July 2004
IMF Country Report No. 04/210

Ghana: Second Review Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criteria—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Ghana

In the context of the second review under the Poverty Reduction and Growth Facility and request for a waiver of nonobservance of performance criteria with Ghana, the following documents have been released and are included in this package:

- the staff report for the second review under the Poverty Reduction and Growth Facility and request for a waiver of nonobservance of performance Criteria, prepared by a staff team of the IMF, following discussions that ended on **July 9, 2004,** 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 June 15, 2004.** 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 **July 9, 2004** updating information on recent developments.
- a Press Release summarizing the **views of the Executive Board as expressed during the July 9, 2004 Executive Board discussion** of the staff report that completed the review and request.
- a statement by the Executive Director for Ghana.

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

Enhanced Initiative for Heavily Indebted Poor Countries—Completion Point Document
Joint Staff Assessment of the Poverty Reduction Strategy Paper Progress Report
Letters 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—Progress Report

*May also be included in Staff

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

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

Copies of this report are available to the public from

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

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

GHANA

Second Review Under the Poverty Reduction and Growth Facility and Request for Waiver of Nonobservance of Performance Criteria

Prepared by the African Department

(In consultation with other departments)

Approved by Siddharth Tiwari and Juha Kähkönen

June 15, 2004

- Discussions for the second review under the Poverty Reduction and Growth Facility (PRGF) arrangement, and to finalize preparations for bringing Ghana to the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, were held in Accra during April 8-20, 2004. Program discussions continued in Washington during April 23-29.

- The staff team comprised Mr. Bredenkamp (Head), Messrs. York and Mathisen (AFR), Mr. Kinoshita (FAD), Messrs. Mansilla and Choudhury (April 12-20) (PDR), and was assisted by Ms. Muttardy (resident representative). The mission liaised with parallel teams from the World Bank and the Multi-Donor Budget Support group.

- Ghana's three-year PRGF arrangement was approved on May 9, 2003 in the amount of SDR 184.5 million (50 percent of quota). The first review of the program was completed on December 17, 2003. Upon completion of the second review, Ghana will be eligible to draw an amount equivalent to SDR 26.53 million (7.1 percent of quota).

- This report covers the second PRGF review; it will be accompanied by a Joint Staff Assessment of the Poverty Reduction Strategy Paper annual progress report, the HIPC completion point document, and a report on a noncomplying disbursement.

- The authorities have agreed to publish the staff report and the letter of intent. The principal authors of the report are Hugh Bredenkamp and Robert York.

Contents Page

Appendices

Executive Summary

Overview and recent developments

- Economic performance has strengthened alongside improvements in macroeconomic policies. GDP growth (at over 5 percent) exceeded program expectations, inflation has fallen to just above single digits, and the international reserve position comfortably exceeds program targets.

- All but one of the quantitative performance criteria for the second review were observed. Efforts to consolidate the fiscal position continued, and there was no net domestic financing of the budget in 2003, implying a sharp reduction of domestic debt relative to GDP. A "fiscal dividend" has already begun to emerge, with a sharp decline of nominal interest rates since mid-2003.

- Progress in structural policies was generally satisfactory, with the important exception of petroleum pricing. The increases in retail petroleum prices required in early 2004 were not implemented, and the government decided against any adjustment ahead of the general election in December, citing concerns that this could trigger social and political instability. The resulting subsidies have significant implications for the 2004 budget.

Economic policies in the period ahead

- In light of the favorable outcomes over the past year, the key objectives of the program have been retained or strengthened, albeit subject to increased risk associated with rising world oil prices. Growth is likely to be at least as strong as in 2003, and inflation is on track to reach single digits by the end of the year.

- The fiscal stance remains anchored to achieving the authorities' domestic debt reduction target. Given the unplanned petroleum subsidies, this requires government to trim non-priority expenditures equivalent to 0.6 percent of GDP in 2004. While the domestic debt repayment target will have to be scaled back if world oil prices are significantly higher than programmed, a positive repayment is still likely under plausible "high oil price" scenarios. Further steps are planned to strengthen public financial management.

- Recognizing the clear need for a more effective institutional framework for setting petroleum prices, the authorities are committed under the program to remove government from the price-setting process. Under the new regime, oil marketing companies will be free to set petroleum prices according to a prescribed formula without prior authorization from any public entity. This regime will be enshrined in a comprehensive petroleum sector deregulation bill later in 2004, and implemented in early 2005 as a condition for the third review.

- The program includes steps to improve the financial performance of the major public enterprises. Their balance sheets will be cleared of inter-enterprise arrears and some other longstanding liabilities to clarify their underlying financial position. Monitorable financial performance plans will be established, backed by a range of measures to cut costs and improve service delivery. For the public utilities, the government is committed to allowing the continuation of full cost recovery pricing.

- With a focus on promoting private sector development, the authorities plan an extensive array of new legislation in the year ahead, covering companies law, insurance regulation, credit information, private savings schemes, and money laundering. They will also continue to implement the strategy to strengthen the capital and management of Ghana Commercial Bank.

Main issues raised in the staff appraisal

- The decision to rule out an adjustment of petroleum prices this year is regrettable. But the staff recognizes that if, in a tense pre-election period, a price adjustment were to undermine social stability, the economic gains achieved so far could be jeopardized. In view of the authorities' willingness to find expenditure savings to help fund the subsidy bill, and to adopt a fundamental reform of the petroleum pricing regime, the staff believes their program warrants continued Fund support.

- It is vital, however, that the new petroleum pricing regime be implemented on schedule, so as to insulate future budgets against fluctuations in world oil prices. The program provides for no further Fund disbursements until this reform is implemented.

- The central bank is urged to adhere to its target of bringing inflation down to single digits by end-2004. As it refines its monetary instruments, it should also begin to reduce the secondary reserve requirements on banks, so that lower government debt can "crowd in" private sector credit, as the program envisaged.

- The staff is unconvinced by the authorities' arguments for taking an equity stake in the Volta Aluminum Company, and is concerned at the serious financial risks this could entail. It is important that the authorities adhere to their commitment to complete the due diligence and consult with the Fund before making a final decision on this issue.

- Staff supports the authorities' request for completion of the second review and waivers of nonobservance of one quantitative and two structural performance criteria, and disbursement of the third loan under the PRGF arrangement in an amount equivalent to SDR 26.35 million.

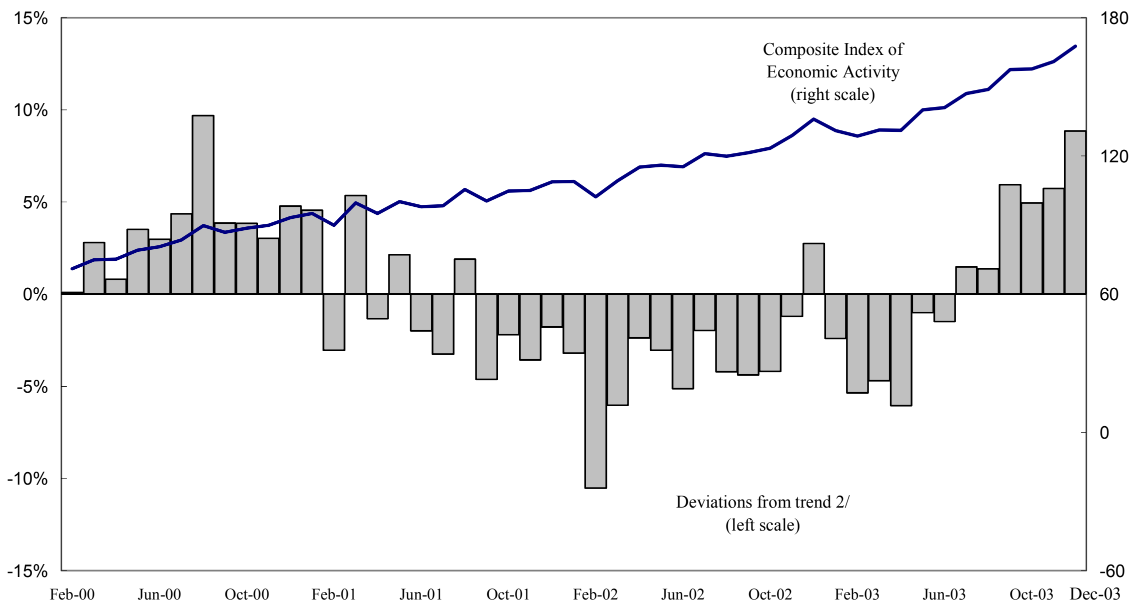
I. Introduction

1. During the first PRGF review, Executive Directors commended the authorities for the restoration of fiscal discipline and maintaining a monetary policy stance that held out the prospect of achieving single digit inflation in early 2004. They encouraged the authorities to build on this momentum to achieve the medium-term goals of the Ghana Poverty Reduction Strategy (GPRS). In this regard, they stressed the need to safeguard the gains in macroeconomic stabilization by addressing weaknesses in the finances of public enterprises. In particular, Directors urged the authorities to adjust petroleum, electricity and water prices promptly to maintain full cost recovery.[1]

II. Recent Developments and Program Performance

2. **Real per capita incomes increased in 2003 at the fastest pace in a decade, as GDP growth rose to 5.2 percent, exceeding program expectations.** The recent upturn is confirmed by the Bank of Ghana's (BOG) index of economic activity (Figure 1). A

Figure 1. Ghana: Bank of Ghana's Index of Economic Activity, February 2000-December 2003 1/



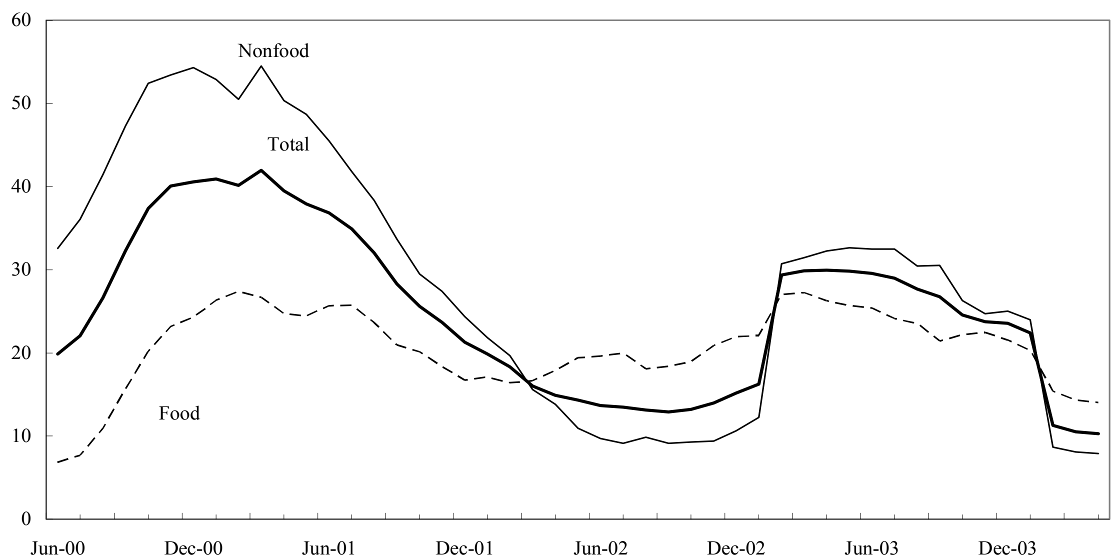
Source: Bank of Ghana.
1/ The composite index is based on trade volumes, electricity consumption, tourist arrivals, formal sector employment, domestic VAT collection, port activity, credit to the private sector, as well as some other indicators of private sector activity.
2/ Linear trend calculated using the least squares method.

[1] The disbursement following completion of the first review in December 2003 has since been deemed noncomplying, due to nonobservance of a prior action on alignment of water tariffs with the automatic pricing formula. This matter will be brought to the Executive Board before the request for the third disbursement under the PRGF arrangement.

near-record cocoa harvest was a major driver behind recent growth, and this reflects the favorable impact of good weather, improved crop management practices, and higher producer prices. The estimates for this year's harvest have been revised upwards, implying the program assumption for GDP growth in 2004 (5.2 percent) may now be on the conservative side.[2] The 12-month CPI inflation rate fell to 11.2 percent in April 2004, down from 23.6 percent at end-2003, as the effect of last year's petroleum price hike dropped out (Figure 2).

3. **The relative stability of the nominal exchange rate has probably helped dampen inflation expectations.** Over the past year, the cedi depreciated by 4½ percent vis-à-vis the dollar, compared with more than 13 percent during 2002, and the real effective exchange rate has remained broadly stable (Figure 3). The shutdown of the Volta Aluminum Company (VALCO) affected exports and, combined with a rebound in imports stemming from strong domestic demand and higher aid flows, led to a widening of the current account deficit (excluding official transfers) to 3½ percent of GDP last year (Figure 4).

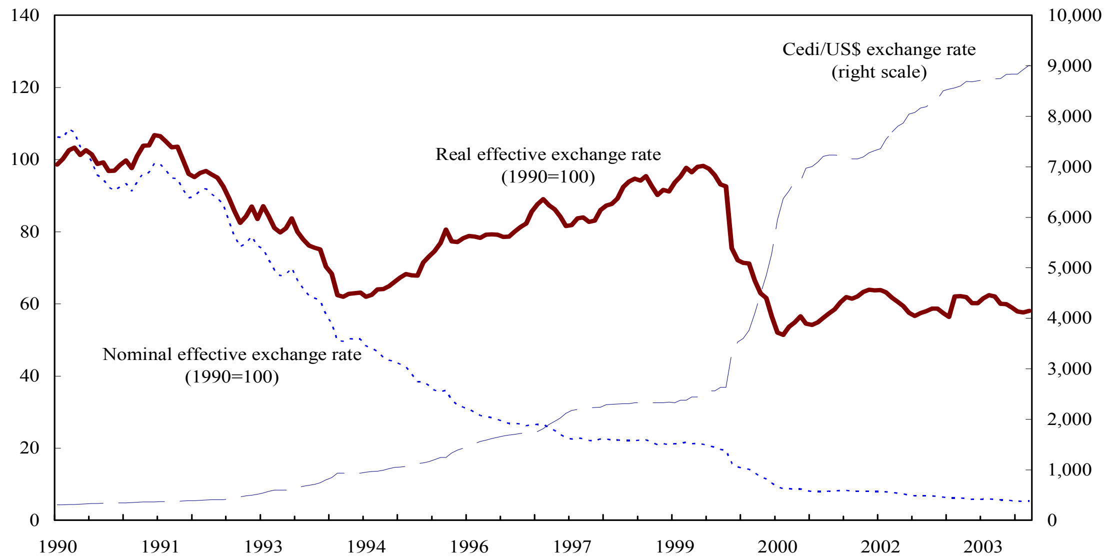
Figure 2. Ghana: Consumer Price Inflation (total, food, and nonfood), June 1999-April 2004
(Twelve-months percent change)



Sources: Ghana Statistical Service; Bank of Ghana; and Fund staff estimates.

[2] In the 2002/03 crop season, cocoa production reached 497,000 metric tons, and through April of this year, production from the main crop (October-May) had already reached that level. With continuing good weather, output from the light crop (May-June) could bring total production for the 2003/04 campaign to more than 600,000 metric tons.

Figure 3. Ghana: Nominal and Effective Exchange Rates, January 1991-March 2004



Sources: Ghanaian authorities; and Fund staff estimates.

4. **The satisfactory implementation of macroeconomic policies has provided a good basis for sustained growth and reducing inflation.** The fiscal outcome for 2003 was broadly in line with program projections, with a small improvement in the domestic primary surplus (Table 4). The performance criterion on (zero) net domestic financing of the budget for last year was observed. This implied a sharp reduction in the burden of domestic debt relative to GDP to below 20 percent in 2003, from just over 26 percent a year earlier (Figure 5). Tax revenue collections, though slightly below expectations for 2003, exceeded 20 percent of GDP for the first time. Partial fiscal data for the first quarter of 2004 suggest that budget implementation remains on track. However, initial figures also suggest a somewhat larger-than-expected float from 2003, which will put additional pressure on the financing target for this year.[3]

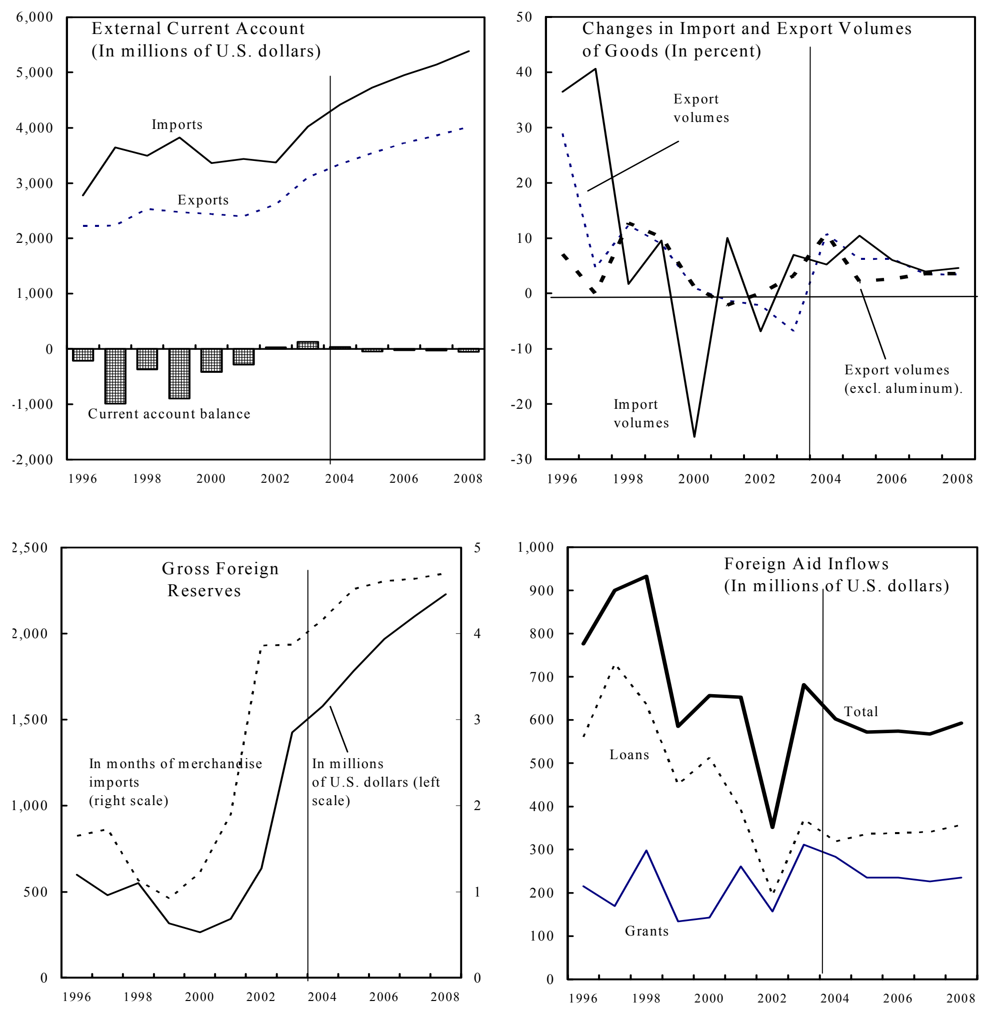
5. **There are signs that the impact of strong foreign exchange inflows on monetary growth may have begun to subside in early 2004.** While the end-December 2003 monetary targets were exceeded, reserve money has sharply declined since then (Table 5, Figure 6). Broad money growth remains stronger than expected, but at a decelerating pace. The inflows of foreign exchange brought gross international reserves comfortably above program floors, rising to almost 4 months of imports at the end of last year, compared with about 2 months at end-2002.

---

[3] The float for 2003 was about ¢322 billion (0.4 percent of GDP), which included delayed payments of subsidies to TOR and for other goods and services.

6. **A "fiscal dividend" has already begun to emerge.** Since mid-2003, policy-controlled and short-term interest rates have declined significantly (Figure 7), and there are indications from recent (interbank) money-market auctions that a further fall is likely.[4] Domestic debt service is projected to decline from about 5 percent of GDP last year, to 3 percent in 2004. Nonetheless, interest spreads and the real cost of capital remain high, particularly for small- and medium-size enterprises, and this may constrain credit growth to the private sector.

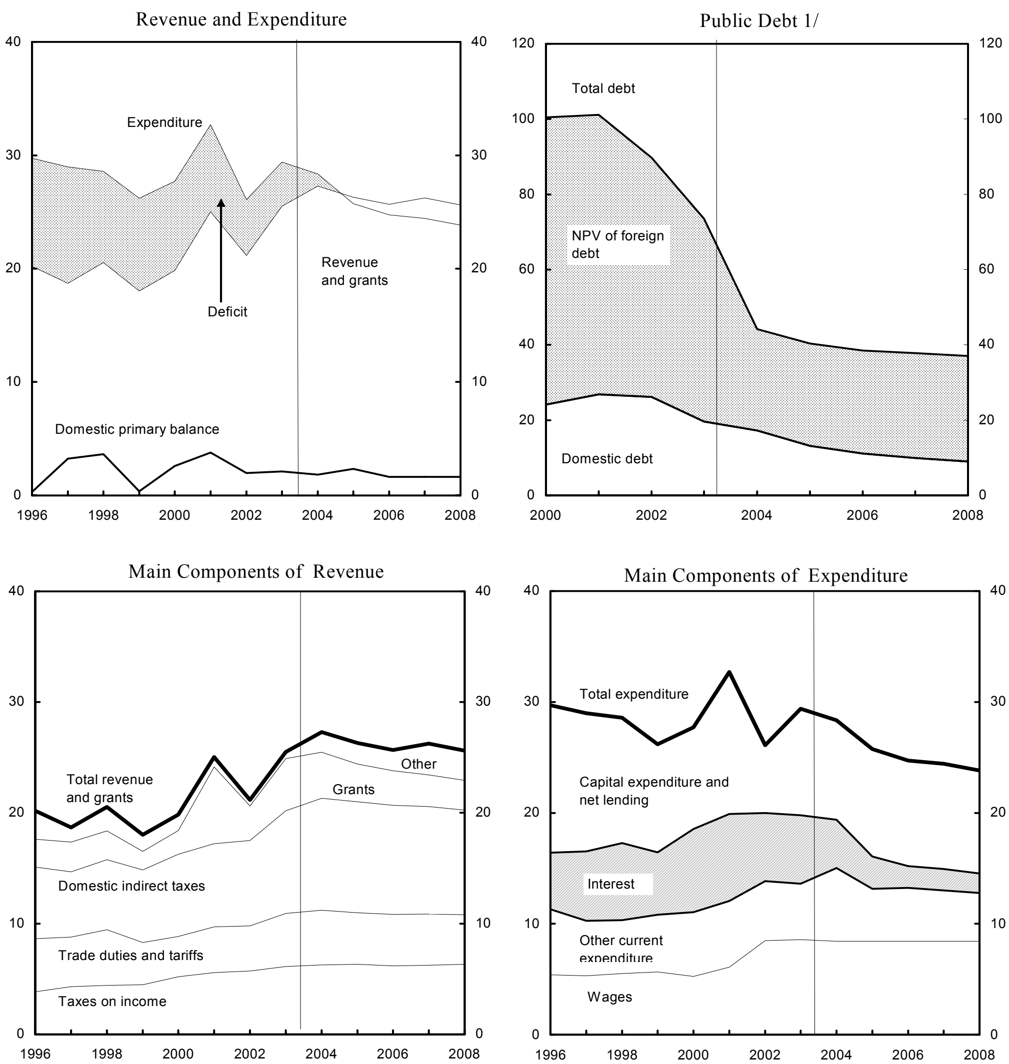
Figure 4. Ghana: Main External Indicators, 1996-2008



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

[4] The yield on 91-day treasury bills declined to 18 percent in May 2004, from 36 percent in mid-2003, while the Bank of Ghana's prime rate was reduced to 18.5 percent from 27.5 percent over the same period.

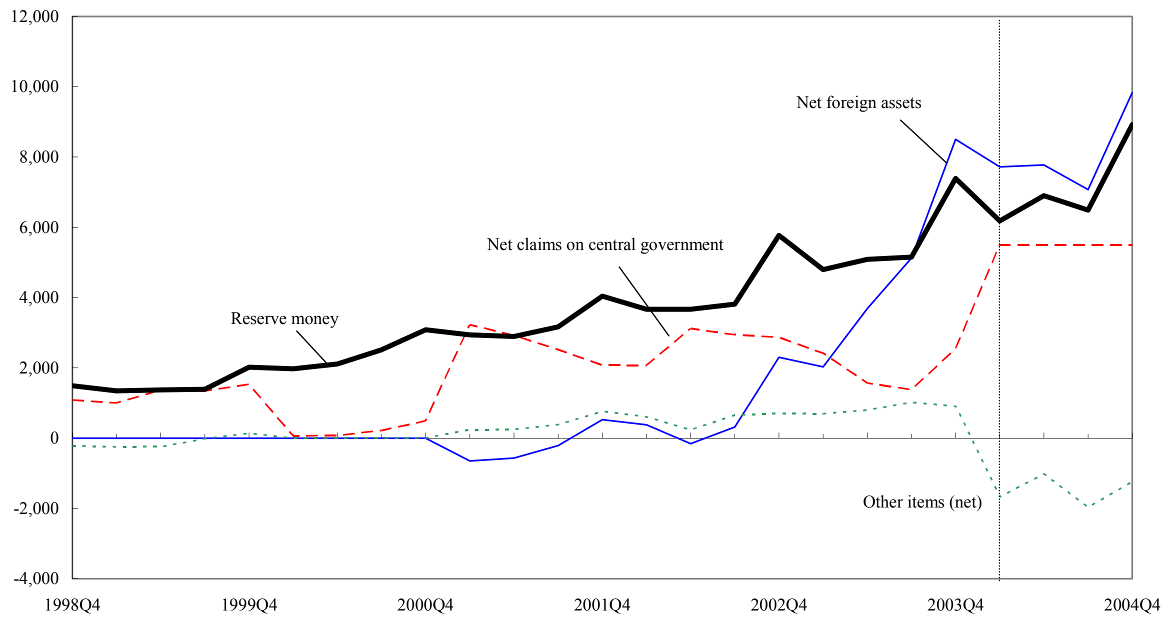
Figure 5. Ghana: Central Government Finances, 1996-2008
(In percent of GDP)



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

1/ Including guarantees and short-term external debt. External debt stock is evaluated at the period-average exchange rate and assumes that Ghana reaches the completion point under the HIPC Initiative during 2004.

Figure 6. Ghana: Reserve Money and Components 1998:Q4 - 2004:Q4
(In billions of cedis)



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

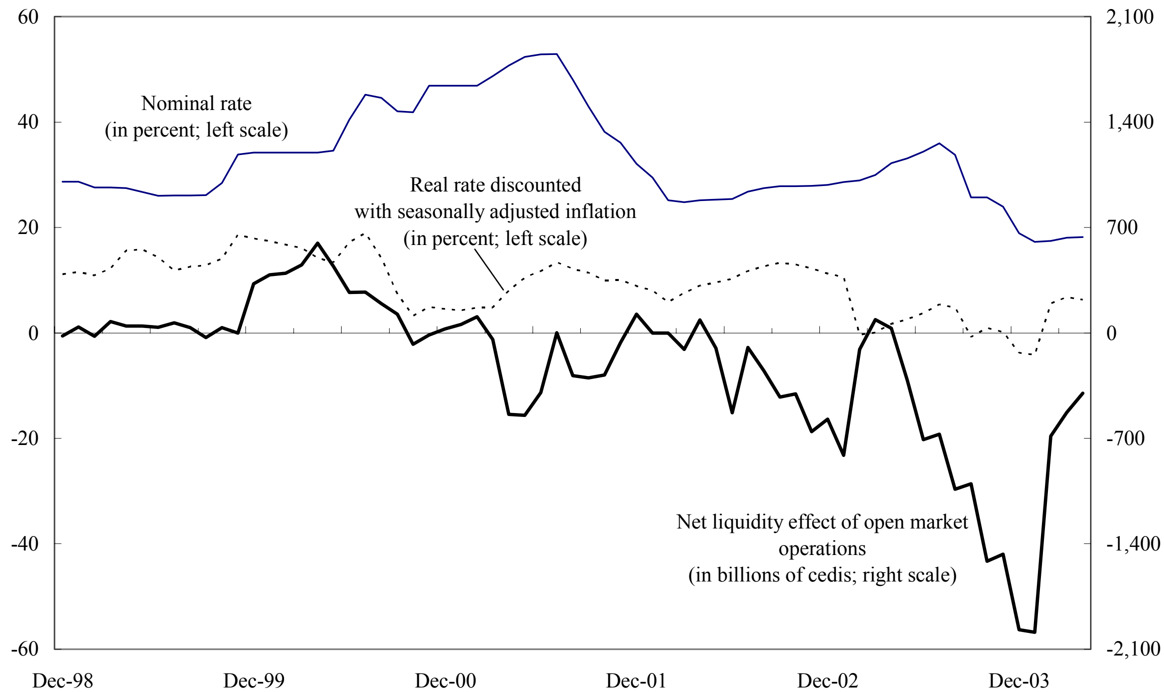
7. **Some progress was made in structural policies, although the adjustment of petroleum prices remains an issue:**

- Public expenditure management has been enhanced through the enactment of several key pieces of legislation (the Financial Administration Act, Internal Audit Act, and Procurement Law), and the Budget and Public Expenditure Management System (BPEMS) is now operational, albeit on a limited basis, in five ministries;[5]

- The operating framework of the Bank of Ghana (BOG) was bolstered through the implementation of the safeguards recommendations, including the government's issuance of a ¢670 billion security as part of a recapitalization of BOG, one year ahead of the program schedule;

[5] Indeed, the HIPC Assessment and Action Plan (HIPC-AAP) follow-up determined that Ghana's capacity to track poverty-related expenditures has improved, with 7 of the 16 benchmarks now being met, compared with only 1 out of 15 earlier (Table 7). The initial action plan was drawn up in 2001, and contained 15 indicators; a 16th indicator, procurement, has been added to the set of benchmarks. The Fund's recent Report on the Observance of Standards and Codes (forthcoming) also presents a favorable view of the authorities' overall efforts in improving fiscal data, although scope for improvement remains.

Figure 7. Ghana: Treasury Bill Rates and Open Market Operations, January 1997 - April 2004



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

- In the banking sector, initial steps were taken to implement the plan to restructure Ghana Commercial Bank, while the passage of the Banking Act in December 2003 strengthened BOG's supervisory powers over commercial banks.[6] GCB's exposure to the Tema Oil Refinery (TOR, its largest borrower) continued to increase in late 2003—and the program ceiling on net domestic bank credit to TOR was breached—due to a commercial decision to repay some high-interest short-term external debt that the program assumed would be rolled over. But the exposure was subsequently reduced significantly, by the issuance of a government security in the amount of ¢800 billion (almost 60 percent of GCB's net claims on TOR);[7] and

---

[6] In September 2004, the bank's board is expected to approve a share flotation on the stock exchange to inject new capital, scheduled for early 2005, and advisers on a management contract for the bank are expected to be appointed in July 2004, leading to a competitive tender by mid-2005.

[7] Since this security brings TOR's net debt to the banking system back to the programmed path, the staff is recommending a waiver for the nonobservance of the quantitative performance criterion.

- Work continued on upgrading Ghana's economic statistics, and the authorities have agreed to participate in the General Data Dissemination System.[8]

8. **Petroleum and utility tariff adjustments called for by the automatic pricing formulas were not implemented as required (as structural performance criteria) in January and April 2004.**[9] In the case of petroleum, the government decided against raising prices ahead of the general election in December, citing the potential for social unrest and political instability. This decision has significant implications for the budget, resulting from the implied subsidies to compensate TOR and the oil marketing companies for under-recovery of their costs (see below). In the case of electricity tariffs, the Public Utilities Regulatory Commission (PURC) adjusted a parameter in the program's pricing formula to account for more favorable water levels at the Akosombo Dam, and this obviated the need for a price increase for either electricity or water.[10] Since the program objective of full cost recovery pricing has been preserved, the staff is recommending a waiver of the related performance criterion.

III. Policy Discussions

9. **The authorities agreed that policies in the period ahead should focus on consolidating the gains in macroeconomic stability by maintaining firm fiscal control in the run-up to elections, strengthening the performance of state-owned enterprises, and pushing ahead with reforms to improve the environment for private sector development.** The authorities' program for 2004-05 is set out in the attached Memorandum of Economic and Financial Policies (MEFP, Appendix I, Attachment 1), and the scope of structural conditionality is summarized in Box 1. The authorities have also prepared an

---

[8] The project to re-estimate the consumer price index and re-base the national accounts, with assistance from an STA advisor, has taken longer than expected, but it is hoped that the work will be completed this year, and the new data published in early 2005.

[9] The program's formulas called for average increases at end-January of around 9 percent for petroleum, 2 percent for electricity tariffs, and 1 percent for water tariffs.

[10] The program assumed that the contribution from hydro in the generation of electricity would not exceed 50 percent of total electricity generated. (A higher proportion of hydro in the generation mix lowers the cost of producing electricity). Since the actual hydro contribution in the fourth quarter of 2003 and first quarter of 2004 exceeded 70 percent, the PURC considered it prudent to assume a hydro contribution of 60 percent for the January and April 2004 calculations. There will be an opportunity to reconsider how this crucial parameter is projected when the PURC reviews the design of the utility tariff formulas in late 2004 or early 2005.

annual progress report on the GPRS, reviewing performance over the past year and indicating some policy priorities for the year ahead.[11] On the macroeconomic front, the authorities have:

- raised their projection for GDP growth in 2004 from 5.0 to 5.2 percent;

- retained the GPRS goal of halving the domestic debt-GDP ratio from its 2002 level by the end of next year, while at the same time increasing poverty-related expenditures in line with the GPRS objectives;

- kept the single-digit inflation target for 2004, aiming to bring the rate down to around 7 percent by end-2004; and

- further improved upon their objective for the central bank's gross international reserve position, which is now expected to exceed US$1.5 billion (about 4 months of imports) by end-2004, compared to a target of 2.7 months of imports set in the GPRS a year ago.

The staff considers these objectives to be realistic and appropriate.

10. **The issue of petroleum pricing, and its fiscal implications, dominated the policy discussions:**

- The staff argued strongly, on economic grounds, against the authorities' intention to hold retail petroleum prices fixed throughout 2004. Pump prices were already around 9 percent below full cost recovery levels at the start of the year, and the gap had risen to around 15 percent by April. The resulting subsidies were not pro-poor, and would force cuts elsewhere in the budget; the budget would be vulnerable to further price increases; and the divergence with prices in neighboring countries was promoting smuggling (especially of diesel) at the expense of the Ghanaian taxpayer.

- The authorities acknowledged these costs. But they took the view that maintaining social and political stability during the pre-election period was an overriding imperative. The staff proposed a number of alternative options, including a one-time (perhaps partial) price adjustment, or an elimination of the subsidy on diesel alone, but the authorities insisted that any price increase at this time could trigger unrest, and they were not prepared to take such a risk.

11. In the end, the staff deferred to the authorities' judgment on this matter, and the discussions focused on how to contain the short-run fiscal impact, and create a more robust institutional framework for setting petroleum prices in the future.

[11] See the accompanying paper, *Joint Staff Assessment of the Poverty Reduction Strategy Paper Annual Progress Report,* EBD/04/60, June 9, 2004.

Box 1. Structural Conditionality, 2004-05

Under the PRGF arrangement, structural conditionality will continue to reflect areas of macro relevance (Appendix I, Attachment I, Table 2):

- Curtailing the costs of quasi-fiscal activities by (1) removing the government's involvement in the petroleum sector, and (2) ensuring that the state-owned utility enterprises impose tariffs in line with cost recovery, strengthen their balance sheets, and develop financial plans to improve performance;
- Strengthening the financial sector through the restructuring of a systemically important commercial bank; and
- Improving the transparency and accountability of internally-generated funds, grants and loans of MDAs.

Under World Bank lending (and multi-donor support), structural conditionality is reflected in a series of annual Poverty Reduction Support Credits (each about US$125 million), and relate mainly to (Appendix III): budgeting, public expenditure management and control; public sector reform; public enterprise reform and divestiture; and financial sector reform.

A. Fiscal Policy

12. **The authorities agreed with the staff that fiscal policy should remain anchored on achieving the GPRS domestic debt reduction target.** They reiterated that they were especially concerned to avoid the loss of fiscal discipline associated with previous election years (Box 2). The 2004 budget had proposed a domestic primary surplus of about 2¼ percent of GDP, a repayment of domestic debt equivalent to 2.2 percent of GDP, and an increase in poverty-related expenditures to almost 7 percent of GDP (up from 4½ percent in 2001).[12] With the upward revision to nominal GDP projected for 2004, the underlying path for the domestic debt-GDP ratio could be maintained with a smaller net domestic repayment than envisaged in the budget.[13] The targeted net domestic repayment for this year has therefore been reduced from 2.2 to 1.4 percent of GDP.

13. **In view of the unplanned petroleum subsidies, expenditure cuts of around 0.6 percent of GDP are called for in order to meet the revised fiscal ceilings for 2004.**

[12] The budget also includes an allocation equivalent to US$25.6 million for the Electoral Commission to cover the cost of the 2004 elections, of which about 40 percent is being provided by donors.

[13] The staff agreed that it would be appropriate to exclude from the targeted debt stock at end-2004 the special bonds issued recently for recapitalization of GCB and the BOG, since these recapitalizations took place earlier than expected. The target for the domestic debt-GDP ratio at end-2005, however, is in line with the original program *including* the recapitalization bonds (see Table 4). The fiscal program incorporates the interest costs of both recapitalizations.

The cost of the petroleum subsidies is projected at 1.4 percent of GDP this year.[14] The scale of the required expenditure cuts to offset this cost is the net result of several factors, principally:

- the lower net domestic debt repayment, which reduces the need for adjustment by 0.8 percent of GDP;

- higher projected tax revenues (0.3 percent of GDP), owing to the larger cocoa harvest and increased consumption of petroleum products; in general, the program assumes some further improvement in collection rates in 2004—bolstered by the launch in February 2004 of the Large Taxpayers Unit—but at a slower pace than was achieved in 2003;

- higher projected nontax revenues, reflecting remittances of accumulated profits by the cocoa marketing board, ports authority, and telecommunications commission totaling 0.5 percent of GDP (to be conservative, the fiscal framework does not count on further such transfers beyond 2004);

- lower external program financing (0.3 percent of GDP), partly due to a more appreciated exchange rate; and

- additional costs of financing the float and clearing domestic arrears from 2003 (a combined 0.5 percent of GDP).

14. **The expenditure cuts have been targeted to protect poverty-related spending.** The cuts are distributed between goods and services and discretionary capital expenditures, and the first tranche of adjustments will be reflected in the expenditure ceilings issued for the third quarter, as a prior action for the review. The program also specifies contingent expenditure measures in case of higher or lower world oil prices: if the petroleum subsidy bill is lower than projected, the expenditure cuts can be progressively reversed, while some additional expenditure savings would be required if the subsidy bill is higher (MEFP ¶7). It was recognized, however, that the scope to make additional cuts would be very limited without cutting into poverty-related spending, and hence the program allows for most of any overrun in the subsidy bill to be accommodated by an easing of the domestic debt repayment target. The risks this poses to the program are quantified and discussed in section F, below.

15. **The long-delayed National Health Insurance Levy (NHIL) will finally become effective from August 1, 2004, providing additional revenues for the budget of over**

---

[14] To estimate the subsidy cost, the projection assumes: unchanged pump prices for the rest of the year; world oil prices in line with (March 2004) World Economic Outlook projections; nominal exchange rate movements in line with purchasing power parity; and a pattern of petroleum consumption in line with last year.

1 percent of GDP in a full year.[15] The levy was approved in the 2003 budget, but required a legislative instrument to make it effective. This instrument will be introduced in parliament in June 2004, as a prior action for the review, ensuring that revenues equivalent to about ½ percent of GDP are received this year.[16] The net addition to aggregate health expenditures resulting from the launch of the new national health insurance scheme is expected to be very small. However, the staff shared the authorities' view that, beginning in 2005, the fiscal situation may be sufficiently strong to allow a significant expansion in health expenditures over the medium term, and that such an increase would likely be desirable in order to accelerate progress toward the Millennium Development Goals (MDGs).[17] At the staff's suggestion, the authorities intend to review their medium-term health expenditure strategy—in consultation with donors, and drawing on work underway at the World Bank to "cost" the MDGs for Ghana—and to incorporate the results in next year's budget.

B. Public Expenditure Management

16. **Enhancing transparency and accountability relating to the receipt and use of public funds remains an important policy objective.** While there has been substantial progress over the past 12 months in upgrading both the legislative and regulatory framework and technical capacity for public financial management, the authorities agreed with the need to intensify implementation efforts. The specific areas they intend to focus on (see MEFP ¶9) include:

- Following the action plan to comply with the sixteen HIPC-AAP benchmarks, including steps to enhance the effectiveness of internal and external audit, the timeliness of financial information, and the procurement system (Table 7);

- Enforcing the requirement on MDAs to provide quarterly financial reports detailing receipts of all internally-generated funds, grants and loans;

- Tightening the operation of the cash planning and control systems by enforcing reporting deadlines and ensuring that ceilings are respected; and

- Extending BPEMS to a further four ministries by early next year, and improving the system's functionality (some reporting modules are not yet effective).

---

[15] The NHIL is a 2 ½ percent tax on value-added, and will be collected by the VAT Service.

[16] The legislative instrument becomes effective automatically 21 sitting days after being submitted to parliament. A two-thirds majority in parliament would be required to block it.

[17] The scope for additional spending consistent with the program's medium-term debt reduction targets is shown in Table 4 as "contingency," and rises to almost 1 percent of GDP by 2006. Ghana's progress towards meeting the MDGs is detailed in Chapter 9 of the Annual Progress Report of the GPRS.

Box 2. Fiscal Slippage During Recent Election Years

The first multiparty elections under Ghana's new constitution were held in 1992. In the run-up to the election, the incumbent government abandoned its fiscal targets and a budgeted surplus of 1.6 percent of GDP turned into a deficit of nearly 9 percent. The pattern was repeated prior to the 1996 election and, to a lesser extent, in 2000.

Election-Year Budgets and Outturns, 1992, 1996 and 2000

	1992		1996		2000	
	Proj.	Act.	Proj.	Act.	Proj.	Act.
Total revenue and grants	14.6	14.4	14.0	20.2	20.3	19.8
Tax revenue	13.5	11.3	11.6	17.6	17.0	17.7
Total expenditure	13.0	23.3	13.6	29.7	26.5	27.7
Recurrent expenditure	9.6	13.5	11.0	16.4	16.8	18.5
Wages and salaries	4.0	5.8	3.8	5.4	5.1	5.2
Interest	1.2	2.1	2.7	5.1	7.2	7.5
Capital expenditure	2.7	9.8	2.4	13.3	9.7	9.2
Overall balance	1.6	-8.9	0.5	-9.5	-6.2	-7.9
Arrears (clearance)	...	0.7	...	-0.1	-0.8	-1.8
Overall balance, after arrears clearance	1.6	-8.2	0.5	-9.6	-7.1	-9.7
Primary balance	2.8	-6.9	3.2	-4.4	1.0	-0.4
Memorandum items:						
Real GDP (annual percentage change)	5.0	3.9	5.0	5.2	4.0	3.7
Consumer prices (annual percentage change, e.o.p.)	5.0	13.3	8.0	32.7	23.0	40.5

Sources: Ghana, Budget Statement and Economic Policy, 1992, 1996 and 2000; and Fund staff estimates.

C. Public Enterprise Reform

17. **While control over the central government's finances has become increasingly effective over the past year, little progress has been made in improving the financial performance of the major state-owned enterprises.** Several factors have contributed, including delayed price adjustment, operational inefficiencies, weak cost control, and persistent inter-enterprise arrears. The authorities intend to address each of these weaknesses over the coming year.

18. **In the petroleum sector, the most pressing problem concerns the pricing regime, and discussions centered on how to design a more effective institutional framework for setting prices.** The authorities acknowledged that, so long as government was viewed by the public as responsible for petroleum price decisions, political considerations would continue to interfere with flexible price adjustment. The staff suggested two alternative ways to tackle this problem:

- One possibility was full price liberalization, with anti-trust mechanisms to prevent collusive behavior on the part of the private oil marketing companies (OMCs). It was recognized, however, that the creation of anti-trust legislation and institutions, from scratch, would be a major challenge.

- An alternative would be to control collusion by requiring OMCs to set prices according to a prescribed formula, with fixed margins.[18] In this case, the critical innovation (compared to the current formula-based regime) would be to give full freedom to OMCs to adjust prices according to the formula without prior authorization by any national authority or agency.

19. The authorities decided on the second option, with the proviso that the OMCs' decisions would be subject to ex post review by an oversight body on which government would be represented, so as to reassure the public that the pricing formula was being properly implemented.[19] A cabinet decision specifying the key features of the new regime (see MEFP ¶21) will be published as a prior action for the review, and the details will be incorporated in a comprehensive petroleum sector deregulation bill later in 2004. The new regime will be implemented by mid-February 2005 at the latest (i.e., following the election and inauguration of the new administration in late January), as a structural performance criterion for the next (third) review.[20] The staff considers that this important reform will strengthen the program significantly, and that the steps taken by the authorities to demonstrate their commitment to the new regime warrant a waiver of the related performance criterion.

20. **The interests of low-income consumers of petroleum products will be taken into account in setting the structure of petroleum taxes.** The system of implicit cross-subsidization of those petroleum products consumed mainly by the poor has not worked well, and would be very difficult to administer under the new pricing regime. The authorities' intention, therefore, is to use instead (beginning in 2005) differentiated petroleum taxes to target assistance to the poor, drawing on the findings of a poverty and social impact analysis of petroleum pricing which is expected to be completed shortly.

---

[18] While only a handful of African countries have adopted this regime (see Box 3), it appears to have worked well where it has been tried.

[19] It is envisaged that the oversight body and the OMCs would also periodically review the parameters of the formula, which could be modified by mutual consent.

[20] Accordingly, the third review has been rescheduled to May 2005, and disbursements for the remainder of the arrangement rephased (Table 8). In due course, this rephasing will require an extension of the arrangement period.

Box 3. Petroleum Pricing in Sub-Saharan African Countries

Across sub-Saharan Africa, a number of petroleum pricing regimes are in use, but in only a handful of countries are prices liberalized (see table below). In more than three-quarters of countries, a government agency or regulatory authority sets the price, with or without the use of a functioning formula (and some allow for private sector consultation). In only four countries is the price based on a formula administered by the private sector, without government involvement (Mozambique, Sierra Leone, Uganda, and Zambia).

Mechanism in place	Countries
Government determined without a functioning price formula	Angola, Comoros, Congo, Rep. of Côte d'Ivoire, Eritea, Equatorial Guinea, Gabon, Ghana, Guinea-Bissau, Mauritius, Nigeria
Government determined with a functioning price formula	Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Central African Republic, Ethiopia, The Gambia, Liberia, Malawi, Mali, Namibia, Niger, Senegal, Seychelles, Togo
Government negotiates price with private sector, who use a pricing formula	Congo, D.R.C., Guinea, Madagascar, Rwanda, São Tomé and Príncipe, Zimbabwe, Swaziland
Private sector determined with a formula	Mozambique, Sierra Leone, Uganda, Zambia
Private sector determined without a formula (price liberalization)	Chad, Kenya, Lesotho, South Africa, Tanzania

Source: Fund staff.

21. **The deregulation strategy for the petroleum sector is also intended to strengthen TOR's operations and finances.** This would be accomplished by relieving TOR of the financial burden of importing petroleum for the entire economy, passing this responsibility primarily to the OMCs, and eventually restricting TOR's role to refining crude oil that is imported by the private sector, on a fee basis.[21] Meanwhile, a ceiling on the refinery's net borrowing from the banking system will be maintained throughout 2004.

22. **With regard to the major public utility companies, the authorities' strategy is to clean up their balance sheets and establish monitorable financial performance plans.** To this end, the authorities completed in April 2004 an audit of the cross-debts of the Volta River Authority (VRA), Electricity Company of Ghana (ECG), and the Ghana Water Company Limited (GCWL) with each other, and with TOR and the government, as of end-

[21] This process began in April 2004 with the first competitive tender for imports of premium gasoline. Whereas TOR had to rely on GCB and the central bank for financing its imports, the successful bidder in the tender (a large private OMC) arranged financing from a syndicate of local banks.

2003. The settlement of these debts (scheduled for end-June 2004) will help clarify the true underlying financial position of each company, and so make it easier for government to hold the managements accountable for improved performance. The companies have already submitted detailed measures they will take to raise their efficiency and reduce costs (MEFP ¶26), and by end-June 2004 will present financial performance plans, which will be monitored by the Ministry of Finance and Economic Planning. For its part, the government commits to the full implementation of the formulas for automatic adjustment of electricity and water tariffs (MEFP ¶27).

23. **During the discussions, the authorities signaled their potential interest in taking a minority stake in the Volta Aluminum Company (VALCO), which its private owners have offered for sale.** Their rationale was that, as an equity partner, government could ensure that a new private investor (who would be assumed to hold the controlling interest) would give due consideration to the possible development of Ghana's bauxite deposits, and behave responsibly on environmental matters (such as in the mining sector, where government also has equity stakes). The staff argued strongly against this proposal on several grounds, including (i) that it could expose the government to large potential liabilities, and (ii) it risked creating the presumption that the state was financially underwriting the project, and would bail out the company if it incurred losses. The authorities acknowledged the moral hazard problem, but insisted that it was outweighed by the developmental considerations. They agreed, however, to await completion of the due diligence work on VALCO and to consult with the Fund before making a decision later in 2004 (MEFP ¶29).

D. Monetary, Financial Sector and Exchange Rate Policies

24. **The central bank has progressively strengthened the conduct of monetary policy through the use of a Monetary Policy Committee to guide its decisions, and a prime rate to signal its intentions.** In the period ahead, the BOG intends to sharpen its tools further, with the introduction of central bank paper at shorter maturities than the treasury bills now used for open market operations, and the establishment of a central securities depository, which should encourage the development of a secondary market (MEFP ¶13). It is expected that these moves will facilitate more effective control of liquidity (including the sterilization of foreign exchange inflows), and ensure that the programmed decline in monetary growth rates, to about 20 percent by end-2004, is achieved (Table 5).

25. **The staff noted that, as the supply of treasury bills had tightened over the past few months, the high secondary reserve requirements had become binding for some commercial banks.**[22] The concern was that this would constrain the desired "crowding in" of

---

[22] In addition to the 9 percent primary reserve requirement, commercial banks are required to hold at least 20 percent of their deposits in treasury bills and 15 percent in inflation-indexed government bonds.

credit to the private sector that fiscal adjustment was intended to promote. The staff therefore urged the authorities to consider reducing the secondary reserve requirements in the near future. The Bank of Ghana indicated that it was willing to consider such a move, but only once it was confident that its enhanced indirect instruments of monetary control were working effectively, so that it could manage the short-term liquidity impact of the reform (MEFP ¶13). The authorities commented that they would remain particularly cautious in the pre-election period, since the financial markets were more jittery than usual at this time, in light of past experience.

26. **The authorities plan to press ahead this year with an ambitious array of financial sector legislation.** Among the bills slated for introduction in 2004 are laws on insolvency, a new companies code, insurance regulation, anti-money laundering, and credit information (MEFP ¶30).[23] The government is also working on a long-term savings bill, which will facilitate the development of private pension and housing finance schemes, filling an important gap in the country's current financial system.

27. **The central bank will continue to maintain a floating exchange rate regime, limiting interventions to smoothing short-term fluctuations in the foreign exchange market.**[24] In this context, with gross international reserves approaching comfortable levels, the BOG will increase its market sales of foreign exchange in the face of strong inflows. This will help take the pressure off monetary growth and support the disinflation process, by allowing for some modest appreciation of the nominal exchange rate. The scope for such a move without harming Ghana's international competitiveness is indicated in Figure 8, which shows the real effective exchange at a depreciated level by comparison with the 1990s, especially in view of the recent gains in the terms of trade. The long-awaited launch of a computerized interbank market for foreign exchange is now scheduled for the fourth quarter of 2004 and, once this is operating smoothly, the surrender requirement for foreign exchange will be gradually phased out (MEFP ¶11).

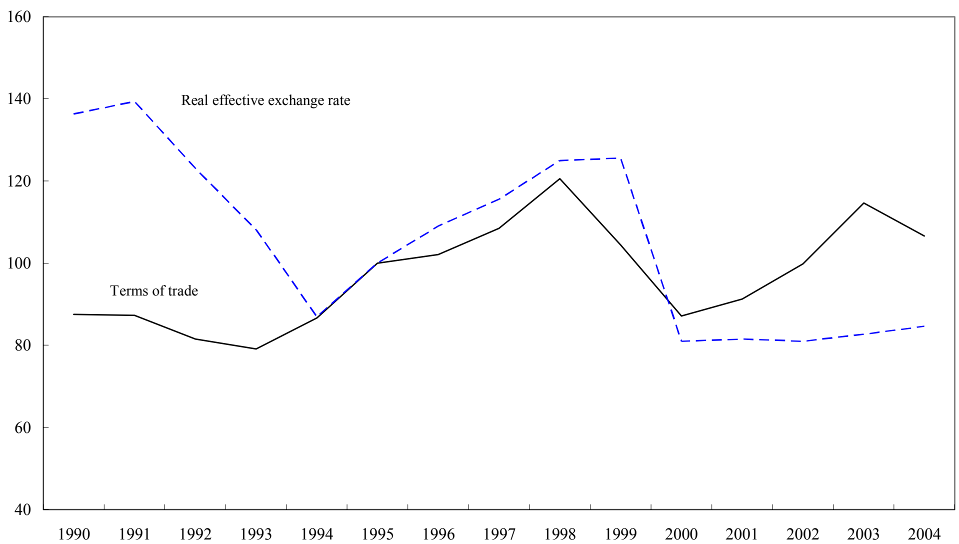
---

[23] The credit information legislation should pave the way for creation of a credit reference industry in Ghana, the absence of which is frequently cited as impeding small and medium-sized enterprises' access to credit.

[24] While Ghana is a signatory to the agreements on the planned West African Monetary Zone, including a provision that seeks to limit exchange rate fluctuations within a prescribed band, the authorities stated that they viewed this band as purely indicative.

Figure 8. Ghana: Terms of Trade and the Real Effective Exchange Rate, 1990 - 2004

(Index, 1995 = 100)



Sources: Ghanaian authorities; and Fund staff estimates.

E. Private Sector Development and Trade Policy

28. **In early 2004, cabinet approved a new National Medium-Term Private Sector Development Strategy.** The strategy focuses on creation of a more business-friendly economic and regulatory environment, strengthening property rights, seeking expanded market access for Ghana's exports, and promoting entrepreneurial skills. As regards the regulatory environment, the authorities cited evidence of significant improvements achieved over the past year or more, and indicated their determination to build on this progress.[25] They also pointed to specific initiatives in the 2004 budget to extend and upgrade infrastructure and promote agri-business. The reforms in the financial sector would form a central element of the private sector development strategy, and would be complemented by policies being developed (with support from the World Bank) to improve access to land, enforce land use rights, and enable land to be used as collateral for obtaining credit (MEFP ¶30).

29. **The government is preparing a comprehensive trade policy, which it intends to complete by end-2004.** While the orientation of their external policies will continue to be multilateral, the authorities' immediate concern is to strengthen regional integration with Ghana's partners in the Economic Community of West African States (ECOWAS). A key objective is to harmonize and reduce tariff and non-tariff barriers to trade and promote the

---

[25] The World Bank's "Doing Business in Ghana" project recently concluded that since 2002, the time to start a business had fallen from 129 to 85 days, and the licensing fees and associated costs to start a business had also been reduced.

development of an expanded regional market. The authorities stressed that realizing significant gains from market opening would require improvements in the supply response of Ghana's economy. Trade reform and other private sector development policies had, therefore, to be pursued in tandem.

F. External Financing, Capacity to Repay the Fund, and Program Risks

30. **Donor support for the 2004 program is expected to be comparable to that obtained in 2003 (Table 6).** The overall balance of payments is projected to weaken, however, owing to a higher oil import bill, a projected drop in net cocoa financing flows, and larger amortization obligations on official loans. Accordingly, the program incorporates a more modest target for the accumulation of net international reserves (US$100 million) than in recent years. Given a small net repayment to the IMF projected at US$5 million, and assuming debt relief is provided as envisaged under the enhanced HIPC Initiative, a small financing gap (US$5 million) would remain, which is expected to be filled by additional donor support.

31. **Ghana's external debt service indicators have improved significantly over the past three years, and should remain at manageable levels.** In preparation for the HIPC completion point, an updated debt sustainability analysis (DSA) was undertaken. This analysis shows that Ghana's external debt indicators will likely remain comfortably below HIPC thresholds over the long-term, and that debt sustainability is reasonably robust to moderate country-specific shocks, even if persistent in nature. To help lock in the gains from debt relief, the authorities have signalled their intention to strengthen their debt management capacity further, and to avoid contracting or guaranteeing nonconcessional debt (MEFP ¶17). Debt service to the Fund is projected at about 1½ percent of exports (or less than 3 percent of gross reserves) over the medium term, and Ghana should be able to meet these obligations on a timely basis.[26]

32. **There are two main risks to the program: higher world oil prices, and a loss of fiscal discipline ahead of the election:**

- At the time of writing, oil prices were already sharply higher (at around US$37 per barrel) than assumed in the program, and the threat of an overrun in the petroleum subsidy bill is therefore quite plausible. However, unless oil prices were to rise well above the US$40 level, and remain there, the staff's assessment is that the risk is manageable. As shown in Box 4, if oil prices averaged US$40 per barrel from May through end-2004, the government would still be able to make a (small) net repayment of domestic debt in 2004. This would be a setback for the debt reduction strategy, but not a reversal. As such it may

---

[26] In NPV terms, there is an increase in the debt-to-export ratio shown in Table 3, compared with the previous projection (IMF Country Report No./03/395), as a result of the decline in the discount rate and nominal exchange rate depreciation.

slow the pace at which interest rates decline, but would be unlikely to trigger macroeconomic instability; and

- The risk posed by weakening expenditure control in the run up to the election is harder to gauge. The authorities have stressed repeatedly and publicly, however, that they do not intend to repeat the pattern of past years and are committed to maintaining firm budgetary control.

Box 4. Sensitivity of the 2004 Budget to Oil Prices
(In percent of GDP) 1/

	2003	2004		
		Baseline	Scenario A ($35/bbl.)	Scenario B ($40/bbl.)
Total expenditure	29.0	28.4	28.8	29.5
Goods and services	3.1	3.1	3.0	3.0
Petroleum subsidy	0.4	1.4	2.0	2.6
Domestic capital expenditure	4.6	5.7	5.6	5.6
Overall balance	-4.5	-1.4	-1.9	-2.5
Net domestic financing	-0.1	-1.4	-0.9	-0.3
Memorandum items:				
Domestic primary balance	2.3	1.8	1.4	0.8
Stock of domestic debt (excluding bonds issued in 2004 for recapitalization of BOG and TOR)	19.6	15.4	15.8	16.4

Source: Fund staff estimates and projections.

1/ The baseline projection assumes an average world oil price of $30.2/barrel; scenario A assumes that oil prices rise to $35/barrel in May, and continue at that level for the rest of 2004 (resulting in an annual average price of $33.8/barrel); scenario B assumes that oil prices rise to $40/barrel in May and remain there through 2004 (resulting in an annual average price of $37.1/barrel).

IV. Staff Appraisal

33. **Macroeconomic management strengthened in 2003, and this is reflected in rising business confidence, strong economic growth, and more recently, a decline of inflation.** Adherence to the program targets, with improved revenue performance and more effective control over public expenditures, has already begun to yield the envisaged “fiscal dividend,” as interest rates have dropped sharply. At the same time, it should be recognized that the authorities’ task was made easier in 2003 by favorable terms of trade movements. The near-term outlook in this respect is less favorable, and will likely require intensified efforts to ensure successful program implementation.

34. **In this context, the decision to rule out an adjustment of petroleum prices this year is particularly regrettable: it entails a high opportunity cost and creates a**

significant source of vulnerability for the budget. It also comes in the wake of similar problems experienced over the past two years. Nevertheless, the staff has taken note of the government's argument that, in a tense pre-election period, the financial costs are outweighed by the imperative of maintaining social and political stability, without which the economic gains achieved so far would be put in jeopardy.Notwithstanding the unanticipated subsidy costs, the authorities' program seeks to preserve, and in several ways strengthens, the medium-term objectives set out in the GPRS. In addition, the announcement of a new petroleum pricing regime, to be enshrined in legislation, offers a credible mechanism to absolve the government from making such decisions, and thereby improves the prospects for insulating future budgets against rising world oil prices. It is critically important that the new regime be implemented as announced, and on schedule. No more disbursements under the PRGF are scheduled until the required petroleum pricing mechanism is fully implemented, and consistent implementation of the new framework will be a focus of future program reviews.

35. **Other pre-election pressures on government spending pose an additional risk to the program, and must be strenuously resisted.** The authorities are acutely aware of the high stakes involved, and are publicly committed to bucking the historical pattern. If they succeed in holding firm, the result would likely be a substantial boost to confidence, which would brighten the economic outlook further.

36. **The staff welcomes the central bank's determination to bring inflation down well into the single-digit range, and agrees that this should be its primary goal. But reforms to promote private sector finance should be pursued in parallel.** As the process of fiscal consolidation and disinflation continues, and with the imminent enhancements to the central bank's monetary instruments, there should soon be scope for gradually reducing secondary reserve requirements on banks. The staff urges the authorities to begin moving in this direction, so as to unlock resources currently tied up in government paper, as soon as possible, and to push ahead with passage of the important legislation on developing a credit reference industry and encouraging saving.

37. **The staff concurs with the need to maintain a floating exchange rate, as an effective buffer against external shocks.** The increasingly comfortable level of international reserves provides room to temper foreign exchange accumulation in the face of strong inflows, should these persist, and to step up market sales of foreign exchange. In the staff's view, Ghana could afford to allow some modest nominal appreciation of the exchange rate, if led by the market, and this would be helpful in mitigating speculative pressures and dampening inflation expectations further. It would be important, however, to press ahead with structural reforms so that any adverse effects on competitiveness from a stronger exchange rate are offset by rising productivity in the business sector.

38. **Good progress has been made in enhancing the monitoring and transparency of public expenditures, although an unfinished agenda remains.** The institutional and technical capacity to monitor and control expenditures—and to track poverty-related

spending—has been significantly strengthened, especially at the center, but this needs to be extended fully across all MDAs. The staff welcomes the authorities' efforts to require comprehensive reporting by MDAs of internally-generated funds, grants and loans and received, and the next step should be to insist that the uses of such resources are reported in a similarly comprehensive manner. High priority should also be given to following through on the plan to strengthen internal and external audit.

39. **The authorities are also, rightly, raising the bar on the performance of the main public sector enterprises.** The poor state of these enterprises has been tolerated for too long, and the staff endorses the measures taken to clean up their balance sheets, and set realistic financial performance targets. For this approach to be credible and effective, it is important that managements be held accountable if performance does not improve in line with the targets set, and that government is scrupulous in allowing cost-recovery pricing to be maintained for electricity and water through the automatic adjustment formulas.

40. **The staff is not persuaded by the authorities' view that the benefits of a minority government stake in VALCO would outweigh the potential costs.** Close government involvement could distort the commercial decisions of the company, and create the perception of a possible bailout. The staff welcomes the authorities' commitment to complete the due diligence analysis, and to consult with the Fund, before making any final decision.

41. In view of the strength of the authorities' program for 2004-05, and the prior actions taken, the staff supports their request for completion of the second review and waivers of nonobservance for one quantitative and two structural performance criteria.

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

	End-March Benchmark			End-June Perf. criterion			End-September Benchmark			End-December Perf. Criterion		
	Prog. 2/	Adj. Prog. 3/	Actual	Prog. 2/	Adj. Prog. 3/	Actual	Prog. 2/	Adj. Prog. 3/	Actual	Prog. 2/	Adj. Prog. 3/	Actual
	(In billions of cedis)											
Performance criteria												
Net domestic financing of government (ceiling) 4/	823	931	137	1,203	496	-546	43	-332	-866	0	7	-44
Net domestic assets of the Bank of Ghana (ceiling) 5/ 6/	-121	12	-682	445	-262	-1,984	127	-194	-3,537	-1,857	-1,731	-4,029
Stock of net domestic banking sector credit to TOR (ceiling)						...			767	928	...	1,063
	(In millions of U.S. dollars)											
Net international reserves of the Bank of Ghana (floor) 7/	-80	-96	-24	-162	-81	130	-82	-45	314	378	364	675
The contracting or guaranteeing of new nonconcessional external debt with original maturity greater than or equal to 1 year by the government or the Bank of Ghana (ceiling) 8/	0	0	0	0	0	0	0	0	0	0	0	0
Outstanding stock of external debt with original maturity of less than one year owed or guaranteed by the government or the Bank of Ghana 9/	75	75	1	75	75	61	75	75	17	75	75	8
Stock of external payment arrears 10/	0	0	0	0	0	0	0	0	0	0	0	0
	(In billions of cedis)											
Indicative benchmarks												
Government domestic primary surplus (floor)	-421	...	464	35	...	870	928	...	1,591	1,167	...	1,472
Reserve money stock	4,965	...	4,789	4,837	...	5,085	5,197	...	5,144	7,184	...	7,693
Government revenue, excluding grants and divestiture proceeds (floor)	2,608	...	2,730	5,958	...	5,758	9,819	...	9,502	13,941	...	13,743
Stock of government road sector arrears	165	...	216	110	...	108	55	...	41	0	...	30
	(In millions of U.S. dollars, unless otherwise specified)											
Memorandum items:												
External program support (loans and grants)	31	...	16	90	...	171	182	...	224	293	...	281
Paid public and publicly guaranteed debt service (after debt relief) 11/	22	...	20	75	...	74	94	...	93	146	...	140
Divestiture receipts	6	...	6	25	...	24	49	...	36	49	...	48
o/w: in foreign exchange	0	...	0	2	...	0	37	...	13	25	...	25
Average petroleum spot price (APSP in $/barrel) 12/	30.8	...	31.3	30.0	...	28.9	29.0	...	28.7	28.5	...	28.9

1/ Definitions of line items and terminology are elaborated in the Technical Memorandum of Understanding (TMU).
2/ Before application of adjusters, as indicated in the TMU.
3/ After application of adjusters, as indicated in the TMU.
4/ Value at end of month indicated. Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with an upside cap of $75 million, as explained in the TMU.
5/ Based on a fixed exchange rate of 8,504 cedis/$, the rate prevailing at end-December 2002.
6/ Value at end of month indicated. Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with an upside cap of $75 million, and for higher-than-programmed oil prices, with an upside cap of $30 million, as explained in the TMU.
7/ Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with a downside cap of -$75 million, and for higher-than-programmed oil prices, with a downside cap of -$30 million, as explained in the TMU.
8/ This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/123) of August 24, 2000 but also to commitments or contracted for which value has not been received, as specified in paragraph 15 of the TMU.
9/ The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/123) of August 24, 2000, as specified in paragraph 14 of the TMU.
10/ This is a continuous criterion. The TMU stipulates the precise program definition of payment arrears.
11/ Debt service to be paid by Ghana after projected HIPC relief in 2003.
12/ Average from beginning of 2003 to end of month indicated, as explained in the TMU.

Table 2. Ghana: Status of Structural Performance Criteria and Benchmarks for the Second Review under the PRGF Arrangement

Structural performance criteria	Status
1. Ensure that petroleum product prices are in line with the automatic adjustment formula as specified in the technical memorandum of understanding (January 30, 2004 and April 30, 2004).	**Not observed** at end-January 2004.
2. Ensure that electricity and water tariffs are in line with their respective automatic adjustment formulas as specified in the technical memorandum of understanding (January 30, 2004 and April 30, 2004).	**Not observed** at end-January 2004. However, an unanticipated improvement in the electricity generation mix negated the need for a January 2004 tariff increase.
3. Announcement in the 2004 budget statement of a plan for transforming the ownership and management control of GCB, consistent with the strategy described in paragraph 21 of the memorandum of economic policies (IMF Country Report No./03/395), including a timetable for implementation (March 31, 2004).	**Observed**. 2004 budget announced that a proposal for a share flotation will be put to the bank's annual general meeting in April, and executed before end-2004. A management contract will be put out to competitive tender following the completion of the share issue.
Structural benchmarks	
4. Submit to the Economic Management Team the monthly fiscal reports described in the technical memorandum of understanding, with a maximum lag of eight weeks, for August-October 2003 (December 31, 2003) and November 2003-January 2004 (March 31, 2004).	**Observed**.
5. Determine and settle all cross arrears between VRA, ECG, GWCL, TOR, and government (December 31, 2003).	**Not observed.** An audit of cross arrears as of end-June 2003 was completed, but the authorities are updating these results to end-2003 before settling the cross arrears.

Table 3. Ghana: Selected Economic and Financial Indicators, 2001-08

	2001	2002	2003		2004		2005	2006	2007	2008
			Prog. 1/	Est.	Prog. 1/	Rev. Prog.	Proj.	Proj.	Proj.	Proj.
			(Annual percentage change, unless otherwise specified)							
National income and prices										
Real GDP	4.2	4.5	4.7	5.2	5.0	5.2	5.0	5.0	5.0	5.0
Real GDP per capita	1.6	1.9	2.1	2.6	2.4	2.6	2.4	2.4	2.4	2.4
Nominal GDP	40.2	28.3	33.6	35.4	18.9	18.9	13.5	11.3	11.4	11.4
GDP deflator	34.6	22.8	27.6	28.6	13.3	13.0	8.1	6.0	6.1	6.1
Consumer price index (annual average)	32.9	14.8	26.4	26.7	8.6	10.8	6.0	5.0	5.0	5.0
Consumer price index (end of period)	21.3	15.2	22.0	23.6	7.0	7.7	5.0	5.0	5.0	5.0
External sector										
Exports, f.o.b.	-3.6	10.2	10.7	20.1	4.0	8.1	7.0	6.2	3.9	4.3
Imports, f.o.b.	2.6	-4.1	17.5	20.1	5.3	11.0	8.5	6.1	4.4	4.9
Export volume	-1.3	-2.1	-4.8	-6.8	6.6	10.8	6.2	6.3	3.4	3.4
Import volume	10.0	-6.8	5.2	6.9	7.8	5.7	11.4	6.6	4.1	4.5
Terms of trade	4.8	9.4	4.1	14.8	-0.2	-7.0	3.3	0.4	0.2	0.5
Nominal effective exchange rate (avg.)	-24.0	-11.7	…	…	…	…	…	…	…	…
Real effective exchange rate (avg.)	0.6	-0.6	…	…	…	…	…	…	…	…
Cedis per U.S. dollar (avg.)	7,179	7,944	…	8,681	…	…	…	…	…	…
Government budget										
Domestic revenue (excluding grants)	43.5	27.5	58.4	56.2	24.6	32.3	13.6	9.9	10.9	9.8
Total expenditure	65.5	2.4	50.1	50.2	11.8	17.5	4.4	7.2	9.8	8.2
Current expenditure	50.5	28.8	37.7	35.7	6.0	15.1	-5.5	4.9	9.0	8.3
Capital expenditure and net lending	95.7	-38.7	90.3	98.4	25.2	22.3	25.2	10.9	10.9	8.1
Money and credit										
Net domestic assets 2/	13.5	22.9	-7.2	-18.6	1.9	2.4	1.1	-0.7	0.0	0.7
Credit to government 2/	0.0	30.7	0.0	-8.2	-7.9	11.4	-5.7	-6.0	-5.8	-4.8
Credit to public enterprises 2/ 3/	11.0	-9.5	2.8	11.2	0.6	-2.5	0.4	0.4	0.4	0.4
Credit to the private sector 2/ 3/	14.2	18.2	17.9	16.4	19.1	17.7	12.1	10.9	6.5	6.9
Broad money (excluding foreign currency deposits)	48.4	49.6	25.1	40.9	18.9	19.2	13.0	12.4	11.7	11.1
Reserve money (excluding foreign currency deposits)	31.3	42.6	24.6	33.4	18.8	20.5	12.9	12.3	11.7	11.1
Velocity (GDP/end-of-period broad money)	4.8	4.1	4.4	4.0	4.4	4.0	4.0	4.0	3.9	4.0
Treasury bill yield (in percent;end of period)	28.9	28.1	…	22.5	…	…	…	…	…	…
			(In percent of GDP, unless otherwise specified)							
Investment and saving										
Gross investment	26.6	19.7	22.3	23.2	23.0	23.1	23.8	24.0	24.1	24.2
Private	13.8	13.6	13.6	14.0	13.8	13.8	14.2	14.6	14.7	15.0
Public	12.8	6.1	8.7	9.2	9.2	9.3	9.6	9.5	9.5	9.3
Gross national saving	21.3	20.2	21.9	24.9	22.0	23.5	22.8	23.1	23.2	23.1
Private	16.1	19.0	16.3	19.2	14.2	15.7	12.4	12.5	12.7	12.7
Public	5.1	1.2	5.6	5.7	7.8	7.8	10.3	10.6	10.5	10.4
Government budget										
Total revenue	18.1	18.0	21.4	20.8	22.4	23.1	23.2	22.9	22.8	22.4
Grants	6.9	3.1	4.8	4.7	3.8	4.3	3.5	3.2	2.9	2.7
Total expenditure	32.7	26.1	29.3	29.0	27.6	28.6	26.3	25.4	25.0	24.3
Overall balance (excluding grants) 4/	-14.6	-8.1	-8.0	-8.2	-5.2	-5.5	-3.2	-2.5	-2.2	-1.9
Overall balance (including grants) 5/	-9.0	-6.8	-4.3	-4.5	-1.7	-1.6	-0.9	-0.6	-0.4	-0.7
Domestic primary balance	3.8	2.0	1.8	2.2	2.3	1.6	1.8	1.2	1.3	0.9
Divestiture receipts	0.0	0.0	0.7	0.6	0.5	0.5	0.0	0.0	0.0	0.0
Net Domestic Financing	2.3	4.8	0.0	-0.1	-2.2	-1.4	-2.6	-2.5	-2.0	-1.7
External sector										
Current account balance 6/	-5.3	0.5	-0.4	1.7	-1.0	0.3	-1.0	-1.0	-1.0	-1.1
NPV of external debt outstanding										
(in percent of exports of goods and services)	...	...	143.5	175.7	78.6	93.6	95.6	98.0	100.1	101.5
(in percent of government revenue)	...	...	258.6	351.0	124.3	160.5	157.4	159.3	156.5	154.9
External debt service due, including to the Fund	8.5	7.8	6.1	5.9	4.9	6.3	5.3	4.5	4.0	3.7
(in percent of exports of goods and nonfactor services)	18.9	18.4	16.8	16.8	14.1	14.1	13.3	11.9	11.2	10.2
(in percent of government revenue)	34.1	37.1	24.2	24.2	18.8	18.8	17.2	15.1	14.1	12.5
			(In millions of U.S. dollars, unless otherwise specified)							
Current account balance 6/	-283	30	-28	127	-89	24	-91	-98	-106	-131
Overall balance of payments	17	40	202	502	-63	-138	-87	-47	-12	-7
Change in external arrears (decrease -)	34	-61	0	0	0	0	0	0	0	0
Gross international reserves (end of period)	344	635	1095	1427	1284	1541	1747	1972	2106	2232
(in months of imports of goods and services)	1.2	1.9	3.2	3.9	3.5	3.9	4.2	4.5	4.6	4.6
Nominal GDP (in billions of cedis)	38,071	48,862	65,262	66,158	77,620	78,650	89,243	99,341	110,633	123,275

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

1/ As in (IMF Country Report No./03/395).
2/ Assumes government take-over of remaining TOR debt at start of 2003.
2/ In percent of broad money at the beginning of the period.
3/ Credit from deposit money banks to public enterprises and the private sector respectively. The historical series have been revised to ensure consistency with the new banking supervision reporting form introduced in July 2003, which uses a residency rather than currency definition of foreign assets and liabilitiies.
4/ Before domestic arrears clearance.
5/ After domestic arrears clearance and including contingency funds.
6/ Including official grants.

Table 4a. Ghana: Central Government Budgetary Operations and Financing, 2001-2008 1/

	2001	2002	2003		2004		2005	2006	2007	2008
			Prog. 2/	Prov.	Prog. 2/	Rev. Prog.	Proj.	Proj.	Proj.	Proj.
	(in billions of cedis, unless otherwise specified)									
Total revenue and grants	9,532	10,333	17,099	16,862	20,292	21,537	23,806	25,848	28,418	30,972
Total revenue	6,904	8,800	13,941	13,743	17,372	18,187	20,665	22,703	25,177	27,641
Tax revenue	6,557	8,542	13,484	13,346	16,273	16,761	18,888	20,731	22,988	25,208
Direct taxes	2,124	2,790	3,894	4,057	4,965	4,918	5,633	6,133	6,908	7,787
Company tax	967	1,162	1,774	1,632	2,215	2,048	2,317	2,631	2,930	3,265
Other direct taxes	1,157	1,629	2,120	2,425	2,750	2,871	3,316	3,502	3,978	4,521
Of which: National Reconstruction Levy	...	...	162	167	346	194	231	0	0	0
Indirect taxes	2,865	3,757	6,447	6,128	7,642	7,938	9,049	9,882	10,855	11,774
Sales tax/value-added tax (VAT) on domestic goods	509	729	1,024	1,023	1,279	1,277	1,522	1,694	1,887	2,102
Sales tax/value-added tax (VAT) on imports	1,455	1,598	2,569	2,308	2,925	3,006	3,578	3,896	4,258	4,519
Petroleum	647	1,080	2,362	2,323	2,824	3,031	3,207	3,466	3,791	4,128
Of which: Debt Recovery Levy	...	...	766	617	1,205	1,295	1,360	1,428	1,499	1,574
Other indirect taxes	254	350	491	474	614	623	742	826	920	1,025
Trade taxes	1,568	1,995	3,143	3,160	3,667	3,905	4,206	4,715	5,224	5,648
Import duties	1,269	1,669	2,398	2,391	2,800	2,866	3,394	3,860	4,242	4,607
Cocoa export duty	300	326	745	769	867	1,039	812	856	982	1,041
Nontax revenue 3/	348	258	458	397	678	1,098	756	835	924	1,023
2004 revenue measures	...	...	...	...	420	328	1,021	1,136	1,265	1,410
Health Levy (2.5 percent of value added)	...	...	...	...	420	328	1,021	1,136	1,265	1,410
Grants	2,627	1,533	3,158	3,119	2,921	3,350	3,140	3,145	3,241	3,331
Project grants	1,566	467	951	1,037	871	1,034	996	1,026	1,056	1,162
Program grants	1,061	558	1,479	1,267	1,055	1,292	989	1,018	954	983
HIPC assistance (multilateral)	0	508	727	815	995	1,025	1,155	1,102	1,231	1,186
Total expenditure	12,451	12,753	19,139	19,157	21,388	22,505	23,499	25,193	27,659	29,938
Recurrent expenditure	7,578	9,763	13,448	13,245	14,261	15,251	14,415	15,116	16,479	17,848
Noninterest	4,593	6,763	9,228	9,153	10,838	11,826	11,731	13,145	14,377	15,759
Wages and salaries 4/	2,317	4,142	5,576	5,567	6,632	6,632	7,525	8,377	9,329	10,395
Goods and services 4/	703	1,452	2,047	2,063	2,734	2,434	2,762	3,074	3,321	3,590
Subventions 4/	788	0	0	0	0	0	0	0	0	0
Transfers	785	1,168	1,605	1,522	1,472	2,760	1,444	1,694	1,727	1,774
Of which: utility subsidy	257	480	483	273	392	408	67	75	84	93
petroleum subsidy	…	…	205	278	0	1,125	0	0	0	0
Interest	2,985	3,001	4,220	4,092	3,423	3,425	2,684	1,971	2,102	2,089
Domestic (accrual)	2,310	2,212	3,381	3,268	2,450	2,453	1,772	1,083	1,226	1,207
Of which: interest on TOR bonds	…	168	594	601	315	310	335	300	230	211
interest on BoG recapitalization bond	…	…	…	…	…	122	96	96	96	96
External (accrual)	675	789	838	824	972	972	912	888	876	883
Capital expenditure (total)	4,873	2,990	5,691	5,912	7,128	7,254	9,085	10,077	11,180	12,089
Capital expenditure (domestic)	1,341	1,338	3,265	3,015	4,635	4,658	6,338	7,250	8,269	8,886
Of which: discretionary expenditure	417	475	1,270	1,144	2,356	2,313	3,518	4,141	4,828	5,116
Capital expenditure (foreign)	3,532	1,652	2,426	2,897	2,492	2,596	2,746	2,827	2,910	3,203
Overall balance (before arrears clearance, modified cash basis)	-2,920	-2,420	-2,039	-2,295	-1,096	-967	306	655	759	1,034
(in percent of GDP)	-7.7	-5.0	-3.1	-3.5	-1.4	-1.2	0.3	0.7	0.7	0.8
Overall balance (before arrears clearance, exclud. grants)	-5,547	-3,953	-5,197	-5,414	-4,017	-4,317	-2,834	-2490	-2481	-2297
Road arrears (clearance)	-44	-208	-240	-204	0	-30	0	0	0	0
Other domestic payment arrears (clearance)	-442	-630	-391	-459	-97	-127	-97	-97	-97	0
Of which: to statutory funds	-235	-247	-97	-97	-97	-97	-97	-97	-97	0
VAT refunds	-27	-55	-108	-48	-126	-129	-153	-168	-184	-199
Contingency 5/	0	0	0	0	0	0	-822	-945	-931	-1,642
Overall balance (modified cash basis after arrears clearance)	-3,433	-3,313	-2,778	-3,006	-1,319	-1,253	-765	-555	-453	-807
Overall balance from below the line	-2,961	-2,994	-2,952	-3,061	-1,319	-1,575	-765	-555	-453	-807
Discrepancy between above- and below-line data 6/	472	319	-174	-54	0	-322	0	0	0	0
Divestiture receipts	12	5	425	421	427	408	0	0	0	0
Of which: costs of divestiture	-144	-6	-11	0	0	0	0	0	0	0
Total non-divestiture financing	2,949	2,988	2,527	2,639	892	1,167	765	555	453	807
Foreign (net)	1,428	-781	17	398	-85	-436	77	286	583	836
Project loans	1,966	1,185	1,475	1,860	1,621	1,562	1,750	1,801	1,854	2,041
Program loans	1,056	160	1,080	1,097	980	946	1,001	1,050	1,111	1,144
Amortization due	-1,593	-2,125	-2,537	-2,559	-2,687	-2,945	-2,674	-2,565	-2,382	-2,349
Exceptional financing	659	1,241	2,036	1,805	2,530	2,474	2,871	2,631	2,082	2,066
External payment arrears	-467	-461	0	0	0	0	0	0	0	0
Additional donor financing	0	0	0	0	545	36	322	304	373	554
Traditional rescheduling	1,126	1,450	1,578	1,458	1,472	1,483	1,340	997	630	498
HIPC assistance (non-multilateral)	0	252	457	347	513	954	1,209	1,330	1,079	1,014
Savings due to inflation indexed bonds	0	197	474	481	180	230	137	121	0	0
Domestic (net) 7/	862	2,332	0	-44	-1,733	-1,101	-2,320	-2,484	-2,213	-2,096
Banking system	-979	992	0	-970	-1,168	-620	-1,129	-1,342	-1,460	-1,336
Nonbanks	1,841	1,339	0	926	-565	-481	-1,191	-1,142	-753	-760
Memorandum items:										
Total enhanced HIPC relief	...	759	1,184	1,163	1,508	1,979	2,365	2,432	2,310	2,200
Total poverty spending (GPRS definition) 8/	1,730	2,330	4,059	4,279	...	5,465	...	...	...	...
Domestic primary balance (includes contingency and discrepancy)	1,442	964	1,167	1,472	1,772	1,253	1,621	1,195	1,415	1,155
Stock of domestic debt 7/	10,195	12,804	13,471	12,962	11,918	13,562	11,727	11,016	11,016	11,016
Excluding bonds issued in 2004 for recapitalization of BoG and TOR	10,195	12,804	13,471	12,962	11,918	12,092	10,256	9,546	9,546	9,546
GDP at current market prices	38,071	48,862	65,262	66,158	77,620	78,650	89,243	99,341	110,633	123,275

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

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

2/ As in (IMF Country Report No./03/395).

3/ Prior to 2002, nontax revenue included positive balances on committed accounts outside the consolidated fund.

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

5/ Indicates scope for additional expenditure and tax cuts (if negative) or expenditure cuts and tax increases (if positive), in line with the GPRS goal of reducing the domestic-debt-GDP ratio in half by end-2005 from the end-2002 level.

6/ Projected discrepancy in 2004 reflects float.

7/ Domestic debt stock estimates exclude non-interest bearing perpetual BoG revaluation stocks.

8/ The GPRS dedicates 80 percent of enhanced HIPC relief to poverty spending and 20 percent to domestic debt reduction. Projections for poverty spending from 2005 onward are not available.

Table 4b. Ghana: Central Government Budgetary Operations and Financing, 2001-2008 1/

	2001	2002	2003		2004		2005	2006	2007	2008
			Prog. 2/	Prov.	Prog. 2/	Revised Prog.	Proj.	Proj.	Proj.	Proj.
	(In percent of GDP, unless otherwise specified)									
Total revenue and grants	25.0	21.1	26.2	25.5	26.1	27.4	26.7	26.0	25.7	25.1
Total revenue	18.1	18.0	21.4	20.8	22.4	23.1	23.2	22.9	22.8	22.4
Tax revenue	17.2	17.5	20.7	20.2	21.0	21.3	21.2	20.9	20.8	20.4
Direct taxes	5.6	5.7	6.0	6.1	6.4	6.3	6.3	6.2	6.2	6.3
Company tax	2.5	2.4	2.7	2.5	2.9	2.6	2.6	2.6	2.6	2.6
Other direct taxes	3.0	3.3	3.2	3.7	3.5	3.7	3.7	3.5	3.6	3.7
Of which : National Reconstruction Levy	…	…	0.2	0.3	0.4	0.2	0.3	0.0	0.0	0.0
Indirect taxes	7.5	7.7	9.9	9.3	9.8	10.1	10.1	9.9	9.8	9.6
Sales tax/value-added tax (VAT) on domestic goods	1.3	1.5	1.6	1.5	1.6	1.6	1.7	1.7	1.7	1.7
Sales tax/value-added tax (VAT) on imports	3.8	3.3	3.9	3.5	3.8	3.8	4.0	3.9	3.8	3.7
Petroleum	1.7	2.2	3.6	3.5	3.6	3.9	3.6	3.5	3.4	3.3
Of which : Debt Recovery Levy	…	…	1.2	0.9	1.6	1.6	1.5	1.4	1.4	1.3
Other indirect taxes	0.7	0.7	0.8	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Trade taxes	4.1	4.1	4.8	4.8	4.7	5.0	4.7	4.7	4.7	4.6
Import duties	3.3	3.4	3.7	3.6	3.6	3.6	3.8	3.9	3.8	3.7
Cocoa export duty	0.8	0.7	1.1	1.2	1.1	1.3	0.9	0.9	0.9	0.8
Nontax revenue 3/	0.9	0.5	0.7	0.6	0.9	1.4	0.8	0.8	0.8	0.8
2004 revenue measures	…	…	…	…	0.5	0.4	1.1	1.1	1.1	1.1
Health Levy (2.5 percent of value added)	…	…			0.5	0.4	1.1	1.1	1.1	1.1
Grants	6.9	3.1	4.8	4.7	3.8	4.3	3.5	3.2	2.9	2.7
Project grants	4.1	1.0	1.5	1.6	1.1	1.3	1.1	1.0	1.0	0.9
Program grants	2.8	1.1	2.3	1.9	1.4	1.6	1.1	1.0	0.9	0.8
HIPC assistance (multilateral)	0.0	1.0	1.1	1.2	1.3	1.3	1.3	1.1	1.1	1.0
Total expenditure	32.7	26.1	29.3	29.0	27.6	28.6	26.3	25.4	25.0	24.3
Recurrent expenditure	19.9	20.0	20.6	20.0	18.4	19.4	16.2	15.2	14.9	14.5
Noninterest	12.1	13.8	14.1	13.8	14.0	15.0	13.1	13.2	13.0	12.8
Wages and salaries 4/	6.1	8.5	8.5	8.4	8.5	8.4	8.4	8.4	8.4	8.4
Goods and services 4/	1.8	3.0	3.1	3.1	3.5	3.1	3.1	3.1	3.0	2.9
Subventions 4/	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers	2.1	2.4	2.5	2.3	1.9	3.5	1.6	1.7	1.6	1.4
Of which : utility subsidy	0.7	1.0	1.1	0.4	0.5	0.5	0.1	0.1	0.1	0.1
petroleum subsidy	...	...	0.0	0.4	0.0	1.4	0.0	0.0	0.0	0.0
Interest	7.8	6.1	6.5	6.2	4.4	4.4	3.0	2.0	1.9	1.7
Domestic (accrual)	6.1	4.5	5.2	4.9	3.2	3.1	2.0	1.1	1.1	1.0
Of which : interest on TOR bonds	…	0.3	0.9	0.9	0.4	0.4	0.4	0.3	0.2	0.2
interest on BoG recapitalization bond	…	…	…	…	…	0.2	0.1	0.1	0.1	0.1
External (accrual)	1.8	1.6	1.3	1.2	1.3	1.2	1.0	0.9	0.8	0.7
Capital expenditure (total)	12.8	6.1	8.7	8.9	9.2	9.2	10.2	10.1	10.1	9.8
Capital expenditure (domestic)	3.5	2.7	5.0	4.6	6.0	5.9	7.1	7.3	7.5	7.2
Of which : discretionary expenditure	1.1	1.0	1.9	1.7	3.0	2.9	3.9	4.2	4.4	4.1
Capital expenditure (foreign)	9.3	3.4	3.7	4.4	3.2	3.3	3.1	2.8	2.6	2.6
Road arrears (clearance)	-0.1	-0.4	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Other domestic payment arrears	-1.2	-1.3	-0.6	-0.7	-0.1	-0.2	-0.1	-0.1	-0.1	0.0
Of which : to statutory funds	-0.6	-0.5	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
VAT Refunds	-0.1	-0.1	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Contingency 5/	0.0	0.0	0.0	0.0	0.0	0.0	-0.9	-1.0	-0.8	-1.3
Overall balance (modified cash basis after arrears clearance)	-9.0	-6.8	-4.3	-4.5	-1.7	-1.6	-0.9	-0.6	-0.4	-0.7
Overall balance from below the line	-7.8	-6.1	-4.5	-4.6	-1.7	-2.0	-0.9	-0.6	-0.4	-0.7
Discrepancy between above and below line data 6/	1.2	0.7	-0.3	-0.1	0.0	-0.4	0.0	0.0	0.0	0.0
Divestiture receipts	0.0	0.0	0.7	0.6	0.5	0.5	0.0	0.0	0.0	0.0
Of which : costs of divestiture	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total non-divestiture financing	7.7	6.1	3.9	4.0	1.1	1.5	0.9	0.6	0.4	0.7
Foreign (net)	3.8	-1.6	0.0	0.6	-0.1	-0.6	0.1	0.3	0.5	0.7
Project loans	5.2	2.4	2.3	2.8	2.1	2.0	2.0	1.8	1.7	1.7
Program loans	2.8	0.3	1.7	1.7	1.3	1.2	1.1	1.1	1.0	0.9
Amortization due	-4.2	-4.3	-3.9	-3.9	-3.5	-3.7	-3.0	-2.6	-2.2	-1.9
Exceptional financing	1.7	2.5	3.1	2.7	3.3	3.1	3.2	2.6	1.9	1.7
External payment arrears	-1.2	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additional donor financing	0.0	0.0	0.0	0.0	0.7	0.0	0.4	0.3	0.3	0.4
Traditional rescheduling	3.0	3.0	2.4	2.2	1.9	1.9	1.5	1.0	0.6	0.4
HIPC assistance (non-multilateral)	0.0	0.5	0.7	0.5	0.7	1.2	1.4	1.3	1.0	0.8
Savings due to inflation indexed bonds	0.0	0.4	0.7	0.7	0.2	0.3	0.2	0.1	0.0	0.0
Domestic (net) 7/	2.3	4.8	0.0	-0.1	-2.2	-1.4	-2.6	-2.5	-2.0	-1.7
Banking system	-2.6	2.0	0.0	-1.5	-1.5	-0.8	-1.3	-1.4	-1.3	-1.1
Nonbanks	4.8	2.7	0.0	1.4	-0.7	-0.6	-1.3	-1.1	-0.7	-0.6
Memorandum items:										
Total enhanced HIPC relief	...	1.6	1.8	1.8	1.9	2.5	2.6	2.4	2.1	1.8
Total poverty spending (GPRS definition) 8/	4.5	4.8	6.2	6.5	...	6.9	...	...	...	...
Domestic primary balance (includes contingency and discrepancy)	3.8	2.0	1.8	2.2	2.3	1.6	1.8	1.2	1.3	0.9
Stock of domestic debt 7/	26.8	26.2	20.6	19.6	15.4	17.2	13.1	11.1	10.0	8.9
Excluding bonds issued in 2004 for recapitalization of BoG and TOR	26.8	26.2	20.6	19.6	15.4	15.4	11.5	9.6	8.6	7.7

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

1/ From 2001 onward, above-the-line data for domestic recurrent and capital expenditure are presented on a cash basis (payment vouchers); arrears not reflected in line expenditures.
2/ As in (IMF Country Report No./03/395).
3/ Prior to 2002, nontax revenue included positive balances on committed accounts outside the consolidated fund.
4/ From 2002 onward, subvented agency expenditure for wages and salaries and goods and services are subsumed under their respective line items.
5/ Indicates scope for additional expenditure and tax cuts (if negative) or expenditure cuts and tax increases (if positive), in line with the GPRS goal of reducing the domestic-debt-GDP ratio in half by end-2005 from the end-2002 level.
6/ Projected discrepancy in 2004 reflects float.
7/ Domestic debt stock estimates exclude non-interest bearing perpetual BoG revaluation stocks.
8/ The GPRS dedicates 80 percent of enhanced HIPC relief to poverty spending and 20 percent to domestic debt reduction. Projections for poverty spending from 2005 onward are not available.

Table 5. Ghana: Monetary Survey, 2002-2005

	2002	2003	2004						2005
	Dec. Act.	Dec. Est.	Mar. Prog. 1/	Mar. Est.	Jun. Rev. Prog.	Sept. Rev. Prog.	Dec. Prog. 1/	Dec. Rev. Prog.	Dec. Proj.
Bank of Ghana	(In billion of cedis, unless otherwise specified; end of period)								
Net foreign assets	2,297	8,590	5,688	7,721	7,706	7,008	7,483	9,966	12,006
(in millions of U.S. dollars)	272	970	640	856	843	756	813	1,067	1,248
Net domestic assets	3,470	-897	506	-1,242	-742	-172	1,051	-696	-1,537
Claims on government (net)	2,867	2,525	2,679	5,473	5,473	5,473	2,760	5,473	5,751
Claims on deposit money banks 2/	-375	-4,412	-2,151	-5,315	-4,769	-4,272	-1,927	-4,814	-5,459
Claims on rest of the economy	271	-142	16	-44	-44	-44	16	-44	-44
Other items, net (assets +)	707	1,132	-38	-1,655	-1,402	-1,328	202	-1,311	-1,785
Reserve money (RM)	5,767	7,693	6,193	6,479	6,964	6,836	8,534	9,270	10,469
Currency outside banks	4,672	6,338	5,009	5,265	5,682	5,465	6,899	7,556	8,538
Bank reserves	1,056	1,259	1,137	1,158	1,225	1,315	1,588	1,658	1,875
Cash	273	342	249	262	265	269	422	409	462
Deposits	783	917	888	896	960	1,046	1,166	1,249	1,412
Nonbank deposits	40	96	47	56	56	56	47	56	56
Deposit money banks									
Net foreign assets 3/	1,275	1,985	1,691	2,721	2,416	2,912	2,397	3,404	3,716
(in millions of U.S. dollars)	151	224	190	302	264	314	260	364	386
Reserves	1,056	1,259	1,137	1,158	1,225	1,315	1,588	1,658	1,875
Net claims on Bank of Ghana 2/	375	4,412	2,151	5,315	4,769	4,272	1,927	4,814	5,459
Domestic credit	12,637	15,400	15,378	16,309	16,212	15,948	16,880	16,730	17,809
Claims on government (net) 4/	5,535	4,907	5,382	5,621	4,776	3,368	4,425	3,854	2,447
Claims on non-government 4/	7,102	10,493	9,997	10,688	11,437	12,580	12,455	12,876	15,361
Public enterprises (PE) 4/	965	2,148	1,351	2,427	2,427	2,427	…	1,727	…
Private sector	5,980	8,052	8,561	8,074	8,832	10,006	…	10,856	…
Other items, net (assets +) 3/	-4,718	-8,317	-6,128	-9,577	-9,110	-8,782	-6,343	-8,976	-8,929
Total deposits	10,625	14,740	14,230	15,927	15,513	15,664	16,449	17,630	19,929
Monetary survey									
Net foreign assets	3,571	10,575	7,379	10,443	10,122	9,920	9,880	13,370	15,722
(in millions of U.S. dollars)	423	1,195	830	1,158	1,107	1,071	1,073	1,431	1,635
Net domestic assets	11,765	10,599	11,908	10,805	11,129	11,266	13,515	11,872	12,801
Domestic credit	15,775	17,784	18,074	21,738	21,641	21,377	19,656	22,159	23,515
Claims on government (net) 4/	8,402	7,433	8,061	11,094	10,248	8,841	7,185	9,327	8,198
Claims on non-government 4/	7,373	10,351	10,013	10,645	11,393	12,537	12,472	12,832	15,317
Other items, net (assets +)	-4,010	-7,185	-6,166	-10,933	-10,512	-10,111	-6,142	-10,287	-10,714
Broad money (M2+) 5/	15,336	21,174	19,287	21,248	21,251	21,186	23,395	25,242	28,523
Broad money (M2)	11,783	16,598	14,132	15,993	16,086	15,990	17,522	19,787	22,359
Currency	4,672	6,338	5,009	5,265	5,682	5,465	6,899	7,556	8,538
Deposits 5/	10,664	14,836	14,278	15,983	15,569	15,720	16,496	17,686	19,985
Memorandum items:	(Annual percentage change, unless otherwise specified)								
Broad money (M2)	49.6	40.9	24.1	39.8	33.8	30.4	18.9	19.2	13.0
Reserve money (RM)	42.6	33.4	29.3	35.3	36.9	32.9	18.8	20.5	12.9
Velocity (GDP/end-of-period M2)	4.15	3.99	4.82	4.32	4.48	4.71	4.43	3.97	3.99
Reserve money multiplier (M2/RM)	2.04	2.16	2.28	2.47	2.31	2.34	2.05	2.13	2.14
Bank reserves-to-deposits ratio 6/	0.15	0.12	0.12	0.11	0.12	0.12	0.15	0.14	0.14
Broad money (M2+) 5/	49.6	38.1	27.0	39.9	32.6	28.8	18.9	19.2	13.0
Reserve money (RM+) 7/	48.2	34.8	24.4	36.1	35.8	31.6	18.8	20.4	12.9
Velocity (GDP/end-of-period M2+)	3.19	3.12	3.53	3.25	3.39	3.56	3.32	3.12	3.13
Reserve money multiplier (M2+/RM+)	2.40	2.45	2.82	2.84	2.64	2.68	2.44	2.43	2.43
Foreign currency deposits to total deposits	0.33	0.31	0.36	0.33	0.33	0.33	0.36	0.31	0.31
Currency-to-deposits ratio 5/	0.44	0.43	0.35	0.33	0.36	0.35	0.42	0.43	0.43
Currency/M2+ ratio	0.30	0.30	0.26	0.25	0.27	0.26	0.29	0.30	0.30
Credit to the private sector 8/	33.7	34.7	45.0	36.7	37.9	38.1	34.8	34.8	22.1
Net international reserves (millions of U.S. dollars)	123	798	…	688	536	601	659	898	1080
Exchange rate (cedis per U.S. dollar, e.o.p.)	8,439	8,852	…	9,018	…	…	…	…	…

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

1/ As in (IMF Country Report No./03/395).

2/ Starting January 2003, includes holding of T-bills issued for monetary liquidity purposes.

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

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

5/ Including foreign currency deposits.

6/ Excluding foreign currency deposits.

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

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

Table 6. Ghana: Balance of Payments, 2001-2008

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

	2001	2002	2003		2004		2005	2006	2007	2008
	Prel.	Prov.	Prog. 1/	Prov.	Prog. 1/	Rev. Prog.	Proj.	Proj.	Proj.	Proj.
Exports f.o.b.	1,867	2,057	2,277	2,471	2,368	2,672	2,859	3,035	3,153	3,288
Cocoa beans and cocoa products	381	463	772	818	784	927	904	925	952	980
Gold	618	689	770	830	756	929	1,037	1,076	1,120	1,167
Timber and timber products	169	182	176	174	188	184	196	214	233	247
Others	699	723	560	649	640	632	722	821	848	894
Imports, f.o.b.	-2,831	-2,714	-3,189	-3,259	-3,359	-3,617	-3,925	-4,165	-4,348	-4,561
Non-oil	-2,314	-2,206	-2,582	-2,696	-2,788	-2,955	-3,277	-3,510	-3,673	-3,866
Oil	-517	-508	-608	-563	-571	-662	-648	-655	-675	-694
Trade balance	-964	-657	-912	-788	-990	-944	-1,066	-1,130	-1,195	-1,273
Services (net)	-182	-214	-285	-280	-288	-304	-314	-307	-300	-300
Of which: interest payments	-106	-124	-119	-110	-118	-124	-118	-112	-108	-105
Private transfers (net)	600	680	783	801	841	875	932	990	1,040	1,093
Current account balance,										
excluding official transfers	-546	-190	-413	-266	-438	-372	-448	-447	-455	-480
Official transfers (net)	263	221	385	393	349	396	357	348	348	349
*Of which:*HIPC grants	0	62	79	81	111	113	122	113	122	115
Current account balance,										
including official transfers	-283	30	-28	127	-89	24	-91	-98	-106	-131
Capital account	192	-65	129	161	166	43	66	96	130	161
Official capital (net)	104	-115	54	86	65	-26	9	34	64	91
Medium and Long-term loans										
Inflows	391	195	337	370	334	319	336	338	341	357
Amortization	-288	-309	-283	-284	-269	-345	-327	-304	-277	-267
Private capital	88	50	75	75	101	69	57	61	66	70
*Of which:*divestiture receipts	0	0	25	25	47	15	0	0	0	0
Other capital and errors and omissions	107	75	101	214	-140	-205	-62	-44	-35	-37
Of which: change in net foreign assets of commercial banks	-77	-18	-34	-73	-75	-140	-22	-34	-25	-27
Of which: errors and omissions	164	33	0	98	0	0	0	0	0	0
Overall balance	17	40	202	502	-63	-138	-87	-47	-12	-7
Change in arrears	34	-61	0	0	0	0	0	0	0	0
Financing	-50	21	-202	-502	2	134	53	15	-25	-46
Debt deferral	150	-35	-35	-35	-35	-35	-35	-35	0	0
Net international reserves (negative is increase) 2/	-200	-158	-378	-675	-157	-100	-181	-188	-196	-192
Of which: Use of Fund credit	1	54	52	53	32	-5	24	37	-61	-67
Disbursements (PRGF)	67	68	73	74	73	39	78	78	0	0
Repayments (PRGF)	-66	-14	-21	-21	-41	-44	-54	-41	-61	-67
Change in reserves (negative is increase)	-79	-292	-460	-792	-190	-114	-206	-225	-135	-126
Exceptional financing 3/	0	214	212	208	221	269	269	238	170	146
Financing gap	0	0	0	0	61	5	34	31	37	54
Of which: Additional donor financing	0	0	0	0	61	5	34	31	37	54
Memorandum items:										
Current account deficit (in percent of GDP)										
Excluding official transfers	10.3	3.1	5.5	3.5	5.1	4.3	4.8	4.4	4.1	4.0
Including official transfers	5.3	-0.5	0.4	-1.7	1.0	-0.3	1.0	1.0	1.0	1.1
Gross international reserves										
End of period (US$ millions)	344	635	1095	1,427	1,284	1,541	1,747	1,972	2,106	2,232
In months of imports of goods and services	1.2	2.0	3.2	3.9	3.5	3.9	4.2	4.5	4.6	4.6
Cocoa exports										
Volume (in thousands of tons)	370	367	468	403	475	560	560	566	583	600
Price (in US$ per ton)	1,021	1,266	1,650	1,950	1,650	1,650	1,600	1,620	1,610	1,605
External debt service paid										
In percent of exports of GNFS	10.1	10.2	5.0	5.2	3.3	5.4	4.5	4.3	4.5	4.9
In percent of government revenue	25.2	24.1	8.9	10.2	5.1	9.0	7.3	6.9	6.9	7.4

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

1/ As in (IMF Country Report No./03/395).

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

3/ Includes interim HIPC relief from Paris Club creditors comprising Naples and Cologne flow terms.

Table 7. Ghana: Public Expenditure Management AAP Indicators

V. INDICATOR	Benchmark Status	Assessment/Recommended action
VI.		
VII. BUDGET FORMULATION		
1. Coverage of the budget or fiscal reporting entity	Not met	**Assessment:** Fiscal reports that are produced in a timely manner capture fiscal information estimated to cover less than 95 percent (by value) of general government operations as defined by the GFS. **Recommended action:** Produce government finance statistics in conformity with the standards of the GFS manual. Enforce the legal and regulatory requirements for submission of monthly revenue and expenditure information by ministries, departments and agencies (MDAs).
2. Degree of spending being funded by inadequately reported extra-budgetary resources	Not met	**Assessment:** A significant share of public expenditure is financed through retained fees and extra-budgetary sources that are not fully captured in the fiscal reports. **Recommended action:** Disclose fiscal activities of all units that carry out public services or activities. Enforce rules and regulations to ensure full disclosure of assets, liabilities or other revenue and expenditures reported in in-year reports and financial accounts by all units of the central government.
3. Reliability of budget as a guide to future	Not met	**Assessment:** At the aggregate level outturns do not differ significantly from the original budget appropriations. However, significant variations between budget and actual spending exist at the economic and line ministry levels. **Recommended action:** Strengthen budget formulation to enhance the realism of expenditure estimates. Strengthen general macro-fiscal forecasting.
4. Inclusion of donor funds	Not met	**Assessment:** In large part, donor funds are adequately reflected in budget documents. However, in the outturn data, difficulties remain in accounting for disbursements of projected grants. **Recommended action:** Improve ex-post integration of donor flows in the financial reports of MDAs. Enforce new Financial Administration Regulations to ensure managers report in a timely and standardized manner on grant funded activities. Integrate in financial reports of MDAs all resource inflows through grants and loans.

5. Classification	Met	**Assessment:** A new bridge table has been developed to facilitate reporting on a functional GFS basis.
6. Identification of poverty-reducing spending	Met	**Assessment:** Poverty-related expenditures are tagged within the existing classification and these are reflected in the Annual Budget documents and quarterly execution reports.
7. Integration of medium-term forecasts	Not met	**Assessment:** Projections exist but are not integrated into the budget formulation cycle. **Recommended action**: Complete the medium-term expenditure framework costing manual methodology. Ensure that for the 2005 and subsequent budgets, the multi-year forecasting, policy definition, reviewing and prioritization process are implemented as intended. Review the basis and level of detail of the appropriations with a view to make the budget more outcome focused.
Budget execution		
8. Evidence of budget execution problems (arrears)	Met	**Assessment:** Arrears have been reduced in 2003 but a small stock (including intra-government) remains to be regularized.
9. Effectiveness of the internal control system	Not met	**Assessment:** The internal control system is partially effective, as compliance with relevant laws and financial regulations that govern is weak. **Recommended action:** Inform all managers of their fiduciary responsibility to manage risk. Enforce effective sanctions to improve internal control systems in MDAs. Develop and launch an appropriate and cost-effective strategy to implement the new Internal Audit Agency Act and improve the effectiveness of internal audit.
10. Tracking surveys are in use	Met	**Assessment:** Poverty Expenditure Tracking Surveys (PETS) have been undertaken in some sectors and at the district level (2003) but are not yet a regular feature of the public expenditure management system.
11. Quality of fiscal information	Met	**Assessment:** Bank reconciliations are undertaken on a monthly basis in a routine way.
Budget reporting		
12. Regularity of timely internal fiscal reporting	Not met	**Assessment:** Internal budget reports are received more than four weeks after the end of the relevant period.

		Recommended action: Ensure full extension of the National Expenditure Tracking System to all regions. Introduce a treasury code on checks to identify the location and source documents for unreconciled items. Implement the Budget and Public Expenditure Management System to facilitate immediate recording of transactions, daily bank reconciliation and timely production of financial reports.
13. Regular fiscal reports track poverty reducing spending	Met	**Assessment:** Consolidated quarterly poverty spending reports are routinely produced on a broad activity and sub-sector basis with a lag of about eight weeks after the relevant quarter.
14. Transactions are recorded in the accounts in a timely fashion	Met	**Assessment:** Routine transactions are not processed after the end of the fiscal year and proper year-end closure procedures exist.
15. Timeliness of audited financial information	Not met	**Assessment:** An audited record of the central government accounts has not been submitted within twelve months after the end of the fiscal year. **Recommended action:** Implement a cost-effective action plan to clear the audit backlogs, with the Auditor General focusing its resources on the audit of 2003 with immediate effect. Develop sanctions for all MDAs and public entities that fail to produce their annual financial statements timely. Develop a risk-responsive approach, which will influence and rely on work performed by internal auditors.
16. Procurement	Not met	**Assessment:** The procurement system suffers from a weak legal framework and weak enforcement of rules, enabling inefficient use of public funds and contributing to a lack of transparency and accountability. **Recommend action:** Establish and make operational institutions created by the new Procurement Law and embark on a capacity building program to support the new procurement system. Carry out audits of a significant share of major contracts of goods and services, as established in the Internal Audit Act, to certify that the Procurement Law is being complied with in a satisfactory manner.

Table 8. Ghana: Revised Schedule of Disbursements Under the PRGF Arrangement, 2003-06

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

1/ Ghana’s quota is SDR 369 million.

June 15, 2004

Mr. Rodrigo Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Rato:

The government of Ghana has been implementing a financial and economic program with support from the Fund's Poverty Reduction and Growth Facility (PRGF). Progress under this arrangement has been satisfactory, and we are requesting completion of the second program review and the disbursement of the third loan in an amount equivalent to SDR 26.35 million. In this regard, we are seeking waivers of a quantitative and two structural performance criteria, based on program adjustments and additional measures as described in the attached Memorandum of Economic and Financial Policies (MEFP) for 2004-05.

Specifically, the quantitative performance criterion on net domestic bank credit (ceiling) to the Tema Oil Refinery was not observed at end-December 2003 because of a commercial decision to repay some high-interest short-term external debt that the program assumed would be rolled over; by mid-2004, we expect the refinery's net position with the domestic banking system to be better than was programmed in our December 3, 2003 letter of intent. The structural performance criterion on utility price adjustments was not observed at end-January and end-April 2004 because of favorable changes in the electricity generation mix that allowed full cost recovery to be maintained without the need for higher electricity or water tariffs. With regard to the structural performance criterion on petroleum pricing, we seek a waiver on the basis of replacing the current regime, which has not functioned as intended, with a commitment to establish a new institutional framework for price setting, in the context of comprehensive petroleum sector deregulation legislation. We understand that completion of this review is conditioned upon observance of the five prior actions set forth in Table I.2 of the MEFP.

Macroeconomic performance strengthened significantly during 2003, and we believe that the policies specified in the MEFP provide the basis for sustaining strong growth, lowering inflation, and reducing poverty. We believe that the policies and measures described therein are adequate to achieve these objectives, but stand ready to take additional actions if required. The government will provide the Fund with the information needed to assess progress in implementing the program, and will consult with the Fund on the adoption of any measures that may be appropriate, at the initiative of the government or whenever the Fund staff requests such a consultation.

The government intends to make the contents of this letter and those of the attached MEFP, technical memorandum of understanding, and the staff report for this review available to the public. In this regard, it authorizes the IMF to arrange for them to be posted on the Fund's website, subsequent to Board completion of the review.

Yours sincerely,

/s/	/s/
Hon. Yaw Osafo-Maafo, MP	Hon. Paul A. Acquah
Minister of Finance and Economic Planning	Governor, Bank of Ghana

Attachments (2)
Memorandum of Economic and Financial Policies for 2004-05
Technical Memorandum of Understanding

Memorandum of Economic and Financial Policies of the Government of Ghana for 2004-05

I. Introduction

1. In May 2003, the IMF confirmed its support for Ghana's Poverty Reduction Strategy (GPRS) and approved a new arrangement under the Poverty Reduction and Growth Facility (PRGF). We have made satisfactory progress in implementing the program, and this has been reflected in improved macroeconomic performance.

2. Real GDP registered 5.2 percent growth in 2003, slightly higher than previously projected, and above the outcome for 2002. The 12-month inflation rate of 23.6 percent at end-2003 exceeded slightly the program target, but dropped to 11.2 percent in April 2004, and is on track to meet the end-2004 target of 7 percent. The cedi-dollar exchange rate has been relatively stable since mid-2003, and this has helped dampen inflation expectations. Strong foreign exchange inflows from buoyant cocoa and gold exports, as well as personal remittances, allowed for a substantial buildup of gross international reserves to almost 4 months of imports at end-2003, up from less than 2 months' coverage the previous year.

3. Macroeconomic policies have been supportive of rising business confidence. We observed all of the quantitative performance criteria at end-December 2003, except for the ceiling on net domestic bank credit to the Tema Oil Refinery (TOR), the latter due entirely to a commercial decision to repay some high-interest short-term external debt that the program assumed would be rolled over (Table I.1). The domestic primary surplus was 2.1 percent of GDP (compared with 1.8 percent programmed), and there was a modest net domestic debt repayment last year. Fiscal discipline and increasing confidence in monetary policy implementation have helped to lower policy-controlled and other short-term interest rates.

4. Progress has also been made on structural reforms, in particular, in enhancing public expenditure management, strengthening the operating framework of the central bank, and through the adoption of several important pieces of legislation (notably the Banking, Internal Audit, Financial Administration, and Procurement Laws). We have also announced and begun implementing our strategy to strengthen the management of Ghana Commercial Bank (GCB). However, reform of the state-owned utility companies has lagged, and utility and petroleum price adjustments that were called for by the program's automatic pricing formulas ─ structural performance criteria ─ were not made as planned in January 2004. In the former case, favorable water conditions in the Akosombo Dam altered the hydro-thermal generation mix, obviating the need for a price increase in electricity or water tariffs. In the latter case, the government decided to refrain from increasing petroleum prices to avoid potential social unrest and instability ahead of the general elections in December. This decision will result in unplanned petroleum subsidies, and we are taking offsetting fiscal measures to maintain the program's domestic debt reduction objective (see below). In addition, we announced the key

elements of a new petroleum pricing regime for early 2005, that will give oil marketing companies the freedom to set prices according to a prescribed formula, without prior authorization by any authority or agency. In light of these technical factors and remedial actions, we are seeking waivers for the non-observance of one quantitative and two structural performance criteria.

II. ECONOMIC POLICIES IN THE PERIOD AHEAD

5. Given the favorable outcomes over the past year, we are able to retain or improve upon the medium-term macroeconomic objectives set out in the GPRS. We aim to sustain the pace of economic growth, reduce inflation, and make further inroads against poverty. To this end, we envisage:

- Furthering efforts to consolidate public expenditures, strengthen revenues, and lower domestic debt, with the goal of "crowding-in" private investment;
- Maintaining the stance of monetary policy to achieve the targeted reduction of inflation and build on the improved external reserve position;
- Deregulating the petroleum sector and establishing a pricing regime that will credibly remove government influence over (and, hence, responsibility for) such decisions;
- Accelerating public enterprise reform and encouraging private sector development; and
- Making further refinements to our poverty reduction strategy, based on the recommendations contained in the first annual GPRS progress report that was completed in May 2004.

A. Fiscal Policy

6. The fiscal stance remains anchored to the goal of reducing domestic debt in 2005 to roughly half the level at end-2002. We have made progress in this regard, and the strategy is already paying dividends in terms of lower interest rates and domestic debt service. The 2004 budget that was approved by parliament is consistent with this objective, and with our commitments under the PRGF arrangement. It provided some modest tax relief, which will have only a marginal impact on the fiscal position this year, including an increase in the minimum tax thresholds for individual tax payers; a reduction of corporate tax rates, effective in 2005; tax holidays for new agro-based enterprises; and a reduction in import duties and value-added tax deferral for some imported raw material and capital goods.

7. Within the overall fiscal framework, we are undertaking some adjustments to accommodate the decision to maintain retail petroleum prices at their current level for the rest of this year. The key elements of the modified fiscal program are as follows:

- The targeted net repayment of domestic debt has been reduced from 2.2 to 1.4 percent of GDP. Higher GDP has made possible some relaxation of the planned fiscal effort without compromising our underlying target for the domestic debt-GDP ratio.

- The tax revenue ratio will rise to 21.3 percent of GDP this year, which is higher than budgeted, largely on account of a better cocoa harvest and higher projected consumption of petroleum products. We also expect to boost non-tax revenue by as much as 0.5 percent of GDP this year by ensuring that several strong-performing public enterprises (in particular, Cocoa Board, Ghana Ports and Harbors Authority, and the National Communications Authority) remit profits to the budget in line with the requirements of the recently adopted Financial Administration Act (FAA).

- The public sector wage bill will be limited to ¢6,632 billion (as in the budget), resulting in a small decline as a share of GDP compared with last year. The 15.8 percent wage settlement (effective March 1, 2004) granted to civil servants under the GUSS is consistent with this ceiling; and the settlements with other groups later in the year will likewise be kept within the budget allocation.

- In light of the need to make room in the budget for an estimated 1.4 percent of GDP in petroleum subsidies, we plan to cut expenditure on goods and services by ¢300 billion, and domestic capital expenditure by ¢223 billion, relative to the 2004 budget. Half of these cuts have been incorporated into the Ministries, Departments, and Agencies (MDAs) cash ceilings that will be issued for the third quarter.

- If the cost of petroleum price subsidies for the third and fourth quarters of 2004, as calculated using the automatic price adjustment formula specified in the technical memorandum of understanding (TMU), exceeds the programmed amount, the ceilings on net domestic financing for end-September and end-December 2004 will be raised by half of the first ¢200 billion in excess cost, and by the full amount of any excess cost beyond ¢200 billion. If the subsidy cost is less than programmed, the net domestic financing ceilings will be unchanged until the subsidy shortfall reaches ¢523 billion, which will allow the spending cuts to be fully reversed; beyond that point, the net domestic financing ceilings will be reduced pari passu. Expenditure ceilings for the fourth quarter of 2004 will be set consistent with the modified financing limits, and monthly expenditures will be monitored closely throughout the remainder of 2004 and adjusted as necessary to ensure that the program limits are observed.

- Poverty-related expenditures are budgeted to rise to 7 percent of GDP this year, up from 4½ percent of GDP during our first year in office (2001), and we intend to protect these expenditures against any cuts that may be needed to meet the financing ceilings. Reflecting this commitment, we have introduced into the program quarterly indicative floors on poverty-related expenditure for 2004.

- The revised program provides for interest payments related to a ¢670 billion recapitalization of the Bank of Ghana (BOG), one year ahead of schedule; the aggregate domestic interest bill is expected to remain in line with the budget, however, thanks to lower projected interest rates.

8. By June 15, 2004 we will lay the legislative instrument before Parliament to implement the National Health Insurance Levy (NHIL), which will become effective on August 1, 2004, so as to begin accumulating resources for the successful launch of the new health insurance scheme. The 2004 budget provides adequate resources to finance expected health expenditures this year, but we expect that these resources will need to be augmented in coming years to achieve the Millennium Development Goals (MDGs). In consultation with development partners, we plan during 2004 to review our medium-term health expenditure strategy, taking into account ongoing work on the costing of the MDGs, and reflect the results of this review in the 2005 budget. On current projections, there will be scope gradually to increase domestically financed expenditures (including from the National Health Fund) by around 1 percent of GDP a year over the medium term without compromising our objectives for domestic debt reduction. We would also hope to receive additional donor resources to support our efforts to meet the MDGs.

B. Public Expenditure Management

9. We have undertaken a number of measures to reform public expenditure management that have enhanced the transparency and accountability of government outlays. Indeed, a recent assessment of Ghana's capacity to track poverty-related expenditures (HIPC Initiative Assessment and Action Plan, HIPC AAP) shows significant improvement over the past two years. Nonetheless, there is substantial room for further improvement. In the year ahead, we intend to:

- Address weaknesses identified in the HIPC AAP, in particular by: increasing the coverage of fiscal information provided in the budget; disclosing fiscal information of all entities that carry out public services or activities; improving the ex-post integration of donor flows in the financial reports of MDAs; launching an appropriate and cost effective strategy to implement the new Internal Audit Act and improve the effectiveness of internal audit; and establishing and making operational institutions created by the new Procurement Law;

- Monitor the operation of the cash planning and commitment control systems that were rolled out to all MDAs in October 2003, ensuring that reports are produced on schedule and ceilings respected;

- Require all MDAs to submit to the Ministry of Finance and Economic Planning (as required under the FAA) a quarterly financial report detailing receipts of all internally-generated funds, grants, and loans; the first such reports, for the first quarter are expected by early June 2004, after which they will be required with a lag of no more than eight weeks;

- Extend the budget and expenditure management system (BPEMS) to three line ministries by end-June 2004 (Ministries of Health, Education, and Roads and Transport), and a further four ministries by early 2005;

- Continue to close all overdraft accounts at the Bank of Ghana, as well as government accounts that have been dormant for more than one year;

- Replace the current wage-payment monitoring module (IPPD1) with the resource based, IPPD2, and add in wage payments to subvented agencies (with automatic deductions for social security and income tax) by the first half of 2005; and

- Enforce a cut-off date of December 15, 2004, for issuance of checks for discretionary expenditures, so as to prevent a recurrence of the large float that arose in 2003.

C. Monetary and Exchange Rate Policies

10. The goal of monetary policy continues to be the reduction of inflation, with a target of 7 percent for CPI inflation at end-2004. The BOG will use open market operations and adjustments to the prime rate to achieve its objectives, implying annual growth of reserve and broad money (excluding foreign-currency deposits) of about 21 and 19 percent, respectively, during this year.

11. With gross international reserves now approaching comfortable levels, BOG will temper the pace of reserve accumulation in the face of strong inflows, and step up market sales of foreign exchange surrendered to it. This could allow for some nominal exchange rate appreciation that could mitigate market pressures and help further dampen inflation expectations. The new computerized interbank foreign exchange market is on schedule for launch by the fourth quarter of this year, and once the BOG is satisfied that the market is functioning smoothly, the surrender requirement for foreign exchange will be gradually phased out. The BOG will continue to allow the cedi's external value to be market-determined, limiting interventions to smoothing short-term fluctuations in the foreign exchange market and ensuring attainment of the program's targets for reserve accumulation.

12. The BOG has taken steps to strengthen its operating framework, in line with the recommendations made in the context of the Fund's safeguards assessment. At this stage, BOG has addressed all of those recommendations, including:

- The adoption of international accounting standards;

- The issuance of government securities to cover accumulated balances in the Revaluation Account;

- Establishing, in collaboration with external auditors, a task force to review and recommend changes to the central bank's financial statements and disclosure practices; and

- Establishing formal procedures for frequent reconciliation of registers and account balances maintained by BOG departments, in particular, the Issue and Treasury Department, and for verifying program data reported to the Fund.

D. Financial Sector Reform

13. The improved fiscal situation is intended to provide opportunities to expand credit growth to the private sector. For some major banks, however, secondary reserve requirements are beginning to constrain this shift in resources. The BOG envisages a two-phase approach to address this problem. In the first phase, which will begin in the third quarter of this year, the central bank will aim to strengthen its indirect instruments for controlling liquidity by introducing central bank paper at shorter maturities than the treasury bills currently used for open market operations. It will also establish, by September 2004, a central securities depository, which should encourage the development of the secondary market. After a transition period to ensure the smooth functioning of the central bank bill market, and integration with the existing treasury bill and auction system, the BOG will consider a gradual reduction of the secondary reserve requirement.

14. The passage of the Banking Act in December 2003 has enhanced the central bank's supervisory powers over the commercial banks. The BOG will use these powers to ensure that commercial banks meet the strengthened fiduciary and prudential requirements and to apply sanctions for non-compliance.

15. With regard to GCB, the 2004 budget statement announced the plan for (a) flotation of new shares on the stock exchange to bolster its capital resources, and (b) to seek bids by competitive tender for a management contract, following completion of the share issue. At an extraordinary shareholder meeting expected to be held in September 2004, the proposed share flotation will be tabled for acceptance, and scheduled for the first quarter of 2005. With regard to the management contract, GCB intends to appoint a transactions advisor by end-September 2004, with a view to putting a contract to competitive tender by June 2005.

E. External Policies and Debt Management

16. The government is developing a comprehensive trade policy for Ghana, to be finalized by the end of 2004. The policy would, inter alia, aim at gaining greater access to external markets for its products. In this regard, an important objective would be to promote the successful implementation of the Economic Community of West African States (ECOWAS) trade liberalization scheme to facilitate regional integration, through the harmonization and reduction in tariff and non-tariff barriers to trade.

17. We hope that Ghana will reach the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative around mid-2004. This will bring the country's debt to sustainable levels, reduce its external vulnerability, and allow us to redirect fiscal resources toward poverty reduction. We are aware that, after the completion point, we will need to strengthen further our debt management capacity and adopt a policy of assessing our domestic and external debt sustainability on an annual basis (beginning in 2005) through in-house and independent analysis. We also reiterate our commitment to avoid contracting or guaranteeing nonconcessional debt, as defined in the TMU. In this context, we have decided not to sign a recently proposed loan agreement from a private company, unless grant support for this loan from official sources can be secured.

F. Public Enterprise Reform

18. Progress to date on public enterprise reform has been limited, and we are taking a range of measures that we hope will have greater success in enhancing the efficiency of the key public enterprises, and reducing the direct and indirect burden they impose on the budget.

19. The petroleum sector has traditionally been dominated by state institutions, and this has made it extremely difficult to depoliticize petroleum pricing. We are committed to addressing this problem through a fundamental deregulation of the sector, allowing the private sector to undertake the procurement, financing, distribution and pricing of petroleum products.

20. We have already taken several steps in this direction. From the beginning of 2004, TOR ceased to have a monopoly on the importation of petroleum products, and in March 2004 the private oil marketing companies (OMCs) participated in the first competitive tender for gasoline, with financing from a syndicate of commercial banks. Beginning in the third quarter, we will widen the tender process to include the importation of crude oil, for processing at TOR for a fee.

21. Cabinet has approved a petroleum sector deregulation plan as announced in the Budget Statement presented to Parliament on February 5, 2004. On June 10, 2004, Cabinet further endorsed the details of our plans for a new pricing regime for petroleum products with the following key features:

- Oil marketing companies (OMCs) will be given the right to set retail prices for petroleum products according to a prescribed formula, without prior review or approval by any national authority or agency;

- An independent oversight body, on which the government will be represented, will monitor application of the formula to ensure its full and timely implementation. This entity will be empowered to intervene only in the event that the formula has not been applied appropriately, in which case it could insist on corrective actions, and possibly sanctions;

- The pricing formula calculations will be published on a regular basis (and at the time of a price adjustment); and

- The pricing formula will be specified along similar lines to that currently monitored by the National Petroleum Tender Board, with parameters set to ensure full cost recovery of all costs and taxes, and to avoid the need for further budget subsidies. The parameters of the pricing formula would be subject to periodic review, and could be modified by mutual consent of the oversight body, the government and the OMCs.

22. The new pricing regime will come into effect no later than February 15, 2005, at which time the responsibilities of the National Petroleum Tender Board will be restricted to conducting the competitive tender process for imported petroleum products and facilitating arrangements for sharing access to the storage and distribution infrastructure. Meanwhile, TOR has ceased all involvement in the importation of petroleum products, and will phase out its importation of crude oil, moving instead towards refining crude oil that is imported by the private sector, on a fee basis.

23. These and other detailed elements of the petroleum sector reform will be embodied in legislation, which we intend to present to Parliament in late 2004. This legislation will define and circumscribe the roles of the key institutions, including the OMCs, NPTB, TOR, and relevant government agencies.

24. The government will continue to be concerned that the poor should have access to essential petroleum products (especially kerosene) on relatively favorable terms. This objective will be more effectively achieved through careful structuring of petroleum duties and flexible formula-based pricing than it has been under the variable cross-subsidization inherent in TOR's pricing regime. The duty structure to be applied at the launch of the new pricing regime will take into account the findings of a poverty and social impact assessment that is currently underway, and will be implemented with the 2005 budget.

25. We have reduced TOR's debt (and GCB's exposure to the refinery), by issuing a government security in the amount of ¢800 billion in May 2004. To help ensure that TOR's debt remains sustainable, we will maintain a ceiling on TOR's net borrowing from the banking system throughout 2004.

26. We have also embarked on a program to reduce costs, trim losses, and improve the efficiency of other major public utility companies: the Volta River Authority (VRA), the Electricity Company of Ghana (ECG), and the Ghana Water Company Limited (GWCL). As a first step in this process, we have audited all the cross-debts of these companies to each other and to the government of Ghana that were outstanding as of December 31, 2003. These debts will be settled and cleared by end-June 2004, together with liabilities associated with on-lending from the government, making transparent the true cash flow position of the companies, and permitting the establishment of realistic and monitorable financial performance plans. By the same date, each company will be required to present such plans for

review and subsequent monitoring by the Ministry of Finance and Economic Planning. We expect the companies to achieve tangible improvements in financial performance during 2004, based on efficiency measures already underway, including:

- At Volta River Authority: to reduce expenses, VRA will secure fuel through competitive tender and search for new sources of financing to reduce capital costs. VRA is also seeking additional financing to convert a simple cycle turbine to a combined cycle plant, so as to increase efficiency and further reduce generation costs.

- At Electricity Company of Ghana: to stem commercial losses (nonpayment), the company is stepping up efforts to collect arrears, making payment easier (opening more cash collection points), and disconnecting non-paying customers.

- At Ghana Water Company Limited: the ratio of metered customers (both commercial and domestic) will be raised from the current level of below 50 percent; prepayment metering will be expanded; non-paying customers will be disconnected; house-to-house collections will be halted, to reduce fraud and theft; the number of collection points will be increased, to encourage payment; and internal cost control systems will be enhanced.

27. To support these efforts, full cost recovery will be ensured in electricity and water pricing through implementation of the formulas for automatic adjustment of these tariffs. The tariff rates applicable for the quarter beginning May 1, 2004 were established in April. Given a further improvement in the hydro-thermal generation mix, no increase in electricity tariffs was required. Water tariffs were raised by 15 percent to full cost recovery levels, in line with the formula, and the Ghana Water Company Limited has confirmed that the new tariffs are being charged to customers with effect from April 1, 2004. The Public Utilities Regulatory Commission will continue to be responsible for approving tariff adjustments based on the formulas, and the government will refrain from intervening to prevent prompt implementation of such adjustments by the utility companies.

28. The government will continue to divest its holdings in a number of joint venture companies. By the end of this year, the Divestiture Implementation Committee is projecting revenues from the sale of shares in seven joint venture companies of just over ¢400 billion (equivalent to 0.5 percent of GDP). The government is seeking a strategic investor to take control of and rehabilitate Ghana Airways, and does not intend to provide financial support to the company in 2004.

29. We are currently undertaking due diligence to explore options for government involvement in the potential sale of the Volta Aluminum Company (VALCO) by its private owners. The information and analysis on which our final decision will be based is expected to take several more months to compile, following which the options will be considered by cabinet and in parliament. The government will not make any commitment of financial resources to invest in the project until this process is completed, and will consult with the Fund on its decision.

G. Private Sector Development

30. We believe that enhancing private sector development is critical to achieving sustained growth and poverty reduction. In this context, deepening the financial sector will also play a key role. To guide government policy in this area, a Medium-Term Private Sector Development Strategy has recently been established. This strategy envisages three main outputs: growth of Ghana's exports in regional and global markets; a business-friendly economic and regulatory environment, based on market principles and private property rights; and increased entrepreneurial skill at the firm level. While the strategy will be implemented over time, a number of high priority measures will be pursued this year:

- A further strengthening of the supervisory and regulatory framework of the financial sector, through the passage of an Insolvency Bill, Companies Code, Insurance law, and Anti-Money Laundering Bill;

- Developing credit information legislation which will provide a framework for regulating consumer (credit bureau) and business (credit reference agencies) credit information;

- Reducing regulatory red-tape (the current complex system of fees, fines and permits) both at the local and national level;

- Completing a diagnostic study on the legal and institutional mandates of anti-corruption agencies, and implement agreed recommendations by March 2005; and

- Strengthening the Land Administration Project by accelerating the process to secure property rights, enforce land use rights, and make operational the adjudication board of the Land Title Registry.

H. Statistics

31. We are committed to improving the quality and timely delivery of economic statistics upon which macroeconomic policies and program monitoring are based. We have agreed to participate in the General Data Dissemination System, and while progress in re-estimating the consumer price index and re-basing the national accounts is slower than anticipated, we now plan to complete this work early in 2005. The work will be facilitated by the recent appointment of a new Government Statistician for the Statistical Service, who comes with significant international experience, and ongoing technical assistance from an STA advisor. In addition, to ensure accurate and comprehensive monitoring of the fiscal position, BOG circulated to the commercial banks in May 2004 its definition of government, to facilitate consistent reporting of these accounts.

III. Program Monitoring

32. Prior actions for the second review, together with quantitative and structural performance criteria, indicative targets, and structural benchmarks for the third review, are set out in Tables I.1 and I.2. The third review of the program will take place by May 31, 2005, with December 31, 2004 as the test date for the quantitative performance criteria. The review will focus, among other issues, on implementation of the petroleum sector deregulation strategy, and on the nature of government involvement in VALCO. At the time of this review, performance criteria, structural conditionality, and the phasing of disbursements will be established for the fourth program review, based on a program of policies for 2005. Detailed definitions, reporting requirements and adjustors for all performance criteria and structural conditions are contained in the TMU attached to this memorandum. The government will make available to Fund staff all core data, appropriately reconciled and on a timely basis, as specified in the TMU.

Table I.1. Ghana: Quantitative Performance Criteria and Benchmarks, PRGF Arrangement, 2004 1/
(Cumulative flows from beginning of calendar year 2004 to end of month indicated, unless otherwise indicated)

	End-March Benchmark	End-June Benchmark	End-September Benchmark	End-December Perf. Criterion
	Rev. Prog. 2/	Rev. Prog. 2/	Rev. Prog. 2/	Rev. Prog. 2/
		(In billions of cedis)		
Performance criteria				
Net domestic financing of government (ceiling) 3/	629	522	-994	-1,101
Net domestic assets of the Bank of Ghana (ceiling) 4/ 5/	-644	1,511	793	548
Stock of net domestic banking sector credit to TOR (ceiling)	1,389	-48	-192	521
		(In millions of U.S. dollars)		
Net international reserves of the Bank of Ghana (floor) 6/	-110	-262	-197	100
The contracting or guaranteeing of new nonconcessional external debt with original maturity greater than or equal to 1 year by the government or the Bank of Ghana (ceiling) 87	0	0	0	0
Outstanding stock of external debt with original maturity of less than one year owed or guaranteed by the government or the Bank of Ghana 8/	23	75	75	75
Stock of external payment arrears 9/	0	0	0	0
		(In billions of cedis)		
Indicative benchmarks				
Government domestic primary surplus (floor)	-626	158	578	1,253
Reserve money stock	6,180	6,964	6,836	9,270
Government revenue, excluding grants and divestiture proceeds (floor)	3,686	7,911	12,688	18,187
Stock of government road sector arrears	22	11	0	0
Poverty related expenditures (floor)	1,049	2,534	4,414	5,466
		(In millions of U.S. dollars, unless otherwise specified)		
Memorandum items:				
External program support (loans and grants)	41	57	227	255
Paid public and publicly guaranteed debt service (after debt relief) 10/	33	70	88	122
Divestiture receipts	9	19	31	45
o/w: in foreign exchange	0	0	8	15
Average petroleum spot price (APSP in $/barrel) 11/	31.5	31.0	30.5	30.0
Petroleum subsidy (in billions of cedis)	192	313	320	300

1/ Definitions of line items and terminology are elaborated in the technical memorandum of understanding (TMU).
2/ Before application of adjusters, as indicated in the TMU.
3/ Value at end of month indicated. Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with an upside cap of $75 million, as explained in the TMU.
4/ Based on a fixed exchange rate of 9,012 cedis/$, the rate prevailing at end-March 2004.
5/ Value at end of month indicated. Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with an upside cap of $75 million, and for higher-than-programmed oil prices, with an upside cap of $30 million, as explained in the TMU.
6/ Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with a downside cap of -$75 million, and for higher-than-programmed oil prices, with a downside cap of -$30 million, as explained in the TMU.
7/ This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/123) of August 24, 2000 but also to commitments or contracted for which value has not been received, as specified in paragraph 15 of the TMU.
8/ The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/123) of August 24, 2000, as specified in paragraph 14 of the TMU.
9/ This is a continuous criterion. The TMU stipulates the precise program definition of payment arrears.
10/ Debt service to be paid by Ghana after projected 2004 HIPC relief.
11/ Average from beginning of 2004 to end of month indicated, as explained in the TMU.

Table I.2: Prior Actions Structural Performance Criteria and Benchmarks
for 2004-05

Prior actions for completion of the second review under the PRGF arrangement

- Issuance of a press release announcing Cabinet endorsement of the details of a new regulatory/pricing regime that gives oil marketing companies the right to adjust retail petroleum prices according to a prescribed formula, without prior review or approval by any national authority or agency; the press release will describe the key elements of the new regime and specify that it will take effect by February 15, 2005.

- Bring electricity and water tariffs into line with the automatic adjustment formulas, based on calculated values through end-March 2004.

- Settle the revised structure of civil service (GUSS) wages for 2004 consistent with keeping the wage bill within the budgeted amount (¢6,632 billion).

- Introduce a legislative instrument in parliament to ensure the effective implementation of the National Health Insurance Levy on August 1, 2004.

- Issue maximum cash ceilings to ministries, departments and agencies totaling ¢2,402.5 billion for the third quarter of this year.

Structural performance criteria

- Implement the new petroleum pricing regime, with the features described in paragraph 21 of this memorandum by February 15, 2005.

- Ensure that electricity and water tariffs are in line with their respective automatic adjustment formulas as specified in the technical memorandum of understanding (August 15, 2004, November 15, 2004 and February 15, 2005).

Structural benchmarks

- Introduce Bank of Ghana Bills by September 30, 2004.

- Complete the share flotation for Ghana Commercial Bank by March 31, 2005.

- Hire a transactions advisor for a management contract of Ghana Commercial Bank by September 30, 2004.

- As required under the Financial Administration Act (2003) all ministries, departments and agencies will submit to the Ministry of Finance and Economic Planning a quarterly financial report detailing receipts of internally generated funds, grants and loans with a maximum lag of eight weeks (June 30, 2004, September 30, 2004, and December 31, 2004).

- Settle all cross-debts as of December 31, 2003, of the Electricity Company of Ghana, Ghana Water Company Limited, Tema Oil Refinery, Volta River Authority, and the government, together with liabilities associated with on-lending from the government; and establish and submit to the Ministry of Finance and Economic Planning, monitorable financial plans to improve the performance of these companies (by June 30, 2004).

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 and Benchmarks, PRGF Arrangement, 2004, attached to the Memorandum of Economic and Financial Policies. Unless otherwise specified, all quantitative performance criteria and benchmarks will be evaluated in terms of cumulative flows from December 31, 2003.

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 (except for select data for which the data reporting lag is explicitly specified in Table I.3). 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 the National Health Insurance Fund) and various subvented and other government agencies that are classified as government in the Bank of Ghana (BOG) Statement of Accounts (SOA). SSNIT and public enterprises, including Cocobod, are excluded from the definition of government. With regard to government deposits in commercial banks, BOG's definition of government, circulated to commercial banks in May 2004, will apply for program purposes.

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

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

also be verified by comparing it to accounts produced by the BPEMS accounting system, until such time as the latter system becomes fully operational.

6. **Within the above total, poverty-related expenditures** refer to those expenditures identified in Table 6 of the Decision Point Document for the Enhanced Heavily Indebted Poor Countries Initiative. Budgeted poverty spending for these categories will be taken from each year's final appropriations bill, and will include spending financed by government, donors, and internally generated funds. Actual poverty-related spending will be identified using the last three digits of the 15-digit chart of accounts of CAGD's current NETS system, and the sub-component which is financed by HIPC relief. These data will be supplemented with that proportion of transfers to the District Assembly Common Fund, Ghana Educational Trust Fund, and Road Fund which are deemed by those entities to be poverty-related. Accordingly, actual poverty spending will exclude some donor-supported expenditure not currently captured by CAGD (including, among others, the pooled donor health fund).

7. **Net domestic financing (NDF) of government** is defined as the change in net credit to government by the banking system (i.e., the Bank of Ghana plus deposit money banks) plus the net change in holdings of treasury bills and other government securities by the nonbank sector, but excluding divestiture receipts and government liabilities assumed in the restructuring of the domestic debts of the Tema Oil Refinery, the Electricity Company of Ghana, the Volta River Authority, the Ghana Water Company Limited, and/or in connection with the recapitalization of the Bank of Ghana. Such credit will also exclude Treasury bills issued for Open Market Operations purposes from January 1, 2003 onward (the holdings of which are excluded from the BOG Treasury Department's Debt Registry of central government securities, and the proceeds of which are sterilized in deposits held as other BOG liabilities, as defined in the Monetary Template provided to the IMF on December 3, 2003). Funds placed in escrow for the potential investment in the Volta Aluminum Company Limited (VALCO) will be classified as a government domestic asset for the purposes of calculating NDF so long as they continue to be the proprty of the government of Ghana. **Outstanding net credit to the government by the Bank of Ghana** is comprised of the sum of claims on government (SOA codes 0401 and 050101-4) less government deposits (1101 including the main HIPC receiving account, and 1202) as defined in the Monetary Template) **Outstanding net credit by deposit money banks** is comprised of DMB holdings of government securities at cost of purchase value, as reported by the BOG Treasury Department's Debt Registry, plus overdrafts less government deposits as reported by DMBs in the revised BSD2 report forms. (and defined in the Monetary Template). **Nonbank financing** will be the difference between total net cash receipts to the Treasury Main Cash Account (issues/redemptions account when it becomes operational) from the sale/repurchase of government securities, less the corresponding net cash value received from the BOG and DMBs as indicated on the Debt Registry by holder at discount value. For each test date, any adjustment by the BOG to the data reported by individual DMBs, on account of their misclassification of government or for other reasons, will be reported to the Fund.

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

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

10. The **program exchange rate** for the purposes of this memorandum will be 9,012 cedis per dollar, which was the average interbank transaction rate prevailing at end-March 2004.

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

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

13. **Net international reserves** (NIR) of the Bank of Ghana are defined for program monitoring purposes and in the balance of payments as short-term foreign assets of the Bank of Ghana, minus short-term external liabilities. To the extent that short-term foreign assets are not fully convertible external assets readily available to and controlled by the Bank of Ghana (i.e., they are pledged or otherwise encumbered external assets, including, but not limited to, the HIPC umbrella SDR account, and assets used as collateral or guarantees for third party liabilities such as the two identified encumbered accounts held abroad totaling US$9.3 million as of June 2003, and funds placed in escrow relating to VALCO) these will be excluded from the definition of NIR. Net international reserves are also defined to include net swap transactions (receivable less payable), and exclude all positive foreign currency deposits at the BOG held by resident deposit money banks, public institutions, nonfinancial public enterprises, other financial institutions, and the private sector. All values are to be converted to U.S. dollars at actual market exchange rates prevailing at the test date. A more detailed listing of accounts to be included in the measure of NIR is contained in the Monetary Template referred to above.

14. **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, excluding the HIPC Umbrella SDR account, converted from U.S. dollars to cedis at the program exchange rate.

15. The performance criterion on **short-term external debt** refers to the outstanding stock of external debt with original maturity of one year or less, including overdraft positions and debt owed or guaranteed by the government or the Bank of Ghana.[27] 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$5.5 million in overdrafts with correspondent banks which are in dispute, until such time as these assets are re-classified.

16. The performance criterion on **nonconcessional medium- and long-term external debt** (Table I.1) refers to the contracting or guaranteeing of external debt with original

[27] (A) The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000). This includes overdrafts on accounts with correspondent banks. (B) Excluded from this performance criterion are normal import-related credits, pre-export financing credits of public enterprises, cocoa loans collateralized by cocoa contracts, and individual leases with a value of less than US$100,000. Also excluded are obligations that may be established at the conclusion of negotiations with a foreign shareholder in Ghana Telecom relating to a US$50 million payment made by the shareholder to the Government of Ghana in 2000, and a loan (not exceeding US$60 million) that may be contracted to securitize future reimbursements from the United Nations in connection with Ghana's participation in UN peacekeeping operations.

maturity of more than one year by the government or Bank of Ghana.[28] Medium- and long-term debt will be reported by the Aid and Debt Management Unit of the Ministry of Finance and (as appropriate) the Bank of Ghana, measured in U.S. dollars at current exchange rates.

17. The **stock of payment arrears in the road sector** will include any arrear on a duly certified expenditure commitment that was not paid during a period of 90 days after the date the bill was issued. Any arrear in foreign currency will be converted into cedis at the actual exchange rate prevailing at the end of period date. Data on the stock of road arrears will be reported to the IMF staff monthly (with the lag specified in Table I.3) by the monitoring and evaluation department of the Ministry of Roads and Highways. At end-December 2003, the stock of road sector arrears was recognized to be ¢30 billion, and is expected to be paid down according to the quarterly schedule in Table I.1 (an indicative benchmark under the program).

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

19. **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.

20. **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; domestic receipts are the

---

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

difference between total divestiture receipts received by the budget, and receipts in foreign exchange.

21. **Automatic adjustment formulas for the pricing of petroleum, electricity and water** are defined to ensure full cost recovery at Ghana's state-owned oil refinery (TOR) and utilities by passing on to consumers changes in the costs of exogenously determined inputs including crude oil, exchange rates, and the electricity generation mix. **In the case of petroleum products,** the formula (see Table I.4) will be calculated by the tenth of each month, using an average of representative petroleum product prices (fob Mediterranean, from Platt's Oilgram) for the previous three calendar months for each of the following products─premium gasoline, kerosene, gas oil, residual fuel oil, and liquefied petroleum gas. The formula will then add TOR's shipping, insurance, and related charges, to arrive at a set of ex-refinery prices at full-cost recovery levels. Premix will be computed as a weighted average of premium gasoline (96.67 percent) and engine oil (3.33 percent) at full cost recovery prices. All full-cost recovery prices, and the prices currently charged by TOR, will each be multiplied by TOR's sales volumes for those products for the previous month, and the resulting actual and full-cost recovery sales values summed across products. The National Petroleum Tender Board will use the current formula to determine cost recovery prices, which will be compared with actual prices to determine the magnitude of the implied subsidies to TOR and the oil marketing companies. These prices will be determined once a quarter, on or before July 31 and October 31, 2004, and January 31, 2005. Cost recovery prices will reflect the full pass through of all taxes, levies, and distributor margins as indicated in Table I.4. The NPTB will inform TOR, the oil marketing companies, and the IMF of the results of the formula's calculations as set out in Table I.4 on the above test dates.

22. The **electricity and water** tariffs for the August 1-October 31 quarter will be announced publicly and implemented at the latest by August 15, 2004, based on data compiled for May 1-July 31, 2004. The tariff rates for subsequent quarters will be implemented in a similar manner by November 15, 2004, and February 15, 2005. The electricity tariffs will be calculated according to the formula in Table I.5, and the water tariffs will be calculated according to the formula in Table I.6, using data from the specified sources. The public utility companies will ensure that the weighted average tariff rates charges to consumers are not lower than the rates derived from these formulas, from the specified dates. Projected variables in the formulas will be calculated as follows:

> (i) for the price of Nigerian Bonny Light crude oil in the coming quarter, the futures prices on the last working day of the current quarter will be used, as quoted on the NYMEX, for deliveries of Light Sweet Crude in each month of the coming quarter, averaged across the three months, plus US$0.15 for the premium of Bonny Light over Light Sweet.
>
> (ii) for the U.S. inflation rate in the coming quarter, the recorded change in the U.S. consumer price index during the latest three-month period for which data are available in International Financial Statistics will be used.

(iii) for the U.S. dollar-cedi exchange rate in the coming quarter, the interbank transaction rate quoted by the Bank of Ghana for the last day of the second month in the preceding quarter will be used, multiplied by the percentage change in that rate from the last day of the second month in the quarter before that.

(iv) the percentage contribution of hydro power to the generation mix will be assumed not to exceed 70 percent.

ADJUSTERS

23. **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 end of 2003.

24. **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.

25. **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; (iii) any shortfall in external debt service payments; and (iv) the unblocking of escrow deposits relating to VALCO. 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.

26. **Oil price adjuster.** NIR floors will be adjusted downward, and NDA ceilings upward, when world oil prices exceed the baseline price path assumed in the program. The floor on NIR will be reduced by the cumulative quarterly difference (if positive) between

actual oil prices and projected prices as defined in Table I.1, multiplied by a coefficient of 20 (a multiplier which quantifies the approximate impact that a US$1 rise in oil prices has on the value of oil imports in Ghana) on an annual basis. For March, the adjuster will be computed as the difference (if positive) between the average actual and forecast prices during the fourth quarter (2003), times a coefficient of 20/4; for June, the adjuster will be computed as the difference (if positive) between the average actual and forecast prices during the first quarter, times a coefficient of 20/2; for September, the adjuster will be computed as the difference (if positive) between the average actual and forecast prices during the first half of 2004 times a coefficient of 20*(3/4); and for December, the adjuster will be the difference (if positive) between the average actual and forecast prices during the third quarter, times a coefficient of 20. The adjuster at all test dates will be capped at US$30 million. The ceiling on the NDA of the Bank of Ghana will be raised by the same adjuster amounts as for NIR, converted to cedis at actual exchange rates, up to a cap equivalent to US$30 million.

27. **The budgetary cost of petroleum subsidies**. If the cost of petroleum price subsidies for the third and fourth quarters of 2004, as calculated using the automatic price adjustment formula specified above, exceeds the programmed amounts shown in Table I.1, the ceilings on net domestic financing for end-September and end-December 2004 will be raised by half of the first ¢200 billion in excess cost, and by the full amount of any excess cost beyond ¢200 billion. If the subsidy cost is less than programmed, the net domestic financing ceilings will be unchanged until the subsidy shortfall reaches ¢523 billion, which will allow the spending cuts to be fully reversed; beyond that point, the net domestic financing ceilings will be reduced pari passu. Expenditure ceilings for the fourth quarter of 2004 will be set consistent with the modified financing limits, and monthly expenditures will be monitored closely throughout the remainder of 2004 and adjusted as necessary to ensure that the program limits are observed

REPORTING OF DATA TO THE IMF

28. The Ministry of Finance, Bank of Ghana, Ministry of Roads and Highways, and Ghana Statistical Service will provide to IMF staff the fiscal, monetary, balance of payments, and real sector data indicated in Table I.3, with the reporting lags set out in that table.

29. The aggregated balance sheet for deposit money banks is being reported in accordance with the revised BSD2 Report Form, as set out in the Monetary Template referred to above. This new format, among other things, better differentiates banks' reported foreign exchange holdings as between those held with residents (mostly at the BOG) and those held with nonresidents abroad. The first submissions based on the new form were for July 2003. Comparable data from December 1998 to June 2003 have been taken from the 20R report form to provide a comparable back series.

EXTERNAL DATA, DEBT AND DEBT SERVICE, AND HIPC RELIEF

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

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

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

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

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

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

f) In the event that a shortage of foreign exchange results in a queuing of debt service obligations at the 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.

g) The procedures for verifying Bank of Ghana 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.

h) **Two HIPC accounts** have 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.

Table I.3. Data to be Reported to the IMF

Item	Periodicity
Fiscal data (to be provided by the MoF)	
Central budget operations for revenues, expenditure and financing.	Monthly within 6 weeks of the end of each month.
Functional breakdown by Ministry, Department, and Agency of expenditure authorizations, payments vouchers issued, payment vouchers liquidated, and arrears. These data will also identify poverty-related and HIPC financed expenditures, as well as the inflows and disbursements from the HIPC receiving and drawing accounts at the BOG.	Monthly within 6 weeks of the end of each month.
Stock of road arrears (as prepared by the Ministry of Road and Highways).	Monthly within 6 weeks of the end of each month.
Divestiture receipts received by the budget (in cedis and foreign exchange, net of divestiture transactions costs).	Monthly within 6 weeks of the end of each month.
Monetary data (to be provided by the BOG)	
Net domestic assets and net international reserves of the BOG.	Weekly within 2 weeks of the end of each week.
Detailed balance sheet of the monetary authorities.	Monthly within 4 weeks of the end of each month.
Monetary survey detailing the consolidated balance sheet of commercial banks using the new BSD2 Report Form.	Monthly within 6 weeks of the end of each month.
Summary position of government committed and uncommitted accounts at BOG, as well as total financing from BOG. Accompanying table showing composition of other receipts and other expenditure.	Monthly within 4 weeks of the end of each month.
Composition of banking system and non-banking system net claims on government.	Monthly within 4 weeks of the end of each month.
Debt registry showing structure and holders of domestic government debt, at face value and at discount. Similar table showing holders of treasury bills for Open Market Operations (OMOs).	Monthly within 4 weeks of the end of each month.
Supervisory Technical Committee Review of Banking Business quarterly report showing aggregate reserves of the banking system.	Quarterly within 8 weeks of the end of each quarter.
Deposit money banks' gross loans and advances to TOR and TOR's deposits with deposit money banks.	Quarterly within 8 weeks of the end of each quarter.
Balance of Payments and External Debt data (to be provided by the BOG and MoF)	
Export and import data on value, volume, and unit values, by major categories.	Monthly with a maximum lag of 3 months.
Other major balance of payments variables.	Quarterly with a lag of no more than 3 months.
Foreign exchange cashflow.	Monthly within 4 weeks of the end of the month.
Information on the concessionality of all new external loans contracted by the government or with the government guarantee.	Quarterly within 4 weeks of the end of each quarter.
For the coming quarter: (i) total debt service due by creditor, (ii) amount of HIPC relief on each transaction, as well as (iii) debt service paid and the transfers to the HIPC account by creditor for the previous month. Report should cover government and government guaranteed debt (as defined in this document).	Quarterly within 3 weeks of the end of each quarter.

External debt and external debt service incurred by enterprises with government ownership above 50 percent, even if loans have not been explicitly guaranteed by the government.	Quarterly, within 3 weeks of the end of each quarter.
Pricing Formulas Calculations	
Petroleum pricing formula, as set out in Table I.4 (to be provided by the NPTB).	Monthly, within 15 days of the end of each month.
Electricity pricing formula, as set out in Table I.5 (to be provided by PURC).	Quarterly, within 15 days of the end of each quarter.
Water pricing formula, as set out in Table I.6 (to be provided by PURC).	Quarterly, within 15 days of the end of each quarter.
Other data (to be provided by GSS)	
Overall consumer price index.	Monthly within 2 weeks of the end of each month.
National accounts by sector of production, in nominal and real terms.	Annual within 3 months of the end of each year (switching to quarterly when they become available).

Table I.4. Ghana: Petroleum Products Pricing Formula, January 2004 1/

Variable Name	Description	Source	Premium	Kerosene	Gasoil	Premix	RFO	LPG	Total
Product Price	f.o.b. Mediterranean price, averaged for the previous three calendar months. The respective prices used are: from Platt's Oilgram: Premium 0.15 G/L, Jet Av. Fuel, Gasoil 0.2, 1% Fuel Oil, and from Bloomberg: LPG Butane fob Mid-price.	Platt's Oilgram Price Report and Platt's LPGaswire	286.93	282.60	259.41		155.34	312.69	
Suppliers commission ($ per metric ton)	Outcome of a tendering process for the various products.	NPTB from TOR	12.87	33	11.45		15.84	69.05	
Insurance ($ per metric ton)	Suppliers' insurance cost	NPTB from TOR	0.36	0.32	0.30		0.20	0.34	
CIF ($ per metric ton)	Total cost of insurance & freight	Sum of 1+2+3	300.16	315.92	271.16		171.38	382.08	
Related charges (% of CIF)	Pegged at 13.85% and include off loading, in transit losses, inspection, L/C costs, purchasers commission, demurrage, financial costs, storage, in-plant losses, rack loading cost, operation margin.	NPTB from TOR	13.85	13.85	13.85		13.85	13.85	
Related charges ($ per metric ton)		Product of 4 x 5	41.57	43.75	37.56		23.74	52.92	
Total cost ($ per metric ton)		Sum of 6 + 4	341.73	359.67	308.71		195.12	434.99	
Conversion (liters per metric ton)	Constant	NPTB	1,379.70	1,238.10	1,187.60		1,110.30	1,000.00	
Ex-refinery full-cost price ($ per liter)		Product of 7 x 8	0.2477	0.2905	0.2599		0.1757	0.4350	
Cedis per US dollar exchange rate	Average of the exchange rates on the 26th day (or the last work day before the 26th day) of the previous three calendar months.	Bank of Ghana/Bloomberg Fin. Svcs.	8,808.08	8,808.08	8,808.08		8,808.08	8,808.08	
Ex-refinery full-cost recovery price (cedis per liter)		Product of 9 x 10	2,181.60	2,558.78	2,289.63	2,185.20 2/	1,547.90	3,831.46	
Ex-refinery current price (cedis per liter)		Previously Gazetted	2,251.69	2,116.43	1,768.60	2,148.33	912.56	1,800.00	
15% ad-valorem excise tax		Legislated	337.75	317.46	265.29	322.25	136.88	270.00	
Specific charge		Legislated	200.00	100.00	200.00	0.00	200.00	100.00	
Road fund		Legislated	400.00	0.00	400.00	0.00	0.00	0.00	
Energy fund		Legislated	5.00	5.00	5.00	0.00	5.00	0.00	
Exploration		Legislated	3.00	3.00	3.00	0.00	3.00	0.00	
Stock fund		Legislated	30.00	30.00	30.00	0.00	30.00	0.00	
Debt recovery levy (up to amount indicated)		Act 642	640.00	640.00	640.00	640.00	640.00	640.00	
Boost margin		Set Jan. 2003	88.00	88.00	88.00	0.00	0.00	0.00	
Prim. Distr. margin		Set Jan. 2003	44.00	44.00	44.00	0.00	0.00	0.00	
Ex-depot prices (cedis per liter)		Sum of 13+14+15+16+17+18+19+20+21+22	3,999.44	3,343.89	3,443.89	3,110.58	1,927.44	2,810.00	
UPPF margin		Set Jan. 2003	130.00	230.00	130.00	130.00	0.00	0.00	
Dealers margin		Set Jan. 2003	110.00	110.00	110.00	110.00	0.00	0.00	
Marketers margin		Set Jan. 2003	205.00	205.00	205.00	205.00	0.00	990.00	
Ex-pump current maximum price (cedis per liter)		Sum of 23+24+25+25	**4,444.44**	**3,888.89**	**3,888.89**	**3,555.58**	**1,927.44**	**3,800.00**	
Trigger mechanism:									
Volume sales in previous month (in liters)		NPTB from TOR	49,617,550	7,214,850	79,770,125	3,901,500	3,917,850	5,983,574	150,405,449
Previous month's actual refinery sales		Product of 28 x 13							282,420,215,616
Refinery sales at full cost recovery		Product of 28 x 11							338,341,070,447
Percent difference (relative subsidy)		Sum of 30/29							-19.8
Triggered if actual and full cost recovery total sales differ by more than 2.5 percent									

1/ Calculations based on October 1-December 31 Platt prices, existing ex-refinery prices, and December 2003 volumes.

2/ Premix price computed as a weighted average of full cost recovery prices for premium gasoline (96.67 percent) and gasoil (3.33 percent), the latter as a proxy for engine oil when that market price unavailable.

Table I.4. cont. Ghana: Petroleum Products Pricing Formula, April 2004 1/

Variable Name	Description	Source	Premium	Kerosene	Gasoil	Premix	RFO	LPG	Total
Product Price	f.o.b. Mediterranean price, averaged for the previous three calendar months. The respective prices used are: from Platt's Oilgram: Premium 0.15 G/L, Jet Av. Fuel, Gasoil 0.2, 1% Fuel Oil, and from Bloomberg: LPG Butane fob Mid-price.	Platt's Oilgram Price Report and Platt's LPGaswire	333.47	297.43	266.46		150.19	316.10	
Suppliers commission ($ per metric ton)	Outcome of a tendering process for the various products.	NPTB from TOR	12.87	33	11.45		15.84	69.05	
Insurance ($ per metric ton)	Suppliers' insurance cost	NPTB from TOR	0.36	0.32	0.30		0.20	0.34	
CIF ($ per metric ton)	Total cost of insurance & freight	Sum of 1+2+3	346.70	330.75	278.21		166.23	385.49	
Related charges (% of CIF)	Pegged at 13.85% and include off loading, in transit losses, inspection, L/C costs, purchasers commission, demurrage, financial costs, storage, in-plant losses, rack loading cost, operation margin.	NPTB from TOR	13.85	13.85	13.85		13.85	13.85	
Related charges ($ per metric ton)		Product of 4 x 5	48.02	45.81	38.53		23.02	53.39	
Total cost ($ per metric ton)		Sum of 6 + 4	394.71	376.56	316.74		189.26	438.88	
Conversion (liters per metric ton)	Constant	NPTB	1,379.70	1,238.10	1,187.60		1,110.30	1,000.00	
Ex-refinery full-cost price ($ per liter)		Product of 7 x 8	0.2861	0.3041	0.2667		0.1705	0.4389	
Cedis per US dollar exchange rate	Average of the exchange rates on the 26th day (or the last work day before the 26th day) of the previous three calendar months.	Bank of Ghana/Bloomberg Fin. Svcs.	8,991.49	8,991.49	8,991.49		8,991.49	8,991.49	
Ex-refinery full-cost recovery price (cedis per liter)		Product of 9 x 10	2,572.34	2,734.70	2,398.10	2,566.53 2/	1,532.66	3,946.14	
Ex-refinery current price (cedis per liter)		Previously Gazetted	2,251.69	2,116.43	1,768.60	2,148.33	912.56	1,800.00	
15% ad-valorem excise tax		Legislated	337.75	317.46	265.29	322.25	136.88	270.00	
Specific charge		Legislated	200.00	100.00	200.00	0.00	200.00	100.00	
Road fund		Legislated	400.00	0.00	400.00	0.00	0.00	0.00	
Energy fund		Legislated	5.00	5.00	5.00	0.00	5.00	0.00	
Exploration		Legislated	3.00	3.00	3.00	0.00	3.00	0.00	
Stock fund		Legislated	30.00	30.00	30.00	0.00	30.00	0.00	
Debt recovery levy (up to amount indicated)		Act 642	640.00	640.00	640.00	640.00	640.00	640.00	
Boost margin		Set Jan. 2003	88.00	88.00	88.00	0.00	0.00	0.00	
Prim. Distr. margin		Set Jan. 2003	44.00	44.00	44.00	0.00	0.00	0.00	
Ex-depot prices (cedis per liter)		Sum of 13+14+15+16+17+18+19+20+21+22	3,999.44	3,343.89	3,443.89	3,110.58	1,927.44	2,810.00	
UPPF margin		Set Jan. 2003	130.00	230.00	130.00	130.00	0.00	0.00	
Dealers margin		Set Jan. 2003	110.00	110.00	110.00	110.00	0.00	0.00	
Marketers margin		Set Jan. 2003	205.00	205.00	205.00	205.00	0.00	990.00	
Ex-pump current maximum price (cedis per liter)		Sum of 23+24+25+25	**4,444.44**	**3,888.89**	**3,888.89**	**3,555.58**	**1,927.44**	**3,800.00**	
Trigger mechanism:									
Volume sales in previous month (in liters)		NPTB from TOR	60,670,500	5,972,850	79,674,199	2,166,500	3,431,250	4,463,065	156,378,364
Previous month's actual refinery sales		Product of 28 x 13							301,328,803,922
Refinery sales at full cost recovery		Product of 28 x 11							386,336,340,509
Percent difference (relative subsidy)		Sum of 30/29							-28.2
Triggered if actual and full cost recovery total sales differ by more than 2.5 percent									

1/ Calculations based on January 1-March 31 Platt prices, existing ex-refinery prices, and March 2004 volumes.
2/ Premix price computed as a weighted average of full cost recovery prices for premium gasoline (96.67 percent) and gasoil (3.33 percent), the latter as a proxy for engine oil when that market price unavailable.

Table I.5. Ghana: Automatic Adjustment Formula for Electricity Tariffs

Item number	Variable	Source	Symbol	Oct-2003	Jan-2004[1]	Jan-2004 Calc.	Apr-2004[1]	Apr-2004 Calc.
6	Base thermal variable energy prices:		Po					
7	Oil fired simple cycle plant (cents/kWh)	Gazetted 26 July 2002	4.61					
8	Oil fired simple combined plant (cents/kWh)	Gazetted 26 July 2002	3.03					
9	Fuel price (for liquid fuels, Bonny Crude Oil)	The average of three months futures prices, as quoted on the NYMEX on the last working day of the quarter, plus US$0.15.	FP	30.00	32.00	32.00	34.75	34.75
10	Base fuel price US$/bbl	Gazetted 26 July 2002	FPo	22	22	22	22	22
11	CPI of the USA	The change in the US CPI during the latest three-month period for which data is avaialable as reported by the International Financial Statistics.	CPI	1.1%	1.2%	1.2%	1.3%	1.3%
12	Base CPI of USA	Gazetted 26 July 2002	CPIo	2.0%	2.0%	2.0%	2.0%	2.0%
13	Annual fuel coefficient	Gazetted 26 July 2002	α	0.89	0.89	0.89	0.89	0.89
14	Annual CPI coefficient	Gazetted 26 Julv 2002	ß	0.11	0.11	0.11	0.11	0.11
16	Adjusted variable energy price (cents/kWh), simple cycle plant	Sum of 7 x (13 x 9/10+14 x (1+11)/(1+12))	P2	6.10	6.47	6.47	6.98	6.98
17	Combined cycle plant	Sum of 8 x (13 x 9/10+14 x (1+11)/(1+12))	P3	4.01	4.25	4.25	4.59	4.59
18	Percentage of hydro contribution to the generation mix		X1	50%	50%	60%	50%	65%
19	Percentage of simple cycle thermal energy in the total generation mix	Projection for the next tariff period of three months.	X2	16%	20%	20%	15%	15%
20	Percentage of combined cycle thermal energy in the total generation mix	Projection for the next tariff period of three months.	X3	34%	30%	20%	35%	20%
21	Hydro cost (cents/kWh) determined by PURC	Long-run marginal cost of hydro production or the average VRA cost for the past 5 years.	Hc	1.50	1.50	1.50	1.50	1.50
22	System capacity price (cents/kWh)	Gazetted 26 July 2002	K	1.67	1.70	1.70	1.70	1.70
23	Effective percentage thermal capacity contribution to system demand	Percentage of thermal capacity contribution to meet domestic demand as Gazetted 26 July 2002.	n	56%	50%	50%	50%	50%
24	Bulk generation charge adjusted (cents/kWh)	Sum of (16 x 19 + 17 x 20 + 18 x 21) +23 x 22	BGCadjust (cents/kWh)	4.05	4.17	3.89	4.25	3.82
25	Bulk generation charge adjusted (cedis/kWh)	Sum of 24 x 32/100	BGCadjust (cents/kWh)	360.02	368.89	344.53	389.35	349.26
26	Transmission service charge (cents/kWh)	Gazetted 26 July 2002	TSC (Cents/kWh)	0.9	0.9	0.9	0.9	0.9
27	Transmission service charge (cedis/kWh)	Product of 26 x 31/100	TSC (Cedis/kWh)	80.10	79.61	79.61	82.37	82.37
28	Bulk supply tariff (cedis/kWh)	Sum of 25 + 27	BST (Cedis/kWh)	440.1	448.5	424.1	471.7	431.6
29	Bulk supply tariff (cents/kWh)	Sum of 28/32 x 100	BST (Cents/kWh)	4.95	5.07	4.79	5.15	4.72
30	Distribution service charge for the previous period (cedis/kWh)	Gazetted 26 July 2002	DSC_{t-1}	285	298	298	297	297
31	Previous period's exchange rate (cedis/US$)	As used in the previous period's calculation.	$EXCH_{t-1}$	8500	8900	8900	8846	8846
32	Exchange rate (cedis/US$)	The interbank transaction rate quoted by the Bank of Ghana for the last day of the second month in the preceding quarter, multiplied by the percentage change in that rate from the last day of the second month in the quarter before that.	$EXCH_t$	8900	8846	8846	9152	9152
33	Distribution service charge for the next period (cedis/kWh)	Sum of 30 x 32/31	DSCt (Cedis/kWh)	298.41	296.60	296.60	306.86	306.86
34	Distribution service charge for the next period (cents/kWh)	Sum of 33/32 x 100	DSCt (Cents/kWh)	3.35	3.35	3.35	3.35	3.35
35	Average end-user tariff (cedis/kWh)	Sum of 33 +28	EUT_t	738.5	745.1	720.7	778.6	738.5
	Memo:							
	Average end-user tariff (cents/kWh)	Sum of 29 + 34	EUT	8.30	8.42	8.15	8.51	8.07

1. Assuming the percentage of the hydro-contribution capped at 50 percent as specified in the TMU (IMF Country Report No. 03/395).

Table I.6. Ghana: Water Tariff Formula

Item Number	Variable	Source	Symbol	Nov-2003[1]	Jan-2004[2]	Jan-2004 Calc.	Apr-2004[2]	Apr-2004 Calc.
6	Average water tariff for previous period, t-1 (cents/m³)	Gazetted 26 July 2002	PT-1	50.0	52.4	52.4	53.0	51.5
7	Average end-user electricity tariff for next period t (cents/kWh)	Electricity Formula	ET	8.30	8.42	8.15	8.51	8.07
8	Average end-user electricity tariff for previous period t-1 (cents/kWh)	Electricity Formula	ET-1	7.92	8.30	8.30	8.42	8.15
9	CPI of the USA	The change in the US CPI during the latest three-month period for which data is avaialable as reported by the International Financial Statistics.	CPI	1.1%	1.2%	1.2%	1.3%	1.3%
10	Base CPI of the USA	Gazetted 26 July 2002	CPIo	2.0%	2.0%	2.0%	2.0%	2.0%
11	Average end-user electricity tariff coefficient	Gazetted 26 July 2002	α	0.84	0.84	0.84	0.84	0.84
12	CPI coefficient	Gazetted 26 July 2003	β	0.16	0.16	0.16	0.16	0.16
13	Average water tariff for next period t (cents/m³)	Sum of 6 x ((11 x 7/8)+12 x (1+9)/(1+10))	PT	52.4	53.0	51.5	53.3	51.0
14	Average exchange rate in the next period t	The interbank transaction rate quoted by the Bank of Ghana for the last day of the second month in the preceding quarter, multiplied by the percentage change in that rate from the last day of the second month in the quarter before that.	EXCHt	8,900	8,846	8,846	9,152	9,152
15	Average water tariff for next period t (cedis/m³)	Sum of 13 x 14 x 0.01		4664	4689	4560	4876	4664

1. The average tariff was authorized by the PURC beginning Novermber 2003, but not implemented until May 1, 2004.
2. Assuming the percentage of the hydro-contribution capped at 50 percent as specified in the TMU (IMF Country Report No./03/395).

Ghana: Relations with the Fund
(As of April 30, 2004)

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

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

III. SDR Department	SDR Million	%Allocation
Net cumulative allocation	62.98	100.0
Holdings	28.72	45.60

IV. Outstanding Purchases and Loans	SDR Million	%Quota
PRGF arrangements	298.07	80.78

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	5/9/2003	5/8/2006	184.50	52.70
PRGF	05/03/1999	11/30/2002	228.80	176.22
ESAF	06/30/1995	05/02/1999	164.40	137.00

VI. Projected Obligations to Fund (before HIPC Assistance):
(SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2003	2004	2005	2006	2007
Principal	2.74	22.77	36.26	28.04	41.07
Charges/interest	0.93	1.87	1.86	1.71	1.52
Total	3.67	24.63	38.12	29.75	42.59

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

	Forthcoming				
	2003	2004	2005	2006	2007
Principal	0.30	22.77	36.26	28.04	41.07
Charges/interest	0.93	1.87	1.86	1.71	1.52
Total	1.23	24.63	38.12	29.75	42.59

VII. Implementation of HIPC Initiative:

	Enhanced Framework
Commitment of HIPC assistance	
Decision point date	Feb 2002
Assistance committed by all creditors (US$ Million) 1/	2,186.00
Of which: IMF Assistance (US$ Million)	112.10
(SDR equivalent in millions)	90.05
Completion point date	Floating
Disbursements of IMF assistance (SDR Million)	
Assistance disbursed to the member	25.06
Interim assistance	25.06
Completion point	--
Additional disbursement of interest income 2/	--
Total disbursements	25.06

1/ Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point.
2/ Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

Safeguard Assessment:

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

Exchange Rate Arrangement

Ghana accepted the obligations under Article VIII, Sections 2(*a*), 3, and 4 of the Fund's Articles of Agreement on February 2, 1994. Accordingly, Ghana maintains a flexible exchange rate (defacto classified as a managed float), using the U.S. dollar as the intervention currency, that is free of restrictions on payments and transfers for current international transactions. At end-March 2004, the average exchange rate for transactions in the interbank market was ₵9,018.3 per U.S. dollar.

Article IV Consultation and Current Fund Arrangement

On May 9, 2003, the Executive Board concluded the 2003 Article IV Consultation with Ghana (IMF Country Report No. 03/133), endorsed the Ghana Poverty Reduction Strategy as a sound basis for promoting growth and reducing poverty, and **approved a three-year arrangement under the PRGF amounting to SDR 184.5 million** (50 percent of quota). An earlier PRGF arrangement expired on November 30, 2002 without disbursement of the final tranche.

FSAP Participation

Ghana participated in the FSAP during 2000-2001, and a Financial System Stability Assessment (FSSA) was issued to the Executive Board in 2001. An FSAP update was presented to the Board in December 2003.

Technical Assistance, 1999–2003

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-present; tax and customs administration, September 2001; peripatetic advisor on the establishment of a Large Taxpayers' Unit, February 2002–January 2003; review of public expenditure management reforms and assessment of long-term advisor, August 2002 and March 2003; tax peripatetic, May 2003; fiscal ROSC, February 2004.
IMF Institute: Ghana Institute of Management and Public Administration: financial programming course, March 2000.
International Capital Markets: Bank of Ghana: pilot study of access to private capital, May 2003.
Information Technology Services: Bank of Ghana: implementation of data management system, April 1999.

Legal Department: All Ministry of Finance: drafting of internal revenue regulations, January 2001; advice/draft of new income tax laws, February-March 2001.
Monetary and Financial Systems Department: All Bank of Ghana: monetary operations, January and February 1999; banking supervision, March 1999; foreign exchange markets, July 1999; development of the foreign exchange market and aspects of liquidity and debt management, May 2000; (with Ministry of Finance) recording and reporting external debt flows, February 2001 (with FAD); foreign exchange/monetary operations, August 2001; (with Ministry of Finance) monetary and fiscal data reporting, November and December 2001; accounting and internal audit reform, July 2002, November 2002, and March 2003; foreign exchange market, government securities market, and banking system issues, April 2003; joint FSAP follow-up with World Bank, June 2003.
Statistics Department: Bank of Ghana: balance of payment statistics, March 2000; money and banking statistics, August 2000, November and December 2001, and July 2002. Ghana Statistical Service: national accounts statistics, September and October 2001, August, November, and December 2002, and May and September 2003; national accounts and prices, March 2004.

Resident Representative

A Fund Resident Representative has been stationed in Accra since June 1985. Mrs. Muttardy is the current Resident Representative, having assumed the post in April 2004.

Ghana: IMF-World Bank Relations
(As of April 30, 2004)

IV. Partnership in Ghana's Development Strategy

1. Ghana's development objectives are stated in the Ghana Poverty Reduction Strategy (GPRS) approved by the Government in February 2003. The broad objectives of the GPRS are to create an environment favorable to private sector-led growth and sustainable poverty reduction, and to create room within the Government's budget for increased expenditures on education, health, and other priority services. The GPRS outlines five pillars focused on: (i) achieving macroeconomic stability; (ii) stimulating employment and production; (iii) improving access to basic social services; (iv) strengthening the protection of the vulnerable and excluded; and (v) improving public sector performance and governance. After a year's implementation of the GPRS, an Annual Progress Report is currently being finalized.

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

3. The completion of the Ghana Poverty Reduction Strategy (GPRS), created the momentum for a significant group of donors to align their assistance under a common Multi-Donor Budget Support (MDBS) framework agreed with the Government of Ghana (GoG) in June 2003. The GoG and development partners (DPs) consider the MDBS as the basis for support to the implementation of GPRS through the budget.

V. The World Bank Group Country Assistance Strategy and Portfolio

4. The new Country Assistance Strategy (CAS) for Ghana (FY 04-07), prepared jointly with the International Finance Corporation (IFC) was discussed by the Bank's Board on March 16th, 2004. The Country Assistance Strategy (CAS) was designed to support the GPRS in a manner that could effectively help the country achieve its development objectives. It complements the interventions of other donors and focuses on three main pillars: (i) sustainable growth and job creation, (ii) service provision for human development, and (iii) governance for empowerment. The Bank Group strategy, described in the CAS, aims at helping the Government to: (a) maintain progress made in achieving macroeconomic stability in recent years, while pursuing accelerated growth policies through improved investment climate and harnessing sources of growth; (b) develop further the level of human capital through improved human development services delivery, and (c) promote good governance and public sector reforms. The CAS for Ghana was prepared after broad consultations with Government and key stakeholders, including through regional meetings with civil society, the private sector and others. A mid-term

review is foreseen to be undertaken together with other development partners, aiming at further progress on harmonized responses to Ghana's poverty reduction strategy.

5. The new CAS defines the Bank's contribution to the achievement of the government's desired results, in particular achieving an annual average rate of economic growth of at least 5 percent in the period through 2007, and reducing poverty levels from 40 percent in 1999 to 32 percent in 2007. Public expenditure management, including at the district level, is to be strengthened to help increase the share of poverty-related spending to about a third of domestically-financed expenditures by 2007 and bringing domestic debt down from 26 percent of GDP in 2002 to the GPRS target of 14.8 percent of GDP in 2005, and further increasing the share of private sector borrowing. Moreover, from 2002 to 2007, the following results are also expected to be achieved: removing constraints to private sector development by reducing the time required for land registration from an average of four years to four months and for business registration from 120 days to 30 days and by providing more reliable and cost effective road, energy and financial services; capping at 5 percent, the prevalence of HIV among pregnant women; increasing Gross Primary Enrollment Rates (GER) in the 40 most deprived districts from about 71 to 89 percent, and the rate for girls from almost 66 to 89 percent; and increasing immunization coverage from 80 to 90 percent, and the proportion of births attended by skilled health personnel from 45 to 55 percent.

6. Overall development partner coordination in Ghana is strong. The Bank group's strategy in Ghana emphasizes deepening its collaboration with other development partners through the Multi-Donor Budgetary Support (MDBS) framework, partnership programs such as the Health SWAp and other sector programmatic support, and further deepening harmonized approaches in areas such as analytical work, fiduciary underpinnings and meeting and mission management. The MDBS provides a framework for policy dialogue and decisions linked to progress in the implementation of the GPRS.

7. The Bank's cumulative commitments to Ghana as of April 30th, 2004, amount to US$4.6 billion, and total 141 operations. As of April 30th, 2004, the portfolio contained 20 active projects totaling US$972.1 million, of which US$548.9 million remains undisbursed. The portfolio is diverse in terms of sectoral priorities and lending instruments. It consists of one single-tranche Poverty Reduction Support Credit and Grant (PRSC) to provide continued support to policies and reforms aimed at achieving the objectives of the Government's poverty reduction strategy, complemented by major programs in health and education, agriculture, roads, community water and other infrastructure in both rural and urban areas. Annex 1 summarizes the World Bank operations in Ghana. The overall performance of the portfolio is satisfactory, though implementation in several projects is lagging.

8. Under the new CAS, the FY04-07 lending program will cover quick disbursing programmatic lending in the form of PRSCs, sector-wide operations to support human development, investment in infrastructure and other support to private sector development, and several projects to support community and local government based programs in water, sanitation, infrastructure and services provision. Projects in FY04 include Land Administration ($20 million

approved in July 2003), the Education Sector Project (US$78 million, approved in February 2004), and the Second Urban Environmental Sanitation Project (US$62 million, approved later in April 2004). The PRSC 2 (US$125 million), and the Community-Based Rural Development (US$50 million), Urban Water (US$103 million) and Small Towns Water Supply and Sanitation (US$25 million) projects are prepared for approval in July 2004. Projects for FY05 will include PRSC 3 and support to two regional projects, the West African Gas Pipeline and the West Africa Power Pool.

9. Non-lending services include updates on the core diagnostics, as well as targeted analyses to strengthen the analytical base for the assistance program supported by the FY04-07 CAS. During FY04, this work includes a CFAA update, a CEM on public policy, growth and poverty, a Financial Sector Assessment Update, a Energy Policy Note, and a report on strategic purchasing of priority health services under the new National Health Insurance Scheme. In addition, a Public Expenditure Review (PER) is being carried out in collaboration with the government and development partners. The first Poverty and Social Impact Assessment in the power sector in Ghana, focusing on electricity tariffs, and the Diagnostic Trade Study will also be completed soon. For FY05, planned non-lending services include an Investment Climate Assessment, a Country Portfolio Performance Review, the annual PER, and analytical work on youth and employment, decentralization, urban policy, forestry and telecommunications.

VI. IMF-World Bank Collaboration in Specific Areas

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

11. **Areas in which the Fund leads**. In general, the IMF leads the policy dialogue on macroeconomic policies, including overall fiscal and monetary policies. The IMF has supported Ghana's poverty reduction efforts through several arrangements under the Poverty Reduction and Growth Facility (PRGF). The Government had requested a new three-year arrangement for 2003-2005, under the PRGF, and this was put in place in May 2003, following discussions by the Fund's Board of Executive Directors. Reforms under the PRGF center around measures to substantially raise revenue to make room for increased poverty-related spending and development needs, strengthen public expenditure management, further reform of energy and utility pricing, and use appropriate monetary policy to deliver on the single-digit inflation target. The first review under the three-year PRGF arrangement was completed in December 2003.

12. **Areas in which the Bank leads**. The World Bank leads the policy dialogue on economic reforms in a number of sectors. These are: infrastructure, including roads, community water and sanitation, and urban and local government development; agriculture and rural development; human development; and private sector development.

- **Infrastructure.** Infrastructure accounts for about 55 percent of commitments, and comprises several operations. The on-going Road Sector Development SIL has the objective of achieving sustainable improvements in the supply and performance of road transport services in a regionally equitable manner. The Bank Group's engagement in energy has grown to include ESW and PSIA, a key component in the PRSC policy matrix to support power sector reform, investment lending to support operational efficiency, IFC investment in generation and preparations for support to the West African Gas Pipeline and Power Pool. Dialogue on water and sanitation policy is pivotal to underpin the major new investments in urban, small town and community water. In view of their importance for the delivery of reliable and cost-effective services, key policy issues in the roads, power and water sectors are also part of the PRSC-supported policy agenda. Based on new developments in government's approach to telecommunication, the Bank Group has re-engaged in dialogue on sector strategy, policy and regulation.

- The **Agriculture and Rural Development** strategy emphasizes increasing agricultural productivity and diversification, deepening financial intermediation in rural areas, and rehabilitating land, forest and wildlife resources in a sustainable manner. In addition to cross-cutting issues tackled in the context of the PRSCs, two ongoing IDA operations (10 percent of total lending) are supporting this agenda, the presently restructured Agriculture Services Sub-Sector Investment (AgSSIP) APL and the Rural Financial Management Services SIL. There are also two GEF projects in support of the natural resource management agenda and preservation of biodiversity. The Community-Based Rural Development Project will build on the closed Village Infrastructure Project to further a more comprehensive approach to rural based economic growth and poverty reduction.

- In **Human Development,** there are five projects that account for 23 percent of total lending. The Board approved the financing for the Education Sector Project in February 2004. Twelve months earlier, it approved the Health Sector Support Program prepared using a sector-wide approach (SWAp). In addition, Bank support addresses issues in adult literacy, the prevention and treatment of HIV/AIDS, and by developing new approaches to service provision for poor and marginalized groups. PRSCs complement existing sector focused operations, leveraging their poverty focus by ensuring improved expenditure allocation (level and structure) and by addressing some of their financing implications for the poor (e.g., removal of school fees for girls in under-served areas and for disabled pupils across the country, and implementation of fee exemption policy for maternal deliveries).

- IDA's assistance in **Private Sector Development** is provided by three investment credits (10 percent of commitments). The Trade and Investment Gateway SIL, presently being retrofitted to respond to new policy approaches by government, seeks to attract a critical mass of export-oriented investors to Ghana, to accelerate export-led growth and facilitate trade, while the now closing Public Enterprise Privatization Technical Assistance has aimed to improve the business environment through policy and regulatory reform in key sectors, including energy and telecommunications. The recently-approved Land Administration project will help develop sustainable, fair, efficient and decentralized land administration system in order to increase land tenure security. In addition, the PRSCs support reforms aimed at tackling the high cost business environment, promoting trade facilitation and encouraging financial intermediation. Further Bank Group support to private sector development and financial sector reform is under active dialogue with government.

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

14. **Budgeting, public expenditure management (PEM) and control.** A February 2004 joint Bank-Fund assessment of the Government's capacity to track poverty reducing expenditures confirmed encouraging progress compared to the 2001 evaluation and highlighted the need to substantially improve budgetary management. That assessment informed the identification of priority PEM actions being supported by the PRSC. IMF technical assistance missions and a resident advisor provide technical advice to Government on budget formulation, monitoring of budget execution, and expenditure control.

15. **Public sector reform.** The Fund closely follows public service reforms through their impact on macroeconomic aggregates (wage bill, overall government expenditure) and discusses the macroeconomic trade-offs the government faces in supporting a large public sector. Building on lessons learned, the Government is in the process of defining its public sector reform strategy which is expected to focus on the basic needs of running government, and shift away from the technology driven, all encompassing reform programs of the past. The Bank's support to implementation of the Government strategy will take place in the context of PRSC and by investment projects at the sector level, including those aimed at supporting the Government's decentralization agenda.

16. **Public enterprise reform and divestiture.** The Fund closely monitors the financial position of large public enterprises, mostly in the energy and financial sectors, due to their importance for public finances and macroeconomic stability. Bank assistance is provided through several projects, including the technical assistance project to support public enterprise reform and divestiture of public enterprises selected by the government for privatization. Bank dialogue in the energy sector, pursued through the Energy ESW and the PRSC, emphasizes the unbundling of VRA and private-public participation options for ECG.

17. **Financial Sector.** In July 2003 a joint IMF-Bank mission carried out a mission to update the 2000-2001 FSAP. The FSAP Update confirmed some progress in the financial sector associated to improved macro-economic stability, emphasized the diversity of financial institutions compared to the overall small size of Ghana's financial sector, and acknowledged the existence of strong international connections and local skills able to compete on equal terms with

international institutions. Despite this potential, the Update concluded that the financial sector is held back by an overall weak financial intermediation compared to other Sub-Saharan African countries due to various key problem areas such as inefficiencies of the dominant Ghana Commercial Bank (GCB) contributing to a lack of competition and innovation, the crowding out of the private sector, lack of long-term capital available due to poor allocation of pension resources, continued lack of level playing field for providers of financial services, and the need of further implementation of the legislative agenda. Several of the FSAP Update recommendations will be dealt with by the Government's comprehensive Financial Sector Strategic Plan (FINSSP), recently approved. The PRSC supports implementation of key actions envisaged by the FINSSP, which could also possibly be supported by a Bank investment credit. In December 2003, the IMF published the Financial System and Stability Assessment.

Financial Relations with the World Bank Group

(Active Portfolio, as of April 30, 2004, in millions of US dollars)

Credit Number	Fiscal Year	Sector	IDA	Undisbursed
C26820-GH	1995	Ghana Thermal Power	175.6	22.1
C28360-GH	1996	Urban Environmental Sanitation	71.0	0.1
C28770-GH	1996	Public Enterprise and Privatization	26.4	3.7
CN0200-GH	1997	Village Infrastructure	30.0	3.5
C20412-GH	1998	Forest Biodiversity (GEF) 1/	8.7	6.1
C31140-GH	1999	Trade Gateway and Investment	50.5	23.7
C31190-GH	1999	Public Sector Management	14.3	0.0
C32370-GH	1999	Community Development	5.0	2.3
C32460-GH	1999	National Functional Literacy	32.0	21.7
C32820-GH	2000	Community Water II	25.0	8.9
C33300-GH	2000	Urban 5	10.8	1.0
C33740-GH	2000	Rural Financial Services	5.1	4.3
C34050-GH	2001	Agricultural Services	67.0	51.0
C34580-GH	2001	AIDS Response	25.0	14.0
C35540-GH	2002	Road Sector Development	220.0	197.8
C50723-GH	2002	GEF Northern Savanna 1/	7.6	6.7
C35540-GH	2003	Health Sector Program Support II 2/89.6	79.7	
C37430-GH	2003	Promoting Partnerships w/Trad. Autho.	10.0	4.9
C38170-GH	2004	Land Administration *	20.5	21.1
C38650-GH	2004	Education Sector Project	78.0	76.3
Total (number of credits: 20)			972.1	548.9

Source: World Bank

* Undisbursed amounts are greater than IDA credit amounts due to exchange rate fluctuations.

1/ Grant.

2/ Grant element amounts to US$33 million.

For additional information, please contact Michael Diliberti, Acting Country Program Coordinator, (x38766) or Marcelo Andrade, Senior Country Economist, (x38378).

Ghana: Statistical Issues

There are notable deficiencies in the quality and timeliness of core surveillance data reported by Ghana. 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 *International Financial Statistics* has improved, but data on international transactions still show a lag of about four to five months. 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 Ghana Statistical Service (GSS) publishes the *Quarterly Digest of Statistics* with even longer lags. The government has agreed to take steps to ensure that both quarterly bulletins are published regularly, with a lag of not more than 60 days. The staff has encouraged the authorities to make this information available on the government and the Bank of Ghana web sites. The authorities also intend to participate in the GDDS, and in May 2004 an STA mission visited Accra to develop the initial GDDS metadata. Areas where improvements need to be made are identified below.

Prices

31. **In order to review the problems in the compilation of price statistics and national accounts, a peripatetic advisor has been assigned to Ghana** and three other African countries. The advisor conducted assessment and follow-up missions to Ghana in 2001-03 and finalized a work plan with the GSS, which is the agency responsible for compiling price statistics and national accounts statistics. Progress has been made on implementing the work plan, and it is now expected that revisions to the Consumer Price Index and GDP (by type of activity at current and constant prices) will be completed by later this year, and will published in early 2005.

32. **A computational error has been made in the published CPI from 1999 onward.** Changes for missing data have been effectively entered as no change, a feature that persisted even when price data once again became available. As a result, the rate of inflation may be significantly understated in the 1999-2001 period in particular, with the error declining in the most recent period. Because inflation is a major benchmark indicator for monetary policy and performance under Ghana's Fund-supported program, **it is an urgent matter that the timetable to correct and publish a revised CPI be accelerated and given the highest priority.** Work is also underway to rebase the CPI to 1998, using the fourth Ghana Living Standard Survey (GLSS4). Preliminary analysis reveals that the basket of consumer goods has not changed significantly since the last rebasing.

National accounts

33. **Nominal GDP may be seriously underestimated.** Ghana's GDP is estimated using a value added approach, multiplying volumes by the observed movement in different market prices, including the CPI index. The expected underestimation of the CPI index, therefore, affects nominal GDP. **Priority must be given to the revision of national accounts data**

once the CPI index has been revised.

34. **The GSS is currently using 1993 as the base year for its national accounts data.** There are breaks in the national accounts series between 1992 and 1993, as data before 1993 have not been revised. Since revisions to GDP are now expected to cover only 2000-02, there will be a need to splice the new and old GDP series. A re-based national accounts series should be completed later this year, and published in early 2005.

35. **A comprehensive overhaul of the basic sources of national accounts data is also needed, as existing sector surveys are outdated**. An earlier review of the GDP compilations led to a number of recommendations: (i) private household expenditure should be estimated independently using detailed information from the household expenditure surveys; (ii) total consumption should be split into private and government consumption, deflating the former by the CPI and the latter by a price index for government output; and (iii) the constant price estimates for gross fixed capital formation in machinery and equipment should be calculated by deflating current price estimates by the relevant import unit values of that particular type of imported good. In addition, the calculation of construction investment should be replaced by more recent base-year data.

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

Labor statistics

37. **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 United Nations Development Program and the International Labor Organization in the design and compilation of labor statistics.

Public finance

38. **Steps were taken in 2001-02 to improve Ghana's fiscal data**. The Controller Accountant General's Department (CAGD) currently compiles monthly budget implementation reports, but the data are available with long lags and many factors undermine their reliability. There are, for example, discrepancies in the data reported by the CAGD and the BOG, although these have narrowed in recent months. Above-the-line data from the CAGD are narrower in coverage than below-the-line BOG data. The lack of comprehensive and timely reconciliation of monthly treasury data with bank accounts undermines the

reliability of the data. To address the shortcomings, the government has formed a committee to define the nature of "broad" and "narrow" government; moved to a system of immediate booking for so-called direct debits and more frequent reporting of government account balances; and rolled out and begun testing a new automated Budget and Public Expenditure Management System (BPEMS) in two key ministries, with plans to extend the system to four other ministries next year.

39. **There are also problems of data comprehensiveness and arrears.** The CAGD and the BOG miss a substantial part of central government spending, like donor flows disbursed directly to ministries, internally generated funds, and expenditures undertaken by extra-budgetary funds. The authorities continue to experience difficulties in adapting their systems to properly record and control payment commitments and arrears for on-budget flows, although a new commitment control system is planned for extension in all ministries in the last quarter of 2003.

40. **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. The 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 noninterest recurrent expenditure and domestically financed capital expenditures.

41. **Comprehensive solutions to some of the data problems may have to await the full implementation of the new BPEMS system and incorporation of Fund technical advice.** 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. Earlier this year, a joint Bank/Fund mission assessed progress on monitoring poverty-related spending through the Heavily Indebted Poor Countries (HIPC) Assessments and Actions Plans (AAP), and a fiscal Report on Observance of Standards and Codes (ROSC) was undertaken.

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

Monetary statistics and international reserves

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

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

45. **A July 2002 STA mission confirmed that the bridge table used to automatically generate data on central bank monetary variables and international reserves** from BOG's underlying financial accounts **was complete and reliable**. The BOG currently reports the data monthly with a lag of four to six weeks. In light of changes in the structure of government accounts at the BOG associated with the introduction of BPEMS, BOG staff in mid-2003 began constructing and testing a more detailed automated bridge table for government accounts to facilitate reconciliation and tracking of the budget. Subsequent STA missions detected shortcomings in the quality of data submitted by commercial banks, especially in the treatment of foreign-currency-denominated assets and liabilities, and in the reporting of government securities. The mission drafted a new report form for commercial banks, which was adopted beginning with data published for July 2003. BOG reports data from the commercial banks with a lag of eight to ten weeks.

Debt statistics

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

the payment agent for the government and verifies payments made to ADMU and CAGD.

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

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

Trade and balance of payments statistics

49. Since 1982, the Research Department of the Bank of Ghana (BOG) has primary responsibility for the compilation and presentation of the balance of payments statistics. The main data sources are the Customs Excise and Preventive Service (CEPS), administrative data (government ministries and departments within BOG), commercial banks and the Ghana Statistical Service (GSS). In addition, the BOG carriers out simple financial surveys on other corporate entities that are involved in transactions with nonresidents. Data are compiled using the framework of the *Balance of Payments Manual, Fifth Edition (BPM5)*.

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

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

52. **In mid-2003, Ghana began producing quarterly balance of payments data.** Further effort is needed to implement recommendations of a technical assistance mission on balance of payments statistics in 2000, which found that improvements in the quality of these statistics would necessitate the introduction of surveys of key establishments, the training of staff in the Balance of Payment Unit of the BOG, improved collaboration among the various government agencies responsible for data collection, and additional computer resources. In addition, the introduction of surveys of various travel agents and tour operators is needed to improve the quality of the information in the balance of payment services account. Ghana only reports annual data to STA. Although the latest available data refer to 2002, their quality is questionable. There are no data available for Portfolio Investment flows in the financial account, even though Ghana reports substantial amounts under income on portfolio investment in the current account.

53. **The BOG has been unable to expand sufficiently the coverage of foreign direct investment flows** into Ghana mainly because commercial banks do not report such flows. Moreover, survey data collected by the Ghana Investment Promotion Center (GIPC), as required under the 1994 GIPC Act, are thought to miss an important portion of foreign direct investment (FDI) flows. The technical assistance mission suggested that BOG work closely with the GIPC and the Attorney General's Office to improve the quality of FDI data obtained from the survey of these establishments.

Ghana: Core Statistical Indicators
(As of May 19, 2004)

	Exchange Rates	International Reserves 1/	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Bal 2/	GDP/ GNP	External Debt 3/	Debt Service 3/
Date of latest observation	April 2004	May. 2004	May. 2004	May. 2004	Mar. 2004	May 2004	April 2004	Dec. 2003	2003	Dec. 2003	2003	Dec. 2003	Dec. 2003
Date received	May 2004	May 2004	May 2004	May 2004	May 2004	May 2004	May 2004	April 2004	April 2004	April 2004	April 2004	April 2004	April 2004
Frequency of data 4/	D	M	M	W	M	W	M	M	A	M	A	M	M
Frequency of reporting 4/	W	M	M	M	M	W	M	V	A	V	A	V	V
Source of data	BOG	BOG	BOG	BOG	BOG	BOG	MOF	BOG	BOG	MOF	MOF	BOG, MOF	BOG, MOF
Mode of reporting 5/	E,R	E,V	E,V	E,V	E,V	E,R	C,R	R,V	R,V	R,V,M	R,V	R, V	R,V
Confidentiality	N	C	C	C	C	N	N	C	C	C	C	C	C
Frequency of publication	D	Q	Q	Q	Q	W	M	A	A	...	V	A	A

1/ Both gross official reserves and net international reserves reported each month with lag of 4 to 6 weeks.
2/ Central government. 3/ Monthly data reported infrequently. 4/ D=daily; W=weekly; M=monthly; Q=quarterly, A=annually; and V=infrequently.
5/ C=cable or facsimile; E=electronic data transfer; M=mail; R=provided to Resident Representative; and V=staff visits.

Work Program

Late-June/early-July 2004	Board meeting for Second PRGF Review, HIPC CompletionPoint, Joint Staff Assessment of the PRSP, and Report on noncomplying Disbursement
March 2005	Mission for third PRGF review and Article IV consultation
June 2005	Board meeting for third PRGF review and Article IV consultation
September 2005	Mission for the fourth PRGF review

July 3, 2004

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato:

With regard to our request for completion of the second review under the Poverty Reduction and Growth Facility (PRGF), we wish to amend our Letter of Intent dated June 15, 2004 (EBS/04/82, Appendix I) to take into account further actions we are taking to keep the government wage bill within the budget allocation for 2004.

On May 21, 2004, we came to an agreement with the Forum (comprising the Civil Servants Association, the Ghana National Association of Teachers, the Ghana Registered Nurses Association, and the Judicial Services Staff Association). The agreement was for a 31 percent increase in the Ghana Universal Salary Structure (GUSS), effective March 1, 2004, to be implemented in June. We had estimated that this would result in a wage bill that was 15.8 percent higher than in 2003.

When the agreement was implemented, however, it became apparent that the impact on the wage bill for the GUSS group of workers, combined with potential pay increases for other government employees still to be negotiated, would be substantially higher than the 15.8 percent previously estimated, and would exceed the budget allocation of ¢6,632 billion for 2004.

Accordingly, for the remainder of 2004, we have taken the decision to rescind the negotiated pay increase and replace it with a scaled-down structural increase. There will be no further increases in the GUSS in 2004. In addition, we intend to take steps to implement a strengthened package of measures to ensure that wage payments remain strictly under control for the remainder of the year.

With regard to the salary increases, the measures comprise:

- Effective July 1, 2004, replacement of the previously negotiated GUSS with a new salary structure that is on average 11 percent higher than the 2003 structure. Simulations, prepared in collaboration with Fund staff, indicate that the new structure should raise the monthly GUSS wage bill by 9.2 percent from that based on the 2003 structure. Taking into account the estimated wage bill for January-June 2004, which includes four months of pay at the previously negotiated rates, the projected 2004 wage bill for workers covered by the GUSS is ¢4,602 billion;

- No change in Additional Duty Hour Allowances (ADHA, paid mostly to health care workers as a subvented payment) of ¢42 billion per month for the rest of the year.

Allowing for a double payment in July to clear arrears, ADHA is forecast to total ¢509 billion in 2004; and

- Capping collective bargaining agreements with Subvented Agencies (SAs) at 10 percent, effective July 1 onward, with no award of back pay. Wages for this category are expected to total ¢1,517 billion for the year.

Accordingly, the aggregate projected wage bill of ¢6,627 billion is expected to be within the budget ceiling of ¢6,632 billion, thereby observing the prior action for the second review under the PRGF arrangement. The revised GUSS salary structure and payment plan for 2004 were formally accepted by the Forum on June 30, 2004.

Current efforts to bring the management of subvented agency wage payments under control will be stepped up. Accordingly, the following enhanced measures will be taken, beginning immediately:

- Commence construction of an electronic payroll list for all subvented agencies;

- Cancel Expenditure Authorizations (funds released but not yet paid) for SA wage payments totaling at least ¢20 billion; these funds are not considered necessary to cover current SA wage obligations;

- Improve record keeping and release procedures by tracking and taking immediate action when overpayments to individual SAs become evident; and

- Begin institution of external audits of all subvented agencies, to be followed by prompt notification of payment withholding timetables where overpayment is identified.

Under this plan, the Controller and Accountant General will receive monthly reports from vote controllers on estimated SA wage payments by agency, and will take prompt actions, as necessary, to ensure that the aggregate allocation for SA wage payments in 2004 is maintained.

We are confident that these measures will have their intended effect of containing the government wage bill within our budgeted limit. In accordance with the fourth paragraph of our Letter of Intent of June 15, 2004, these revisions have been made in consultation with Fund staff, and we stand ready to take any further corrective actions that may be needed to achieve the objectives of the program supported by the PRGF arrangement.

Sincerely yours,

/s/	/s/
Hon. Yaw Osafo-Maafo, MP	Hon. Paul A. Acquah
Minister of Finance and Economic Planning	Governor, Bank of Ghana

Statement by the IMF Staff Representative
July 9, 2004

1. This statement reports on (i) implementation of the prior actions for completion of the second review under the Poverty Reduction and Growth Facility, as specified in the staff report, Appendix I, Attachment I, Table I.2, and (ii) some economic data that have become available since the issuance of the staff report. This information does not change the staff appraisal.

2. The authorities have informed the staff that all prior actions have been implemented:

- On June 24, 2004 a press release was issued announcing Cabinet endorsement (on June 10) of the details of a new regulatory/pricing regime that gives oil marketing companies the right to adjust retail petroleum prices according to a prescribed formula, without prior review or approval by any national authority or agency; the press release described the key elements of the new regime and indicated that it will take effect February 15, 2005.

- On April 21, 2004 water tariffs were adjusted in line with the program's automatic adjustment formula (based on calculated values through end-March 2004). The formula did not require an adjustment for electricity prices.

- The legislative instrument implementing the National Health Insurance Levy with effect from August 1, 2004 was gazetted on May 21, 2004, and laid before parliament on June 9.

- On June 16, 2004, the Ministry of Finance and Economic Planning issued maximum cash ceilings to ministries, departments and agencies totaling ¢2,402.5 billion for the third quarter of 2004.

- On June 30, 2004, a modified wage settlement was reached with the representatives of civil service employees that is consistent with the budget allocation for wages and salaries of ¢6,632 billion. The details are provided in an addendum to the letter of intent, dated July 3, 2004.

3. The need for a modified civil service wage settlement arose because an earlier agreement, reached on May 21, 2004, had been based on an erroneous assumption about the budget treatment of the Additional Duty Hour Allowances (ADHA). These allowances were part of the wage bill (Item 1 of the budget) in 2003, but officials in charge of the wage negotiations assumed, mistakenly, that in 2004 they would be covered under administrative charges (Item 2). This appeared to create additional room within the 2004 budget wage bill allocation, and on that basis the May 21 agreement provided for a 31 percent increase in the pay structure for civil servants. Fund staff were initially informed only that the settlement would result in an increase in the wage bill of 15.8 percent over 2003, compared to an

increase of around 19 percent assumed in the program. When the erroneous assumption regarding the ADHA became apparent, it was clear that the wage bill resulting from the 31 percent increase in the pay structure would significantly exceed the budget, and the authorities acted immediately to rescind the previous agreement. The staff is satisfied that the revised wage settlement, as set out in the addendum to the letter of intent, is consistent with the programmed wage bill for 2004. While this episode highlights further the risks regarding program implementation, the staff welcomes the additional measures the authorities have committed to take to strengthen control over the wage bill for the remainder of 2004.

4. The following information has become available since the staff report was issued:

- The consumer price index increased by 1.2 percent in May 2004 over the previous month, resulting in a 12-month inflation rate of 11.2 percent.

- Preliminary data from the Bank of Ghana show net international reserves at end-May 2004 (US$718 million) well above the end-June benchmark (US$536 million), while both net domestic assets of the Bank of Ghana and reserve money were below the June ceilings.

- Preliminary data through end-April 2004 also indicate that the fiscal program is on track, with a small overperformance of tax revenue and a lower outturn for recurrent expenditures than projected (Table 1). Net domestic financing of government for January-April 2004 was slightly below program.

Table 1. Ghana: Fiscal Developments, Jan.-April, 2004

	Jan.-Apr. 2003	Jan.-Apr. 2004	
		Prog. 1/	Prov.
	(in percent of annual GDP)		
Total revenue and grants	6.7	7.6	8.1
Total revenue	5.6	6.2	6.4
Of which : Direct taxes	1.6	1.6	1.8
Total expenditure	7.2	8.4	8.2
Recurrent expenditure	4.8	5.8	5.5
Noninterest	3.1	4.4	4.1
Of which : Wages and salaries	2.4	2.4	2.5
Goods and services	0.3	0.8	0.5
Capital expenditure	2.4	2.5	2.7
Overall balance (before arrears clearance and VAT refunds)	-0.5	-0.8	0.0
Net domestic financing	0.3	0.9	0.8

Sources: Ghanaian authorities; and Fund staff estimates and projections.
1/ Based on EBS/04/82, June 16, 2004.

Press Release No. 04/142
FOR IMMEDIATE RELEASE
July 9, 2004

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes In Principle Second Review Under Ghana's PRGF Arrangement and Reviews Noncomplying Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed in principle the second review of Ghana's economic performance under a Poverty Reduction and Growth Facility (PRGF) arrangement. This opens the way for release of a further SDR 26.35 million (about US$39 million), bringing the total amount drawn under the arrangement to SDR 79.05 million (about US$117 million). This decision will become effective following the World Bank's review of Ghana's annual progress report on the Poverty Reduction Strategy Paper (PRSP), scheduled on July 13, 2004.

In completing this review, the Executive Board waived the nonobservance of the quantitative performance criterion on the banking sector credit to the Tema Oil Refinery and two structural performance criteria on the adjustment of petroleum prices, and electricity and water tariffs.

The Board further reviewed the annual progress report of Ghana's Poverty Reduction Strategy Paper (PRSP) and concluded that it provides a sound basis for continued access to Fund concessional financial assistance and for reaching the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative.

The Board also reviewed matters related to the noncomplying disbursement to Ghana in an amount equivalent to SDR 26.35 million (about US$39 million) that was made on December 17, 2003, following the completion by the Executive Board of the first review under Ghana's PRGF arrangement (see Press Release No. 03/222). The non-complying disbursement arose as a result of misreporting on the observance of a prior action for the completion of the first review, which required that electricity and water tariffs be raised in line with the program's automatic adjustment formulas, based on calculated values through September 2003. In October 2003, the Public Utilities Regulatory Commission approved a tariff increase for Ghana Water Company Limited (GWCL). On that basis, the authorities indicated that water tariffs had been raised, and that the prior action had been observed. Subsequently, however, GWCL informed Fund staff that they had not raised water tariffs, and hence it was determined that the prior action had not in fact been observed. The Board decided to waive the nonobservance of the prior action in view of the prompt corrective action taken by the authorities when the misreporting was discovered.

Ghana's three-year PRGF arrangement was approved on May 9, 2003 (See Press Release No. 03/66) for SDR 184.5 million (about US$273 million).

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

Following the Executive Board's discussion on Ghana, Takatoshi Kato, Deputy Managing Director and Acting Chairman, said:

"The Ghanaian authorities are to be commended for the successful implementation of macroeconomic policies, which together with an improvement in the terms of trade, has provided a favorable economic climate for rising business confidence, strong growth, and more recently, significantly declining inflation.

"The authorities have made significant progress toward achieving their medium-term fiscal objectives, owing in part to improved expenditure discipline. Fiscal consolidation avoided the need for net domestic financing of the budget last year, and this led to a decline of the domestic debt-to-GDP ratio, contributing to a sharp fall in interest rates.

"The government's decision to leave petroleum prices unchanged ahead of the election in December 2004 creates a source of vulnerability for the budget, even though the authorities have taken adequate measures to address the anticipated costs of the resulting subsidies to petroleum producers, while protecting poverty-related expenditures. Nevertheless, it will be critically important for the authorities to follow through on the commitment to replace the current pricing regime with a new regime, which will absolve the government from making pricing decisions, and to implement it, as announced, by February 15, 2005.

"The authorities' resolve to improve the performance of public sector enterprises is welcome, and should help to raise their efficiency and reduce quasi-fiscal costs. A key element in this strategy will be the maintenance of cost-recovery pricing by public utilities.

"To ensure continued progress in fostering sustainable growth and reducing poverty, it will be important to resist political pressures to relax fiscal discipline ahead of the election and to maintain sound monetary policies and continue strengthening the financial sector. In addition, the authorities need to press ahead with wide-ranging structural reforms to diversify the economy and improve the economic and regulatory environment for private sector development.
Since reaching the decision point in February 2002 under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, Ghana has made satisfactory progress in the implementation of its Poverty Reduction Strategy, and has successfully maintained macroeconomic stability. Ghana has also met all but one of the floating completion point triggers under the enhanced HIPC

Initiative, and has committed itself to meeting that last requirement. This paves the way for Ghana to reach the HIPC completion point, which will result in irrevocable debt relief for Ghana equivalent to US$2.2 billion, in net present value terms. To ensure full relief under the enhanced HIPC Initiative, all creditors should provide their prescribed share of contributions required under the HIPC Initiative.

“The Executive Board regretted the authorities’ failure to ensure the accuracy of information relating to a prior action to bring electricity and water tariffs in line with the program’s automatic adjustment formulas (based on calculated values through September 2003). Electricity tariffs had been implemented as reported, but water tariffs were not adjusted. The Board took note of the authorities’ explanation for the nonobservance of the prior action which was attributed to “miscommunication and misjudgment.”

“The Board also noted that the authorities took prompt corrective action to raise water tariffs when it was discovered that the prior action was not observed. This tariff adjustment exceeded the programmed amount in order to recover foregone revenues from the previous period.

“In view of the prompt corrective action taken by the authorities and the steps they propose to take in future to verify implementation of tariff adjustments, the Executive Board decided to grant a waiver of nonobservance of the prior action,” Mr. Kato said.

Statement by Abbas Mirakhor, Executive Director for Ghana
July 9, 2004

Key points

- *Ghana's strong policy record under the PRGF-supported program has enhanced the economy's long-term growth potential and the prospects for durable poverty reduction.*

- *Notable progress has been made in restoring macroeconomic stability and in key structural areas.*

- *The authorities will remain particularly vigilant in the election year by maintaining fiscal and monetary discipline.*

- *The first annual report of implementation of the Ghana Poverty-Reduction Strategy (GPRS) indicates solid progress in key areas. Identified shortcomings will be addressed in the coming years.*

- *Reaching the completion point under the enhanced HIPC-Initiative culminates the authorities' forceful efforts in policy implementation.*

- *The authorities reiterate their gratitude to staff, management, and the Board for their advice and support. They continue to count on the strong support from the international institutions, including the Fund, and the development community.*

My Ghanaian authorities thank staff for their diligent work and constructive policy advice. They appreciate the continued support of management and the Board as well as the international community of donors. Ghana has made considerable progress under the PRGF-supported program. Against the backdrop of a stable macroeconomic environment, the authorities have implemented strong adjustment and reform policies that have enhanced the economy's long-term growth potential and the prospects for durable poverty reduction. The completion point under the enhanced HIPC-Initiative will allow the country to benefit from the full complement of debt relief, which will further help the economy to achieve a higher path of growth, accelerated poverty reduction, and more rapid progress toward the Millennium Development Goals (MDGs).

Non-complying disbursement

As Directors note, the authorities have requested a waiver for a lapse in the technical process of implementing higher water tariffs, which leads to a non-complying disbursement. As the Minister of Finance explained in his letter to the Acting Managing Director, the subject matter of the non-complying disbursement was a one-off incident that arose from administrative miscommunication in the water-sector ministry. The authorities have demonstrated a strong track record of commitment to cost-recovery utility tariffs, which they consider vital for enhancing efficiency in the delivery of these services and for avoiding fiscal costs from protracted budget subsidies. They have, thus, adopted automatic adjustment formulas for water and electricity—overseen by an independent body, the Public Utilities Regulatory Commission (PURC)—through quarterly tariff adjustments. In keeping with the established practice, the authorities deemed the PURC's authorization for water tariff adjustment in October to have been implemented by the water company, and reported same to staff. When it was discovered in April, however, that the Sector Minister had put the adjustment on hold (being concerned about the multiple adverse impact on the poor from the concurrent implementation of the PURC's authorization to increase electricity tariffs also by 10 percent), the authorities took prompt action to increase water tariffs by a higher rate of 15.2 percent, which restored cost-recovery. Subsequently, the authorities have instituted measures to ensure prompt implementation of PURC's instructions, including a strict verification mechanism. As the Minister of Finance expressed in his letter, the authorities regret the incident and are committed to its non-recurrence. In view of the corrective actions taken to remedy this anomaly and measures adopted to prevent its re-occurrence, the authorities hope that the Executive Board grant their request for a waiver of the related non-complying disbursement under the PRGF arrangement.

Poverty reduction strategy

The authorities have successfully implemented the first year of the Ghana Poverty-Reduction Strategy (GPRS). Their Annual Progress Report (APR), prepared with helpful donor technical assistance and involving a broad participatory process, demonstrates solid progress in key areas, while acknowledging shortcomings in others. On the macroeconomic front, buttressed by fiscal and monetary discipline, stability has been restored, and strong growth achieved. In the social area, improvements have been made in education, water provision, and sanitation. Notable progress has also been made in the fight against HIV/AIDS. The development of infrastructure, including roads, transport, and energy, has received priority attention to support Ghana's private sector development strategy. Various initiatives have been adopted to protect the environment and the natural resource base, vital for sustainable development. Priority consideration has also been given to the interests of the more vulnerable and disadvantaged groups in the context of comprehensive social protection and safety net programs.

The authorities recognize the need for progress in addressing impediments to growth, including through diversification to reduce the economy's vulnerability to shocks. They also acknowledge the inadequate progress on energy sector reform and the persistence of other quasi-fiscal activities within the public sector. Both areas are receiving renewed attention. Moreover, there is a need to remedy shortcomings in health outcomes, especially relating to infant mortality rates as well as for further enhancing the interests of women and children. The authorities are giving careful consideration to staff's helpful recommendations, and are enhancing the monitoring and evaluation process in the implementation of the GPRS, including in tracking poverty spending. Lack of adequate data for assessment of policy impact on poverty trends will be partially remedied with the upcoming household survey.

The authorities will also continue to broaden the participatory process at all stages of implementation of the GPRS, including in the preparation of the APR, and at all societal levels.

PRGF review

Ghana has maintained a strong record of program implementation under the PRGF arrangement. In the process, all prior actions, all but one of the quantitative performance criteria, and all but two of the structural performance criteria for this review were observed. The quantitative performance criterion on net domestic bank credit to the Tema Oil Refinery (TOR) was not observed because TOR, on commercial grounds, decided to repay some high-interest, short-term external debt that the program assumed would be rolled over. The refinery's net position with the banking system is expected to improve significantly by mid-2004, and bank exposure to TOR has returned to the program path following a government security issue. The structural performance criterion on utility price adjustments was not met because favorable changes in the electricity generation mix obviated the need for such adjustments. The non–observance of the structural performance criterion on petroleum pricing, on the other hand, was due to concerns that—coming after the average petroleum product price increases of 90 percent last year—another relatively large price increase in the pre-election period could spark social unrest. The authorities have committed instead to bring forward their plans for a comprehensive deregulation of the petroleum sector that will include an effective liberalization of pricing, with effect from February 2005. For these reasons, the authorities request waivers of non-observance of the respective performance criteria.

Recent economic developments and program performance

Economic growth in 2003 was stronger than programmed, spearheaded by a buoyant cocoa sector, while inflation declined sharply during February-May 2004. The external position strengthened, with a stronger current account balance, record reserves, and relatively stable exchange rate. The domestic debt-to-GDP ratio continued to trend downwards. The domestic primary surplus improved over 2002 and was better than programmed. While tax revenue-to-GDP was slightly lower than programmed, it rose to over 20 percent for the first time in many years; and based on provisional data, first quarter budget implementation appears to be on course as well. Poverty spending increased from 4.8 percent to 6.5 percent of GDP, higher than programmed. Driven by strong foreign exchange inflows, monetary growth has been faster than anticipated, though at a decelerating rate. The "fiscal dividend" has allowed a welcome decline in interest rates which should lead to lower spreads and the real cost of capital.

Progress has also been made in key areas of the structural reform agenda. Public expenditure management has been significantly strengthened—backed by new wide-ranging legislation—including capacity to track poverty-related spending. The safeguards of Bank of Ghana (BOG) have been further reinforced, including substantial recapitalization of the bank through government security issue, and its supervisory capacity strengthened under the new Banking Act. The government has initiated a strategy to restructure the Ghana Commercial

Bank, including by strengthening its management capacity. The prices of utilities have been kept at cost-recovery levels, as required under the program.

Medium-term objectives and policies for the rest of 2004

The authorities are resolved to consolidate the gains made thus far in macroeconomic stability while reinforcing the implementation of structural reforms. Over the medium term, their objective is to achieve average rate of growth of about 5.0 percent, which will allow an annual increase of 2.4 percent in per capita income. Inflation will be reduced to low single digits, the reserve build-up will continue, reaching more than four-and-half months of import cover, and the declining trend in the domestic debt-to-GDP ratio will be sustained.

In the remainder of 2004, the authorities are committed to avoiding a repetition of loss of fiscal control associated with previous elections. In this regard, they will maintain a strong fiscal stance consistent with the GPRS domestic debt-reduction target, which entails achieving a sizable domestic primary surplus and further reduction in net domestic financing. While government revenues are set to increase, expenditure cuts of around 0.6 percent of GDP will be effected to partly offset provision of petroleum subsidies. In particular, expenditures on goods and services and domestic capital outlay will be reduced. Poverty-related spending will be protected and is projected to increase from 6.5 percent to 6.9 percent of GDP. Furthermore, the authorities intend to limit the wage bill to the level in the budget, which represents the same ratio in terms of GDP as in 2003 and is in accord with the prior action for this review. To this end, the authorities have agreed with public employees to respect the budget wage allocation and have planned a strengthened package of measures to control wage payments as elaborated in the Letter of Intent (LOI). The National Health Insurance Levy (NHIL) will become effective on August 1, 2004—pursuant to the required legislative instrument laid before Parliament—and will provide a full-year revenue of over 1 percent of GDP.

The cautious monetary policy stance will be tailored to the projected decline in inflation and continued build up of reserves. To this end, the BOG intends to intensify liquidity management (including the sterilization of foreign exchange inflows) by issuing its own short-term-maturity paper, and to pursue an active interest rate policy. The BOG is actively considering staff suggestion to reduce the liquidity ratio at a propitious time in order to foster "crowding in" of private sector credit from fiscal adjustment. The floating exchange rate regime has served Ghana well and will be maintained to safeguard competitiveness, with interventions being limited to smoothing short-term fluctuations in the market. Several financial sector legislative initiatives geared to reinforcing competition and efficiency as well as providing adequate safety nets will be pursued. In this regard, an important legislative agenda is planned, including bills related to bankruptcy, companies code, credit referencing, insurance, and anti-money laundering. A long-term savings bill to foster private pensions and housing finance development is also contemplated.

Public expenditure management is expected to be reinforced through implementation of the upgraded legislative and regulatory framework and enhanced transparency and accountability. The authorities recognize that achieving effective control over government finances depends crucially on addressing financial weaknesses of public enterprises. In this connection, they intend to tackle the underlying causes, including inadequate pricing policies, operational inefficiencies, and persistence of cross-debts. The authorities regard addressing the petroleum sector pricing problem to be of overriding importance, given the ramifications on the budget and banking sector. Therefore, the Government has decided to implement an automatic pricing formula within a fully-deregulated petroleum sector. Cabinet approved the deregulation plan, as announced in the 2004 Budget statement, and further endorsed it on June 10, 2004. The new regime, which ensures liberalization of importation of crude petroleum and products and allows independent setting of retail prices according to a prescribed formula, is to become operational in mid-February 2005. The authorities will also ensure that utility tariffs continue to be in line with respective automatic pricing formulas that ensure full-cost recovery through quarterly adjustments authorized by the PURC. At the same time, they have embarked on a program to reduce costs, trim losses, and improve efficiency of the utility companies. This is to purge the automatic pricing mechanism of inefficiencies that would be passed on to consumers. The audited cross-debts among the utility companies and with government were settled at end-June 2004.

The Government of Ghana is strongly committed to development of the private sector as the engine of economic growth. In this context, the privatization efforts are being reinforced: the capital of GCB will be bolstered through floatation of shares on the stock exchange, and bids will be sought by competitive tender for a management contract. Moreover, due diligence is being undertaken to explore options for government involvement in the potential sale of the Volta Aluminum Company (VALCO). Staff concerns are taken into consideration, and commitment of financial resources to invest in the project will be made only after the compilation of relevant information and analysis are completed, and the Fund consulted. The recently-approved National Medium-Term Private Sector Development Strategy aims at creating, inter alia, a more business-friendly environment, reinforcing property rights, seeking expanded access for Ghana's exports, and building capacity. Ghana is committed to an open trade regime and is in the process of developing a comprehensive trade policy. This will aim at gaining greater access to external markets while supporting regional trade liberalization, including harmonization and reduction in tariff and non-tariff barriers. The statistical base will be further strengthened to facilitate policy decisions and surveillance. In this regard, the authorities intend to participate in the Fund's GDDS.

HIPC completion point

The authorities are pleased to have been able to reach the completion point under the enhanced HIPC-Initiative, which culminates their forceful efforts in policy implementation that have contributed to improvements in Ghana's socio-economic conditions. The solid policy track-record established prior to the decision point in February 2002 has been sustained. Implementation of strong adjustment and reforms has restored macroeconomic stability, laid a foundation for sustainable private sector-led growth, achieved progress in poverty reduction, established a firm basis for good economic and political governance, and has enhanced the rights of women, children, and other disadvantaged segments of the population. The development community's debt relief to Ghana currently stands at 89.6 percent of the total assistance approved at the decision point. This includes the full complement of committed assistance by multilateral and Paris Club creditors, who have also pledged additional debt relief at the completion point. The authorities are pursuing the objective of obtaining comparable treatment under the HIPC-Initiative from other non-Paris Club bilateral commercial creditors.

The authorities have met the completion point conditions in education, health, public expenditure management, decentralization, and governance, surpassing targets in many cases. The trigger on implementation of an automatic pricing formula for petroleum products was not met as the authorities decided to implement a fully-deregulated system to come into effect in mid-February 2005. For this reason, a waiver of this condition and Board approval of the completion point for Ghana has been requested. Reaching the completion point will allow Ghana's debt ratios to drop below HIPC thresholds and remain so through 2023, barring any severe shocks, while releasing much-needed resources for increased social sector spending. The authorities will maintain their strong adjustment and reform effort, buttressed by a prudent debt management policy to keep Ghana's debt sustainable.

Conclusion

My Ghanaian authorities reiterate their gratitude to staff, management, and the Board for their advice and support. They wish to underscore their resolve to remain steadfast with the implementation of their program and poverty-reduction strategy to foster the achievement of the MDGs. In this regard, they continue to count on the strong support from the international institutions, including the Fund, and the development community. Their efforts aimed at domestic consensus building, broadening of ownership of the program, and enlarging the constituency for adjustment and reform will provide the public support needed to mitigate much of the risks to program implementation cited in the staff report.