

INTERNATIONAL MONETARY FUND

GHANA

Staff Assessment of Qualification for the Multilateral Debt Relief Initiative

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

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Ghana reached the completion point under the enhanced HIPC Initiative on July 9, 2004.

Macroeconomic Performance

- 1. Status of Fund Arrangement.** A three-year PRGF arrangement in support of Ghana's Poverty Reduction Strategy (GPRS) was approved in May 2003. The third review under the PRGF arrangement was completed in June 2005. Performance under the arrangement remains broadly satisfactory; the staff intends to support the authorities' request for waivers of nonobservance of one quantitative and one structural performance criteria in connection with the fourth review.
- 2. Recent Macroeconomic Developments.** The key macroeconomic objectives under the Fund-supported program have generally been met. Since the completion point, real GDP growth has been strong, at about 6 percent on an annual basis; inflation has declined appreciably; and gross international reserves have been maintained at a relatively high level, providing a significant cushion against external shocks. In addition, the ratio of domestic debt to GDP—the authorities' fiscal anchor—is on track to reach the targeted level by the end of this year. The strengthening of macroeconomic and structural policies continues to underpin recent economic performance. In particular, fiscal prudence, including enhanced public expenditure and financial management, has contributed importantly in this regard.
- 3. Financial obligations to other international financial institutions.** The information available to staff indicates that Ghana is current on its financial obligations to the World Bank and the African Development Bank.
- 4. Summary Assessment.** Given the completion of the third review under the PRGF arrangement on June 20, 2005 and the recent track record of satisfactory macroeconomic performance, staff is of the view that the related criterion to qualify for MDRI debt relief is met.

Implementation of the Poverty Reduction Strategy

5. **Recent Developments.** Ghana completed its Poverty Reduction Strategy (GPRS) in February 2003, followed by two Annual Progress Reports (March 2004, March 2005). An updated strategy paper (GPRS II) is expected to be finalized in early 2006. The focus of the revised strategy is on (i) establishing the conditions for private sector led growth, (ii) developing human resources, and (iii) strengthening good governance and civic responsibility. Ghana continues to make progress in poverty reduction, with the poverty headcount declining by 7 percentage points since 1997, reaching 35 percent in 2003. On current projections, the MDG of halving the poverty rate should be reached before 2015.

6. Total poverty-related spending has risen during the past several years, and since the completion point it has increased a further ½ percentage point of GDP to 8.3 percent. The delivery of social services has expanded, and this is being reflected in improving outcomes in a number of areas. For example, increases in supervised maternal deliveries have contributed to a reduction in maternal mortality rates, especially in deprived regions; there was a further decline in the HIV/AIDS prevalence rate among pregnant women, attributed mainly to awareness programs; access to safe water has expanded; and the gross primary enrollment rate has increased. Nonetheless, a sharpening of the focus could foster improvements in other areas, in particular, a strengthening of the linkages between interventions in health and nutrition will be important for reducing infant and under 5 mortality rates.

7. **Summary Assessment.** Given the recent track record of satisfactory implementation of poverty reduction policies, staff is of the view that the related criterion to qualify for MDRI debt relief is met.

Public Expenditure Management System

8. **Recent Developments.** Ghana's public expenditure management has improved since the completion point. At that time, 7 of the 16 expenditure management benchmarks were observed (compared with only one in 2001). Improvements in internal audit processes of the central government budget and reporting to parliament implies that 8 of the 16 benchmarks are now met. While further progress is also evident in procurement policies and in internal control, this has not been sufficient to reach the international benchmarks in these two areas.

9. The timely internal reporting of budget execution remains a challenge. Detailed spending by statutory funds is not incorporated in the in-year reporting cycle, and available information suggests accumulation of some arrears in 2004 (although these were largely cleared this year). Although some progress has been made in the implementation of the Internal Audit Agency law passed in December 2003, the internal control function is still weak. However, the number of ministries, departments, and agencies submitting internal audit reports has been increasing, which should lead to improvements in the effectiveness of internal control.

10. **Summary Assessment.** Staff is of the view that the criterion on the quality of PEM systems to qualify for MDRI debt relief is met.

Other

11. **Provision of Information to the Fund.** Ghana's provision of data to the Fund is adequate for program monitoring and surveillance purposes.

12. **Payments to the IMF.** Ghana is current on its financial obligations to the IMF.

Overall Assessment

13. Staff is of the view that all three criteria are met, and recommends that the Board determine that Ghana qualifies for immediate debt relief under the MDRI.

Ghana: Selected Macroeconomic Indicators, 2000-05
(annual percent change; unless otherwise indicated)

	2000	2001	2002	2003	2004	2005 (est.)
Real GDP	3.7	4.2	4.5	5.2	5.8	5.8
Inflation (e.o.p.)	40.5	21.3	15.2	23.6	11.8	14.0
Real effective exchange rate 1/	-35.4	0.8	-0.6	1.4	-2.1	7.9
Broad money	33.4	47.4	50.7	40.9	26.4	23.1
Overall fiscal balance including grants (in percent of GDP)	-9.7	-9.0	-6.7	-4.4	-3.6	-2.6
Current account balance including grants (in percent of GDP)	-8.4	-5.3	0.5	1.7	-2.7	-3.7
Foreign exchange reserves (in months of imports)	0.9	1.2	1.9	3.2	3.8	4.0

1/ For 2005, based on data through August.

Ghana: Public and Publicly Guaranteed (PPG) External Debt and Debt Relief 1/
(in millions of U.S. dollars; unless otherwise indicated)

	2004	2005 (Est.)	2006 (Proj.)		2007 (Proj.)
			Before MDRI	After MDRI 2/	After MDRI
PPG External debt	6,034.2	6,073.8	6,397.1	1,508.4	1,736.9
<i>of which owed to the Fund</i>	464.6	424.2	499.3	153.6	153.7
<i>of which owed to IDA</i>	4,260.0	4,382.6	4,410.2	348.0	441.8
<i>of which owed to AfDF</i>	501.0	593.3	633.2	152.4	191.0
NPV of PPG external debt to exports 3/	68.7	74.0	84.1	29.4	38.0
Debt service to exports 3/	4.8	3.5	3.1	1.4	0.8
PPG External debt to GDP (in percent)	68.1	56.7	56.6	13.3	14.2
NPV of PPG External debt to GDP (in percent)	27.0	25.3	27.8	9.7	12.5
NPV of PPG External debt to government revenue (in percent)	113.6	101.6	118.3	41.4	53.3

1/ After HIPC assistance.

2/ Assuming delivery on January 1, 2006 for the Fund and the AfDF, and on July 1, 2006 for IDA.

3/ Exports of goods and services for the year under consideration.