June 2006
IMF Country Report No. 06/228

Ghana: Fourth and Fifth Reviews Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criteria—Staff Report; and Press Release on the Executive Board Discussion for Ghana

In the context of the fourth and fifth reviews under the three-year arrangement under the Poverty Reduction and Growth Facility for Ghana and its request for a waiver of nonobservance of performance criteria the following documents have been released and are included in this package:

- a staff report for the Fourth and Fifth Reviews Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criteria prepared by a staff team of the IMF, following discussions that ended on April 12, 2006, 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 May 25, 2006. 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 Press Release summarizing the views of the Executive Board as expressed during its June 12, 2006 discussion of the staff report that completed the review.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Ghana*
Memorandum of Economic and Financial Policies by the authorities of Ghana*

*Also be included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

GHANA

Ghana—Fourth and Fifth Reviews Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criteria

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

Approved by Saul Lizondo and Adrienne Cheasty

May 25, 2006

- Discussions for the fourth and fifth reviews under the Poverty Reduction and Growth Facility (PRGF) arrangement were held in Accra during October 7–18, 2005 and March 30-April 12, 2006. The staff team consisted of Messrs. Itam (head) and York, Ms. Loukoianova (all AFR), Messrs. Akitoby and Kinoshita (FAD), Mr. Zhan (PDR), Ms. Connell and Ms. Montero (assistants, AFR), and was assisted by Mrs. Muttardy, resident representative in Accra. Mr. Mirakhor (Executive Director for Ghana) and Mr. Kwakye (OED) participated in the discussions. The mission liaised with teams from the World Bank and the donor community.
- The mission met with Minister of Finance and Economic Planning Baah-Wiredu, Bank of Ghana Governor Acquah, Deputy Finance Minister Osei, and other officials and private sector representatives. At his request, the mission met with H.E. President Kufuor and the cabinet to review developments.
- A three-year PRGF arrangement in support of Ghana's Poverty Reduction Strategy (GPRS) was approved in May 2003 in the amount of SDR 184.5 million (50 percent of quota). The arrangement was later extended until October 31, 2006 (Country Report No. 05/292). The third review was completed in June 2005. Ghana reached the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in July 2004. Also, Ghana received further debt relief under the Multilateral Debt Relief Initiative (MDRI) from the Fund, the IDA and the African Development Fund.
- The October 2005 mission held discussions for the fourth review, but consideration of this review by the Executive Board was delayed owing to the need to update the poverty reduction strategy paper. The updating of the Ghana's Poverty Reduction Strategy (GPRS II) was completed in January 2006. The documents and a Joint Staff Advisory Note (JSAN) have been circulated to the Executive Board (www.imf.org).
- Ghana's relations with the Fund are summarized in Appendix I, and IMF-World Bank collaboration and Ghana's financial relations with the World Bank Group in Appendix II. This report is accompanied by a Letter of Intent, with attached Technical Memorandum of Understanding, from the Ghanaian authorities (Appendix III). The work program for Ghana is presented in Appendix IV.
- The authorities have agreed to publish both the staff report and Letter of Intent. The principal authors of the report are Samuel Itam, Robert York, and Elena Loukoianova.

Contents Page

Appendices

EXECUTIVE SUMMARY

Background

The key macroeconomic objectives under Ghana's Poverty Reduction Strategy—supported by the PRGF arrangement—have generally been met. A relatively high rate of growth has been achieved, disinflation is in progress, and the external position has strengthened considerably.

As a consequence, progress has also been made toward achieving the Millennium Development Goals (MDGs), although there are concerns in some areas. On present projections, the goal of reducing the poverty rate by half should be reached before 2015. However, a deterioration in some health indicators suggests that additional resources and efforts (including well-targeted and better integrated policies particularly in health and education) will be needed to reach the related MDGs.

Satisfactory policy implementation continues to underpin the strong economic performance. The program is generally on track, although two quantitative (net domestic financing of the government and net bank credit to the Tema Oil Refinery) and a structural (payroll database) performance criteria were not observed at the relevant test dates.

Policy discussions

The authorities conveyed their intention to build on the recent strong performance, and this set the stage for the discussions. Sustained implementation of the authorities' policy intentions should lead to further progress in the period ahead. However, key challenges remain, particularly with respect to strengthening the foundation for the private sector to lead an acceleration of growth.

On the fiscal side, the discussions centered on the 2006 budget in terms of providing room for the "crowding-in" of private investment to enhance growth. Also, the discussions covered the supplementary budget to utilize the resources freed under the MDRI. The ratio of domestic debt to GDP remains the fiscal anchor, and the government agreed on the benefits of reducing this ratio further.

On the monetary side, the discussions centered on the need to maintain the central bank's goal of single-digit inflation. Both the staff and the authorities agreed that attainment of this objective is being facilitated by refinements of the monetary instruments and the operating framework that have led to a marked improvement in inflation outcomes and expectations.

Concerning structural policies, the authorities reiterated their intention of following through with public and financial sector reforms. These reforms are seen as critical to removing key impediments to enhancing productivity and accelerating growth.

The macroeconomic objectives for 2006 are to sustain the current pace of growth, reduce inflation to single digit by year's end, and maintain the import coverage of gross international reserves. Economic policies are consistent with these objectives, and the authorities program is fully financed. The risks for the outlook appear evenly balanced.

Staff supports the authorities' request for waivers for nonobservance of two quantitative and a structural performance criteria, and recommends the completion of the fourth and fifth reviews under the PRGF arrangement.

I. Progress Under the Fund-Supported Program

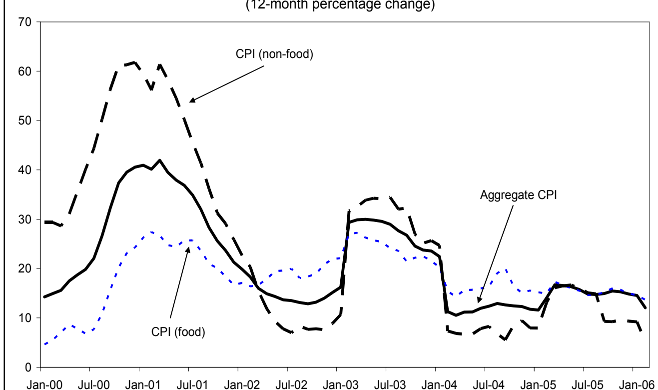
1. **The key macroeconomic objectives under Ghana's poverty reduction strategy—supported by a PRGF arrangement—have generally been met** (Table 1). The rate of real GDP growth has been raised, exceeding the target in the last two years. This has led to a doubling of the growth of real GDP per capita to above 3 percent, which is a core indicator of the authorities' program. At the current pace, the Millennium Development Goal (MDG) of halving income poverty by 2015 should be achieved ahead of schedule. Economic activity has broadened recently and, while agriculture continues to be a key sector, manufacturing and construction are emerging as important contributors to growth. The process of disinflation has not been smooth. However, inflation has been well contained more recently, despite several adjustments in petroleum product prices—including a sharp increase in February 2005 when such prices started to be determined by an independent and automatic mechanism. Overall inflation at end-2005 was contained at around 15 percent and has declined gradually to 9.5 percent in April 2006.

Contribution to the Growth of Real GDP, 2001-05
(Annual percentage change)

	2001	2002	2003	2004	2005 Prel.
Agriculture	1.6	1.7	2.4	3.0	2.4
of which					
Agriculture and livestock	1.3	1.4	1.4	1.4	1.4
Cocoa production	0.0	0.0	0.6	1.1	0.6
Others	0.3	0.3	0.4	0.4	0.4
Industry	0.8	1.3	1.4	1.4	1.8
of which					
Manufacturing and construction	0.8	0.9	1.0	1.0	1.3
Mining	-0.1	0.3	0.3	0.3	0.3
Others	0.1	0.1	0.1	0.1	0.2
Services	1.7	1.6	1.5	1.6	1.7
of which					
Wholesale and retail trade	0.4	0.4	0.4	0.4	0.4
Finance	0.2	0.3	0.2	0.2	0.2
Transport	0.3	0.3	0.3	0.3	0.3
Others	0.8	0.6	0.6	0.6	0.7
Real GDP (at factor cost)	4.1	4.6	5.3	5.9	5.9

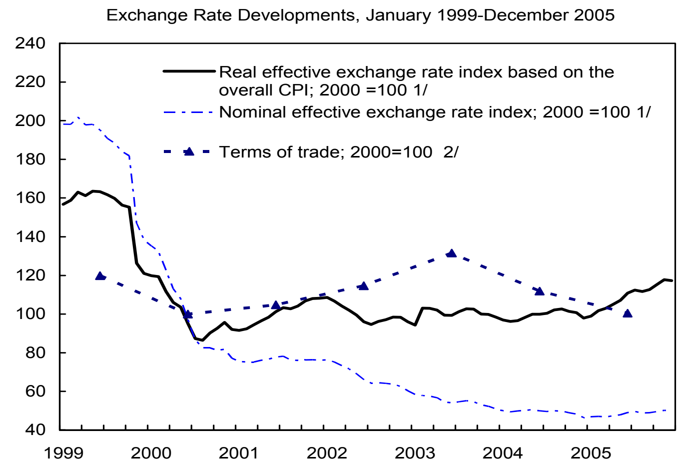
Sources: Ghana Statistical Service; and Fund staff estimates and projections.

Ghana: CPI Inflation Rates, January 2000-February 2006
(12-month percentage change)

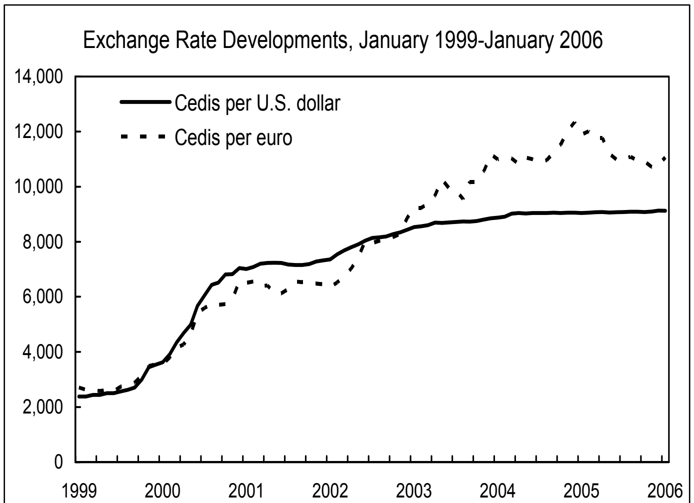


Source: Ghanaian authorities.

2. **The stability of the nominal exchange rate vis-à-vis the U.S. dollar has helped to dampen inflation.** Since mid-2004, the cedi–U.S. dollar exchange rate has remained largely unchanged, with the nominal exchange rate for the cedi depreciating by 1.1 percent by end-2005. Although vis-à-vis the euro the cedi fluctuated somewhat during the period, by end-2005 it had appreciated by only 2.6 percent. The real effective rate for the cedi appreciated by 19.7 percent during 2005, mainly because of the inflation differential with major trading partners.

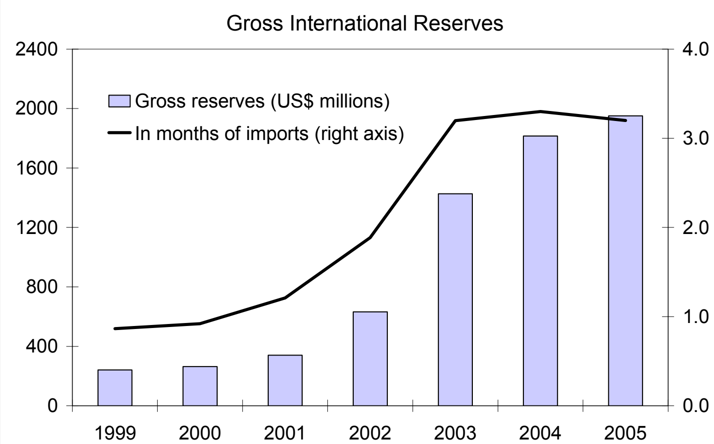


Sources: IMF, African Department and Information Notice System.
1/ An increase in the index denotes an appreciation.
2/ An increase in the index denotes an improvement in the terms of trade.



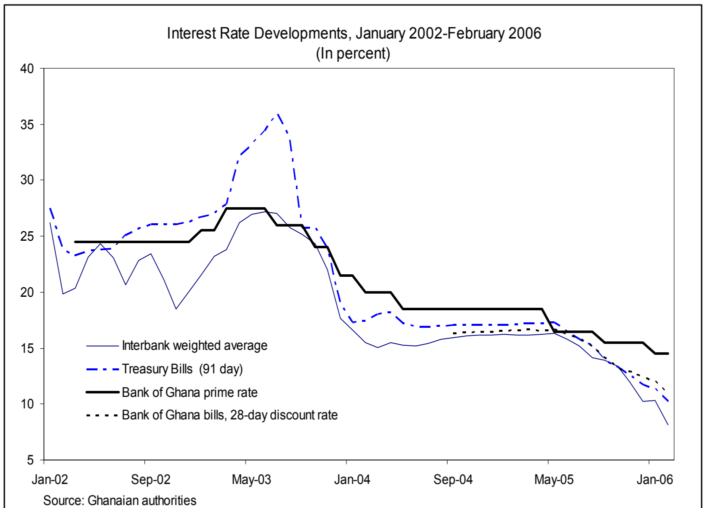
Sources: IMF, African Department and Information Notice System.

3. **The external current account (after official transfers) shifted from a surplus in 2002–03 into a deficit in 2004 that widened in 2005** (Table 2). The shift reflected mainly a strong growth in investment imports associated with ongoing mega projects (mining and the West African Gas Pipeline), increased imports associated with donor loan inflows, and the impact of higher world oil prices (equivalent to some 3 percent of GDP in 2005). However, large capital inflows—reflecting a pickup in foreign direct investment in mining, energy, and service sectors—and increased concessional loans more than financed the current account deficit. Consequently, gross international reserves reached US$1.9 billion, equivalent to 3.2 months of imports—compared with less than two months' cover in 2002—and increasing the cushion against shocks.

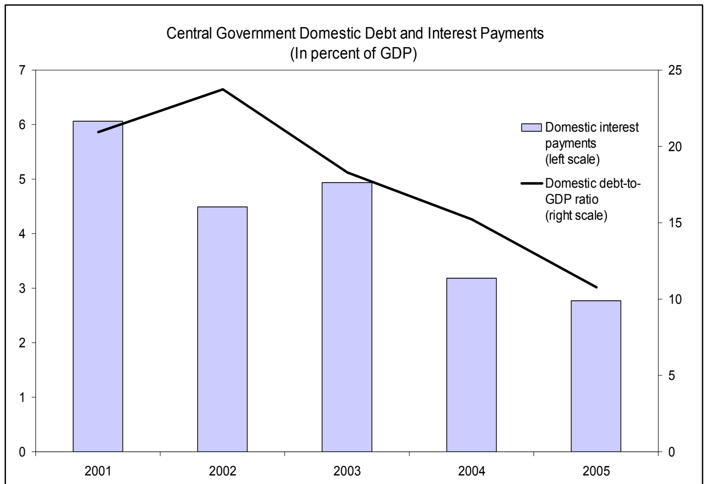


Sources: Data provided by the Ghanaian authorities; and staff estimates.

4. **Satisfactory policy implementation continues to underpin economic performance.** Fiscal prudence, together with enhanced public expenditure and financial management, and strong growth, are delivering a faster-than-envisaged reduction in the ratio of domestic debt to GDP—the government 's fiscal anchor. Fiscal consolidation has resulted in a significant reduction in domestic debt service and is allowing the "crowding-in" of private sector investment through a sharp drop in interest rates.



Source: Ghanaian authorities



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

5. **The fiscal outturn for 2005 was broadly in line with the program's end-year targets** (Table 3). Despite a significant shortfall in revenue and grants, the overall deficit (after grants) was 3 percent of GDP compared to the target of 2.6 percent. The revenue shortfall was mainly from VAT and trade taxes. Even though budget execution was monitored carefully, cuts—particularly new hirings and nonessential vehicles in domestically financed capital outlays—were insufficient to offset the shortfalls in revenue and grants in the first half of the year. As a result, the government resorted to domestic borrowing to fill the resource gap, which led to the nonobservance of the quantitative performance criterion on net domestic financing of government for end-June 2005. The recourse to bank borrowing was reversed in the second half of the year, with the catching-up of external aid disbursements, stronger containment of the wage bill, and improvements in nontax revenue collection.[1] Net domestic debt repayment by the government was 1.6 percent of GDP, compared with the programmed 1 percent.[2] As a result, the decline in the ratio of domestic debt to GDP was larger than envisaged under the program, with the outstanding stock of debt to 10.8 percent of GDP at end-2005 compared with the program target of 11.4 percent.

6. **The wage bill of the government was held below the budgeted ceiling throughout the year.** This was a direct result of accounting and technical improvements in the computerized personnel and payroll databases. The government planned to have databases

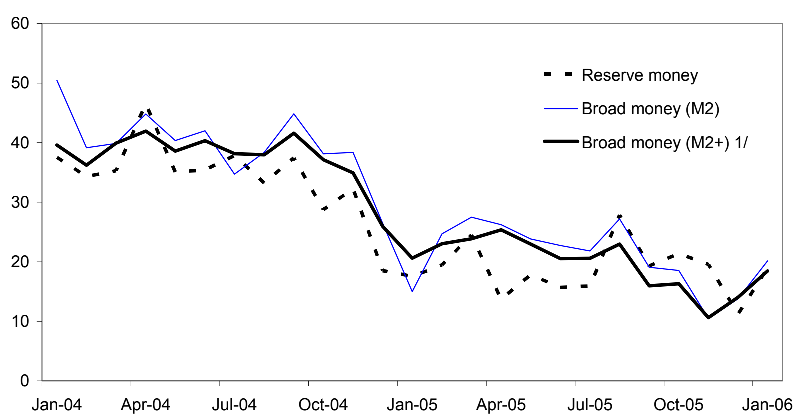
[1] This was in part due to the forward collection of mobile telephone license fees, which did not contravene any program understanding. Other efforts to mobilize revenue included concentration on collections from large corporate taxpayers; reform of the procedures for reporting and monitoring foreign trade to reduce leakages; and increased vigilance to ensure fees, charges and dividends are being remitted in a timely manner.

[2] The large discrepancies (0.7 percent of GDP) were mostly float checks that were cleared during the first half of 2006.

cover all employees under the central government and subvented agencies (police, universities, and research centers) by end-September 2005. However, this timeframe turned out to be ambitious, with only three-quarters of subvented agencies' employees covered by end-September 2005 (a structural performance criterion), but the remainder was completed by year end. The government was concerned that accelerating the implementation to meet the deadline would have compromised the robustness and security of the data.

7. **The central bank has maintained its efforts to control liquidity and reduce inflation.** The growth of the monetary aggregates continued to slow in 2005 (Table 7), with broad money expanding significantly less than the annual rate of nominal income. This pattern—particularly in the latter part of the year—reflected containment of government bank borrowing, with intensified fiscal efforts to reduce domestic debt in the fourth quarter of 2005. These efforts have helped to contain inflation, even with significant increases in domestic petroleum prices that raised inflation markedly early in the year. Indications are that the direct and indirect effects of petroleum price adjustments so far have been largely absorbed. The lowering of the secondary reserve requirement in mid-year and the reduction in the prime rate of the central bank—200 basis points in May 2005, followed by further 100 basis points reduction in September 2005 and January 2006—may have contributed to keeping credit expansion to the private sector robust. However, there are no indications that the quality of loans to the private sector has deteriorated. The average lending rate—which remains significantly positive in real terms—has not declined commensurately with the reduction in the prime rate.

Developments in the Monetary Aggregates, January 2004 - January 2006
(Annual percentage change)



Source: Bank of Ghana.
1/ M2+ includes broad money and foreign currency deposits.

8. **Structural reform featured prominently in the government's strategy for economic development.** The focus has been on enhancing the operating and financial performance of public enterprises, raising the productivity of the civil service, and deepening financial intermediation. Regarding public enterprises, the Public Utilities Regulatory Commission undertook a major review of the formulas for utility tariffs (electricity and water) to ensure full cost recovery. The main conclusion was that the pro-poor elements in the tariff structure were misguided as they did not benefit the poor and, therefore, will be eliminated with no further cross-subsidization in May 2006. Also, the planned refurbishment and investment in these enterprises should lead to an improvement in service quality—which at present is poor—thus providing the backdrop for an increase in tariffs of 20 percent for electricity and 15 percent for water in May 2006.

9. **Similarly, the recently created National Petroleum Authority (NPA) has been implementing the pricing mechanism for petroleum products** (Box 1). However, the pricing mechanism underestimated world oil prices and, consequently, domestic retail prices for petroleum products were not adjusted sufficiently to fully cover costs. As a result, the Tema Oil Refinery (TOR)—a public enterprise that is responsible for supplying refined petroleum products—incurred some losses in 2005 that led to the nonobservance of the end-December quantitative performance criterion on bank credit to the enterprise. The government will cover the loss in the supplementary budget for 2006 and finance it in part with the issuance of special TOR bonds. Petroleum product prices were last adjusted in May 2006, bringing them in line with costs and including an element to start recouping the 2005 loss.

10. **Finally, the Ministry of Finance and Economic Planning has expanded its mandate to monitor the performance of 35 state-owned enterprises**. Financial and operating data are now being collected regularly for all of these enterprises, with comprehensive coverage and quarterly reporting envisaged by the end of this year.

11. **The Cabinet recently approved a plan to reform the civil service.** An action plan and timetable for reform have been established, and the key elements include: enunciation of a civil service wage policy that recognizes and rewards performance; re-orientation of public sector activities (especially those of subvented agencies) away from those which are no longer relevant to the government's core objectives; decentralization of activities to allow for better service delivery and targeting at the local level; and implementation of recent laws and regulations designed to support public expenditure and financial management.

12. **The Financial Sector Strategic Plan continues to guide reform in the financial sector.** The emphasis has been on strengthening the legal, regulatory and judicial frameworks. The central bank is safeguarding the soundness of the banking system through enforcement of prudential and fiduciary requirements (including new minimum capital requirement by end-2006), and encouragement of competition through the entry of new banks.[3]

---

[3] By end-June 2006, all the banks are expected to submit their financial plans on how they are progressing toward meeting the new minimum capital requirements, which most banks are expected to meet. After the mid-year review, the Bank of Ghana will prepare its suggestions for those banks which may be progressing too slowly toward the new capital requirements.

Box 1. Developments in Petroleum Product Pricing

The independent and automatic adjustment mechanism for petroleum products pricing was introduced in February 2005. The mechanism includes (i) a prediction of imported crude oil prices in the following quarter, and (ii) other charges (taxes, margins, etc.). The National Petroleum Authority (established in June 2005) has made five ex-refinery price adjustments since then. As there were no changes to taxes, levies or distribution margins—which together account for between 40–50 percent of the pump price—the indicative maximum prices at the pump rose by smaller percentages than the ex-refinery prices.

In February 2005, the ex-refinery price was raised by an average of 50 percent, which was higher than what was required to bring these prices into line with full cost recovery. The higher price adjustment occurred because the benchmark reference for cost recovery was based on average Mediterranean Platt prices which were 5–8 percent higher than the preferential (actual) price Ghana pays for Nigerian crude (which accounts for 70 percent of domestic supply).

The subsequent adjustments in ex-refinery prices were relatively small, compared with the changes in world oil prices, reflecting several factors:

- The overstatement of the initial price increase when the petroleum price mechanism was adopted in February 2005;
- The under-prediction of world oil prices for the future quarter in the pricing mechanism; and
- The exclusion of a charge of 13.85 percent on the c.i.f value of imported crude to help TOR offset various costs and losses that stemmed from inefficiency.

Ghana: Selected Petroleum Products Prices, 2005-06

(Cedi per litre, unless otherwise specified)

	Prior to	2005			2006		
	reform 1/	Feb.	Aug.	Oct.	Jan.	Feb.	Apr.
Premium							
Ex-refinery price	2252	3032	3129	3419	3381	3969	4467
percentage change	...	34.6	3.2	9.3	-1.1	17.4	12.5
Indicative maximum price	4444	6667	6778	7111	6433	7111	7713
percentage change	...	50.0	1.7	4.9	-9.5	10.5	8.5
Kerosine							
Ex-refinery price	2116	3636	3253	3249	3249	3635	4408
percentage change	...	71.8	-10.5	-0.1	0.0	11.9	21.3
Indicative maximum price	3889	5333	4889	4889	4889	5333	6422
percentage change	...	37.1	-8.3	0.0	0.0	9.1	20.4

Source: National Petroleum Authority.

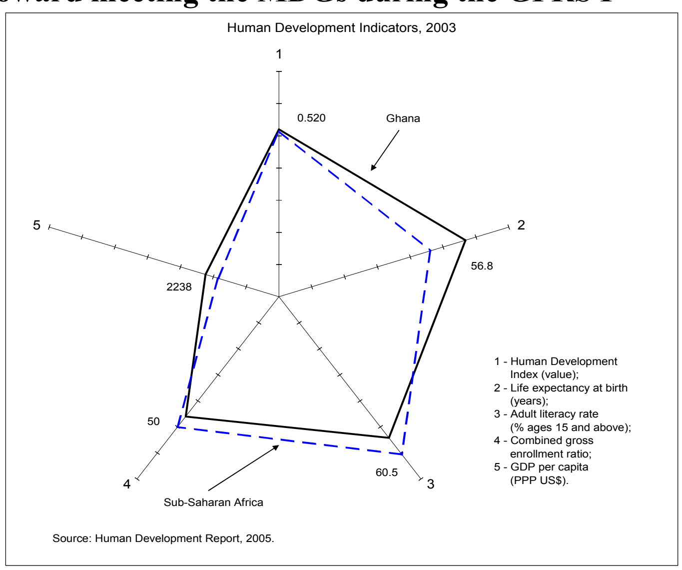
1/ Prior to February 22, 2005.

Discussions with all the stakeholders during the October 2005 and April 2006 missions to Ghana—including the TOR, the National Petroleum Authority, representatives of the private sector oil-marketing companies, and the Multi-Donor Budget Support group—concluded that the pricing mechanism for petroleum products is transparent (through Press Releases and the Gazettes explaining the mechanism), and has led to substantial improvement in the efficiency of the TOR. However, the under-prediction of world oil prices needs to be corrected immediately. Consequently, future price adjustments will now be made on a monthly basis and include an element to cover past under-predictions.

13. **Substantial progress has been made in the implementation of the government's National Trade Policy, which was launched in December 2004.** The policy aims at rapid and strategic expansion of Ghana's productive and export base, leading to increased incomes and employment. In late 2005, the cabinet approved the Trade Sector Support Programme (TSSP), a comprehensive and detailed implementation plan (2006-10), which also spells out the inter-linkage between specific TSSP projects and the GPRS II. With 27 inter-related projects in 10 policy areas, the TSSP attempts to create a conducive environment for the private sectors to deliver long-term sustained export growth. The public sector's effort will focus on improving regulatory framework by simplifying and standardizing trade-related regulations, as well as by providing the necessary infrastructure—particularly storage and transport facilities for major exports.

14. **Ghana has now completed all debt stock cancellation or rescheduling agreements in connection with reaching the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.** Ghana has received additional debt relief beyond the enhanced HIPC Initiative from most bilateral creditors (that is, 100 percent cancellation of pre-cutoff debt in most cases). In addition, with the adoption of the MDRI, Ghana has received further debt relief from the Fund, and has qualified for relief from the International Development Association and the African Development Fund.

15. **Ghana has made progress toward meeting the MDGs during the GPRS I (2002–05), although several challenges remain** (Box 2)**.** Strong growth has led to a decline in the poverty rate, the provision of social services has improved (health, education, water), and reaching the HIPC completion point and receiving debt relief under the MDRI have enhanced external debt sustainability. However, the slow improvement, and even deterioration, in some indicators—in particular, the under-five and infant mortality rate—is an ongoing concern. The authorities are acutely aware of these problems, and—based on the lessons, experience, and recent outcomes—have revised their approach accordingly in the updated poverty reduction strategy (GPRS II).



Box 2. Progress in Meeting the Millennium Development Goals	
Goal	**Status**[1]
1. Eradicate extreme poverty and hunger.	Based on the current rate of growth, the authorities project the halving of the extreme poverty rate from the level of the early 1990s before 2015. However, they also indicate that progress in reducing the prevalence of child malnutrition (currently at about 23 percent) has been slow, and that under the current trends the goal of reducing it by half may not be reached.
2. Achieve universal primary education.	The gross primary enrollment rate has reached 87 percent by mid-2005 and is on track to reach 100 percent by 2010.
3. Promote gender equality.	Available information points to slow progress in achieving gender parity in education. At the primary level, the Gender Parity Index (GPI) has improved to 93 females per 100 males, but is lower at the secondary level at 88 females per 100 males. However, equality is likely to be achieved by 2015.
4. Reduce child mortality.	The under-five mortality rate remains relatively high, although revised data suggest a decline from 110 per 1,000 live births in 1995 to 95 per 1,000 live births in 2003. On current trends, the goal of reducing this rate by two-thirds is unlikely to be achieved by 2015.
5. Improve maternal health.	Available data suggest that the maternal mortality rate has declined, but the goal of a three-fourths reduction from the 1990 level by 2015 would require a significantly higher rate of progress.
6. Combat HIV/AIDS, malaria and other diseases.	The incidence of malaria has declined, and there has been a reversal of the incidence of HIV/AIDS. These goals are likely to be achieved.
7. Ensure environmental sustainability.	Access to safe water has increased substantially, and on current trends 80 percent of the population should have potable water by 2015. However, Guinea worm infestation has risen recently, raising concern over water quality.
8. Develop a Global Partnership for Development.	The debt service to exports ratio has declined and will remain at a sustainable level with prudent and effective debt management. Sustainability will be further enhanced by prospective relief through the Multilateral Debt Relief Initiative.

Source: The Ghanaian authorities.

1/ Further detailed statistics are provided in Table 9.

II. Policy Discussions: Key Challenges Ahead

16. **The authorities have conveyed their intention to build on the recent strong performance, as reflected in the attached Letter of Intent and the associated Technical Memorandum of Understanding** (Appendix III). Sustained implementation of the authorities' policy intentions would result in further progress in the period ahead. Nonetheless, key challenges remain—consolidating macroeconomic stability and

accelerating the rate of growth, further re-orientating fiscal priorities toward development, and pursuing structural reform to ensure that the private sector will lead growth. These issues provided the background for the policy discussions.

A. Accelerating Growth Over the Medium Term

17. **The authorities reiterated their medium-term macroeconomic objectives to accelerate real GDP growth, further reduce inflation, and strengthen international reserves coverage.** Based on current policy measures and envisaged resources from donor assistance,[4] new medium-term projections (baseline scenario) were prepared. The authorities agreed with the staff that the medium-term macroeconomic prospects are broadly favorable (Table 10). Real GDP growth is projected to rise from the current rate of 6 percent in 2006 to an average of 6.3 percent per annum during 2007-10 on the bases of investment in physical infrastructure, improved environment for private sector activities, and more developed human capital. Inflation is targeted to decline to single digit by the end of this year and to trend toward that in the major trading partner countries over the medium term. Despite the appreciable expansion in exports of goods and services that is envisaged, the external current account deficit will widen further because of increased investment-related imports. However, in the circumstances, it is expected that there will be sufficient financial and capital inflows to finance the deficit and permit further accumulation of international reserves to about four months of projected imports of goods and services (Table 11).

18. **Results from illustrative debt sustainability analysis suggest that Ghana's external debt would be just under the sustainable thresholds over the medium to long term in the above scenario** (Figure 1).[5] However, stress tests indicate that the situation would worsen severely if the projected higher growth rates, compared with the historical averages, are not achieved or—more importantly—if the donor assistance as a source of financing is not sufficiently concessional.

19. **The authorities noted the results of the above baseline projections but stressed that the focus of the poverty reduction strategy should now be shifted from achieving macroeconomic stability to accelerating growth.** In particular, they would like to achieve real GDP growth of 6-7 percent per annum in the immediate years and, subsequently, to

---

[4] Including the MDRI and likely additional resources from donors, these are projected to amount to about 3 percent of GDP a year during 2007-10.

[5] The illustrative debt sustainability analysis uses the template for low-income countries, and takes into account relief from the Multilateral Debt Relief Initiative. It was prepared in consultation with both the authorities and the staff of the World Bank. In line with staff's advice, the analysis assumes that the additional resources for scaling up are obtained on concessional terms.

accelerate growth to 8–8.5 percent per annum (Table 12).[6] In the authorities' view, the higher rate of growth is required to raise per capita income—and thus the standard of living—on a substantial and sustainable basis. To accelerate growth, the authorities' updated strategy focuses heavily on enhancing prospects in agriculture (given its importance for employment and output), improving general infrastructure, raising the productivity of the general labor force through strengthened education and health services, and increasing access to and lowering the cost of capital.

20. **Accordingly, the authorities have prepared a broad outline of their scaled-up investment plan, which is consistent with the objectives of the GPRS II and in line with the above approach**. This includes upgrading Ghana's infrastructure—transport, utilities, and energy—and providing an environment conducive to private sector-led growth. In addition, resources will be directed at social services—schools, health facilities, and preventive health care (such as universal medical vaccination)—and governance (judiciary, immigration, and police). The authorities' preliminary estimate indicates that additional resources of about 4 percent of GDP a year would be required to support these initiatives during 2007-10.[7] The relief from the MDRI has expanded the resource envelope, and the authorities welcomed the associated debt-service savings.[8] However, the preliminary projections incorporated in the baseline scenario suggest that prospective resources (from bilateral and multilateral sources) would be significantly insufficient to achieve the objectives.

21. **Against this backdrop, the staff noted that three important aspects regarding the authorities' scaled-up investment plan need further examination**. First, there is a need for a robust estimate of the envisaged supply response to the policy initiatives being pursued. In particular, the staff cautioned that the realism of the assumption of higher growth which benefits from the additional outlays would need to be assessed. Second, the rapid pace of reverting to relevant debt burden thresholds during 2007-10 is a source of concern (Figure 2). This development would substantially increase Ghana's vulnerability to external shocks in the medium term. Finally, the staff underscored that the main risk to the above ambitious investment plan is that Ghana may be unable to mobilize the required additional resources—at sufficiently concessional terms not to compromise debt sustainability. In particular, the staff noted—and the authorities concurred—that it may be too optimistic to

---

[6] The inflation and international reserves targets would be broadly maintained as in the baseline medium-term scenario.

[7] The US$0.5 billion (4 percent of GDP) annually estimated by the authorities compares with the estimated US$2.5 billion annually (22 percent of GDP) suggested by the UN Millennium Development Project needs-assessment for Ghana.

[8] Ghana would receive debt relief estimated at about US$4 billion. Debt service would be reduced by an estimated US$100 million annually over the medium term.

expect the required additional financing from multilateral and other highly concessional sources.[9] In the circumstances, Ghana should reduce the risks to debt sustainability by curtailing its investment plan and the associated borrowing.

B. Budget for 2006

22. **The key fiscal objectives remain providing room for the "crowding-in" of private investment, and enhancing the effectiveness of development spending.** In this regard, the fiscal policy discussions focused on the trade-offs between the incremental benefit from a further lowering of domestic debt and the scaling-up of pro-growth and pro-poor spending to meet the MDGs. The ratio of domestic debt to GDP remains the authorities' fiscal anchor, and they agreed with the staff that a further reduction in the ratio in the 2006 budget was desirable to (i) further lower domestic debt service; (ii) allow for the expansion of private sector credit; and (iii) maintain a prudent stance as safeguard against contingent liabilities arising from the restructuring of public enterprises and the civil service. Accordingly, the 2006 budget was approved in December 2005 and a supplementary budget—consistent with the development objectives of the updated GPRS II—to use the proceeds from the MDRI will be presented to parliament in July 2006.[10]

23. **The main fiscal target is to reduce the domestic debt to GDP ratio from 10.8 percent in 2005 to 8.7 percent in 2006.** Accordingly, the budget aims at containing the overall deficit to 3.6 percent of GDP, inclusive of the 0.7 percent of GDP in payments for last year's losses incurred by TOR. Total revenue and grants are projected to remain roughly unchanged at 29.2 percent of GDP, with slightly higher grants offsetting the impact of reduced personal income tax rates. Total expenditure is expected to rise by 1.6 percentage points of GDP, largely reflecting increased spending on key social and physical infrastructure associated with resources released from relief under the MDRI. The staff took note that overall poverty-related spending (predominately for health and education) has been protected in the initial budget, with additional resources from the MDRI debt relief being used to augment the initial provisions.

24. **Foreign assistance (both grants and loans) for development spending is expected to rise only marginally in 2006 but to pick up thereafter**. Donors have been reluctant to commit additional resources prior to assessing the GPRS II. Nonetheless, they signaled a willingness to scale up aid provided Ghana's strong performance continues.

---

[9] The position on scaled-up assistance by donors is expected to be clarified at the Consultative Group meeting to be held in June 2006.

[10] The supplementary budget will reflect the first of the three annual transfers of the Fund MDRI relief from the central bank to the budget, in the amount of US$225 million. As well as MDRI debt relief from the IDA and AfDF.

25. **While total tax revenue is expected to increase relative to GDP in 2006, measures are taken to lower the direct tax burden**. The tax burden in Ghana has increased significantly over a short period, and the authorities believe—and the staff concurs—that some relief will have beneficial long-run effects on growth. As such, the personal income tax burden was lowered, with an estimated loss in revenue of about 0.5 percent of GDP. The increase in VAT receipts reflects mainly the recovery of delayed import VAT collection because of deferral introduced in 2005; it will more than offset the reduction in the direct tax revenue.

26. **The staff expressed concern over the relatively high wage bill of the government (8.9 percent of GDP).** The envisaged substantial real increase in government wages could have adverse effects on private sector wage behavior, and the wage bill—which accounts for more than 40 percent of tax revenue—has a high opportunity cost in terms of foregone essential investment and outlays to fight poverty. However, the reform of the civil service could yield savings that would provide room to accommodate higher wage levels for the relevant cadres of employees, while containing—if not reducing—the total wage bill. The authorities agreed with the staff that savings made from the ongoing civil service reform will be used to meet increases, as well as the cost of monetizing certain benefits. They expressed strong concerns about the government's ability to attract and retain qualified personnel (especially in the health and education sectors) with the current salary scale. In addition, the authorities argued that civil service wages have continued to lose ground against the private sector.

C. Achieving Single-Digit Inflation

27. **The achievement of single-digit inflation is the primary goal of the Bank of Ghana.** Recent refinements to available instruments and operating framework have facilitated progress toward this end. The discussions centered mainly on the challenges facing the central bank in pursuing disinflation, while encouraging appropriate growth of credit to the private sector. In the latter regard, the central bank reduced the secondary reserve requirement around mid-2005. The authorities indicated there has been no evidence that this measure has unsettled the desired path of the monetary aggregates, nor has there been a deterioration in the quality of banks' assets (or loan portfolios). Even so, the central bank remains vigilant—including through its strengthened bank supervision—to the prospects for a lagged reaction to the new framework, and stands ready to take corrective action.

28. **The authorities describe their exchange rate regime as a managed float, with no pre-announced path for the exchange rate.** Under this regime, intervention in the foreign exchange market is to be limited to short-term smoothing and achievement of the international reserves objective. However, as noted earlier, there has been relative stability of

the nominal exchange rate vis-à-vis the U.S. dollar over a long period.[11] The staff considered that in the face of strong inflows some nominal appreciation would have been expected, which would have supported the process of disinflation. The authorities expressed some concern about the possible impact on competitiveness of the real exchange rate appreciation in such a scenario. However, they agreed with the staff that in the context of relative macroeconomic stability, the reliance should be on gains in productivity to maintain and improve competitiveness. In such a scenario, therefore, efforts to remove structural impediments to lower costs and diversify the economy should be intensified. In any event, the authorities agreed not to undertake actions—beyond short-term smoothing and achievement of the international reserve target—that would inhibit changes to the exchange rate for the cedi in response to market forces.

D. Enhancing External Sustainability

29. **Although Ghana remains vulnerable to external shocks and dependent on a few commodities for the majority of its export receipts, the strength of the external sector has dramatically improved.** The projected net present value (NPV) of external debt at end-2006 of about 12 percent of GDP is about one-third the level of end-2002 (Figure 1), and the NPV of total government debt of 34.4 percent of GDP at end-2006 compares with 87.8 percent in 2002. Thus, the relief under the HIPC at the completion point, combined with the relief under the MDRI, created a significant space between the existing position and most established threshold points for prudent debt management.

30. **The authorities are keenly aware of the need to preserve debt sustainability.** In this context, the stated priority is to exhaust all avenues for concessional borrowing and to refrain from accessing international capital markets to finance the 2006 budget. However, the authorities signaled their intention to prepare the ground for eventual access to such markets to fill the resource requirements needed to reach important development goals as envisaged in the GPRS II and with respect to the MDGs. As such, the authorities will:

- Continue to strengthen debt-management capacity, particularly the ability to design and assess loan proposals;
- Develop a structured public investment framework, consistent with the GPRS II, for specific projects for which concessional financing could not be obtained. This is critical to ensure that resources are used efficiently, and that they generate adequate returns to repay debt; and
- Maintain a track record of good economic performance that would lead to favorable financing terms in international capital markets.

[11] The authorities did not contest the apparent stability of the cedi exchange rate vis-à-vis the U.S. dollar.

31. **In sum, the authorities reiterated that the ground for accessing the international capital markets must be prepared with strong foundation.** However, the staff cautioned against contracting nonconcessional debt given continuing vulnerabilities. Care would have to be taken to ensure that the public and external debt do not become unsustainable in the future, and that all resources—including foreign assistance—are used efficiently and transparently. Furthermore, the staff observed that preliminary indications are that there is not much support from donors for accessing the international markets so soon after the MDRI relief and before a comprehensive set of guidelines to ensure long-term debt sustainability is established.

E. Creating an Environment for Private Sector-Led Growth

32. **During the discussions, the authorities emphasized the critical role of the private sector in leading economic growth.** At the same time, they also stressed the government's role in facilitating growth, in particular, through reforming the operations of the public sector and the civil service, and introducing policies to increase the availability of credit and deepen financial intermediation throughout the economy.

33. **The financial and operating performance of many public enterprises have improved recently, reflecting enhanced monitoring, managerial changes, and cost recovery pricing in commercially-oriented entities.** The staff was encouraged by the significant progress made in assembling timely information needed to assess developments in many of the largest and economically important public enterprises. For their part, the authorities expressed satisfaction, as a clearer picture of the extent of public sector activities—and contingent liabilities—is emerging. The development of a comprehensive database will continue, with regular (quarterly) reporting becoming a valuable input into the government's overall economic strategy in general, and into the budget in particular. Also, the authorities reiterated their commitment to cost recovery pricing for public utilities (water, electricity) and in the energy sector.

34. **The government is committed to economic development through backward integration of the aluminum industry.** The intention is to bring the Volta Aluminum Company (VALCO) into full production in 2006, and to use this as a catalyst for mining Ghana's vast bauxite deposits. While the staff agreed that development of an integrated aluminum industry would provide important positive spillovers for the economy, it was concerned about the available financing. In particular, the (state-owned) Volta River Authority's intention of providing power to VALCO at below cost would result in a quasi-fiscal activity, which would have to be financed through the budget. It was therefore agreed that the budget makes explicit provisions for the implicit subsidy arising from this quasi-fiscal activity—starting in 2006—and that a careful analysis be made regarding all the externalities in terms of costs and benefits.

35. **The government announced in May 2006 reforms for the Tema Oil Refinery and the Ghana Water Company**. The main objective is to strengthen the overall operations of these enterprises in tandem with the liberalization of the pricing mechanisms for petroleum

products and water. The government will sell 35 percent of TOR to a strategic partner, and 35 percent through the local stock exchange. Two foreign companies will take over the management of the water company with effect from June 2006.

36. **A strategy to reform the civil service is now in hand, and the government will soon start its implementation (with assistance from donors).** The strategy is expected to take some time and significant resources to complete. The staff noted the broad elements of the reform and its emphasis on establishing a professional civil service, and a compensation and benefits system that will reward performance. The reforms will include subvented agencies, and the government intend to eliminate activities which are no longer of priority or consistent with its objectives. Also, certain activities are to be transferred to local governments, especially those relating to poverty- and growth-related outlays. With respect to the wage and salary structure of the public service, the government will present a report on a comprehensive review to be undertaken, with the aim of rationalizing the employment structure, monetizing benefits, standardizing job titles, and updating job classification.

37. **The strengthening of macroeconomic policies has reduced uncertainties over the economic environment, and this has heightened the awareness of the remaining structural impediments to bolstering growth.** In this regard, a key focus is to ensure the availability and access to low-cost credit to finance activities in key sectors, including agriculture. While progress has been made in reforming the financial sector, intermediation is still relatively low. The authorities indicated that an important element would be the provision of comprehensive information on the creditworthiness of borrowers, through the establishment of a credit bureau. Also, the efficiency of the banking sector is to be enhanced with the new laws on foreign exchange and anti-money laundering/combating financial terrorism that are under consideration.

III. PROGRAM FOR 2006

38. **The program for 2006—detailed in the attached Letter of Intent (Appendix III)—begins to lay the foundation for the acceleration of growth and poverty reduction.** The macroeconomic objectives are to sustain real GDP growth at 6 percent, reduce inflation to just over 8 percent by year end, and maintain international reserves at more than three months of projected imports of goods and services. As indicated earlier, the policy measures to achieve these objectives include:

- A budget that will target a domestic primary surplus of 1.5 percent of GDP, consistent with a further reduction of the ratio of domestic debt to GDP.
- Growth of broad money that will be broadly in line with the growth of nominal GDP, consistent with a decline of inflation to single digit by year-end.
- In the area of structural policies, following through with public enterprise and civil service reform, and especially reviewing the wage and salary structure of civil servants (a structural performance criterion); and removing impediments to financial intermediation (Box 3).

Box 3. Structural Conditionality, 2006

Under the PRGF arrangement, structural conditionality will continue to focus on areas of macro relevance (Appendix III, Table 4):

- Controlling the wage bill, which will create room for more productive use of resources, while enhancing the government's ability to attract highly qualified personnel in key positions through a comprehensive review of the wage and salary structure of public service workers that provides for the rationalization of the emolument structure, the monetization of non-monetary benefits, the standardization of job titles, and the update of job classification.

- Strengthening the financial intermediation through the introduction of the Credit Reporting Bill.

Under World Bank lending, structural conditionality is reflected in a series of annual Poverty Reduction Support Credits (about $140 million for 2006), and relates mainly to budgeting, public expenditure management and control, public sector reform, public enterprise reform and divestiture, and financial sector reform (Appendix II).

- Continuation of the pricing mechanisms for utilities, and strengthen that for petroleum products to eliminate the loss associated with under-estimation of the landed cost of crude oil imports.

39. **The program will be monitored through the quantitative and structural benchmarks in Tables 3 and 4 of Appendix III**. The monitoring will be guided by the Technical Memorandum of Understanding attached to it. Table 12 presents the schedule of disbursements under the PRGF arrangement.

IV. Risks to the Outlook

40. **Ghana's macroeconomic prospects for 2006 and the medium term appear promising.** The adverse impact of high world oil prices on growth, the external current account, and inflation has been significantly less than feared earlier. In the event, Ghana has adjusted relatively smoothly to the high world oil prices—compared with past episodes—suggesting improvement in the capacity to withstand external shocks. The program for 2006 is fully financed.

41. **Looking forward, the main risk to the program is two fold: a relaxation of the prudent fiscal stance, and possible unsustainable external commercial borrowing.** This may quickly deplete the fiscal space created by the debt relief under the enhanced HIPC Initiative and the MDRI. In this regard, the authorities stressed their determination not to put the country's debt sustainability in any jeopardy over the medium to long term.

V. Staff Appraisal

42. **Ghana's macroeconomic performance has continued to improve, and the program's objectives are being met.** Indeed, the maintenance of the recent pace of growth, together with disinflation in the face of a significant increases in world oil prices, testifies to the underlying strength of the economy.

43. **Public expenditure and financial management has shown improvement, and budget execution is being monitored carefully**. However, the flow of revenue and budget financing was lower than anticipated in the first half of the year. As a consequence, there was some fiscal slippage in mid-2005, and a quantitative performance criterion (net domestic financing) was not observed. A partial reversal in revenue collection and compensatory improvements in other areas were realized in the second half of the year to achieve the broad fiscal targets for the year as a whole. Payroll management is also now more robust, with the government wage bill remaining within the budget—even though the intention of establishing a fully computerized database for subvented agencies (a structural performance criterion for September 2005) was achieved only at year end. Admittedly, this was an ambitious undertaking, but the benefits have surpassed initial expectations.

44. **The medium-term outlook appears favorable and the economy is poised for an acceleration in growth.** While the export sector is still driven by a few key commodities, the base of domestic activity has broadened and is becoming an increasingly important contributor to growth. The strengthening of both the fiscal and external positions also provides room to support a scaling-up of pro-poor spending in infrastructure, health and education. Accordingly, the staff supports the authorities' macroeconomic and financial program for 2006 as presented in the appended Letter of Intent and associated Technical Memorandum of Understanding.

45. **The overall fiscal stance as presented in the 2006 budget is in line with Ghana's development priorities and intention of "crowding-in" the private sector.** However, a re-orientation of public spending could improve this situation further. In particular, maintaining government wages at a relatively high level comes at a high cost, in terms of forgone investment and outlays in other productive areas. Nonetheless, the staff is cognizant of the pressures for adequate remuneration to attract and retain qualified personnel. It is in this context that the reform of the civil service should proceed with rigor in order to create room for appropriate wage adjustments while containing the overall government wage bill.

46. **Recent petroleum price adjustments have delayed but not disrupted the disinflation process, further bolstering the credibility of the monetary authority.** Compared with past episodes of high and volatile world oil prices, there is no evidence of speculative behavior and, indeed, inflation expectations appear benign. Nonetheless, there is no room for complacency, to maintain the goal of single-digit inflation.

47. **For a small open economy such as Ghana, the transparency of exchange rate policy is essential.** The stability of the nominal exchange rate against the U.S. dollar—in the

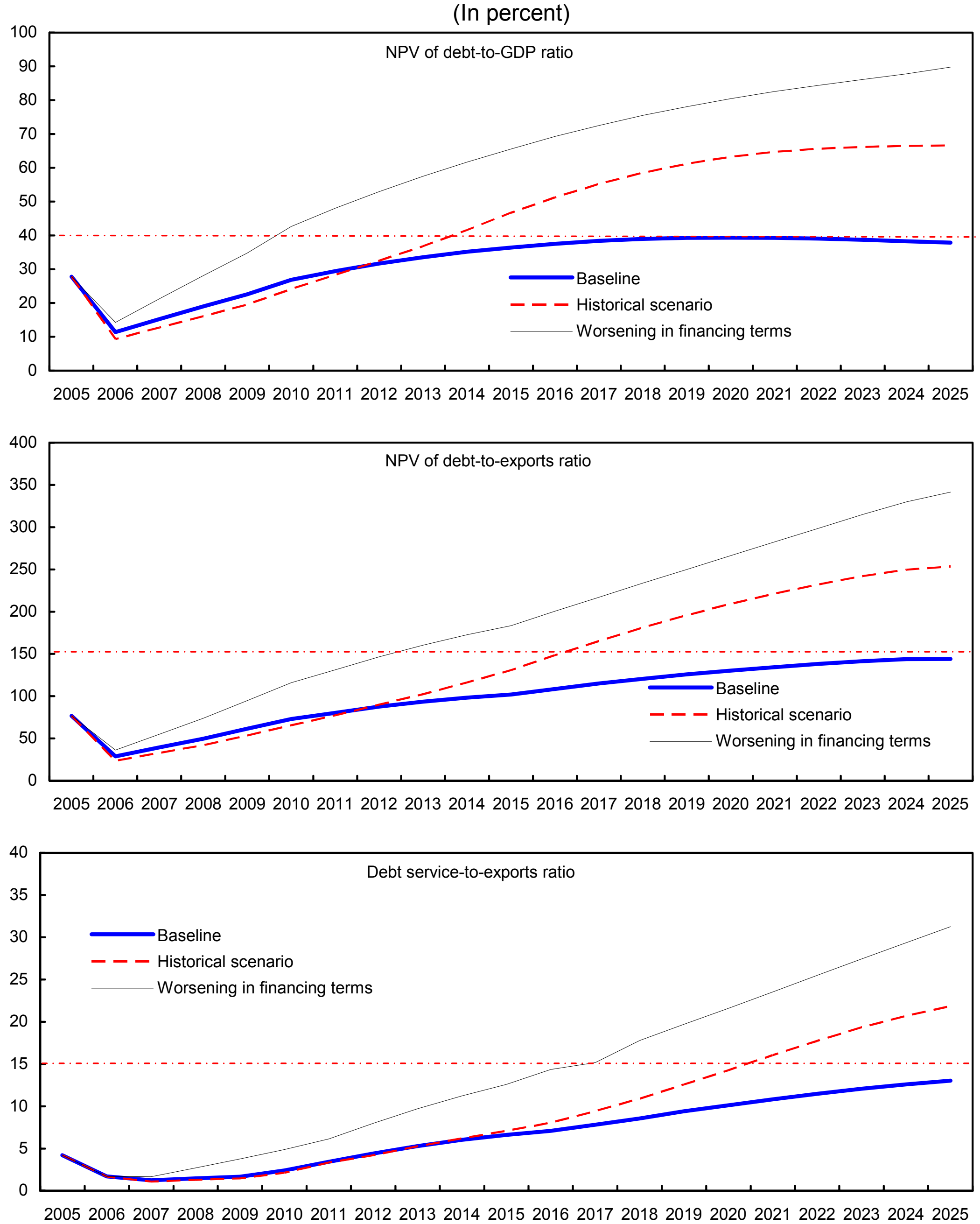
face of strong foreign inflows—raises questions about how to interpret the policy, even though the authorities describe the regime as a managed float. In the staff's view, nominal changes in response to market fundamentals would provide support for further disinflation.

48. **The staff welcomes the authorities' recent efforts to reform the public sector, which could yield strong returns over the medium term.** As public enterprises continue to play a relatively large role in economic activity, lifting their performance should have wide spillover effects. Also, the emphasis and implementation of cost recovery pricing will improve the profitability of public enterprises, and reduce quasi-fiscal activities.

49. **The staff agrees with the authorities' determination to lay a strong foundation for the private sector to lead growth.** This determination has heightened the awareness of the remaining structural impediments, which include the cost and availability of capital. In this regard, the implementation of the key measures outlined in the Financial Sector Strategic Plan should be accelerated, including the establishment of a credit bureau and strengthened risk analyses.

50. **The staff recommends the completion of the fourth and fifth reviews under the PRGF arrangement.** In this connection, the staff supports the authorities' request for waivers for the nonobservance of one quantitative performance criterion (net domestic financing of government) for the end-June 2005 test date, one structural performance criterion (payroll data bases) for the end-September 2005 test date, and one quantitative performance criterion (stock of net domestic bank credit to TOR) for the end-December 2005 test date. The staff's recommendation and support are in view of the remedial actions taken to address the slippages, and the strength of the economic and financial program for 2006.

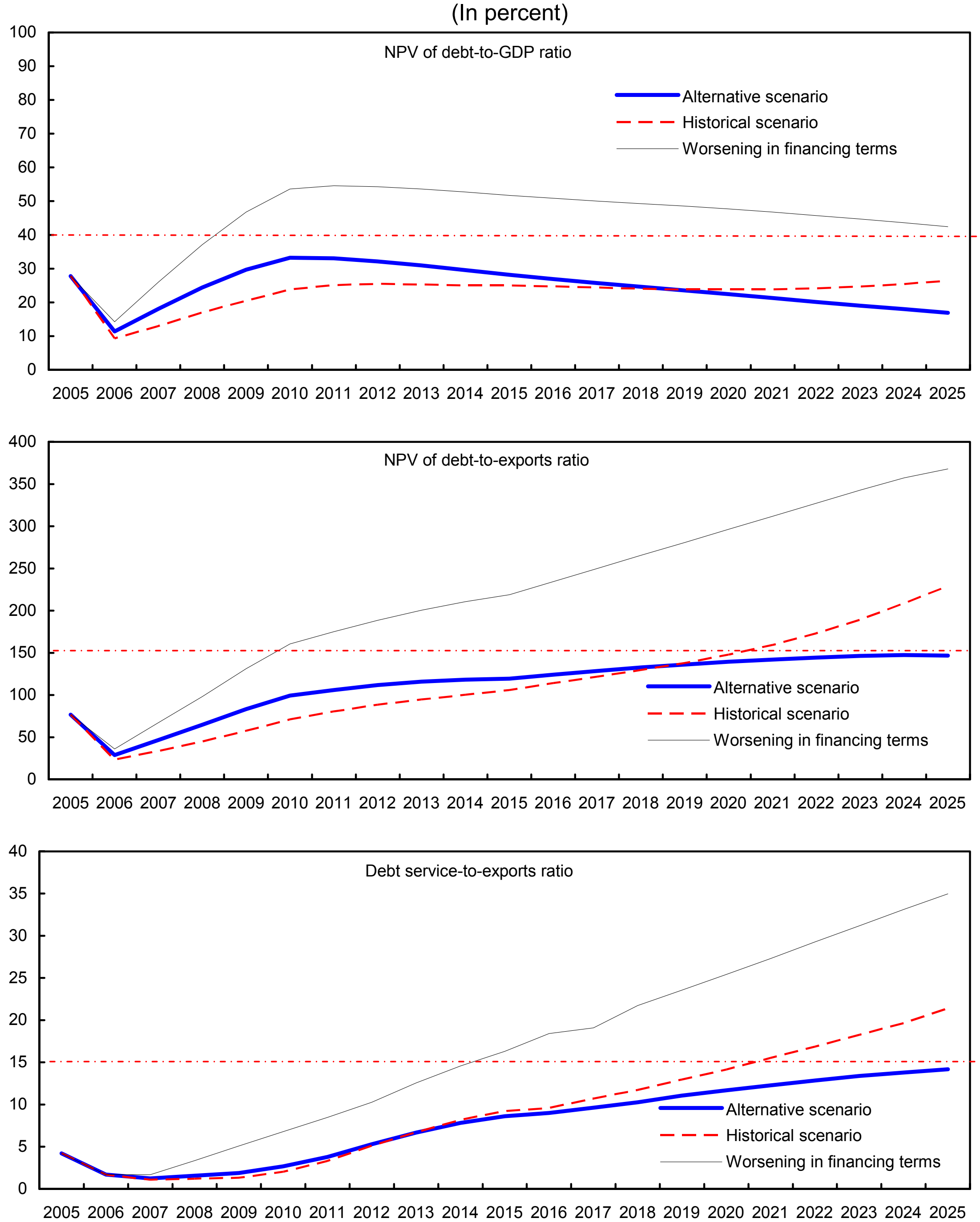
Figure 1. Ghana: Indicators of Public and Publicly Guaranteed External Debt
Under Baseline Scenario, 2005-2025 1/
(In percent)



Source: Fund and Bank staffs' projections and simulations.

1/ The "historical" scenario assumes that key variables -- such as real GDP growth, GDP deflator, current account deficit, and net FDI inflow -- are at their respective historical averages throughout the projection period. The scenario of "worsening in financing terms" assumes that the interest rate on new borrowing is five percentage points higher than in the baseline scenario.

Figure 2. Ghana: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenario, 2005-2025 1/
(In percent)



Source: Fund and Bank staffs' projections and simulations.

1/ The "historical" scenario assumes that key variables -- such as real GDP growth, GDP deflator, current account deficit, and net FDI inflow -- are at their respective historical averages throughout the projection period. The scenario of "worsening in financing terms" assumes that the interest rate on new borrowing is five percentage points higher than in the alternative scenario.

Table 1. Ghana: Selected Economic and Financial Indicators, 2002–08

	2002	2003	2004	2005		2006	2007	2008
				Prog. 1/	Prel.	Prog.	Proj. 2/	Proj. 2/
	(Annual percentage change, unless otherwise specified)							
Real GDP	4.5	5.2	5.8	5.8	5.8	6.0	6.0	6.3
Real GDP per capita	1.9	2.6	3.2	3.2	3.2	3.3	3.3	3.7
Nominal GDP	29.5	34.2	20.6	21.5	21.6	15.8	14.0	13.7
GDP deflator	23.8	27.5	14.0	14.8	14.9	9.3	7.5	7.0
Consumer price index (annual average)	14.8	26.7	12.6	14.3	15.1	8.8	7.1	6.3
Consumer price index (end of period)	15.2	23.6	11.8	14.1	14.8	8.3	6.3	5.8
External sector								
Exports, f.o.b.	10.2	20.1	12.7	5.2	0.6	18.5	7.9	8.8
Imports, f.o.b.	-4.1	20.1	31.9	9.3	24.4	10.4	10.1	6.7
Export volume	-2.1	-6.8	14.5	3.1	-0.9	12.8	8.9	7.2
Import volume	-6.8	6.9	14.0	0.6	8.4	8.5	11.2	7.6
Terms of trade	9.4	14.8	-15.0	-6.1	-11.5	3.2	0.1	2.3
Nominal effective exchange rate (end of period)	-20.9	-15.5	-8.7	…	4.1	…	…	…
Real effective exchange rate (end of period)	-11.2	2.5	-0.4	…	19.7	…	…	…
Cedis per U.S. dollar (avg.)	7,933	8,677	9,005	…	9,073	…	…	…
Cedis per U.S. dollar (end of period)	8,439	8,852	9,054	…	9,131	…	…	…
Government operations								
Domestic revenue (excluding grants)	27.5	56.2	38.2	25.9	21.9	14.1	13.1	12.6
Total expenditure	2.4	49.3	39.7	16.4	12.5	21.6	36.9	12.9
Current expenditure	28.8	34.4	27.2	12.5	9.1	15.5	2.6	12.0
Capital expenditure and net lending	-38.7	97.8	67.2	23.0	18.1	15.6	108.8	13.6
Money and credit								
Net domestic assets 3/	-14.6	7.2	1.0	15.9	19.3	-2.9	…	…
Credit to central government 3/	30.9	-8.2	30.9	-0.1	-1.0	-3.5	…	…
Credit to public enterprises 3/ 4/	-9.6	11.2	6.6	1.9	1.9	1.1	…	…
Credit to the private sector 3/ 4/	18.3	16.4	10.0	22.1	22.2	16.4	…	…
Broad money (excluding foreign currency deposits)	50.7	40.9	26.4	23.1	23.1	17.8	…	…
Reserve money	42.6	33.4	18.5	18.0	18.2	16.8	…	…
Velocity (GDP/average broad money)	6.0	3.3	3.4	3.4	3.3	3.1	…	…
Treasury bill yield 91 days (in percent; end of period)	28.1	18.1	16.4	…	11.5	…	…	…
Prime rate (Bank of Ghana; in percent; end of period)	24.7	25.7	19.1	…	15.5	…	…	…
	(In percent of GDP, unless otherwise specified)							
Investment and saving								
Gross investment	19.7	22.9	28.4	29.6	29.0	30.0	35.6	35.9
Private 5/	13.6	14.0	16.0	17.1	17.0	17.6	18.0	18.5
Central government	6.1	8.9	12.4	12.5	12.0	12.4	17.6	17.4
Gross national saving	20.2	24.6	25.7	25.6	21.9	23.5	27.8	27.9
Private 5/	17.6	18.4	14.9	13.7	11.1	11.3	15.3	16.1
Central government	2.6	6.2	10.8	11.9	10.8	12.2	12.5	11.8
Government operations								
Total revenue	17.9	20.8	23.8	24.6	23.9	23.5	23.3	23.1
Grants	3.1	4.7	6.4	5.8	5.3	5.7	6.1	5.5
Total expenditure	25.9	28.8	33.3	31.9	30.8	32.4	34.5	34.1
Overall balance (excluding grants) 6/	-8.0	-8.0	-9.5	-7.3	-6.9	-8.9	-11.2	-11.0
Overall balance (including grants) 7/	-6.7	-4.4	-3.6	-2.6	-3.0	-3.6	-5.2	-5.6
Domestic primary balance	2.4	2.3	0.7	2.6	3.4	0.8	-6.1	-6.3
Divestiture receipts	0.0	0.6	0.4	0.4	0.2	0.5	0.0	0.0
Net domestic borrowing 8/	4.7	0.6	0.1	-1.1	-1.7	0.1	-0.4	-0.3
Net foreign financing 9/	0.9	3.3	3.3	3.4	3.8	3.5	4.9	4.8
Discrepancy/financing gap	1.1	-0.2	-0.1	0.0	0.7	-0.5	5.2	5.6
NPV of total government debt 10/	87.8	89.7	50.5	43.5	38.6	20.1	22.5	25.1
Domestic debt (net) 11/	23.7	18.3	15.2	11.4	10.8	8.7	7.3	6.1
NPV of external debt outstanding 12/	64.1	71.5	35.3	32.1	27.8	11.4	15.2	19.0
External sector								
Current account balance12/	0.5	1.7	-2.7	-4.0	-7.1	-6.5	-7.8	-8.0
NPV of external debt outstanding								
(percent of exports of goods and services) 10/	157.4	175.7	89.6	92.3	76.7	28.8	39.4	49.7
(percent of government revenue) 10/	363.6	351.0	148.9	132.5	32.8	52.3	67.4	82.5
External debt service due, including to the Fund	7.8	5.9	6.4	4.7	5.1	3.8	0.5	0.6
(percent of exports of goods and services)	18.4	14.5	16.2	13.5	14.2	9.5	1.3	1.5
(percent of government revenue)	37.0	23.2	21.2	15.4	17.7	12.9	1.7	2.1
	(In millions of U.S. dollars, unless otherwise specified)							
Current account balance 12/	30	127	-236	-417	-755	-738	-958	-1061
Overall balance of payments	40	506	-13	-4	260	406	312	357
Change in external arrears (decrease -)	-61	0	0	0	0	0	0	0
Gross international reserves (end of period)	632	1427	1816	1971	1951	2084	2396	2753
(in months of imports of goods and services)	1.9	3.2	3.3	3.9	3.2	3.2	3.4	3.6
Nominal GDP (billions of cedis)	49,293	66,158	79,804	97,018	97,018	112,320	128,013	145,575
(in million of U.S. dollars)	6,214	7,624	8,863	10,531	10,694	...	...	...
Domestic debt (net; billions of cedis) 11/	11,690	12,089	12,133	11,019	10,461	9,799	9,295	8,883

Sources: Data provided by Ghanaian authorities; and staff estimates and projections.

1/ www.imf.org.
2/ Baseline scenario.
3/ In percent of broad money at the beginning of the period.
4/ Credit from deposit money banks to public enterprises and the private sector respectively. The historical series have been revised to ensure consistency with the new banking supervision reporting form introduced in July 2003, which uses a residency rather than currency definition of foreign assets and liabilities.
5/ Including public enterprises and errors and omissions.
6/ Before domestic arrears clearance.
7/ After domestic arrears clearance.
8/ Including "net savings due to inflation indexed bonds."
9/ Including exceptional financing.
10/ From 2005 onwards, figures are based on the new LIC DSA framework while figures prior to 2005 are based on the HIPC initiative framework.
11/ Excluding non-interest bearing perpetual revaluation stocks and bonds issued in 2004 for recapitalization of Bank of Ghana and Tema Oil Refinery, and including deferred interest payment (cumulative) on inflation indexed bonds.
12/ After grants and transfers.

Table 2. Ghana: Balance of Payments, 2002–06
(In millions of U.S. dollars, unless otherwise specified)

	2002	2003	2004	2005		2006
				Prog. 1/	Est.	Prog.
Exports f.o.b.	2,057	2,471	2,785	2,929	2,802	3,319
Cocoa beans and cocoa products	463	818	1,071	995	908	966
Gold	689	830	840	925	946	1,232
Timber and timber products	182	174	212	224	227	239
Others	723	649	662	785	722	883
Imports, f.o.b.	-2,714	-3,259	-4,297	-4,696	-5,345	-5,900
Non-oil	-2,206	-2,696	-3,522	-3,701	-4,218	-4,665
Oil	-508	-563	-775	-995	-1,127	-1,234
Trade balance	-657	-788	-1,513	-1,767	-2,543	-2,580
Services (net)	-214	-280	-554	-557	-329	-386
Of which : interest payments 2/	-124	-110	-167	-150	-103	-74
Private transfers (net)	680	801	1,287	1,291	1,550	1,689
Current account balance,						
excluding official transfers	-190	-266	-779	-1,033	-1,322	-1,277
Official transfers (net)	221	393	544	616	567	538
Of which: HIPC grants	62	81	109	126	105	52
Current account balance,						
including official transfers	30	127	-236	-417	-755	-738
Capital account	-65	161	384	506	868	1,118
Official capital (net)	-115	86	52	151	309	740
Medium and Long-term loans						
Inflows 3/	195	370	402	474	500	5,120
Amortization 2/	-309	-284	-350	-323	-191	-4,380
Private capital	50	75	332	355	559	379
Of which: divestiture receipts	0	25	0	0	0	0
Other capital and errors and omissions	75	218	-162	-93	196	26
Of which : change in net foreign assets of money deposit banks	-18	-73	-95	-22	27	-34
Of which : errors and omissions	33	102	21	0	62	0
Overall balance	40	506	-13	-4	309	406
Change in arrears	-61	0	0	0	0	0
Financing	21	-506	12	4	-309	-406
Debt deferral	-35	-35	-35	-35	0	0
Net international reserves (negative is increase)	-158	-679	-184	-130	-309	-406
Of which: Use of Fund credit	54	53	-5	25	-15	-266
Disbursements (PRGF)	68	74	39	80	39	115
Repayments (PRGF)	-14	-21	-44	-55	-54	-381
Exceptional financing	214	208	231	169	0	0
Memorandum items:						
Current account balance (in percent of GDP)						
Excluding official transfers	-3.1	-3.5	-8.8	-9.8	-12.4	-11.3
Including official transfers	0.5	1.7	-2.7	-4.0	-7.1	-6.5
Gross international reserves						
End of period (US$ millions)	632	1,427	1,816	1,971	1,951	2,084
In months of imports of goods and services	1.9	3.2	3.3	3.9	3.2	3.2
Cocoa exports						
Volume (in thousands of tons)	367	403	665	645	580	595
Price (in US$ per ton)	1,266	1,950	1,589	1,518	1,524	1,600
External debt service paid						
In percent of exports of GNFS	10.2	5.2	5.6	5.6	4.4	2.3
In percent of government revenue	24.1	10.2	9.2	8.0	8.9	3.9

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

1/ www.imf.org.
2/ Debt service to bilateral creditors is net of relief from 2005 onward.
3/ Including the capital transfer in 2006 under the MDRI.

Table 3. Ghana: Summary of Central Government Budgetary Operations and Financing, 2002–06 1/

	2002	2003	2004	2005		2006	
				Year		Jan.-Jun.	Year
				Prog. 2/	Prel.	Prog. 3/	Prog. 3/
			(In billions of cedis)				
Total revenue and grants	10,333	16,862	24,073	29,578	28,256	13,081	32,759
Revenue	8,800	13,743	18,994	23,911	23,156	10,444	26,411
Grants	1,533	3,119	5,080	5,667	5,100	2,637	6,348
Total expenditure	12,752	19,035	26,584	30,950	29,895	16,903	36,362
Recurrent expenditure	9,762	13,122	16,696	18,783	18,221	10,123	21,039
Noninterest	6,763	9,030	13,223	15,039	14,681	8,463	17,626
Wages and salaries	4,142	5,567	6,988	8,683	8,243	5,387	9,990
TOR subsidy	0	156	1,772	350	412	0	805
Other	2,621	3,308	4,463	6,005	6,025	3,076	6,831
Interest 4/	3,000	4,092	3,473	3,745	3,540	1,660	3,413
Capital expenditure (total)	2,990	5,912	9,888	12,166	11,673	6,780	15,323
Capital expenditure (domestic)	1,338	3,015	5,077	6,281	5,727	3,544	7,235
Capital expenditure (foreign)	1,652	2,897	4,812	5,886	5,946	3,236	6,258
2006 supplementary budget	...	...	...	...	...	0	1,831
Arrears clearance and VAT refunds	-892	-711	-326	-397	-451	-215	-447
Payments in 2005 due to previous years' commitments 5/	...	...	...	-780	-780	...	...
Overall balance	-3,312	-2,884	-2,836	-2,549	-2,869	-4,037	-4,050
Discrepancy between above- and below-line data 6/	547	-138	-104	0	637	-579	-579
Total financing	2,765	3,022	2,941	2,549	2,233	4,616	4,629
Divestiture receipts	5	421	286	388	233	0	584
Foreign (net) 4/	-778	398	1,546	1,716	2,446	1,531	2,171
Exceptional financing	1,241	1,804	1,065	1,559	1,193	994	1,731
Net savings due to inflation indexed bonds	197	481	-349	-118	-99	-79	-71
Domestic (net)	2,100	-82	393	-996	-1,541	2,170	215
Of which : New TOR bonds	...	...	...	...	...	...	805
Memorandum items:							
Total enhanced HIPC relief	759	1,163	2,117	2,019	2,155	1,153	2,280
Total poverty spending (GPRS definition)	2,330	4,279	6,123	8,014	8,256	4,242	11,187
Domestic primary balance 7/	1,192	1,510	535	2,532	3,268	-2,183	871
Stock of domestic debt (net) 8/	11,690	12,089	12,133	11,019	10,461	12,552	9,799
			(In percent of GDP)				
Total revenue and grants	21.0	25.5	30.2	30.5	29.1	11.6	29.2
Revenue	17.9	20.8	23.8	24.6	23.9	9.3	23.5
Grants	3.1	4.7	6.4	5.8	5.3	2.3	5.7
Total expenditure	25.9	28.8	33.3	31.9	30.8	15.0	32.4
Recurrent expenditure	19.8	19.8	20.9	19.4	18.8	9.0	18.7
Noninterest	13.7	13.6	16.6	15.5	15.1	7.5	15.7
Wages and salaries	8.4	8.4	8.8	8.9	8.5	4.8	8.9
TOR subsidy	0.0	0.2	2.2	0.4	0.4	0.0	0.7
Other	5.3	5.0	5.6	6.2	6.2	2.7	6.1
Interest 4/	6.1	6.2	4.4	3.9	3.6	1.5	3.0
Capital expenditure (total)	6.1	8.9	12.4	12.5	12.0	6.0	13.6
Capital expenditure (domestic)	2.7	4.6	6.4	6.5	5.9	3.2	6.4
Capital expenditure (foreign)	3.4	4.4	6.0	6.1	6.1	2.9	5.6
2006 supplementary budget	…	…	…	…	…	…	1.6
Arrears clearance and VAT refunds	-1.8	-1.1	-0.4	-0.4	-0.5	-0.2	-0.4
Payments in 2005 due to previous years' commitments 5/	…	…	…	-0.8	-0.8	…	…
Overall balance	-6.7	-4.4	-3.6	-2.6	-3.0	-3.6	-3.6
Discrepancy between above- and below-line data 6/	1.1	-0.2	-0.1	0.0	0.7	-0.5	-0.5
Total financing	5.6	4.6	3.7	2.6	2.3	4.1	4.1
Divestiture receipts	0.0	0.6	0.4	0.4	0.2	0.0	0.5
Foreign (net) 4/	-1.6	0.6	1.9	1.8	2.5	1.4	1.9
Exceptional financing	2.5	2.7	1.3	1.6	1.2	0.9	1.5
Net savings due to inflation indexed bonds	0.4	0.7	-0.4	-0.1	-0.1	-0.1	-0.1
Domestic (net)	4.3	-0.1	0.5	-1.0	-1.6	1.9	0.2
Of which : New TOR bonds	...	...	...	...	...	...	0.7
Memorandum items:							
Total enhanced HIPC relief	1.5	1.8	2.7	2.1	2.2	1.0	2.0
Total poverty spending (GPRS definition)	4.7	6.5	7.7	8.3	8.5	3.8	10.0
Domestic primary balance 7/	2.4	2.3	0.7	2.6	3.4	-1.9	0.8
Stock of domestic debt (net) 8/	23.7	18.3	15.2	11.4	10.8	11.2	8.7

Sources: Tables 4-6; data provided by the Ghanaian authorities; and staff estimates and projections.

1/ Above-the-line data for domestic recurrent and capital expenditure are presented on a cash basis; arrears not reflected in line expenditures.
2/ www.imf.org.
3/ Includes additional resources and spending from the MDRI debt relief.
4/ The figure for 2006 program reflects the MDRI debt relief from World Bank and African Development Fund.
5/ Payments associated with wages for Ghana Universal Salary Structure, additional duty hourly allowances and subvented agencies, pension arrears, and outstanding Tema Oil Refinery (TOR) under-recovery.
6/ Dicrepancy in 2006 indicates float checks from the previous year and scope for additional contingency expenditure.
7/ Defined as total revenue plus VAT refunds (negative) and discrepancy, less noninterest and domestic capital expenditure.
8/ Excluding non-interest bearing perpetual BoG revaluation stocks, and bonds issued in 2004-06 for recapitalization of BoG and TOR, including deferred interest payment (cumulative) on inflation indexed bonds, and less government deposits.

Table 4. Ghana: Central Government Revenues, 2002–06

	2002	2003	2004	2005		2006	
				Year		Jan.-Jun.	Year
				Prog. 1/	Prel.	Prog. 2/	Prog. 2/
	(In billions of cedis)						
Total revenue and grants	10,333	16,862	24,073	29,578	28,256	13,081	32,759
Revenue	8,800	13,743	18,994	23,911	23,156	10,444	26,411
Tax revenue	8,542	13,346	17,341	20,973	20,070	9,509	24,080
Direct taxes	2,790	4,057	5,287	5,849	6,540	2,609	7,162
Company tax	1,162	1,632	2,340	2,425	3,108	1,332	3,789
Personal	929	1,535	1,908	2,217	2,435	866	2,255
Self-employed	173	234	286	372	347	167	428
Other direct taxes	527	657	753	835	650	244	691
Indirect taxes	3,757	6,128	8,245	10,476	9,416	5,001	12,059
Sales tax/value-added tax (VAT) on domestic goods	729	1,023	1,460	1,800	1,832	994	2,318
Sales tax/value-added tax (VAT) on imports	1,598	2,308	3,051	3,994	3,155	1,944	4,713
Petroleum	1,080	2,323	3,119	3,920	3,751	1,639	4,148
Other indirect taxes	350	474	615	762	678	424	880
Trade taxes	1,995	3,160	3,809	4,648	4,114	1,899	4,859
Import duties	1,669	2,391	2,878	3,768	3,499	1,734	4,446
Cocoa export duty	326	769	931	880	615	164	413
Nontax revenue	258	397	1,194	1,599	1,929	236	818
Fees, charges, and dividends	258	363	795	1,416	1,854	189	711
Other nontax revenue	0	34	399	183	75	48	107
Health levy	...	...	459	1,339	1,157	699	1,514
Grants	1,533	3,119	5,080	5,667	5,100	2,637	6,348
Project grants	467	1,037	2,265	2,887	2,866	1,405	2,508
Program grants	558	1,267	1,762	1,619	1,273	695	1,389
HIPC assistance (multilateral)	508	815	1,053	1,161	961	537	1,207
MDRI assistance (IMF)	...	...	...	...	...	0	1,243
	(In percent of GDP)						
Total revenue and grants	21.0	25.5	30.2	30.5	29.1	11.6	29.2
Revenue	17.9	20.8	23.8	24.6	23.9	9.3	23.5
Tax revenue	17.3	20.2	21.7	21.6	20.7	8.5	21.4
Direct taxes	5.7	6.1	6.6	6.0	6.7	2.3	6.4
Company tax	2.4	2.5	2.9	2.5	3.2	1.2	3.4
Personal	1.9	2.3	2.4	2.3	2.5	0.8	2.0
Self-employed	0.4	0.4	0.4	0.4	0.4	0.1	0.4
Other direct taxes	1.1	1.0	0.9	0.9	0.7	0.2	0.6
Indirect taxes	7.6	9.3	10.3	10.8	9.7	4.5	10.7
Sales tax/value-added tax (VAT) on domestic goods	1.5	1.5	1.8	1.9	1.9	0.9	2.1
Sales tax/value-added tax (VAT) on imports	3.2	3.5	3.8	4.1	3.3	1.7	4.2
Petroleum	2.2	3.5	3.9	4.0	3.9	1.5	3.7
Other indirect taxes	0.7	0.7	0.8	0.8	0.7	0.4	0.8
Trade taxes	4.0	4.8	4.8	4.8	4.2	1.7	4.3
Import duties	3.4	3.6	3.6	3.9	3.6	1.5	4.0
Cocoa export duty	0.7	1.2	1.2	0.9	0.6	0.1	0.4
Nontax revenue	0.5	0.6	1.5	1.6	2.0	0.2	0.7
Fees, charges, and dividends	0.5	0.5	1.0	1.5	1.9	0.2	0.6
Other nontax revenue	0.0	0.1	0.5	0.2	0.1	0.0	0.1
Health levy	…	…	0.6	1.4	1.2	0.6	1.3
Grants	3.1	4.7	6.4	5.8	5.3	2.3	5.7
Project grants	0.9	1.6	2.8	3.0	3.0	1.3	2.2
Program grants	1.1	1.9	2.2	1.7	1.3	0.6	1.2
HIPC assistance (multilateral)	1.0	1.2	1.3	1.2	1.0	0.5	1.1
MDRI assistance (IMF)	...	...	...	...	...	0.0	1.1

Sources: Data provided by the Ghanaian authorities; and staff estimates and projections.

1/ www.imf.org.

2/ Includes additional resources and spending from the MDRI debt relief.

Table 5. Ghana: Central Government Expenditures, 2002-06 1/

	2002	2003	2004	2005		2006	
				Year		Jan.-Jun.	Year
				Prog. 2/	Prel.	Prog. 3/	Prog. 3/
	(In billions of cedis)						
Total expenditure	12,752	19,035	26,584	30,950	29,895	16,903	36,362
Recurrent expenditure	9,762	13,122	16,696	18,783	18,221	10,123	21,039
Noninterest	6,763	9,030	13,223	15,039	14,681	8,463	17,626
Wages and salaries	4,142	5,567	6,988	8,683	8,243	5,387	9,990
Goods and services	1,452	2,063	2,737	2,728	3,105	1,467	3,141
General goods and services	1,452	2,063	2,737	2,583	2,960	1,394	2,996
Strategic oil reserves	...	...	...	145	145	73	145
Transfers	1,168	1,400	3,499	3,628	3,332	1,609	4,496
Pensions	271	359	515	614	659	305	706
Gratuities	114	201	269	356	328	165	409
Social security	303	412	495	619	631	309	712
National Health Insurance Fund	...	...	0	1,339	984	699	1,514
Other transfers	0	0	12	250	318	81	250
Utility subsidy	480	273	435	100	0	50	100
TOR subsidy	0	156	1,772	350	412	0	805
Interest	3,000	4,092	3,473	3,745	3,540	1,660	3,413
Domestic (due)	2,212	3,268	2,545	2,727	2,689	1,108	2,427
External (due) 4/	788	824	927	1,018	851	552	986
Capital expenditure (total)	2,990	5,912	9,888	12,166	11,673	6,780	15,323
Capital expenditure (domestic)	1,338	3,015	5,077	6,281	5,727	3,544	7,235
Cash expenditure	300	422	927	1,526	894	1,171	1,724
Statutory funds	863	1,871	2,280	3,140	2,886	1,562	3,688
HIPC financed expenditure	175	722	1,870	1,615	1,947	810	1,822
Capital expenditure (foreign)	1,652	2,897	4,812	5,886	5,946	3,236	6,258
2006 supplementary budget	...	...	...	...	...	0	1,831
Road arrears (clearance) 5/	-208	-204	-71	-100	-99	-50	-100
Other domestic payment arrears (clearance)	-630	-459	-199	-237	-235	-124	-247
Of which : to statutory funds	-247	-97	-97	-97	0	-48	-97
VAT refunds	-55	-48	-55	-60	-117	-42	-100
Payments in 2005 due to previous years' commitments 6/	...	...	...	-780	-780	...	...
	(In percent of GDP)						
Total expenditure	25.9	28.8	33.3	31.9	30.8	15.0	32.4
Recurrent expenditure	19.8	19.8	20.9	19.4	18.8	9.0	18.7
Noninterest	13.7	13.6	16.6	15.5	15.1	7.5	15.7
Wages and salaries	8.4	8.4	8.8	8.9	8.5	4.8	8.9
Goods and services	2.9	3.1	3.4	2.8	3.2	1.3	2.8
General goods and services	2.9	3.1	3.4	2.7	3.1	1.2	2.7
Strategic oil reserves	...	...	...	0.1	0.1	0.1	0.1
Transfers	2.4	2.1	4.4	3.7	3.4	1.4	4.0
Pensions	0.6	0.5	0.6	0.6	0.7	0.3	0.6
Gratuities	0.2	0.3	0.3	0.4	0.3	0.1	0.4
Social security	0.6	0.6	0.6	0.6	0.7	0.3	0.6
National Health Insurance Fund	...	...	0.0	1.4	1.0	0.6	1.3
Other transfers	0.0	0.0	0.0	0.3	0.3	0.1	0.2
Utility subsidy	1.0	0.4	0.5	0.1	0.0	0.0	0.1
TOR subsidy	0.0	0.2	2.2	0.4	0.4	0.0	0.7
Interest	6.1	6.2	4.4	3.9	3.6	1.5	3.0
Domestic (due)	4.5	4.9	3.2	2.8	2.8	1.0	2.2
External (due) 4/	1.6	1.2	1.2	1.0	0.9	0.5	0.9
Capital expenditure (total)	6.1	8.9	12.4	12.5	12.0	6.0	13.6
Capital expenditure (domestic)	2.7	4.6	6.4	6.5	5.9	3.2	6.4
Cash expenditure	0.6	0.6	1.2	1.6	0.9	1.0	1.5
Statutory funds	1.8	2.8	2.9	3.2	3.0	1.4	3.3
HIPC financed expenditure	0.4	1.1	2.3	1.7	2.0	0.7	1.6
Capital expenditure (foreign)	3.4	4.4	6.0	6.1	6.1	2.9	5.6
2006 supplementary budget	...	...	...	...	...	0.0	1.6
Road arrears (clearance) 5/	-0.4	-0.3	-0.1	-0.1	-0.1	0.0	-0.1
Other domestic payment arrears (clearance)	-1.3	-0.7	-0.2	-0.2	-0.2	-0.1	-0.2
Of which : to statutory funds	-0.5	-0.1	-0.1	-0.1	0.0	0.0	-0.1
VAT refunds	-0.1	-0.1	-0.1	-0.1	-0.1	0.0	-0.1
Payments in 2005 due to previous years' commitments 6/	...	...	...	-0.8	-0.8	...	...

Sources: Data provided by the Ghanaian authorities; and staff estimates and projections.

1/ Above-the-line data for domestic recurrent and capital expenditure are presented on a cash basis (payment vouchers); arrears not reflected in line expenditures.
2/ www.imf.org.
3/ Includes additional resources and spending from the MDRI debt relief.
4/ The figure for 2005 program reflects interest and amortization due before traditional rescheduling, because of the inability to separate the two; the figure for 2006 program reflects the MDRI debt relief from World Bank and African Development Fund.
5/ For 2004, includes payments on diputed claims; for 2005 includes payment on float from the previous year only.
6/ Payments associated with wages for Ghana Universal Salary Structure, additional duty hourly allowances, and subvented agencies, pension arrears, and outstanding Tema Oil Refinery (TOR) under-recovery.

Table 6. Ghana: Central Government Financing, 2002-06

	2002	2003	2004	2005		2006	
				Year		Jan.-Jun.	Year
				Prog. 1/	Prel.	Prog. 2/	Prog. 2/
				(In billions of cedis)			
Overall balance	-3,312	-2,884	-2,836	-2,549	-2,869	-4,037	-4,050
Discrepancy between above- and below-line data 3/	547	-138	-104	0	637	-579	-579
Total financing	2,765	3,022	2,941	2,549	2,233	4,616	4,629
Divestiture receipts	5	421	286	388	233	0	584
Foreign (net)	-778	398	1,546	1,716	2,446	1,531	2,171
Project loans	1,185	1,860	2,547	2,999	3,080	1,832	3,749
Program loans	160	1,097	920	1,368	1,465	1,600	1,639
Amortization due 4/	-2,123	-2,559	-1,920	-2,651	-2,098	-1,901	-3,218
Exceptional financing	1,241	1,804	1,065	1,559	1,193	994	1,731
External payment arrears	-459	0	0	0	0	0	0
Traditional rescheduling	1,449	1,457	0	701	0	378	657
HIPC assistance (non-multilateral)	251	347	1,065	858	1,193	616	1,073
Net savings due to inflation indexed bonds	197	481	-349	-118	-99	-79	-71
Deferred interest payment	197	481	301	67	67	7	15
Redemption of deferred interest payment	...	...	-650	-185	-165	-86	-86
Domestic (net)	2,100	-82	393	-996	-1,541	2,170	215
Banking system	1,161	-960	1,640	-499	338	923	-914
Nonbanks	939	878	-1,248	-498	-1,879	1,247	324
New TOR bonds	...	...	...	...	...	...	805
				(In percent of GDP)			
Overall balance	-6.7	-4.4	-3.6	-2.6	-3.0	-3.6	-3.6
Discrepancy between above and below line data 3/	1.1	-0.2	-0.1	0.0	0.7	-0.5	-0.5
Total financing	5.6	4.6	3.7	2.6	2.3	4.1	4.1
Divestiture receipts	0.0	0.6	0.4	0.4	0.2	0.0	0.5
Foreign (net)	-1.6	0.6	1.9	1.8	2.5	1.4	1.9
Project loans	2.4	2.8	3.2	3.1	3.2	1.6	3.3
Program loans	0.3	1.7	1.2	1.4	1.5	1.4	1.5
Amortization due 4/	-4.3	-3.9	-2.4	-2.7	-2.2	-1.7	-2.9
Exceptional financing	2.5	2.7	1.3	1.6	1.2	0.9	1.5
External payment arrears	-0.9	0.0	0.0	0.0	0.0	0.0	0.0
Traditional rescheduling	2.9	2.2	0.0	0.7	0.0	0.3	0.6
HIPC assistance (non-multilateral)	0.5	0.5	1.3	0.9	1.2	0.5	1.0
Net savings due to inflation indexed bonds	0.4	0.7	-0.4	-0.1	-0.1	-0.1	-0.1
Deferred interest payment	0.4	0.7	0.4	0.1	0.1	0.0	0.0
Redemption of deferred interest payment	...	...	-0.8	-0.2	-0.2	-0.1	-0.1
Domestic (net)	4.3	-0.1	0.5	-1.0	-1.6	1.9	0.2
Banking system	2.4	-1.5	2.1	-0.5	0.3	0.8	-0.8
Nonbanks	1.9	1.3	-1.6	-0.5	-1.9	1.1	0.3
New TOR bonds	...	...	...	...	...	...	0.7

Sources: Data provided by the Ghanaian authorities; and staff estimates and projections.

1/ www.imf.org.
2/ Includes additional resources and spending from the MDRI debt relief.
3/ Dicrepancy in 2006 indicates float checks from the previous year and scope for additional contingency expenditure.
4/ The figures for 2005 program reflects interest and amortization due before traditional rescheduling, because of the inability to separate the two; the figure for 2006 program reflects the MDRI debt relief from World Bank and African Development Fund.

Table 7. Ghana: Monetary Survey, 2002–06

	2002	2003	2004	2005		2006
	Dec.	Dec.	Dec.	Dec.		Dec.
				Prog. 1/	Prel.	Prog.
Monetary survey						
Net foreign assets	6,604	10,575	14,802	16,308	15,697	23,242
(millions of U.S. dollars)	783	1,195	1,635	1,709	1,719	...
Net domestic assets	8,733	10,599	11,865	16,651	14,721	12,747
Domestic credit	15,775	17,784	25,983	31,151	31,486	34,452
Claims on government (net) 2/	8,402	7,433	12,866	12,368	13,579	12,665
Claims on non-government 2/	7,373	10,351	13,116	18,784	17,907	21,787
Other items, net (assets +)	-7,043	-7,185	-14,118	-14,501	-16,766	-21,705
Broad money (M2+) 3/	15,336	21,174	26,667	32,959	30,417	35,988
Currency	4,672	6,338	7,303	8,704	8,032	9,543
Deposits 3/	10,664	14,836	19,364	24,254	22,385	26,445
Broad money (M2) 4/	11,783	16,598	20,986	25,850	23,885	28,266
Memorandum items:	(Annual percentage change, unless otherwise specified)					
Broad money (M2) 4/	50.7	40.9	26.4	23.1	13.8	18.3
Reserve money (RM)	42.6	33.4	18.5	18.0	11.2	17.5
Broad money (M2+) 5/	50.5	38.1	25.9	23.5	14.1	18.3
Reserve money (RM+) 5/	48.2	34.8	17.6	17.8	6.9	17.6
Velocity (GDP/average M2+)	3.9	3.6	3.3	3.3	3.4	3.4
Velocity (GDP/average M2)	5.0	4.7	4.2	3.4	4.3	4.3
Reserve money multiplier (M2/RM)	2.04	2.16	2.30	2.40	2.36	2.37
Reserve money multiplier (M2+/RM)	2.66	2.75	2.92	3.06	3.00	3.02
Reserve money multiplier (M2+/RM+)	2.40	2.45	2.63	2.75	2.80	2.82
Bank reserves-to-deposits ratio 4/	0.1	0.1	0.1	0.1	0.1	0.1
Foreign currency deposits to total deposits	0.3	0.3	0.3	0.3	0.3	0.3
Currency-to-deposits ratio 3/	0.4	0.4	0.4	0.4	0.4	0.4
Currency/M2+ ratio	0.3	0.3	0.3	0.3	0.3	0.3
Credit to the private sector 6/	31.5	34.7	21.4	45.6	47.8	24.9
	(In millions of U.S. dollars)					
Net international reserves 7/	483	798	982	1,114	1,291	1,698

Sources: Table 8; data provided by Ghanaian authorities; and staff estimates and projections.

1/ www.imf.org.
2/ TOR debt swap moved 1,421 billion cedis from credit to public enterprises to claims on 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 (BoG).
6/ Credit from deposit money banks to the private sector.
7/ Net international reserves of are defined as short-term foreign assets of the BoG, minus short-term external liabilities.

Table 8. Ghana: Bank of Ghana and Deposit Money Banks, 2002–06

(In billion of cedis, unless otherwise specified; end of period)

	2002	2003	2004	2005		2006
	Dec.	Dec.	Dec.	Dec.		Dec.
				Prog. 1/	Prel.	Prog.
Bank of Ghana						
Net foreign assets	5,329	8,590	11,917	13,810	13,036	19,739
(millions of U.S. dollars)	631	970	1,316	1,447	1,428	...
Net domestic assets	438	-897	-2,799	-3,033	-2,896	-7,825
Claims on government (net)	2,867	2,525	6,528	6,884	5,365	5,596
Claims on deposit money banks 2/	-375	-4,412	-7,127	-8,301	-7,551	-8,281
Claims on rest of the economy	271	-142	-203	600	-31	-31
Other items, net (assets +)	-2,325	1,132	-1,998	-2,216	-680	-5,110
Reserve money	5,767	7,693	9,118	10,777	10,140	11,914
Currency outside banks	4,672	6,338	7,303	8,704	8,032	9,543
Bank reserves	1,056	1,259	1,697	2,011	1,997	2,261
Cash	273	342	371	396	488	553
Deposits	783	917	1,327	1,615	1,509	1,707
Nonbank deposits	40	96	117	61	110	110
Deposit money banks						
Net foreign assets 3/	1,275	1,985	2,885	2,499	2,661	3,502
(millions of U.S. dollars)	151	224	319	262	291	325
Reserves	1,056	1,259	1,697	2,011	1,997	2,261
Net claims on Bank of Ghana 2/	375	4,412	7,127	8,301	7,551	8,281
Domestic credit	12,637	15,400	19,657	23,667	26,152	28,886
Claims on government (net) 4/	5,535	4,907	6,338	5,484	8,214	7,068
Claims on non-government 4/	7,102	10,493	13,319	18,184	17,938	21,818
Public enterprises 4/	965	2,148	2,902	3,310	3,307	3,582
Private sector	5,980	8,052	9,778	14,234	14,455	18,059
Other items, net (assets +) 2/	-4,718	-8,317	-12,120	-12,285	-16,086	-16,595
Total deposits	10,625	14,740	19,247	24,193	22,275	26,335

Sources: Data provided by Ghanaian authorities; and staff estimates and projections.

1/ As in www.imf.org.

2/ Starting January 2003, includes holding of T-bills issued for monetary liquidity purposes, and starting September 2004, BOG bills.

3/ A large part of the deposit money banks' net foreign assets for 1998-2003 were reclassified as net domestic assets to ensure consistency with the new banking supervision reporting form introduced in July 2003, which uses a residency rather than currency definition of net foreing assets.

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

Table 9. Ghana: Country Profile, Millennium Development Goals, 1990-2003

	1990	1995	2001	2002	2003	2015 Target	Status 1/
1. Eradicate extreme poverty and hunger 2/							**On track**
Population below $1 a day (percent)	..	29.4 11/	44.8	..	39	15	On track
Poverty gap at $1 a day (percent)	..	7.3 11/	17.3	..	..	..	On track
Percentage share of income or consumption held by poorest 20 percent	..	..	5.6	..	..	..	
Prevalence of child malnutrition (percent of children under 5)	30.3	27.3	24.9	..	22.1	..	Off track
Population below minimum level of dietary energy consumption (perce	35	17.0	12.0	..	..	..	Off track
2. Achieve universal primary education 3/							**On track**
Net primary enrollment ratio (percent of relevant age group)	52.4	..	60.2	..	63.1	100	On track
Percentage of cohort reaching grade 5 (percent)	80.5	..	66.3	..	..	100	
Youth literacy rate (percent of ages 15-24)	81.8	87.1	91.6	92.2	..	..	
3. Promote gender equality 4/							**On track**
Ratio of girls to boys in primary education (percent)	82.0	87.0	91.0	..	93.0	100	
Ratio of girls to boys in primary and secondary education (percent)	76.7	..	88.6	..	91.0	100	On track
Ratio of young literate females to males (percent of ages 15-24)	85.5	90.9	95.2	95.7	..	100	On track
Share of women employed in the nonagricultural sector (percent)	56.6	..	..	..	..	..	
Proportion of seats held by women in national parliament (percent)	..	8.0	9.0	9.0	9.0	..	
4. Reduce child mortality 5/							**Off track**
Under 5 mortality rate (per 1,000)	125.0	110.0	100.0	97.0	95.0	42	Off track
Infant mortality rate (per 1,000 live births)	78.0	69.0	62.0	60.0	59.0	..	Off track
Immunization, measles (percent of children under 12 months)	61.0	70.0	81.0	81.0	83.2	..	
5. Improve maternal health 6/							**Off track**
Maternal mortality rate (modeled estimate, per 100,000 live births)	740	590 12/	540	..	..	185	Off track
Births attended by skilled health staff (percent of total)	40.2	43.8	..	..	..	..	
6. Combat HIV/AIDS, malaria and other diseases 7/							**On track**
Prevalence of HIV, female (percent ages 15-24)	..	..	3.0	3.0	3.6	..	On track
Contraceptive prevalence rate (percent of women ages 15-49)	12.9	20.3	..	..	25.0	..	
Number of children orphaned by HIV/AIDS	..	..	200,000	..	170,000	..	
Incidence of malaria (percent)	44.0		41.0		..	..	
Incidence of tuberculosis (per 100,000 people)	480.0	..	201.0	210.6	..	..	
Tuberculosis cases detected under DOTS (percent)	..	16.0	41.0	40.8	40.0	..	
7. Ensure environmental sustainability 8/							**Off track**
Forest area (percent of total land area)	33.1	..	27.8	..	..	..	
Nationally protected areas (percent of total land area)	..	4.8	4.9	5.6	..	..	
GDP per unit of energy use (PPP $ per kg oil equivalent)	3.8	4.3	5.0	..	4.9	..	
CO2 emissions (metric tons per capita)	0.2	0.3	0.3	0.4	..	..	
Access to an improved water source (percent of population)	53.0	..	73.0	..	79.0	26.5	On track
Access to improved sanitation (percent of population)	61.0	..	72.0	..	..	..	
Access to secure tenure (percent of population)	..	..	..	..	..	..	
8. Develop a Global Partnership for Development 9/							**On track**
Debt service to GDP ratio (percent)	6.2	..	..	2.4	..	..	
Youth unemployment rate (percent of total labor force ages 15-24)	..	..	..	..	..	..	
Fixed line and mobile telephones (per 1,000 people)	2.9	4.1	20.8	33.4	49.1	..	
Personal computers (per 1,000 people)	0.0	1.2	3.3	3.8	..	..	

Sources: World Development Indicators database, October 2005; and staff estimates and projections.

Note: In some cases the data are for earlier or later years than those stated.

1/ Status as reported in the Ghana Poverty Reduction Strategy 2006 and the Annual Progress Report (2005).

2/ Targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

3/ Target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

4/ Target: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.

5/ Target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

6/ Target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

7/ Targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.

8/ Targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

9/ Targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

National specification of individual indicators and targets may differ from the ones reported in the WDI database.

11/ Data for 1994.

12/ Data for 1990., 1995, and 2001 are WHO, UNICEF, and UNFPA estimates.

Table 10. Ghana: Selected Medium-Term Indicators (Baseline Scenario), 2006-10 1/

	2006	2007	2008	2009	2010
	(Annual percentage change, unless otherwise specified)				
Real GDP growth	6.0	6.0	6.3	6.4	6.5
Real GDP per capita growth	3.3	3.3	3.7	3.8	3.9
Inflation (end of period)	8.3	6.3	5.8	5.0	3.5
Inflation (annual average)	8.8	7.1	6.3	5.9	4.3
	(In percent of GDP, unless otherwise specified)				
Revenue	23.5	23.3	23.1	23.0	22.6
Expenditure	32.4	34.5	34.1	35.9	35.6
Gross foreign financing of capital expenditure	10.3	13.1	12.4	11.9	11.9
Traditional	8.6	9.5	9.6	9.2	8.8
MDRI	1.4	1.6	0.9	0.4	0.4
Identified additional	0.3	2.0	1.9	2.3	2.7
Overall balance (excluding grants)	-8.9	-11.2	-11.0	-12.9	-13.0
Overall balance (including grants)	-3.6	-5.2	-5.6	-7.9	-7.9
Domestic primary balance	0.8	-6.1	-6.3	-7.4	-6.3
Of which: Capital expenditure	13.6	17.6	17.4	18.6	20.0
Investment scaled up	1.6	3.6	2.8	2.7	3.0
Domestic financing (net)	0.2	-0.4	-0.3	-0.2	0.0
Domestic debt (net)/GDP	8.7	7.3	6.1	5.2	4.5
External current account (after grants)	-6.5	-7.8	-8.0	-10.0	-9.0
External current account (after grants, excluding scaling-up)	-5.1	-4.9	-5.1	-5.2	-5.5
Gross international reserves (billions U.S. dollars)	2,084	2,396	2,753	3,050	3,364
(In months of imports of goods and services)	3.2	3.4	3.6	3.8	3.9
NPV of external debt/GDP 2/	11.4	15.2	19.0	22.5	26.8
NPV of external debt/exports 2/	28.8	39.4	49.7	61.5	72.9

Sources: Data provided by Ghanaian authorities; and staff estimates and projections.

1/ Based on more modest government investment and staff projections, unless otherwise indicated.

Table 11. Ghana: Balance of Payments (Baseline Scenario), 2006-10
(In millions of U.S. dollars, unless otherwise specified)

	2006 Prog.	2007 Proj.	2008 Proj.	2009 Proj.	2010 Proj.
Exports f.o.b.	3,319	3,581	3,897	4,109	4,394
Cocoa beans and cocoa products	966	1,026	1,022	1,018	1,014
Gold	1,232	1,287	1,538	1,664	1,797
Timber and timber products	239	255	275	291	304
Others	883	1,012	1,063	1,137	1,279
Imports, f.o.b.	-5,900	-6,494	-6,930	-7,614	-8,097
Non-oil	-4,665	-5,289	-5,692	-6,313	-6,729
Oil	-1,234	-1,205	-1,239	-1,301	-1,368
Trade balance	-2,580	-2,913	-3,034	-3,505	-3,703
Services (net)	-386	-386	-392	-433	-482
Of which : interest payments	-74	-18	-15	-28	-52
Private transfers (net)	1,689	1,727	1,694	1,741	1,876
Current account balance, excluding official transfers	-1,277	-1,571	-1,732	-2,197	-2,309
Official transfers (net)	538	613	671	742	836
Current account balance, including official transfers	-738	-958	-1,061	-1,456	-1,473
Capital account	1,118	1,302	1,450	1,792	1,847
Official capital (net)	740	627	672	749	831
Medium and Long-term loans					
Inflows	5,120	673	737	816	920
Amortization	-4,380	-46	-65	-67	-89
Private capital	379	675	779	1,044	1,016
Other capital and errors and omissions	26	-32	-32	-40	-60
Of which : change in net foreign assets of money deposit banks	-34	-32	-32	-40	-60
Overall balance	406	312	357	297	313
Financing	-406	-312	-357	-297	-313
Net international reserves (negative is increase)	-406	-312	-357	-297	-314
Of which: Use of Fund credit	-266	0	0	0	0
Disbursements (PRGF)	115	0	0	0	0
Repayments (PRGF)	-381	0	0	0	0
Memorandum items:					
Current account balance (in percent of GDP)					
Excluding official transfers	-11.3	-12.8	-13.0	-15.1	-14.1
Including official transfers	-6.5	-7.8	-8.0	-10.0	-9.0
Gross international reserves					
End of period (US$ millions)	2,084	2,396	2,753	3,050	3,364
In months of imports of goods and services	3.2	3.4	3.6	3.8	3.9
Cocoa exports					
Volume (in thousands of tons)	595	615	615	615	615
Price (in US$ per ton)	1,600	1,650	1,640	1,630	1,620
External debt service					
In percent of exports of GNFS	1.7	1.2	1.5	1.7	2.4
In percent of government revenue	2.9	2.0	2.4	2.7	3.7
Terms of trade (change in percent)					
GDP (in U.S. dollars)	11,292.2	12,237.5	13,337.0	14,572.5	16,327.8

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

Table 12. Ghana: Selected Medium-Term Indicators (Alternative Scenario), 2006-10 1/

	2006	2007	2008	2009	2010
	(Annual percentage change, unless otherwise specified)				
Real GDP growth	6.0	6.0	7.0	8.0	8.5
Real GDP per capita growth	3.3	3.3	4.3	5.3	5.8
Inflation (end of period)	8.3	6.3	5.8	5.0	3.5
Inflation (annual average)	8.8	7.1	6.3	5.9	4.3
	(In percent of GDP, unless otherwise specified)				
Revenue	23.5	23.3	23.0	22.5	21.9
Expenditure	32.4	38.9	38.4	39.0	37.2
Gross foreign financing of capital expenditure	10.3	17.5	16.9	15.8	14.7
Traditional	8.6	9.5	9.6	9.2	8.8
MDRI	1.4	1.6	0.9	0.4	0.4
Identified additional	0.3	2.0	1.9	2.3	2.7
Unidentified	0.0	4.4	4.5	3.9	2.8
Overall balance (excluding grants)	-8.9	-15.6	-15.4	-16.4	-15.3
Overall balance (including grants)	-3.6	-9.6	-10.1	-11.5	-10.4
Domestic primary balance	0.8	-6.1	-6.2	-7.3	-6.1
Of which: Capital expenditure	13.6	22.0	21.9	22.5	22.8
Investment scaled up	1.6	8.0	7.3	6.6	5.8
Domestic financing (net)	0.2	-0.4	-0.3	-0.2	0.0
Domestic debt (net)/GDP	8.7	7.3	6.1	5.0	4.4
External current account (after grants)	-6.5	-11.2	-10.8	-11.0	-10.1
External current account (after grants, excluding scaling-up)	-5.1	-4.9	-5.1	-5.2	-5.5
Gross international reserves (billions U.S. dollars)	2,084	2,396	2,753	3,050	3,364
(In months of imports of goods and services)	3.0	3.3	3.5	3.7	3.9
NPV of external debt/GDP 2/	11.4	18.1	24.4	31.7	33.2
NPV of external debt/exports 2/	28.8	46.8	64.6	100.0	99.5

Sources: Data provided by Ghanaian authorities; and staff estimates and projections.
1/ Based on scaled up government investment, unless otherwise indicated.
2/ Based on the low-income country debt sustainability analysis framework.

Table 13. Ghana: Revised Schedule of Disbursements Under the PRGF Arrangement, 2003–06 1/

Schedule 2/			Updated Schedule			Conditions
Date	Amount in SDRs	In percent of quota	Date	Amount in SDRs	In percent of quota	
May 2003	26,350,000	7.14	May 2003	26,350,000	7.14	Board approval of the arrangement
December 2003	26,350,000	7.14	December 2003	26,350,000	7.14	Completion of first review
July 2004	26,350,000	7.14	July 2004	26,350,000	7.14	Completion of second review
July 2005	26,350,000	7.14	July 2005	26,350,000	7.14	Completion of third review
October 2005	26,350,000	7.14	June 2006	26,350,000	7.14	Completion of fourth review (end-June 2005 test date)
March 2006	26,350,000	7.14	June 2006	26,350,000	7.14	Completion of fifth review (end-December 2005 test date)
October 2006	26,400,000	7.15	September 2006	26,400,000	7.15	Completion of sixth (final) review (end-June 2006 test date)
Total	184,500,000	50.00		184,500,000	50.00	

1/ Ghana's quota is SDR 369 million.

2/ www.imf.org.

Ghana: Relations with the Fund
(As of April 30, 2006)

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	0.30	0.48

IV. Outstanding Purchases and Loans	SDR Million	%Quota
PRGF arrangements	26.35	7.14

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	05/09/2003	10/31/2006	184.50	105.40
PRGF	05/03/1999	11/30/2002	228.80	176.22
ESAF	06/30/1995	05/02/1999	164.40	137.00

VI. Projected Payments to Fund:
(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2006	2007	2008	2009	2010
Principal					
Charges/interest	1.77	2.30	2.31	2.30	2.30
Total	1.77	2.30	2.31	2.30	2.30

VII. Implementation of HIPC Initiative:

	Enhanced Framework
Commitment of HIPC assistance	
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	Jul 2004
Disbursements of IMF assistance (SDR million)	
Assistance disbursed to the member	90.05
Interim assistance	25.06
Completion point	64.99
Additional disbursement of interest income 2/	4.25
Total disbursements	94.30

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.

VIII. Implementation of MDRI Assistance:

I.	Total Debt Relief (SDR Million) 1/	265.39
	Of Which: MDRI	220.04
	HIPC	45.35
II.	Debt Relief by Facility (SDR Million)	

	Eligible Debt		
Delivery Date	**GRA**	**PRGF**	**Total**
January 2006	N/A	265.39	265.39

1/ The Multilateral Debt Relief Initiative (MDRI) provides 100 debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to that Fund as of end-2004 which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above).

Safeguard Assessment:

Under the Fund's safeguards assessment policy, the Bank of Ghana was subject to a safeguards assessment with respect to the PRGF arrangement approved on May 9, 2003. The assessment was completed on October 15, 2003, and proposed specific recommendations to address remaining vulnerabilities in the external audit, financial reporting, internal audit, and internal controls areas. The authorities have implemented all but one of the measures proposed by staff.

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 (defacto classified as a managed float), using the U.S. dollar as the intervention currency, that is free of restrictions on payments and transfers for current international transactions. At end-March 2006, the average exchange rate for transactions in the interbank market was ¢9,138.8 per U.S. dollar.

Article IV Consultation and Current Fund Arrangement

On May 9, 2003, the Executive Board concluded the 2003 Article IV Consultation with Ghana (*IMF Country Report No. 03/133*), endorsed the Ghana Poverty Reduction Strategy as a sound basis for promoting growth and reducing poverty, and approved a three-year arrangement under the PRGF amounting to SDR 184.5 million (50 percent of quota). On June 20, 2005, the Executive Board concluded the 2005 Article IV Consultation with Ghana (*IMF Country Report 05/292)* and the third review under the PRGF arrangement (www.imf.org/external/GHA/index.htm).

FSAP Participation

Ghana participated in the FSAP during 2000–01, and a Financial System Stability Assessment (FSSA) was issued to the Executive Board in 2001 (SM/01/177; 6/19/01). An FSAP update was presented to the Board in December 2003.

Technical Assistance, 2001–September 2005

Fiscal Affairs Department: Ministry of Finance: 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–present; 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; tax peripatetic, May 2003; fiscal ROSC, February 2004, regional advisor on public expenditure management, August 2004–August 2005; evaluate the impact of new pricing mechanism for petroleum products on poor and vulnerable households,

January 2005.
International Capital Markets: Bank of Ghana: pilot study of access to private capital, May 2003. Bank of Ghana and Ministry of Finance: access to international capital markets, November 2004.
Legal Department: All Ministry of Finance: drafting of internal revenue regulations, January 2001; advice/draft of new income tax laws, February–March 2001.
Monetary and Financial Systems Department: All Bank of Ghana (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, November 2002, and March 2003; foreign exchange market, government securities market, and banking system issues, April 2003; joint FSAP follow-up with the World Bank, June 2003; multitopic technical assistance initiation, November 2004; improving monetary operations, banking supervision, and payment systems, May 2005; monetary operations, January 2006; banking supervision, September 2005 and March 2006; AML/CFT/Remittances, ongoing April and May 2006.
Statistics Department: Bank of Ghana: money and banking statistics, July 2002 and January–February 2004. Ghana Statistical Service: national accounts statistics, September and October 2001, August, November, and December 2002, and May and September 2003; national accounts and prices, March and October 2004; government finance statistics, March 2005; national accounts and prices, April–May 2005.

Resident Representative

The Fund has had a Resident Representative office in Accra since June 1985. The term of the last resident representative finished on April 6, 2006. A new resident representative is in the process of being assigned.

Ghana: IMF-World Bank Relations

(As of May 14, 2006)

I. PARTNERSHIP IN GHANA'S DEVELOPMENT STRATEGY

1. Ghana's development objectives are stated in the Ghana Growth and Poverty Reduction Strategy (GPRS II) presented to Parliament in October 2005. The broad objectives of the GPRS are to create an environment favorable to private sector-led growth and sustainable poverty reduction, and to create room within the Government's budget for increased expenditures on education, health, and other priority services. The GPRS II is guided by the overarching objective of attaining middle income status by 2015, which entails maintaining real GDP growth rates of at least 6 percent per annum. Sustaining high real GDP growth rates is expected to reflect a positive social change and improvements in the quality of life for everyone.

2. The Bank and Fund teams are closely coordinating their policy advice to the Ghanaian authorities. There is collaboration in terms of common objectives and joint support to implementation of Ghana's GPRS, including through joint assessments such as the "2006 Joint Staff Advisory Note on the GPRS II and the 2005 Annual Progress Report", the "2004 HIPC Expenditure Tracking Assessment and Action Plan (AAP)", the mid-2004 assessment of progress towards the completion point under the Enhanced HIPC Initiative, and the update of the findings of the 2000-2001 Financial Sector Assessment Program (FSAP).

3. The Ghana Growth and Poverty Reduction Strategy (GPRS II), and before that the Ghana Poverty Reduction Strategy (GPRS I), created the momentum for a group of Development Partners (DPs) to align their assistance under a common Multi-Donor Budget Support (MDBS) framework agreed with the Government of Ghana. The GoG and DPs consider the MDBS as the basis for support to the implementation of GPRS through the budget. Also, building on the gains made over the last few years, representatives of the Government of Ghana and its development partners (nine bilaterals and four multilaterals, including the World Bank) agreed on February 25, 2005 to work together according to the principles established in the paper "Harmonization and Alignment in Ghana for Aid Effectiveness: a common approach for Ghana and its Development Partners".

4. In November 2005, Ghana held a Consultative Group (CG) meeting to articulate targets under the GPRS II and outline the expected support from DPs. The CG documentation included a prioritized Result Matrix, an Aid Harmonization and Effectiveness Action Plan, and a Support Overview indicating actual and projected disbursements by DPs according to the pillars of the GPRS II and sectors. The CG documentation provided input for the finalization of the GPRS II, with the CG's Result Matrix becoming a subset of a larger GPRS II policy matrix. The overview of actual and projected disbursements aims at helping align DP support with national strategies and the budget, laying the basis for more predictable funding. In the future, annual CG meetings will be held in June to allow the Government to better plan the budget process, with the next CG meeting scheduled to take place in Accra on June 5. Also, to respond to the GPRS II, partners plan to develop a Joint

Assistance Strategy (JAS), to be completed by late 2006. The Bank Group's next CAS will emerge from the JAS, and will be presented to the Board in early 2007.

II. THE WORLD BANK GROUP COUNTRY ASSISTANCE STRATEGY AND PORTFOLIO

5. The Country Assistance Strategy (CAS) for Ghana (FY 04-07), prepared jointly with the International Finance Corporation (IFC) was discussed at the Bank's Board on March16th, 2004. The Country Assistance Strategy (CAS) was designed to support the GPRS in a manner that could effectively help the country achieve its development objectives, complementing the interventions of other donors and focusing on three main pillars: (i) sustainable growth and job creation, (ii) service provision for human development, and (iii) governance for empowerment. A CAS progress report (CAS PR) is scheduled to be discussed at the Board on May 30, 2006. The CAS PR confirms that the strategy laid out in the 2004 CAS continues to provide relevant guidance to the Bank's program for Ghana.

6. The Bank Group strategy aims at helping the Government: (i) maintain progress made in achieving macroeconomic stability in recent years, while pursuing accelerated growth policies through improved investment climate and harnessing sources of growth; (ii) develop further the level of human capital through improved human development services delivery, and (iii) promote good governance and public sector reforms. The CAS for Ghana was prepared after broad consultations with Government and key stakeholders, including in meetings throughout the country with civil society, the private sector, and others. Also, the Bank group's strategy in Ghana emphasizes deepening its collaboration with other development partners through the Multi-Donor Budgetary Support (MDBS) framework, partnership programs such as the Health SWAp and other sector programmatic support, and further deepening harmonized approaches in areas such as analytical work, the assessment of the fiduciary underpinnings for sector and general budget support, and in meeting and mission management.

7. Since the CAS was reviewed by the Board in March 2004, the Bank program has played an important role in financing Ghana's development program. Total disbursements have risen to US$329.4 million in 2005, accounting for around 10 percent of total government expenditures. Actual disbursements over the FY04-06 period are expected to reach US$1.18 billion (including the PRSC 4 planned for Board presentation on May 30, 2006), meaning that the Bank will have delivered almost its entire planned CAS program by mid-2006.

8. The Bank's cumulative commitments to Ghana as of April 7, 2006, amounted to US$29 billion and totaled 154 operations. The portfolio contains 18 active projects totaling US$1.04 billion, of which US$517 million is still undisbursed. The portfolio is diverse in terms of sectoral priorities and lending instruments. It consists of a series of single-tranche Poverty Reduction Support Credits (PRSCs) that provide continued support to policies and reforms articulated in the Government's poverty reduction strategy, complemented by programs in health and education, agriculture, energy, roads, community water and other infrastructure in both rural and urban areas. Annex 1 summarizes the World Bank operations

in Ghana. The overall performance of the portfolio is satisfactory, though the implementation of some projects is delayed.

9. Given the emphasis on growth in the GPRS II, the Bank program during the remainder of the CAS period is expected to sharpen its focus on growth, with the continuation of budget support through the PRSCs and proposed operations designed to support government initiatives in ITC and telecommunications development, the expansion of energy supply services, the extension of the road network, and the strengthening of natural resource management.

10. Non-lending services include updates of the core diagnostics, as well as targeted analyses to strengthen the analytical base for the assistance program supported by the FY04-07 CAS. During FY04, this work included a CFAA update, a Country Economic Memorandum on public policy, growth and poverty, a Financial Sector Assessment Update, an accounting and audit assessment, a report on policy options facing the newly established National Health Insurance Scheme, a Public Expenditure Review (PER) carried out along with other MDBS partners, and the first Poverty and Social Impact Analysis focusing on electricity tariffs. During FY05, non-lending services included Policy Papers on the Electricity and Petroleum Sectors, the joint WB-DFID-AFD[12] study on Natural Resource Management and Economic Growth, the external review of public financial management (ERPFM) prepared jointly with other MDBS partners, and analytical work on policy options for the GPRS update, and on monitoring and evaluation. In FY06, non-lending services include an update of the external review of public financial management (ERPFM), also prepared jointly with other MDBS partners, a youth and employment study and a country environmental assessment.

III. IMF-World Bank Collaboration in Specific Areas

11. The Bank and Fund teams are closely coordinating their policy advice to the Ghanaian authorities. There is collaboration in terms of common objectives and joint support to Ghana's GPRS and in determining structural conditionality.

12. **Areas in which the Fund leads**. The IMF leads the policy dialogue on macroeconomic policies, including overall fiscal and monetary policies. The IMF has supported Ghana's poverty reduction efforts through several arrangements under the Poverty Reduction and Growth Facility (PRGF). Reforms under the PRGF center around measures to substantially raise revenue to make room for increased poverty-related spending and development needs, strengthen public expenditure management, further reform of energy and utility pricing, and use appropriate monetary policy to achieve single-digit inflation. The third review under the three-year PRGF arrangement was completed in June 2005, and the fourth and fifth reviews are scheduled to be considered by the IMF Board on June 12, 2006.

[12] Agence Française de Développement.

13. **Areas in which the Bank leads**. The World Bank leads the policy dialogue on economic reforms in a number of sectors. These areas include: infrastructure, encompassing energy, roads, telecommunications, water and sanitation; urban and local government development; agriculture and rural development; human development; private sector development and public sector reform.

- **Infrastructure** accounts for about 56 percent of commitments, and comprises several operations. The on-going Road Sector Development SIL has the objective of achieving sustainable improvements in the supply and performance of road transport services in a regionally equitable manner. The Bank Group's engagement in energy has grown to include ESW and PSIA, and investment lending to support the operational efficiency of the national utility companies. Meanwhile IFC is supporting private investment in power generation, and an IDA guarantee supports the country's participation in the West African Gas Pipeline project. IDA also plans to support Ghana's participation in the West Africa Power Pool project, while a new operation aimed at increasing the populations' access to electricity is planned for FY07. Dialogue on water and sanitation policy has been pivotal to underpin the major new investments in urban, small town and community water. In view of their importance for the delivery of reliable and cost-effective services, key policy issues in the power and water sectors are also part of the PRSC-supported policy agenda. Based on new developments in the government's approach to telecommunication, the Bank Group has re-engaged in dialogue on sector strategy, policy and regulation and will support the country program through the proposed ICT/e-Ghana project.

- The **Agriculture and Rural Development** portfolio accounts for about 16 percent of commitments and emphasizes increasing agricultural productivity and diversification, deepening financial intermediation in rural areas, and rehabilitating land, forest and wildlife resources in a sustainable manner. In addition to cross-cutting issues tackled in the context of the PRSCs, three ongoing IDA operations are supporting this agenda, the restructured Agriculture Services Sub-Sector Investment (AgSSIP) Project, the Rural Financial Services SIL and the Community-Based Rural Development Project, which supports a comprehensive approach to rural based economic growth and poverty reduction. There are also two GEF projects in support of the natural resource management agenda and preservation of biodiversity.

- In **Human Development,** there are five projects that account for 22 percent of total lending. The Board approved the financing for the Education Sector Project in February 2004. Twelve months earlier, it approved the Second Health Sector Support Program prepared using a sector-wide approach (SWAp). In addition, Bank support addresses issues in adult literacy, the prevention and treatment of HIV/AIDS, and by developing new approaches to service provision for poor and marginalized groups. The PRSCs complement existing sector focused operations, leveraging their poverty focus by ensuring improved expenditure allocation (level and structure) and by addressing some of their financing implications for the poor (e.g., removal of school fees for girls in deprived areas and for disabled pupils across the country, and implementation of fee exemption policy for maternal deliveries). The PRSC-4 marks the transition from sector targeted budget support under the health SWAP to general budget support, aiming at increasing government support to the health sector and sharpening the focus of government intervention on health outcomes.

- IDA's assistance in **Private Sector Development** represents about 5 percent of commitments. The Trade and Investment Gateway SIL, responds to new policy approaches by government, seeks to attract a critical mass of export-oriented investors to Ghana, to accelerate export-led growth and facilitate trade. The Land Administration project will help develop sustainable, fair, efficient and decentralized land administration system in order to increase land tenure security. In addition, the PRSCs support reforms aimed at tackling the high cost business environment, promoting trade facilitation and encouraging financial intermediation. Further Bank Group support to private sector development is being provided by the recently approved Micro, Small and Medium Enterprise (MSME) Development Project, promoting an enabling business environment and helping improve the capacity, competitiveness, and access to finance of small and medium enterprises. Also, the joint donor Economic Management Capacity Building Project focuses on strengthening specific aspects of the financial sector and laying the foundation for key public sector reforms.

14. **Areas of Shared Responsibility.** The IMF and World Bank staffs maintain a close collaborative relationship in supporting the Government's structural reforms, in the areas of budgeting, expenditure and financial management, public sector reform and privatization, and the financial sector, as outlined below. Bank support to Governance and Public Sector Management is mainly provided in the context of the PRSC, as well as through programs supporting public sector capacity building and decentralization.

15. **Budgeting, public expenditure management (PEM) and control.** February 2004 joint Bank-Fund assessment of the Government's PEM capacity confirmed encouraging progress compared to the 2001 evaluation, while still highlighting the need for continued improvement in budgetary management. That assessment, the FY04 PER and the FY05 and FY06 External Reviews of Public Financial Management (ERPFM) informed the identification of priority PEM actions being supported by the PRSC/MDBS. Through the planned ERPFMs and dialogue in the context of the MDBS-PRSC, this dialogue is expected to continue supporting the country's efforts to strengthen PFM performance. In the meantime, the IMF technical assistance missions and a resident advisor continue to provide technical advice to Government on budget formulation, monitoring of budget execution, and expenditure control.

16. **Public sector reform.** The Fund follows public service reforms through their impact on macroeconomic aggregates (wage bill, overall government expenditure) and discusses the macroeconomic trade-offs the government faces in supporting a large public sector. Building on lessons learned, a draft strategy and implementation plan for public sector reform was prepared by the Government and approved by Cabinet last autumn. The Bank's support to

implementation of the Government strategy takes place in the context of PRSCs and the Economic Management Capacity Building project, which aims at supporting the development of results-oriented public sector reform strategies.

17. **Public enterprise reform and divestiture.** The Fund monitors the financial position of large public enterprises, namely in the energy and financial sectors, due to their importance for public finances and macroeconomic stability. Bank assistance in this area is provided through sectoral projects. Bank dialogue in the energy sector, pursued through the Energy ESW and the PRSC, emphasizes the unbundling of VRA, the completion of the West Africa Gas Pipeline, and public-private partnership options for ECG**.**

18. **Financial Sector.** In July 2003 a joint IMF-Bank mission carried out a mission to update the 2000-2001 FSAP. The FSAP Update confirmed some progress in the financial sector associated with improved macro-economic stability, emphasized the diversity of financial institutions compared to the overall small size of Ghana's financial sector, and acknowledged the existence of strong international connections and local skills able to compete on equal terms with international institutions. Despite this potential, the Update concluded that the financial sector is held back by an overall weak financial intermediation compared to other Sub-Saharan African countries due to various key problem areas such as shortage of long-term capital available due to poor allocation of pension resources, inefficiencies of the dominant Ghana Commercial Bank (GCB), and the need of further implementation of the legislative agenda. Several of the FSAP Update recommendations are planned to be dealt with by the Government's comprehensive Financial Sector Strategic Plan (FINSSP), approved in 2003. The PRSC supports implementation of key actions envisaged by the FINSSP, as does the ongoing Economic Management Capacity Building project.

ANNEX 1

Financial Relations with the World Bank Group

(Active Portfolio, as of 7 April 2006, in millions of US dollars)

Credit/Grant Number	Fiscal Year	Project Name	IDA Credit	IDA Grant	GEF Grant	IDA Guar. a/	Undis-bursed
26820-GH	1995	Ghana Thermal Power 5	175.6				9.8
20412-GH	1998	GEF Forest Biodiversity			8.7		1.8
31140-GH	1999	Trade Gateway and Investment	50.5				20.6
32460-GH	1999	National Functional Literacy	32.0				2.7
33740-GH	2000	Rural Financial Services	5.1				1.1
34050-GH	2001	Agricultural Services	67.0				20.2
35540-GH	2002	Road Sector Development	220.0				83.5
50723-GH	2002	GEF Northern Savanna			7.6		3.9
37310-GH	2003	Health Sector Program II	57.6	32.4			0.9
37430-GH	2003	Promoting Partnerships w/Traditional Authorities		5.0			0.8
38170-GH	2004	Land Administration	20.5				14.9
38650-GH	2004	Education Sector Project	78.0				60.9
38890-GH	2004	Urban Environment and Sanitation	62.0				57.2
39620-GH	2005	Urban Water		103.0			78.1
39710-GH	2005	Small Towns Water Supply	26.0				22.3
39640-GH	2005	Community-Based Rural Development	60.0				48.8
33917-GH	2006	Multi-sectoral HIV/AIDS program	20.0				19.9
33719-GH	2006	Economic Management Capacity Building	25.0				24.7
31985-GH		Micro, Small and Medium Enterprise Development	45.0				44.9
Total (number of credits/grants: 18) b)			944.3	140.4	16.3		517.0
N.A.	2005	West Africa Gas Pipeline				8.0	
Total (number of partial risk guarantees: 1)						8.0	
N.A.	2005	West Africa Power Pool APL-1 Phase 1				40.0	

Source: World Bank

a/ IDA partial Risk Guarantee up to US$50.0 million (of which 25 percent IDA commitment) to protect commercial parties against sovereign risk.

b/ Active projects cumulative commitments total US$1.04 billion.

For additional information, please contact Malathi Jayawickrama, Operations Officer, (x34151) or Carlos Cavalcanti, Lead Economist, (x89076).

May 25, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, DC 20431

Dear Mr. de Rato:

1. The recent implementation of sound macroeconomic and structural policies and the enhancement of business regulations, governance, and institutions over the last few years have led to a marked improvement in Ghana's economic performance. In a relatively short time frame, we have achieved nearly all of the objectives set out in Ghana's Poverty Reduction Strategy (GPRS-I) covering the period 2003–05, which was supported by the Fund's Poverty Reduction and Growth Facility (PRGF):

- The rate of real GDP growth has been raised and maintained at 5-6 percent per annum, resulting in significant gains in real per capita income and a measurable decline in the poverty rate;
- There has been a substantial decline in inflation since 2003, despite the liberalization of domestic petroleum product prices, and the recent spike in world oil prices;
- We have made substantial progress in enhancing public expenditure and financial management, and revenue administration, as well as increasing domestic resource mobilization. This, together with the enhanced growth, led to more than halving the ratio of domestic debt to GDP from the end-2002 level by end-2005;
- We have been able to increase markedly the country's gross international reserves—which now amount to more than three months of projected imports of goods and services—providing some cushion against shocks; and
- In the structural area, we have improved the operating and financial performance of state-owned enterprises, owing, in particular, to the emphasis on full-cost recovery pricing for commercially-oriented entities (including those in the petroleum sector).

2. Reflecting continued strong performance, our economic and financial program remained broadly on track during 2005. Budget execution was monitored carefully, and efforts to contain public expenditure were stepped up when a shortfall in tax revenue, grants and divestiture receipts became apparent. Nevertheless, a net shortfall (equivalent to about 1 percent of annual GDP) was registered in the first half of 2005. Consequently, the envisaged repayment of domestic debt in that period was not realized, and the ceiling on net domestic financing of government operations for end-June 2005 (a performance criterion) was exceeded (Table 1). The situation improved during the fourth quarter through the catching-up of external aid disbursements, a pickup in revenue collections, and further containment of nonpriority expenditure. However, despite ongoing administrative improvements—which included a sharpened focus on large corporate taxpayers and reform of procedures to avoid leakages through smuggling and under-invoicing of imports—there was a slight under-performance of tax revenue for the full year relative to program target.

Nonetheless, the programmed net repayment of domestic debt for the year as a whole was significantly larger than targeted.

3. Through vigilance, and accounting and technical progress in upgrading the computerized integrated personnel and payroll database (IPPD), the wage bill of the central government was held below the program targets in 2005. Our intention was to have completed the extension of IPPD to include all employees under the Ghana Universal Salary Structure (GUSS) and subvented agencies (police, universities, and research centers, etc.) by end-September 2005 (a structural performance criterion, Table 2). The government made its best effort to meet this timeframe, which, however, proved to be too ambitious. However, the integrated payroll databases for subvented agencies were established by end-December 2005. At this point, the GUSS payroll is fully computerized under the IPPD, and the coverage of subvented agencies has been completed. In the above exercise, we were cautious and took the extra time to ensure that both GUSS and subvented agencies payroll data are robust, free of duplication, and that their integrity—from the perspective of security—is assured.

4. During 2005, we made efforts to realize full cost recovery through the automatic pricing mechanism for petroleum products that was adopted in February 2005. However, two important developments frustrated these efforts. First, the strong and continuous rise in world oil prices rendered our quarterly adjustments inappropriate, as projected oil import prices in the mechanism turned out to be significantly below landed costs. This resulted in a cumulative loss for the Tema Oil Refinery (TOR) equivalent to 0.8 percent of GDP. Second, Nigeria—supplier of 70 percent of our crude oil imports—modified the payment arrangement from 90-day to 60-day credit period, which required a much larger working balance for TOR (equivalent to 0.6 percent of GDP). The combination of these two developments resulted in the ceiling on the stock of net domestic bank credit to TOR for December 2005 (a performance criterion) being exceeded. In response, we have decided on the following remedial measures: the pricing mechanism will be made more robust to fully take into account any deviation between the projected price and the actual landed cost in the preceding period; price adjustments have been shifted from a quarterly basis to a monthly basis beginning April 2006; and the government will verify and issue bonds to cover the accrued under recovery by TOR by September 2006.

5. We are confident that the program objectives for 2005—as elaborated in the Memorandum of Economic and Financial Policies (MEFP) attached to our letter to you of May 20, 2005—have been broadly achieved. On the basis of (i) the efforts to compensate for the shortfall in revenue during the first half of 2005, (ii) the remedial actions with respect to the payroll database for subvented agencies that ensured the achievement of our program objectives for 2005, and (iii) the remedial measures to bring the bank credit to TOR back in line with normal operations, we are requesting waivers for the nonobservance of the associated quantitative and structural performance criteria.

Economic policies for 2006

6. The focus of GPRS I was to establish macroeconomic stability, make some in-roads to reducing poverty by increasing spending in social areas (health and education), utilize public resources more efficiently, and strengthen economic governance. Taking account of the lessons, experience and outcomes during the past several years, we have now shifted the

focus of the strategy—now embodied in the Growth and Poverty Reduction Strategy (GPRS II), which covers the period 2006-09—to laying the foundation for accelerated growth. In this regard, we aim to consolidate macroeconomic stability—in particular, by reducing inflation further, creating an environment conducive to private-sector led growth (especially in agriculture), and developing our human capital. We have prepared preliminary costings of the GPRS II, which indicate an additional requirement of US$1.8 billion over the 2007-09 period. We have worked out a prioritization of programs in the GPRS II, which formed the basis for the Consultative Group meeting held in November 2005.

7. For 2006, our broad economic and financial program objectives include: real GDP growth of 6 percent, a lowering of inflation to single digits (about 8 percent by end-year), and a further accumulation of international reserves. To achieve these objectives, the fiscal stance will continue to lay the foundation for "crowding-in" private investment; and monetary and external policies will continue to focus on the inflation and international reserves targets. Also, continued effort to improve the composition of expenditure, enhance public financial management, strengthen the performance of public enterprises, and intensify civil service reform are expected to release resources that would be used to pursue the fight against poverty.

Fiscal policy

8. The 2006 budget approved by Parliament in December 2005 benefited from widespread consultation with stakeholders, and was informed by—and aligned with—the GPRS II. A key objective of the budget is to strengthen tax administration to make room for reduction in some tax rates that would lower the effective burden, and to increase the focus on productive and pro-poor expenditures. Accordingly, the emphasis is on measures to realize efficiency gains and to broaden the tax base so that policy measures to lower the marginal tax burden have minimum adverse impact on revenue.

9. Therefore, the 2006 budget targets a domestic primary surplus of 1.5 percent of GDP, consistent with a further reduction in the domestic debt-to-GDP ratio to 8.7 percent, which remains the government's fiscal anchor. The pace of domestic debt reduction is slower than in previous years, reflecting the relatively low level of the domestic debt stock, and the need to shift resources to other fiscal priorities. Nonetheless, we are aware of the need to maintain prudence, and to safeguard the fiscal stance against contingent liabilities stemming from the continuing rationalization of public enterprises and the civil service.

10. The budget envisages a slight decline in overall revenue to about 23½ percent of GDP. No new taxes were introduced as Ghana's tax burden is already relatively high, compared with historical experience and countries in the region. The government, however, is continuing with the rationalization of the tax structure, with a view to providing a strong base for the medium to long term. Accordingly, following the reduction of corporate tax rates in 2005, we have lowered the personal income tax burden. The personal income tax exemption threshold was raised and the rates for lower- to medium-income earners was lowered. Although these measures would result in some loss of revenue in the short term, we believe the long-run benefits of promoting growth would outweigh such costs. Another factor contributing to the decline in revenue in 2006 is the reduced dividends following the sale of profit making state-owned enterprises in the recent past.

11. Recurrent noninterest expenditure and public investment are being maintained at the same levels as last year. However, public investment will remain well below the level required to meet the Millennium Development Goals (MDGs). At the same time, poverty-related spending is budgeted to remain at the same program target for 2005, 8.3 percent of GDP, following the upward trend established since this administration's first year in office.

12. With regard to the wage bill of the central government, we continue to be concerned with the ability to attract and retain qualified personnel that can further our goal of bolstering service delivery and value for money. At the current level of remuneration, the civil service is losing highly productive employees, particularly in the health sector. While civil service wages have increased rapidly in recent years, they have done so from a very low base, and they continue to lose ground against those of the private sector. Nonetheless, the government is keenly cognizant of the resource constraint, and the fact that the wage bill is taking up a significant share of the domestic revenue effort. The broad policy of the government is to aim for wage increases in line with productivity gains. We have realized significant savings with the ongoing reforms in the civil service, including through the establishment of integrated payroll databases that reduced duplications. We intend to use these savings, together with regular adjustments, to better realign the salary structure and accommodate the monetization of some benefits to help stem the loss of qualified personnel. In this context, the increase in the government wage bill will be about 21 percent over the outturn for 2005, but the wage bill (including all allowances and bonus payments) relative to GDP will be maintained at the 2005 program target of 8.9 percent.

13. We welcome the additional resources from the Multilateral Debt Relief Initiative (MDRI), which will go some way toward meeting our resource requirements for the MDGs and which has made Ghana's external debt much more sustainable. Given that the modalities of the MDRI have now been established and are expected to be fully in place during 2006, we will present a supplementary budget to parliament no later than end-July. The government has assessed the resources released, and intend to use them to further enhance the realization of our development objectives—primarily through augmenting the current level of public investment and providing for key poverty sectors. These include the rehabilitation of essential major highways and feeder roads in the main agricultural areas. We shall be using the equivalent of US$125 million from the IMF relief in 2006, with the remainder in 2007 and 2008. The annual relief from the International Development Association and the African Development Fund will be used primarily in the education and health sectors, once the net additionality has been determined.

14. The medium-term framework that underpins the 2006 budget does not envisage any nonconcessional external borrowing. However, the rate of economic growth is not sufficient for the attainment of the MDGs and the objectives of GPRS II. A minimum GDP growth of 8 percent is estimated to be needed starting in 2009, and this requires that the resource envelope underlying the current medium-term framework and the MDRI will need to be scaled-up to provide for investments in strategic areas like energy, roads, railways, and information and communications technology. Accordingly, we are developing a structured public investment framework—informed by the GPRS II—for specific essential undertakings for which we cannot obtain concessional financing. We are keenly aware of the need to exercise great care to ensure that the public external debt does not become unsustainable in the future, and that proceeds from borrowing—like all other resources—are used efficiently

and transparently. A comprehensive project analysis of each proposed investment would be carried out to ensure that the reforms are sufficient to justify the investment. In this context, we will continue to prepare the ground for future access to international capital markets.

15. Since Ghana reached the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in mid-2004, we have made significant progress in strengthening our debt management capacity—including the ability to assess and design loan proposals. The debt management program includes:

- Comprehensive monthly reconciliation of external debt data for all the macroeconomic sectors;
- Identification of bottlenecks for corrective measures to improve absorptive capacity;
- Financial evaluation to ensure external debt sustainability for each proposed loan, with interdepartmental discussion of the results prior to agreement; and
- Seeking appropriate technical assistance from development partners, and training our staff.

Monetary and exchange rate policies

16. The Bank of Ghana will continue to aim at lowering inflation to single digit by end-2006. To this end, the targeted growth of broad money is 18.3 percent, broadly in line with nominal GDP growth. Since last year, the central bank has made a number of important changes to its operating framework to increase economic efficiency and make it more likely that all commercial banks would take full advantage of market opportunities. These changes include a reduction of the secondary reserve requirement. At this stage, there is no evidence that the change has impacted on the path of the monetary aggregates, although there may be a lagged reaction as commercial banks adjust to the new environment. The central bank will remain vigilant to ensure that the monetary stance remains consistent with achieving its inflation and international reserves targets.

17. Ghana will continue to maintain a managed floating exchange rate regime, with no preannounced path for the exchange rate. Under this regime, interventions in the foreign exchange market are limited to short-term smoothing and achievement of the international reserves objective. We believe that this regime has served Ghana well. Recent real effective appreciation has not harmed Ghana’s international competitiveness, as indicated by the continued expansion of nontraditional exports and continued strong net private inflows. We have also experienced relative stability of the cedi nominal exchange rate with respect to the U.S. dollar. Under the circumstances, the central bank does not intend to undertake any action that would inhibit changes to the exchange rate as determined by the fundamentals of market forces.

Structural policies

18. An important element of our economic program concerns reform of the public sector in general, and the civil service in particular. As envisaged, the government has now adopted a civil service reform program that includes an action plan and timetable for implementation. The main elements of the reform program involve:

- Elimination of subvented agencies that are no longer relevant to the government's objectives; facilitation of partial or full commercialization of selected subvented agencies; and determination of the appropriate level of government subvention for the rest;
- Undertaking a comprehensive review of the wage and salary structure of the public service, that provides for the rationalization of the emolument structure, the monetization of non-monetary benefits, the standardization of job titles, and the update of job classification. The government will present a report on this review by end-June 2006.

19. The government considers that the private sector must lead growth. As indicated earlier, efforts to further consolidate the fiscal position will "crowd-in" private investment through a lowering of interest rates. However, we realize that reducing the cost of capital is only one element (albeit important) in achieving this goal. Another key element is the deepening of financial intermediation. Accordingly, the Financial Sector Strategic Plan will continue to provide the medium-term direction for reform in the financial sector—with emphasis on regulatory and judicial reform, institutional capacity building, protection of private property rights, and competition in commercial banking. Progress is being made on all these fronts, although in some areas with delays. Two pieces of legislation are especially important for reducing structural rigidities to credit growth. First, the Credit Reporting Bill is important for establishing the legal basis for gathering information on borrowers that is used to judge credit risks. The Ministry of Finance and Economic Planning has submitted the Credit Reporting Bill to cabinet for final approval by end-June 2006. The second concern is the Companies Code, which is important for establishing the legal obligation of incorporated enterprises. Also, the efficiency of the banking sector will be further enhanced with the new foreign exchange and anti-money laundering bills that are under consideration.

20. We intend to build on the progress we have made in strengthening the financial and operating performance of public enterprises. This progress reflects improvements in financial planning, monitoring, and ensuring that commercially-oriented entities maintain or adopt pricing policies that reflect full cost recovery. In the latter regard, a key element is the triennial tariff review being undertaken by the Public Utilities Regulatory Commission (PURC). This review—to be completed by year-end—will assess the parameters of the current formulae used in setting utility tariffs, the relevance of the current tariff structures, and the revaluation of the utility companies' assets and its potential impact on cost recovery.

21. Last year, the operations of the Volta Aluminum Company (VALCO)—now state-owned—were restarted, and production started in early 2006. In our view, VALCO will play an important role in Ghana's development through its backward integration with the aluminum industry (in particular, the mining and processing of Ghana's vast bauxite deposits, which will also create significant employment opportunities in areas where there is widespread poverty). The Volta River Authority (VRA) will supply VALCO with electricity at rates that are below its cost recovery. This quasi-fiscal activity will be financed through explicit budgetary provisions to VRA. To the extent that VRA's overall profit increases, corresponding dividends will be included in the budget. This approach, we recognize, is important for transparency and to avoid the depletion of assets. It is envisaged that Alcoa (the government's strategic partner in VALCO) will build a dedicated power plant to supply the

aluminum smelter with some of its power requirements, thereby lowering the required subsidy from the budget over the medium term.

Program monitoring

22. Quantitative and structural performance criteria and structural benchmarks for 2006 are set out in Tables 3 and 4. The sixth review of the program is expected to be completed by September 2006, with end-June 2006 as the test date for the quantitative performance criteria. Detailed definitions and reporting requirements for all performance criteria and structural conditions are contained in the updated Technical Memorandum of Understanding (TMU) attached to this letter.

23. We believe that the policies specified forth in this letter provide a basis for sustaining growth, reducing inflation, and alleviating poverty—but we stand ready to take additional measures if required. The government will provide the Fund with the information needed to assess progress in implementing our program as specified in the TMU, and will consult with the Fund staff on any measures that may be appropriate at the initiative of the government or whenever the Fund requests a consultation. The government intends to make this letter, the TMU, and the staff report for the fourth and fifth reviews available to the public. In this context, it authorizes the IMF to arrange for them to be posted on the Fund's website, subsequent to Executive Board completion of the reviews.

24. Accordingly, we are requesting completion of the fourth and fifth reviews, and disbursement of the fifth and sixth loan installments, totaling SDR 52.70 million.

Yours sincerely,

s/	s/
Hon. Kwadwo Baah-Wiredu, MP Minister of Finance and Economic Planning	Dr. Paul A. Acquah Governor, Bank of Ghana

Attachments (5)

Table 1. Ghana: Quantitative Performance Criteria and Indicative Targets, PRGF Arrangement, 2005 1/
(Cumulative flows from beginning of calendar year 2005 to end of month indicated, unless otherwise indicated)

	End-June			End-September		End-December		
	Perf. criterion 2/	Actual	Status	Indicative 2/	Actual	Perf. criterion 2/	Prel.	Status
Performance criteria								
Net domestic financing of government (ceiling)	-237	1,236	Not met	-1,374	970	-996	-1,541	Met
Net domestic assets of the Bank of Ghana (ceiling) 3/	1,170	1,163	Met	2,095	210	444	-1	Met
Stock of net domestic banking sector credit to TOR (ceiling)	568	445	Met	600	652	600	950	Not met
Net international reserves of the Bank of Ghana (floor)	-217	-138	Met	-283	21	130	309	Met
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) 4/	0	0	Met	0	0	0	0	Met
Outstanding stock of external debt with original maturity of less than one year owed or guaranteed by the government or the Bank of Ghana (ceiling) 5/	100	25	Met	100	0.1	100	47	Met
Stock of external payment arrears (ceiling) 6/	0	0	Met	0	0	0	0	Met
Wage bill of the central government (ceiling) 7/	3,747	3,740	Met	6,447	5,928	8,832	8,392	Met
Indicative targets								
Government domestic primary balance (floor)	1,598	1,060	Not met	2,109	653	2,532	3,268	Met
Reserve money stock (ceiling)	8,313	7,968	Met	8,633	8,433	10,777	10,140	Met
Government revenue, excluding grants and divestiture proceeds (floor)	10,646	9,864	Not met	16,886	15,235	23,911	23,156	Not met
Poverty related expenditures (floor)	3,549	3,124	Not met	5,758	5,451	8,014	8,256	Met

1/ Definitions of line items and terminology are elaborated in the technical memorandum of understanding. Variables are measured at end of month values, unless otherwise indicated.
2/ www.imf.org.
3/ Based on a fixed exchange rate of 9,177.0 cedis/U.S. dollar, the rate prevailing at end-March 2005.
4/ This is a continuous performance criterion. It 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-(00/123) of August 24, 2000 but also to commitments or contracted for which value has not been received, as specified in paragraph 19 of the TMU.
5/ 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-(00/123) of August 24, 2000, as specified in paragraph 18 of the TMU.
6/ This is a continuous performance criterion. The TMU stipulates the precise program definition of payment arrears.
7/ Cumulative from January 2005, and including subvented agencies, all allowances (including additional duty hour allowance), and clearance of all wage arrears from 2004 amounting to 149 billion cedis.

Table 2. Ghana: Structural Performance Criteria and Benchmarks for 2005 1/

Conditionality	Status
Performance criteria	
• **End-September 2005.** Establish computerized integrated personnel and payroll databases, which will include all employees covered under the Ghana Universal Salary Structure (GUSS) and all subvented agencies (such as the police, universities, and research centers).	**Done.** By end-December 2005, the computerized integrated personnel payroll databases had been completed. The full migration from the existing integrated personnel and payroll database (IPPD1) to the new IPPD2 is expected by end-June 2006.
• **By December 31 2005.** Cabinet to approve the final plan for the civil service reform covering human resource policy, reviewing the organization and structure of the civil service, and addressing wage policy and payroll management (including pensions) (in line with paragraphs 28 and 29 of the MEFP).	**Done.** Cabinet approved the revised civil service reform plan in October 2005.
Benchmarks	
• **Continuous.** Starting January 1, 2006. Bank of Ghana will start to enforce compliance of commercial banks with the capital adequacy stipulated in the Bank of Ghana Law and Banking Act. Noncomplying banks must take timely remedial actions, or their licenses will be revoked.	**Being implemented.** Noncomplying banks are expected to take timely remedial actions. In any event, Bank of Ghana has publicly notified that commercial banks who fail to meet the minimum capital requirements (cedi 70 billion) by end-December 2006 would have their licenses revoked.
• **By end-December 2005.** The Minister of Finance and Economic Planning (MOFEP) will issue an Administrative Directive to expand the mandate of the Non-Tax Revenue Unit at the Ministry of Finance and Economic Planning to monitor—on a quarterly basis—the financial and operating performance of the 35 state-owned enterprises that now report to the State Enterprise Commission (SEC), as well as any other key public enterprises so determined by the Minister of Finance and Economic Planning (in line with paragraph 25 of the MEFP).	**Done.** The Administrative Directive was issued by the Minister in August 2005. MOFEP Non-Tax Revenue Unit and the SEC are working to establish a template for quarterly reporting of SOE data (to begin in the first quarter of 2006).

1/ Country Report No. 05/292; and data and information provided by the Ghanaian authorities.

Table 3. Ghana: Quantitative Performance Criteria and Indicative Targets, PRGF Arrangement, 2006 1/
(Cumulative flows from beginning of calendar year 2006 to end of month indicated, unless otherwise indicated)

	End-March	End-June	End-September	End-December
	Est.	Perf. criterion	Indicative	Indicative
		(In billions of cedis)		
Performance criteria				
Net domestic financing of government (ceiling)	1,640	2170	870	215
Net domestic assets of the Bank of Ghana (ceiling) 2/	-1,110	-4,376	-5,086	-1,939
Stock of net domestic banking sector credit to TOR (ceiling)	950	950	300	200
		(In millions of U.S. dollars)		
Net international reserves of the Bank of Ghana (floor)	52	165	225	160
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) 3/	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 (ceiling) 4/	50	100	100	100
Stock of external payment arrears (ceiling) 5/	0	0	0	0
		(In billions of cedis)		
Wage bill of the central government (ceiling)	2,498	5,387	7,588	9,990
Indicative targets				
Reserve money stock (ceiling)	10,088	9,600	9,720	11,900
Poverty related expenditures (floor)	1,865	4,242	6,680	11,187

1/ Definitions of line items and terminology are elaborated in the technical memorandum of understanding. Variables are measured at end of month values, unless otherwise indicated.
2/ Based on the official end-March exchange rate 9,138.8 cedis/U.S. dollar.
3/ This is a continuous performance criterion. It 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-(00/123) of August 24, 2000 but also to commitments or contracted for which value has not been received, as specified in paragraph 20 of the TMU.
4/ 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-(00/123) of August 24, 2000, as specified in paragraph 19 of the TMU.
5/ This is a continuous performance criterion. The TMU stipulates the precise program definition of payment arrears.

Table 4. Ghana: Structural Performance Criterion and Benchmark for 2006

Conditionality	Status
Performance criterion	
• **End-June 2006.** Present a report on the comprehensive review of the wage and salary structure of public service workers that provides for the rationalization of the emolument structure, the monetization of non-monetary benefits, the standardization of job titles, and the update of job classification.	
Benchmark	
• **End-June 2006.** The Ministry of Finance and Economic Planning will submit the Credit Reporting Bill to cabinet for final approval.	

Technical Memorandum of Understanding

1. This technical memorandum of understanding contains definitions that are intended to clarify the measurement of items in Table 3, Quantitative Performance Criteria and Indicative Targets, PRGF Arrangement, 2006, attached to the Letter of Intent. Unless otherwise specified, all quantitative performance criteria and indicative targets will be evaluated in terms of cumulative flows from December 31, 2005.

Provision of data to the Fund

2. Data with respect to all variables subject to performance criteria and indicative targets will be provided to Fund staff on a monthly basis with a lag of no more than eight weeks (except for select data for which the reporting lag is explicitly specified in Table 5). The authorities will transmit promptly to Fund staff any data revisions. For any information (and data) that is (are) relevant for assessing performance against program objectives but is (are) not specifically defined in this memorandum, the authorities will consult with Fund staff.

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 the National Health Insurance Fund) and various subvented and other government agencies that are classified as government in the Bank of Ghana (BOG) Statement of Accounts (SOA). The Social Security and National Insurance Trust (SSNIT) and public enterprises, including Cocobod, are excluded from the definition of government. With regard to government deposits in commercial banks, the BOG's definition of government, circulated to commercial banks in May 2004, will apply for program purposes.

4. **Government domestic revenue** comprises all tax and nontax revenues of the government (in domestic and foreign currency), excluding foreign grants and divestiture receipts. Revenue will be measured on a cash basis as gross inflows to the government's uncommitted treasury collections accounts (as reported by the BOG).

5. **Government domestic expenditure** comprises all spending from uncommitted accounts for Items 1-4, as captured by the accounts of the Controller and Accountant General's Department (CAGD), transfers, payments to statutory funds, HIPC-financed expenditure, and VAT refunds. Reporting will be based on the current National Expenditure Tracking System (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 ministries, departments, and agencies' (MDA's) operational accounts (plus any residual use of existing treasury drawing/overdraft accounts). Expenditure will also be verified by comparing it with accounts produced by the Budget and Public Expenditure Management System (BPEMS) accounting system, until such time as it becomes fully operational.

6. **The government will continue to report poverty-related expenditures,** including the use of funds from the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Budgeted poverty spending for these categories will be taken from each year's final appropriations bill and will include spending financed by the government or donors or from internally generated funds. Actual poverty-related spending will be identified using the last 3 digits of the 15-digit chart of accounts of the CAGD's current NETS and the subcomponent that is financed through HIPC Initiative debt relief. These data will be supplemented with that proportion of transfers to the District Assembly Common Fund, the Ghana Educational Trust Fund, and the Road Fund, which are deemed by those entities to be poverty-related. Accordingly, actual poverty spending will exclude some donor-supported expenditure not currently captured by the CAGD (including, among others, the pooled donor health fund).

7. **Net domestic financing of government** is defined as the change in net credit to government by the banking system (i.e., the Bank of Ghana plus deposit money banks) plus the net change in holdings of treasury bills and other government securities by the nonbank sector, including deferred accrued-interest payments on inflation-indexed bonds but excluding divestiture receipts. Such credit will also exclude treasury bills issued for open market operation purposes from January 1, 2003 onward (the holdings of which are excluded from the BOG Treasury Department's Debt Registry of central government securities, and the proceeds of which are sterilized in deposits held as other BOG liabilities, as defined in the monetary template provided to the IMF on December 3, 2003).

8. **Outstanding net credit to the government by the Bank of Ghana** comprises the sum of claims on government (SOA codes 0401 and 050101-4), including overdrafts of the government with the BOG and deferred accrued interest on BOG holdings of inflation-indexed bonds, less government deposits (1101 including the main HIPC Initiative receiving account, and 1202) as defined in the monetary template.

9. **Outstanding net credit by deposit money banks** comprises deposit money bank (DMB) holdings of government securities at cost of purchase value, as reported by the BOG Treasury Department's Debt Registry, plus overdrafts less government deposits as reported by DMBs in the revised BSD2 report forms (and defined in the Monetary Template), plus deferred accrued interest on their holdings of inflation-indexed bonds.

10. **Nonbank financing** is the difference between total net cash receipts to the treasury main cash account (issues/redemptions account when it becomes operational) from the sale/repurchase of government securities, less the corresponding net cash value received from the BOG and DMBs as indicated on the Debt Registry by holder at discount value, plus deferred accrued interest on their holdings of inflation-indexed bonds. 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.

11. The **domestic primary balance** is defined as the difference between government domestic revenue and noninterest domestic government expenditure as reported by the CAGD. It will exclude foreign-financed capital expenditure, for which data are reported by

the Aid and Debt Management Unit (ADMU). 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).

12. The **wage bill of the government** is defined as the sum of personal emoluments and Item 1 under the contingency expenditure, plus amounts identified as salary-related allowances less salary suspense account, all provided by the CAGD in "Report and Financial Statements on the Public Accounts of Ghana (Consolidated Fund)." The wage bill is to include all remunerations (plus the Additional Duty Hourly Allowance) paid to civil servants covered under the Ghana Universal Salary Structure (GUSS) and subvented agencies.

13. **Net domestic credit to the Tema Oil Refinery (TOR)** from the banking system will be defined as total advances to TOR by deposit money banks (including overdrafts and letters of credit), less TOR's deposits with deposit money banks, and will be reported by the Research Department of the Bank of Ghana.

14. The **program exchange rate** for the purposes of this memorandum will be 9,138.8 cedis per dollar, which was the official exchange rate prevailing at end-March 2006.

15. **Reserve money** is defined as the sum of currency in circulation (BOG statement of accounts codes 901 plus 902), plus cedi-denominated currency deposits at the BOG (excluding accounts that are overdrawn, blocked, or owned by banks in liquidation) of the following entities: commercial banks, other financial institutions, private sector entities, public institutions, and public enterprises. A more detailed listing of accounts to be included in the measure of reserve money is contained in the monetary template referred to in paragraph 7. If aggregate reserves fall below the legal reserve requirement of 9 percent of bank deposits (as reported in the quarterly STCRBB), then reserve money will be adjusted upward to the extent of any shortfall in compliance with that reserve requirement.

16. **Net foreign assets** are defined in the monetary survey as short- and long-term foreign assets minus liabilities of the BOG that are contracted with nonresidents. Short-term foreign assets include: monetary gold (valued at the spot market rate for gold, US$/fine ounce, London), holdings of SDRs, reserve position and HIPC Initiative trust investment in the IMF, the HIPC Initiative 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 BOG at original maturities of one year or less (including overdrafts), outstanding liabilities to the IMF, and deposits of international institutions at the BOG. Long-term foreign assets and liabilities are comprised of: other foreign assets (BOG statement of accounts code 303), investments abroad (a subset of 60201), other long-term liabilities to nonresidents (a subset of 1103), and bilateral payment agreements (305). All values not in U.S. dollars are to be converted to U.S. dollars at the exchange rates prevailing at end-March 2006 and then into cedis at the program exchange rate indicated in

paragraph 14. A more detailed listing of accounts to be included in the measure of net foreign assets is contained in the monetary template referred to in paragraph 7 above.

17. **Net international reserves** of the BOG are defined for program monitoring purposes and in the balance of payments as short-term foreign assets of the BOG, 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 BOG (that is, they are pledged or otherwise encumbered external assets, including, but not limited to, the HIPC umbrella SDR account, they will be excluded from the definition of net international reserves. Net international reserves are also defined to include net swap transactions (receivable less payable) and exclude all positive foreign currency deposits at the BOG held by resident deposit money banks, public institutions, nonfinancial public enterprises, other financial institutions, and the private sector. All values not in U.S. dollars are to be converted to U.S. dollars at the exchange rates prevailing at end-March 2006 and then into cedis at the program exchange rate indicated in paragraph 14. A more detailed listing of accounts to be included in the measure of net international reserves is contained in the monetary template referred to in the paragraph above.

18. **Net domestic assets** of the Bank of Ghana are defined as the difference between reserve money and net foreign assets of the BOG, excluding the HIPC Umbrella SDR account, converted from U.S. dollars to cedis at the program exchange rate.

19. The performance criterion on **short-term external debt** refers to the outstanding stock of external debt with an original maturity of one year or less, including overdraft positions and debt owed or guaranteed by the government or the BOG.[13] Data on the BOG's short-term external debt are those reported from the statement of accounts template as short-term liabilities to nonresident commercial banks (BOG statement of accounts code 1201 plus 301 overdrafts plus Crown Agent).

20. The performance criterion on **nonconcessional medium- and long-term external debt** (Table 3) refers to the contracting or guaranteeing of external debt with an original maturity of more than one year by the government or Bank of Ghana.[14] Medium- and long-

[13] (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.

[14] (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

(continued)

term debt and its concessionality will be reported by the Aid and Debt Management Unit of the Ministry of Finance and Economic Planning, and will be measured in U.S. dollars at current exchange rates.

21. **External payment arrears** are deemed to accrue when undisputed interest or amortization payments of the government are not made within the terms of the 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.

External Data, Debt and Debt Service, HIPC Relief, and MDRI Relief

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

(a) All MDAs have been informed that the ADMU in the Ministry of Finance and Economic Planning 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. The 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 and Economic Planning 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 the 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 Economic Planning and at the CAGD to ensure that an absence of signing authority does not delay

---

US$30 million) that may be guaranteed by the government for the Northern Ghana Groundnut Project. 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.

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) At the same time, procedures instituted in early 2003 relating to prior authorization and fiscal booking of external and other payments by direct debit will be maintained.

(f) In the event that a shortage of foreign exchange results in a queuing of debt-service obligations at the BOG, delaying payments beyond their due dates, the Ministry of Finance and Economic Planning 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 BOG to confirm the transactions to CAGD and the ADMU in the MoFEP 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 BOG and the Minister of Finance and Economic Planning and his senior officials and to the IMF staff on a monthly basis.

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

(h) **Two accounts** have been established at the BOG for the receipt and disbursement of HIPC Initiative relief. When each debt-service payment falls due, the government of Ghana (or the BOG for IMF repurchases) will transfer to the account that proportion of the amount due that, 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 Initiative account the debt-relieved portion of the debt service payment, if the enterprise fails to do so on the due date. The 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 Initiative account. The ADMU will prepare a monthly report indicating for the coming month (i) the total debt service due by creditor, (ii) the amount of HIPC Initiative relief on each transaction, and (iii) the debt service paid and the transfers to the HIPC Initiative account by creditor for the previous month. This report will be provided within two weeks of the end of the month to the CAGD and the IMF.

(i) For the purpose of tracking the use of MDRI resources (including those for poverty-reducing spending), a sub-account of the government's consolidated fund account with the Bank of Ghana will be established (at the Bank of Ghana) for the receipt and disbursement of such MDRI resources.

Table 5. Ghana: Data to be Reported to the IMF

Item	Periodicity
Fiscal data (to be provided by the MOFEP)	
Central budget operations for revenues, expenditures and financing.	Monthly, within six weeks of the end of each month.
Functional breakdown by Ministry, Department, and Agency of expenditure authorizations, payment vouchers issued, payment vouchers liquidated, and arrears. These data will also identify poverty-related and expenditures financed through the HIPC Initiative, as well as the inflows and disbursements from the HIPC receiving and drawing accounts at the BOG.	Monthly, within six weeks of the end of each month.
Divestiture receipts received by the budget (in cedis and foreign exchange, net of divestiture transactions costs).	Monthly, within six weeks of the end of each month.
Monetary data (to be provided by the BOG)	
Net domestic assets and net international reserves of the BOG.	Monthly, within two weeks of the end of each month.
Detailed balance sheet of the monetary authorities.	Monthly, within four weeks of the end of each month.
Monetary survey detailing the consolidated balance sheet of commercial banks using the new BSD2 Report Form.	Monthly, within six weeks of the end of each month.
Summary position of government committed and uncommitted accounts at BOG, as well as total financing from BOG. Accompanying table showing composition of other receipts and other expenditure.	Monthly, within four weeks of the end of each month.
Composition of banking system and nonbanking system net claims on government.	Monthly, within four weeks of the end of each month.
Debt registry showing structure and holders of domestic government debt, at face value and at discount. Similar table showing holders of treasury bills for open market operations.	Monthly, within four weeks of the end of each month.
Balance of Payments (to be provided by the BOG)	
Export and import data on value, volume, and unit values, by major categories and other major balance of payments variables.	Quarterly, with a maximum lag of two months.

Table 5. Ghana: Data to be Reported to the IMF (concluded)

Foreign exchange cash flow.	Monthly, within four weeks of the end of the month.
External debt and foreign assistance data (to be provided by MOFEP)	
Information on the concessionality of all new external loans contracted by the government or with a government guarantee.	Monthly, within four weeks of the end of each quarter.
For the coming quarter: (i) total debt service due by creditor, (ii) amount of HIPC Initiative relief on each transaction, and (iii) debt service paid and the transfers to the HIPC Initiative account by creditor for the previous month. Report should cover government and government-guaranteed debt (as defined in this document).	Quarterly within four weeks of the end of each quarter.
External debt and external debt service incurred by enterprises with government ownership above 50 percent, even if loans have not been explicitly guaranteed by the government.	Quarterly, within three weeks of the end of each quarter.
Disbursements of grants and loans by creditor	Quarterly, within four weeks of the end of each quarter.
Other data (to be provided by GSS)	
Overall consumer price index.	Monthly, within two weeks of the end of each month.
National accounts by sector of production, in nominal and real terms.	Annual, within three months of the end of each year (switching to quarterly when they become available).

Ghana—Work Program 2006

June 2006	Executive Board meeting for fourth and fifth PRGF review.
August 2006	Mission to conduct the sixth (and final) review (end-June 2006 test date); discussion of ex post assessment of prolonged use of Fund resources.
October 2006	Executive Board meeting for sixth and final PRGF review.

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

Press Release No. 06/126
FOR IMMEDIATE RELEASE
June 12, 2006

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth and Fifth Reviews Under Ghana's PRGF Arrangement and Approves US$77.9 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fourth and fifth reviews of Ghana's economic performance under a Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the reviews makes available to Ghana two loan disbursements in a total amount equivalent to SDR 52.7 million (about US$77.9 million) under the arrangement.

The Executive Board also approved Ghana's request for waivers for the nonobservance of two quantitative performance criteria and one structural performance criterion, as the authorities have since reviewed the factors that contributed to their nonobservance, and have put measures in place to ensure that they achieve the original program objectives.

Ghana's three-year PRGF arrangement was approved on May 9, 2003 (See Press Release No. 03/66) for SDR 184.5 million (about US$272.8 million). So far, Ghana has drawn SDR 105.4 million (about US$155.8 million) under the arrangement.

Following the Executive Board's discussion on Ghana, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

"The Ghanaian authorities are to be commended for the continued improvement in macroeconomic policies, which have set the base for stronger growth, a decline in inflation, a lower debt burden, and a strengthened external position. Encouraging progress is being made towards achieving the Millennium Development Goals.

"The authorities made considerable progress toward their objective of reducing domestic debt, owing in large part to moderate fiscal policies in 2005. While lower than expected revenue and grants in the first half of 2005 led to some fiscal slippage, this was largely corrected in the second half of the year. In addition, control and monitoring improvements have helped contain the government wage bill and will likely yield lasting benefits in fiscal control. Looking ahead, it will be critical to resist pressures to relax the prudent fiscal policy stance.

"Monetary policy has remained firm and inflation expectations appear benign thanks to the strengthened credibility of the central bank. The reduction in secondary reserve requirements for banks, together with lower interest rates and structural reforms in the financial sector, should encourage growth of private sector credit. However, there should be vigilance in monitoring inflationary pressures, lagged reactions of the monetary aggregates to the new framework, and the quality of banks' portfolios.

"The authorities' progress on structural reforms has contributed to an acceleration of private sector led growth, while enhanced monitoring and managerial changes have supported the performance of many public enterprises. Continued emphasis on cost-recovery pricing should further improve the profitability of public enterprises and reduce quasi-fiscal activities. The cost and availability of capital remains an important impediment to private sector productive activity, and continued macroeconomic stability and the implementation of the government's Financial Sector Strategic Plan should help strengthen the financial sector. Progress on the ongoing civil service reform is welcome and will establish well-structured pay scales that will help retain qualified personnel, enhance the efficiency of development spending, and improve public service delivery.

"The managed floating exchange rate has served Ghana well as a buffer against external shocks. Allowing greater flexibility of the exchange rate in the face of strong foreign inflows would support further disinflation, while competitiveness concerns should be addressed through measures to enhance productivity.

"Debt relief under the enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI) has led to a substantial improvement in Ghana's debt service indicators, and now allows the authorities to increase expenditure in accordance with their poverty reduction strategy. As the government's economic strategy is now focused on accelerating growth through the preparation and implementation of an ambitious investment plan, it will be critical not to jeopardize Ghana's debt sustainability. Accordingly, Ghana should continue to rely on concessional development financing," Mr. Kato said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies that are adopted in a participatory process involving civil society and development partners and articulated in the 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 5½-year grace period on principal payments.