

**Ghana: Fourth Review Under the Poverty Reduction and Growth Facility, Requests for Waiver of Performance Criteria and for Extension of the Commitment Period—Staff Report; Staff Statement; News Brief on the Executive Board Discussion; and Statement by the Executive Director for Ghana**

In the context of the Fourth Review Under the Poverty Reduction and Growth Facility, and Request for Waiver of Performance Criteria and for Extension of the Commitment Period, the following documents have been released and are included in this package:

- the staff report for the Fourth Review Under the Poverty Reduction and Growth Facility, Requests for Waiver of Performance Criteria and for Extension of the Commitment Period, prepared by a staff team of the IMF, following discussions that ended on **October 31, 2001**, 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 January 31, 2002.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of **February 22, 2002**, updating information on recent developments.
- a News Brief summarizing the **views of the Executive Board as expressed during its February 22, 2002 discussion** of the staff report that completed the review.
- a statement by the Executive Director for Ghana.

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\*  
Technical Memorandum of Understanding\*  
Poverty Reduction Strategy Paper Preparation Status Report  
Poverty Reduction Strategy Paper Preparation Status Report—Joint Staff Assessment

\*May also be included in Staff Report

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

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GHANA

**Fourth Review Under the Poverty Reduction and Growth Facility, Requests for  
Waiver of Performance Criteria and for Extension of the Commitment Period**

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January 31, 2002

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## EXECUTIVE SUMMARY

### Recent Economic Developments

- **Substantial progress was made in restoring macroeconomic stability during 2001.** Tight control over cash expenditures by government and strongly positive real interest rates reduced monetary growth sharply. As a result, the inflation rate, having peaked at 42 percent in March 2001, fell to 21 percent by end-year, below the program target. The nominal exchange rate depreciated by less than 4 percent during the year, and the foreign exchange reserve position began to recover. Real GDP growth of 4 percent is expected for 2001, up from 3.7 percent in 2000, aided in part by stability in the terms of trade following the major shocks of the previous two years.
- **The fiscal position improved markedly in 2001, although new domestic arrears were accumulated.** The targeted domestic primary surplus of 4 percent of GDP is expected to be achieved, and net domestic financing of the budget to be cut from 8½ percent of GDP in 2000 to less than 1 percent in 2001. Continuing weaknesses in expenditure control at the commitment stage, however, allowed a build up of new domestic expenditure arrears of almost 1 percent of GDP.
- **Progress was made on structural reforms, but with delays.** Accomplishments include the restructuring of the bank debt of Tema Oil Refinery, the completion of financial and management audits of 11 major public enterprises, and the passage of a new Bank of Ghana law, enhancing the independence of the central bank. In some other important areas—reform of utility pricing, creation of a functioning interbank foreign exchange market, and divestiture—implementation was delayed to 2002.
- **Most end-August 2001 quantitative performance criteria were met,** but waivers are requested for nonobservance of two structural performance criteria and the ceilings on short-term official external debt and the stock of arrears in the road sector.

### Elements of the 2002 Program

- **The authorities' program for 2002 seeks to consolidate on the macroeconomic gains of the past year, accelerate structural reforms, and create the conditions for faster growth and poverty reduction.** The fiscal targets aim to keep the domestic debt-GDP ratio on a firm downward path, while making room for significant increases in noninterest government expenditures, both recurrent and capital, as a share of GDP. The monetary program targets an inflation rate of 13 percent by end-2002, with a significant real increase in credit for the nongovernment sector. GDP growth is expected to pick up modestly, to 4½ percent.
- **The expenditure plans in the 2002 draft budget, which draw on the draft Ghana Poverty Reduction Strategy, are underpinned by a strong revenue effort, together**

**with debt relief being sought under the enhanced HIPC Initiative.** A package of revenue measures will be introduced in the March budget, with further measures to be taken mid-year, raising a total 1 percent of GDP in 2002 (and 2 percent in a full year). If, as proposed, the HIPC decision point is approved at this time, the authorities plan to use 80 percent of the interim relief for additional poverty-related expenditures in 2002, and 20 percent for domestic debt reduction.

- **On the structural side, the program's main focus for 2002 will be on strengthening public expenditure management, implementation of the utility price reform plan, and progress in developing the interbank foreign exchange market.** The authorities also intend to push ahead with their divestiture strategy, and to continue recent efforts to strengthen Ghana's monetary and fiscal data.

#### **Issues Highlighted in the Staff Appraisal**

- **On the strength of the authorities' record in policy implementation during 2001 and their economic program for 2002, the staff recommends completion of the fourth review under the PRGF arrangement.**
- **Looking ahead, the staff stresses the importance of implementing the planned revenue measures and ensuring effective expenditure control.** The revenue effort is an essential counterpart to the relief being sought under the enhanced HIPC Initiative, so as to allow an increase in poverty-related expenditures while further reducing the burden of domestic debt. Improved monitoring and control of government expenditures at the commitment stage are needed to ensure that the spending plans are carried out as intended, without further accumulation of arrears.
- **Progress in the macroeconomic sphere needs to be supported in 2002 by vigorous implementation of the structural reform agenda.** The reforms supported under the PRGF arrangement would be an important element in a broader effort to stimulate private sector development, as envisaged in the draft GPRS.
- **The authorities should follow through on measures being taken to strengthen the quality and reliability of Ghana's financial data.** Better data will be an aid to better policy design and more effective macroeconomic management, and will help ensure more accurate reporting to the Fund on program implementation.

## I. INTRODUCTION

1. A mission visited Accra from October 17-31, 2001 to conduct discussions for the fourth review under the Poverty Reduction and Growth Facility (PRGF) arrangement.<sup>1</sup> In collaboration with World Bank staff, the mission also prepared a joint assessment of Ghana's PRSP Preparation Status Report, and a document proposing a decision point for Ghana under the enhanced HIPC Initiative (both forthcoming).
2. On May 3, 1999, the Executive Board approved a three-year arrangement under the PRGF in the amount of SDR 155 million (EBS/99/57). During the third review of the arrangement, which was completed on June 27, 2001 (EBS/01/88), Executive Directors noted the difficult economic situation inherited by the incoming government, commended the actions that had been taken to begin restoring macroeconomic stability, and expressed support for the authorities' economic program for 2001. Directors endorsed, in particular, the planned fiscal tightening, in order to ease the pressure on interest rates and reduce the burden of domestic debt interest on the budget, thereby creating room for increased social and other priority spending. They also emphasized the importance of a firm monetary stance to bring inflation down and support exchange rate stability. Directors urged the authorities to implement vigorously the strengthened systems for public expenditure control, move toward full cost recovery in the energy and public utility sectors, take steps to develop an efficient interbank foreign exchange market, and develop a bold and clearly articulated privatization program. They also attached high importance to the work underway to improve the accuracy and timeliness of data provision to the Fund.
3. On June 27, 2001, the Executive Board also discussed a report on a noncomplying PRGF disbursement, arising from the nonobservance of a performance criteria on new nonconcessional external borrowing contracted or guaranteed by the government or the Bank of Ghana, and the existence of external payments arrears that had previously been reported as cleared. Ghana was asked to repay the noncomplying disbursement of SDR 26.752 million by end-2001, which it did. A further report on noncomplying disbursements (EBS/02/9), relating to the misreporting of monetary data, is scheduled for Board discussion on February 4, 2002. In this case, management has proposed waivers for the nonobservance of the performance criteria on reserve money and short-term external debt, on the grounds that the objectives of the program had nevertheless been preserved. The extensive work that was required to recompile Ghana's monetary data in light of the reporting problems necessitated a delay in

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<sup>1</sup> The mission comprised Mr. Bredenkamp (head), Ms. Muttardy, and Mr. Engstrom (all AFR), Messrs. Matzen and Kalonji (PDR), Ms. Purfield (FAD). The outgoing and incoming resident representatives (Messrs. Begashaw and de la Piedra) participated in the discussions, and staff assistance was provided by Mr. Maynard (AFR). Mr. Mirakhor, Executive Director for Ghana, attended the discussions from October 22, 2001 through their conclusion.

completing the PRGF review and decision point under the enhanced HIPC Initiative, which had originally been planned for December 2001.

4. In the attached letter to the Managing Director dated January 31, 2002 (Appendix I), the authorities set out their economic program for 2002 as the basis for conclusion of the fourth review, and request waivers for the nonobservance of (a) end-August 2001 quantitative performance criteria on the stock of short-term external debt outstanding contracted or guaranteed by the government or the Bank of Ghana and the stock of government road sector arrears, and (b) end-August structural performance criteria on completion of an audit of 2000 domestic payments arrears, and completion of an agreement with creditors on the restructuring of the debt of the Tema Oil Refinery. In order to allow time for completion of the final review and disbursement under the arrangement, the authorities request an extension of the three-year commitment period, from May 2, 2002 until November 30, 2002.

## II. PERFORMANCE UNDER THE 2001 PROGRAM

### A. Macroeconomic Performance

5. **Following a severe terms of trade shock and uneven macroeconomic management in 1999-2000, the authorities succeeded in stabilizing the main macroeconomic indicators in 2001.** Having peaked at 42 percent in March 2001, the twelve-month CPI inflation rate fell to 21 percent in December 2001, compared with a program target of 25 percent (Figure 1). The cedi, which lost half of its value against the U.S. dollar during 2000, depreciated by only about 3½ percent in nominal terms in 2001 (Figure 2). The gross reserve position of the Bank of Ghana continued to recover, from US\$264 million (1 month of imports) at end-2000 to a projected US\$352 million (1.2 months of imports) at end-December 2001. These developments are reported by financial market participants to have been important factors in restoring business confidence in Ghana. The quantitative performance criteria for end-August 2001 on net domestic assets of the Bank of Ghana, the net domestic financing and domestic primary balance of government, and net international reserves of the Bank of Ghana were all observed, with comfortable margins (Table 1).

6. **The authorities maintained a tight rein on government finances in cash terms.** Strict limits on cash expenditures resulted in substantially lower-than-programmed recourse to domestic financing through August 2001 (Table 4). This was achieved despite a somewhat larger wage settlement for civil servants than had been planned, a modest shortfall in tax revenues, and lower-than-expected program grants.

7. **Discipline at the commitment stage was less impressive, however.** The new expenditure commitment control system—which the program had envisaged would be in place by end-July 2001 (Table 2)—became operational only in September, due to poor

cooperation from spending ministries. As a result, new domestic expenditure arrears totaling 0.8 percent of GDP were accumulated during January-August.<sup>2</sup> In addition, the government withheld around 1 percent of GDP in statutory transfers due to the District Assemblies Common Fund (DACF), the Education Trust Fund (ETF), and the Social Security and National Insurance Trust (SSNIT). After adjusting for the government's failure to pay all its bills, the underlying budgetary position during January-August 2001— taking into account the clearance of more pre-2001 arrears than planned and excess program financing—was somewhat weaker than programmed, as shown in Box 1.

	Program	Outturn	Difference
Total revenue and grants	15.0	13.3	-1.7
Total expenditure	18.5	15.6	-2.9
Net domestic financing	2.3	1.1	-1.2
New expenditure arrears	0	0.9	0.9
Unpaid statutory obligations	0	1.0	1.0
Clearance of pre-2001 arrears	0.9	1.3	0.4
Program financing	5.5	5.8	0.3
Net domestic financing adjusted for net change in arrears and program financing			0.6

Source: Table 4b.

8. **On the revenue side, a number of measures adopted in the 2001 budget had lower-than-expected yields, in some cases because of delays or modifications in their implementation.** On petroleum, in particular, the specific duties scheduled to take effect on September 1 were not put in place until October 31. The VAT and trade taxes performed well, however, so that total revenues for 2001 are now conservatively projected to come in only about 3½ percent below their programmed level.

9. **For the final quarter of 2001, the authorities prepared detailed expenditure ceilings that would keep the domestic primary surplus for 2001 as a whole in line with**

<sup>2</sup> This includes arrears in the roads sector alone of around 0.3 percent of GDP.



**the original program target of 4 percent of GDP.** The ceilings assumed partial liquidation of the arrears amassed during the first three quarters, and no accumulation of new arrears. Despite shortfalls in divestiture receipts (see below), it is now expected that net domestic financing for 2001 will be less than 1 percent of GDP, down from 8½ percent of GDP in 2000.

10. **Fiscal prudence supported a firm monetary stance.** Net government repayments to the Bank of Ghana, coupled with a return to positive real interest rates, reduced the pace of reserve money expansion by almost half, from 53 percent in the twelve months ended December 2000 to a projected 27 percent in December 2001.<sup>3</sup> The annual inflation rate was similarly reduced by roughly half over the same period, allowing the central bank to ease nominal interest rates during the second half of the year (Figure 4). While tight monetary policy led to some real appreciation of the exchange rate during 2001, the real effective exchange rate remained well below pre-2000 levels, thus preserving the necessary adjustment that had occurred in response to the 1999-2000 terms of trade shock (Figure 2). Conditions in the banking system were broadly stable during the first half of 2001 (the latest period for which data were available), with most banks showing unchanged or rising capital adequacy ratios, and modest increases in provisioning for bad debts. The launch of inflation-indexed bonds in September 2001—intended as a means to diversify the array of funding instruments and reduce borrowing costs—proceeded smoothly, albeit with complaints from some banks that the real rates of return being offered were artificially low.<sup>4</sup>

## B. Structural Reforms

11. **Progress was made on structural reforms, albeit in many cases with delays:**

- Of the two measures established as structural performance criteria for end-August 2001, the restructuring of the bank debt of Tema Oil Refinery was completed with a delay of two weeks. The other measure—completion of the audit of 2000 domestic arrears and a plan for their liquidation—is not now expected to be completed until March 2002, since the donor-funded consultants conducting the audit determined that the necessary work was considerably more extensive than anticipated. The auditors have, however, provided an interim report, which the authorities have supplemented with their own audit of 2001 arrears (as of August 2001), and this information has

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<sup>3</sup> Based on revised data for reserve money (see *Report on Noncomplying Disbursements and Recommendation for Corrective Actions*, EBS/02/9).

<sup>4</sup> The stipulation that banks hold almost half of their reserve requirements in the form of the new indexed bonds depresses the real rate in the auctions.

been used to formulate a plan for arrears clearance.<sup>5</sup> Accordingly, waivers are being sought for these performance criteria.

- The launch of a plan for moving toward full cost recovery in the electricity and water sectors, originally planned for end-September 2001, was held up by an extensive public consultation process which was completed only in November 2001.
- The financial and management audits of 11 (originally nine) major public enterprises were completed in December 2001, three months behind schedule.
- A delay on the part of the Council of State in constituting the Divestiture Implementation Committee—the body charged with planning and carrying out the sale of state assets with full public disclosure—prevented progress on divestiture. The Committee is now in place, and has begun work on the “fast track” list of assets that had been planned for sale in 2001.
- The phased elimination of direct central bank sales of foreign exchange to importers, scheduled to begin November 1, 2001, has also been delayed. The new Governor of the Bank of Ghana is in the process of consulting with banks on the steps needed to create a functioning interbank market, and would prefer to complete these consultations before committing to a particular schedule for action.<sup>6</sup>
- The submission to parliament of a revised Bank of Ghana law, clarifying the objectives of the central bank and strengthening its independence, was completed on schedule in August, and the law was passed in December 2001. As envisaged, this measure was reinforced by the Bank of Ghana’s divestiture in December 2001 of all remaining shareholdings in financial institutions that it supervises.<sup>7</sup>

### III. MEDIUM-TERM MACROECONOMIC STRATEGY

12. **Ghana’s medium-term macroeconomic strategy is intended to take the economy out of the trap of rising domestic debt, interest costs, and escalating inflation, which have hindered private sector development and consumed public resources that the government needs to improve the provision of social services and public infrastructure. This**

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<sup>5</sup> MEFP ¶8. All but Cedi 35 billion of the arrears so far confirmed will be cleared in 2002.

<sup>6</sup> The Fund has been providing technical assistance in this area, and the technical assistance report confirmed that more time would be needed to prepare the ground for the reform.

<sup>7</sup> Control of the shares was passed to an independent trust, pending further action, including possible sale of the shares.

broad approach was endorsed in the course of the public discussions during 2001 on the Ghana Poverty Reduction Strategy (GPRS), and the specific macroeconomic goals have been designed as an integral part of the strategy to reduce poverty in Ghana.

13. **The medium-term fiscal targets will generate domestic primary surpluses sufficient to cover all domestic debt service, approximately halving the ratio of domestic public debt to GDP by 2003 from its end-2000 level of 29 percent of GDP (Table 4).** Reduced reliance on the banking system for budgetary and parastatal financing, combined with positive real interest rates, are expected to curtail monetary growth and bring inflation down to single digits by end-2003. The framework allows for rising noninterest government spending as a share of GDP,<sup>8</sup> as well as substantial expansion of credit to the private sector in real terms (annual increases of 10-15 percent), in support of the targeted growth in real GDP of 5 percent from 2003 (Table 3).

#### IV. MAIN ELEMENTS OF THE 2002 PROGRAM

##### A. The Macroeconomic Framework

14. **In anticipation of possible debt relief under the enhanced HIPC Initiative, the authorities have defined two policy scenarios for 2002:** (i) a baseline, which defines what the macroeconomic framework would be in the absence of HIPC relief, assuming that traditional mechanisms for debt relief could have been exercised, and (ii) a scenario incorporating the additional debt relief available under the enhanced HIPC Initiative (see Box 2). The fiscal frameworks corresponding to the two scenarios are shown in Tables 4a. and b., and Tables 4c. and d., respectively. Both scenarios target a reduction in the 12-month inflation rate to 13 percent by end-2002, and a modest acceleration in real GDP growth from the 4 percent expected in 2001. Although the outlook for growth in Ghana is not likely to be substantially affected by the deterioration in the world economic environment, since the terms of trade are expected to move in Ghana's favor, the authorities wished to be prudent and hence have revised the projected GDP growth rate for 2002 down from 5 to 4½ percent.

##### B. Fiscal Policy

15. **The fiscal program for 2002 aims at reallocating expenditure toward social objectives, while substantially reducing domestic arrears and keeping the stock of domestic debt on a clear downward path.** The authorities stressed the need to provide for increased resources for public services and development projects in 2002, following a year of perceived austerity. But they also recognized the need to place revenues on a more durable footing as a complement to the relief Ghana will receive under the HIPC Initiative.

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<sup>8</sup> Even before including additional expenditures that would be made possible as a result of relief under the enhanced HIPC Initiative.

16. **Against this background, the authorities' proposed fiscal program for 2002 has the following main elements (Table 4b):**

- A domestic primary surplus, before use of HIPC relief, of 4.1 percent of GDP (i.e., slightly higher than the target for 2001). After adjusting for the inclusion of utility price subsidies equivalent to 0.8 percent of GDP that were previously off-budget, this is 0.4 percent of GDP lower than the surplus envisaged at the time of third review, reflecting the weaker prospects for growth.
- An increase in noninterest recurrent expenditure (excluding utility price subsidies) of 0.5 percent of GDP relative to 2001, to allow for a 20 percent civil service wage increase and a realistic allocation for government purchases of goods and services, so as to avoid pressures for further arrears accumulation.
- Full allowance for statutory payments to the DACF, ETF, and SSNIT—as well as clearance of the bulk of arrears to these institutions—and an overall increase in domestically financed capital spending of 0.4 percent of GDP.
- New revenue measures with an estimated net yield of 1 percent of GDP in 2002 (1.9 percent of GDP in a full year), as outlined in the MEFP, ¶16.

17. **As regards the revenue measures, staff had encouraged the authorities to introduce a complete package as part of the March Budget, in order to maximize the yields for 2002.**<sup>9</sup> The authorities, however, preferred to take more time to discuss and build consensus on some of the options, in the positive political environment that they believed would follow approval of debt relief for Ghana under the enhanced HIPC Initiative. The revenue package will therefore be implemented in two parts, some measures being introduced with the budget and others in mid-2002.

18. **The authorities will also announce in the 2002 Budget:** (i) the elimination of the special import tax (a structural performance criterion for end-March 2002), and (ii) their plans for the creation of an integrated Large Taxpayer Unit (LTU), which was identified by a recent FAD mission as a priority measure to improve tax administration (Box 3).<sup>10</sup> With follow-up technical assistance from FAD, the authorities will adopt a plan for the LTU's creation by end-June 2002 (MEFP, ¶17).

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<sup>9</sup> Although the fiscal year begins in January, Ghana's constitution requires a budget to be passed only by end-March.

<sup>10</sup> The 2002 Budget is expected to be submitted to Parliament by the end of February.

**Box 2. Baseline and HIPC Initiative Scenarios for 2002**

The baseline scenario for 2002 presents the framework that would be in place had financing under the enhanced HIPC Initiative not been available. It also defines a baseline for government expenditure against which the planned increase in spending to be financed by HIPC relief could be measured.

Major assumptions for the baseline (Tables 4a. and b.) include:

- Additional revenue measures, with a yield in 2002 of 1 percent of GDP, and a full year yield of 1.9 percent of GDP, to place government finances on a sustainable footing in the medium-term;
- Containment of aggregate noninterest expenditures at a level consistent with the targeted primary fiscal surplus; and
- A total financing gap of 3.9 percent of GDP, to be filled by traditional debt relief under Naples terms, estimated at US\$153 million (net of debt service on the deferral of 2001 payments, and assuming a notional cutoff of June 20, 1999), and additional unidentified program support of just over US\$50 million.

If enhanced HIPC relief were to be granted, the budget for 2002 would have an additional US\$96 million (1.6 percent of GDP) in resources to deploy, compared to the baseline scenario. In line with the priorities identified in the GPRS, the authorities will use 80 percent of these resources to increase poverty-related expenditure and 20 percent to reduce domestic debt. This is the scenario reported in Tables 4c. and d. A comparison of key fiscal indicators under the two scenarios is as follows:

**Fiscal Aggregates for 2002**  
(in percent of GDP)

	Baseline	HIPC Scenario
Poverty-related expenditures	6.9	8.2
Domestic primary surplus	4.1	3.1
Net domestic financing of the budget	1.0	0.3
Of which:		
HIPC financed domestic debt reduction	NA	0.3

**C. Monetary and Exchange Rate Policies**

19. **The monetary targets for 2002 are designed to achieve the targeted reduction in inflation to 13 percent while rebuilding gross foreign reserves to 2 months of imports by end-year.** This will entail a further contraction of the central bank's net domestic assets during 2002, which will be generated almost entirely by government net repayments. Nominal interest rates are expected to fall broadly in line with inflation. The program allows for a 13 percent real expansion in banking system credit to the nongovernment sector. The exchange rate will remain market-determined (MEFP, ¶25).

### Box 3. Recommendations on Tax and Customs Administration

A Fund technical assistance mission in September 2001 identified a number of important institutional weaknesses in Ghana's current tax and customs administration. These included a lack of coordination and information-sharing between the three agencies concerned—the Internal Revenue Service (IRS), the VAT Service (VATS), and the Customs, Excise and Preventive Service (CEPS)—the limited use of self-assessment and the common taxpayer identification number (TIN), and the lack of effective audits.

The mission proposed that the newly-constituted Revenue Agencies Governing Board (RAGB) should develop a long-term plan for the merger of the IRS and VATS into a single domestic tax administration, alongside CEPS. The RAGB would take responsibility for developing tax and tariff policies and procedures (advising the Ministry of Finance), monitoring their implementation, investigating fraud, and providing various services to the revenue agencies, such as information technology, internal audit and public relations.

For the short-term, among the mission's key recommendations were that the RAGB should:

- Establish a full-service, national, large taxpayers' unit under the direct supervision of the RAGB.
- Undertake a full tariff policy study aimed at removing tariff inconsistencies, reducing the value of goods taxed at the zero rate, and ensuring that exemptions are properly authorized and administered.
- Ensure that the IRS and CEPS implement the TIN.
- Take responsibility for the national audit team, and develop a plan for national-level fraud investigations.
- Develop an information technology plan for tax administration computerization, including the rationalization of resource investments in customs administration.

### D. Structural Reforms

20. **Key structural measures planned for 2002** include: (i) continuing to develop effective control and monitoring of public expenditures; (ii) making progress toward full cost recovery in the energy parastatals; (iii) promoting efficient private-sector-led growth through accelerated plans to divest publicly owned companies; and (iv) improving the allocation of external resources through the development of an effective interbank foreign exchange market. Box 4 provides a commentary on the structural conditionality in the 2002 program.

21. **The authorities recognize that improved monitoring and control of public expenditures is essential, not least to ensure effective use of potential HIPC relief.** The systems in Ghana are, at present, extremely weak, and their modernization is an extensive medium-term undertaking, which the IMF, World Bank and other donors are supporting. The authorities' immediate agenda in this area is laid out in the MEFP, ¶20-21. Its objective is not

#### **Box 4. Ghana—Structural Conditionality**

##### **Coverage of structural conditionality in current program**

The structural conditions for the 2002 program are shown in Appendix I, Table I.2. Prior actions for the *fourth review* are on: (a) putting in place revenue measures and key elements of the public expenditure control system to support the program's budget; (b) completion of an audit of domestic arrears to ensure that adequate provision has been made in the program for arrears clearance; and (c) commencement of an external audit of the Bank of Ghana, as a key element in the response to recent problems with monetary data.

These same areas are covered by a number of further conditions for the *fifth review*. Other conditions for the fifth review include: (a) elimination of the highly distorting and protective special import tax; (b) adoption of a timetable for creating a national large taxpayers unit (LTU), identified as a priority measure for improving tax administration; and (c) implementation of the PURC strategy for achieving cost recovery and automatic tariff adjustment in public utilities, to protect against a recurrence of large quasi-fiscal losses in these companies.

##### **Status of structural conditionality from earlier programs**

The implementation status of structural conditions set for the 2001 program is described in Table 2.

##### **Structural areas covered by World Bank conditionality**

Privatization of Ghana Commercial Bank is a condition for the final tranche under the Bank's Economic Reform Support Operation. The World Bank is planning a new adjustment lending operation for Ghana in 2002, which will cover structural policies in a range of areas identified as priorities in the GPRS.

##### **Structural areas covered by HIPC Completion Point conditionality**

Among the proposed floating conditions for Ghana's HIPC completion point, there are triggers relating to the continued implementation of the automatic price adjustment mechanism for petroleum and the PURC electricity price reform strategy, to ensure that resources needed for the poverty reduction strategy are not unintentionally diverted to energy prices subsidies, and to safeguard macroeconomic stability.

##### **Other relevant structural conditions not included in the current program**

State ownership and control of the monopoly oil supplier, TOR, poses a continuing risk to macroeconomic stability, as was seen in 1999-2000. Since TOR is viewed as a strategic enterprise, however, extensive political debate and consensus-building will be needed before a viable plan for its reform could be agreed upon and implemented. Staff did not consider that use of program conditionality in such a context was likely to be productive.

only to limit expenditure commitments more effectively, and hence avoid arrears, but also to enhance control over the *allocation* of expenditures, so that priority programs in particular are protected. The mechanisms that have been developed to allow the tracking of specific categories of expenditure identified in the draft GPRS as "poverty-related" (see the HIPC decision point document, forthcoming) have the same goal. The MEFP also includes ¶21 specific action to tackle the suspected structural cause of persistent accumulation of arrears in

the road sector, on the basis of which the authorities are requesting a waiver for the nonobservance of the performance criterion on the stock of road arrears at end-August 2001 (Table 1).

22. **The authorities continue to place high priority on restoring the financial health of the public energy and utility companies**, so as to avoid a recurrence of the huge quasi-fiscal parastatal losses that were associated with rising world oil prices in 1999 and 2000 (See Box 5). The early implementation of the Public Utilities Regulatory Commission's plan for full cost recovery in the public utilities, with automatic tariff adjustment formulae for electricity and water, is the essential element here (MEFP, ¶27). Given the PURC's independence, the timing of the plan's launch is outside the government's control, but the pricing reform is necessary to safeguard macroeconomic stability, and hence the authorities have agreed that its implementation should be a condition for completion of the fifth review.

23. **In the area of petroleum pricing, the authorities are committed to full implementation of the automatic price adjustment formula.** With effect from end-March 2002, the formula will be modified to include a petroleum debt service surcharge (PDSS; see MEFP, ¶9), intended to raise funds for the further amortization of TOR's huge debts. The staff, while supporting the notion of taxing petroleum consumers to pay directly for the cost of previous subsidies, advised against the asymmetric nature of the new surcharge, on the grounds that, by severely curtailing the scope for *downward* adjustments, it could undermine consumers' willingness to accept future pump price *increases* if oil prices were to rise.<sup>11</sup> In the longer term, the authorities and the staff agree that liberalization is the optimal solution, and the government plans to hold meetings with petroleum retail companies on the feasibility of deregulating petroleum product prices at the pump level.

24. The authorities are keen to press ahead with their divestiture strategy, now that the Divestiture Implementation Committee is fully functional. The main elements of the plan for 2002 in this area are summarized in the MEFP, ¶29. From a structural perspective, perhaps the most important of the scheduled privatizations will be that of Ghana Commercial Bank, one of the largest banks in Ghana. This sale is the sole condition for disbursement of a tranche under the World Bank's ERSO II loan. On the private sector development agenda more broadly, a significant innovation in early 2002 will be the launch of an Investors Advisory Council, comprising leaders of major international and local businesses, and chaired by the President of Ghana. It is hoped that this will be a forum for generating fresh ideas on how to improve the climate for actual and potential investors in Ghana.

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<sup>11</sup> The PDSS is only triggered if the oil import price falls below a defined reference level, at which point it absorbs 95 percent of any decline in oil import prices.



**Box 5: Ghana: Alternative Measures of Fiscal Activity**

**In Ghana, non-budgetary public sector entities and public financial institutions undertake a broad range of activities that are fiscal in nature.** Consequently the program measure of the central government understates the true size of government. For the period 1999-2003, three additional components of fiscal activity have been estimated to derive a broader measure of fiscal activity, the quasi-fiscal balance. These estimates encompass the accumulation of arrears on government obligations, the mis-pricing of petroleum and utility products that generate implicit price subsidies to households and enterprises, and the lending by the central bank to the government at below market rates. Estimates of the potential contingent claims on the budget from central bank loan guarantees and recapitalization are also provided.

Ghana: Estimates of the Quasi-Fiscal Deficit

	1999	2000	2001	2002	2003
	Prov.	Prov.	Proj.	Proj.	Proj.
	(in percent of GDP)				
1. Central government cash deficit (cash basis; below the line)	9.0	9.5	6.8	7.0	2.9
2. Estimate of flow of payment arrears	2.1	1.3	2.0	-1.2	-2.0
3. Central government accrual deficit (3=1+2)	11.2	10.8	8.8	5.8	1.0
4. Price subsidies	0.1	9.0	4.3	0.8	0.1
a. Petroleum	0.3	5.6	2.1	0.0	0.0
b. Electricity	-0.2	2.4	1.8	0.5	0.0
c. Water (operating losses at GWCL)	0.0	0.9	0.4	0.2	0.1
5. Overall government deficit, including off-budget subsidies (5=4+3)	11.3	19.8	13.1	6.5	1.1
6. Financial quasi-fiscal costs	1.8	3.3	2.5	0.9	0.7
Bonds issued for deposits at insolvent banks	0.0	0.3	0.0	0.0	0.0
Implicit interest subsidies from BOG to government	1.8	3.0	2.5	0.9	0.7
7. Overall estimate of quasi fiscal government balance (7=5+6)	13.1	23.0	15.6	7.5	1.8
<b>Memorandum Items</b>					
Contingent fiscal costs	0.0	8.0	5.7	4.7	4.0
Recapitalization of BOG to zero net worth	0.0	1.5	1.1	0.9	0.7
BOG issued guarantees	0.0	6.6	4.7	3.8	3.3

Source: IMF staff estimates

**The estimates suggest that quasi-fiscal activities in Ghana are large but declining.** The size of quasi-fiscal activities peaked in 2000 adding some 13.5 percent of GDP to the central budget cash deficit. This largely reflects the failure to pass through to domestic prices the full impact of the increase in international petroleum prices and the depreciation of the cedi. However, as nominal domestic interest rates soared in the course of 2000, the government received large subsidies from the Bank of Ghana (BOG) by borrowing from it at either zero and below market interest rates.

**Various reforms initiated by the government should help contain quasi-fiscal activities over the near term.** The most substantive of these reforms is the implementation of an automatic petroleum price adjustment formula to eliminate the subsidy on petroleum products by 2002 (though cross-product price subsidization will remain). In line with the PURC's transitional adjustment plan, electricity price subsidies should be phased out by end-2003, while water subsidies will be better targeted in favor of the poor. In addition, the government plans to pay down the stock of payment arrears so that the underlying accrual based deficit shows a sharp adjustment relative to the cash deficit from 2002. However, due to the large stock of government debt held by the BOG at below market rates, the government will still benefit from interest subsidies, although these decline as nominal interest rates fall in line with inflation.

**Looking ahead, further work will be needed to quantify the cost of other fiscal and quasi-fiscal activity in Ghana.** This work will include incorporating into the fiscal accounts local governments and all extra-budgetary funds (e.g. SSNIT), estimating of the cost of inter-enterprises arrears in the parastatal sector, as well as estimating the potential contingent claims on the budget in the public financial institutions.

25. **The improving foreign exchange situation reinforces the need for establishment of a well-functioning interbank market.** Given the prospect of substantial external debt relief in 2002, the amount of foreign exchange that will need to be intermediated through the banking system is likely to increase markedly this year. The Bank of Ghana believes that a modern interbank trading system is the best mechanism for this purpose, and in January 2002 launched consultations with interested commercial banks to prepare the ground and develop a realistic timetable for implementation. The authorities have agreed that progress in this area will be a focus for the fifth review under the arrangement.

#### E. External Financing, Debt Policy, and Capacity to Repay

26. **The external financing requirements for the 2002 program are shown in Table 7, on the scenarios with and without relief under the enhanced HIPC Initiative.** If Ghana's decision point is approved in February 2002, it is estimated that interim assistance under the enhanced HIPC Initiative, net of debt service on the deferral granted by the Paris Club in November 2001, would provide US\$249 million toward the total external financing needs of US\$1,118 million in 2002.<sup>12</sup> Identified donor support—including under a new World Bank adjustment credit, possibly with cofinancing by other donors—totals a further US\$650 million, and the Fund will disburse US\$135 million. This would leave a gap of US\$54 million, which it is expected could be filled by additional donor resources, to be mobilized at a Consultative Group meeting planned for the spring of 2002, following publication of the completed GPRS.

27. **The 2002 program maintains a zero limit on the contracting or guaranteeing of medium-term nonconcessional debt by the government or Bank of Ghana, as well as a ceiling on official short-term external debt.** At end-August 2001, the program ceiling of US\$50 million on short-term external debt of the government and Bank of Ghana was exceeded by US\$61 million (Table 1). This reflected data revisions that included US\$70 million in overdraft positions of the Bank of Ghana at foreign correspondent banks which had previously been netted from gross reserves, rather than reported as short-term external debt. Since the additional debt is matched by an equivalent amount of additional gross reserves at the Bank of Ghana, the authorities believe that the breach of the program ceiling did not undermine the objectives of the program, and are requesting a waiver for the nonobservance of the performance criterion on short-term debt. They have also proposed that the ceiling be raised to US\$75 million in the 2002 program to reflect the broader concept now being captured in the data, which will require the Bank of Ghana to pay down some, but not all, of its overdraft positions abroad.

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<sup>12</sup> In 2002, the Fund, World Bank, and AfDB will provide interim HIPC assistance of US\$12.3 million, US\$32.9 million, and US\$17.8 million, respectively.

28. **The prospect of debt relief under the enhanced HIPC Initiative strengthens Ghana's capacity to meet its projected (post relief) obligations to the Fund.** Detailed information on the debt service projections are provided in the HIPC decision point document.

#### V. POVERTY AND SOCIAL ISSUES

29. **The completion of the full Ghana Poverty Reduction Strategy, originally scheduled for early October, is not now expected until early 2002.** Work on the costings and prioritization of programs, in particular, has taken longer than expected, and the authorities wanted more time for consultations. The authorities' PRSP Preparation Status Report describes where the work stands and what remains to be done, and the joint staff assessment by Bank and Fund staff concludes that the progress toward the final PRSP has been satisfactory. In the absence of the completed GPRS, the staffs have provided an extensive summary of its main elements in the HIPC decision point document.

30. **Under its 2001 program, the government sought to shift resources toward public services of particular importance for the poor, and to protect them from the adjustment costs entailed in stabilizing the economy and putting the public finances on a more sustainable path.** Box 6 provides some analysis of these issues, drawing on work by World Bank staff, and focusing in particular on some discrete measures in the program that could be expected to affect low-income groups directly.

31. **In their 2002 budget, the authorities plan substantial increases in poverty-related expenditures.**<sup>13</sup> Excluding potential HIPC-financed expenditures, the budget is expected to boost the allocations for poverty-related spending to 24.2 percent of total expenditure, from 22.5 percent budgeted in 2001, implying an increase of around 5 percent in real per capita terms. The envisaged debt relief under the enhanced HIPC Initiative would allow an additional 1.3 percent of GDP in poverty-related expenditures, bringing the total real per capita increase in such expenditures to 27 percent in 2002.

#### VI. GOVERNANCE, TRANSPARENCY, AND REPORTING

32. **The authorities are undertaking a range of measures to improve governance, provide greater transparency in government operations, and enhance Ghana's statistical database and reporting (MEFP, ¶33-35).** The authorities have requested Fund assistance in preparing a Report on Standards and Codes in Fiscal Transparency for Ghana during the first half of 2002, which could provide useful input for a broader effort to improve budget procedures and reporting. The governance agenda also includes strengthened anti-

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<sup>13</sup> The authorities' definition of poverty-related expenditure is described in the HIPC decision point document (forthcoming).

money laundering procedures, which had been identified in the Financial System Stability Assessment as requiring upgrading.

33. **The authorities recognize the importance of reporting accurately developments under the PRGF-supported program**, in order to avoid a repeat of the several instances of misreporting by the previous administration. As outlined in the MEFP, steps are being taken to improve the reliability of both monetary and fiscal data and reporting. In the monetary area, the key innovation is to derive all data pertaining to the central bank balance sheet directly and electronically from the Bank of Ghana's underlying financial accounts, which are subject to external audit. In the fiscal area, above-the-line data will be (a) made more comprehensive, by including resource flows that currently bypass the reporting system (MEFP, ¶34), and (b) more systematically reconciled with banking data. The authorities also intend to streamline the proliferation of government bank accounts, which will improve financial control and monitoring. The work in these areas will be part of a broader effort to upgrade Ghana's statistics, including the national accounts and balance of payments data.

34. **Under its current arrangement with the Fund, Ghana is subject to the transitional procedures governing safeguards assessments.**<sup>14</sup> After reviewing the documentation provided by the Bank of Ghana on the external audit of its accounts, staff concluded that there were serious potential weaknesses in the quality of the audit, including concerns about the competence of the auditors and their independence from the Bank. A new external auditor of international standing (KPMG) has since been appointed to undertake the external audit of the Bank's 2001 accounts. This audit began in early January 2002.

## VII. STAFF APPRAISAL

35. **The authorities achieved their primary macroeconomic objectives for 2001.** On taking office at the beginning of the year, the new government inherited a weak and rapidly deteriorating financial situation, following serious policy slippages in late 2000. Inflation was surging, the exchange rate collapsing, and the accumulating debts of government and the parastatals were diverting massive resources from essential expenditure on public services and productive investment. By the end of 2001, in contrast, the inflation rate had been halved, the exchange rate had barely depreciated from its level a year earlier, and the budget was on track to meet the targeted domestic primary surplus of 4 percent of GDP.

36. **These positive results reflected concerted action by the finance ministry and central bank to impose financial discipline.** On the budget side, strenuous efforts were made to keep cash expenditures in line with available resources, allowing the two fiscal

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<sup>14</sup> These procedures require that the Bank of Ghana demonstrate, by providing documentation to the Fund staff, that it publishes annual financial statements that are independently audited in accordance with internationally accepted standards.

**Box 6: Poverty and Social Impact Analysis of Ghana's PRGF-Supported Program<sup>1</sup>**

To improve access for the poor to public services, resources devoted to **health and education** are being progressively increased. In the 2001 budget, the budgetary allocations for the health and education ministries increased to 36 percent of domestic primary expenditures, up from 32 percent in 2000. This ratio is set to increase to 42 percent under the proposed 2002 budget. The government is also implementing social relief programs in the northern and central regions to combat the rise in the incidence of poverty in these areas.

When increasing domestic **petroleum product prices** in 2001 to reflect the rise in import costs and new taxes, the impact on the poor was mitigated through cross-product price subsidization and staggered implementation of the taxes. Although gasoline consumption accounts for a higher share of expenditure in better-off households, kerosene consumption is heavily concentrated in the lower income brackets (see Table 1). Recognizing this, the government tapered the increases implemented in February 2001 by product: gasoline prices were increased by 61 percent to help contain the increase in kerosene price to 45 percent. The reintroduction of the ad-valorem and specific petroleum taxes was staggered to August and October, respectively, to take advantage of the fall in world oil prices which allowed these taxes to be implemented without further increases in retail prices. Looking to 2002, the new petroleum price adjustment formula will preserve the cross-subsidization of kerosene prices.

Table 1 : Petroleum Expenditure Shares in 1998/9

Quintile <sup>1</sup>	(% of expenditure)	
	Gasoline	Kerosene
1	0.04	2.53
2	0.06	1.75
3	0.11	1.48
4	0.07	1.12
5	0.50	0.72

Source: GLSS IV, 2000

<sup>1</sup> Quintile 1 is the poorest expenditure group

The PURC's plan to move the **public utilities** companies towards full cost recovery by 2003 is expected to have the largest impact on high-income households. This mainly reflects the fact that 59 percent of the population, principally those in rural areas, do not have access to electricity. Even for those with access, the current subsidization of regular tariffs and the blanket life-line subsidy for the first 50 kwh benefits highest-income households disproportionately as they consume 10 times more electricity than those in the poorest income bracket (see Table 2). The phased increase in retail electricity prices to the proposed target rates will reduce the price subsidy for all consumers but it will also narrow the gap in the distribution of benefits between the richest and poorest groups. Pending the finalization of the plans for water utility companies, the government has allocated in the proposed 2002 budget some 0.2 percent of GDP to subsidize the price of water for the poor.

Table 2 : Expenditure Shares of Electricity Consumption and Subsidy in 1998/9

Quintile	Consumption	(% of expenditure)		
		Price Subsidies		
		Current Rate A <sup>1</sup>	Current Rate B <sup>1</sup>	PURC Target Rate
1	0.14	0.09	0.22	0.08
2	0.34	0.20	0.47	0.17
3	0.63	0.30	0.81	0.29
4	0.96	0.42	1.19	0.41
5	1.34	0.50	1.53	0.50
(5/1)	9.6	5.6	6.9	6.3

Source: GLSS IV

<sup>1</sup> A shows the impact of the life-line subsidy alone; B shows the actual combined impact of the subsidized current tariffs and the life-line tariffs.

<sup>1</sup> This box draws on work by the World Bank Ghana Office on the impact of price adjustments on the poor.

performance criteria for end-August 2001 to be comfortably met. The resulting net repayments to the central bank helped keep the Bank of Ghana's net domestic assets well within program limits, and tight monetary conditions no doubt contributed to the overperformance on net international reserves. It is unfortunate, however, that control over expenditures at the commitment stage remained poor. The resulting accumulation of domestic arrears meant that underlying fiscal performance was weaker than intended, creating a burden for the 2002 budget.

37. **The improved macroeconomic situation provides a solid base for continued recovery in 2002.** Business confidence has strengthened, and the government is in a position to devote more resources to its priority social and other programs, thanks in part to the already sharply declining domestic interest burden. The authorities recognize that this progress needs to be consolidated, through continued downward pressure on inflation and minimal resort to domestic financing for the 2002 budget. Their program for 2002 reflects these priorities.

38. **Passage of a 2002 budget consistent with the program is of central importance. In its subsequent implementation, two issues will be particularly important: delivering the required revenue effort, and ensuring effective expenditure control.** The fact that only some of the revenue measures needed to fund the government's spending plans will be implemented up front, when the budget is presented to Parliament, poses a substantial risk to the program. In view of the large domestic revenue effort needed for the 2002 program, it is vital that the government come back to Parliament mid-year, as planned, with strong and broad-based supplementary revenue measures, for rapid implementation. On the expenditure side, the improved monitoring procedures should be followed rigorously, to permit appropriate control over aggregate spending commitments as well as to ensure that poverty-related spending programs in particular are being implemented as intended. It is also important that the civil service wage agreement for 2002, which has yet to be negotiated, be kept within the amounts provided for under the program.

39. **The authorities' monetary targets for 2002 provide the right balance between keeping firm downward pressure on inflation and allowing credit expansion sufficient to sustain growth.** Real interest rates should remain positive, and the exchange rate should be allowed to move flexibly in response to market conditions. The evolution of the real exchange rate will need to be monitored closely. The staff does not believe, however, that the real appreciation that occurred in 2001 is cause for concern, as the rate remains quite competitive from a historical perspective and Ghana's terms of trade are projected to improve in the coming year.

40. **While progress in the macroeconomic arena during 2001 was impressive, the extent of structural reform achieved was much more modest.** Some of the delays that occurred were outside the government's control, for instance those relating to divestiture and the utility price reforms, but were a significant setback nevertheless. It is important that a

momentum be created in 2002, so that the gains from macroeconomic stability are reinforced by the beginnings of a structural transformation in the Ghanaian economy. A take-off in private sector development will require broad-based reforms, extending well beyond those supported directly under the PRGF arrangement, drawing on ideas in the GPRS and from the Investors Advisory Council which the authorities expect to inaugurate in early 2002. A good start could be made, however, with a vigorous execution of the divestiture plans for 2002, launch of the utility price reforms, and the long-awaited creation of a functioning interbank market for foreign exchange in Ghana. The staff also encourages the authorities to move ahead on structural measures to improve tax administration and public procurement, as well as reforms to streamline the size of government.

41. **It is important that the authorities follow through on the measures being taken to improve the quality and reliability of Ghana's financial data.** Better data will be an aid to better policy design and more effective macroeconomic management. It is also essential in order to ensure accurate reporting to the Fund on program implementation. On the monetary side, the recent work done to automate the links between data reported in the monetary survey and the Bank of Ghana's financial accounts is a great advance. Further steps are needed, however, to improve the quality of the underlying accounting data, and the Fund stands ready to provide technical assistance in this area. The Bank of Ghana's commendable decision to use an international audit firm for the audit of its 2001 accounts, and its plan to move toward International Accounting Standards, will be helpful in this regard, and constitute a positive response to the concerns raised in the preliminary safeguards assessment.

42. **As regards budgetary reporting, a critical problem is the failure of the existing system to capture a large portion of donor flows.** This is an important gap in the data, particularly in light of the increased attention being focused on poverty-related expenditures, which are heavily influenced by donor resources. The authorities cannot address this issue without full cooperation from the donors themselves. The staff strongly supports their plan to ask that donor agencies channel all their aid flows through accounts at the Bank of Ghana. The Bank, for its part, has indicated its readiness to provide the requisite safeguards, in terms of accounting and control.

43. **On the strength of the authorities' record in policy implementation during 2001, and their economic program for 2002, the staff recommends completion of the fourth review under the PRGF arrangement,** and supports the request for waivers of the four performance criteria for end-August 2001 that were not observed. The staff also supports the request for an extension of the commitment period to end-November 2002, to allow time for the sixth and final disbursement under the arrangement to be made.

Table 1. Ghana: Quantitative Performance Criteria and Benchmarks, PRGF Arrangement, 2001 1/  
(Cumulative from beginning of calendar year to end of month indicated)

	2001							
	June			August			December	
	Prog. 2/ Benchmark	Prog. 3/ Benchmark	Actual	Prog. 2/ Performance criterion	Prog. 3/ Performance criterion	Actual	Prog. 2/ Benchmark	Rev. Prog. 2/ Benchmark
	(in billions of Cedis)							
<b>Performance Criteria</b>								
Government domestic primary surplus (floor)	902		877	1,095		1,189	1,515	1,515
Net domestic financing of government (ceiling) 4/	1,341	1,363	731	857	953	429	686	360
Net domestic assets of the Bank of Ghana (ceiling) 5/ 6/	842	867	1	429	526	-249	-604	0
	(in millions of U.S. dollars, unless otherwise specified)							
Change in net international reserves of the Bank of Ghana (floor) 7/	-138.6	-142.1	4.1	-71.8	-84.9	79.3	132.4	192.4
New nonconcessional external loans contracted or guaranteed by the government or the Bank of Ghana (greater than or equal to 1 year maturity) (ceiling)	0		0	0		0	0	0
Short-term external debt outstanding contracted or guaranteed by the government or the Bank of Ghana (with an initial maturity of less than one year) (ceiling)	50		101	50		111	50	75
Stock of government road sector arrears (in billions of cedis) 8/	234		...	190		280	70	...
	(in billions of Cedis)							
<b>Indicative Benchmarks</b>								
Reserve money 9/	2,171		2,888	2,261		2,932	2,764	3,924
Government revenue, excluding grants and divestiture proceeds (floor)	3,119		2,954	4,231		4,030	6,605	6,360
	(in millions of U.S. dollars)							
<b>Memorandum items:</b>								
Identified program support (loans and grants)	114		109	263		254	327	323
Divestiture receipts 10/	4		4	4		2	50	50
o/w: in foreign exchange			0			0	50	50
Debt service paid	59		57.8	80		83.5	105	114

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

2/ Before application of adjusters.

3/ After application of adjusters.

4/ Excluding domestic financing due to the government's takeover of debt owed by TOR.

5/ Based on fixed exchange rate of 7205 cedi/\$, the rate prevailing at end-March 2001.

6/ Value at end of month indicated. Adjusted for cumulative differences between actual and projected amounts of program support, divestiture receipts and debt service paid, with an upside cap

7/ Adjusted for cumulative differences between actual and projected amounts of program support, divestiture receipts and debt service paid, with a downside cap of -\$50 million, as explained in t

8/ End-June 2001 figure nets payments made in the second quarter against new arrears arising from unbudgeted commitments in the first quarter.

9/ Reserve money was a performance criterion with respect to the December 1999 and August 2000 performance criterion targets.

10/ The March 2001 number was reported incorrectly as zero in EBS/01/88.



Table 2. Ghana: Structural Performance Criteria and Key Benchmarks for 2001 Program

Structural performance criteria	Status
<ul style="list-style-type: none"> <li>Completion of an audit at the MDA level of the full stock of payment arrears accrued since January 1, 2000 and adoption of a strategy for their liquidation (end-August 2001).</li> </ul>	Not met. Audit now expected to be finalized in March 2002.
<ul style="list-style-type: none"> <li>Elimination of the special import tax in the 2002 Budget, effective immediately (end-March 2002).</li> </ul>	Pending.
<ul style="list-style-type: none"> <li>Completion of agreement with creditors on restructuring of TOR's debt (end-August 2001).</li> </ul>	Not met. Agreement was concluded with one bank in August, but the second agreement was signed only on September 13, 2001.
<b>Structural benchmarks</b>	
<ul style="list-style-type: none"> <li>CAGD to provide reports to the Economic Policy Coordinating Committee and the Minister of Finance by the end of each month on aggregate budget outcomes and expenditure cash outlays and commitments by MDAs, classified by function, for the preceding month, beginning July 2001 (end-September 2001, end-December 2001, and end-March 2002).</li> </ul>	Not met. Provision of reports for January-October 2001 is prior action for fourth review.
<ul style="list-style-type: none"> <li>Implementation of a system for budget cash flow forecasting and quarterly expenditure ceilings, together with associated commitment controls, in line with Fund technical assistance recommendations (end-July 2001).</li> </ul>	Not met. Implementation began in September 2001.

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July 2001).

- Termination of the direct sale of foreign exchange to TOR or any other company from November 1, 2001 (end-December 2001). Delayed to 2002 in line with MAE recommendations.
  - Publication by the PURC of its strategy for achieving full cost recovery in the public utilities, and implementation of automatic tariff adjustment formulae for electricity and water (end-September 2001). Final public consultation on PURC's strategy was completed in November 2001, but implementation not expected until first half of 2002.
  - Submission to Parliament of a revised Bank of Ghana Law (end-August 2001). Met.
  - Divestiture by Bank of Ghana of shareholdings in all financial institutions under its supervision (end-December 2001). Met.
  - Completion of financial and management audits of 9 public enterprises, including ECG, GWCL, TOR and VRA (end-September 2001). Delayed. Audits of 11 enterprises (but excluding VRA) were completed in December 2001.
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Table 3. Ghana: Selected Economic and Financial Indicators, 2000-2006

	2000	2001 Prog. 1/	2001 Rev. Prog.	2002 Orig. Prog. 1/	2002 Prog.	2003 Proj.	2004 Proj.	2005 Proj.	2006 Proj.
(Annual percentage change, unless otherwise specified)									
National income and prices									
Real GDP	3.7	4.0	4.0	5.0	4.5	5.0	5.0	5.0	5.0
Real GDP per capita	1.2	1.4	1.4	2.4	1.9	2.4	2.4	2.4	2.4
Nominal GDP	31.9	40.0	40.0	26.5	23.3	16.6	11.8	11.3	11.3
GDP deflator	27.2	34.7	34.7	20.5	18.0	11.0	6.5	6.0	6.0
Consumer price index (annual average)	25.2	33.0	33.0	19.0	15.9	10.2	6.5	5.0	5.0
Consumer price index (end of period)	40.5	25.0	22.0	13.0	13.0	8.0	5.0	5.0	5.0
External sector									
Exports, f.o.b.	-3.5	0.4	-2.2	8.8	7.6	10.1	8.4	7.9	7.6
Imports, f.o.b.	-15.2	-1.2	-3.9	3.1	7.8	5.9	6.2	5.7	6.3
Export volume	2.2	-1.7	1.6	4.2	3.7	2.2	1.8	2.3	2.9
Import volume	-24.9	1.5	1.5	6.3	6.3	3.8	4.0	4.6	5.3
Terms of trade	-20.3	4.7	-0.1	7.7	6.9	6.3	5.6	4.2	3.5
Nominal effective exchange rate (avg.)	-46.3	...	...	...	...	...	...	...	...
Real effective exchange rate (avg.)	-35.5	...	...	...	...	...	...	...	...
Cedis per U.S. dollar (avg.)	5,431	...	7,181	...	...	...	...	...	...
Government budget									
Domestic revenue (excluding grants)	42.9	37.3	32.2	42.9	38.1	20.1	12.5	11.0	11.0
Total expenditure	39.6	54.5	32.2	20.4	34.0	9.1	8.1	6.8	6.8
Current expenditure	48.9	46.5	35.2	14.8	22.8	2.1	2.3	3.7	5.8
Capital expenditure and net lending 2/	24.1	70.8	26.0	30.1	39.4	16.6	13.2	11.9	10.8
Money and credit									
Net domestic assets 3/	59.5	16.1	9.7	2.6	7.0	-1.0	-5.3	-6.5	-5.0
Credit to government 3/	46.4	10.8	11.6	-2.8	1.4	-11.6	-14.2	-15.0	-16.1
Credit to the rest of the economy 3/	33.1	26.3	18.3	17.2	15.3	16.1	12.0	12.1	14.9
Broad money (including foreign currency deposits)	46.5	34.1	36.5	25.0	21.5	14.0	10.0	9.0	10.0
Reserve money	52.6	28.5	27.4	22.5	18.7	11.9	8.5	9.0	10.0
Velocity (GDP/average broad money)	4.5	5.1	4.5	5.0	4.4	4.4	4.2	4.3	4.4
Treasury bill yield (in percent; end of period)	42.0	...	28.9	...	...	...	...	...	...
(In percent of GDP, unless otherwise specified)									
Investment and saving									
Gross investment	24.3	24.0	22.0	24.2	22.3	22.2	22.4	22.7	23.0
Private	15.1	12.8	13.7	12.7	13.1	13.1	13.3	13.6	13.9
Public	9.2	11.2	8.3	11.5	9.2	9.1	9.1	9.1	9.1
Gross national saving	15.6	16.8	18.1	19.4	16.3	17.9	18.5	19.2	19.5
Private	14.3	13.8	15.3	10.1	11.6	10.3	9.4	9.3	9.1
Public	1.3	3.0	2.8	9.3	4.7	7.6	9.1	9.8	10.4
Government budget									
Total revenue	17.7	17.4	16.7	19.6	18.7	19.3	19.4	19.4	19.3
Grants	2.1	5.0	4.5	4.5	4.2	4.6	4.5	4.2	3.9
Total expenditure 2/	27.7	30.6	26.2	29.1	28.4	26.6	25.7	24.7	23.7
Overall balance (cash basis, after domestic arrears cle)	-9.7	-9.6	-6.8	-6.0	-7.0	-2.9	-2.0	-1.3	-0.7
Domestic primary balance	2.7	4.0	4.0	5.3	3.1	3.0	2.0	1.6	1.9
Divestiture receipts	1.2	1.0	0.3	0.0	0.8	0.0	0.0	0.0	0.0
External sector 4/									
Current account balance 5/	-8.4	-6.9	-4.0	-4.9	-6.4	-5.1	-4.8	-4.3	-4.0
External debt outstanding	167.3	131.0	127.2	127.0	130.5	132.7	136.0	138.4	138.0
External debt service, including to the Fund	11.2	10.2	8.6	8.2	6.8	6.2	6.1	5.7	4.9
(in percent of exports of goods and nonfactor service)	23.0	20.3	18.8	16.4	15.9	14.3	14.0	13.2	11.5
(in percent of government revenue)	56.5	45.5	40.4	33.9	29.4	25.8	25.4	24.1	21.0
(In millions of U.S. dollars, unless otherwise specified)									
Current account balance 5/	-419	-337	-210	-257	-393	-333	-337	-327	-332
Overall balance of payments	-123	-18	53	-75	-146	-149	-156	-139	-69
External payments arrears (end of period)	89	0	0	0	0	0	0	0	0
Gross international reserves (end of period)	264	431	352	679	629	800	984	1172	1353
(in months of imports of goods and services)	1.0	1.5	1.2	2.2	2.0	2.4	2.8	3.2	3.4
Nominal GDP (in billions of cedis)	27,153	38,014	38,014	48,097	46,875	54,633	61,093	67,997	75,680

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

1/ Based on 2001 and 2002 programs in EBS/01/88

2/ Including capital outlays financed through external project aid and transfers to the local authorities, and HIPC-financed expenditures.

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

4/ The large depreciation of the cedi in 2000 reduced the dollar value of GDP and created a sharp jump in foreign currency based items when expressed as a share of GDP.

5/ Including official grants.

Table 4a. Ghana: Central Government Budgetary Operations and Financing, 1999-2006 1/ (PRE-HIPC)  
(In billions of cedis, unless otherwise specified)

	1999	2000	2001				2002		2003	2004	2005	2006
			Jan-Aug Prog.	Jan-Aug Prov.	Annual Prog.	Revised Proj.	Org. Prog.	Revised Prog.				
Total revenue and grants	3,709	5,385	5,718	5,038	8,525	8,060	11,599	10,196	12,213	13,408	14,749	16,374
Total revenue	3,366	4,811	4,231	4,030	6,605	6,360	9,441	8,690	10,416	11,673	12,963	14,444
Tax revenue	3,056	4,415	4,037	3,897	6,255	6,045	8,935	8,241	9,893	11,088	12,312	13,683
Direct taxes	918	1,409	1,349	1,226	2,246	1,978	2,847	2,520	2,719	3,040	3,384	3,766
Company tax	446	697	588	537	993	836	1,268	1,086	1,266	1,416	1,575	1,753
Other direct taxes	472	713	761	689	1,253	1,143	1,579	1,434	1,453	1,624	1,808	2,012
Indirect taxes	1,353	2,018	1,838	1,855	2,668	2,711	3,594	3,616	4,201	4,701	5,211	5,770
Sales tax/VAT on dom. Goods	323	385	372	400	545	581	690	716	835	933	1,039	1,156
Sales tax/VAT on imports	469	887	854	900	1,199	1,259	1,585	1,446	1,673	1,873	2,064	2,268
Petroleum	394	532	437	356	676	599	1,008	1,119	1,304	1,458	1,623	1,806
Other indirect taxes	167	215	175	199	247	271	312	335	390	436	485	540
Trade taxes	785	987	850	816	1,341	1,356	2,012	1,660	1,912	2,159	2,394	2,674
Import duties	531	808	715	729	1,086	1,076	1,582	1,272	1,509	1,691	1,859	2,066
Cocoa export duty	254	179	134	87	255	280	430	388	403	468	535	608
Nontax revenue	310	396	194	133	350	315	506	449	523	585	651	761
Grants	343	574	1,487	1,008	1,919	1,700	2,158	1,506	1,796	1,735	1,786	1,930
Project grants	193	337	501	325	707	633	1,291	923	998	903	929	1,027
Program grants	150	238	986	684	1,212	1,067	867	584	798	832	857	903
Revenue measures for 2002	...	...	...	...	...	...	481	446	1,061	1,188	1,323	1,472
o/w Measures to be taken mid-year	...	...	...	...	...	...	...	332	929	1,038	1,156	1,286
Yield from taxing zero rated goods taxed at 5%	...	...	...	...	...	...	...	86	100	112	125	139
Other measures to be identified	...	...	...	...	...	...	...	28	32	38	42	47
Total expenditure	5,389	7,525	7,024	5,942	11,629	9,945	14,003	12,799	13,713	14,653	15,743	16,895
Recurrent expenditure	3,382	5,034	4,606	4,288	7,375	6,806	8,469	8,431	8,630	8,902	9,309	9,764
Noninterest	2,232	3,001	2,433	2,352	3,791	3,809	5,000	5,304	6,073	6,834	7,609	8,468
Wages and salaries 2/	1,161	1,423	1,336	1,371	1,992	2,059	2,546	3,122	3,639	4,110	4,574	5,091
Goods and services 2/ (assumes increases in tariffs)	485	700	517	181	797	576	1,109	1,115	1,383	1,605	1,787	1,989
Subventions 2/	287	445	280	482	505	666	645	0	0	0	0	0
Transfers	298	432	300	317	497	509	700	1,067	1,051	1,119	1,247	1,388
o/w utility price subsidy	...	...	...	...	...	...	...	354	211	168	187	208
Interest	1,150	2,033	2,174	1,937	3,584	2,997	3,468	3,127	2,557	2,068	1,700	1,295
Domestic (accrual)	872	1,446	1,610	1,378	2,651	2,298	2,345	2,204	1,611	1,092	696	255
External (accrual)	278	587	564	559	933	699	1,123	923	946	976	1,004	1,041
Capital expenditure (total)	2,007	2,491	2,418	1,654	4,254	3,139	5,534	4,368	5,083	5,751	6,434	7,132
Capital expenditure (domestic)	851	1,145	703	489	1,300	1,036	1,887	1,445	1,922	2,591	3,182	3,536
Capital expenditure (foreign)	1,157	1,346	1,714	1,165	2,954	2,103	3,648	2,922	3,162	3,159	3,252	3,596
Overall balance (before arrears clearance, exclud. grants) 3/	-2,023	-2,714	-2,793	-1,912	-5,024	-3,585	-4,562	-4,109	-3,297	-2,980	-2,780	-2,451.4
Road arrears (clearance)	-130	-328	-129	-44	-259	-214	0	-288	0	0	0	0
Other domestic payment arrears (clearance)	156	-156	-230	-442	-200	-442	-352	-337	-35	0	0	0
VAT refunds	0	0	-53	-26	-87	-55	-110	-75	-103	-115	-128	-141
Overall balance (modified cash basis after arrears clearance) 3/	-1,654	-2,624	-1,717	-1,417	-3,651	-2,597	-2,866	-3,302	-1,639	-1,360	-1,122	-662
Overall balance from below the line	-1,862	-2,585	-1,751	-1,417	-3,651	-2,597	-2,866	-3,302	-1,639	-1,360	-1,122	-662
Discrepancy between above and below line data	-208	39	-34	0	0	0	0	0	0	0	0	0
Divestiture receipts	53	323	29	12	391	120	0	387	0	0	0	0
Total non-divestiture financing	1,809	2,262	1,723	1,406	3,259	2,477	2,866	2,915	1,639	1,360	1,122	662
Foreign (net)	448	-684	786	531	1,350	1,111	680	492	315	312	321	1,047
Borrowing	1,200	1,811	2,231	1,896	3,472	2,705	3,038	2,730	2,798	2,919	3,005	3,243
Project loans	964	1,009	1,213	841	2,247	1,470	2,357	1,999	2,163	2,257	2,323	2,568
Program loans	236	802	1,018	1,056	1,225	1,235	681	731	635	663	682	674
Amortization Due	-751	-2,495	-1,446	-1,365	-2,122	-1,594	-2,359	-2,238	-2,483	-2,608	-2,684	-2,196
Exceptional financing	71	627	80	446	1,223	1,006	2,422	1,837	2,208	2,299	2,276	1,603
External payment arrears	71	627	-550	-467	-658	-630	0	0	0	0	0	0
Financing gap	0	0	630	913	1,881	1,636	2,422	1,837	2,208	2,299	2,276	1,603
o/w traditional rescheduling	0	0	630	913	1,881	1,636	0	1,406	1,517	1,421	1,262	939
Savings due to inflation index bonds	0	0	...	...	...	...	...	118	83	58	48	50
Domestic (net) 3/	1,290	2,319	857	429	686	360	-235	469	-968	-1,308	-1,523	-2,038
Memorandum items:												
Domestic primary balance (2001 prov. includes discrepancy)	61	744	1,095	1,189	1,515	1,515	2,554	1,941	2,422	2,248	2,173	2,439
Primary balance (2001 prov. includes discrepancy)	-530	-107	868	1,032	480	1,112	1,064	525	1,057	823	706	774
Ministries of Health & Education, Educ. Trust Fund	947	1,334	...	...	1,822	2,049	...	2,824	...	...	...	...
Est. stock of unpaid 2001 statutory obligations	...	...	...	393	...	425	...	88	-88	0	0	0
Change in road arrears stock	...	...	...	128	...	81	...	-232	0	0	0	0
Est. stock of unprocessed 2001 commitments (items 2-4)	...	...	...	176	...	40	...	35	0	0	0	0
Stock of domestic debt 3/	5,797	7,842	...	9,310	8,727	9,218	8,492	9,734	8,766	7,458	5,935	3,897
o/w TOR Debt Restructuring Bonds	0	0	0	656	0	979	0	979	979	653	326	0
GDP at current market prices	20,580	27,153	38,014	38,014	38,014	38,014	48,097	46,875	54,633	61,093	67,997	75,680

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

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

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

3/ Before assumption of TOR debt in fiscal data; Domestic debt stock estimates for end-2001 include TOR bonds.

Table 4b. Ghana: Central Government Budgetary Operations and Financing, 1999-2006 1/ (PRE-HIPC)  
(In percent of GDP, unless otherwise specified)

	1999	2000	2001				2002	2002	2003	2004	2005	2006
			Jan-Aug Prog.	Jan-Aug Prov.	Annual Proj.	Revised Proj.						
Total revenue and grants	18.0	19.8	15.0	13.3	22.4	21.2	24.1	21.8	22.4	21.9	21.7	21.6
Total revenue	16.4	17.7	11.1	10.6	17.4	16.7	19.6	18.5	19.1	19.1	19.1	19.1
Tax revenue	14.8	16.3	10.6	10.3	16.5	15.9	18.6	17.6	18.1	18.1	18.1	18.1
Direct taxes	4.5	5.2	3.5	3.2	5.9	5.2	5.9	5.4	5.0	5.0	5.0	5.0
Company tax	2.2	2.6	1.5	1.4	2.6	2.2	2.6	2.3	2.3	2.3	2.3	2.3
Other direct taxes	2.3	2.6	2.0	1.8	3.3	3.0	3.3	3.1	2.7	2.7	2.7	2.7
Indirect taxes	6.6	7.4	4.8	4.9	7.0	7.1	7.5	7.7	7.7	7.7	7.7	7.6
Sales tax/VAT on dom. goods	1.6	1.4	1.0	1.1	1.4	1.5	1.4	1.5	1.5	1.5	1.5	1.5
Sales tax/VAT on imports	2.3	3.3	2.2	2.4	3.2	3.3	3.3	3.1	3.1	3.1	3.0	3.0
Petroleum	1.9	2.0	1.2	0.9	1.8	1.6	2.1	2.4	2.4	2.4	2.4	2.4
Other indirect taxes	0.8	0.8	0.5	0.5	0.6	0.7	0.6	0.7	0.7	0.7	0.7	0.7
Trade taxes	3.8	3.6	2.2	2.1	3.5	3.6	4.2	3.5	3.5	3.5	3.5	3.5
Import duties	2.6	3.0	1.9	1.9	2.9	2.8	3.3	2.7	2.8	2.8	2.7	2.7
Cocoa export duty	1.2	0.7	0.4	0.2	0.7	0.7	0.9	0.8	0.7	0.8	0.8	0.8
Nontax revenue	1.5	1.5	0.5	0.4	0.9	0.8	1.1	1.0	1.0	1.0	1.0	1.0
Grants	1.7	2.1	3.9	2.7	5.0	4.5	4.5	3.2	3.3	2.8	2.6	2.6
Project grants	0.9	1.2	1.3	0.9	1.9	1.7	2.7	2.0	1.8	1.5	1.4	1.4
Program grants	0.7	0.9	2.6	1.8	3.2	2.8	1.8	1.2	1.5	1.4	1.3	1.2
Revenue measures for 2002	...	...	...	...	...	...	1.0	1.0	1.9	1.9	1.9	1.9
o/w Measures to be taken mid-year	...	...	...	...	...	...	...	0.7	1.7	1.7	1.7	1.7
Yield from taxing zero rated goods taxed at 5%	...	...	...	...	...	...	...	0.2	0.2	0.2	0.2	0.2
Other measures to be identified	...	...	...	...	...	...	...	0.1	0.1	0.1	0.1	0.1
Total expenditure	26.2	27.7	18.5	15.6	30.6	26.2	29.1	27.3	25.1	24.0	23.2	22.3
Recurrent expenditure	16.4	18.5	12.1	11.3	19.4	17.9	17.6	18.0	15.8	14.6	13.7	12.9
Noninterest	10.8	11.1	6.4	6.2	10.0	10.0	10.4	11.3	11.1	11.2	11.2	11.2
Wages and salaries 2/	5.6	5.2	3.5	3.6	5.2	5.4	5.3	6.7	6.7	6.7	6.7	6.7
Goods and services 2/ (assumes increases in tariffs)	2.4	2.6	1.4	0.5	2.1	1.5	2.3	2.4	2.5	2.6	2.6	2.6
Subventions 2/	1.4	1.6	0.7	1.3	1.3	1.8	1.3	0.0	0.0	0.0	0.0	0.0
Transfers	1.4	1.6	0.8	0.8	1.3	1.3	1.5	2.3	1.9	1.8	1.8	1.8
o/w utility price subsidies	...	...	...	...	...	...	...	0.8	0.4	0.3	0.3	0.3
Interest	5.6	7.5	5.7	5.1	9.4	7.9	7.2	6.7	4.7	3.4	2.5	1.7
Domestic (accrual)	4.2	5.3	4.2	3.6	7.0	6.0	4.9	4.7	2.9	1.8	1.0	0.3
External (accrual)	1.4	2.2	1.5	1.5	2.5	1.8	2.3	2.0	1.7	1.6	1.5	1.4
Capital expenditure (total)	9.8	9.2	6.4	4.4	11.2	8.3	11.5	9.3	9.3	9.4	9.5	9.4
Capital expenditure (domestic)	4.1	4.2	1.8	1.3	3.4	2.7	3.9	3.1	3.5	4.2	4.7	4.7
Capital expenditure (foreign)	5.6	5.0	4.5	3.1	7.8	5.5	7.6	6.2	5.8	5.2	4.8	4.8
Overall balance (before arrears clearance, exclud. grants) 3/	-9.8	-10.0	-7.3	-5.0	-13.2	-9.4	-9.5	-8.8	-6.0	-4.9	-4.1	-3.2
Road arrears (clearance)	-0.6	-1.2	-0.3	-0.1	-0.7	-0.6	0.0	-0.6	0.0	0.0	0.0	0.0
Other domestic payment arrears	0.8	-0.6	-0.6	-1.2	-0.5	-1.2	-0.7	-0.7	-0.1	0.0	0.0	0.0
VAT Refunds	...	...	-0.1	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Overall balance (modified cash basis after arrears clearance) 3/	-8.0	-9.7	-4.5	-3.7	-9.6	-6.8	-6.0	-7.0	-3.0	-2.2	-1.6	-0.9
Overall balance from below the line	-9.0	-9.5	-4.6	-3.7	-9.6	-6.8	-6.0	-7.0	-3.0	-2.2	-1.6	-0.9
Discrepancy between above and below line data	-1.0	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Divestiture receipts	0.3	1.2	0.1	0.0	1.0	0.3	0.0	0.8	0.0	0.0	0.0	0.0
Total non-divestiture financing	8.8	8.3	4.5	3.7	8.6	6.5	6.0	6.2	3.0	2.2	1.6	0.9
Foreign (net)	2.2	-2.5	2.1	1.4	3.6	2.9	1.4	1.0	0.6	0.5	0.5	1.4
Borrowing	5.8	6.7	5.9	5.0	9.1	7.1	6.3	5.8	5.1	4.8	4.4	4.3
Project loans	4.7	3.7	3.2	2.2	5.9	3.9	4.9	4.3	4.0	3.7	3.4	3.4
Program loans	1.1	3.0	2.7	2.8	3.2	3.2	1.4	1.6	1.2	1.1	1.0	0.9
Amortization	-3.7	-9.2	-3.8	-3.6	-5.6	-4.2	-4.9	-4.8	-4.5	-4.3	-3.9	-2.9
Exceptional financing	0.3	2.3	0.2	1.2	3.2	2.6	5.0	3.9	4.0	3.8	3.3	2.1
External payment arrears	0.3	2.3	-1.4	-1.2	-1.7	-1.7	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	0.0	0.0	1.7	2.4	4.9	4.3	5.0	3.9	4.0	3.8	3.3	2.1
o/w traditional rescheduling	0.0	0.0	1.7	2.4	4.9	4.3	0.0	3.0	2.8	2.3	1.9	1.2
Savings due to inflation index bonds	0.0	0.0	...	...	...	...	...	0.3	0.2	0.1	0.1	0.1
Domestic (net) 3/	6.3	8.5	2.3	1.1	1.8	0.9	-0.5	1.0	-1.8	-2.1	-2.2	-2.7
Memorandum items:												
Domestic primary balance (2001 prov. includes discrepancy)	0.3	2.7	2.9	3.1	4.0	4.0	5.3	4.1	4.4	3.7	3.2	3.2
Primary balance (2001 prov. includes discrepancy)	-2.6	-0.4	2.3	2.7	1.3	2.9	2.2	1.1	1.9	1.3	1.0	1.0
Ministries of Health & Education, Educ. Trust Fund	4.6	4.9	...	...	4.8	5.4	...	6.0	...	...	...	...
Est. stock of unpaid 2001 statutory obligations	...	...	...	1.0	...	1.1	...	0.2	-0.2	0.0	0.0	0.0
Change in road arrears stock	...	...	...	0.3	...	0.2	...	-0.5	0.0	0.0	0.0	0.0
Est. stock of unprocessed 2001 commitments (items 2-4)	...	...	...	0.5	...	0.1	...	0.1	0.0	0.0	0.0	0.0
Stock of domestic debt 3/	28.2	28.9	...	24.5	23.0	24.2	17.7	20.8	16.0	12.2	8.7	5.1
o/w TOR Debt Restructuring Bonds	0.0	0.0	0.0	1.7	0.0	2.6	0.0	2.1	1.8	1.1	0.5	0.0

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

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

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

3/ Before assumption of TOR debt in fiscal data; Domestic debt stock estimates for end-2001 include TOR bonds.

Table 4c. Ghana: Central Government Budgetary Operations and Financing, 1999-2006 1/ (HIPC)

	(In billions of cedis, unless otherwise specified)											
	1999	2000	2001				2002	2002	2003	2004	2005	2006
			Jan-Aug Prog.	Jan-Aug Prov.	Annual Prog.	Revised Prog.	Org. Prog.	Revised Prog.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	3,709	5,385	5,718	5,038	8,525	8,060	11,599	10,768	13,071	14,598	16,010	17,544
Total revenue	3,366	4,811	4,231	4,030	6,605	6,360	9,441	8,785	10,552	11,875	13,176	14,627
Tax revenue	3,056	4,415	4,037	3,897	6,255	6,045	8,935	8,336	10,029	11,290	12,525	13,902
Direct taxes	918	1,409	1,349	1,226	2,246	1,978	2,847	2,520	2,719	3,040	3,384	3,766
Company tax	446	697	588	537	993	836	1,268	1,086	1,266	1,416	1,575	1,753
Other direct taxes	472	713	761	689	1,253	1,143	1,579	1,434	1,453	1,624	1,808	2,012
Indirect taxes	1,353	2,018	1,838	1,855	2,668	2,711	3,594	3,661	4,269	4,803	5,318	5,878
Sales tax/VAT on dom. goods	323	385	372	400	545	581	690	716	835	933	1,039	1,136
Sales tax/VAT on imports	469	887	854	900	1,199	1,259	1,585	1,491	1,741	1,975	2,171	2,376
Petroleum	394	532	437	356	676	599	1,008	1,119	1,304	1,458	1,623	1,806
Other indirect taxes	167	215	175	199	247	271	312	335	390	436	485	540
Trade taxes	785	987	850	816	1,341	1,356	2,012	1,701	1,955	2,231	2,469	2,751
Import duties	531	808	715	729	1,086	1,076	1,582	1,313	1,571	1,782	1,956	2,164
Cocoa export duty	254	179	134	87	255	280	430	388	384	448	514	586
Nontax revenue	310	396	194	133	350	315	506	449	523	585	651	725
Grants	343	574	1,487	1,008	1,919	1,700	2,158	1,982	2,519	2,723	2,834	2,917
Project grants	193	337	501	325	707	633	1,291	923	998	903	929	1,027
Program grants	150	238	986	684	1,212	1,067	867	588	798	832	857	903
HIPC assistance (multilaterals)	0	0	0	0	0	0	0	471	723	988	1,048	986
Revenue measures from 2002	...	...	...	...	...	...	481	455	1,086	1,216	1,354	1,507
o/w Measures to be taken mid-year	...	...	...	...	...	...	0	341	954	1,067	1,187	1,321
Yield from taxing zero rated goods taxed at 5%	...	...	...	...	...	...	0	86	100	112	125	139
Other measures to be identified	...	...	...	...	...	...	0	28	32	38	42	47
Total expenditure	5,389	7,525	7,024	5,942	11,629	9,945	14,003	13,324	14,531	15,704	16,769	17,916
Recurrent expenditure	3,382	5,034	4,606	4,288	7,375	6,806	8,469	8,359	8,539	8,738	9,060	9,589
Noninterest	2,232	3,001	2,433	2,352	3,791	3,809	5,000	5,304	6,073	6,834	7,609	8,468
Wages and salaries 2/	1,161	1,423	1,336	1,371	1,992	2,059	2,546	3,122	3,639	4,110	4,574	5,091
Goods and services 2/ (assumes increases in tariffs)	485	700	517	181	797	576	1,109	1,115	1,383	1,605	1,787	1,989
Subventions 2/	287	445	280	482	505	666	645	0	0	0	0	0
Transfers	298	432	300	317	497	509	700	1,067	1,051	1,119	1,247	1,388
o/w utility price subsidy	...	...	...	...	...	...	...	354	211	168	187	208
Interest	1,150	2,033	2,174	1,937	3,584	2,997	3,468	3,055	2,466	1,904	1,451	1,120
Domestic (accrual)	872	1,446	1,610	1,378	2,651	2,298	2,345	2,136	1,521	928	447	80
External (accrual)	278	587	564	559	933	699	1,123	919	945	976	1,003	1,040
Capital expenditure (total)	2,007	2,491	2,418	1,654	4,254	3,139	5,534	4,376	5,103	5,779	6,464	7,162
Capital expenditure (domestic)	851	1,145	703	489	1,300	1,036	1,887	1,454	1,941	2,619	3,211	3,567
Capital expenditure (foreign)	1,157	1,346	1,714	1,165	2,954	2,103	3,648	2,922	3,162	3,159	3,252	3,596
HIPC financed expenditure	0	0	0	0	0	0	0	589	889	1,187	1,245	1,165
Overall balance (before arrears clearance, excl. grants) 3/	-2,023	-2,714	-2,793	-1,912	-5,024	-3,585	-4,562	-4,539	-3,979	-3,829	-3,592	-3,289.0
Road arrears (clearance)	-130	-328	-129	-44	-259	-214	0	-288	0	0	0	0
Other domestic payment arrears (clearance)	156	-156	-230	-442	-200	-442	-352	-337	-35	0	0	0
VAT refunds	0	0	-53	-26	-87	-55	-110	-76	-106	-119	-132	-146
Overall balance (modified cash basis after arrears clearance) 3/	-1,654	-2,624	-1,717	-1,417	-3,651	-2,597	-2,866	-3,258	-1,601	-1,224	-890	-518
Overall balance from below the line	-1,862	-2,585	-1,751	-1,417	-3,651	-2,597	-2,866	-3,258	-1,601	-1,224	-890	-518
Discrepancy between above and below line data	-208	39	-34	0	0	0	0	0	0	0	0	0
Divestiture receipts	53	323	29	12	391	120	0	387	0	0	0	0
Total non-divestiture financing	1,809	2,262	1,723	1,406	3,259	2,477	2,866	2,871	1,601	1,224	890	518
Foreign (net)	448	-684	786	531	1,350	1,111	680	515	315	312	321	1,047
Project loans	964	1,009	1,213	841	2,247	1,470	2,357	1,999	2,163	2,257	2,323	2,568
Program loans	236	802	1,018	1,056	1,225	1,235	681	725	635	663	682	674
Amortization Due	-751	-2,495	-1,446	-1,365	-2,122	-1,594	-2,359	-2,209	-2,483	-2,608	-2,684	-2,196
Exceptional financing	71	627	80	446	1,223	1,006	2,422	2,098	2,599	2,795	2,787	2,071
External payment arrears	71	627	-550	-467	-658	-630	0	0	0	0	0	0
Financing gap (to be filled by donors)	0	0	630	913	1,881	1,636	2,422	1,832	2,210	2,300	2,279	1,601
o/w traditional rescheduling including repayments due	0	0	630	913	1,881	1,636	0	1,406	1,517	1,421	1,262	939
HIPC Relief (Cologne terms)	0	0	...	...	0	0	...	266	389	495	508	470
Savings due to inflation indexed bonds	0	0	...	...	...	...	...	118	83	58	40	45
Domestic (net) 3/	1,290	2,319	857	429	686	360	-235	141	-1,396	-1,941	-2,258	-2,644
Effect of HIPC financed debt buy-back	0	0	0	0	0	0	0	-147	-222	-297	-311	-291
Memorandum items:												
Domestic primary balance (2001 prov. includes discrepancy)	61	744	1,095	1,189	1,515	1,515	2,554	1,438	1,649	1,234	1,111	1,427
Primary balance (2001 prov. includes discrepancy)	-530	-107	868	1,032	480	1,112	1,064	498	1,006	798	693	748
Ministries of Health & Education, Educ. Trust Fund (excl. HIPC)	947	1,334	...	...	1,822	2,049	...	2,829	...	...	...	...
Est. stock of unpaid 2001 statutory obligations	...	...	...	393	...	425	...	88	0	0	0	0
Change in road arrears stock	...	...	...	128	...	81	...	-232	0	0	0	0
Est. stock of unprocessed 2001 non-road commitments (items 2-4)	...	...	...	176	...	40	...	35	0	0	0	0
Stock of domestic debt 3/	5,797	7,842	...	9,310	8,727	9,415	8,492	9,569	8,173	6,232	3,974	1,329
o/w TOR debt restructuring bonds	0	0	...	656	0	979	0	979	979	653	326	0
GDP at current market prices	20,580	27,153	38,014	38,014	38,014	38,014	48,097	46,875	54,633	61,093	67,997	75,680

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

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

Prior to 2001 domestic capital expenditure contained a balancing item.

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

3/ Before assumption of TOR debt in fiscal data; Domestic debt stock estimates for end-2001 include TOR bonds.

Table 4d. Ghana: Central Government Budgetary Operations and Financing, 1999-2006 1/ (HIPC)  
(In percent of GDP, unless otherwise specified)

	1999	2000	2001				2002	2002	2003	2004	2005	2006
			Jan-Aug Prog.	Jan-Aug Prov.	Annual Proj.	Revised Proj.						
Total revenue and grants	18.0	19.8	15.0	13.3	22.4	21.2	24.1	23.0	23.9	23.9	23.5	23.2
Total revenue	16.4	17.7	11.1	10.6	17.4	16.7	19.6	18.7	19.3	19.4	19.4	19.3
Tax revenue	14.8	16.3	10.6	10.3	16.5	15.9	18.6	17.8	18.4	18.5	18.4	18.4
Direct taxes	4.5	5.2	3.5	3.2	5.9	5.2	5.9	5.4	5.0	5.0	5.0	5.0
Company tax	2.2	2.6	1.5	1.4	2.6	2.2	2.6	2.3	2.3	2.3	2.3	2.3
Other direct taxes	2.3	2.6	2.0	1.8	3.3	3.0	3.3	3.1	2.7	2.7	2.7	2.7
Indirect taxes	6.6	7.4	4.8	4.9	7.0	7.1	7.5	7.8	7.8	7.9	7.8	7.8
Sales tax/VAT on dom. goods	1.6	1.4	1.0	1.1	1.4	1.5	1.4	1.5	1.5	1.5	1.5	1.5
Sales tax/VAT on imports	2.3	3.3	2.2	2.4	3.2	3.3	3.3	3.2	3.2	3.2	3.2	3.1
Petroleum	1.9	2.0	1.2	0.9	1.8	1.6	2.1	2.4	2.4	2.4	2.4	2.4
Other indirect taxes	0.8	0.8	0.5	0.5	0.6	0.7	0.6	0.7	0.7	0.7	0.7	0.7
Trade taxes	3.8	3.6	2.2	2.1	3.5	3.6	4.2	3.6	3.6	3.7	3.6	3.6
Import duties	2.6	3.0	1.9	1.9	2.9	2.8	3.3	2.8	2.9	2.9	2.9	2.9
Cocoa export duty	1.2	0.7	0.4	0.2	0.7	0.7	0.9	0.8	0.7	0.7	0.8	0.8
Nontax revenue	1.5	1.5	0.5	0.4	0.9	0.8	1.1	1.0	1.0	1.0	1.0	1.0
Grants	1.7	2.1	3.9	2.7	5.0	4.5	4.5	4.2	4.6	4.5	4.2	3.9
Project grants	0.9	1.2	1.3	0.9	1.9	1.7	2.7	2.0	1.8	1.5	1.4	1.4
Program grants	0.7	0.9	2.6	1.8	3.2	2.8	1.8	1.3	1.5	1.4	1.3	1.2
HIPC assistance (multilaterals)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	1.3	1.6	1.5	1.3
Revenue measures from 2002	...	...	...	...	...	...	1.0	1.0	2.0	2.0	2.0	2.0
o/w Measures to be taken mid-year	...	...	...	...	...	...	...	0.7	1.7	1.7	1.7	1.7
Yield from taxing zero rated goods taxed at 5%	...	...	...	...	...	...	...	0.2	0.2	0.2	0.2	0.2
Other measures to be identified	...	...	...	...	...	...	...	0.1	0.1	0.1	0.1	0.1
Total expenditure	26.2	27.7	18.5	15.6	30.6	26.2	29.1	28.4	26.6	25.7	24.7	23.7
Recurrent expenditure	16.4	18.5	12.1	11.3	19.4	17.9	17.6	17.8	15.6	14.3	13.3	12.7
Noninterest	10.8	11.1	6.4	6.2	10.0	10.0	10.4	11.3	11.1	11.2	11.2	11.2
Wages and salaries 2/	5.6	5.2	3.5	3.6	5.2	5.4	5.3	6.7	6.7	6.7	6.7	6.7
Goods and services 2/ (assumes increases in tariffs)	2.4	2.6	1.4	0.5	2.1	1.5	2.3	2.4	2.5	2.6	2.6	2.6
Subventions 2/	1.4	1.6	0.7	1.3	1.3	1.8	1.3	0.0	0.0	0.0	0.0	0.0
Transfers	1.4	1.6	0.8	0.8	1.3	1.3	1.5	2.3	1.9	1.8	1.8	1.8
o/w utility price subsidies	...	...	...	...	...	...	...	0.8	0.4	0.3	0.3	0.3
Interest	5.6	7.5	5.7	5.1	9.4	7.9	7.2	6.5	4.5	3.1	2.1	1.5
Domestic (accrual)	4.2	5.3	4.2	3.6	7.0	6.0	4.9	4.6	2.8	1.5	0.7	0.1
External (accrual)	1.4	2.2	1.5	1.5	2.5	1.8	2.3	2.0	1.7	1.6	1.5	1.4
Capital expenditure (total)	9.8	9.2	6.4	4.4	11.2	8.3	11.5	9.3	9.3	9.5	9.5	9.5
Capital expenditure (domestic)	4.1	4.2	1.8	1.3	3.4	2.7	3.9	3.1	3.6	4.3	4.7	4.7
Capital expenditure (foreign)	5.6	5.0	4.5	3.1	7.8	5.5	7.6	6.2	5.8	5.2	4.8	4.8
HIPC financed expenditure	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3	1.6	1.9	1.8	1.5
Overall balance (before arrears clearance, exclud. grants) 3/	-9.8	-10.0	-7.3	-5.0	-13.2	-9.4	-9.5	-9.7	-7.3	-6.3	-5.3	-4.3
Road arrears (clearance)	-0.6	-1.2	-0.3	-0.1	-0.7	-0.6	0.0	-0.6	0.0	0.0	0.0	0.0
Other domestic payment arrears	0.8	-0.6	-0.6	-1.2	-0.5	-1.2	-0.7	-0.7	-0.1	0.0	0.0	0.0
VAT Refunds	...	...	-0.1	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Overall balance (modified cash basis after arrears clearance) 3/	-8.0	-9.7	-4.5	-3.7	-9.6	-6.8	-6.0	-7.0	-2.9	-2.0	-1.3	-0.7
Overall balance from below the line	-9.0	-9.5	-4.6	-3.7	-9.6	-6.8	-6.0	-7.0	-2.9	-2.0	-1.3	-0.7
Discrepancy between above and below line data	-1.0	0.1	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Divestiture receipts	0.3	1.2	0.1	0.0	1.0	0.3	0.0	0.8	0.0	0.0	0.0	0.0
Total non-divestiture financing	8.8	8.3	4.5	3.7	8.6	6.5	6.0	6.1	2.9	2.0	1.3	0.7
Foreign (net)	2.2	-2.5	2.1	1.4	3.6	2.9	1.4	1.1	0.6	0.5	0.5	1.4
Project loans	4.7	3.7	3.2	2.2	5.9	3.9	4.9	4.3	4.0	3.7	3.4	3.4
Program loans	1.1	3.0	2.7	2.8	3.2	3.2	1.4	1.5	1.2	1.1	1.0	0.9
Amortization	-3.7	-9.2	-3.8	-3.6	-5.6	-4.2	-4.9	-4.7	-4.5	-4.3	-3.9	-2.9
Exceptional financing	0.3	2.3	0.2	1.2	3.2	2.6	5.0	4.5	4.8	4.6	4.1	2.7
External payment arrears	0.3	2.3	-1.4	-1.2	-1.7	-1.7	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap (to be filled by donors)	...	...	...	...	...	...	...	3.9	4.0	3.8	3.4	2.1
o/w traditional rescheduling including repayments due	0.0	0.0	1.7	2.4	4.9	4.3	...	3.0	2.8	2.3	1.9	1.2
HIPC Relief (Cologne terms)	...	...	...	...	...	...	...	0.6	0.7	0.8	0.7	0.6
Savings due to inflation indexed bonds	0.0	0.0	...	...	...	...	...	0.3	0.2	0.1	0.1	0.1
Domestic (net) 3/	6.3	8.5	2.3	1.1	1.8	0.9	-0.5	0.3	-2.6	-3.2	-3.3	-3.5
Effect of HIPC financed debt buy-back	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-0.4	-0.5	-0.5	-0.4
<b>Memorandum items:</b>												
Domestic primary balance (2001 prov. includes discrepancy)	0.3	2.7	2.9	3.1	4.0	4.0	5.3	3.1	3.0	2.0	1.6	1.9
Primary balance (2001 prov. includes discrepancy)	-2.6	-0.4	2.3	2.7	1.3	2.9	2.2	1.1	1.8	1.3	1.0	1.0
Ministries of Health & Education, Educ. Trust Fund (excl. HIPC)	4.6	4.9	...	...	4.8	5.4	...	6.0	...	...	...	...
Est. stock of unpaid 2001 statutory obligations	...	...	...	1.0	...	1.1	...	0.2	0.0	0.0	0.0	0.0
Change in road arrears stock	...	...	...	0.3	...	0.2	...	-0.5	0.0	0.0	0.0	0.0
Est. stock of unprocessed 2001 non-road commitments (items 2-4)	...	...	...	0.5	...	0.1	...	0.1	0.0	0.0	0.0	0.0
Stock of domestic debt 3/	28.2	28.9	...	0.5	23.0	24.8	17.7	20.4	15.0	10.2	5.8	1.8
o/w TOR debt restructuring bonds	0.0	0.0	...	24.5	0.0	2.6	0.0	2.1	1.8	1.1	0.5	0.0

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

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

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

3/ Before assumption of TOR debt in fiscal data; Domestic debt stock estimates for end-2001 include TOR bonds.

Table 5. Ghana: Balance of Payments, 1999-2005  
(In millions of U.S. dollars, unless otherwise specified)

	1999	2000	2000	2001	2001	2002	2002	2003	2004	2005
		Prog. 1/	Actual	Prog.	Rev. Prog.	Orig. Proj.	Rev. Proj.	Proj.	Proj.	Proj.
Exports f.o.b.	2,006	2,189	1,936	1,907	1,893	2,075	2,037	2,242	2,431	2,624
Cocoa beans and cocoa products	552	452	437	493	416	519	469	520	581	647
Gold	711	697	705	609	647	670	679	719	748	778
Timber and timber products	174	199	175	184	169	210	177	218	259	294
Others	569	840	619	621	661	677	712	785	842	904
Imports, f.o.b.	-3,252	-3,171	-2,759	-2,725	-2,652	-2,810	-2,858	-3,027	-3,214	-3,398
Non-oil	-2,919	-2,705	-2,239	-2,234	-2,206	-2,395	-2,489	-2,658	-2,846	-3,011
Oil	-333	-466	-520	-492	-446	-415	-369	-369	-368	-387
Trade balance	-1,246	-982	-823	-819	-759	-735	-822	-785	-783	-775
Services (net)	-269	-227	-246	-305	-236	-334	-321	-317	-318	-333
Of which: interest payments	-131	-150	-109	-143	-99	-166	-150	-147	-135	-139
Private transfers (net)	472	503	496	521	521	536	521	522	537	553
Current account balance, excluding official transfers	-1,044	-705	-573	-603	-474	-533	-622	-580	-564	-554
Official transfers (net)	148	202	154	266	265	276	229	247	227	227
Current account balance, including official transfers	-895	-503	-419	-337	-210	-257	-393	-333	-337	-327
Capital account	144	496	162	318	217	183	247	183	181	187
Official capital (net)	126	258	97	226	129	123	147	133	129	133
Long-term loans	176	220	173	106	106	127	113	131	134	141
Inflows	240	288	288	250	250	250	250	250	250	250
Amortization	-64	-68	-115	-144	-144	-123	-137	-119	-116	-109
Medium-term loans	-50	38	-76	120	23	-3	33	2	-5	-8
Inflows	211	311	225	264	166	150	170	151	151	151
Amortization	-261	-273	-301	-144	-144	-153	-137	-149	-156	-159
Private capital	18	238	65	92	88	59	100	50	52	54
Of which: divestiture receipts	17	117	51	50	0	0	50	0	0	0
Other capital and errors and omissions	485	75	134	0	46	0	0	0	0	0
Of which: change in net foreign assets of commercial banks	200	75	27	0	0	0	0	0	0	0
Of which: errors and omissions	237	0	96	0	73	0	0	0	0	0
Overall balance	-266	68	-123	-18	53	-75	-146	-149	-156	-139
Change in arrears	62	-18	27	-89	-89	0	0	0	0	0
Financing	204	-50	96	-132	36	-192	-187	-250	-280	-290
Debt deferral	0	0	0	0	228	0	-30	-60	-58	-55
Net international reserves (negative is increase) 2/	204	-50	96	-132	-192	-192	-156	-190	-222	-235
Use of Fund credit	-15	34	-2	75	1	56	121	-19	-38	-47
Purchase (General Resources Account)	0	0	0	0	0	0	0	0	0	0
Repurchase (General Resources Account)	0	0	0	0	0	0	0	0	0	0
Disbursements (Poverty Reduction and Growth Facility)	61	72	35	139	67	71	135	0	0	0
Repayments (Poverty Reduction and Growth Facility)	-76	-38	-37	-64	-66	-15	-14	-19	-38	-47
Change in reserves (negative is increase)	233	-84	52	-207	-87	-249	-277	-171	-184	-188
Financing gap 3/	0	0	0	240	0	267	333	399	436	429
Memorandum items:										
Current account deficit (in percent of GDP)										
Excluding official transfers	13.4	14.6	11.5	12.4	9.0	10.0	10.2	8.8	8.0	7.3
Including official transfers	11.5	10.4	8.4	7	4.0	4.9	6.4	5.1	4.8	4.3
Gross international reserves										
End of period (US\$ millions)	317	530	264	430.5	352	679	629	800	984	1,172
In months of imports of goods and services	1.1	1.8	1.0	1.5	1.2	2.2	2.0	2.4	2.8	3.2
Cocoa exports										
Volume (in thousands of tons)	386	430	389	410	395	428	431	448	466	485
Price (in US\$ per ton)	1,434	1,030	1,092	1,163	1,012	1,166	1,051	1,125	1,219	1,313
Expected HIPC relief 4/							96	134	171	174
Expected additional donor financing							54	83	101	114

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

1/ According to EBS/00/160

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

3/ It is assumed that the financing gap will be filled by interim HIPC relief from the IMF, the World Bank and the AfDB, a flow rescheduling on Cologne terms by the Paris Club and comparable treatment by other official and commercial creditors. The rescheduling will apply to all debt, which was contracted before the June 20, 1999 cut-off date and thus include the debt covered by the Paris Club rescheduling in 2001.

For 2002 it is expected that the remaining gap will be filled by donor assistance expected to be mobilized at the CG meeting in the spring.

4/ In addition to calculated relief from traditional mechanisms.



Table 6. Ghana: Monetary Survey, 1999-2005  
Scenario including HIPC debt relief

	1999	2000	2001			2002				2003	2004	2005
	Dec. Act.	Dec. Act.	June Act.	Sep. Act.	Dec. Rev. prog.	Mar. Prog.	June Prog.	Sep. Prog.	Dec. Prog.	Dec. Proj.	Dec. Proj.	Dec. Proj.
(In billions of cedis, unless otherwise specified, end of period)												
<b>Bank of Ghana</b>												
Net foreign assets (in millions of U.S. dollars)	151 43	-373 -53	-568 -79	-206 -29	477 65	109 15	226 29	478 61	1,792 222	3,520 412	5,579 634	7,871 868
Net domestic assets	1,867	3,453	3,456	3,365	3,447	3,606	3,307	3,366	2,867	1,692	75	-1,708
Claims on government (net)	1,529	3,238	2,921	2,520	2,606	2,773	2,454	2,496	2,025	948	-537	-2,126
Claims on deposit money banks	313	337	409	544	544	544	544	544	544	544	544	544
o/w TOR margin account at GCB	...	537	882	882	882	882	882	882	882	...	...	...
Claims	...	537	1,178	1,178	1,178	1,178	1,178	1,178	1,178	...	...	...
Deposit	...	0	296	296	296	296	296	296	296	...	...	...
Claims on public enterprises	-111	-608	-111	-73	-75	-75	-50	-25	-25	0	0	0
Other items, net (assets +)	136	487	236	374	371	363	359	350	322	199	68	-126
Reserve money (RM)	2,018	3,080	2,888	3,160	3,924	3,715	3,533	3,844	4,659	5,212	5,654	6,163
Currency outside banks	1,586	2,636	2,310	2,369	3,130	2,839	2,662	2,899	3,650	4,078	4,396	4,792
Bank reserves	415	425	554	763	759	841	836	910	974	1,134	1,258	1,371
Cash	86	118	95	106	120	141	129	137	148	171	190	207
Deposits	328	308	459	657	639	701	707	773	825	962	1,068	1,164
Nonbank deposits	18	19	24	28	35	35	35	35	35	0	0	0
<b>Deposit money banks</b>												
Net foreign assets (in millions of U.S. dollars)	88 25	-14 -2	205 28	570 80	1,080 148	1,109 148	1,138 148	1,168 148	1,197 148	1,266 148	1,304 148	1,342 148
Reserves	415	425	554	763	759	841	836	910	974	1,134	1,258	1,371
Credit from Bank of Ghana	-313	-337	-409	-544	-544	-544	-544	-544	-544	-544	-544	-544
Domestic credit	5,114	7,834	8,921	10,020	10,097	10,791	11,307	11,558	12,282	13,871	15,062	16,213
Claims on government (net) 1/	2,164	2,750	3,156	4,146	4,221	4,597	4,791	4,514	4,942	4,623	4,167	3,499
Claims on non-government 1/	2,950	5,084	5,765	5,875	5,877	6,194	6,516	7,044	7,340	9,248	10,895	12,714
Public enterprises (PE) 1/		1,206	1,546	1,546	1,117	1,180	1,226	1,251	1,262	1,363	...	...
Excl. PE's and cocoa		3,836	4,188	4,313	4,712	4,997	5,260	5,778	6,030	7,838	...	...
Other items, net (assets +)	-1,960	-3,316	-3,892	-4,720	-4,663	-4,900	-5,449	-5,207	-5,574	-6,103	-6,402	-6,743
Total deposits	3,343	4,593	5,377	6,089	6,728	7,297	7,288	7,884	8,334	9,624	10,677	11,638
<b>Monetary survey</b>												
Net foreign assets (in millions of U.S. dollars)	239 68	-387 -55	-363 -50	365 51	1,557 213	1,218 163	1,364 177	1,646 209	2,989 370	4,786 560	6,882 782	9,213 1,016
Net domestic assets	4,708	7,635	8,075	8,121	8,336	8,952	8,621	9,172	9,031	8,916	8,191	7,217
Domestic credit	6,532	10,463	11,731	12,467	12,629	13,489	13,711	14,029	14,283	14,820	14,525	14,086
Claims on government (net) 1/	3,693	5,988	6,077	6,665	6,827	7,370	7,245	7,010	6,968	5,571	3,631	1,372
Claims on non-government 1/	2,839	4,475	5,654	5,802	5,802	6,119	6,466	7,019	7,315	9,248	10,895	12,714
Other items, net (assets +)	-1,824	-2,829	-3,656	-4,347	-4,292	-4,537	-5,090	-4,858	-5,252	-5,904	-6,335	-6,870
Broad money 2/	4,947	7,248	7,711	8,485	9,893	10,171	9,985	10,818	12,020	13,703	15,073	16,429
Currency	1,586	2,636	2,310	2,369	3,130	2,839	2,662	2,899	3,650	4,078	4,396	4,792
Deposits	3,361	4,613	5,401	6,117	6,763	7,332	7,323	7,919	8,369	9,624	10,677	11,638
<b>Memorandum items:</b>												
(Annual percentage change unless otherwise specified)												
Broad money	23.9	46.5	36.2	35.3	36.5	34.5	29.5	27.5	21.5	14.0	10.0	9.0
Broad money excl for.cur.	19.8	33.4	32.8	45.3	45.3	42.6	36.1	29.3	25.2	15.8	10.7	9.9
Reserve money	35.8	52.6	37.2	25.7	27.4	26.4	22.3	21.7	18.7	11.9	8.5	9.0
Credit to non-government excl. PE's and cocoa	54.7 50.4	57.7 55.5	58.8 34.2	31.2 20.3	29.6 22.9	13.9 22.2	14.4 25.6	14.4 34.0	21.0 28.0	26.4 30.0	17.8 20.1	16.7 18.6
Currency/M2 ratio	0.321	0.364	0.300	0.279	0.316	0.279	0.267	0.268	0.304	0.298	0.292	0.292
Velocity (GDP/end-of-period M2+)	4.160	3.746	4.166	4.119	3.843	3.939	4.227	4.112	3.900	3.987	4.053	4.139
Reserve money multiplier (M2/RM)	2.451	2.353	2.670	2.686	2.521	2.738	2.826	2.814	2.580	2.629	2.666	2.666
Currency-to-deposits ratio	0.472	0.571	0.428	0.387	0.463	0.387	0.364	0.366	0.436	0.424	0.412	0.412
Bank reserves-to-deposits ratio	0.123	0.092	0.102	0.125	0.112	0.115	0.114	0.115	0.116	0.118	0.118	0.118
Exchange rate (cedis per U.S. dollar)	3,535	7,048	7,227	7,157	...	...	...	...	...	...	...	...

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

1/ TOR debt swap moved 979 billion cedis from credit to public enterprises to government during August and September 2001.

2/ Including foreign currency deposits.

Table 7. Ghana: External Financing Requirements and Sources, 1999-2002  
(In millions of U.S. dollars)

	1999	2000	2001 Prog.	2002 Pre-HIPC	2002 Post-HIPC
Current account (excluding official transfers)	-1,044	-573	-474	-550	-622
Exports, f.o.b.	2,006	1,936	1,893	2,037	2,037
Imports, f.o.b.	-3,252	-2,759	-2,652	-2,793	-2,858
Services (net)	-269	-246	-236	-315	-321
Private transfers	472	496	521	521	521
Capital account	103	-253	-220	-183	-188
Scheduled amortization	-325	-416	-288	-273	-273
IMF repayments	-76	-37	-66	-14	-14
Other capital (net) 1/	504	200	134	104	99
Change in official reserves (increase -)	233	52	-87	-258	-277
Other net reserves (- increase) 2/	-14	45	-106	0	0
Change in arrears (decrease -)	62	27	-89	0	0
Deferral of debt payments	0	0	228	-30	-30
External financing requirements	-659	-702	-748	-1,022	-1,118
Expected disbursements	660	702	748	784	784
Grants	148	154	265	229	229
Project and other	92	112	103	152	152
Program	56	42	162	77	77
Concessional loans	451	513	416	420	420
Project and other	358	369	256	325	325
Program	93	144	160	95	95
IMF	61	35	67	135	135
Financing gap 3/	0	0	0	238	334
Memo:					
Assumed HIPC relief 4/				0	96
Expected donor support				54	54

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

1/ Historical figures include errors and omissions.

2/ The change in other reserves covers changes in liabilities and other assets outside official reserves at the Bank of Ghana.

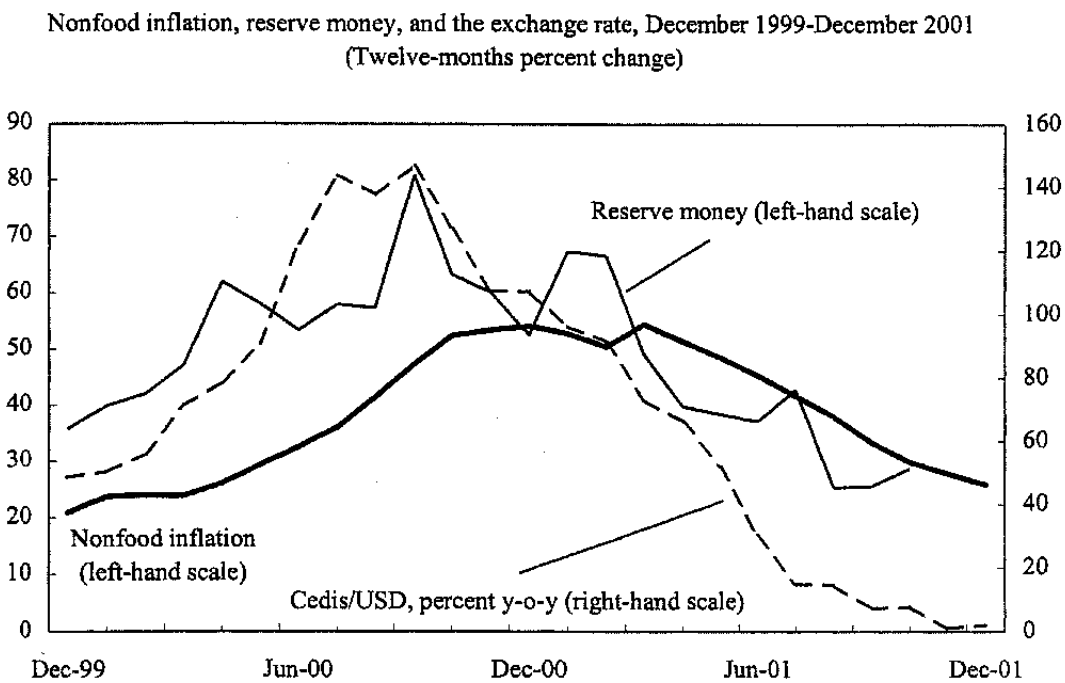
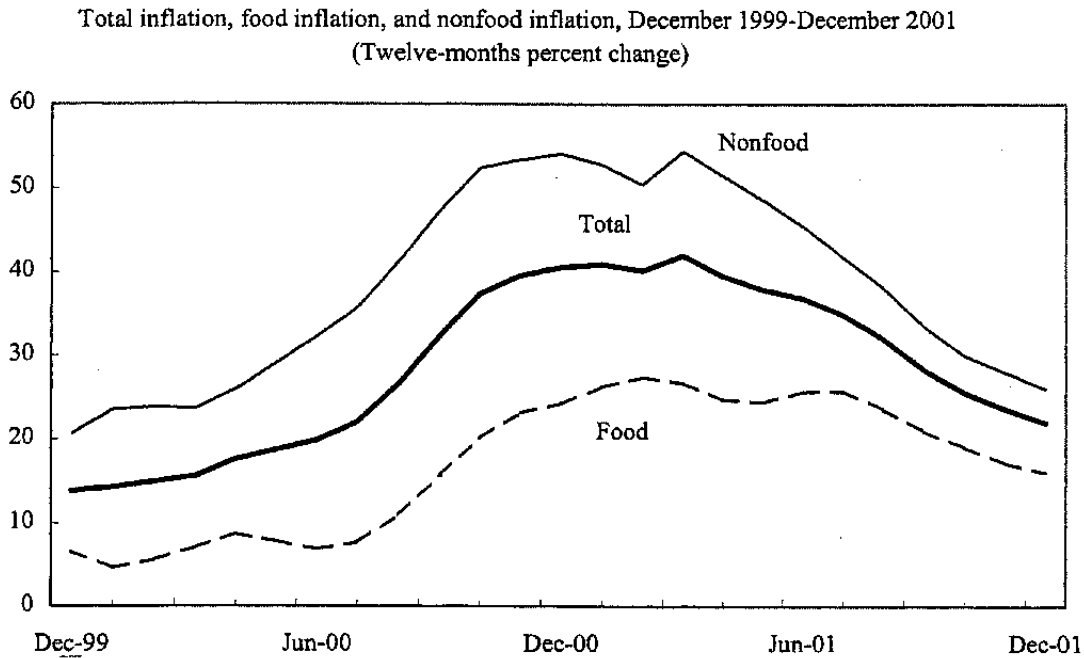
These changes are associated with the revisions to the data on Net Foreign Assets at the Bank of Ghana.

3/ It is assumed that the financing gap will be filled by interim HIPC relief from the IMF, the World Bank and the AfDB, a flow rescheduling on Cologne terms by the Paris Club and comparable treatment by other official and commercial creditors. The rescheduling will apply to all debt, which was contracted before the June 20, 1999 cut-off date and thus include the debt covered by the Paris Club rescheduling in 2001.

For 2002 it is expected that the remaining gap will be filled by donor assistance expected to be mobilized at the CG meeting in the spring.

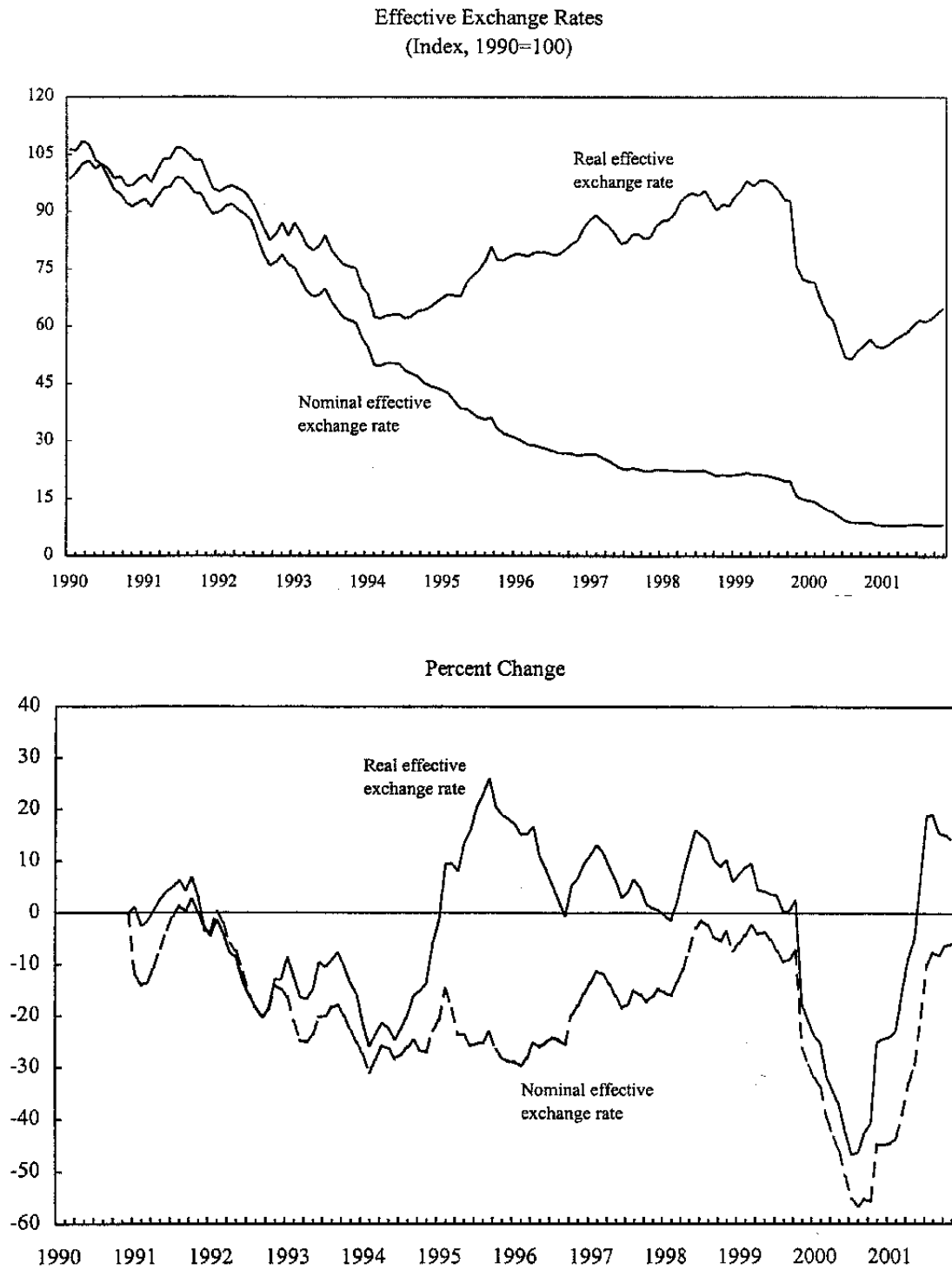
4/ In addition to calculated relief from traditional mechanisms.

Figure 1. Ghana: Inflation, Money, and the Exchange Rate



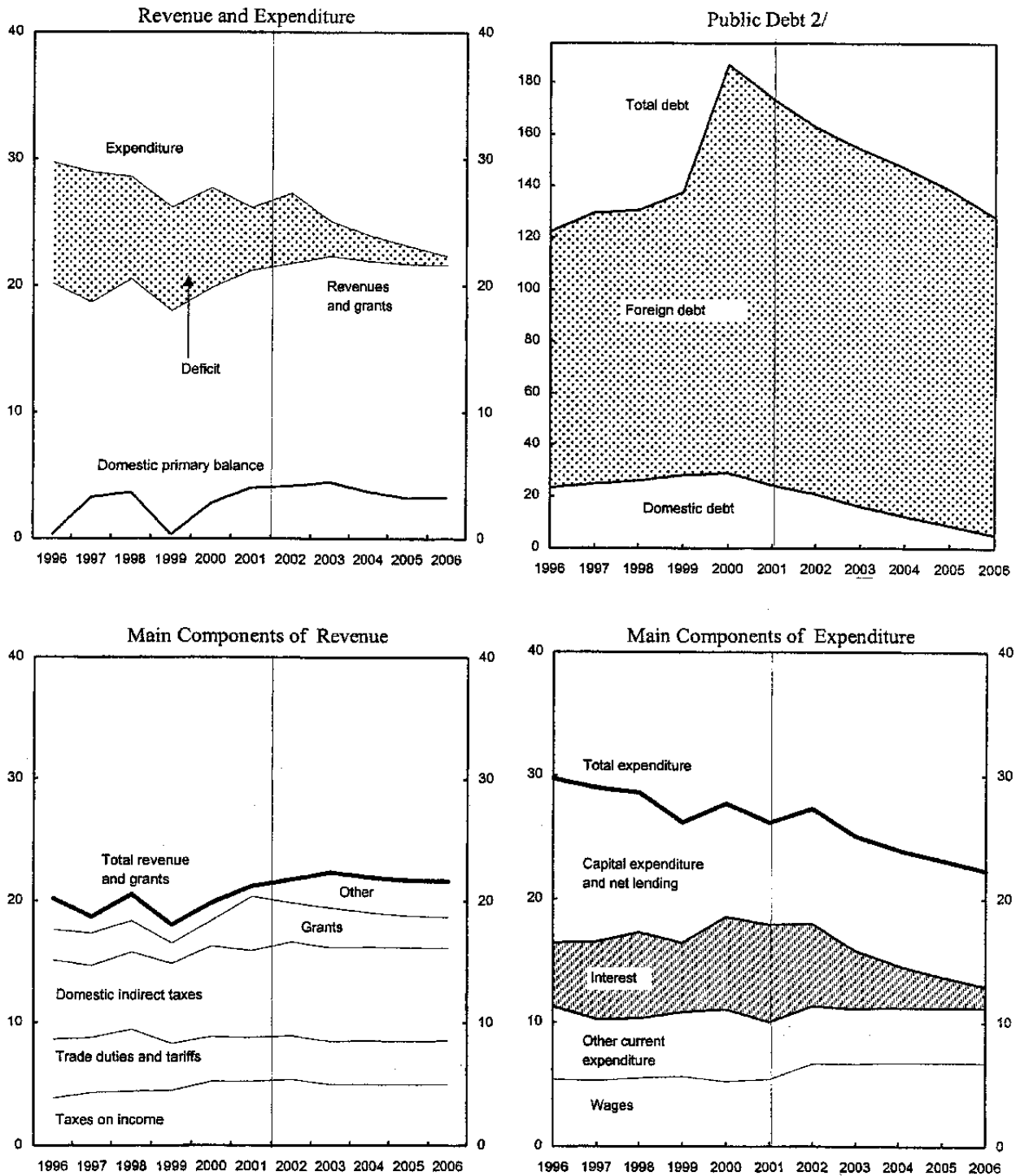
Sources: Ghana Statistical Service; and IMF, *International Financial Statistics*.

Figure 2. Ghana: Real and Nominal Effective Exchange Rates, January 1990 - November 2001



Sources: Ghanaian authorities; and Fund staff estimates.

Figure 3. Ghana: Central Government Finances, 1996-2006 1/  
(In percent of GDP)

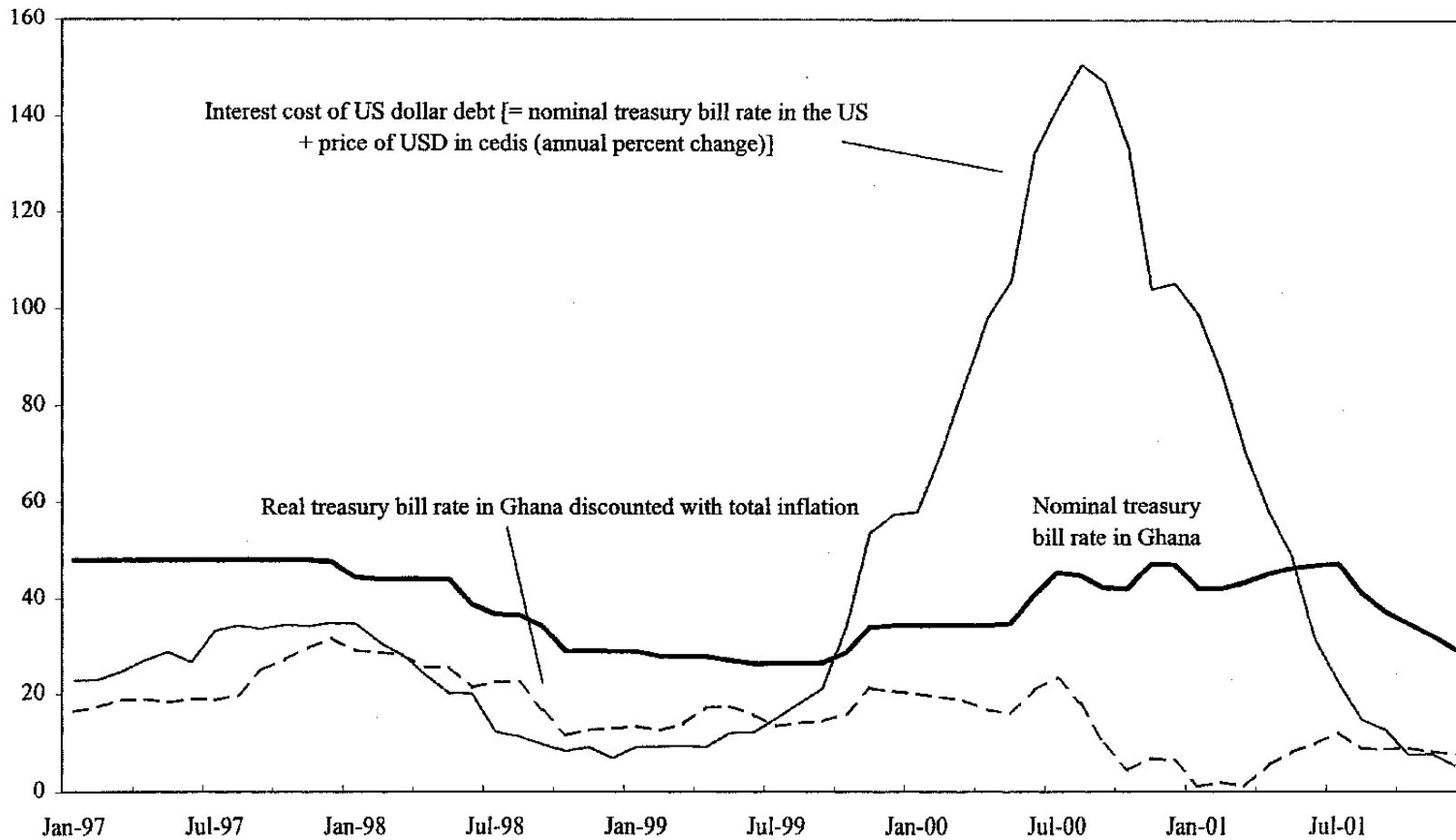


Sources: Ghanaian authorities; and Fund staff estimates and projections.

1/ Projections before assumed HIPC debt relief.

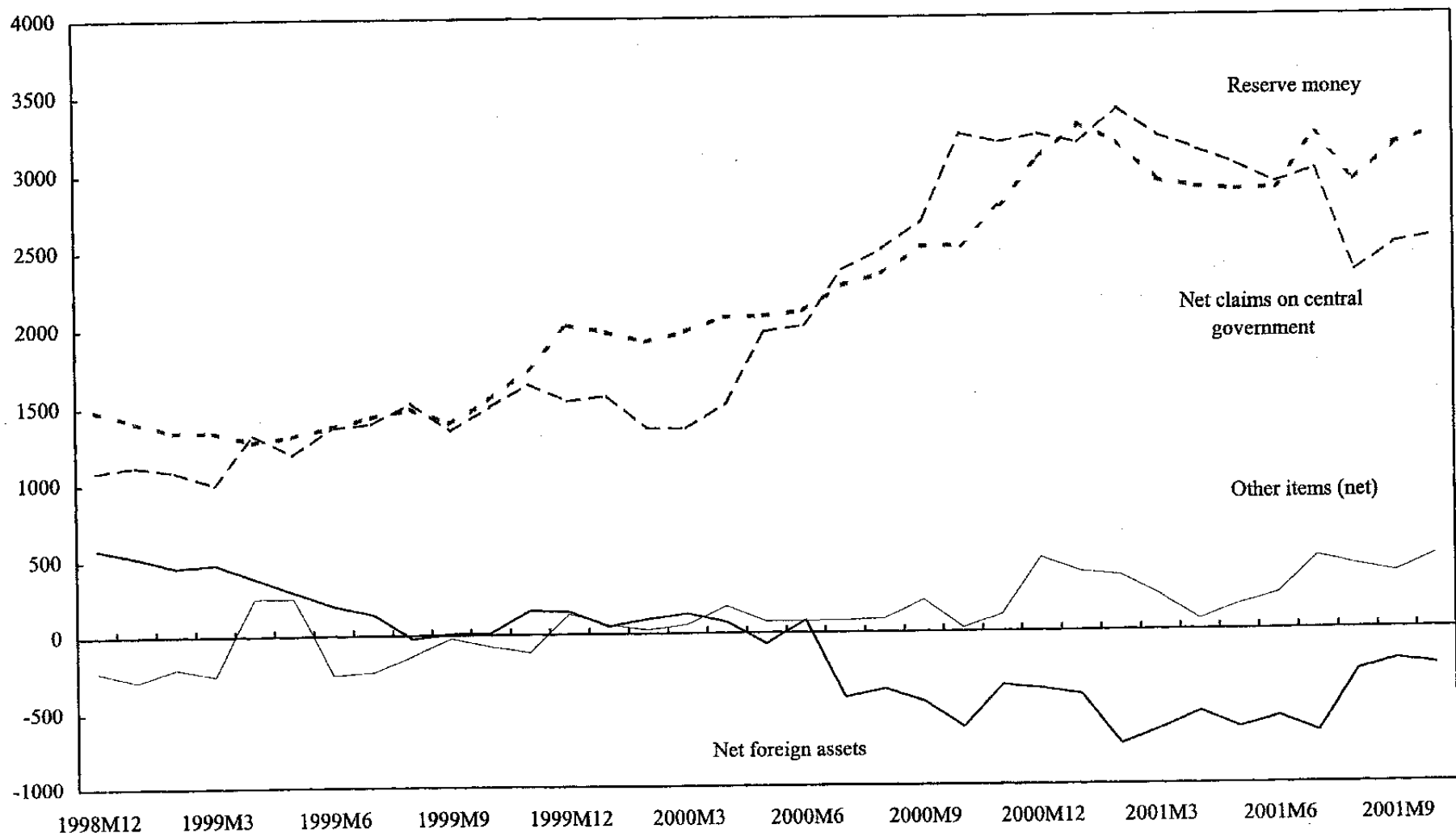
2/ Including guarantees and short-term external debt. External debt stock is evaluated at the period-average exchange rate.

Figure 4. Ghana: Treasury Bill Rates, January 1997 - December 2001  
(In percent)



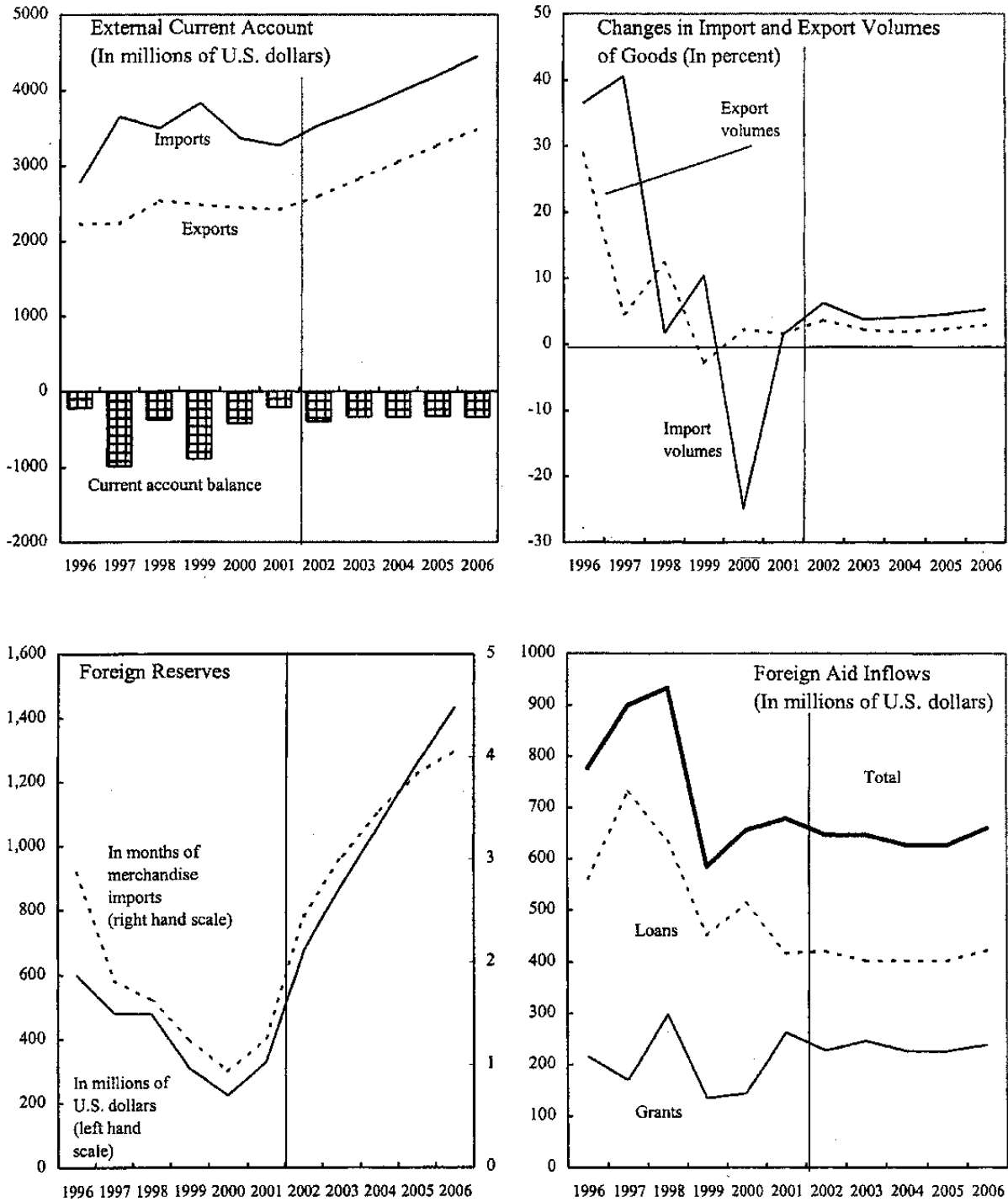
Sources: Ghanaian authorities; IMF, *International Financial Statistics*; and Fund staff estimates.

Figure 5. Ghana: Reserve Money and its Sources, December 1998 - October 2001  
 (In billions of cedis)



Sources: Ghanaian authorities; and staff estimates.

Figure 6. Ghana: Main External Indicators, 1996-2006

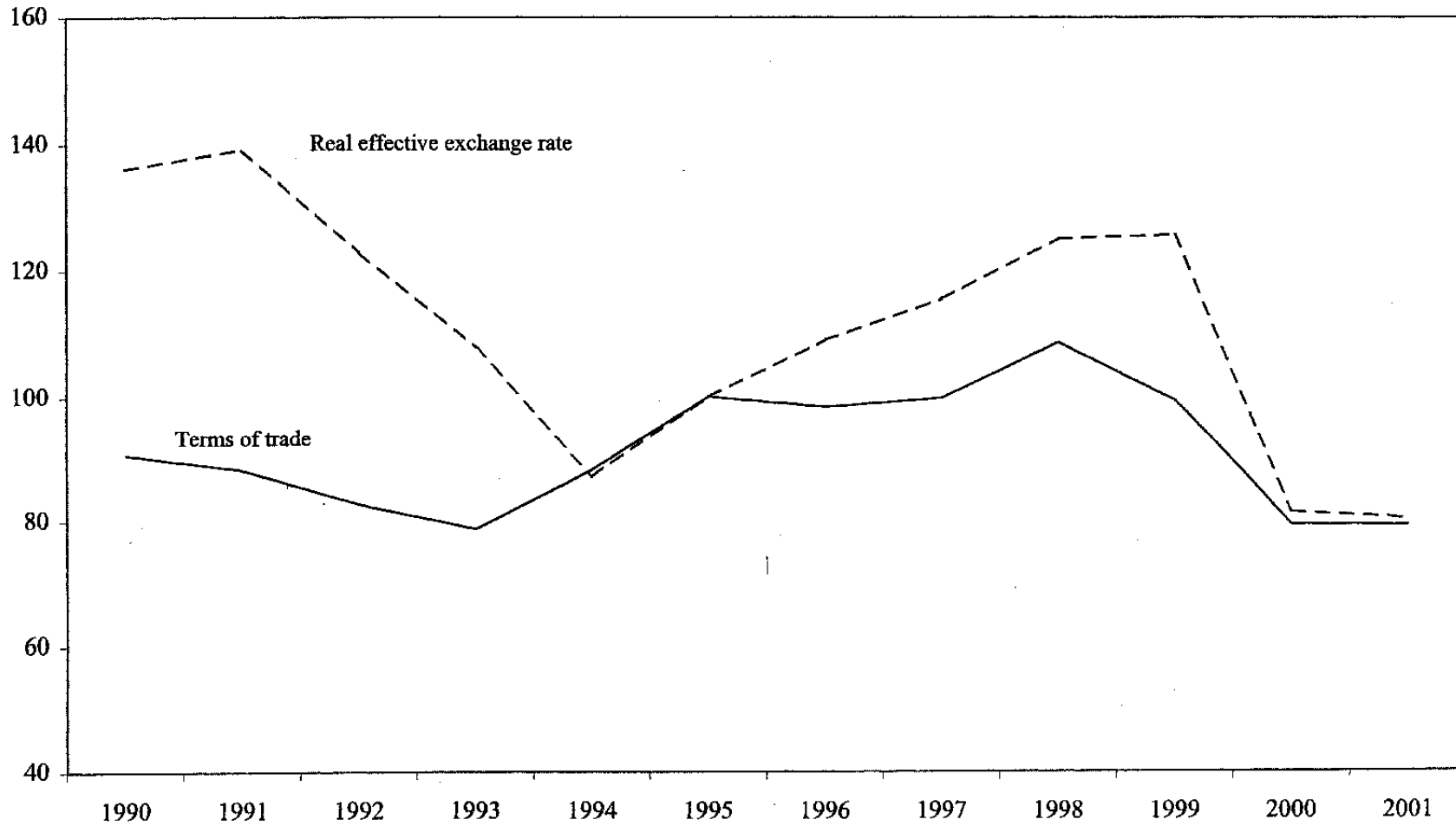


Sources: Ghanaian authorities; and Fund staff estimates and projections.



Figure 7. Ghana: Terms of Trade and the Real Effective Exchange Rate, 1990 - 2001

(Index, 1995 = 100)



Sources: Ghanaian authorities; and staff estimates.

January 31, 2002

Dear Mr. Köhler:

1. On May 3, 1999, the Executive Board of the Fund approved a three-year arrangement for Ghana under the Poverty Reduction and Growth Facility (PRGF). The purpose of this letter is to inform you of the progress made in implementing the third year of the economic program, and to request an extension of the arrangement and disbursement of the fifth loan under the arrangement following completion of the fourth review.
2. The attached Memorandum of Economic and Financial Policies (Attachment I) sets out the objectives and policies that the Government of Ghana intends to pursue during 2002. The Technical Memorandum of Understanding (Attachment II) provides explanatory notes to clarify the MEFP.
3. The recently elected Government of Ghana made considerable progress in stabilizing the economy in 2001, as evidenced by sharply lower inflation and a stabilization of the exchange rate. The Government of Ghana believes that the policies it intends to implement in 2002, as described in the MEFP, will further cement macroeconomic stability and create the conditions for sustained economic growth. On this basis, it requests completion of the fourth review under the arrangement, and waivers for the nonobservance of the end-August 2001 performance criteria on: (a) the stock of outstanding short-term external debt contracted or guaranteed by the government or the Bank of Ghana; (b) the stock of government road arrears; (c) the restructuring of the bank debt of the Tema Oil Refinery; and (d) completion of the audit of 2000 domestic arrears and plan for their liquidation.
4. The Government made every effort to implement its program on schedule under very difficult circumstances. In assessing compliance with performance criteria for August 31, 2001, it may be noted that, with regard to the short-term external debt, in the course of the recent review of the data with Fund staff, the technical coverage of this item was revised to include outstanding overdraft positions of the Bank of Ghana with correspondent banks as reflected in the Statement of Accounts (on a gross basis) and not the previously reported Treasury Data (which was on a net basis). Second, the TOR debt restructuring agreement with the major commercial bank creditor was reached in August while the other bank signed off on September 13, 2001, barely two weeks after the August 31 deadline. The two agreements became effective in July and August 2001 respectively, and the Government has made the first semi-annual payments on these bonds.
5. On completion of the fourth review, the government of Ghana requests disbursement under the PRGF arrangement of SDR 52.58 million. A fifth review under the PRGF arrangement will be completed by November 15, 2002. In order to allow time for this final review to be completed, we request an extension of the arrangement to November 30, 2002.

6. The Government of Ghana believes that the policies and measures set forth in the memorandum of economic and financial policies are adequate to achieve the objectives of the program supported by the PRGF arrangement, but will take further measures if deemed necessary. During the remaining period of the arrangement, Ghana will continue to consult with the Managing Director on the adoption of any measures that may be appropriate, at the initiative of the government or whenever the Managing Director requests such a consultation.

7. The Government of Ghana will continue to provide the Fund with such information as the Fund requires to assess Ghana's progress in implementing the economic and financial policies described in the attached memorandum.

8. The Government of Ghana intends to make these understandings public and authorizes the Fund to provide this letter and the attached memorandum to all interested parties that so request, including through the Fund's external website.

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

Yours sincerely,

/s/

Hon. Yaw Osafo-Mafo, MP  
Minister of Finance

/s/

Hon. Paul A. Acquah  
Governor of the Bank of Ghana

Attachment

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

**Memorandum of Economic and Financial Policies  
of the Government of Ghana for 2002**

January 31, 2002

**I. INTRODUCTION**

1. Following the severe terms of trade shock and financial crisis in 2000, the newly-elected government of Ghana adopted an economic program for its first year in office with the paramount objectives of curtailing inflation and putting the public finances back on a sustainable path. This program, which was set out in our Memorandum of Economic and Financial Policies dated June 11, 2001, was the initial phase of a medium-term strategy aimed at reducing domestic indebtedness and freeing up scarce resources for investment and growth in the Ghanaian economy. At the same time, the government worked to elaborate and expand that strategy, with the broad-based participation of civil society and the international community, into a comprehensive plan for accelerated development and sustained poverty reduction. These efforts are expected to culminate with the completion of the Ghana Poverty Reduction Strategy (GPRS) in early 2002, which will lay out the broad policy agenda for 2002-2004.

2. In support of its poverty reduction strategy, and its own efforts to reduce the burden of domestic public debt, the government decided to seek relief on its external debt obligations, including under the enhanced HIPC Initiative. Current estimates suggest that Ghana could in due course receive debt relief equivalent to 56 percent of the value of its external debt at end-2000 under the enhanced HIPC Initiative, and that external debt payments would be reduced in 2002 by US\$249 million.

3. This memorandum reports on implementation of the government's economic program in 2001, and sets out key elements of the 2002 program, in line with the draft GPRS. The program for the coming year will seek to build on progress achieved thus far in achieving financial stability, while intensifying efforts to strengthen public sector management and lay the foundations for sustained economic growth.

**II. PROGRAM PERFORMANCE DURING 2001**

4. During 2001, considerable progress was made in achieving stabilization of the Ghanaian economy. From a peak of 42 percent in March 2001, consumer price inflation declined to 21 percent by December, compared to the program target of 25 percent. Following a sharp depreciation in 2000, the cedi stabilized at around 7,200 per U.S. dollar during 2001. Gross international reserves continued to recover, from US\$264 million at end-2000 to a projected US\$352 million (1.2 months of imports) by December 2001. The objective of 4 percent real growth in the economy is expected to be realized, aided in part by stability in the terms of trade, following sharp losses in the previous two years.

5. These positive results were achieved by firm financial discipline. Aided by government's strict control of cash expenditures, the Bank of Ghana succeeded in reducing the stock of reserve money by 5 percent during the first eight months of 2001, reversing a good part of the excessive monetary expansion that occurred in 2000. The end-August 2001 targets for the government's domestic primary surplus and net domestic financing, and for increases in the net domestic assets and net international reserves of the Bank of Ghana, were all met. The program limit on nonconcessional external borrowing was also observed, but the ceiling on short-term external debt was exceeded, due to the inclusion in the data of the Bank of Ghana's overdraft positions with foreign banks. These overdraft positions had previously been netted from gross reserves rather than recorded as short-term debt.

6. While cash expenditures of the government were kept within budget, control of spending commitments remained weak. The new system for cash flow forecasting and ceilings on expenditure commitments was not fully implemented during the third quarter of 2001, as had been hoped. As a result, new non-road arrears of some C176 billion are estimated to have accumulated during the first eight months of the year. The stock of road arrears, which was targeted to decline to C190 billion by end-August 2001, instead continued to rise to C278 billion by that date. In addition, a total of C393 billion in outstanding payments due to the District Assemblies Common Fund (DAFC), Ghana Education Trust Fund (GETF), and Social Security and National Insurance Trust (SSNIT) were accumulated in the year to end-August 2001. At the same time, however, the government cleared C442 billion in pre-2001 non-road arrears, more than double the amount originally budgeted for arrears clearance in 2001.

7. The government attaches great importance to its objective of reducing the domestic debt burden, and hence was determined to achieve its original program target for the domestic primary balance of C1,515 billion for 2001 as a whole. Tax revenues are expected to fall some 3½ percent below target in 2001, due in part to delays in implementing some of the 2001 Budget measures, while the wage settlement finally negotiated with public service workers was higher than planned. To offset these losses to the budget, the government set reduced ceilings on expenditures for goods and services and capital projects for the last quarter of 2001, which were rigorously enforced by the CAGD and Ministry of Finance. At the same time, the government decided that it was unwise to transfer during the remainder of 2001 the full amount of statutory payments accruing to the DAFC and GETF, given the funds' limited capacity to spend these resources in 2001. Instead, the government transferred approximately 35 percent of its 2001 obligations to these funds before the end of 2001, and the balance will be transferred in tranches during 2002-2004.

8. The program envisaged that a full audit of the stock of expenditure arrears accumulated in 2000 would be completed by end-August 2001, and a plan adopted for their liquidation. In the event, the work needed to carry out this audit, which was conducted by donor-funded consultants, was considerably more extensive than expected, and the full audit will now be completed by end-March 2002. However, the auditors have provided an interim

report with a preliminary estimate for pre-2001 non-road, non-statutory arrears of C420 billion. In addition, the government has supplemented this work with its own audit of non-road government expenditure arrears accumulated during January-August 2001 and of the stock of outstanding road arrears, to provide a more complete assessment of the scale of arrears that would need to be addressed in the 2002 Budget. Meanwhile, for the remainder of 2001, sufficient funds were allocated to clear all but C35 billion of the new non-road arrears accumulated in 2001, and to limit the increase in the stock of road arrears during the year to C81 billion.

9. Progress was made on the implementation of structural measures affecting public enterprises in the energy sector, although with some delays. Agreements were reached in August and September with creditor banks to restructure a portion of the domestic debt of Tema Oil Refinery (TOR) that had resulted from a failure to adjust petroleum prices in line with world prices in 1999 and 2000. The agreements reached with the commercial bank creditors on TOR debt were effective in July and August and the government effected the first semi-annual interest payments due to the banks on the bonds in December 2001 and January 2002 respectively. In exchange for short-term claims on TOR, banks received longer-maturity government bonds. On August 17, 2001, a 15 percent excise tax was imposed on petroleum products, followed on October 31 by specific duties averaging C200 per liter. In addition, in order to defray further TOR's accumulated debts resulting from previous petroleum price controls, Parliament has approved the principle that part of any potential savings which may accrue from future reductions in world oil prices would be used to service the TOR debt. Accordingly, the petroleum price adjustment formula will be modified from end-March 2002 to incorporate a petroleum debt service surcharge (PDSS), where the PDSS will be set at 95 percent of any decline in oil import costs from the average level prevailing during November 27-December 26, 2001. The petroleum price adjustment formula, as modified, will be applied throughout 2002.

10. The Public Utilities Regulatory Commission held extensive public hearings during the summer of 2001 on plans for a phased transition to full cost recovery in the electricity sector and implementation of an automatic tariff adjustment formula for electricity tariffs. The plan was finalized in November 2001, and implementation will begin by end-April 2002. A similar consultative process is underway on a transitional plan for cost recovery in water tariffs. In this case, however, complications related to the authorities' intention to seek a private capital injection for the upgrading and expansion of the water infrastructure will delay conclusion and implementation of the water tariff adjustment plan to June 2002.

11. The government had intended to raise not less than US\$50 million from divestiture proceeds in 2001. However, a new Board for the Divestiture Implementation Committee (DIC), which would oversee and ensure the transparency of these asset sales, was not approved by the Council of State until late August 2001. Work then began in earnest on the necessary asset valuations, but the delays mean that the proceeds from divestiture in 2001 will be no more than US\$14 million. Financial and management audits of 11 major public

enterprises, including ECG, GWCL, and TOR, were initiated in August 2001 and final reports were submitted on December 15, 2001. Consideration is being given to launching similar audits for Cocobod, VRA, and GPHA, which would be completed by mid-2002.

12. As part of its strategy to ease the burden of domestic debt on Ghana's economy, the government began in September 2001 to extend the maturity of its domestic debt by issuing three-year inflation-indexed bonds. By end-2001, it was expected that approximately one fifth of the stock of 90-day treasury bills would have been replaced with the new indexed instruments.

13. As planned, a revised Bank of Ghana Law was submitted to Parliament in August 2001, and passed into law in December. The new law clarifies the objectives and strengthens the independence of the central bank. Progress in this respect was reinforced by the Bank of Ghana's divestiture in December 2001 of all remaining shareholdings in financial institutions that it supervises.

### **III. THE PROGRAM FOR 2002**

#### **A. Macroeconomic Objectives**

14. In line with the medium-term objectives laid out in the GPRS, the government's economic program for 2002 is designed to:

- Improve the standard of living of ordinary Ghanaians by raising real growth to at least 4.5 percent;
- Increase spending on poverty, financed in part through the start-up of interim debt relief under the HIPC Initiative;
- Reduce inflation from 21 percent at end-2001 to 13 percent by end-2002; and
- Rebuild gross official reserve holdings to 2 months of imports of goods and services.

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

- Reducing the government's domestic debt as a share of GDP by maintaining a domestic primary budget surplus of 4.1 percent of GDP (excluding expenditures financed by HIPC relief), and by using any unprogrammed receipts from divestiture and program aid, as well as a portion of HIPC relief, to retire domestic debt;
- Regaining effective control and monitoring of public expenditures;

- Containing the indebtedness of the main parastatals through price adjustments and explicitly allocated subsidies from the budget, until full cost recovery can reasonably be obtained;
- Continued monitoring and protection of the health of the banking system; and
- Developing an effective interbank foreign exchange market to improve the allocation of external resources.

## **B. Financial Policies for 2002**

### **Fiscal Policy**

15. The government's detailed expenditure plans for 2002 have been drawn up in line with the programs and priorities identified in the draft GPRS. In formulating these plans, the government has made provision for a 20 percent full-year increase in civil service wages, which together with the 2001 pay increase will more than fully correct the erosion in real wages of government workers that occurred during 1999 and 2000. The budget will also incorporate real increases in allocations for domestic capital expenditure, by comparison with the necessarily tight limits imposed in 2001, to give effect to the development goals outlined in the GPRS. Overall capital expenditures could be increased further if additional foreign assistance were to become available. The statutory transfers due to the DACF, GETF, and SSNIT in 2002 will be budgeted and paid in full, in addition to €337 billion of unpaid obligations from 2001. For the first time, the 2002 Budget will also contain an explicit allocation to cover the cost of price subsidies in the electricity and water sectors (see below).

16. To fund these spending needs while maintaining a firm downward trend in the ratio of domestic debt to GDP, the government will introduce revenue measures with a total yield of 1 percent of GDP in 2002. These measures will be designed to place government finances on a sounder long-term footing by emphasizing efficient, broad-based taxation. The total package will include some initial measures to be introduced with the 2002 Budget, with a combined yield of 0.3 percent of GDP. These will include the elimination of a range of tax and tariff exemptions, the application of a 5 percent import duty rate to a set of major product lines that are currently zero-rated, the application of a 1 percent processing fee on all remaining zero-rated items and on items attracting a 10 percent concessionary rate, the introduction of a 10 percent withholding tax on rental income, and a restructuring of the lottery sector to increase the proceeds flowing to the budget. Further broad-based measures with a 2002 yield of not less than €330 billion (equivalent to 0.7 percent of GDP) will be formulated and submitted to Parliament, for intended passage before the summer parliamentary recess in August 2002.

17. The government has already taken a range of measures designed to strengthen revenue collection and administration, including the creation of a National Tax Audit Team and appointment of a head of the Revenue Agencies Governing Board (RAGB) to enhance



coordination among the separate agencies. One task of the RAGB will be to ensure full implementation by CEPS and IRS of the common Taxpayer Identification Number (TIN) by June 2002. In addition, government intends to announce in the 2002 Budget plans to create a fully integrated Large Taxpayers Unit (LTU), with the purpose of amalgamating the assessment, processing, and auditing functions for all the tax liabilities of each large taxpayer. A timetable for creation of the LTU will be adopted by end-June 2002. While these measures will generate additional receipts over time, for reasons of prudence, no allowance for additional receipts has been made in the revenue projections for 2002.

18. The government will request that Ghana's increased revenue effort be supplemented by external debt relief under the enhanced HIPC Initiative. The total relief that Ghana could receive in 2002 is estimated at US\$249 million (net of debt service on the deferral of 2001 payments), which is equivalent to about 4 percent of GDP. Of this, the portion ascribed to traditional debt relief mechanisms (US\$153 million) has already been incorporated in the fiscal program for 2002. From the additional component (US\$96 million) attributable to enhanced HIPC relief, 80 percent will be used to fund further poverty-related expenditures, as specified in the GPRS, and 20 percent to reduce domestic debt.

19. Net domestic financing of the government will not exceed C139 billion (0.3 percent of GDP) in 2002. This assumes program loans and grants of C1,313 billion and divestiture proceeds of C377 billion, in addition to the budgetary savings from projected debt relief. A financing gap of C427 billion remains, for which the government intends to seek additional concessional program support. To the extent that the realized sum of divestiture receipts and program loans and grants exceeds the amounts assumed in the fiscal program, the additional resources will be used to accelerate the process of domestic debt reduction, thereby making room for additional priority expenditures in subsequent years. If the aggregate receipts from program loans and grants fall short of the program assumptions, the ceiling on net domestic financing will be increased to protect expenditures, up to the limit specified in the Technical Memorandum of Understanding (TMU). A number of other technical adjustments may be made to the fiscal ceilings, as defined in the TMU.

### **Public Expenditure Management**

20. The government attaches the highest priority to the effective control and monitoring of public expenditure. The establishment of effective expenditure control, particularly at the commitment stage, is a central plank of the program for 2002, and is a prerequisite for ensuring the appropriate use of interim relief under the enhanced HIPC Initiative. The government will therefore implement, throughout 2002, the following procedures:

- The issuance, no later than 15 days before the start of each quarter, of rolling disaggregated quarterly expenditure ceilings for each MDA, consistent with the budget and updated cash flow forecasts;

- The production by CAGD of monthly reports on aggregate budget outcomes and MDAs' expenditure cash outlays and commitments, showing deviations from the established quarterly ceilings and accumulated arrears (if any), with a maximum six-week delay.

To verify that these procedures are in place, the Ministry of Finance has issued to MDAs the disaggregated expenditure ceilings for the first quarter of 2002, and the CAGD has produced the reports specified above for the months of January-October 2001.

21. The stock of expenditure arrears on road projects continued to mount during 2001, contrary to the government's specified objective that this stock be sharply reduced. As a result, and pending the completion of ongoing audits of road arrears, the target date for their full clearance has been pushed back from March to June 2002. In support of this goal, the government will take steps to improve the control over expenditure commitments in the road sector by limiting certificates of continuation on ongoing projects and new certificates of commencement to the quarterly 2002 budget allocations for the Ministry of Roads, while ensuring that the stock of road arrears is cleared on schedule. The government will also seek to rescind those contracts for road construction that allow contractors willing to prefinance new projects to initiate work without prior authorization, since such contracts inhibit the government's ability to control its financial obligations.

22. The enhanced external debt monitoring practices adopted in 2001 (as described in the TMU) are in place and being followed. These include tighter control over the contracting of new government debt to ensure a grant element of at least 35 percent in all new borrowing, closer monitoring of external debt service obligations and payments, and a more systematic exchange of external debt information between the Ministry of Finance aid and debt management unit and the Bank of Ghana.

### **Monetary, Exchange Rate and Financial Sector Policies**

23. To achieve the target rate of inflation for end-2002, the Bank of Ghana will use appropriate monetary instruments to control growth in its net domestic assets, and hence in reserve money growth. The quarterly targets, consistent with reserve money growth during 2002 of 18.7 percent, are shown in Table 1. This should be sufficient to accommodate the target level for credit to the government and a rebuilding of net international reserves (NIR) by at least US\$156 million.

24. The government and the Bank of Ghana have agreed that it is important, for the purposes of safeguarding the financial system as well as the public purse, that the finances of public enterprises and the impact of their operations on the banking system be more closely monitored. For this purpose, the Portfolio Management Unit in the Ministry of Finance will prepare quarterly reports for the Minister of Finance and the Governor of the Bank of Ghana on the financial positions of Cocobod, ECG, SSNIT, TOR, and VRA.

25. The functioning of the foreign exchange market has improved markedly in 2001, as monetary discipline has been restored and macroeconomic performance strengthened. The Bank of Ghana has maintained a policy of non-intervention in the exchange market, and has made no foreign exchange sales to the market other than those for oil imports, allowing the exchange rate to be determined by market forces.

26. Looking ahead, the Bank of Ghana intends to build on this progress and foster the development of an effective interbank foreign exchange market. It is important, however, to proceed cautiously and prepare the ground well. In particular, a viable market-based arrangement for financing oil imports must be secured before steps are taken to redirect cocoa proceeds, which are currently surrendered to the Bank of Ghana in large and discrete amounts, into the commercial banking system. A plan to this effect will be developed following consultations with commercial banks, during the first quarter of 2002, on the appropriate market structures and technical reforms needed to facilitate interbank trading in foreign exchange.

### **C. Structural Policies for 2002**

27. The government regards restoring the financial health of the public energy and utility companies as one of its highest priorities over the next 1-2 years. To prevent a recurrence of the huge parastatal losses built up in 1999 and 2000, which will be a burden on consumers and taxpayers for many years to come, the government intends to:

- urge the Public Utilities Regulatory Commission to finalize its transitional pricing policy for electricity and water—including automatic adjustment formulae to reflect changes in cedi costs of imported inputs and a timetable for movement to full cost recovery—with a view to beginning implementation by end-April 2002.
- monitor, with assistance from the World Bank, the impact of PURC's plan on the finances of ECG, VRA, and GWCL, to ensure that the provision in the 2002 budget for transfers to these companies to cover the implied subsidies to consumers associated with price controls is adequate.
- complete financial and management audits of these companies, and develop a plan whereby government would take over the debts caused by previous consumer price subsidies that arose from suppression of utility prices below cost recovery.
- give special consideration to targeted subsidies to "buy down" water rates for the poor, in recognition that water is a staple with a significant bearing on the living standards of the poor.

So as not to further aggravate the finances of the parastatals, the government will remain current on its own payments for utilities and on the budget transfers needed to cover the implicit consumer subsidies.

28. A preliminary assessment indicates that the impact of the TOR debt restructuring has worked to lift pressure from the balance sheets of commercial banks and begin stabilizing TOR's own financial position. TOR's cash flow is expected to improve substantially when secondary distillation facilities come on line in the second half of 2002. Meanwhile the authorities are in discussions with private sector firms on a comprehensive agreement to assume full management of the refinery. The government also intends to consult with oil companies and other stakeholders with a view to the possible dismantling of TOR's monopoly of the import of petroleum products. This would enhance competition in the petroleum sector, as well as aiding development of the interbank foreign exchange market.

29. The government regards divestiture of state holdings in commercial enterprises as a core component of its strategy to promote private sector development. The agenda for 2002 includes:

- The planned "fast track" sale of state holdings in 12 companies, including Ghana Telecom. Valuations for these assets will be completed and potential buyers identified during the first quarter of 2002, and sales are expected to begin in the second quarter, with a projected yield of at least US\$33 million (½ percent of GDP) in 2002.
- Privatization of the National Investment Bank and Ghana Commercial Bank.
- The sale on the stock market of government shares in the Cocoa Processing Company, expected by mid-2002.
- The offer for sale of the Electricity Company of Ghana, for which a transactions adviser has already been appointed and valuations completed.

30. To further its goal of improving the country's investment climate, the government is in the process of establishing an Investors' Advisory Council, the inaugural meeting of which is planned for April 2002. This body will be chaired by the President of Ghana, and will include top-level executives from the Ghanaian business community, multinational companies invested in Ghana, and other major international companies. Its broad objective is to provide a local and international investors' perspective on Ghana's strategy to stimulate growth and private investment, and recommend concrete measures to enhance the policy environment for business investment in Ghana.

31. In this same vein, the government intends to reduce progressively the distortions inherent in Ghana's import tariff regime, which are an impediment to efficient private sector activity. A key step will be the elimination of the special import tax in the 2002 Budget, to be replaced later with anti-dumping measures that are consistent with WTO rules.

#### **D. The PRSP and HIPC Processes**

32. The Ghana Poverty Reduction Strategy is now expected to be completed in early 2002. This extension of the original timetable was made in order to allow sufficient time for the completion of public consultations and development of a costed, prioritized policy program. The work on the strategy had already advanced sufficiently, however, to provide a framework for expenditure allocations in the 2002 Budget. A progress report on development of the GPRS to date and the remaining steps to completion has been prepared by the government and will be provided for consideration along with the HIPC decision point document and request for the PRGF disbursement.

#### **E. Good Governance and Fiscal Transparency**

33. The government came into office with a pledge of zero-tolerance for all acts of corruption. A new anti-corruption strategy has been put in place, including Codes of Conduct for state officials, establishment of an Office of Accountability in the President's office and the Parliament, reform of the procurement system, and strengthening of anti-corruption agencies. As part of these efforts, the BOG has instituted new procedures to counter money laundering, whereby suspicious transactions are reviewed, and third-party transfers are checked against a list of suspected organizations. A new anti-money laundering bill is also under preparation.

34. The government notes that the Bank of Ghana has published new monetary data, correcting the underrecording of reserve money in the old series. It welcomes the request by the new Governor that this year's external audit of the central bank be conducted by auditors of international standing and experience, as a signal of the new management's determination to ensure full and accurate data for policymaking purposes. The auditors were appointed in December 2001, and the financial audit is expected to be completed by end-March 2002. In addition, the Bank of Ghana has been implementing a series of measures to improve the quality and reliability of monetary statistics, with technical assistance from the IMF, and this work will continue during 2002. The government is also committed to improving progressively the quality and coverage of Ghana's fiscal data, as a means to strengthen policymaking and accountability. In pursuit of this objective, the government will draw upon a Report on Standards and Codes in Fiscal Transparency planned for Ghana during the first half of 2002 to define an agenda for action, not only on fiscal data but also on budget processes and reporting. As an initial step, all MDAs will be required, from the beginning of 2002, to report to the Ministry of Finance expenditures financed from internally generated funds (such as user fees) and from direct donor funding. In addition, the government will seek the agreement of donors to channel all donor resources through government accounts (including committed donor accounts) at the Bank of Ghana, as well as all internally generated funds, where permitted by law. This will be particularly important for the effective tracking of poverty-related expenditure, to which Ghana is committed as a prospective recipient of HIPC relief.

35. For transparency reasons, the government has also made provision in the 2002 budget for transfers to the electricity and water companies to cover estimated price subsidies implied by the phased transition to full cost recovery in these sectors. This ensures that the cost of the subsidies and their financing are made explicit, rather than accumulating as ever-larger debts in the public utilities, and will also facilitate better targeting of subsidies in favor of the poor. The transfers will be made to ECG and GWCL on a quarterly basis, one month after the end of the quarter. The conversion of part of TOR's bank debt into government bonds, which will be serviced in 2002 from the budget, similarly serves to improve the transparency of the public finances, and to increase TOR's accountability for its future financial performance.

#### F. Program Monitoring for 2002

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

37. **Prior Actions.** The government will undertake a number of actions prior to the IMF Board meetings on the fourth and fifth reviews under the PRGF in order to ensure effective implementation of the economic strategy described in this memorandum (Table I.2).

38. **Performance criteria.** Table I.1 shows the quantitative performance criteria and benchmarks set for June 2002, with indicative benchmarks for March, September, and December 2002. Structural performance criteria and benchmarks with corresponding dates are identified in Table I.2. In addition, the nonaccumulation of external payments arrears (as defined in the TMU) will constitute a continuous performance criterion, as will the standard injunctions against imposing or intensifying restrictions on current payments, introducing or modifying multiple currency practices, concluding bilateral payments agreements that are inconsistent with Article VIII, or imposing or intensifying import restrictions for balance of payments reasons.

39. **Program review.** A fifth review under the PRGF arrangement will be completed by November 30, 2002. In addition to the specified prior actions, this review will focus on implementation of (i) the public expenditure management and control system, (ii) the steps to develop a functioning interbank foreign exchange market, and (iii) measures to further strengthen monetary and fiscal data systems.

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

	March Benchmark	June Perf. criterion	September Benchmark	December Benchmark
	Prog.	Prog.	Prog.	Prog.
(in billions of Cedis)				
<b>Performance Criteria</b>				
Net domestic financing of government (ceiling)	543	418	183	141
Net domestic assets of the Bank of Ghana (ceiling) 2/ 3/	157	-131	-46	-390
(in millions of U.S. dollars, unless otherwise specified)				
Net international reserves of the Bank of Ghana (floor) 4/	-51	-36	-5	156
New nonconcessional external loans contracted or guaranteed by the government or the Bank of Ghana (greater than or equal to 1 year maturity) (ceiling)	0	0	0	0
Stock of short-term external debt outstanding contracted or guaranteed by the government or the Bank of Ghana (with an initial maturity of less than one year) (ceiling)	75	75	75	75
Stock of government road sector arrears (in billions of cedis)	123	0	0	0
(in billions of Cedis)				
<b>Indicative Benchmarks</b>				
Government domestic primary surplus (floor)	137	261	827	1,438
Reserve money stock	3,715	3,533	3,844	4,659
Government revenue, excluding grants and divestiture proceeds (floor)	1,754	3,743	6,137	8,785
(in millions of U.S. dollars)				
<b>Memorandum items:</b>				
External program support (loans and grants)	34	144	199	227
Paid public and publicly guaranteed debt service (after debt relief) 5/	22	67	104	150
Divestiture receipts	0	30	50	50
o/w: in foreign exchange	0	30	50	50

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

2/ Based on fixed exchange rate of 7,205 cedi/\$, the rate prevailing at end-March 2001.

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

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

5/ Remaining debt service to be paid by Ghana after assumed HIPC relief in 2002.

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

Prior Actions for Fourth Review

1. Full implementation of the specific duties on petroleum (averaging C200 per liter).
2. Issuance to MDAs of disaggregated expenditure ceilings for the first quarter of 2002, consistent with the fiscal targets for 2002.
3. Provision of CAGD reports for the months of January-October 2001 on aggregate budget outcomes and MDAs' expenditure commitments and cash outlays, showing deviations from the established quarterly ceilings and any accumulated arrears.
4. Completion of audits at the MDA level of the full stock of domestic expenditure arrears for January-August 2001, and adoption of a strategy for their liquidation.
5. Cabinet approval of revenue measures with a combined yield in 2002 of not less than C115 billion, for implementation with the 2002 Budget.
6. Commencement of the external financial audit of the Bank of Ghana.

Structural Performance Criteria

7. Elimination of the special import tax in the 2002 Budget, effective immediately (end-March 2002).
8. Announcement in the 2002 Budget of intent to create a full-service Large Taxpayers' Unit (LTU) for the 500 largest taxpayers, covering filing and payment, collection enforcement, and audit for all domestic tax liabilities, and adoption of a timetable for its establishment (end-June 2002).

Structural Benchmarks

9. Issuance of disaggregated expenditure ceilings for each MDA for the second, third, and fourth quarters of 2002, consistent with the budget and cash flow forecasts (end-April 2002).
10. Production by CAGD of monthly reports for November 2001-March 2002 on aggregate budget outcomes and MDAs expenditure commitments and cash outlays, by function, with a maximum 6-week delay (end-May 2002).
11. Completion and publication of audit of 2000 non-road expenditure arrears (end-June 2002).

Prior Actions for Fifth Review

12. Passage of a Budget for 2002 in line with the program framework described in this memorandum, and of revenue measures consistent with that Budget.
13. Publication by the PURC of its strategy for achieving full cost recovery in the public utilities, and implementation of automatic tariff adjustment formulae for electricity and water.
14. Completion of an external audit of the Bank of Ghana's financial accounts for 2001.



## GHANA

### Technical Memorandum of Understanding

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

#### PROVISION OF DATA TO THE FUND

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

#### DEFINITIONS

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

4. **Government domestic revenue** comprises all tax and non-tax revenues of government (in domestic and foreign currency), excluding foreign grants and divestiture receipts. Revenue will be measured on a cash basis as the inflows to government uncommitted treasury collections accounts, plus positive balances on committed accounts of the government at the BOG.

5. **Poverty-related expenditures** refer to those expenditures identified in Table 6 of the Decision Point Document for the Enhanced Heavily Indebted Poor Countries Initiative. The last three digits of the chart of accounts are to identify budget expenditures that are poverty-related and the sub-component which is financed by HIPC relief.

6. **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, but excluding divestiture receipts, government liabilities assumed in the restructuring of the domestic debts of the Tema Oil Refinery, the Electricity Company of Ghana, the Volta River Authority, and the Ghana Water Company Limited, and/or recapitalization of the Bank of Ghana. Outstanding net credit to the government by the Bank of Ghana is comprised of

the sum of claims on government (codes 401 and 50101-4) less government deposits (1101 and 1202 and the BOG open market operations account; as defined in the Template of the BOG Statement of Accounts provided to the IMF on January 24, 2002), including the HIPC account. Outstanding net credit by deposit money banks is comprised of DMB holdings of government securities at cash value, as reported by the BOG Treasury Department's Debt Registry, less government deposits reported by DMBs in their BSD2 report form (as defined in the template for reporting of DMBs provided to the IMF on January 24, 2002). 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.

7. The **domestic primary balance** is defined as the difference between government domestic revenue and noninterest government expenditure as reported by the CAGD (i.e., payment vouchers issued for expenditures on items 1-4), but excluding foreign-financed capital expenditure, for which data are reported by the Aid and Debt Management Unit and expenditures to be financed by HIPC relief (i.e., those paid out of the HIPC Account of the CAGD; see below). 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.

8. The **program exchange rate** for the purposes of this memorandum will be 7205 cedis per dollar.

9. **Reserve money** is defined as the sum of currency in circulation (BOG statement of accounts codes 901 plus 902), commercial banks' deposits at the Bank of Ghana in cedis (code 110201 excluding overdrafts, banks in liquidation, and blocked accounts) and private and other non-government demand deposits at the Bank of Ghana in cedis (excluding blocked accounts). It will be measured by the indicated stock at end of month. If any bank fails to meet its legal reserve requirement, currently 9 percent of bank deposits, then reserve money will be adjusted upward to the extent of any shortfall in compliance with that reserve requirement.

10. **Net foreign assets** are defined for program monitoring purposes and in the monetary survey as short and long term foreign assets minus liabilities of the Bank of Ghana which are contracted with non-residents. Short-term foreign assets include: gold (valued at the spot market rate for gold, US\$/fine ounce, London), holdings of SDRs, reserves and investments in the IMF, foreign notes and travelers checks, foreign securities, positive balances with correspondent banks, and other positive short-term or time deposits. Short-term foreign liabilities include foreign currency liabilities contracted by the Bank of Ghana at original maturities of one year or less (including overdrafts), plus outstanding liabilities to the IMF. Long-term foreign assets and liabilities are comprised of assets (303), investments abroad (a subset of 60101), liabilities (1204), and bilateral agreements (305), all excluding swap deals receivable and payable with resident commercial banks. All values are to be converted to U.S. dollars at actual market exchange rates prevailing at the test date.

11. **Net international reserves** of the Bank of Ghana are defined for program monitoring purposes and in the balance of payments as short-term foreign assets of the Bank of Ghana, net of its short-term external liabilities. To the extent that short-term foreign assets are not fully convertible external assets readily available to and controlled by the Bank of Ghana (i.e., they are pledged or otherwise encumbered external assets, including, but not limited to, assets used as collateral or guarantees for third party liabilities) these will be excluded from the definition of NIR. Net international reserves are also defined to include net swap transactions (receivable less payable), minus positive foreign currency deposits by domestic non-government entities at the BOG (120501 and 120502). All values are to be converted to U.S. dollars at actual market exchange rates prevailing at the test date.
12. **Net domestic assets** of the Bank of Ghana are defined as the difference between reserve money and net foreign assets of the Bank of Ghana, converted from U.S. dollars to cedis at the program exchange rate.
13. The performance criterion on **short-term external debt** refers to the outstanding stock of external debt with original maturity of one year or less, including overdraft positions, owed or guaranteed by the government or the Bank of Ghana.<sup>1</sup> Data on the Bank of Ghana's short-term external debt are those reported from the statement of accounts template as short-term liabilities to non-resident commercial banks (1201 plus 301 overdrafts plus Crown Agent). The limit on short-term external debt will exclude US\$23 million in overdrafts with correspondent banks which are in dispute, until such time as these assets are re-classified.
14. The performance criterion on **nonconcessional medium- and long-term external debt** refers to the contracting or guaranteeing of external debt with original maturity of more than one year by the government or Bank of Ghana.<sup>2</sup> Medium- and long-term debt will be

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<sup>1</sup> (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.

<sup>2</sup> (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 and loans or purchases from the IMF. The grant element of each loan will be assessed only with regard to (i) the interest rate and repayment schedule of the loan and (ii)

(continued...)

reported by the Aid and Debt Management Unit of the Ministry of Finance and (as appropriate) the Bank of Ghana, measured in U.S. dollars at current exchange rates.

15. **The stock of payment arrears in the road sector** at the end of August 2001 is recognized to be C279.8 billion and is expected to be paid down according to the schedule in Table I.1. Performance will be measured by the outstanding stock measured in cedis at the end of each quarter. Any arrears in foreign currency will be converted into cedi at the actual exchange rate prevailing at the test date. Data on the stock of road arrears will be reported to the IMF staff monthly (with a lag of no more than 4 weeks) by the monitoring and evaluation department of the Ministry of Roads and Highways. An arrear is a duly certified expenditure commitment that was not paid during a period of 90 days after the date the bill was issued. Any conversion of amounts from other currencies into cedis will be made at the actual exchange rates at each test date.

16. **External payment arrears** occur when undisputed interest or amortization payments are not made within the terms of the debt contract. Bilateral and commercial debt service payments that are subject to the deferral agreed with the Paris Club on December 10, 2001, or the rescheduling associated with the provision of interim HIPC relief, are not considered external arrears for program purposes. This is a continuous criterion.

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

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

19. **The automatic adjustment formula for petroleum prices**, which was implemented in June 2001 and will operate continuously during the program period, is defined to pass through to ex-refinery prices the net cedi cost of refined petroleum product imports to ensure full cost recovery at the Tema Oil Refinery (including financial charges, except charges on debt subject to assumption by the government in 2001). From March 2002, the formula will include a petroleum debt service charge, equal to 95 percent of any decline in oil import costs from the average level prevailing during November 27-December 26, 2001.

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any grants or other concessional loans provided by a foreign official entity in connection with the loan in question.

## ADJUSTERS

20. **Deviations in official external program support, external debt service payments, and divestiture receipts** from the amounts programmed in Table I.1 will trigger adjusters for domestic financing of government, net domestic assets of the Bank of Ghana and net international reserves as indicated below. These and other adjusters as set out below will be measured cumulatively from the beginning of 2002.

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

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

## REPORTING OF FISCAL DATA

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

- a) Monthly data on central budget operations for revenues, expenditure and financing with a lag of no more than 6 weeks after the end of the month.
- b) Monthly reports showing the functional breakdown by Ministry, Department, and Agency of expenditure authorizations, payments vouchers issued, payment vouchers liquidated, and arrears with a lag of no more than 6 weeks after end of the month. These reports will also identify poverty-related and HIPC financed expenditures, as well as the inflows and disbursements from the HIPC account at the BOG.
- c) CAGD monthly reports on the profile of central government revenues and expenditure (payment voucher issued) with a lag of no more than 6 weeks after end of the month.

- d) Monthly reports prepared by the Ministry of Road and Highways on the stock of road arrears with a lag of no more than 4 weeks after the end of the month.
- e) Quarterly reports (from the Portfolio Management Unit) on the financial positions of Cocoabod, ECG, SSNIT, TOR and VRA, with a lag of no more than 8 weeks after end of the month.

22. The BOG will provide the IMF staff:

- a) Monthly summary tables reporting the government's position on BOG committed and uncommitted accounts as well as financing within 4 weeks of the end of the month. This table should be accompanied by the table showing the composition of other receipts and other expenditure.
- b) Monthly tables showing the composition of banking system and non-banking system net claims on government, within 4 weeks of the end of the month.
- c) Monthly tables showing the structure and holders of domestic government debt, within 4 weeks of the end-of the month.

#### **EXTERNAL DEBT AND DEBT SERVICE AND HIPC RELIEF**

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

- a) All Ministries, Departments and Agencies (MDA) have been informed that the Aid and Debt Management Unit (ADMU) in the Ministry of Finance is the only entity authorized to contract or guarantee external debt, and all leases with a total value above US\$ 100,000 should be submitted to ADMU for authorization.
- b) The Minister of Finance has sent a circular to all donor desks officers in the Minister of Finance requesting that arrangements be put in place to ensure that the ADMU is informed of all correspondence with creditors, including the latest information on disbursements and project financing developments and any notices of payment due. All new loan documents should also state clearly that the ADMU is the main initial point of contact for settlement of all debt obligations.
- c) Formal procedures have been established requesting donors and creditors to confirm with ADMU debt payment obligations – including for government guaranteed obligations – in advance of payment due dates.
- d) Formal delegations have been put in place in the Ministry of Finance and at the CAGD to ensure that an absence of sufficient signing authority does not delay payment requests. In

addition, a register will be kept of the timing of formal debt payment actions. This register should be signed by the various institutions involved in the payment of external debt.

e) In the event that a shortage of foreign exchange results in a queuing of debt service obligations at the Bank of Ghana, delaying payments beyond their due dates, the Ministry of Finance is responsible for issuing any instructions needed to revise payment priorities and for maintaining a record of payment arrears. Formal reporting and follow-up procedures have been established for the Bank of Ghana to confirm the transactions to CAGD and the ADMU in the MOF on a daily basis. These reports contain information on the transactions completed as requested, transactions previously queued and paid and transactions added to the queue. These reports are copied to both the governor of the Bank of Ghana and the Minister of Finance and his senior officials, and to the IMF staff on a monthly basis.

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

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

**Ghana: Relations with the Fund**  
As of December 31, 2001

	SDR Million	%Quota
<b>General Resources Account</b>		
Quota	369.00	100.0
Fund Holdings of Currency	369.00	100.0
	SDR Million	%Allocation
<b>SDR Department</b>		
Net cumulative allocation	62.98	100.0
Holdings	3.19	5.07
	SDR Million	%Quota
<b>Outstanding Purchases and Loans</b>		
ESAF arrangements	225.66	61.16

**Financial Arrangements**

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESAF/PRGF	05/03/1999	05/02/2002	228.8	123.64
ESAF	06/30/1995	05/02/1999	164.40	137.00
ESAF	11/09/1988	03/05/1992	388.55	388.55

**Projected Obligations to Fund:** (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue <u>12/31/2001</u>	Forthcoming				
		<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Principal	0	11.00	15.10	29.60	36.30	28.00
Charges/interest	0	2.4	2.40	2.30	2.10	2.00
Total	0	13.40	17.50	31.90	38.40	30.00



### **Safeguard Assessment:**

Under the Fund's safeguards assessment policy, the Bank of Ghana is subject to the transitional procedures with respect to the Poverty Reduction and Growth Facility arrangement due to expire on May 2, 2002. The transitional procedures require a review of only the Bank of Ghana's external audit mechanism. This assessment determines whether the Bank of Ghana publishes annual financial statements that are independently audited in accordance with internationally accepted standards. An assessment of the External Audit has been completed and, consistent with staff recommendations, the authorities are proceeding to strengthen their external audit procedures.

### **Exchange Rate Arrangement**

Ghana accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the Fund's Articles of Agreement on February 2, 1994. Accordingly, Ghana maintains a flexible exchange rate system (using the U.S. dollar as the intervention currency) that is free of restrictions on payments and transfers for current transactions. At end-December 2001, the midpoint exchange rate for transactions in the interbank market was C7291.0 per U.S. dollar.

### **Article IV Consultation and Current Fund Arrangement**

The 2001 Article IV consultation (EBS/01/88; 6/14/01) was concluded by the Executive Board on June 27, 2001 under a twelve month cycle. Conclusion of the third review of Ghana's PRGF arrangement permitted Ghana to draw SDR 52.58 million in July 2001. A disbursement made under PRGF in August 2000 was determined to be noncomplying and, together with interest, was repaid in two tranches of SDR 13.75 million on July 15, 2001, and SDR 13.00 million on December 27, 2001.

### **FSAP Participation**

Ghana participated in the FSAP during 1999-2000. A Financial System Stability Assessment (FSSA) was issued to the Executive Board as background for the 2001 Article IV Consultation.

### **Technical Assistance, 1999-2001**

**Fiscal Affairs Department:** All Ministry of Finance: public expenditure management, June 2000; tax policy, October 2000; (with Bank of Ghana) fiscal data quality assessment, February and May 2001; external debt including for HIPC, June and August, 2001; public expenditure management, budget and debt advisor, August 2001-February 2002; tax and customs administration, September 2001; peripatetic advisor on the establishment of a large taxpayers unit, February 2002-January 2003.

<b>IMF Institute:</b> Ghana Institute of Management and Public Administration: financial programming course, March 2000.
<b>Information Technology Services:</b> Bank of Ghana: implementation of data management system, April 1999.
<b>Legal Department:</b> All Ministry of Finance: drafting of internal revenue regulations, January 2001; advice/draft of new income tax laws, February-March 2001.
<b>Monetary and Exchange Affairs Department:</b> All Bank of Ghana: monetary operations, January and February, 1999; banking supervision, March 1999; foreign exchange markets, July 1999; development of the foreign exchange market and aspects of liquidity and debt management, May 2000; (with Ministry of Finance) recording and reporting external debt flows, February 2001 (with FAD); foreign exchange/monetary operations, August, 2001; (with Ministry of Finance) monetary and fiscal data reporting, November and December, 2001.
<b>Statistics Department:</b> Bank of Ghana: balance of payment statistics, March 2000; money and banking statistics, August 2000. Ghana Statistical Service: national accounts statistics, September and October 2001.

### **Resident Representative**

A Fund Resident Representative has been stationed in Accra since June 1985. The outgoing Fund representative, Mr. Begashaw, was succeeded by Mr. de la Piedra in October, 2001.

### **Ghana: Relations with the World Bank Group**

(As of December 31, 2001)

1. The World Bank Group's Country Assistance Strategy (CAS) for Ghana for the period of FY01-FY03 was presented to the Bank's Board on March 30, 2000. The CAS outlines the Bank's business plan to support the Government's development strategy aimed at eliminating hard-core poverty in Ghana. Within this broad goal, the Bank Group would help the Government to: (i) raise the growth rate of the economy; (ii) redefine the role of the state; and (iii) implement their strategy more effectively on the ground. Ghana is one of the pilot countries for the Comprehensive Development Framework (CDF) and the preparation of the CAS was an integral part of close donor coordination under the CDF initiative.
2. As of September 30, 2001 total commitments to Ghana amounted to US\$1376million with total disbursements of US\$793 million. IFC's portfolio totals 23 active projects with total commitments of US\$78.7million, which includes the approval of US\$40 million investment in Ghana Telecom. Over the three-year period covering FY01-FY03, the CAS proposes a lending program of US\$490 million for the base case and US\$640 million for the high case. Under the low case, lending would be 40 percent below the base case. Triggers include: the public sector domestic borrowing requirement, portfolio performance, cocoa reform, private participation in infrastructure, and education sector performance.
3. Recent and proposed Bank Group projects have broad sectoral coverage, including roads and other infrastructure, health, education, agriculture, environment, private sector development, and public sector management. These projects emphasize rehabilitation, maintenance, and institutional strengthening. More reliance is being put on supporting sector-wide programs and nonlending services. The Bank is moving away from infrastructure investments in telecommunications, power, ports, rails, and large urban water systems, while providing greater nonlending support (enhanced by IFC and MIGA) to promote private participation in these sectors.
4. Since the formulation of Ghana's Economic Recovery Program in 1983, the Bank has provided a series of policy-based credits to help finance urgently needed imports and support structural reforms, including trade liberalization, rationalization of public expenditures; privatization, and parastatal reform. In FY98, a one-tranche adjustment credit, the Economic Reform Support Operation, was approved. In FY99, the Bank approved a second Economic Reform Support Operation (ERSO II) adjustment credit in the amount of US\$180 million; about US\$26 million are yet to be disbursed. A Supplemental Credit to ERSO II, in the amount of about US\$50 million, was disbursed in November 2000 to assist in meeting Ghana's increased financing requirements resulting from an unanticipated terms of trade shock. In July 2001, the Bank approved a one-tranche ERSO III. This credit supports the restoration of macroeconomic stability and market confidence allowing the new Government to develop its agenda of reform for accelerated growth and poverty reduction over the longer term.

### **Ghana: Statistical Issues**

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

#### **Public finance**

2. **Steps have been taken in 2001 to improve Ghana's public expenditure management systems, but further reforms are needed to bring it to the standards prevailing elsewhere in Africa.** Although the Controller Accountant General's Department (CAGD) has re-started compiling monthly budget implementation reports, the data is available with a long lag and a number of factors undermine its reliability. First, the absence of a consistent definition of central government has contributed to considerable discrepancies in the data reported by the CAGD and the Bank of Ghana (BOG). Above-the-line data from the CAGD are narrower in coverage than below-the-line BOG data. Second, there is a proliferation of government accounts, both at the BOG and the commercial banks, operating outside of the CAGD's supervision and treasury system. Third, the lack of regular reconciliation of monthly treasury data with bank accounts undermines the reliability of the data. (The CAGD and the BOG were expected to initiate such reconciliation by the end of 2001, according to the MEFP in EBS/01/88.) All these factors contribute to substantial discrepancies in the measurement of the fiscal deficit between above-the-line and below-the-line monetary data. As the sources of these discrepancies are difficult to identify, the result is uncertainty as to the underlying factors explaining monthly variations in fiscal outcome. This creates problems when prescribing appropriate remedial action and projecting budget needs.

3. **There are also problems of data comprehensiveness and arrears.** The CAGD and the BOG miss a substantial part of central government spending. These off-budget flows include donor flows disbursed directly to ministries, fees charged by ministries, and expenditures undertaken by various extra-budgetary funds. The authorities continue to experience difficulties in adapting their systems to properly record and control payment commitments and arrears for on-budget flows.

4. **Because of these data weaknesses, central government fiscal developments are primarily monitored from below-the-line BOG data.** As no comprehensive audited accounts have been published during the last few years, above the line fiscal aggregates are monitored by a combination of cash flow data from the BOG and various identifiable components of revenue and expenditure provided by the Ministry of Finance (MOF) and the CAGD. BOG produces revenue, debt service, and domestic financing data. The Aid and Debt Management Unit (in the MOF) provides external debt data and information on foreign project loan and grant disbursements. The CAGD provides the data on non-interest recurrent expenditure and domestically financed capital expenditures.

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

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

#### **Debt statistics**

7. **The responsibility for external debt recording and payment is divided among three independent agencies.** The MOF, through its Aid and Debt Management Unit, maintains the external debt database, and it is responsible for recording debt payment obligations and issuing payment requests. The MOF makes use of the Commonwealth Secretariat Debt Reporting System. The CAGD is responsible for verifying the legality of the payment and authorizing the release of public funds as well as for accounting for debt payments and rendering reports to parliament. The BOG is the payment agent for the government.

8. A technical assistance mission in February/March 2001 on recording and reporting of external debt flows concluded that **the three institutions involved need to improve the transparency and accountability of external debt management.** The authorities should develop a unique computerized database that is available to all the relevant institutions. The authorities should also formalize procedures used for settlement of debt payments, including: obtaining debt notification by donors, delegation of signing authorities by officials within the relevant organizations, and creation of registers tracing the movement of documents required to effect external debt payment transactions.

9. To enable systematic comparison between the budget, the balance of payments, and the BOG cash flow data, the authorities should prepare a clear classification of debt into the following categories: (1) direct government debt paid by the budget; (2) debt paid by the BOG (including debt owed to the IMF); (3) debt guaranteed by the government, identifying amounts taken over by the government; (4) other, non-guaranteed debt outside the budget and BOG cash flow.

## **National accounts**

10. **In order to review the problems in the compilation of national accounts and price statistics, a peripatetic advisor has been assigned to Ghana** and three other African countries. The advisor conducted an initial one-week mission to Ghana in September 2001 and a follow-up visit in January/February 2002. The advisor is expected to finalize a work plan with the Ghana Statistical Service (GSS), which is the agency responsible for compiling national accounts statistics. The plan will focus on improving the source statistics and methods for compiling GDP by type of activity at current and constant prices.
11. The GSS received technical assistance from the United Kingdom's Department for International Development (DFID) through the assignment of a resident national accounts statistician in 1996. The objective was to prepare new national accounts estimates using 1993 weights, based on information collected from the third Ghana Living Standards Survey (GLSS). A set of national accounts for 1993 to 1996 was published in 1998. GSS did not revise any historical data before 1993, and consequently there are breaks in the national accounts series between 1992 and 1993. GSS has not published the methods used for the revisions.
12. To improve the reliability of the national accounts, a comprehensive overhaul of the basic sources of data would be needed. The existing sector surveys that form the basis for the estimations are outdated. An earlier review of the methods used when compiling GDP by expenditure categories led to a number of recommendations: (1) private household expenditure should be estimated independently using detailed information from the household expenditure surveys rather than as a residual; (2) total consumption should be split into private and government consumption, deflating the former by the CPI and the latter by a price index for government output such as the average wages paid to civil servants; and (3) the constant price estimates for gross fixed capital formation in machinery and equipment should be calculated by deflating current price estimates by the relevant import unit values of that particular type of imported good.
13. Revisions to the investment data were made in consultation with the staff mission in March 2001, but this issue will require further examination. The most significant revisions concerned construction. The result was a significant decrease in the investment to GDP ratio. According to previous data, gross fixed investments measured in current prices increased from about 20 percent of GDP in 1995 to 30 percent in 1996 and 35 percent in 1999. These data were deemed to be unrealistic and suffering from certain calculation deficiencies. After the revisions, gross fixed investments remained in the range of 20 to 25 percent of GDP during the second half of the 1990s.

14. In particular, more recent base-year data are required to reassess the data series on construction. Calculation of construction investment is currently based on the estimated value of locally produced construction goods in 1987, which is extrapolated to 1993 using data on production growth, imports, import duties, and trade margins. This value is extrapolated over the following years based on the production of cement and an index of prime building costs.

15. Some deflators are not consistent with available price indicators. In particular, the deflator for investment – described to the staff as a weighted average of the building and construction price index and the consumer price index (CPI) – has been found to exceed both of the component indices. In this context, the staff has asked the Ghanaian authorities to review the deflators for errors in their calculation and to provide the staff with a description of the methodology used to compile the national accounts.

### Prices

16. **A revised national CPI was introduced in January 1998** with a base of September 1997. The current weights are derived from the standard consumption basket estimated in the 1992 GLSS. Relative prices have shifted substantially since then. A peripatetic advisor is currently assisting the GSS in rebasing the CPI to 1998, and GLSS4, completed in June 1999, will serve as the basis for this revision of the CPI weights. The authorities have reduced the lag in reporting the CPI to one month.

### Labor statistics

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

### Trade and Balance of Payments Statistics

18. **The staff recommended that the GSS collaborates with the CEPS in order to process customs data within 6 weeks. Furthermore, GSS needs to work with the Ministry of Trade and Industry (MOT) and the BOG in identifying and reducing the discrepancies in trade statistics between various sources.** Besides setting up regular inter-agency procedures to foster collaboration, the data collection procedures of the CEPS need to be improved. There is room for improving trade volume data collected by the CEPS through customs invoices, which would help the GSS to develop meaningful import and export unit values for balance of payments and national accounts purposes. Another area concerns the accurate recording of VALCO's aluminum exports, which tend to exhibit sharp fluctuations from one year to the next. The staff has recommended that the GSS and the MOT seek the co-operation of VALCO in reconciling discrepancies in aluminum exports data.

19. **The staff has recommended that the GSS develops export unit values for major export commodities such as gold and cocoa.** A high coverage of the country's export bundle can be obtained by including just three major exports—cocoa, gold, and unwrought aluminum. In contrast, the deflation of imports is likely to involve an iterative procedure in order to strike a balance between coverage of the index and its stability due to heterogeneity of the basket. When import unit values exhibit sharp fluctuations owing to product mix, the GSS was advised to use the export prices of particular groups of commodities published by Ghana's major trading partners with proper adjustments of these prices for exchange rate changes.
20. A technical assistance mission on balance of payments statistics in March 2000 found that improvements in the quality of these statistics would necessitate the introduction of surveys of key establishments, the training of staff in the BOP unit of the BOG, improved collaboration between the various government agencies responsible for collecting related data, and additional computer resources for the agencies involved. Moreover, survey data are also needed for the services account of the BOP, in particular for travel statistics through the implementation of surveys of various travel agents and tour operators. The mission also assisted the authorities in the transition to accounting under the fifth edition of the Balance of Payments Manual.
21. **The BOG has been unable to directly estimate foreign direct investment flows** into Ghana as no surveys of foreign direct investment (FDI) firms are conducted and the commercial banks do not report such flows. Estimates of portfolio investments are also missing. The technical assistance mission suggested that the BOG work closely with the Ghana Investment Center and the Attorney General's Office in setting up a register of FDI companies in Ghana and initiate surveys of these establishments.

### **Monetary Statistics**

22. **Ghana's monetary data has been significantly revised, and together the BOG and the Fund staff have agreed on a detailed framework that will be used to extract the monetary data directly from the BOG's financial accounts.** Fund staff was informed in October 2001 that the BOG was about to revise the reported series on reserve money upward, beginning in November 1999. The previous under recording of reserve money reflected adjustments that had been made to data on currency in circulation. Two TA missions in November and December 2001 examined and recompiled the reserve money data and also tried to reconcile other components of the monetary survey. The missions had considerable difficulty in reconciling the previously reported data on BOG net credit to government and net foreign assets with the underlying financial accounts. These discrepancies were traced to various adjustments made during the compilation of the monetary survey. For example, BOG's research department had sometimes made accrual adjustments to the monetary data. The missions concluded that most adjustments were not well founded, and together the BOG and the Fund staff agreed that the most reliable source for monetary data is the BOG's financial accounts.



23. There are significant deviations between data reported by commercial banks with respect to their deposits and borrowing with the central bank and those reported by the BOG. An STA money and banking statistics mission in 2000 proposed a plan of action to address the classification by residency of foreign currency deposits in commercial banks, as well as the proper treatment of repurchase agreements between the Bank of Ghana and the commercial banks. Based on this and subsequent work, gross foreign reserves, net international reserves, and net foreign assets were redefined. Reporting according to the new definitions started in 2001.

#### **Publication**

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

**Statement by Mohammed Daïri, Alternate Executive Director for Ghana**  
**February 22, 2002**

**Introduction**

My authorities thank staff for their hard work and useful advice. They also thank management and the Board for their continued support. The newly-elected Government inherited a difficult economic situation when it assumed office at the beginning of 2001. Indeed, weak macroeconomic policies in late-2000 and a sharp decline in donors' assistance had compounded the severe terms-of-trade shock in 1999–2000 that cost Ghana around US\$900 million, leading to major financial imbalances and high inflation. The authorities promptly adopted a program focused on restoring macroeconomic stability and putting public finances in order so as to reduce domestic indebtedness and free up resources for growth and poverty reduction. Furthermore, they involved the civil society and the development partners in formulating their strategy for accelerated growth and poverty alleviation. They also emphasized good governance to improve resource utilization and mobilize public support for their economic and social policies.

**Performance Under the 2001 Program**

The authorities forcefully implemented their 2001 program, including strong fiscal and monetary policies, with most quantitative performance criteria for end-August being met with wide margins, as well as far-reaching structural reforms and improved governance. As a result of their policies, the end-year rate of inflation was reduced to 21 percent, lower than the program target of 25 percent. The external current account deficit also declined by more than a half to 4.0 percent of GDP, while the overall balance turned from a deficit into a surplus and, with debt deferral, reserves increased significantly. The exchange rate stabilized, after a 50 percent depreciation against the U.S. dollar in 2000. Real GDP growth is expected to increase from 3.7 percent to 4.0 percent, in line with the program target.

The authorities significantly tightened fiscal policy under the program, which led to a narrowing of the overall budget deficit on a cash basis from 9.7 percent to 6.8 percent of GDP and an increase in the domestic primary surplus from 2.7 percent to 4.0 percent, broadly in line with the program target. Net domestic financing dropped from 8.5 percent of GDP to less than 1 percent. The Government launched a number of initiatives to improve revenue performance, including introduction of new administrative fees and charges and upward revision of some of the existing ones, as well as imposition of specific duties and a 15 percent excise tax on petroleum products. Despite good performance of VAT and trade taxes, however, total revenue for the year was slightly lower than projected, partly due to the delay in implementing some of the revenue measures.

On the expenditure side, cash spending was contained within budget. However, delays occurred in implementing the new system of expenditure commitment control, which led to accumulation of new non-road arrears. However, the Government paid more than double the

pre-2001 non-road arrears scheduled to be cleared in 2001. In the last quarter and in order to meet the primary balance target, the Government imposed lower spending limits.

The authorities maintained an equally tight monetary policy stance, meeting the ceilings on net domestic assets of the BOG and net domestic financing of the budget for end-August with wide margins. Furthermore, with the decline in inflation, real interest rates increased, allowing nominal interest rates to be reduced. As a result of the tight monetary policy and net government repayment to the BOG, reserve money growth halved from 53 percent to 27 percent. The tight liquidity conditions also led to a fairly stable nominal exchange rate. The real effective exchange rate appreciated, but not enough to jeopardize external competitiveness gains from the 1999-2000 depreciation.

The authorities made significant progress in structural reforms. The price-related debt of the Tema Oil Refinery (TOR) to creditors was restructured by replacing it with longer dated bonds. Furthermore, the Public Utilities Regulatory Commission (PURC) laid the groundwork for introduction of full-cost recovery tariffs for electricity and water. The financial and management audits of eleven major public enterprises were completed. However, the authorities could only raise a fraction of the projected receipts from the intended "fast track" sale of government shares in selected companies, as it took longer than anticipated to form the new Board of the Divestiture Implementation Committee (DIC) and to conduct the necessary asset valuations.

On governance, the Government gave concrete manifestation to its pledge of transparency and accountability in fiscal management, on which it stood and won elections. To this end, an anti-corruption strategy was established, including reform of the public procurement system and strengthening of anti-corruption institutions.

In the financial sector, a new central bank law defining its core objectives and strengthening its independence was approved by Parliament in late-2001. Furthermore, to avoid a possible conflict of interest, BOG divested its shareholdings in all financial institutions under its supervision. The newly-appointed Governor ordered revisions of data on reserve money that were found to be subject to underrecording and immediately informed the Fund staff accordingly. My authorities thank the Board, management, and staff for the advice and assistance they received in support of their efforts at strengthening the BOG accounting and reporting practices. The Governor also commissioned an external audit of the bank by auditors of international standing, which is in progress, signaling the authorities' strong commitment to transparency and accuracy of financial data. Pending the enactment of an anti-money laundering law under preparation, the BOG also instituted procedures aimed at reviewing suspicious transactions and checking third-party transfers against a list of suspected organizations.

As the authorities explained in their letter to the Managing Director, the short-term external debt ceiling was exceeded after staff reclassified as overdrafts the BOG's debit balances with correspondent banks, which were previously netted out of its reserves; the reclassification led to higher gross reserves as well as higher short-term debt. On the 2000 domestic arrears, the

deadline was not observed because donor-funded consultants conducting the audits determined that the necessary work was considerably more extensive than anticipated, and the audits are now expected to be completed by end-March 2002. However, based on available information, a plan for arrears clearance has been drawn-up. Regarding TOR's bank debt, although the restructuring agreements were signed with the two creditor banks in August and September 2001, the agreements took retroactive effect from July and August, respectively, both within the program test date. The authorities, therefore, request waivers for nonobservance of two quantitative performance criteria and two structural performance criteria.

### **Medium-Term Strategy**

Over the medium term, the Government is committed to sustain macroeconomic stability and strengthen the momentum of structural reforms, which it considers indispensable for improving the environment for private sector development and for stepping up growth and the pace of poverty reduction. The authorities are conservatively targeting an increase in real GDP growth to 4.5 percent in 2002, and to 5.0 percent thereafter, and a drop in end-of-period inflation to 13 percent in 2002 and to single-digit levels, subsequently. The overall balance of payments is also expected to improve and, together with debt relief, to enable reserves to increase steadily over the medium term. The authorities will considerably increase poverty spending from HIPC-Initiative assistance, while applying a portion of the HIPC relief as well as any unprogrammed receipts from divestiture and program aid to retire domestic debt.

### **Policies Under the 2002 Program**

The 2002 program will focus on building on the progress made in 2001 in achieving macroeconomic stability, further strengthening public resource management, and laying a strong foundation for further poverty reduction and sustained growth in subsequent years.

**Fiscal policy:** Fiscal policy in 2002 aims at improving the structure of the budget, while maintaining the public debt on a firmly declining path. The overall deficit on a cash basis (excluding HIPC relief) is projected at 7 percent of GDP, including elimination of almost all domestic payments arrears, and the domestic primary surplus at 4.1 percent. The authorities intend to continue to reinforce tax administration, improve efficiency, and broaden the base. The newly-constituted Revenue Agencies Governing Board (RAGB) will ensure better coordination among the separate revenue agencies and full implementation of the common Taxpayer Identification Unit. A timetable for the creation of a large taxpayer unit will be announced in June 2002. The Government will introduce specific revenue measures, expected to yield about 1 percent of GDP in 2002, equivalent to 1.9 percent on a full-year basis.

On the expenditure side, the authorities attach highest priority to controlling and monitoring, especially at the commitment stage, which is considered a key requirement for tracking the use of HIPC-Initiative relief. To this end, quarterly expenditure ceilings will apply to each

spending unit, and commitments as well as cash outlays will be closely monitored. An increase of 0.5 percent of GDP in noninterest recurrent expenditure has been budgeted. This will allow a 20 percent increase in civil service wages, which were significantly eroded in real terms during 1999–2000, and an adequate allocation for government consumption of goods and services in order to avoid accumulation of arrears. The budget also makes provision for full statutory payments and clearance of a substantial portion of the arrears to the institutions involved. It also includes appropriation for utility price subsidies, which are necessary in the transition to full cost recovery, thereby improving fiscal transparency. The authorities also intend to clear arrears in the road sector by June 2002, following completion of audits. Further accumulation of arrears will be avoided by strengthening controls over commitments and preventing unauthorized expenditure. Budgeted social spending, excluding HIPC resources, will be increased and, following the sharp reductions in 2000, the budget also provides for real increases in capital outlays to boost growth.

Box 5 of the staff report indicates the full extent of fiscal adjustment over 2000 – 2002, when using a broad measure of the government balance that includes arrears, implicit subsidies, and quasi-fiscal costs. Indeed, after increasing from 13.1 percent of GDP to 23 percent between 1999 and 2000, the broader government balance is estimated to have declined to 15.6 percent in 2001, and is expected to be further reduced by more than half in 2002.

**Monetary and foreign exchange policy:** BOG intends to keep monetary growth under control to ensure attainment of the targeted decline of inflation to 13 percent. This will be achieved through a strict control of the bank's net domestic assets, including through open market operations and an active interest rate policy. The exchange rate will continue to be market-determined, and the BOG will seek to improve the functioning of the foreign exchange market in line with Fund technical advice. BOG will also consult with commercial banks about appropriate modalities to facilitate inter-bank trading in foreign exchange.

**External sector policy:** The authorities intend to streamline Ghana's import tariff regime to reduce distortions. As a first step, the special import tax will be abolished to be replaced with anti-dumping measures consistent with WTO requirements. The government will reinforce its external debt contracting and monitoring procedures adopted in 2001. In particular, external debt service obligations and payments will be closely monitored through better coordination between the Ministry of Finance and the Bank of Ghana. The authorities intend to create an investors' advisory council, to be chaired by the President and to include representatives of local and international business communities, to seek ways of improving the policy environment for investment.

**Structural reforms and governance:** The government intends to step up its structural reform program to enhance economic efficiency. At the top of its priorities will be restoration of the financial health of parastatals to ease pressure on the budget and the banking sector. In the energy sector, the government will implement an automatic pricing formula for petroleum products—modified to allow part of possible savings from future declines in oil prices to be used to service TOR's existing debt. Full cost-recovery will be phased in for electricity and water prices to ensure financial self-sufficiency for the utilities and to avoid

further accumulation of losses. The Government will implement the “fast track” sale of state holdings in 12 companies, after asset valuations are completed. In response to the FSSA report, the BOG will further strengthen its supervision of the financial system, including by continuing to closely monitor the asset quality and risk of banks and to identify capitalization needs. To further improve governance, the government will reinforce its anti-corruption strategy, including by ensuring transparency of public expenditure management and enhancing the quality and coverage of financial data. The government will draw on the ROSC on fiscal transparency, planned for the first half of 2002 to define its agenda.

### **HIPC/GPRS**

The authorities expect to complete the Ghana Poverty Reduction Strategy (GPRS) document in early 2002. The timetable had to be extended to allow for wider public consultations, as well as full costing and prioritization of the program. A framework was, however, prepared to provide an input in the 2002 budget. To support the request for HIPC decision point, a progress report on development of the GPRS and remaining actions has been prepared. After benefiting from traditional debt relief mechanisms, a considerable financing gap will still persist, which the authorities are hoping to fill with HIPC-Initiative assistance and additional concessional program support. Having come to the decision to seek HIPC relief after much deliberation—in the face of skepticism within the country—the authorities are aware of the heightened expectations of the Ghanaian people, and believe that reaching the decision point at this particular juncture will help them to maintain public support for their policies. Of the total relief expected from the HIPC-Initiative, 80 percent will be allocated to poverty-related spending, and 20 percent to debt retirement. The government will continue to strengthen the public expenditure management system with Fund technical assistance in order to ensure effective monitoring of HIPC-Initiative-related spending.

### **Conclusion**

My authorities have demonstrated a strong ownership and commitment to their PRGF-supported program in their brief period in office, and are firmly determined to build on recent gains in credibility and to reinforce their policies, going forward. In support of their request for assistance under the HIPC-Initiative, the authorities have developed a credible poverty-reduction strategy based on a broad consultative process. The authorities are looking forward to completion of the fourth review of the PRGF arrangement and approval of the HIPC-Initiative decision point. Furthermore, to allow time for completion of the fifth and final review under the PRGF arrangement by the scheduled date of November 15, 2002, they request an extension of the arrangement to November 30, 2002. My authorities are grateful for the continued support of the Fund and the international community.

**Statement by the IMF Staff Representative**  
**February 22, 2002**

1. A number of prior actions for the fourth review of Ghana's arrangement under the Poverty Reduction and Growth Facility were specified in EBS/02/16, Appendix I, Attachment 1, Table I.2.
2. The Ghanaian authorities informed the staff on February 15, 2002, that all of the prior actions had been implemented:
  - Specific duties averaging ¢200 per liter were imposed on petroleum on October 31, 2001.
  - Disaggregated expenditure ceilings for the first quarter of 2002, consistent with the program's fiscal targets, were issued to ministries, departments, and agencies (MDAs) on January 7, 2002.
  - CAGD reports were provided for the months of January-October 2001 on aggregate budget outcomes and MDAs' expenditure commitments and cash outlays, showing deviations from the established quarterly ceilings and accumulated arrears.
  - Audits at the MDA level of the full stock of domestic expenditure arrears for January-August 2001 were completed on January 16, 2002. These arrears, which totalled ¢146 billion, will be liquidated in full in 2002.
  - On January 30, 2002, Cabinet approved revenue measures with a combined yield of ¢115 billion in 2002, for implementation with the 2002 Budget. These measures comprised: the application of a 5 percent import duty to a set of major product lines that are currently zero-rated; a 1 percent processing fee on all remaining zero-rated items and on items attracting a concessionary rate; the introduction of a 10 percent withholding tax on rental income; and a restructuring of the lottery sector to increase the proceeds flowing to the budget.
  - The external financial audit of the Bank of Ghana began on December 31, 2001.



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February 22, 2002

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## IMF Completes Fourth Review Under the PRGF Arrangement for Ghana and Approves US\$65 Million Disbursement

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The Executive Board of the International Monetary Fund (IMF) today completed the fourth review under the Poverty Reduction and Growth Facility (PRGF) arrangement for Ghana. The Board also approved the authorities' request for an extension of the arrangement period, due to expire on May 2, 2002, to November 30, 2002.

The completion of the fourth review releases immediately a disbursement of an amount equivalent to SDR 52.58 million (about US\$65 million) under the PRGF arrangement (see [Press Release No. 99/16](#)).

After the Executive Board's discussion on Ghana, Mr. Eduardo Aninat, Deputy Managing Director and Acting Chairman, made the following statement:

"The new government of Ghana made significant progress during 2001 in stabilizing the economy and restoring the conditions for economic growth and poverty reduction. Inflation was cut substantially, the exchange rate stabilized, and public finances were contained, although domestic payment arrears continued to emerge. Progress on the structural front was more limited, but important measures were implemented with respect to petroleum pricing, restructuring of the Tema Oil Refinery debt to the banking sector, preparation of a strategy for moving towards full-cost recovery for utilities, and strengthened independence of the central bank. Preparation of a full Poverty Reduction Strategy Paper (PRSP), involving all stakeholders is proceeding satisfactorily, with completion expected in the first half of 2002.

"Most of the performance criteria under the 2001 program were met, and the authorities have taken adequate steps to maintain the program's current and future objectives. Accordingly, the Fund decided to grant waivers for the nonobservance of a few performance criteria, and to extend the current arrangement until November 30, 2002.

"Passage of a 2002 budget is expected to consolidate stabilization



gains and to lay the foundation for continued recovery and an acceleration in poverty reduction. To achieve this objective, the authorities are planning new measures to boost revenue and to place public finances on a permanently sound footing. On the expenditure side, vigorous implementation of the planned improvements to the public expenditure management system will be essential, in order to ensure that budgetary allocations are respected and that fiscal resources, including those freed up through debt relief under the enhanced HIPC Initiative, are used effectively.

"The structural reform program focuses on divestiture of key public enterprises, the launch of utility price reforms intended to prevent a recurrence of the large build-up of public enterprise debt, measures to improve tax administration, and reform of the foreign exchange market.

"A final decision on Ghana's debt relief under the enhanced HIPC Initiative is pending action next week by the World Bank's Executive Board. A press release will be issued jointly with the World Bank following those deliberations," Mr. Aninat said.

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