply the program adjustors to the first quarter outturns are not yet available, it would appear that the program's quantitative performance targets for the quarter ended March 31, 2003 are likely to have been met by comfortable margins.

Statement by Abbas Mirakhor, Executive Director for Ghana
May 9, 2003

Introduction

My authorities are grateful to the staff for their hard work, and to management and the Board for their support. Since the new Government came to office early 2001, the authorities have embarked on a strong program of adjustment and reform to reduce macroeconomic and financial imbalances and lay the foundation for sustained growth and poverty alleviation. This program has been rooted in fiscal discipline, good governance, and private sector development. The authorities have demonstrated commitment to these principles by promoting transparency in the management of public resources, reinforcing anti-corruption mechanisms, and developing an environment conducive to and protective of private business and investment. The authorities' efforts have paid off in terms of macroeconomic stability, economic growth, and enhanced confidence of donors, investors, and the public. Going forward, they intend to build on these gains and accelerate reforms to achieve durable strengthening of the economy and improvement in living conditions.

Recent economic developments

Against the backdrop of severe economic imbalances driven by terms-of-trade shocks and domestic policy weaknesses, the authorities have made substantial progress in re-stabilizing the economy, concurrently with a strengthening of growth performance. Inflation declined steadily from 40.5 percent at the end of 2000 to 15.2 percent at the end of 2002. Following the increase in petroleum product prices by an average of 90 percent in January 2003, inflation shot up to 29.4 percent in February, and rose slightly to 29.9 percent in March. It is expected that this one-off rise in inflation will level off and the underlying rate will soon return to its original downward path. Real GDP growth rose progressively from 3.7 percent in 2000 to 4.5 percent in 2002—in spite of the global slowdown and shortfalls in external financing. At the same time, the external position has improved, with the current account balance (including grants) becoming positive and strong reserve build-up.

These positive achievements were the result of sound macroeconomic policies buttressed by strong reforms. Prudent fiscal management has led to a progressive reduction in the budget deficit. Tax revenue performance, in particular, has improved due to stronger collection efforts. At the same time, wide-ranging measures were initiated to strengthen expenditure management and control. Monetary policy has focused on reducing inflation and reinforcing the flexible exchange rate regime to build up reserves and protect external competitiveness.

Structural reforms have been advanced over the past two years, and groundwork laid for the privatization of “targeted” public enterprises to inject private capital, expertise, and efficiency into their operations as well as to ease budgetary strains. Auditing of the key public enterprises has been completed, while cross arrears with government have been settled. The energy and utilities sectors have been gradually commercialized, including by moving to cost-recovery prices, removing considerable strain off the financial system. Financial sector reform has also progressed, with modernization of the legal framework,

strengthened supervision, and greater autonomy to the central bank along with auditing of its accounts in line with international standards. In accordance with their commitment to good governance and “zero-tolerance for corruption,” the authorities have promoted transparency and accountability by strengthening public resource management and anti-corruption institutions.

Shortfalls in external financing and the need for additional remuneration to workers in the priority health and education sectors placed the budget under considerable strain in 2002. Consequently, net domestic financing turned out higher than projected. In the circumstance, the authorities have developed a new program covering 2003 – 2005 that focuses on consolidating macroeconomic stability, advancing the structural reform agenda, and providing greater impetus to growth and poverty reduction.

Poverty Reduction Strategy

The final Ghana Poverty Reduction Strategy (GPRS) was prepared through a broad consultative process involving all national stakeholders, in order to build consensus and enhance country ownership, and development partners. Its principal goal is to create wealth by transforming the nature of the economy to achieve sustainable growth, accelerated poverty reduction as well as to protect the vulnerable segments of the population in a decentralized, democratic environment. This goal is to be achieved through identified key strategies. Programs and projects for implementing the strategies over the medium term have been prioritized—based on projected funding—in terms of five thematic areas:

(i) infrastructure development, (ii) modernized agriculture and rural development, (iii) investment in social services, (iv) good governance, and (v) private sector development. The GPRS aims at reducing the national poverty incidence from 39 percent in 2000 to 32 percent in 2005.

Real GDP is projected to grow by an average of 5 percent through 2005; thereafter, higher rates of 7-8 percent will be required to achieve the intended pace and depth of poverty reduction. Funding for the programs and projects under the GPRS is expected from HIPC savings, Government of Ghana (GOG) resources, additional donor support, and other non-traditional sources. Agriculture, health (including HIV/AIDS), education, housing, community amenities, and infrastructure will be the principal beneficiaries of the GPRS funding. Expenditure will be closely tracked under a new monitoring and evaluation (M&E) system. Results produced by the programs and projects will be assessed through household surveys and participatory poverty analyses.

The authorities take note of staff suggestions of improving the GPRS implementation and monitoring, and intend to remedy identified shortcomings in the context of the annual updates. They are also appreciative of staff’s analysis of key issues and their pertinent recommendations on the Ghanaian economy in the Selected Issues paper, and have given their consent to the publication of the document. They take particular note of the key influences on growth and intend to accord them priority attention under the GPRS. Moreover, they are cognizant of the financial sector’s potential to contribute to the development of the economy, and will vigorously pursue reforms in the sector. The

authorities also acknowledge the challenges of fiscal sustainability, especially in the post-HIPC era, and will work assiduously toward achieving key prerequisites.

Medium-term objectives and policy framework

Over the medium term, real GDP growth is projected to increase to an average of nearly 5.0 percent per year, allowing real per capita GDP to rise by an average of 2.4 percent. Inflation is to be reduced to single digits by 2004, and reserves will increase to 3 months of imports by 2005. Fiscal consolidation will be the centerpiece of the authorities' medium-term program. Near budget balance is to be reached from 2005, while maintaining domestic primary surpluses. Supplemented by divestiture receipts, program aid, and HIPC relief, a phased retirement of domestic debt will be implemented to halve its ratio to GDP to 15 percent by end-2005. HIPC relief will allow a significant increase in poverty-related spending.

The authorities will reinforce expenditure control, monitoring, and transparency, particularly regarding poverty-related spending and the wage bill. They intend to restore the key parastatals to financial viability, while restructuring the existing stock of parastatal debt. Financial sector development will be reinforced, including through strengthened supervision, removal of the strain of parastatal debt, and divestiture. Additional policy reforms are being supported under a Multi-Donor Budgetary Support (MDBS) program, relating to the civil service, the budgetary process and public sector accountability, governance, and decentralization. A public sector procurement bill is under parliamentary consideration. The World Bank will also be assisting in the power sector, road construction, and public sector financial management. The authorities recognize the private sector as a key development partner and the engine of growth, and will engage it strongly in the medium-term program. Discussions with the civil society and business representatives have identified key constraints to private investment and growth that will be addressed under the medium-term program.

The program for 2003

The program for 2003 focuses on further strengthening growth, ensuring effective implementation of the poverty reduction programs, and reducing inflation. Real growth is projected at 4.7 percent, which takes account of the uncertain global and regional economic outlook. The impact of the sharp correction in fuel prices in January no longer makes the original objective of reaching single-digit inflation in 2003 attainable. Despite a significant tightening of policies, inflation is expected to reach 22 percent before returning to the original path by 2004.

The authorities intend to reinforce their efforts in stabilizing and reducing the domestic debt, in order to ease the interest burden on the budget and the pressure on real interest rates. To this end, the fiscal deficit will be reduced, and net domestic financing eliminated. Far-reaching revenue-enhancing measures—yielding a total of 2.6 percent of GDP in 2003—are planned (MEFP: paragraphs 17-18). In addition to new tax measures, tax administration will be further improved. Overall, the collection efficiency of revenue agencies is expected to show a marked improvement. With respect to expenditure, the authorities will reinforce

control and monitoring as a priority. To bring the wage bill under control, a hard budget constraint will be applied to wages for the first time, and payroll controls will be tightened. Furthermore, a fully integrated computerized financial and accounting system in key ministries is expected to be fully operational by end-2003. Control over expenditure commitments will receive utmost attention, based on a cash management system underpinned by quarterly expenditure ceilings.

To ensure effective monitoring of budget implementation, monthly “fiscal early warning” reports and quarterly cabinet briefings on fiscal developments are to be initiated. The authorities intend to ensure that social and other priority expenditures are fully met. HIPC-resources will allow poverty-related spending, which will be closely monitored under the poverty expenditure-tracking system, to increase to 6 percent of GDP in 2003. The authorities will remain current on statutory payments to the District Assembly Common Fund and Ghana Education Trust Fund, and will provide a limited amount of utility subsidy to the poor following the adoption of full commercial tariffs.

Key objectives of monetary policy will be to complement fiscal consolidation in reducing inflation and to build reserves. Broad money growth will be halved from 50 percent to 25 percent in 2002, and reserve money reduced from 43 percent to 25 percent. With the expected increase in net international reserves and zero net domestic financing of the budget, commercial bank lending to the private sector will increase by 16 percent in real terms, providing impetus to growth. Monetary policy implementation has been strengthened following last year’s inauguration of a new Monetary Policy Committee (MPC), constituted by senior officials of the BOG and external members from both the public and private sectors. The increase in consumer price inflation in February, although anticipated, was higher than expected due to the very large adjustment of petroleum prices. The MPC has already tightened monetary conditions by raising its prime rate by one percentage point in January, and by a further two percentage points to 27.5 percent at end-March. The Bank of Ghana (BOG) will intensify open market operations—to restrain its NDA—and will use an active interest rate policy to achieve the monetary policy objectives.

Ghana’s terms of trade are expected to improve further in 2003, with high cocoa and gold prices holding, concurrently with possible lower oil prices. With increased donor support, including HIPC relief, gross reserves will increase by \$181 million to 2.3 months of imports of goods and services. The authorities will maintain the market-determined exchange rate regime, limiting intervention to smoothing short-term fluctuations and ensuring achievement of the targeted reserve buildup. The BOG has done considerable preparatory work to launch a computerized real time inter-bank foreign exchange market, in order to phase out foreign exchange surrender requirements. To foster debt sustainability, the authorities will pursue a prudent debt management policy and seek concessional assistance from their development partners to support their program. The authorities remain committed to their open trade policy and to promoting long-term efficiency and competitiveness.

The government will maintain the momentum of implementation of structural reforms to enhance economic efficiency and growth prospects. The divestiture program will be vigorously pursued and is expected to yield 0.7 percent of GDP in 2003. Petroleum prices

were restored to full cost-recovery levels in January, to be followed by monthly adjustments by the independent National Petroleum Tender Board (NPTB) based on an automatic adjustment formula. The quasi-fiscal debt of the petroleum refinery, Tema Oil Refinery (TOR), to banks has been restructured through a bond exchange. This should pave the way for the divestiture of the Ghana Commercial Bank (GCB). The authorities are committed to full cost-recovery utility tariffs necessary to ensure viability of the electricity and water sectors. Following the second round of tariff increases in March, these sectors should be able to fully cover their costs. The Volta River Authority (VRA) will, however, continue to incur losses due to preferential tariffs offered to the major aluminum company, currently subject to international arbitration.

Financial sector reform will be carried forward to enhance the soundness of the sector and its contribution to the development of the private sector. To this end, a range of regulatory and supervisory legislation and an anti-money laundering legislation are expected to be submitted for parliament approval during 2003. The BOG will continue to conduct an external audit of its accounts in accordance with international standards and will be subject to the Fund's full Safeguards Assessment.

The authorities will remain resolute in promoting transparency, good governance, and fighting corruption. To this end, they will strengthen the public audit system, the anti-corruption strategy, the legal and administrative justice systems, and the parliamentary oversight of policy implementation. The authorities are committed to statistical accuracy and timely production and dissemination of economic and social data. A major exercise with Fund technical assistance is underway to review the National Accounts and Prices data from 1999.

While the risk of a spike in oil prices due to the Iraq war has probably abated, the authorities are striving to mitigate other risks to the program pointed out in the staff paper. Strict expenditure control measures will be implemented to avoid overruns. At the same time, planned revenue measures will be fully implemented while continuing to strengthen tax administration. Any revenue shortfalls will be offset by corresponding adjustment in non-priority expenditure ceilings in order not to affect the integrity of the budget. Furthermore, with the consolidation of policy credibility and confidence, the authorities are committed to maintaining fiscal discipline and to avoiding compromising the budget in the run-up to the 2004 elections.

Debt relief under the enhanced HIPC Initiative

The authorities are close to concluding bilateral agreements with Paris Club creditors on HIPC debt relief. Concurrently, they are continuing to pursue negotiations aimed at securing similar relief from non-Paris Club bilateral and commercial creditors. They hope that the consolidation period for interim relief from the Paris Club creditors, expired with the previous PRGF arrangement, will be extended retroactively from December 1, 2002, once a new PRGF arrangement is in place. Meanwhile, the authorities request additional interim HIPC assistance from the Fund. They are working hard to ensure that Ghana reaches the completion point in early 2004.

Conclusion

My authorities reiterate their strong commitment to the implementation of their PRGF-supported program and GPRS—based on strong national ownership—to bring rapid improvement in the living conditions of the Ghanaians. They are looking forward to the Board discussion, advice, and approval of the PRGF arrangement and interim assistance under the enhanced HIPC Initiative. The authorities are confident that they can continue to count on the strong support of the international community—including the Fund—in the critical period ahead.



Press Release No. 03/66
FOR IMMEDIATE RELEASE
May 12, 2003

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves US\$258 Million PRGF Arrangement for Ghana

The Executive Board of the International Monetary Fund (IMF) has approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) amounting to SDR 184.5 million (about US\$258 million) for Ghana, which will support the government's economic reform program for 2003-05. The decision will make available to Ghana an amount equivalent to SDR 26.35 million (about US\$37 million) from the PRGF Trust immediately. The Executive Board also agreed to provide Ghana additional interim assistance under the enhanced HIPC Initiative of SDR 15.15 million (about US\$22 million).

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs are based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

In commenting on the Executive Board's decision, Shigemitsu Sugisaki, Deputy Managing Director and Acting Chairman, made the following statement:

“The Fund welcomes the recently completed Ghana Poverty Reduction Strategy (GPRS), which sets out a broad array of structural measures to address the underlying causes of poverty, and establishes future spending priorities. Within this strategy, the authorities have formulated and begun implementing a new three-year program designed to promote private sector led growth and reduce poverty further. New revenue measures will help ensure that the spending priorities established by the GPRS are achieved, and have been designed to avoid unduly impacting the poor. Tight public expenditure control and firm action to maintain energy prices at full cost recovery levels will be key to avoid the recurrence of recent budget slippages associated with a rising civil service wage bill and financial losses by state-owned energy companies.

“Monetary policy is designed to reduce inflation to single digits by next year. Given the recent pick up in inflation associated with the adjustment in petroleum product prices, steadfast

implementation of the authorities' tighter monetary policy stance, together with strict fiscal discipline, will ensure that inflation resumes its downward trend.

The challenge facing Ghana is to create conditions for steady and sustainable growth that is pro-poor. This will require the achievement and maintenance of macroeconomic stability, determined implementation of a broad range of institutional and structural reforms, and technical and financial support from development partners. A key area, to be monitored and supported under the country's PRGF arrangement, will be efforts to develop the financial sector's participation in private sector development.

"The authorities are firmly committed to take the necessary steps to ensure that the GPRS is fully operational and effective, including through further improvements in the quality and timeliness of statistics to allow for effective monitoring of GPRS outcomes," Mr. Sugisaki said.

ANNEX

Recent Economic Developments

Performance under the 2002 program was mixed. There were further gains on inflation and the rebuilding of foreign reserves, and progress on parts of the structural reform agenda, but significant weaknesses persisted in budget implementation and parastatal finances. The inflation rate began to rise from the fourth quarter of 2002 and accelerated to 29.4 percent in February following a sharp upward adjustment in petroleum product prices in January. On the structural front, progress was made in 2002 in the areas of tax administration, financial sector reform, and governance. However, the broad objectives were undermined by fiscal slippages and associated weaknesses in public expenditure management.

Program Summary

The macroeconomic framework for 2003 assumes real GDP growth of 4.7 percent, a reduction in 12-month inflation to 22 percent by year's end, and a buildup in gross international reserves to 2.3 months of imports. Monetary policy during 2003 will aim at achieving the program's inflation and growth targets while making room for further accumulation of net international reserves.

Fiscal policy will aim for a zero flow of net domestic financing in 2003 to support the monetary objectives and begin reducing the burden of domestic debt on the budget.

On the expenditure side, the major objective will be to bring the wage bill under control. The 2003 budget provides for a substantial increase in capital expenditures to fund the priority programs identified and costed in the GPRS. Total capital expenditures are expected to rise to almost 9 ½ percent of GDP in 2003, from over 6 percent of GDP in 2002. Poverty-related

expenditures are projected to rise to 6 percent of GDP, up from 4 ½ percent of GDP in 2001 (the last year before the HIPC Initiative decision point).

The reforms center around measures to substantially raise revenue to make room for increased poverty-related spending and development needs, strengthen public expenditure management, further reform energy and utility pricing, and use appropriate monetary policy to achieve single-digit inflation by 2004. A major objective of the program will be to bring about a fundamental change in the petroleum pricing regime. The modernization of Ghana's financial sector will require an extensive overhaul of the relevant legislative framework, and the government's priority for 2003 is to move forward on several important draft bills to that end.

Ghana: Selected Economic and Financial Indicators, 1999-2003

	1999	2000	2001	2002		2003
				Prog. 1/ Est.	Est.	
(Annual Percentage change, unless otherwise specified)						
National income and prices						
Real GDP	4.4	3.7	4.2	4.5	4.5	4.7
Real GDP per capita	1.8	1.2	1.6	1.9	1.9	2.1
Nominal GDP	19.0	31.9	40.2	23.3	28.3	33.6
GDP deflator	13.9	27.2	34.6	18.0	22.8	27.6
Consumer price index (annual average)	12.4	25.2	32.9	15.9	14.8	26.9
Consumer price index (end of period)	11.8	40.5	21.3	13.0	15.2	22.0
External sector						
Exports, f.o.b.	-4.1	-3.5	-3.6	7.6	10.6	12.1
Imports, f.o.b.	11.4	-15.2	2.6	7.8	-4.1	16.8
Export volume	8.9	1.0	-1.3	3.7	-1.5	2.7
Import volume	9.6	-26.0	10.0	11.1	-6.8	7.6
Terms of trade	-13.4	-16.6	4.8	6.9	9.1	0.7
Nominal effective exchange rate (avg.)	-9.3	-46.3	-24.0	...	-11.7	...
Real effective exchange rate (avg.)	0.5	-35.5	0.7	...	-0.6	...
Cedis per U.S. dollar (avg.)	2,669	5,431	7,179	...	7,947	...
Government budget						
Domestic revenue (excluding grants)	6.0	42.9	43.5	38.1	27.5	60.3
Total expenditure	9.0	39.6	65.5	34.0	2.4	50.0
Current expenditure	13.1	48.9	50.5	22.8	28.8	33.5
Capital expenditure and net lending	4.1	24.1	95.7	39.4	-38.7	104.1
Money and credit						
Net domestic assets 2/	46.0	49.1	13.5	6.6	14.0	-1.7
Credit to government 2/	38.2	57.7	0.0	1.8	32.6	0.0
Credit to public enterprises 2/ 3/	9.0	19.2	9.7	1.9	-9.0	1.5
Credit to the private sector 2/ 3/	24.9	34.4	12.0	17.1	17.7	18.8
Broad money (excluding foreign currency deposits)	19.8	33.4	48.4	25.2	50.0	25.0
Reserve money (excluding foreign currency deposits)	35.8	52.6	31.3	18.7	42.6	24.5
Velocity (GDP/end-of-period broad money)	5.2	5.1	4.8	4.9	4.1	4.4
Treasury bill yield (in percent; end of period)	34.2	42.0	28.9	...	28.2	...
(In percent of GDP, unless otherwise specified)						
Investment and saving						
Gross investment	21.5	24.0	26.6	22.3	19.7	23.0
Private	11.7	14.8	13.8	13.1	13.6	13.6
Public	9.8	9.2	12.8	9.2	6.1	9.4
Gross national saving	9.9	15.6	21.3	16.3	20.3	21.2
Private	8.3	14.3	16.1	11.6	19.2	14.9
Public	1.6	1.3	5.1	4.7	1.2	6.3
Government budget						
Total revenue	16.4	17.7	18.1	18.7	18.0	21.6
Grants	1.7	2.1	6.9	4.2	3.1	4.6
Total expenditure	26.2	27.7	32.7	28.4	26.1	29.3
Overall balance (excluding grants) 4/	-9.8	-10.0	-14.6	-9.7	-8.1	-7.7
Overall balance (including grants) 5/	-8.0	-9.7	-9.0	-7.0	-6.8	-3.9
Domestic primary balance	0.4	2.6	3.8	3.1	2.0	2.9

Divestiture receipts	0.3	1.2	0.0	0.8	0.0	0.7
Net Domestic Financing	6.3	8.5	2.3	0.3	4.8	0.0
External sector						
Current account balance 6/	-11.6	-8.4	-5.3	-6.4	0.6	-1.8
External debt outstanding	109.9	169.7	131.5	124.0	112.3	96.4
External debt service, including to the Fund	6.8	11.2	8.5	6.8	7.8	6.3
(in percent of exports of goods and nonfactor services)	21.1	23.0	18.9	15.9	18.4	15.6
(in percent of government revenue)	37.5	56.5	34.1	29.4	37.1	24.2
(In millions of U.S. dollars, unless otherwise specified)						
Current account balance 6/	-895	-419	-283	-393	38	-131
Overall balance of payments	-266	-123	-2	-146	39	-77
Change in external arrears (decrease -)	62	27	61	0	-61	0
Gross international reserves (end of period)	317	264	344	629	631	811
(in months of imports of goods and services)	1.0	0.9	1.2	2.0	1.9	2.3
Nominal GDP (in billions of cedis)	20,580	27,153	38,071	46,875	48,862	65,262

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

1/ Based on MEFP of 1/31/02 (EBS/02/16)

2/ In percent of broad money at the beginning of the period.

3/ Credit from deposit money banks to public enterprises and the private sector respectively.

4/ Before domestic arrears clearance.

5/ After domestic arrears clearance.

6/ Including official grants.



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 03/62
FOR IMMEDIATE RELEASE
May 16, 2003

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2003 Article IV Consultation with Ghana

On May 9, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Ghana.¹

Background

Overall economic performance in Ghana during 2002 was mixed. Twelve-month inflation continued to fall, from 21 percent at end-2001 (down from a peak of 42 percent in March 2001), to 15.2 percent at end-2002. Larger-than-normal inflows of foreign exchange from the pre-financing of the cocoa crop contributed to a further improvement in gross international reserves to nearly 2 months of imports, despite a shortfall in external donor support. The stimulus from an improved terms of trade (relating to higher cocoa and gold prices, only partly offset by higher unit costs for imported petroleum), and a pick up in credit to the private sector, suggest that the targeted 4½ percent real growth rate for the economy may have been achieved. Good progress was also made on certain parts of the structural reform agenda, including in the areas of tax administration, financial sector reform, the move to full cost recovery for electricity and water, and governance.

Budget execution, however, was adversely affected by a large overrun on the civil service wage bill, non-implementation of the budget's key revenue measure, delays in moving forward with the divestiture program, and a shortfall in donor financing (partly policy-related). These were

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

only partly offset by gains from improved tax administration and cutbacks in the capital spending, with the result that recourse to net domestic financing was 3.3 percent of GDP higher than the budgeted target of 0.3 percent of GDP, even after full application of an adjustment for shortfalls in external support.

Non-implementation of Ghana's petroleum pricing formula during 2002 led to substantial losses (estimated at 2 percent of GDP) by the state-owned Tema Oil Refinery. In mid-January 2003 the authorities raised petroleum prices by 95 percent on average, following an assumption by the government of almost 3 percent of GDP in debts of the refinery. Altogether, the slippages increased the stock of domestic government debt to nearly 29 percent of GDP at end-2002, or 8½ percent of GDP higher than envisaged at the time of the 2002 budget.

Driven by higher-than-expected government borrowing and, late in 2002, by a surge in cocoa revenues, broad money growth reached 50 percent by year's end. In response, the central bank stepped up open market operations in the fourth quarter and raised its prime interest rate by 3 percentage point (to 27.5 percent) in early 2003. The cedi depreciated against the U.S. dollar by 14.7 percent in the twelve months ended December 2002, and the real effective exchange rate remained broadly stable during the year.

In February 2003, the Government of Ghana finalized and published the Ghana Poverty Reduction Strategy (GPRS), which sets out the country's broad policy agenda for 2003-2005. The authorities are generating support for this strategy from the IMF, in the form of a new three-year arrangement under the Poverty Reduction and Growth Facility (see [Press Release No. 03/66](#)), as well as from Ghana's other development partners.

Executive Board Assessment

Directors noted that, following an initial strong consolidation effort, Ghana's macroeconomic performance in 2002 had been mixed. Progress was made in rebuilding foreign reserves and implementing structural reforms, particularly in the areas of tax administration, financial sector reform, and governance. Weaknesses in budget execution and parastatal finances—compounded by a shortfall in donor financing—had, however, resulted in a further substantial rise in the stock of domestic debt, and had complicated the implementation of monetary policy.

Against this background, Directors welcomed the authorities' program for 2003-05 and recent actions to strengthen public finances as an appropriate response to restore the strong reform momentum that will continue to be needed to deliver on the ambitious goals of Ghana's Poverty Reduction Strategy. The GPRS has benefited from extensive consultation with civil society, and provides a sound framework for achieving the government's objectives of raising private sector-led growth and further reducing poverty. Directors stressed that, to attain these objectives, the authorities will need to make a sustained effort to achieve and maintain macroeconomic stability, in particular through effective budget implementation, and press ahead with their structural reform agenda, including in the areas of financial sector reform and public enterprise restructuring.

Directors observed that the resurgence in inflation in early 2003 was most likely the result of a one-time realignment of prices in response to larger-than-anticipated adjustments in petroleum prices. The achievement of single-digit inflation will nevertheless require strong action in the period ahead. Directors welcomed, in this regard, the tightening of monetary policy by the Bank

of Ghana, and urged continued readiness to take additional measures as necessary. They also underscored the important role that strict fiscal discipline will have to play in supporting the disinflation effort.

As regards fiscal policy, Directors commended the government's efforts to boost the country's budgetary resources through lasting tax measures. Together with continued external support and further improvements in tax administration, the enhanced revenue base should make it possible to achieve the spending priorities set out in the GPRS. Directors welcomed the attention paid by the authorities to the social impact of the recent tax measures, but a few Directors cautioned that they will further increase the complexity of Ghana's tax structure and might fuel inflationary pressures.

Directors were encouraged by the authorities' renewed commitment to strengthening expenditure discipline, but viewed with concern the continued rise in the civil service wage bill. Given the need to contain future increases in the wage bill, Directors urged the authorities to embark on a fundamental reform of the civil service, in collaboration with the World Bank and other donors. In the immediate period ahead, they stressed that effective public expenditure management will be key to ensuring that the fiscal aggregates and the composition of spending, with a clear focus on investment and poverty related expenditures, are realized as programmed. This will require careful and timely monitoring of budget execution and prompt corrective actions if necessary while, going forward, further continued efforts to strengthen public expenditure management will be needed.

Directors welcomed the steps taken to strengthen the finances of the major public enterprises, including the adjustments to petroleum, electricity, and water pricing to bring them toward full cost recovery. They urged full implementation of the pricing formulae and encouraged the authorities to liberalize petroleum pricing at the appropriate time. Directors also looked forward to rapid progress on the divestiture of the largest state-owned bank to reinforce the operation of the petroleum sector on a commercial basis, and help improve the overall soundness of the banking system.

Directors supported the authorities' structural reform priorities in the agriculture and energy sectors. They encouraged continued strong efforts to promote transparency, good governance, and fight corruption by further strengthening the audit and legal systems. To enhance the contribution of the financial sector to private sector development, Directors looked forward to early approval of comprehensive financial sector legislation, which will also include a new law to strengthen the fight against money laundering and terrorist financing. They underscored the importance of full implementation of relevant UN resolutions. Directors encouraged the authorities to adopt timebound action plans for their reforms, including to secure timely technical and financial assistance over the medium term. They also highlighted the importance of carefully assessing the poverty and social impact of the reform process.

Directors acknowledged the progress, with technical assistance from the Fund, on improving Ghana's fiscal and monetary data. To allow effective surveillance and monitoring of GPRS outcomes, they encouraged the authorities to continue to improve the quality and timeliness of Ghana's economic statistics, in particular data on prices, national accounts, and trade.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Ghana: Selected Economic and Financial Indicators, 1999-2003

	1999	2000	2001	2002		2003
				Prog. 1/ Est.	Est.	
(Annual Percentage change, unless otherwise specified)						
National income and prices						
Real GDP	4.4	3.7	4.2	4.5	4.5	4.7
Real GDP per capita	1.8	1.2	1.6	1.9	1.9	2.1
Nominal GDP	19.0	31.9	40.2	23.3	28.3	33.6
GDP deflator	13.9	27.2	34.6	18.0	22.8	27.6
Consumer price index (annual average)	12.4	25.2	32.9	15.9	14.8	26.9
Consumer price index (end of period)	11.8	40.5	21.3	13.0	15.2	22.0
External sector						
Exports, f.o.b.	-4.1	-3.5	-3.6	7.6	10.6	12.1
Imports, f.o.b.	11.4	-15.2	2.6	7.8	-4.1	16.8
Export volume	8.9	1.0	-1.3	3.7	-1.5	2.7
Import volume	9.6	-26.0	10.0	11.1	-6.8	7.6
Terms of trade	-13.4	-16.6	4.8	6.9	9.1	0.7
Nominal effective exchange rate (avg.)	-9.3	-46.3	-24.0	...	-11.7	...
Real effective exchange rate (avg.)	0.5	-35.5	0.7	...	-0.6	...
Cedis per U.S. dollar (avg.)	2,669	5,431	7,179	...	7,947	...
Government budget						
Domestic revenue (excluding grants)	6.0	42.9	43.5	38.1	27.5	60.3
Total expenditure	9.0	39.6	65.5	34.0	2.4	50.0
Current expenditure	13.1	48.9	50.5	22.8	28.8	33.5
Capital expenditure and net lending	4.1	24.1	95.7	39.4	-38.7	104.1
Money and credit						
Net domestic assets 2/	46.0	49.1	13.5	6.6	14.0	-1.7
Credit to government 2/	38.2	57.7	0.0	1.8	32.6	0.0
Credit to public enterprises 2/ 3/	9.0	19.2	9.7	1.9	-9.0	1.5
Credit to the private sector 2/ 3/	24.9	34.4	12.0	17.1	17.7	18.8
Broad money (excluding foreign currency deposits)	19.8	33.4	48.4	25.2	50.0	25.0
Reserve money (excluding foreign currency deposits)	35.8	52.6	31.3	18.7	42.6	24.5
Velocity (GDP/end-of-period broad money)	5.2	5.1	4.8	4.9	4.1	4.4
Treasury bill yield (in percent; end of period)	34.2	42.0	28.9	...	28.2	...
(In percent of GDP, unless otherwise specified)						
Investment and saving						
Gross investment	21.5	24.0	26.6	22.3	19.7	23.0
Private	11.7	14.8	13.8	13.1	13.6	13.6
Public	9.8	9.2	12.8	9.2	6.1	9.4
Gross national saving	9.9	15.6	21.3	16.3	20.3	21.2
Private	8.3	14.3	16.1	11.6	19.2	14.9
Public	1.6	1.3	5.1	4.7	1.2	6.3
Government budget						
Total revenue	16.4	17.7	18.1	18.7	18.0	21.6
Grants	1.7	2.1	6.9	4.2	3.1	4.6
Total expenditure	26.2	27.7	32.7	28.4	26.1	29.3
Overall balance (excluding grants) 4/	-9.8	-10.0	-14.6	-9.7	-8.1	-7.7
Overall balance (including grants) 5/	-8.0	-9.7	-9.0	-7.0	-6.8	-3.9
Domestic primary balance	0.4	2.6	3.8	3.1	2.0	2.9
Divestiture receipts	0.3	1.2	0.0	0.8	0.0	0.7
Net Domestic Financing	6.3	8.5	2.3	0.3	4.8	0.0

External sector						
Current account balance 6/	-11.6	-8.4	-5.3	-6.4	0.6	-1.8
External debt outstanding	109.9	169.7	131.5	124.0	112.3	96.4
External debt service, including to the Fund	6.8	11.2	8.5	6.8	7.8	6.3
(in percent of exports of goods and nonfactor services)	21.1	23.0	18.9	15.9	18.4	15.6
(in percent of government revenue)	37.5	56.5	34.1	29.4	37.1	24.2

(In millions of U.S. dollars, unless otherwise specified)

Current account balance 6/	-895	-419	-283	-393	38	-131
Overall balance of payments	-266	-123	-2	-146	39	-77
Change in external arrears (decrease -)	62	27	61	0	-61	0
Gross international reserves (end of period)	317	264	344	629	631	811
(in months of imports of goods and services)	1.0	0.9	1.2	2.0	1.9	2.3
Nominal GDP (in billions of cedis)	20,580	27,153	38,071	46,875	48,862	65,262

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

1/ Based on MEFP of 1/31/02 (EBS/02/16)

2/ In percent of broad money at the beginning of the period.

3/ Credit from deposit money banks to public enterprises and the private sector respectively.

4/ Before domestic arrears clearance.

5/ After domestic arrears clearance.

6/ Including official grants.