

Ghana: 2005 Article IV Consultation, Third Review Under the Poverty Reduction and Growth Facility, and Request for Waiver of Nonobservance of Performance Criteria and Extension of the Arrangement—Staff Report; Staff Statement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Ghana

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2005 Article IV consultation with Ghana, third review under the Poverty Reduction and Growth Facility, and request for a waiver of nonobservance of performance criteria and extension of the arrangement, the following documents have been released and are included in this package:

- the staff report for the combined 2005 Article IV consultation, third review Under the Poverty Reduction and Growth Facility, and request for waivers of nonobservance of performance criteria and extension of the arrangement, prepared by a staff team of the IMF, following discussions that ended on April 14, 2005, 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 8, 2005. 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 June 20, 2005 updating information on recent economic developments.
- a Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its June 20, 2005, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.
- a statement by the Executive Director for Ghana.

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

Letter of Intent sent to the IMF by the authorities of Ghana*
Memorandum of Economic and Financial Policies by the authorities of Ghana*
Technical Memorandum of Understanding*
*May also be included in Staff Report

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

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GHANA

Staff Report for the 2005 Article IV Consultation, Third Review Under the Poverty Reduction and Growth Facility, and Request for Waiver of Nonobservance of Performance Criteria and Extension of the Arrangement

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

Approved by Saul Lizondo and Juha Kähkönen

June 8, 2005

- The 2005 Article IV consultation and third review under the Poverty Reduction and Growth Facility (PRGF) arrangement discussions were held in Accra during March 29-April 14, 2005. Ghana's economic team was led by Finance and Economic Planning Deputy Minister A. Akoto-Osei, and the mission met with Senior Minister J.H. Mensah, Finance and Economic Planning Minister K. Baah-Wiredu, Bank of Ghana Governor P. Acquah, and other ministers. The mission met with H.E. President Kufuor to review developments, and with representatives of the private sector and nongovernmental organizations.
- The staff team comprised Messrs. Itam (head), Maehle, York, Ms. Chivakul (EP), Mrs. Ellis (staff assistant) (all AFR), Mr. Kinoshita (FAD), and Mr. Zhan (PDR), and was assisted by Mrs. Muttardy (Resident Representative). The mission liaised with 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 second review of the program was completed on July 9, 2004 and, at that time, Ghana reached the completion point under the enhanced Heavily Indebted Poor Countries Initiative. Upon completion of the third review, Ghana will be eligible to draw an amount equivalent to SDR 26.35 million (7.1 percent of quota). Ghana is requesting waivers for the nonobservance of three quantitative and one structural performance criteria. Also, the authorities are requesting a six-month extension of the current PRGF arrangement to October 31, 2006, so that the sixth and final review (based on June 2006 test date) and all disbursements under the arrangement could be completed.
- Ghana maintains a managed floating exchange rate regime, with no pre-announced path for the exchange rate. Ghana has accepted the obligations under Article VIII, Sections 2(a), 3, and 4 of the Fund's Articles of Agreement.
- President Kufuor was reelected for a second term in December 2004, and his party increased its parliamentary majority.
- Ghana's relations with the Fund are summarized in Appendix I, IMF-World Bank collaboration and Ghana's financial relations with the World Bank Group in Appendix II, and statistical issues in Appendix III. This report is accompanied by a Letter of Intent, with attached Memorandum of Economic and Financial Policies for 2005 and Technical Memorandum of Understanding (www.imf.org), and a Statistical Appendix.
- The authorities have agreed to publish the staff report, Letter of Intent, and the Statistical Appendix. The principal authors of the report are Samuel Itam and Robert York.

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EXECUTIVE SUMMARY

Overview and recent developments

- For the second consecutive year, real GDP growth outpaced program projections, and the buildup in international reserves was faster than envisaged. While inflation remained above the central bank's target, it declined by one-half by the end of 2004 from 23.6 percent at end-2007.
- Macroeconomic policies continued to be broadly appropriate. However, three fiscal-related quantitative performance criteria for the third review were not observed, because of fiscal slippages, although technical factors contributed.
- Progress in structural reform was satisfactory, but the pricing mechanism for petroleum products was adopted about a week past the deadline, and the establishment of the associated oversight body is pending (resulting in the nonobservance of a structural performance criterion).

Policy discussions and economic policies in the period ahead

- The ratio of domestic debt to GDP remains the nominal fiscal anchor, and the government's aim for 2005 is to achieve the medium-term target of reducing this ratio to half the level at end-2002. With achievement of the domestic debt objective close at hand, the discussions centered on the appropriate fiscal stance going forward. The authorities are concerned that a further substantial reduction in domestic debt may be undesirable, given the resources needed to meet the Millennium Development Goals (MDGs). While the staff recognizes this need, it stressed the benefits of a further bold reduction.
- The staff agreed that the central bank's main objectives will continue to be the reduction of inflation by maintaining a firm monetary policy and building international reserves to provide a further cushion against shocks. Discussions centered on measures to ensure the smooth functioning of financial and exchange rate markets, and to safeguard stability.
- The authorities are aware of the need to accelerate growth to combat poverty, and the discussions on structural policies centered on the measures to encourage the private sector to lead growth, including removal of impediments and the role of the public sector in creating conducive conditions.
- The program for 2005 focuses on further consolidation of Ghana's gains in macroeconomic stability and intensification of structural reform in key areas. Growth is projected to continue at the current strong pace, and inflation should be well contained (inclusive of the impact of a recent petroleum price adjustment).

- Regarding structural policies, the authorities are intent on reforming the public sector and strengthening the financial sector. Public sector reform will involve restructuring the civil service to improve service delivery and improving the financial and operating performance of state-owned enterprises. Removing rigidities that impinge on the availability and cost of credit will be the focus of measures designed to enhance intermediation in the financial sector.

Main issues raised in the staff appraisal

- Macroeconomic performance remains broadly satisfactory, with most of the program objectives being achieved. Nonetheless, macroeconomic stability is still fragile. Economic prospects are still largely driven by the export of a few commodities, which together with high oil prices, contributes to the vulnerability of the economy.
- A fiscal challenge is to prevent further slippages that would undermine the market's confidence in Ghana's policies and have adverse macroeconomic effects. Increasing fiscal space is a high priority to provide room for growth-enhancing and poverty-reducing expenditures aimed at achieving the MDGs. In this context, further sizeable reduction in the ratio of domestic debt to GDP is desirable, primarily through cuts in low-priority expenditures and in the public sector wage bill relative to GDP.
- The central bank's inflation target is within reach, but vigilance is required. The credibility of the Bank of Ghana has been bolstered recently, as refinements to its instruments have increased the efficacy of monetary policy. However, a firm stance will be needed to avoid an upward shift of inflation in light of high world oil prices.
- The intensification of structural reform in key areas will help support the relatively robust pace of growth. The government's commitment to follow through with petroleum sector deregulation is welcome. In this regard, the critical element is to ensure the automatic and independent adjustment of petroleum product prices and to eliminate government involvement. Enhancing financial intermediation—together with reform of the civil service and public enterprises—will support private sector development.
- Staff supports the authorities' request for (i) waivers for nonobservance of three quantitative and one structural performance criteria, (ii) completion of the third review, and (iii) extension of the PRGF arrangement.

I. RETROSPECTIVE

1. **Since the early 1980s, Ghana has experienced relatively strong economic growth and poverty reduction, which compare favorably with other countries in sub-Saharan Africa.** Real GDP growth averaged almost 4½ percent a year over two decades, in spite of myriad external shocks and the adverse effects of stop-and-go policies through much of the past that buffeted the economy. Poverty has declined from more than half of the population to an estimated 35 percent, and recent data suggest that the link between growth and poverty reduction has strengthened.¹ However, despite the robust economic expansion, per capita income remains low at about US\$435.
2. **Economic reform began in earnest in the 1980s.** The reforms were ushered in by a series of devaluations that reversed Ghana's deteriorating international competitiveness, the gradual removal of price controls, and the liberalization of trade and investment. Further market-oriented and financial sector reforms, including an ambitious divestiture program, were implemented in the latter part of the 1990s. However, Ghana experienced serious imbalances and volatile inflation during the 1990s. This originated partly from weak macroeconomic policies, especially a lax fiscal stance, and a significant deterioration in the external terms of trade (from rising world oil prices and depressed prices for cocoa and gold) near the end of the decade.
3. **Economic performance has improved further since 2000, with the economy growing at its fastest pace in more than a decade.** Underpinning this performance has been a marked improvement in macroeconomic management—as noted in recent Executive Board discussions on Ghana (Box 1)—and a generally favorable external environment. Although inflation remains high, it is being reduced through a firm monetary policy; total public debt has declined substantially as a result of debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative and fiscal prudence; gross international reserves have reached a record-high level, and the exchange rate vis-à-vis the U.S. dollar and in real effective terms has remained relatively stable since the substantial adjustment in late 1999. Structural reforms have begun to yield some benefits, particularly in agriculture. Also, private sector activity is strengthening, with a consequent broadening of the economic base.

¹ The implied poverty-income (per capita) elasticity for Ghana has risen recently and is now higher than in other countries in the region.

Box 1. Fund Relations

At the conclusion of the last Article IV consultation in May 2003, Executive Directors endorsed Ghana's Poverty Reduction Strategy (GPRS) as a sound basis for promoting growth and reducing poverty.¹ At the time of the second review of the PRGF arrangement in July 2004, Directors commended the authorities for strengthening macroeconomic management, but regretted the decision to leave petroleum prices unchanged ahead of the elections in December 2004.

Ghana has generally been receptive to the Fund's policy advice within the context of both Fund-supported programs and surveillance. In this regard, it has made important strides in recent years with respect to macroeconomic stability and has pushed forward an ambitious structural reform agenda. Strong program ownership is also being demonstrated, and, in most cases, delays have been due more to a lack of capacity than to reticence. In the case of adjusting domestic petroleum prices, however, the authorities were somewhat reluctant owing to what they perceived as a difficult socio-political environment that threatened the durability of such reform, if they were to proceed with it before the elections.

¹ See www.imf.org/external/country/GHA/index.htm.

II. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

4. **Real GDP growth in Ghana reached 5.8 percent in 2004, more than a percentage point higher than the average during 2001–03** (Table 1). Agriculture continued to be the main contributor to growth, with productivity improvements in the cocoa sector leading to record-high production. A strong pickup in the service and construction sectors—helped by increased bank credit and private inward remittances (mainly from the United States, Canada, and United Kingdom)—also made a significant contribution to overall economic growth.²

5. **Inflation declined sharply in 2004, falling by half to 11.8 percent from the end-2003 rate.** Following increases in the prices of petroleum products that averaged 50 percent in late-February 2005, inflation accelerated to around 16½ percent in March-April. However, the Bank of Ghana's core measure of inflation (excluding energy and utilities) has remained broadly stable. This stable inflation, together with stable interest rates and nominal exchange

² Private remittances in 2004 amounted to the equivalent of 15 percent of GDP (Table 2). Flows of private remittances now constitute one of the largest sources of external finance for developing countries. For Ghana, private remittances are larger than the combination of official transfers, official capital, and private capital inflows. In 2004, such remittances amounted to about US\$1.3 billion or 15 percent of GDP, compared with about US\$600 million in official flows. Part of the increase in remittances is probably due to improvements in data coverage and reporting by commercial banks. Remittances to Ghana are attributable mainly to the relatively large diaspora, estimated at about 3 million, or 15 percent of the resident population. Preliminary data for 2004 show that about half of these inflows originate in the United States and Canada, with one fourth from the United Kingdom.

rate for the cedi vis-à-vis the U.S. dollar, suggests that inflation expectations may be well contained (Figures 1 and 2).

6. **The external sector experienced some improvement in 2004.** The buildup in gross international reserves to US\$1.8 billion (equivalent to 3.7 months of imports) by the end of the year was significantly above the target included as performance criterion in the program (Table 3). Private remittances, expanding export receipts from cocoa and gold, and increases in donor support helped in this regard (Table 4). The external current account (after official transfers) moved from surplus into deficit (2.7 percent of GDP) in 2004, reflecting a significant increase in capital imports tied to donor inflows, and a larger oil import bill (by nearly 2½ percentage points of GDP) as a result of higher world oil prices. The volume of exports expanded rapidly in 2004 reflecting higher cocoa and gold exports, and continued growth in nontraditional exports. The real effective exchange rate for the cedi remained relatively stable.

7. **Satisfactory policy implementation helped consolidate macroeconomic stability in 2004, although favorable supply shocks and higher-than-programmed inflows from donors contributed.** Monetary policy remained firm and the monetary aggregates were in line with the program targets and performance criteria (Table 5). The monetary stance has not changed so far in 2005, with growth in reserve money being maintained at the same rate as in 2004 (about 17 percent). However, the Monetary Policy Committee (MPC) of the Bank of Ghana lowered its policy-controlled interest rate by 200 basis points to 16½ percent after its meeting in May, signaling its intention to ease the policy stance since the indirect effects of petroleum price deregulation have largely been absorbed.

8. **The execution of fiscal policy improved in 2004, although there were some slippages** (Table 7). The overall budget deficit narrowed by 0.8 percentage points of GDP to 3.6 percent in 2004, but this was 2 percentage points of GDP larger than programmed. Total revenue and grants were higher than projected, with domestic resource mobilization (ratio of tax revenue to GDP) reaching its highest level of 23.8 percent of GDP. This improvement reflects strong economic growth, some new tax measures, more efficient revenue administration, and a significant rise in grants. However, the additional resources were more than offset by unanticipated capital outlays, increased subsidy for petroleum products as world oil prices rose, and an overrun in wages. Partly as a consequence of these developments, the envisaged repayment of domestic debt did not transpire. Thus, the programmed reduction in the ratio of domestic debt to GDP was achieved only as a result of faster GDP growth.

9. **Three fiscal-related quantitative performance criteria were not observed** by the end-December 2004 test date (Table 3).

- **Net domestic financing of the budget.** The limit was exceeded by about 1 percent of GDP, mainly because of higher expenditure for poverty reduction and infrastructure in key areas, petroleum-related subsidies, and a wage overrun for subvented agencies

(resulting from a failure to account fully for all such employees in the program and weak monitoring).

- **Credit to the state-owned Tema Oil Refinery (TOR).** The limit on the stock of net domestic banking sector credit to TOR was exceeded because of a delay in subsidy transfers from the government (to offset the under recovery of costs). The transfer was effected in early 2005, after verification of the subsidy amount. The problem was a technical one, and subsidies to TOR have ended as a result of petroleum sector deregulation.
- **Contracting or guaranteeing of medium- to long-term nonconcessional external debt.** The zero ceiling was breached with a US\$40 million loan from Nigeria to finance Ghana's participation in the World Bank-supported West African Gas Pipeline. The authorities had mistakenly expected concessional financing and could not make alternative arrangements in time to avoid a US\$25 million (0.3 percent of GDP) penalty.³

10. **Some progress was made in structural reforms, with a majority of the structural performance criteria and benchmarks being met** (Table 11). The financial sector has strengthened considerably since the late 1990s, which is reflected in commercial banks' balance sheets (that is, banks are generally liquid, meet prudential requirements, and many are highly profitable). Their improvement is partly the result of regulatory and legislative reforms, in line with the recommendations of the Financial Stability Assessment Program (Box 2), implementation of reform measures, and the incipient macroeconomic stability.

³ Although this project is economically important, the authorities did not consult with the Fund staff in a timely manner. To prevent such failures in the future, mechanisms have been instituted for regular meetings between government officials and the Resident Representative on program monitoring.

Box 2. Progress in Financial Sector Reform

A financial stability assessment program (FSAP) for Ghana was undertaken in 2000–01, followed by an update (published) in December 2003. The main conclusion from the FSAP is that, in the past, macroeconomic instability undermined the functioning of the financial sector, and this partly explained the low level of intermediation. The FSAP identified a number of shortcomings that have inhibited financial sector development, and proposed measures to improve corporate governance, strengthen laws and prudential regulations, private property rights, and timely payment of the government's obligations. During the past few years, the authorities have made significant progress in addressing these concerns, and nearly all of the key FSAP policy recommendations have now been completed (Table 12).

In 2003, the Bank of Ghana underwent a safeguards assessment, which revealed vulnerabilities in the central bank's financial, audit and internal controls areas. All but one of these weaknesses have since been addressed; the outstanding measure concerns the quality of external audit controls.

A strengthening of macroeconomic policy implementation and structural reforms have helped establish a more propitious environment for financial sector development. During the past two years, indicators of financial soundness for the banking sector have improved (Table 13). All commercial banks meet the capital adequacy requirement of 6 percent, and most are above 10 percent, the ratio of nonperforming loans to total loans has fallen to 16.1 percent from a peak of 22.7 percent in 2002, and the provisioning for bad loans has increased. Interest rate margins are wide, but are expected to narrow due to increased bank competition for private-sector borrowers (following the recent decline in the public sector borrowing requirement), and for funds (following the entry of two foreign-owned banks in the market).

11. **Public expenditure and financial management has been enhanced** (with help from FAD technical assistance). A cash management and commitment control system is fully functioning; the budget and public expenditure management system is operating in 10 of 38 ministries; the reporting of internally generated funds, grants and loans by ministries, departments, and agencies is done regularly; and the implementation and enforcement of several key pieces of legislation (Financial Administration, Procurement, and Internal Audit Agency Act) have advanced. All these efforts are intended to reduce fragmentation of the budget over the medium term. The reform of public enterprises is ongoing, with full cost-recovery pricing for public utilities (a quarterly structural performance criterion), and the settlement of all cross-debts between the state-owned enterprises.

12. **However, measures to deregulate the pricing mechanism for petroleum products—a structural performance criterion—have not been adopted as scheduled.** One of the elements involves implementing an automatic adjustment mechanism to ensure the full recovery of all costs, taxes and levies, and appropriate margins for the importers and distributors (Box 3). This mechanism was established and petroleum prices were adjusted on February 23, 2005, which was about a week later than envisaged. The other element concerns an independent oversight body to monitor the pricing mechanism, which is expected to be established in June 2005 after parliament passes the enabling legislation.

13. **After Ghana reached the completion point under the enhanced HIPC Initiative in July 2004, all multilateral creditors agreed to offer it debt relief.** Most of the creditors

have now signed stock cancellation agreements, and the agreements with the remaining Paris Club creditors are to be completed shortly. Ghana has also received additional debt relief beyond the enhanced HIPC Initiative from most bilateral creditors.

Box 3. The Petroleum Sector and Product Pricing

In the past, the state-owned Tema Oil Refinery (TOR) was the only sanctioned importer of petroleum products. This restriction was lifted in 2004, and oil-marketing companies and market traders are now free to participate in competitive tenders for the import of both crude oil and refined products.

Until recently, the government was involved in pricing petroleum products. After 2002, these prices were to be determined by an automatic and independent formula defined to ensure full cost recovery for TOR. The basis of the formula was the import-parity price for crude oil, to which TOR's shipping, insurance, and refining costs were added to establish the ex-refinery price. The retail price was then calculated by adding taxes, levies, and distributor margins. The formula was to be monitored by the National Petroleum Tender Board (NPTB).

However, for the most part, the government did not allow the pricing formula to function as intended. Instead, it made infrequent adjustments that did not cover all the elements mentioned above and provided budget subsidies to TOR for the under recovery.

In 2004, the required subsidies to TOR amounted to 2.2 percent of GDP. TOR also borrowed to finance its operations, and its outstanding debt to Ghana Commercial Bank amounts to nearly 1 percent of GDP. In mid-2004, the government committed to deregulating the petroleum sector, and to remove itself from petroleum product pricing.

Deregulation of petroleum product pricing has several key elements.

- Maximum retail prices for refined petroleum products will be determined by adding all applicable taxes, levies, and adequate distributor margins to the ex-refinery price. The ex-refinery price is the c.i.f. import price of refined products, which also sets an upper limit for the price TOR can charge for its refined products (derived from imported crude).
- The supply of refined products or crude oil will be determined by a competitive tender. Tenders will occur as needed, and retail price adjustments will be automatic but implemented with a lag, reflecting the time it takes for the new supplies to reach the market (about six to eight weeks after the tender).
- Application of the new pricing mechanism will be monitored by the National Petroleum Authority (NPA), which will also assume responsibility for operating the tender process and for ensuring, through ex post assessment, that the maximum price is observed. The NPA will include representatives from the government, the private sector, and nongovernmental organizations.
- The NPA will use a three-month moving average of Mediterranean Platt prices (published in the Platt's Oilgram) as a benchmark to gauge anticompetitive or unfair behavior. Pricing above this benchmark will have to be justified by the retailer before being accepted by the NPA.

III. POLICY DISCUSSIONS

A. Macroeconomic Objectives

14. **The foundation for the recent improvement in economic conditions was laid out in the GPRS in early 2003.** The broad macroeconomic goals in the three-year PRGF arrangement (covering the period 2003–05) included raising real GDP growth to an average of 5 percent a year, reducing inflation to single digits, building gross international reserves to three months of import coverage, and reducing domestic debt as a share of GDP. Measured against these objectives, Ghana’s performance under the program has been broadly satisfactory. The main challenges now facing Ghana include accelerating growth so that poverty can be reduced at a faster pace, bringing down inflation closer to the rate in its major trading partner countries, containing the civil service wage bill to release resources for productive public expenditure, intensifying structural reforms to enhance the environment for faster economic growth, and improving the overall management of public enterprises.

15. **The authorities informed the staff that Ghana is updating the GPRS against the backdrop described above.** The GPRS will cover 2006-09 and be better aligned with the MDGs, most of which Ghana is on track to reach. However, progress is lagging in certain areas—including health (Tables 14 and 15)—and more resources will be required to achieve all of the MDGs.⁴ The authorities are aware of the difficulty of securing additional resources, and they realize, rightly, that although they will need foreign assistance, they must first try to find resources at home.⁵

16. **Accordingly, the discussions focused on the appropriate macroeconomic policy stance**—particularly with respect to fiscal, monetary, and external policies—and on the key structural reforms to achieve the medium-term macroeconomic objectives.

B. Fiscal Policy

17. **Fiscal policy discussions centered on the appropriate medium-term level of domestic debt and the scope for increasing fiscal space, raising the quality of public expenditures, and further enhancing governance in the use of public resources.** The authorities indicated that the ratio of domestic debt to GDP remains the anchor of the fiscal

⁴ The revised GPRS, together with the Annual Progress Report, is to be completed around midyear. The revised GPRS will recommend measures to address problem areas, such as health, where a combination of actions are needed to achieve progress. In addressing infant mortality, for example, treatment will combine immunization, provision of insecticide treated bed nets, using anti-dehydration therapy, and correct application of anti-malaria drugs.

⁵ Recent estimates by both the Ghanaian authorities and the UNDP suggest additional amounts of US\$2.5 billion (28 percent of GDP) annually over the next 10 years for public investment and outlays in critical areas, such as health, education, and infrastructure.

strategy, but a further reduction significantly beyond the level targeted for 2005 may not be desirable, given the resources Ghana will need to meet the MDGs (Box 4). While recognizing this need, the staff urged them to reduce the relative size of the domestic debt substantially beyond the 2005 target because government current spending and domestic debt service are still relatively high, and potential future liabilities from the operations of public enterprises are significant. Moreover, further reductions in the ratio of debt to GDP would (i) enlarge the durable fiscal space for additional priority spending and growth-enhancing tax cuts; (ii) enhance the potential for lower interest rates and for a “crowding-in” of private sector investment; and (iii) provide room to borrow against unpredictable disbursements of external assistance. Nonetheless, both the staff and the authorities agreed with the need to balance these prospective benefits from a further debt reduction against the opportunity cost of scaling up productive capital and poverty-related spending.

18. **The potential for additional domestic resource mobilization appears circumscribed.** The tax burden has risen sharply over the past several years, and is higher than in other countries in the region. Nonetheless, there is scope for Ghana to increase tax revenue at the margin by broadening the tax base, eliminating exemptions and loopholes, and strengthening tax administration—particularly in areas where efficiency gains have not been exhausted, such as customs and the informal sector.

19. **The staff recommended that the focus be on containing expenditure and making it more productive by shifting its composition toward productive investment.** There has been some shift toward high priority expenditures during the past several years, but the staff observed that further prioritization would make the environment more conducive to private sector-led growth. Explicit linkages should be established between the GPRS, the medium-term expenditure framework, and the annual budget. The authorities indicated that the trend of shifting expenditure to priority areas would continue in the medium term, but recognized that the associated recurrent expenses will increase as well (particularly for infrastructure maintenance, health, and education).

20. **The authorities agreed with the staff that the civil service wage bill—at around 9 percent of GDP—may be high, given the pressing demands to fight poverty.** However, they argued strongly that recent wage increases were needed to begin to attract and retain qualified personnel. The staff pointed out that the wage bill has risen significantly in the recent period and is high relative to that in other countries in the region.⁶ The staff urged the authorities to roll back the wage bill to about 8½ percent of GDP over the medium term, noting that they could do so in the context of the proposed civil service reform.

⁶ For more details, see the attachment in the Statistical Appendix accompanying this report.

Box 4. Summary of Discussion on Medium-Term Fiscal Strategy

The fundamental premise of the medium-term fiscal strategy is to maintain sustainability and to provide enduring “fiscal space” for productive and pro-poor spending (aligned to meet the Millennium Development Goals). More specifically:

- The domestic debt-to-GDP ratio should remain the nominal fiscal anchor.
- Low priority current expenditure needs to be reduced to free up resources. Removing government’s involvement in petroleum pricing and ensuring full cost recovery pricing is a prime example of eliminating inefficient and ineffective public spending.
- The focus should be on increasing productive capital spending, particularly on health, education and infrastructure, to accelerate the progress toward achieving the MDGs.

Based on this premise, the mission presented illustrative projections (Table 16). The scenario suggests that by reducing debt sharply, domestic debt service will be lowered significantly helping to create room for other spending. The scenario allows for a gradual increase in the level of capital spending. Moreover, the projections assume: the ratio of revenue to GDP will gradually decline, reflecting some reduction in tax rates; and recurrent expenditure as a share of GDP declines, reflecting a lowering of both the wage bill and domestic debt service.

In the authorities’ view, the path of the domestic debt-to-GDP ratio in the mission’s illustrative scenario is too aggressive. Instead, the authorities viewed the level of debt envisaged at end-2005 as fiscally sustainable, and it could be reduced more gradually over the medium term. They also suggested that raising expenditure was urgently required to achieve the MDGs. At the same time, the authorities acknowledged that, in assessing sustainability, fiscal risks including unpredictability of external assistance and contingent liabilities stemming from noncommercial activities of public enterprises, should be taken into consideration. Accordingly, the authorities proposed an alternative illustrative scenario that implies a gradual decline in the domestic debt-to-GDP ratio. The authorities’ scenario assumes that:

- The revenue to GDP ratio remains constant, implying no room for reducing the overall tax burden.
- The ratio of recurrent expenditure to GDP declines only modestly, and the wage bill to GDP ratio remains constant (9 percent of GDP).
- Capital expenditure including “additional productive expenditure” relative to GDP increases more substantially.
- “Other payments” including arrears clearance and the float remain large.

The implications from the two sets of projections are as follows:

- As part of “other payments” include arrears clearance, the authorities’ projections suggest the urgent need to improve public expenditure and financial management as a key to raising the “quality” of spending.
- By not reducing the domestic debt to GDP ratio aggressively, relief from debt service is limited, which is an important source of fiscal room in the mission’s projections.
- While there are differences in the current expenditure profiles and the implications for debt service, both sets of projections have a similar view about the desirability of increasing productive capital expenditure.

The authorities and the staff, in close consultation, will continue to review these issues, weighing the associated costs and benefits, in light of reforms in the public sector—including civil service reform, measures to enhance public expenditure and financial management—and overall economic developments.

21. **The authorities indicated that the main objective of the civil service reform will be to enhance the delivery of services to the public.** In this regard, the government is to determine the appropriate size and structure of the civil service to deliver on this goal, and design the transition from the current size and structure to the appropriate one. Until the design and costing of this reform are completed, the authorities are not prepared to set an explicit target for the wage bill over the medium term.

C. Monetary and Financial Sector Policies

22. **Monetary policy is mainly focused on reducing inflation to single digits over the medium term.** The authorities described their monetary policy framework as a “variant” of an inflation targeting regime—in which they use open market operations to achieve the desired growth of the monetary aggregates, consistent with the inflation objective. In an environment with strong foreign exchange inflows, the Bank of Ghana is vigilant on the challenges of managing such inflows in a manner that balances monetary expansion and competitiveness. The Bank of Ghana’s instruments for liquidity management have been refined with the introduction of central bank bills. This, together with improvements in liquidity forecasting and the regular and candid economic assessments provided by the Monetary Policy Committee (MPC), has strengthened credibility, which supports the effectiveness of the policy-controlled interest rate in signaling the direction of monetary policy. As such, market interest rates have begun to track the central bank’s prime rate more closely.

23. **The staff expressed some concern about the secondary reserve requirement, which is set at 35 percent of banks’ deposits and directs banks’ assets toward government securities.**⁷ The authorities argued that this instrument should not cause concern because the banks currently hold excess reserves, secondary reserves are fully remunerated, and there is limited opportunity to expand the banks’ loan portfolios at this time. The staff acknowledged these factors, but observed that not all banks were holding excess reserves, and noted that this requirement potentially inhibited economic efficiency and prevented some banks from taking full advantage of market opportunities. The authorities agreed with this assessment, but were concerned about their capacity to control the potential short-term impact on liquidity of this reform. They also indicated that the secondary reserve requirement would be reexamined when there was firmer control over liquidity and low inflation. It is in this context also that the steps required for a full-fledged inflation targeting regime will be assessed.

⁷ The primary reserve requirement is 9 percent of banks’ deposits. The secondary reserve requirement was initially adopted in September 1996 (at 52 percent) as a temporary measure to mop-up liquidity and address prudential concerns. It has been at 35 percent since April 1997. Banks must meet the secondary reserve requirement by holding various government (and central bank) securities.

24. **The Financial Sector Strategic Plan continues to provide the medium-term direction for financial sector reform.** In this regard, more than 20 pieces of legislation (bills)—intended to support the legal and regulatory framework, strengthen governance, and increase access to, and reduce the cost of, credit—are in various stages of preparation. The authorities feel that these measures will set the ground for an expansion in private sector credit, which is a key element of the overall development strategy. At present, banks are wary of extending credit to small and medium-size enterprises and consumers, given the lack of information on the creditworthiness of borrowers, and weak in-house capacity to assess risks.

25. **An important objective of Ghana’s financial policies is to increase competition and efficiency in the banking sector.** In this regard, the licensing of two well-capitalized foreign banks, the raising of the capital requirements, and the introduction of real-time gross settlement and central security depository systems are steps in the right direction.

26. **The authorities indicated that the financial sector is generally sound.** However, the operations of the Ghana Commercial Bank (GCB)—the largest commercial bank with about 20 percent of the sector’s financial assets—may need further strengthening. The staff pointed out that GCB’s exposure to TOR is a source of concern. Although the petroleum sector deregulation will reduce TOR’s financing needs henceforth, the current stock of TOR’s debt to GCB must be reduced in a timely manner.

D. External Policies

27. **Ghana remains committed to maintaining a managed floating exchange rate regime, with no preannounced path for the exchange rate.** Under this regime, intervention in the foreign exchange market aims only to smooth short-term exchange rate fluctuations and achieve the targeted level of international reserves, a key program objective. In the past, the authorities took advantage of strong inflows by accumulating reserves at a faster pace when the opportunity presented itself. The staff pointed out that while the build up of international reserves has provided a larger cushion against shocks, a result has been the relative stability of the nominal exchange rate (Figure 2). A slower pace of reserve accumulation would have led to some appreciation that would have further dampened inflation. Nevertheless, given the overall good progress on dis-inflation, the staff concurred with the authorities’ accelerated reserve accumulation.

28. **In the authorities’ view, the current exchange rate regime has served Ghana well, and the level of the exchange rate is appropriate.** Gross international reserves are at a record-high level, the exchange rate of the cedi and Ghana’s price competitiveness do not appear to be under any pressure, and nontraditional exports have continued to expand strongly. The real effective exchange rate depreciated by about 50 percent in late 1999, reaching a low in mid-2000. Since then, it has remained relatively stable, appreciating by

only 11 percent over the five-year period. Also, according to the World Economic Forum's growth competitiveness index, Ghana is well placed among countries in the region.⁸

29. **There was some discussion concerning the surrender requirement for foreign exchange** and the reasons for the delay in implementing a computerized real-time foreign exchange trading system. The central bank is unwilling to abolish the surrender requirement (which applies to a limited number of enterprises) for the time being, judging that the release of foreign exchange into the market by a small number of enterprises that have significant foreign exchange earnings would introduce foreign exchange market volatility. To enhance the effective functioning and deepen the interbank foreign exchange market, the staff urged the authorities to continue with the development of a computerized real-time foreign exchange trading system. The introduction of this system has been delayed out of concern over the institutional capacity of both market participants and the central bank to operate the system effectively and without undue risk to exchange rate stability.

30. **Expanding access to regional and global markets is an important policy goal enunciated in the government's National Trade Policy launched in December 2004.** The authorities believe that such expansion would bolster domestic competition, encourage export growth, and accelerate the transfer of technology. The staff agrees with the main elements of the National Trade Policy but expressed some uneasiness about the potential conflict in the focus on both export promotion and import substitution. However, the authorities assured the staff that the intention is to foster domestic competition—not protection—through multilateral trade liberalization, create a level playing field for both imports and exports, and protect consumers and producers (including intellectual property rights). In particular, the government has ruled out the use of high tariffs to protect domestic industries, noting that experience in most developing countries indicates that such policies do not work.

31. **The authorities agreed with the staff on the desirability of continued reliance on external financing on concessional terms for Ghana's development efforts.** However, they considered that accessing international capital markets would send a positive signal to potential investors and thereby increase foreign direct investment. In this regard, the authorities pointed out that several international investment banks were ready to assist Ghana and that the government would wish to capitalize on Ghana's B+ sovereign rating. They argued that eventual access to the international capital markets would (i) supplement available external financial assistance from traditional official sources and development partners; (ii) submit the whole economy to more vigorous market discipline; (iii) increase growth and employment generating potential investment; and (iv) establish a market

⁸ This index takes account of both quantitative and survey data (on trade, governance, corruption, infrastructure, and technology) in assessing competitiveness. For sub-Saharan Africa, Ghana ranks only behind South Africa, Botswana, Mauritius, and Namibia.

benchmark and a signal for Ghanaian corporates and investors. This, the authorities observed, would lay the groundwork for Ghana to graduate from the PRGF arrangement.

32. **The staff**, consistent with recent ICM recommendations following a technical assistance mission, **reiterated that Ghana should first exhaust current avenues for concessional borrowing**. Furthermore, efforts should be made to strengthen its debt-management capacity to design and assess loan proposals; and establish a longer track record of good macroeconomic performance after reaching the enhanced HIPC Initiative completion point to obtain better financing terms that would not jeopardize debt sustainability. The authorities undertook to observe the zero ceiling on nonconcessional debt but requested the Fund’s future reconsideration of this conditionality, which, they suggested, had been needed under economic circumstances vastly different from those under which the economy now operates.

E. Structural Reforms

33. **The GPRS update is being refocused to highlight the importance of creating conditions for the private sector to lead economic growth**. In this regard, priority is being accorded to financial sector development and enhancing the performance of public sector activities through the reform of the civil service and state-owned enterprises.

34. **The discussions centered on the motivation, objectives, and action plan for civil service reform**. The government explained that this reform had been elusive in the past—because of a lack of ownership—but that current efforts are being supported at the highest level. The authorities stressed the need to form a “professional” civil service. While they do not perceive Ghana as being “over administered,” they recognize that productivity is low and service delivery is poor. The staff encouraged the government to proceed expeditiously, once a comprehensive strategy is developed by midyear.

35. **State-owned enterprises (SOEs) account for a sizable share of economic activity, and the government recognizes that enhancing their performance will have positive macroeconomic implications**. The staff reviewed the operations of several SOEs and found a lack of comprehensive and timely information for most of them.⁹ The authorities are aware of the need to address this situation and agreed to undertake a number of actions, including developing the necessary capacity to monitor the financial and operating performance of all SOEs and ensuring that commercially oriented entities maintain or adopt pricing policies that reflect full cost recovery. It was agreed that the authorities should strengthen a monitoring

⁹ Recent Fund staff analysis (www.imf.org) suggests that extending the fiscal coverage to include SOEs would worsen the public debt burden but the extent is uncertain because of data limitations. Available preliminary details on the financial performance of a few SOEs are provided in an attachment to the Statistical Appendix accompanying this report.

unit in the Ministry of Finance and Economic Planning before developing meaningful quantitative indicators to track performance.

36. **Ghana's provision of data to the Fund is adequate for program monitoring and surveillance purposes.** However, the quality and timeliness of the data need to be improved and the Fund has been providing Ghana with technical assistance toward that end. Further improvement in economic statistics would mainly involve building the capacity of Ghana's Statistical Service, for which adequate budgetary provision would be required. Given the importance of statistics, the staff encouraged the authorities to take the necessary steps to finance this activity. In addition, Ghana should complete the process for participation in the GDDS, as a framework for the needed improvements.

IV. MEDIUM-TERM PROSPECTS AND RISKS

37. **With the broad policy framework sketched above, Ghana's macroeconomic prospects over the medium term appear promising.** Growth is projected to continue at the current relatively high rate, as macroeconomic stability becomes more entrenched with fiscal sustainability, inflation declines further, and the government perseveres with structural reform (Table 17). Annual growth of about 6 percent is projected under the medium-term baseline scenario (Table 18), supported by continued strong private-sector investment, and the concentration of public investment on vital infrastructure. After an initial rise in 2005 because of the deregulation of the prices of petroleum products, headline inflation is expected to decline significantly over the medium term to about 6 percent in 2008.

38. **The external current account deficit (after official grants) is projected to widen to about 5 percent of GDP a year over the medium term.** This partly reflects higher payments for oil imports and the increases in imports of capital and intermediate goods associated with higher levels of investment (Table 19). Gross international reserves are to rise gradually to the equivalent of 4.1 months of imports, providing a larger cushion for shocks. The authorities pointed out that even if Ghana received the expected amount of foreign assistance included in this baseline scenario, it would still be unable to achieve all the MDGs. They argued that for a more pronounced impact on poverty, real GDP growth would have to be much faster, at about 8–10 percent a year. Hence, they saw an urgent need to scale up the resources available to tackle the impediments to faster economic growth.

39. **A risk to this scenario is a further increase in world oil prices that may retard growth, lead to a larger external current account deficit, and delay the achievement of single-digit inflation.** Moreover, while the current level of gross international reserves is more than twice the value of a year's worth of oil imports, a drawdown will reduce the cushion that exists to safeguard stability. The authorities indicated that, indeed, higher world prices for oil posed the most important risk and, coupled with a deterioration in commodity prices, could undermine Ghana's recent macroeconomic gains. In addition, diversification of the export base would help reduce the country's vulnerability, and improved productivity in agriculture would contribute significantly to poverty alleviation.

40. **The staff indicated that further fiscal slippages would also endanger the established macroeconomic stability.** In this regard, the staff urged the authorities to be vigilant and to strengthen fiscal discipline over the medium term.

41. **Debt relief under the enhanced HIPC Initiative has led to an improvement in Ghana's debt service indicators, which are projected to remain at manageable levels** (Table 19). An updated debt sustainability analysis shows that Ghana's external and public debt is sustainable over the projection period (Figures 3 and 4). Although debt will gradually build up by approximately US\$350 million a year, new loans are expected to be on concessional terms. A sensitivity analyses shows that Ghana's external debt sustainability would be robust to most shocks that are not persistent, such as a temporary decline in the rate of growth or low cocoa prices. However, a temporary reduction in grants would lead to a sharp increase in the net present value of the debt-to-GDP ratio over the medium term. Thus, Ghana's long-term debt sustainability could be jeopardized by a sustained deterioration in key economic variables, and most importantly, by a significant reduction in grants as a source of financing.

V. PROGRAM FOR 2005

42. **It is within the above medium-term framework that the authorities developed their program for 2005.** The program—detailed in the associated Memorandum of Economic and Financial Policies (MEFP; see www.imf.org)—focuses on further consolidating Ghana's gains in macroeconomic stability and intensifying structural reform in key areas. The macroeconomic objectives are to maintain real GDP growth at 5.8 percent, contain inflation at about 14 percent (inclusive of the impact of petroleum price adjustment) by year end, and build international reserves to about four months of projected imports of goods and services. Policy measures will be consistent with these objectives. In particular,

- fiscal policy will aim to achieve the targeted reduction in the ratio of domestic debt to GDP (11½ percent by year-end);
- monetary policy will aim to contain the expansion of reserve money and broad money at about 18 and 23 percent, respectively, consistent with achieving the inflation and international reserves targets;
- structural reforms will aim to enhance the conditions for private sector development and deepening financial intermediation; and
- economic governance will be strengthened through reform of the civil service and state-owned enterprises.

43. **The 2005 budget targets a sharp increase in the domestic primary surplus to about 2½ percent of GDP, consistent with a net domestic repayment that would yield the targeted reduction in the ratio of net domestic debt to GDP.** Total revenue is expected to rise ½ percentage point of GDP to 30½ percent, mainly on account of higher indirect taxes on imports of goods and petroleum (driven mainly by administrative improvements), and the full-year impact of the health levy introduced in 2004. This increase

helps offset both a decline of grants (by about ½ percent of GDP), and a reduction of corporate income taxes (to spur investment) and an increase in the personal income tax threshold (to help reduce the tax burden facing low-income earners).¹⁰ Total expenditure will decline by 1½ percentage points of GDP to below 32 percent, mainly on account of lower domestic debt service and outlays for goods and services, and the elimination of TOR subsidies. These expenditure cuts amount to about 2¾ percentage points of GDP, and more than offset a slight increase in capital and poverty-related spending, and measures to cushion the impact of the higher petroleum prices on vulnerable households. The latter includes increased grants for education and health services, expanded rural electrification, and extended public transportation to less developed areas.

44. **The budget also calls for an increase in the wages of government employees.** The wage bill is projected to rise to 9.1 percent of GDP—including 0.2 percent of GDP in payments that were due in 2004 but paid this year—compared with 8.7 percent last year. The authorities are mindful of the slippage in wages that occurred in 2004 and the program, therefore, includes a limit on total wages and salaries (inclusive of all allowances) in 2005 that will be monitored quarterly (quantitative performance criteria are detailed in Table I.1 of the MEFP). Also, the government is to create comprehensive and computerized personnel and payroll databases that cover all employees of the government and subvented agencies (a structural performance criterion, which is detailed in Table I.2 of the MEFP).

45. **The goal of the central bank will continue to be the reduction of inflation.** By maintaining a firm monetary policy, the central bank should be able to deliver on its inflation objective, even in an environment of high oil prices. Combined with ongoing fiscal consolidation, the envisaged expansion of broad money should also allow for a further expansion in bank credit to the private sector.

46. **In the area of structural policies, the program heightens the focus on reforming SOEs and the civil service, and strengthening the financial sector to enhance intermediation.** As a start, the program includes measures to enhance the monitoring of SOEs' financial and operating performance, increase their accountability, and press them to adopt pricing policies (where appropriate) that recover costs in full.¹¹ Cabinet is to approve the final plan for the civil service reform by year's end (a structural performance criterion), and the plan's implementation is slated to begin in January 2006. With regard to the financial

¹⁰ The program no longer includes an adjuster for program loans and grants since the harmonization of donor flows through the Multi-Donor Support Group is making these inflows, which are conservatively estimated more predictable. Also, the TMU was amended to clarify that the medium- and long-term debt performance criterion does not apply to any obligations arising from the settlement of a dispute between Ghana and a foreign investor in Ghana Telecom.

¹¹ The staff will continue to review and monitor, in particular, the pricing of petroleum products and utilities to safeguard the budget. However, in light of petroleum sector deregulation and satisfactory operation of utility pricing mechanisms, conditionality is no longer required in these areas.

sector, the program is designed to remove structural rigidities that impinge on the availability and cost of credit while safeguarding stability.

47. **The authorities have requested an extension of the current PRGF arrangement to October 31, 2006**, so that the sixth and final review and all disbursements under the arrangement could be completed. A prospective phasing of the remaining disbursements under the arrangement is shown in Table 20.

VI. STAFF APPRAISAL

48. **Ghana's macroeconomic performance continued to be broadly satisfactory in 2004, with the achievement of most of the program objectives.** This performance has boosted business confidence further and resulted in increased foreign inflows. These inflows included a substantial rise in private inward remittances, and combined with record-high cocoa exports to provide strong support for aggregate demand.

49. **Nevertheless, fiscal slippages and insufficient vigilance led to the nonobservance of three quantitative and one structural performance criteria.** The authorities have since reviewed the factors that contributed to their nonobservance, and have put measures in place to ensure that they achieve the original program objectives. These measures include (i) a ceiling on total public sector wages and salaries (a performance criterion), (ii) the creation of comprehensive and computerized public-sector personnel and payroll databases (a structural performance criterion), and (iii) the establishment of an independent body to oversee the petroleum product pricing mechanism as a prior action for Executive Board consideration of the third review under the PRGF arrangement.

50. **The near-term outlook remains favorable but macroeconomic stability is still fragile.** Economic prospects are still largely driven by the export of a few commodities. This narrow economic base, together with high world oil prices, contributes to the vulnerability of the economy. In this context, the staff agrees with the authorities' preference to be cautious about eliminating the requirement for foreign exchange surrender and banks' secondary reserves and to weigh in favor of stability.

51. **It is against this background that the 2005 program was designed.** The program aims at maintaining the pace of real GDP growth, containing inflation, and accumulating further international reserves to strengthen the buffer against shocks. Also, the program includes structural reforms to improve the environment for private sector-led growth, bolster productivity, and strengthen competitiveness, especially of nontraditional exports. The main challenge in the implementation of the program is the execution of the budget as envisaged and avoidance of further fiscal slippages, which would undermine the market's confidence in government policies and have adverse macroeconomic effects, slow the realization of the "fiscal dividend" in terms of a further decline in short-term interest rates, and crowd out the flow of resources to the private sector.

52. **Increasing fiscal space is a high priority, and the staff endorses the strategy of retaining the ratio of domestic debt to GDP as the fiscal anchor.** The staff urges the government to reduce this ratio further in a bold manner over the medium term, primarily by cutting low-priority expenditures and reducing the wage bill relative to GDP. The staff understands the need to establish a professional and productive civil service, although the cost of doing so should be well contained and, indeed, should lead to prospective fiscal savings. The demand for these savings to fund poverty-reducing and pro-growth activities is very high.

53. **The inflation target is within reach, but vigilance is required.** The credibility of the Bank of Ghana has recently been bolstered, as refinements to its instruments have increased the efficacy of monetary policy. However, a firm stance will be needed to avoid an upward shift of inflation in light of high world oil prices and high foreign exchange inflows.

54. **The staff notes that the managed floating exchange rate regime has served Ghana well.** A managed float continues to be an effective buffer against shocks. As such, the authorities should move ahead with measures to increase the depth and effective functioning of the interbank foreign exchange market.

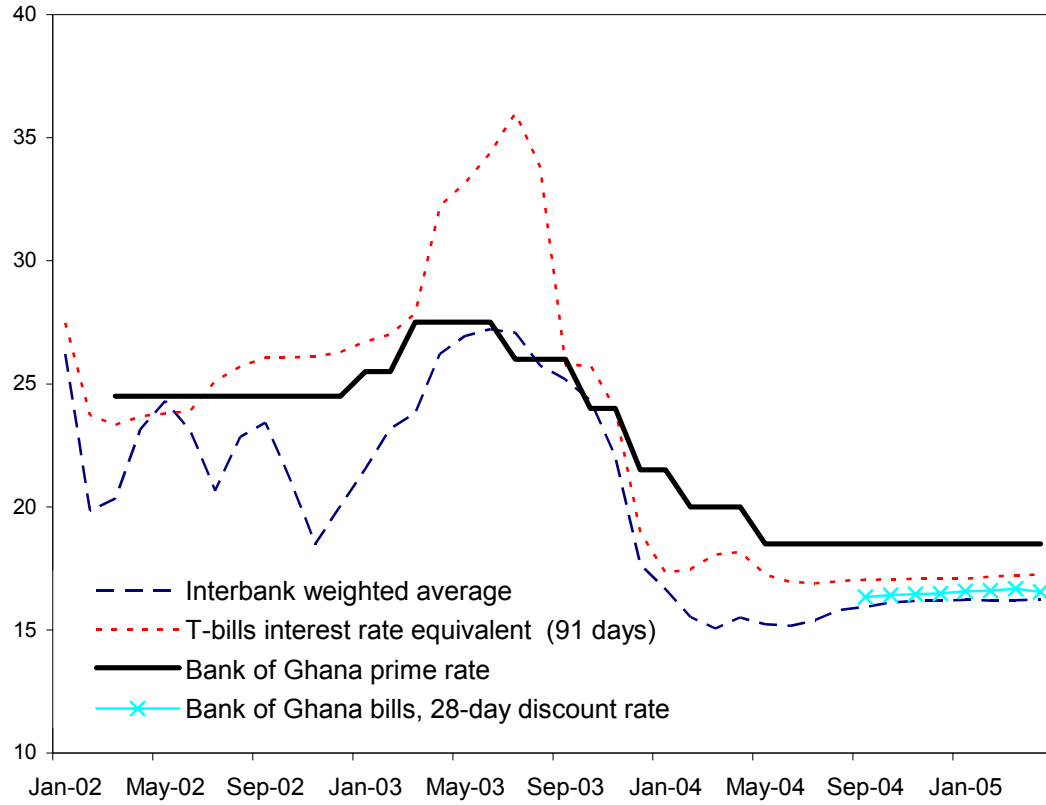
55. **The intensification of structural reform in key areas will help support the relatively robust pace of growth.** The government's commitment to follow through with petroleum sector deregulation is welcome. In this regard, it will be critical to ensure the automatic and independent adjustment of petroleum product prices and to avoid government involvement. Enhancing financial intermediation will foster private sector activity, while reform of the public enterprises should improve overall economic performance. Meanwhile, civil service reform, once completed, should safeguard scarce resources and make certain that public expenditure is not only transparent and accountable, but efficient and effective as well.

56. **There is room to improve the quality and timeliness of economic data.** In this regard, the government should make the necessary budgetary provision to strengthen the operation of the Ghana Statistical Service and hasten Ghana's participation in the GDSS.

57. **The staff supports the authorities' request for (i) waivers for the nonobservance of three quantitative and one structural performance criteria, (ii) the completion of the third review, and (iii) the extension of the current PRGF arrangement to October 31, 2006.** This support is in view of the remedial actions taken to deal with the slippages in 2004, and the strength of the authorities' program for 2005.

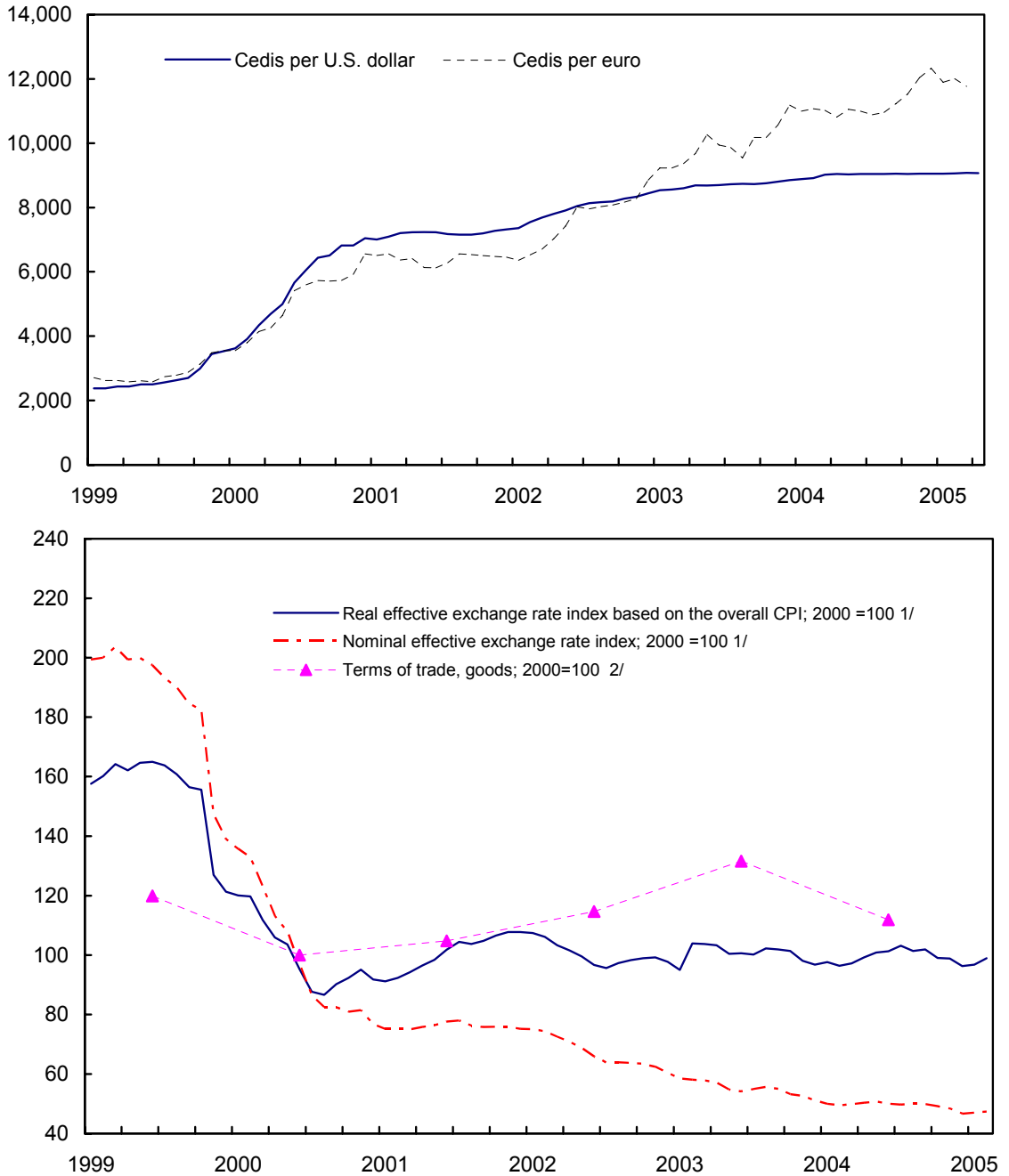
58. **It is proposed that the next Article IV consultation** be held in accordance with the decision on consultation cycles approved on July 14, 2002.

Figure 1. Ghana: Interest Rate Developments, January 2002 - April 2005
(In percent)



Source: Ghanaian authorities.

Figure 2. Ghana: Exchange Rate Developments, January 1999 - March 2005

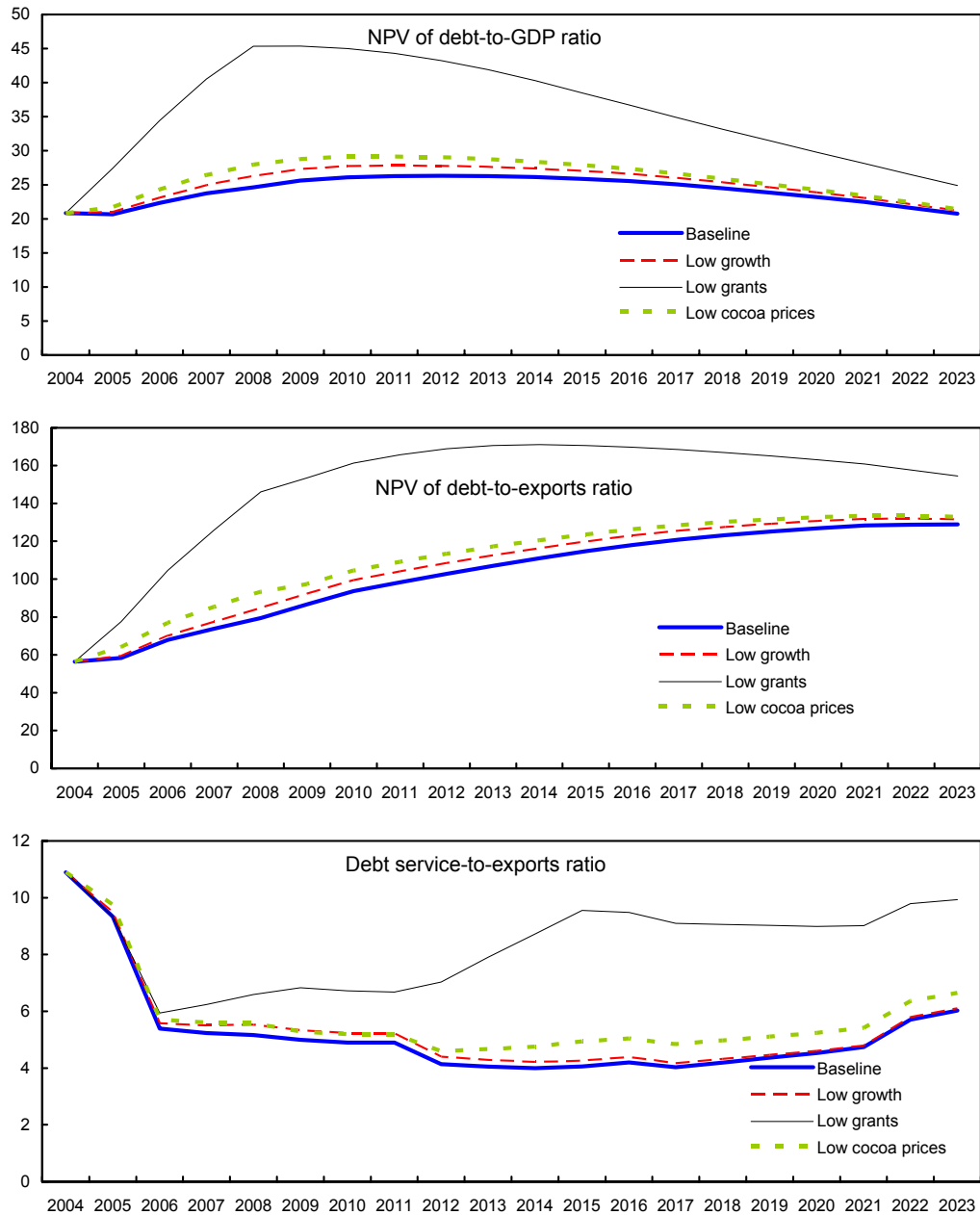


Sources: IMF, African Department and Information Notice System.

1/ An increase in the index denotes an appreciation.

2/ An increase in the index denotes an improvement in the terms of trade.

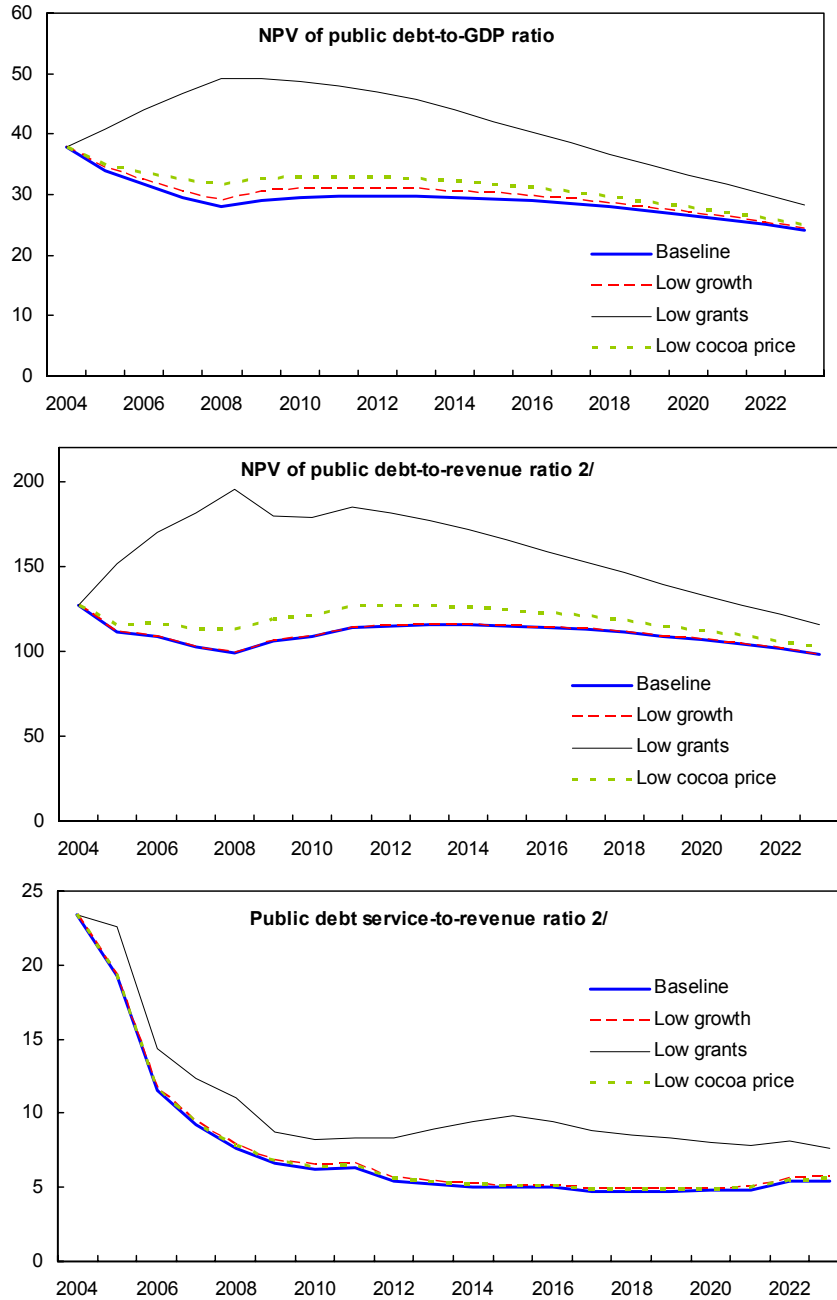
Figure 3. Ghana: Indicators of Public and Publicly Guaranteed External Debt, 2004-23
(In percent)



Source: IMF staff projections and simulations.

Notes. In all three cases except the baseline, temporary shocks are applied to the period 2005-08, after which all variables are assumed to revert to baseline values. In the low-growth and low-grants cases, the real growth rate and foreign grant disbursement (in terms of GDP) during the shock period are assumed to be 4 percent and 2.4 percent, respectively, which are one standard deviation below their corresponding 10-year historical averages. In the case of low cocoa prices, the average cocoa price during the shock period is assumed to be US\$1,383 a metric ton (the average of 2000-04), which is 14.6 percent lower than the World Economic Outlook projected price.

Figure 4. Ghana: Indicators of Public Debt Under Alternative Scenarios, 2004-2023 1/
(In percent)



Source: IMF staff projections and simulations.

1/ Public sector debt is NPV of external public debt and central government net domestic debt. In all cases except for baseline, temporary shocks are applied to the period of 2005-2008.

2/ Revenue including grants.

Table 1. Ghana: Selected Economic and Financial Indicators, 2001-05

	2001	2002	2003	2004		2005
				Est.	Prog. 1/	
(Annual percentage change, unless otherwise specified)						
National accounts and prices						
Real GDP	4.2	4.5	5.2	5.2	5.8	5.8
Real GDP per capita	1.6	1.9	2.6	2.6	3.2	3.2
Nominal GDP	40.2	28.3	35.4	18.9	20.7	21.5
GDP deflator	34.6	22.8	28.6	13.0	14.1	14.8
Consumer price index (annual average)	32.9	14.8	26.7	10.8	12.6	14.3
Consumer price index (end of period)	21.3	15.2	23.6	7.7	11.8	14.1
External sector						
Exports, f.o.b.	-3.6	10.2	20.1	8.1	12.7	5.2
Imports, f.o.b.	2.6	-4.1	20.1	11.0	31.9	9.3
Export volume	-1.3	-2.1	-6.8	10.8	14.5	3.1
Import volume	10.0	-6.8	6.9	5.7	13.9	0.6
Terms of trade	4.8	9.4	14.8	-7.0	-15.0	-6.1
Nominal effective exchange rate (avg.)	-24.0	-11.7	-17.7	...	-10.1	...
Real effective exchange rate (avg.)	0.6	-0.6	1.4	...	-1.0	...
Cedis per U.S. dollar (avg.)	7,179	7,944	8,681	...	9,021	...
Cedis per U.S. dollar (end of period)	7,322	8,439	8,852	...	9,054	...
Government budget						
Domestic revenue (excluding grants)	43.5	27.5	56.2	32.3	38.2	25.9
Total expenditure	65.5	2.4	49.3	17.5	39.7	16.4
Current expenditure	50.5	28.8	34.4	15.1	27.2	12.5
Capital expenditure and net lending	95.7	-38.7	97.8	22.3	67.2	23.0
Money and credit						
Net domestic assets 2/	13.5	-15.6	7.2	2.4	1.1	15.9
Credit to central government 2/	0.0	30.7	-8.2	11.4	29.9	-0.1
Credit to public enterprises 2/ 3/	11.0	-9.5	11.2	-2.5	6.6	1.9
Credit to the private sector 2/ 3/	14.2	18.2	16.4	17.7	10.1	22.1
Broad money (excluding foreign currency deposits)	48.4	49.6	40.9	19.2	26.6	23.1
Reserve money	31.3	42.6	33.4	20.5	18.8	18.0
Velocity (GDP/end-of-period broad money)	4.8	4.1	4.0	4.0	3.8	3.8
Treasury bill yield (in percent, end of period)	28.9	28.1	18.1	...	16.4	...
(In percent of GDP, unless otherwise specified)						
Investment and saving						
Gross investment	26.6	19.7	22.9	23.1	27.9	29.6
Private 4/	13.8	13.6	14.0	13.8	15.5	17.1
Central government	12.8	6.1	8.9	9.3	12.4	12.5
Gross national saving	21.3	20.2	24.6	23.5	25.2	25.6
Private 4/	18.2	17.6	18.4	15.7	14.4	13.7
Central government	3.1	2.6	6.2	7.8	10.8	11.9
Government budget						
Total revenue	18.1	18.0	20.8	23.1	23.8	24.6
Grants	6.9	3.1	4.7	4.3	6.4	5.8
Total expenditure	32.7	26.1	28.8	28.6	33.3	31.9
Overall balance (excluding grants) 5/	-14.6	-8.1	-8.0	-5.5	-9.5	-7.3
Overall balance (including grants) 6/	-9.0	-6.8	-4.4	-1.6	-3.6	-2.6
Domestic primary balance	4.8	2.4	2.3	1.6	0.7	2.6
Divestiture receipts	0.0	0.0	0.6	0.5	0.4	0.4
Net domestic borrowing 7/	2.3	4.7	0.6	-1.1	0.1	-1.1
Net foreign financing 8/	5.5	0.9	3.3	2.6	3.3	3.4
Discrepancy/financing gap	2.3	1.1	-0.2	-0.4	-0.1	0.0
NPV of total government debt 9/	95.4	88.0	89.8	50.9	50.5	43.5
Domestic debt (net) 10/	20.9	23.9	18.3	14.8	15.2	11.4
NPV of external debt outstanding 9/	74.5	64.1	71.5	36.1	35.3	32.1
External sector						
Current account balance 11/	-5.3	0.5	1.7	0.3	-2.7	-4.0
NPV of external debt outstanding						
(percent of exports of goods and services) 9/	161.4	157.4	175.7	93.5	89.6	92.3
(percent of government revenue) 9/	452.4	363.6	351.0	160.5	148.9	132.5
External debt service due, including to the Fund	8.5	7.8	5.9	6.3	6.4	4.7
(percent of exports of goods and services)	18.9	18.4	14.5	14.1	16.2	13.5
(percent of government revenue)	34.1	37.1	23.2	18.8	21.2	15.4
(In millions of U.S. dollars, unless otherwise specified)						
Current account balance 11/	-283	30	127	24	-236	-417
Overall balance of payments	296	40	506	-138	-10	-4
Change in external arrears (decrease -)	34	-61	0.0	0.0	0.0	0.0
Gross international reserves (end of period)	340	632	1,427	1,541	1,816	1,971
(in months of imports of goods and services)	1.2	1.9	3.2	3.9	3.7	3.9
Nominal GDP (billions of cedis)	38,071	48,862	66,158	78,650	79,865	97,018
(in million of U.S. dollars)	5,303	6,151	7,621	...	8,854	10,531
Domestic debt (net, billions of cedis) 10/	7,972	11,690	12,089	11,654	12,133	11,019

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

1/ IMF Country Report No. 04/210.

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 liabilities.

4/ Including public enterprises.

5/ Before domestic arrears clearance.

6/ After domestic arrears clearance.

7/ Including "net savings due to inflation-indexed bonds."

8/ Including exceptional financing.

9/ Figures for 2003 and onwards are based on an updated DSA, with additional information received from creditors and a reconciliation of external debt to end-2003.

10/ Excluding non-interest-bearing perpetual BoG revaluation stocks and bonds issued in 2004 for recapitalization of BoG and TOR, and including deferred interest payment (cumulative) on inflation-indexed bonds.

11/ Including official grants.

Table 2: Ghana: Private Remittances and Other Foreign Exchange Flows, 2000-04

(In millions of U.S. dollars)

	2000	2001	2002	2003	2004
Private remittances (net)	496	600	680	801	1,287
Private capital (net)	65	88	50	75	332
Official transfers (net)	154	263	221	393	544
Official capital (net)	97	104	-115	86	52

Sources: Ghanaian authorities; and Fund staff estimates.

(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 Performance criterion	
	Prog.	Adj.	Prog.	Adj.	Prog.	Adj.	Prog.	Adj.
Performance criteria								
Net domestic financing of government (ceiling) 3/	629	711	519	410	1,269	-994	-594	-171
Net domestic assets of the Bank of Ghana (ceiling) 4/ 5/	-644	-561	-344	1,511	1,456	320	793	1,259
Stock of net domestic banking sector credit to TOR (ceiling)	1,389	...	1,433	-48	...	949	-192	...
Net international reserves of the Bank of Ghana (floor) 6/	-110	-119	-110	-262	-256	-141	-197	-248
The contracting or guaranteeing of new nonconcessional external debt with original maturity greater than or equal to one year by the government or the Bank of Ghana (ceiling) 7/	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 (ceiling) 8/	23	23	23	75	66	75	75	58
Stock of external payment arrears (ceiling) 9/	0	0	0	0	0	0	0	0
Indicative benchmarks								
Government domestic primary balance (floor)	-626	...	-17	158	...	-60	578	...
Reserve money stock (ceiling)	6,180	...	6,479	6,964	...	6,886	6,836	...
Government revenue, excluding grants and divestiture proceeds (floor)	3,686	...	3,621	7,911	...	8,358	12,688	...
Stock of government road sector arrears (ceiling)	22	...	16	11	...	5	0	...
Poverty related expenditures (floor)	1,049	...	1,049	2,534	...	2,751	4,414	...
Memoandum items:								
External program support (loans and grants)	41	...	25	57	...	65	227	...
Paid public and publicly guaranteed debt service (after debt relief) 10/	33	...	25	70	...	49	88	...
Divestiture receipts	9	...	0	19	...	0	31	...
Of which: in foreign exchange	0	...	0	0	...	0	8	...
Average petroleum spot price (APSP in U.S. dollars/barrel) 11/	32	...	32	31	...	34	31	...
Petroleum subsidy (in billions of cedis)	192	...	727	313	...	626	320	...

Sources: IMF Country Report No. 04/210; and Ghanaian authorities.

1/ Definitions of line items and terminology are elaborated in the technical memorandum of understanding (TMU) of IMF Country Report No. 04/210 is the source of all program data.

2/ After 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 US\$75 million, as explained in the TMU. The actual data have also been adjusted to reflect the repayment of inflation-indexed bonds (GILBs), which the program had not earlier accounted for.

4/ Based on a fixed exchange rate of 9,012 cedis per US\$1, 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 US\$75 million, and for higher-than-programmed oil prices, with an upside cap of US\$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 -US\$75 million, and for higher-than-programmed oil prices, with a downside cap of -US\$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 122/74-(00/123) of August 24, 2000, but also to commitments or contracts 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 122/74-(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 4. Ghana: Balance of Payments, 2001-05
(In millions of U.S. dollars, unless otherwise specified)

	2001	2002	2003	2004		2005 1/			
				Prog. 2/	Est.	Mar.	June	Sept.	Dec.
						Proj.			
Exports f.o.b.	1,867	2,057	2,471	2,672	2785	634	1,267	1,876	2,929
Cocoa beans and cocoa products	381	463	818	927	1071	150	300	425	995
Gold	618	689	830	929	840	231	463	694	925
Timber and timber products	169	182	174	184	212	56	112	168	224
Others	699	723	649	632	662	196	393	589	785
Imports, f.o.b.	-2,831	-2,714	-3,259	-3,617	-4297	-887	-1,890	-3,067	-4,696
Non-oil	-2,314	-2,206	-2,696	-2,955	-3522	-721	-1,569	-2,321	-3,701
Oil	-517	-508	-563	-662	-775	-166	-321	-746	-995
Trade balance	-964	-657	-788	-944	-1513	-254	-622	-1,192	-1,767
Services (net)	-182	-214	-280	-304	-554	-139	-278	-418	-557
<i>Of which</i> : interest payments	-106	-124	-110	-124	-167	-37	-75	-112	-150
Private transfers (net)	600	680	801	875	1287	323	646	968	1,291
Current account balance, excluding official transfers	-546	-190	-266	-372	-779	-70	-255	-641	-1,033
Official transfers (net)	263	221	393	396	544	102	300	546	616
<i>Of which</i> : HIPC grants	0	62	81	113	109	30	66	100	126
Current account balance, including official transfers	-283	30	127	24	-236	32	45	-95	-417
Capital account	192	-65	161	43	384	96	161	334	506
Official capital (net)	104	-115	86	-26	52	8	-17	68	151
Medium- and long-term loans									
Inflows	391	195	370	319	402	72	158	319	474
Amortization	-288	-309	-284	-345	-350	-65	-175	-252	-323
Private capital	88	50	75	69	332	89	178	266	355
<i>Of which</i> : divestiture receipts	0	0	25	15	0	0	0	0	0
Other capital and errors and omissions	387	75	218	-205	-159	-23	-47	-70	-93
<i>Of which</i> : change in net foreign assets of deposit money banks	-77	-18	-73	-140	-95	-6	-11	-17	-22
: errors and omissions	444	33	102	0	24	0	0	0	0
Overall balance	296	40	506	-138	-10	106	159	169	-4
Change in arrears	34	-61	0	0	0	0	0	0	0
Financing	-330	21	-506	134	10	-106	-159	-169	4
Debt deferral	150	-35	-35	-35	-35	0	-17	-17	-35
Net international reserves (negative is increase)	-479	-158	-679	-100	-186	-132	-217	-283	-130
<i>Of which</i> : Use of Fund credit	1	54	53	-5	-5	-11	12	2	25
Disbursements (PRGF)	67	68	74	39	39	0	40	40	80
Repayments (PRGF)	-65	-14	-21	-44	-44	-11	-28	-38	-55
Exceptional financing	0	214	208	269	231	27	76	132	169
Financing gap	0	0	0	5	0	0	0	0	0
Memorandum items:									
Current account balance (in percent of GDP)									
Excluding official transfers	-10.3	-3.1	-3.5	-4.3	-8.8	...	...	...	-9.8
Including official transfers	-5.3	0.5	1.7	0.3	-2.7	...	...	...	-4.0
Gross international reserves									
End of period (millions of U.S. dollars)	340	632	1,427	1,541	1,816	1,673	1,611	1,535	1,971
In months of imports of goods and services	1.2	1.9	3.2	3.9	3.7	3.5	3.3	3.2	3.9
Cocoa exports									
Volume (in thousands of tons)	370	367	403	560	665	...	...	...	645
Price (in U.S. dollars per ton)	1,021	1,266	1,950	1,650	1,589	...	...	...	1,518
External debt service paid									
In percent of exports of GNFS	17.7	10.2	5.2	5.4	5.6	...	...	...	5.6
In percent of government revenue	44.2	24.1	10.2	9.0	9.3	...	...	...	8.0
GDP (in U.S. dollars)	5,303.4	6,151.5	7,621.0	8,727.7	8,853.6	...	...	...	10,530.9

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

1/ Cumulative from January 2005.

2/ IMF Country Report No. 04/210.

Table 6. Ghana: Bank of Ghana and Deposit Money Banks, 2001-05
(In billions of cedis, unless otherwise specified; end of period)

	2001		2002		2003		2004		2005			
	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Dec.	Mar. Proj.	Jun. Proj.	Sept. Proj.	Dec. Proj.
Bank of Ghana												
Net foreign assets (in millions of U.S. dollars)	524	5,329	8,590	11,919	10,865	10,222	9,736	13,810	1,184	1,099	1,033	1,447
Net domestic assets	3,521	438	-897	-2,783	-2,778	-1,908	-1,102	-3,033	6,564	6,564	6,564	6,884
Claims on government (net)	2,076	2,867	2,525	6,528	6,564	6,564	6,564	6,884	-7,934	-8,406	-8,379	-8,301
Claims on deposit money banks 1/	787	-375	-4,412	-7,127	600	600	600	600	600	600	600	600
Claims on rest of the economy	-100	271	-142	-184	600	600	600	600	-2,009	-667	113	-2,216
Other items, net (assets +)	758	-2,325	1,132	-2,000	8,087	8,313	8,633	10,777	1,480	1,592	1,760	2,011
Reserve money (RM)	4,044	5,767	7,693	9,136	8,087	8,313	8,633	10,777	1,480	1,592	1,760	2,011
Currency outside banks	3,090	4,672	6,338	7,303	6,459	6,660	6,812	8,704	307	291	277	396
Bank reserves	932	1,056	1,259	1,697	1,480	1,592	1,760	2,011	1,173	1,301	1,483	1,615
Cash	195	273	342	371	307	291	277	396	147	61	61	61
Deposits	736	783	917	1,327	1,173	1,301	1,483	1,615				
Nonbank deposits	23	40	96	135	147	61	61	61				
Deposit money banks												
Net foreign assets 2/	972	1,275	1,985	2,885	2,251	2,332	2,415	2,499	245	251	256	262
(in millions of U.S. dollars)	133	151	224	240	245	251	256	262				
Reserves	1,011	1,056	1,259	1,697	1,480	1,592	1,760	2,011				
Net claims on Bank of Ghana 1/	-688	375	4,412	7,127	7,934	8,406	8,379	8,301				
Domestic credit	10,333	12,637	15,400	19,657	20,032	20,461	20,913	23,667				
Claims on government (net) 3/	3,913	5,535	4,907	6,338	6,178	6,053	5,928	5,484				
Claims on nongovernment 3/	6,420	7,102	10,493	13,319	13,854	14,408	14,985	18,184				
Public enterprises (PE) 3/	1,825	965	2,148	2,902	2,902	2,902	2,902	3,310				
Private sector	4,547	5,980	8,052	9,778	10,765	11,150	11,727	14,234				
Other items, net (assets +) 2/	-4,553	-4,718	-8,317	-12,120	-11,127	-11,579	-11,330	-12,285				
Total deposits	7,075	10,625	14,740	19,247	20,570	21,212	22,137	24,193				

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

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

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

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

Table 7. Ghana: Summary of Central Government Budgetary Operations and Financing, 2001-05 1/

	2001	2002	2003	2004		2005				
				Prog.	Est.	Q1 Proj.	Q2 Proj.	Q3 Proj.	Q4 Proj.	Year Proj.
(In billions of cedis)										
Total revenue and grants	9,532	10,333	16,862	21,537	24,073	6,337	6,973	8,295	7,973	29,578
Revenue 2/ 3/	6,904	8,800	13,743	18,187	18,994	5,061	5,586	6,240	7,024	23,911
Grants	2,627	1,533	3,119	3,350	5,080	1,276	1,388	2,055	949	5,667
Total expenditure	12,451	12,753	19,035	22,505	26,584	6,613	7,091	8,533	8,713	30,950
Recurrent expenditure	7,578	9,763	13,123	15,251	16,696	4,086	4,163	5,177	5,357	18,783
Noninterest	4,593	6,763	9,030	11,826	13,223	3,209	3,285	4,203	4,342	15,039
Wages and salaries 4/	2,317	4,142	5,567	6,632	6,988	1,676	1,922	2,700	2,384	8,683
TOR subsidy 5/	0	0	156	1,125	1,772	350	0	0	0	350
Other	2,276	2,621	3,308	4,069	4,463	1,183	1,363	1,503	1,957	6,005
Interest	2,985	3,001	4,092	3,425	3,473	877	878	975	1,015	3,745
Capital expenditure (total)	4,873	2,990	5,912	7,254	9,888	2,527	2,928	3,355	3,356	12,166
Capital expenditure (domestic)	1,341	1,338	3,015	4,658	5,077	1,155	1,321	1,481	2,323	6,281
Capital expenditure (foreign)	3,532	1,652	2,897	2,596	4,812	1,373	1,606	1,874	1,033	5,886
Arrears clearance and value-added tax refunds	-513	-892	-711	-285	-326	-122	-125	-130	-21	-397
Payments in 2005 due to previous years' commitments 6/	...	...	...	...	...	-195	-195	-195	-195	-780
Overall balance	-3,433	-3,313	-2,884	-1,253	-2,836	-594	-437	-563	-956	-2,549
Discrepancy between above- and below-line data	868	550	-139	-322	-104	0	0	0	0	0
Total financing	2,565	2,762	3,023	1,575	2,941	594	437	563	956	2,549
Divestiture receipts	12	5	421	408	286	97	97	97	97	388
Foreign (net)	1,428	-781	398	-436	1,546	396	53	1,195	73	1,716
Exceptional financing	659	1,241	1,805	2,474	1,065	390	390	390	390	1,559
Net savings due to inflation indexed bonds	0	197	481	230	-349	-169	15	18	18	-118
Deferred interest payment	...	197	481	230	301	15	15	18	18	67
Redemption of deferred interest payment	...	...	...	...	-650	-185	0	0	0	-185
Domestic (net)	467	2,100	-82	-1,101	393	-119	-118	-1,137	378	-996
Memorandum items:										
Total enhanced HIPC relief	...	759	1,163	1,979	2,117	505	505	505	505	2,019
Total poverty spending (GPRS definition)	1,730	2,330	4,279	5,465	6,123	1,713	1,836	2,210	2,256	8,014
Domestic primary balance 7/	1,838	1,196	1,510	1,253	534	660	939	510	423	2,532
Stock of domestic debt (net) 8/	7,972	11,690	12,089	11,654	12,133	11,844	11,741	10,623	11,019	11,019
GDP at current market prices	38,071	48,862	66,158	78,650	79,865	97,018	97,018	97,018	97,018	97,018
(In percent of GDP)										
Total revenue and grants	25.0	21.1	25.5	27.4	30.1	6.5	7.2	8.5	8.2	30.5
Revenue 2/, 3/	18.1	18.0	20.8	23.1	23.8	5.2	5.8	6.4	7.2	24.6
Grants	6.9	3.1	4.7	4.3	6.4	1.3	1.4	2.1	1.0	5.8
Total expenditure	32.7	26.1	28.8	28.6	33.3	6.8	7.3	8.8	9.0	31.9
Recurrent expenditure	19.9	20.0	19.8	19.4	20.9	4.2	4.3	5.3	5.5	19.4
Noninterest	12.1	13.8	13.6	15.0	16.6	3.3	3.4	4.3	4.5	15.5
Wages and salaries 4/	6.1	8.5	8.4	8.4	8.7	1.7	2.0	2.8	2.5	8.9
TOR subsidy 5/	0.0	0.0	0.2	1.4	2.2	0.4	0.0	0.0	0.0	0.4
Other	6.0	5.4	5.0	5.2	5.6	1.2	1.4	1.5	2.0	6.2
Interest	7.8	6.1	6.2	4.4	4.3	0.9	0.9	1.0	1.0	3.9
Capital expenditure (total)	12.8	6.1	8.9	9.2	12.4	2.6	3.0	3.5	3.5	12.5
Capital expenditure (domestic)	3.5	2.7	4.6	5.9	6.4	1.2	1.4	1.5	2.4	6.5
Capital expenditure (foreign)	9.3	3.4	4.4	3.3	6.0	1.4	1.7	1.9	1.1	6.1
Arrears clearance and VAT refunds	-1.3	-1.8	-1.1	-0.4	-0.4	-0.1	-0.1	-0.1	0.0	-0.4
Payments in 2005 due to previous years' commitments 6/	...	...	...	...	...	-0.2	-0.2	-0.2	-0.2	-0.8
Overall balance	-9.0	-6.8	-4.4	-1.6	-3.6	-0.6	-0.5	-0.6	-1.0	-2.6
Discrepancy between above- and below-line data	2.3	1.1	-0.2	-0.4	-0.1	0.0	0.0	0.0	0.0	0.0
Total financing	6.7	5.7	4.6	2.0	3.7	0.6	0.5	0.6	1.0	2.6
Divestiture receipts	0.0	0.0	0.6	0.5	0.4	0.1	0.1	0.1	0.1	0.4
Foreign (net)	3.8	-1.6	0.6	-0.6	1.9	0.4	0.1	1.2	0.1	1.8
Exceptional financing	1.7	2.5	2.7	3.1	1.3	0.4	0.4	0.4	0.4	1.6
Net savings due to inflation-indexed bonds	0.0	0.4	0.7	0.3	-0.4	-0.2	0.0	0.0	0.0	-0.1
Domestic (net)	1.2	4.3	-0.1	-1.4	0.5	-0.1	-0.1	-1.2	0.4	-1.0
Memorandum items:										
Total enhanced HIPC relief	...	1.6	1.8	2.5	2.7	0.5	0.5	0.5	0.5	2.1
Total poverty spending (GPRS definition)	4.5	4.8	6.5	6.9	7.7	1.8	1.9	2.3	2.3	8.3
Domestic primary balance 7/	4.8	2.4	2.3	1.6	0.7	0.7	1.0	0.5	0.4	2.6
Stock of domestic debt (net) 8/	20.9	23.9	18.3	14.8	15.2	12.2	12.1	10.9	11.4	11.4

Sources: Tables 8-10.

1/ Above-the-line data for domestic recurrent and capital expenditure are presented on a cash basis (payment vouchers); arrears are not reflected in line expenditures. Program data refer to IMF Country Report No. 04/210.

2/ For 2005, includes possible upward revision to income tax (109 billion cedis), cocoa export tax (100 billion cedis), and nontax (92 billion cedis).

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/ Assumes that required subsidies for petroleum products were eliminated in February 2005 following the adoption of an automatic pricing adjustment mechanism.

For 2005, reflects estimated recoupment of profits by TOR from petroleum price adjustment (150 billion cedis).

6/ Payments associated with wages for Ghana Universal Salary Structure, additional duty hourly allowances, and subvented agencies, pension arrears, and outstanding TOR underrecovery.

7/ Defined as total revenue plus VAT refunds (negative) and discrepancy, less noninterest and domestic capital expenditure.

8/ Excluding non-interest-bearing perpetual BoG revaluation stocks, and bonds issued in 2004 for recapitalization of BoG and TOR, including deferred interest payment (cumulative) on inflation-indexed bonds, and less government deposits.

9/ Unadjusted for government deposits.

Table 8. Ghana: Central Government Revenues, 2001-05

	2001	2002	2003	2004		2005
				Prog. 1/	Est.	Proj.
(In billions of cedis)						
Total revenue and grants	9,532	10,333	16,862	21,537	24,073	29,578
Total revenue	6,904	8,800	13,743	18,187	18,994	23,911
Tax revenue	6,557	8,542	13,346	16,761	17,341	20,973
Direct taxes	2,124	2,790	4,057	4,918	5,287	5,849
Company tax	967	1,162	1,632	2,048	2,340	2,425
Personal	677	929	1,535	1,801	1,908	2,217
Self-employed	114	173	234	274	286	372
Other direct taxes	366	527	657	796	753	835
Indirect taxes	2,865	3,757	6,128	7,938	8,245	10,476
Sales tax/value-added tax (VAT) on domestic goods	509	729	1,023	1,277	1,460	1,800
Sales tax/VAT on imports	1,455	1,598	2,308	3,006	3,051	3,994
Petroleum	647	1,080	2,323	3,031	3,119	3,920
Other indirect taxes	254	350	474	623	615	762
Trade taxes	1,568	1,995	3,160	3,905	3,809	4,648
Import duties	1,269	1,669	2,391	2,866	2,878	3,768
Cocoa export duty	300	326	769	1,039	931	880
Nontax revenue 2/	348	258	397	1,098	1,194	1,599
Fees, charges, and dividends	348	258	363	608	795	1,416
Other nontax revenue	0	0	34	490	399	183
2004 revenue measure	...	...	...	328	459	1,339
Health levy (2.5 percent of value-added and Social Security and National Insurance Trust (SSNIT) contributions)	...	...	...	328	459	1,339
Grants	2,627	1,533	3,119	3,350	5,080	5,667
Project grants	1,566	467	1,037	1,034	2,265	2,887
Program grants	1,061	558	1,267	1,292	1,762	1,619
HIPC assistance (multilateral)	0	508	815	1,025	1,053	1,161
(In percent of GDP)						
Total revenue and grants	25.0	21.1	25.5	27.4	30.1	30.5
Total revenue	18.1	18.0	20.8	23.1	23.8	24.6
Tax revenue	17.2	17.5	20.2	21.3	21.7	21.6
Direct taxes	5.6	5.7	6.1	6.3	6.6	6.0
Company tax	2.5	2.4	2.5	2.6	2.9	2.5
Personal	1.8	1.9	2.3	2.3	2.4	2.3
Self-employed	0.3	0.4	0.4	0.3	0.4	0.4
Other direct taxes	1.0	1.1	1.0	1.0	0.9	0.9
Indirect taxes	7.5	7.7	9.3	10.1	10.3	10.8
Sales tax/VAT on domestic goods	1.3	1.5	1.5	1.6	1.8	1.9
Sales tax/VAT on imports	3.8	3.3	3.5	3.8	3.8	4.1
Petroleum	1.7	2.2	3.5	3.9	3.9	4.0
Other indirect taxes	0.7	0.7	0.7	0.8	0.8	0.8
Trade taxes	4.1	4.1	4.8	5.0	4.8	4.8
Import duties	3.3	3.4	3.6	3.6	3.6	3.9
Cocoa export duty	0.8	0.7	1.2	1.3	1.2	0.9
Nontax revenue 2/	0.9	0.5	0.6	1.4	1.5	1.6
Fees, charges, and dividends	0.9	0.5	0.5	0.8	1.0	1.5
Other nontax revenue	0.0	0.0	0.1	0.6	0.5	0.2
2004 revenue measure	...	...	...	0.4	0.6	1.4
Health levy (2.5 percent of value-added and SSNIT contributions)	...	...	...	0.4	0.6	1.4
Grants	6.9	3.1	4.7	4.3	6.4	5.8
Project grants	4.1	1.0	1.6	1.3	2.8	3.0
Program grants	2.8	1.1	1.9	1.6	2.2	1.7
HIPC assistance (multilateral)	0.0	1.0	1.2	1.3	1.3	1.2

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

1/ IMF Country Report No. 04/210.

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

Table 9. Ghana: Central Government Expenditures, 2001-05 1/

	2001	2002	2003	2004		2005
				Prog. 2/	Est.	
(In billions of cedis)						
Total expenditure	12,451	12,753	19,035	22,505	26,584	30,950
Recurrent expenditure	7,578	9,763	13,123	15,251	16,696	18,783
Noninterest	4,593	6,763	9,030	11,826	13,223	15,039
Wages and salaries 3/	2,317	4,142	5,567	6,632	6,988	8,683
Goods and services 3/	703	1,452	2,063	2,434	2,737	2,728
General goods and services	703	1,452	2,063	2,434	2,737	2,583
Strategic oil reserves	...	...	...	...	...	145
Subventions 3/	788	0	0	0	0	0
Transfers	785	1,168	1,400	2,760	3,499	3,628
Pensions	227	271	359	509	515	614
Gratuities	67	114	201	209	269	356
Social security	234	303	412	485	495	619
National Health Insurance Fund	...	...	...	25	0	1,339
Other transfers 4/	0	0	0	0	12	250
Utility subsidy 5/	257	480	273	408	435	100
TOR subsidy	0	0	156	1,125	1,772	350
Interest	2,985	3,001	4,092	3,425	3,473	3,745
Domestic (due)	2,310	2,212	3,268	2,453	2,545	2,727
External (due) 6/	675	789	824	972	927	1,018
Capital expenditure (total)	4,873	2,990	5,912	7,254	9,888	12,166
Capital expenditure (domestic)	1,341	1,338	3,015	4,658	5,077	6,281
Cash expenditure	417	300	422	924	927	1,526
Statutory funds	924	863	1,871	2,345	2,280	3,140
HIPC-financed expenditure	...	175	722	1,388	1,870	1,615
Capital expenditure (foreign)	3,532	1,652	2,897	2,596	4,812	5,886
Road arrears (clearance) 7/	-44	-208	-204	-30	-71	-100
Other domestic payment arrears (clearance)	-442	-630	-459	-127	-199	-237
<i>Of which</i> : to statutory funds	-235	-247	-97	-97	-97	-97
VAT refunds	-27	-55	-48	-129	-55	-60
Payments in 2005 due to previous years' commitments 8/	...	...	...	...	...	-780
(In percent of GDP)						
Total expenditure	32.7	26.1	28.8	28.6	33.3	31.9
Recurrent expenditure	19.9	20.0	19.8	19.4	20.9	19.4
Noninterest	12.1	13.8	13.6	15.0	16.6	15.5
Wages and salaries 3/	6.1	8.5	8.4	8.4	8.7	8.9
Goods and services 3/	1.8	3.0	3.1	3.1	3.4	2.8
General goods and services	1.8	3.0	3.1	3.1	3.4	2.7
Strategic oil reserves	...	...	...	...	...	0.1
Subventions 3/	2.1	0.0	0.0	0.0	0.0	0.0
Transfers	2.1	2.4	2.1	3.5	4.4	3.7
Pensions	0.6	0.6	0.5	0.6	0.6	0.6
Gratuities	0.2	0.2	0.3	0.3	0.3	0.4
Social security	0.6	0.6	0.6	0.6	0.6	0.6
National Health Insurance Fund	...	...	...	0.0	0.0	1.4
Other transfers 4/	0.0	0.0	0.0	0.0	0.0	0.3
Utility subsidy 5/	0.7	1.0	0.4	0.5	0.5	0.1
TOR subsidy	0.0	0.0	0.2	1.4	2.2	0.4
Interest	7.8	6.1	6.2	4.4	4.3	3.9
Domestic (due)	6.1	4.5	4.9	3.1	3.2	2.8
External (due) 6/	1.8	1.6	1.2	1.2	1.2	1.0
Capital expenditure (total)	12.8	6.1	8.9	9.2	12.4	12.5
Capital expenditure (domestic)	3.5	2.7	4.6	5.9	6.4	6.5
Cash expenditure	1.1	0.6	0.6	1.2	1.2	1.6
Statutory funds	2.4	1.8	2.8	3.0	2.9	3.2
HIPC-financed expenditure	...	0.4	1.1	1.8	2.3	1.7
Capital expenditure (foreign)	9.3	3.4	4.4	3.3	6.0	6.1
Road arrears (clearance) 7/	-0.1	-0.4	-0.3	0.0	-0.1	-0.1
Other domestic payment arrears (clearance)	-1.2	-1.3	-0.7	-0.2	-0.2	-0.2
<i>Of which</i> : to statutory funds	-0.6	-0.5	-0.1	-0.1	-0.1	-0.1
VAT refunds	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1
Payments in 2005 due to previous years' commitments 8/	...	...	...	...	...	-0.8

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/ IMF Country Report No. 04/210.

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

4/ For 2005, this shows mitigating measures from the impact of petroleum price adjustment on vulnerable households.

5/ For 2005, includes only lifeline utility subsidies for households.

6/ The annual projections for 2004 program reflects interest and amortization due before traditional rescheduling, because of uncertainty over the split between the former and the latter.

7/ For 2004, includes payments on disputed claims; for 2005, includes payment on float from the previous year only.

8/ Payments associated with wages for Ghana Universal Salary Structure, additional duty hourly allowances, and subvented agencies, pension arrears, and outstanding TOR under-recovery.

Table 10. Ghana: Central Government Financing, 2001-05

	2001	2002	2003	2004		2005
				Prog. 1/	Est.	
(In billions of cedis)						
Overall balance	-3,433	-3,313	-2,884	-1,253	-2,836	-2,549
Discrepancy between above- and below-line data	868	550	-139	-322	-104	0
Total financing	2,565	2,762	3,023	1,575	2,941	2,549
Divestiture receipts	12	5	421	408	286	388
Foreign (net)	1,428	-781	398	-436	1,546	1,716
Project loans	1,966	1,185	1,860	1,562	2,547	2,999
Program loans	1,056	160	1,097	946	920	1,368
Amortization due 2/	-1,593	-2,125	-2,559	-2,945	-1,920	-2,651
Exceptional financing	659	1,241	1,805	2,474	1,065	1,559
External payment arrears	-467	-461	0	0	0	0
Additional donor financing	0	0	0	36	0	0
Traditional rescheduling	1,126	1,450	1,458	1,483	0	701
HIPC assistance (nonmultilateral)	0	252	347	954	1,065	858
Net savings due to inflation-indexed bonds	0	197	481	230	-349	-118
Deferred interest payment	...	197	481	230	301	67
Redemption of deferred interest payment	...	...	...	...	-650	-185
Domestic (net)	467	2,100	-82	-1,101	393	-996
Banking system	-999	1,161	-960	-620	1,640	-499
Nonbanks	1,465	939	878	-481	-1,247	-498
(In percent of GDP)						
Overall balance	-9.0	-6.8	-4.4	-1.6	-3.6	-2.6
Discrepancy between above- and below-line data	2.3	1.1	-0.2	-0.4	-0.1	0.0
Total financing	6.7	5.7	-4.2	2.0	3.7	2.6
Divestiture receipts	0.0	0.0	0.6	0.5	0.4	0.4
Foreign (net)	3.8	-1.6	0.6	-0.6	1.9	1.8
Project loans	5.2	2.4	2.8	2.0	3.2	3.1
Program loans	2.8	0.3	1.7	1.2	1.2	1.4
Amortization due 2/	-4.2	-4.3	-3.9	-3.7	-2.4	-2.7
Exceptional financing	1.7	2.5	2.7	3.1	1.3	1.6
External payment arrears	-1.2	-0.9	0.0	0.0	0.0	0.0
Additional donor financing	0.0	0.0	0.0	0.0	0.0	0.0
Traditional rescheduling	3.0	3.0	2.2	1.9	0.0	0.7
HIPC assistance (nonmultilateral)	0.0	0.5	0.5	1.2	1.3	0.9
Net savings due to inflation-indexed bonds	0.0	0.4	0.7	0.3	-0.4	-0.1
Deferred interest payment	...	0.4	0.7	0.3	0.4	0.1
Redemption of deferred interest payment	...	...	...	...	-0.8	-0.2
Domestic (net)	1.2	4.3	-0.1	-1.4	0.5	-1.0
Banking system	-2.6	2.4	-1.5	-0.8	2.1	-0.5
Nonbanks	3.8	1.9	1.3	-0.6	-1.6	-0.5

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

1/ IMF Country Report No. 04/210.

2/ The annual projections for 2004 program reflect interest and amortization due before traditional rescheduling, because of uncertainty over the split between the former and the latter.

Table 11. Ghana: Status of Structural Performance Criteria and Benchmarks for the Third Review of the PRGF Arrangement

Performance Criteria/Benchmarks	Status
Performance criteria	
<p>February 15, 2005. Implement new petroleum pricing regime with features described in paragraph 21 of the memorandum of economic and financial policies. In particular, oil marketing companies will be given the right to set retail prices for petroleum products according to a prescribed formula; an independent oversight body will monitor application of the formula; the pricing formula calculations will be published on a regular basis; and the formula will be specified so as to ensure full cost recovery.</p>	<p>Partially done. A new pricing mechanism was adopted and became effective on February 23, 2005, resulting in an average increase in the price of petroleum products of about 50 percent. The legislation necessary to establish an independent oversight body to monitor the application of the mechanism was presented to parliament in May 2005 and is expected to be passed in June 2005.</p>
<p>Continuous. Ensure that electricity and water tariffs are in line with their respective formulas for automatic quarterly adjustments as specified in the technical memorandum of understanding.</p>	<p>Being met. The Public Utilities Regulatory Commission indicated that no tariff adjustments were required during the February 1, 2005–April 30, 2005 quarter.</p>
Benchmarks	
<p>September 30, 2004. Introduce Bank of Ghana bills.</p>	<p>Met. In mid-September 2004, Bank of Ghana bills were introduced. These bills will gradually replace 91-day treasury notes for open market operations.</p>
<p>March 31, 2005. Complete the share flotation for Ghana Commercial Bank (GCB).</p>	<p>In progress. Financial advisors are now working on a due diligence. Valuation of fixed assets completed. The prospectus for flotation is expected to be completed by end-June 2005 with flotation in the third quarter of 2005. In the meantime, the government’s position in GCB has declined to 34 percent through the sale of shares on the local stock market.</p>
<p>September 30, 2004. Hire a transactions advisor for a management contract with GCB.</p>	<p>Met. A World Bank-funded consultant has reported (with some delay) to the GCB Board on various options for the management contract. The Board has placed the current chief executive and deputies on management contracts. Also, after flotation of shares, a new management contract arrangement will be presented for shareholders’ consideration.</p>
<p>Continuous. 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.</p>	<p>Met. All ministries, departments, and agencies are reporting internally generated funds, grants, and loans to the Ministry of Finance and Economic Planning as required by the Financial Administration Act.</p>
<p>June 30, 2004. Settle all cross-debts as of December 31, 2003, of the Electricity Company of Ghana (ECG), Ghana Water Company Limited (GWCL), Tema Oil Refinery (TOR), Volta River Authority (VRA), and the government, together with liabilities associated with on-lending from the government, establish and submit to the Ministry of Finance and Economic Planning monitorable financial plans to improve the performance of these companies.</p>	<p>Met. The authorities have reported settlement of all cross-debts and a write-down of remaining debts owed to government. ECG, GWCL, TOR, and VRA have submitted their financial plans to the Ministry of Energy.</p>

Table 12. Ghana: Progress in Implementing Key FSAP Recommendations

Principal Recommendations	Progress Achieved
Banking supervision	
<ul style="list-style-type: none"> • Reduce exposure of the two banks that still had claims on Tema Oil Refinery (TOR) to within prudential limits. • Review banks' risk-management approaches and take remedial actions as needed. 	<ul style="list-style-type: none"> • In progress. Most TOR exposures converted into government securities in 2001 and 2002. However, at end-March 2005, the exposure of one bank to TOR amounted to nearly US\$110 million, and there continue to be off-balance-sheet exposures amounting to US\$189 million. This bank's exposure to TOR exceeds its net worth. • In progress. Risk management approaches reviewed, and three banks closed in 2000. With the implementation of the Banking Act in 2004, Bank of Ghana's enforcement powers for prudential regulations have been strengthened.
Insurance supervision	
<ul style="list-style-type: none"> • Introduce updated insurance legislation, addressing the need to reinforce the powers of the National Insurance Commission. • Strengthen supervisory practices, including inspection powers, prudential reporting, and mechanisms to liquidate weak insurance companies. 	<ul style="list-style-type: none"> • In progress. The Insurance Law is being reviewed by the Attorney General before submission to the cabinet for approval. • Done. Five insolvent companies have been closed. A task force was established in 2003 to improve prudential reporting and conduct regular on-site inspection. As a result, a program for on-site inspection has been adopted and a new inspection manual established.
Pension system	
<ul style="list-style-type: none"> • Continue efforts to reform Social Security and National Insurance Trust (SSNIT), including develop clear written investment policies for SSNIT; improve its governance structures; and improve its procedures for the preparation of audited financial statements using transparent standards for valuation of investments, provision, and income recognition. 	<ul style="list-style-type: none"> • In progress. Appointment of a new board and a new director has helped to bolster SSNIT's independence. A new SSNIT Law has been drafted and submitted to the Ministry of Finance and Economic Planning for review. The law is awaiting input from the Presidential Commission on Pensions. • In progress. Investment policies and auditing procedures still need improvement.
Securities regulation	
<ul style="list-style-type: none"> • Fully implement recently adopted securities legislation. • Concentrate oversight of all securities activities, including treasury bills, in the Security Exchange Commission (SEC). • Introduce higher capital requirements, as well as position and foreign exchange exposure limits for securities companies. 	<ul style="list-style-type: none"> • Done. • Done. The Central Securities Depository System was established in December 2004. It will maintain records of individual ownership of government and corporate securities, and those listed on the stock exchange. • Done.
Legal and judicial system	
<ul style="list-style-type: none"> • Introduce a strong legislative framework against money laundering. 	<ul style="list-style-type: none"> • In progress. The Bank of Ghana is finalizing a draft law.

Table 12. Ghana: Progress in Implementing Key FSAP Recommendations

Principal Recommendations	Progress Achieved
<ul style="list-style-type: none"> • Improve the effectiveness of the rules on contract enforcement, security, and collateral foreclosure, and the effectiveness of court procedures. 	<ul style="list-style-type: none"> • In progress. In March 2005, a commercial court began operations to fast-track commercial claims, which had previously been adjudicated by the high court.
Bank of Ghana	<ul style="list-style-type: none"> • Done.
<ul style="list-style-type: none"> • Reinforce the independence of the Bank of Ghana in a new central bank law. 	<ul style="list-style-type: none"> • Done.
<ul style="list-style-type: none"> • Reinforce the focus on key central bank responsibilities. 	<ul style="list-style-type: none"> • Done.
<ul style="list-style-type: none"> • Set a schedule for withdrawing from development policy and commercial financial activities. 	<ul style="list-style-type: none"> • Done. The Bank of Ghana's financial statement is verified by an external auditor.
<ul style="list-style-type: none"> • Reinforce the transparency of financial reporting and the independence and quality of its audit. 	<ul style="list-style-type: none"> • Done. The Ministry of Finance and Economic Planning now uses debt sustainability analysis to support its debt management strategy.
<ul style="list-style-type: none"> • Separate debt management from liquidity management and develop a debt-management strategy. 	<ul style="list-style-type: none"> • Done. Central Bank bills (28- and 56-day) and longer-term government bonds (2- and 3-year) were introduced in the fourth quarter of 2004.
<ul style="list-style-type: none"> • Strengthen the Bank of Ghana's capital by replacing government receivables with treasury bills and longer-term government securities. 	<ul style="list-style-type: none"> • Done, except for shares in Ghana International Bank (London).
<ul style="list-style-type: none"> • Liquidate Bank of Ghana's ownership in banks. 	

Table 13: Ghana: Financial Soundness Indicators for the Banking Sector, 2000–04
(In percent at year's end, unless otherwise indicated)

	2000	2001	2002	2003	2004
Capital adequacy ratios					
Regulatory capital to risk-weighted assets 1/	11.6	14.7	13.4	9.3	13.7
Percentage of banks greater than or equal to 10 percent	62.5	64.7	52.9	66.7	61.0
Percentage of banks below 10 and above 6 percent minimum	37.5	35.3	35.3	27.8	39.0
Percentage of banks below 6 percent minimum	0.0	0.0	11.8	5.6	0.0
Capital (net worth) to assets	11.9	13.1	12.6	12.5	12.6
Asset quality					
Foreign exchange loans to total loans 2/	35.3	34.1	33.8	...	...
Past-due loans to gross loans	16.2	28.0	28.6	24.4	19.1
Nonperforming loans	11.9	19.6	22.7	18.3	16.1
Watch-listed loans	4.4	8.5	5.8	6.0	2.9
Provision as percent of past-due loans	58.6	46.4	63.6	64.6	68.6
Earnings and profitability					
Net profit (before tax)/net income	52.4	45.9	43.4	39.1	40.2
Return on assets 3/	9.7	8.7	6.8	6.4	6.2
Return on equity 4/	65.7	49.7	36.9	42.8	40.8
Expense/income	32.0	35.9	40.9	46.3	47.1
Interest rate spread (deposit money banks)					
Lending rates minus demand deposit rates	30.5	30.5	30.5	23.3	21.3
Lending rates minus saving deposit rates	29.3	29.5	25.5	23.0	19.3
Liquidity					
Actual reserve ratio (as percent of total deposits)	49.5	59.8	55.2	68.8	56.7
Excess reserve ratio 5/	6.5	15.8	11.2	24.8	12.7
Loan/deposit	64.0	63.9	50.1	57.4	55.4
Foreign exchange liabilities/total liabilities 2/	36.2	27.0	27.4	...	...
Sensitivity to market risk					
Net foreign exchange assets (liabilities) to shareholders' funds 2/	-9.4	22.9	24.3	...	...

Sources: IMF, *Staff Country Report No. 396/03*; and Bank of Ghana.

1/ The method for calculating capital adequacy ratio (CAR) is different from that of Basel CAR and is likely to be more conservative than the Basel method.

2/ No comparable estimate available for 2003 as commercial banks' foreign assets and liabilities were reclassified.

3/ The ratio of net profit before tax to two-year annual average assets.

4/ The ratio of net profit after tax to two-year annual average shareholders' funds.

5/ The actual reserve ratio in excess of the minimum requirement ratio.

Table 14. Ghana: Progress in Meeting the Millennium Development Goals 1/

Goal	Status
1. Eradicate extreme poverty and hunger.	The proportion of the population below the extreme poverty line declined from 52 percent in 1992 to about 35 percent in 2003. At the current pace of growth, the goal of halving income poverty could be reached before 2015. However, progress in reducing the prevalence of child malnutrition (currently about 23 percent) has been slow, and on current projections, the goal is unlikely to be achieved.
2. Achieve universal primary education.	The gross primary enrollment rate has reached 86 percent, and is on track for 100 percent.
3. Promote gender equality.	The proportion of female to male enrollment in primary schools has increased to 0.93.
4. Reduce child mortality.	Although under-5 mortality rates have declined, it appears unlikely that the goal of 78 per 1,000 live births will be reached from the current rate of 111.
5. Improve maternal health.	Maternal mortality rates have declined, but the goal of a three-fourths reduction by 2015 (i.e., to 54 per 100,000 live births) is unlikely to be achieved.
6. Combat HIV/AIDS, malaria and other diseases.	The incidence of malaria has declined. However, the incidence of HIV/AIDS continues to rise, and the goal is unlikely to be met.
7. Ensure environmental sustainability.	Access to safe water has increased substantially, and this goal can be met.
8. Develop a Global Partnership for Development.	The debt service ratio has declined and will remain at a sustainable level with prudent and effective debt management.

Source: Ghanaian authorities.

1/ Statistics are provided in Table 15.

Table 15. Ghana: Country Profile, Millennium Development Goals, 1990-2003

	1990	1995	2001	2002	2003 1/	Status 1/
1. Eradicate extreme poverty and hunger 2/						On track
Population below US\$1 a day (percent)	...	...	44.8	...	...	On track
Poverty gap at US\$1 a day (percent)	...	...	17.3	...	...	On track
Percentage share of income or consumption held by poorest 20 percent	...	...	5.6	...	...	...
Prevalence of child malnutrition (percent of children under 5)	30.3	27.3	24.9	...	23.3	Off track
Population below minimum level of dietary energy consumption (percent)	35.0	17.0	12.0	...	...	...
2. Achieve universal primary education 3/						On track
Net primary enrollment ratio (percent of relevant age group)	...	...	60.2	...	69.9	On track
Percentage of cohort reaching grade 5 (percent)	80.5	...	66.3	...	...	...
Youth literacy rate (percent of ages 15-24)	81.8	87.1	91.6	92.2	...	...
3. Promote gender equality 4/						On track
Ratio of girls to boys in primary education (percent)	82.0	87.0	90.0	...	93.0	...
Ratio of girls to boys in primary and secondary education (percent)	76.7	...	88.6	...	...	On track
Ratio of young literate females to males (percent of ages 15-24)	85.5	90.9	95.2	95.7	...	On track
Share of women employed in the nonagricultural sector (percent)	56.6	...	...	...	...	...
Proportion of seats held by women in national parliament (percent)	...	8.0	...	...	...	...
4. Reduce child mortality 5/						Off track
Under-5 mortality rate (per 1,000)	125.0	110.0	100.0	97.0	111.0	Off track
Infant mortality rate (per 1,000 live births)	78.0	69.0	62.0	60.0	64.0	Off track
Immunization, measles (percent of children under 12 months)	61.0	70.0	81.0	81.0	83.2	...
5. Improve maternal health 6/						Off track
Maternal mortality rate (modeled estimate, per 100,000 live births)	...	280.0	...	...	250.0	Off track
Births attended by skilled health staff (percent of total)	40.2	43.8	...	...	...	...
6. Combat HIV/AIDS, malaria, and other diseases 7/						Off track
Prevalence of HIV, female (percent ages 15-24)	...	...	3.0	3.0	3.6	Off track
Contraceptive prevalence rate (percent of women ages 15-49)	12.9	20.3	...	...	...	...
Number of children orphaned by HIV/AIDS	...	...	200,000.0	...	...	...
Incidence of malaria (percent)	44.0	...	41.0	...	...	...
Incidence of tuberculosis (per 100,000 people)	...	...	201.0	210.6	...	...
Tuberculosis cases detected under directly observed therapy (DOTS) (percent)	...	14.0	44.0	40.8	...	...
7. Ensure environmental sustainability 8/						Off track
Forest area (percent of total land area)	33.1	...	27.8	...	...	...
Nationally protected areas (percent of total land area)	...	4.8	4.9	5.6	...	...
GDP per unit of energy use (PPP \$ per kg oil equivalent)	3.8	4.3	5.0	...	...	...
CO2 emissions (metric tons per capita)	0.2	0.3	0.3	...	...	...
Access to an improved water source (percent of population)	49.0	...	73.0	...	74.1	On track
Access to improved sanitation (percent of population)	61.0	...	72.0	...	...	...
Access to secure tenure (percent of population)	...	...	...	...	...	...
8. Develop a Global Partnership for Development 9/						On track
Debt-service-to-GDP ratio (percent)	6.2	...	...	2.4	...	...
Youth unemployment rate (percent of total labor force ages 15-24)	...	...	...	...	...	...
Fixed lines and mobile telephones (per 1,000 people)	2.9	4.1	20.8	33.4	...	...
Personal computers (per 1,000 people)	0.0	1.2	3.3	3.8	...	...

Sources: World Development Indicators database, April 2004; and Ghana Poverty Reduction Strategy 2003 Annual Progress Report (March 2004).

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

1/ As reported in the Ghana Poverty Reduction Strategy 2003 Annual Progress Report (March 2004).

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

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

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

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

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

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

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

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

Table 16. Ghana: Illustrative Projections of Central Government Budgetary Operations and Financing, 2005-08

	2005	2006		2007		2008	
		Staff	Auth.	Staff	Auth.	Staff	Auth.
(In percent of GDP, unless otherwise specified)							
Total revenue and grants	30.5	29.4	30.3	29.2	30.3	28.6	30.3
Revenue	24.6	23.9	24.8	23.6	24.8	23.1	24.8
Grants	5.8	5.5	5.5	5.5	5.5	5.5	5.5
Total expenditure	31.9	30.8	33.6	30.4	33.2	30.3	32.9
Recurrent expenditure	19.4	17.8	18.7	16.9	18.5	16.2	18.3
Wages and salaries	8.9	8.7	9.0	8.5	9.0	8.4	9.0
Domestic interest	2.8	1.9	2.7	1.3	2.7	0.8	2.7
Other recurrent expenditure	7.7	7.2	7.0	7.1	6.8	7.0	6.6
Capital expenditure	12.5	13.0	12.8	13.5	12.8	14.0	12.8
Additional productive expenditure	...	...	2.1	...	1.9	...	1.8
Other payments 1/	-1.2	-0.1	-1.3	-0.1	-1.3	-0.2	-1.3
Overall balance	-2.6	-1.6	-4.6	-1.3	-4.2	-1.9	-3.9
Financing	2.6	1.6	4.6	1.3	4.2	1.9	3.9
Net domestic financing	-1.0	-2.1	0.9	-2.2	0.7	-1.6	0.4
Other financing 2/	3.7	3.7	3.7	3.5	3.5	3.5	3.5
Stock of domestic debt (net) 3/	11.4	7.5	10.6	4.4	10.0	2.3	9.1
Memorandum items:							
Real GDP (annual percentage change)	5.8	5.8	6.0	5.9	6.0	5.8	6.0
GDP deflator (annual percentage change)	14.8	10.1	12.7	8.1	9.7	7.7	7.7

Sources: IMF staff and Ghana officials' preliminary projections and simulations.

1/ Includes arrears clearance and VAT refunds. For 2005, includes payments due to previous years' commitments.

2/ Includes divestiture receipts, foreign (net), exceptional financing, and net savings due to inflation indexed bonds.

3/ Excluding non-interest bearing perpetual BoG revaluation stocks, and bonds issued in 2004 for recapitalization of BoG and TOR, including deferred interest payment (cumulative) on inflation indexed bonds, and less government deposits.

Table 17. Ghana: IMF, World Bank, and Donor Structural Conditionality

Conditionality	Status
<p>IMF: Under the PRGF arrangement, structural conditionality will continue to reflect areas of macro relevance:</p> <ul style="list-style-type: none"> • Supporting fiscal consolidation through effective central government payroll management and civil service reform; • Addressing quasi-fiscal activities of state-owned enterprises by (i) monitoring the government’s involvement in these enterprises; (ii) ensuring full cost-recovery pricing for those that have commercial orientation, and (iii) requiring them to produce and submit annual financial plans to the Ministry of Finance and Economic Planning; and • Strengthening the financial sector through regulatory and legislative changes, and reducing the cost of capital through competition and other measures. 	<p>Structural performance criteria and benchmarks established for 2005, with test dates at end-June and end-December.</p>
<p>World Bank: Structural conditionality is reflected in a series of annual Poverty Reduction Support Credits (each about US\$125 million), and relate mainly to</p> <ul style="list-style-type: none"> • infrastructure, including roads, • community water and sanitation, • urban and local government development, • agriculture and rural development, and • human and private sector development. 	<p>A number of triggers were set for 2004-05, with a program review in March/April 2005.</p>
<p>Multi-Donor Budget Support (MDBS): A group consisting of eleven donors plus the World Bank make disbursements under a base payment (in the first quarter) tied to macroeconomic performance as supported under the program, and a performance payment based on a number of triggers. The MDBS has structural conditionality in</p> <ul style="list-style-type: none"> • governance and public sector financial and expenditure management, and • social sectors. 	<p>A number of triggers were set for 2004-05, with a program review in March/April 2005.</p>

Sources: IMF; World Bank; and Ghana’s development partner countries.

Table 18. Ghana: Medium- and Long-Term Projections and Assumptions

A. Medium-term baseline scenario—key indicators					
(In percent, unless otherwise indicated)					
	2004	Projections			
	Prel.	2005	2006	2007	2008
Real GDP growth	5.8	5.8	5.8	5.9	5.8
Inflation (period average)	12.6	14.3	8.7	6.6	5.7
Broad money growth	26.0	23.5	16.4	14.4	13.9
Private sector credit	10.1	22.1	16.5	17.0	15.6
Revenue/GDP	23.8	24.6	23.9	23.6	23.1
Expenditure/GDP	33.3	31.7	30.8	30.4	30.3
Overall deficit (including grants/GDP)	3.6	2.6	1.6	1.3	1.9
Net domestic borrowing/GDP	0.1	-1.1	-2.2	-2.2	-1.6
External current account/GDP (before grants)	-8.8	-9.8	-10.0	-10.5	-10.4
External current account/GDP (after grants)	-2.7	-4.0	-4.5	-5.0	-4.8
Gross reserves/imports (months)	3.7	3.9	4.1	4.0	4.0

B. Macroeconomic assumptions underlying the debt-sustainability analysis, 2009-23

Real GDP growth of 5.5 percent a year.
 Inflation (GDP deflator) averaging 4.4 percent a year.
 Export and import growth of 7.6 and 5.5 percent, respectively, a year.
 Central government revenue of 23 percent of GDP a year.
 Noninterest current expenditure of 14.5 percent of GDP a year.
 Primary balance, including grants, over the projection period 2009-23.
 Current fiscal account balance, including grants, of 12 percent of GDP a year.
 Official grants of 4 percent of GDP a year.

Source: Fund staff estimates and projections.

Table 19. Ghana: Medium-Term Balance of Payments, 2005-09
(In millions of U.S. dollars, unless otherwise specified)

	2005	2006	2007	2008	2009
	Proj.	Proj.	Proj.	Proj.	Proj.
Exports f.o.b.	2,929	3,067	3,295	3,523	3,669
Cocoa beans and cocoa products	995	1,058	1,057	1,056	1,055
Gold	925	1,000	1,200	1,350	1,418
Timber and timber products	224	242	257	274	291
Others	785	767	781	842	905
Imports, f.o.b.	-4,696	-4,968	-5,379	-5,718	-6,012
Non-oil	-3,701	-4,006	-4,455	-4,770	-5,032
Oil	-995	-963	-923	-947	-980
Trade balance	-1,767	-1,902	-2,084	-2,195	-2,342
Services (net)	-557	-579	-589	-604	-619
<i>Of which:</i> interest payments	-150	-111	-107	-104	-108
Private transfers (net)	1,291	1,305	1,319	1,332	1,347
Current account balance, excluding official transfers	-1,033	-1,176	-1,353	-1,467	-1,614
Official transfers (net)	616	650	713	782	807
<i>Of which:</i> HIPC grants	126	113	122	115	91
Current account balance, including official transfers	-417	-526	-640	-684	-807
Capital account	506	586	679	761	857
Official capital (net)	151	206	272	326	391
Medium- and long-term loans					
Inflows	474	510	550	592	636
Amortization	-323	-304	-277	-267	-245
Private capital	355	380	407	435	466
Other capital and errors and omissions	-93	-44	-35	-37	0
<i>Of which:</i> change in net foreign assets of money deposit banks	-22	-34	-25	-27	0
Overall balance	-4	16	4	39	50
Financing	4	-16	-4	-39	-50
Debt deferral	-35	-35	0	0	0
Net international reserves (negative is increase)	-130	-220	-174	-186	-181
<i>Of which:</i> use of Fund credit	25	38	-63	-68	-58
disbursements (PRGF)	80	80	0	0	0
repayments (PRGF)	-55	-43	-63	-68	-58
Exceptional financing	169	238	170	146	132
Memorandum items:					
Current account balance (in percent of GDP)					
Excluding official transfers	-9.8	-10.0	-10.5	-10.4	-10.5
Including official transfers	-4.0	-4.5	-5.0	-4.8	-5.2
Gross international reserves					
End of period (US\$ millions)	1,971	2,229	2,341	2,458	2,581
In months of imports of goods and services	3.9	4.1	4.0	4.0	4.1
Cocoa exports					
Volume (in thousands of tons)	645	645	645	645	645
Price (in U.S. dollars per ton)	1,518	1,620	1,616	1,612	1,608
External debt service paid					
In percent of exports of GNFS	5.6	2.8	3.8	4.2	4.3
In percent of government revenue	8.0	3.8	5.1	5.5	5.4
GDP (in U.S. dollars)	10,531	11,746	12,858	14,127	15,409

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

Table 20. Ghana: Revised Schedule of Disbursements Under the PRGF Arrangement, 2003-06 1/

Date	Original Schedule 2/		Revised Schedule			Conditions
	Amount in SDRs	In percent of quota	Date	Amount in SDRs	In percent of quota	
May 2003	26,350,000	7.1	May 2003	26,350,000	7.1	Board approval of the arrangement
November 2003	26,350,000	7.1	December 2003	26,350,000	7.1	Completion of first review
May 2004	26,350,000	7.1	June 2004	26,350,000	7.1	Completion of second review
November 2004	26,350,000	7.1	June 2005	26,350,000	7.1	Completion of third review (end-December 2004 test date)
May 2005	26,350,000	7.1	October 2005	26,350,000	7.1	Completion of fourth review (end-June 2005 test date)
November 2005	26,350,000	7.1	March 2006	26,350,000	7.1	Completion of fifth review (end-December 2005 test date)
April 2006	26,400,000	7.1	October 2006	26,400,000	7.1	Completion of sixth (final) review (end-June 2006 test date)
Total	184,500,000	50		184,500,000	50	

1/ Ghana's quota is SDR 369 million.

2/ IMF Country Report No. 04/210.

Ghana: Relations with the Fund
(As of April 30, 2005)

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	10.66	16.92

IV. Outstanding Purchases and Loans	SDR Million	%Quota
PRGF arrangements	294.807	79.89

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	79.05
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):
million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Principal	29.41	28.04	41.07	44.86	38.22
Charges/interest	<u>2.38</u>	<u>2.58</u>	<u>2.40</u>	<u>2.18</u>	<u>1.97</u>
Total	<u>31.79</u>	<u>30.62</u>	<u>43.47</u>	<u>47.04</u>	<u>40.18</u>

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

	<u>Forthcoming</u>				
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>
Principal	17.32	20.73	24.38	31.92	31.53
Charges/interest	<u>2.38</u>	<u>2.58</u>	<u>2.40</u>	<u>2.18</u>	<u>1.97</u>
Total	<u>19.71</u>	<u>23.31</u>	<u>26.78</u>	<u>34.10</u>	<u>33.49</u>

VII. Implementation of HIPC Initiative:

	<u>Enhanced Framework</u>
Commitment of HIPC assistance	
Decision point date	Feb. 2002
Assistance committed by all creditors (US\$ Million) 1/	2,186.00
<i>Of which:</i> IMF Assistance (US\$ million)	112.10
(SDR equivalent in millions)	90.05
Completion point date	Jul 2004
Disbursements of IMF assistance (SDR million)	
Assistance disbursed to the member	90.05
Interim assistance	25.06
Completion point	64.99
Additional disbursement of interest income 2/	4.25
Total disbursements	94.30

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

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

Safeguard Assessment:

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

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-April 2005, the average exchange rate for transactions in the interbank market was ₵9065 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 2000-01, and a Financial System Stability Assessment (FSSA) was issued to the Executive Board in 2001 (www.imf.org). An FSAP update was presented to the Board in December 2003.

Technical Assistance, 2001–May 2005

<p>Fiscal Affairs Department: Ministry of Finance: fiscal data quality assessment, February and May 2001; external debt including for HIPC, June and August, 2001; public expenditure management, budget and debt advisor, August 2001-present; tax and customs administration, September 2001; peripatetic advisor on the establishment of a large taxpayers' unit, February 2002–January 2003; review of public expenditure management reforms and assessment of long-term advisor, August 2002 and March 2003; tax peripatetic, May 2003; fiscal ROSC, February 2004, regional advisor on public expenditure management, August 2004–August 2005; evaluate the impact of new pricing mechanism for petroleum products on poor and vulnerable households, January 2005.</p>
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<p>International Capital Markets: Bank of Ghana: pilot study of access to private capital, May 2003. Bank of Ghana and Ministry of Finance: access to international capital markets, November 2004.</p>
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<p>Legal Department: All Ministry of Finance: drafting of internal revenue regulations, January 2001; advice/draft of new income tax laws, February-March 2001.</p>
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<p>Monetary and Financial Systems Department: All Bank of Ghana (with Ministry of Finance): recording and reporting external debt flows, February 2001 (with</p>

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; multitopic technical assistance initiation, November 2004; improving monetary operations, banking supervision, and payment systems, May 2005.

Statistics Department: Bank of Ghana: money and banking statistics, 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 and October 2004; government finance statistics, March 2005; national accounts and prices, April-May 2005.

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 29, 2005)

I. 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. The 2004 Annual Progress Report of the GPRS is currently being finalized and the government is working to update the strategy during 2005.

2. The Bank and Fund teams are closely coordinating their policy advice to the Ghanaian authorities. They are collaborating in terms of common objectives and joint support for the implementation of Ghana's GPRS, including through joint assessments such as the "2004 Joint Staff Advisory Note on the GPRS Annual Progress Report", the "2004 HIPC Expenditure Tracking Assessment and Action Plan (AAP)", the mid-2004 assessment of progress toward the completion point under the Enhanced HIPC Initiative, and the update of the findings of the 2000-01 Financial Sector Assessment Program (FSAP).

3. The completion of the 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 in June 2003. The government and development partners consider the MDBS as the basis for supporting the implementation of the GPRS through the budget. Building on the gains made over the past two years, representatives of the government of Ghana and its development partners (nine bilaterals and four multilaterals, including the World Bank) agreed on February 25, 2005 to work together according to the principles established in the paper "Harmonization and Alignment in Ghana for Aid Effectiveness: a Common Approach for Ghana and its Development Partners".

II. THE WORLD BANK GROUP COUNTRY ASSISTANCE STRATEGY AND PORTFOLIO

4. The 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 16, 2004. The 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 by improving the investment climate and

harnessing sources of growth, (b) develop further the level of human capital through improved delivery of human development services, 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 midterm CAS review is expected to be completed later in 2005. The review will be prepared jointly with other development partners and aimed at further progress in harmonizing responses to the GPRS.

5. The 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 during the CAS period, and reducing poverty levels from 40 percent in 1999 to about 32 percent by 2007. Public expenditure management, including at the district level, is to be strengthened to help increase the share of poverty-related spending to about one third of domestically financed expenditures by 2007 and bring the ratio of domestic debt to GDP down from 26 percent in 2002 to the GPRS target of 14.8 percent by end-2005, allowing the share of private sector borrowing to further increase. 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; maintaining the HIV prevalence rate among pregnant women below 5 percent; 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 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 March 31, 2005, amount to US\$5.13 billion and total 151 operations. As of March 31, 2005, the portfolio contained 20 active projects totaling US\$1.19 billion, of which US\$641.2 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 (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, energy, roads, community water and other infrastructure in both rural and urban areas. Annex 1 summarizes the World Bank operations in Ghana. The overall performance of the portfolio is satisfactory, though implementation in several projects is lagging.

8. The FY04-07 lending program covers programmatic lending in the form of PRSCs, sectorwide 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 approved in FY05 include the PRSC 2 (US\$125 m, July 2004), Community-Based Rural Development (US\$60 m, July 2004), Urban Water (US\$103 m, July 2004) and Small Towns Water Supply and Sanitation (US\$25 m, July 2004). In November 2004, support to the West African Gas Pipeline (WAGP) was also approved.¹² Two additional credits are planned for Board consideration later in FY05, the proposed Micro, Small and Medium Enterprise Development Project (US\$43.5 m) and another regional project, the first tranche of the West Africa Power Pool (US\$25 m). Projects for FY06 will include the proposed PRSC 3, an Economic Management Capacity Building Operation, a SWAp for HIV/AIDS, and the energy sector investment operation.

9. Nonlending 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 included a CFAA update, a Country Economic Memorandum on public policy, growth, and poverty; a Financial Sector Assessment Update; an accounting and audit assessment, a report on policy options facing the newly established National Health Insurance Scheme, a Public Expenditure Review (PER) carried out in the context of the MDDBS; and the first Poverty and Social Impact Analysis focusing on electricity tariffs. For FY05, non-lending services include Policy Papers on Electricity and Petroleum Sectors, the joint WB-DFID-AFD¹³ study on Natural Resource Management and Economic Growth, the external review of public financial management (ERPFM) prepared jointly with other MDDBS donors, and analytical work on policy options for the GPRS update, decentralization and monitoring, and evaluation.

III. IMF-WORLD BANK COLLABORATION IN SPECIFIC AREAS

10. **Areas in which the Fund leads.** The IMF leads the policy dialogue on macroeconomic policies, including overall fiscal and monetary policies. The IMF has supported Ghana's poverty reduction efforts through several arrangements under the Poverty Reduction and Growth Facility (PRGF). The government had requested a new three-year arrangement for 2003-05, 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 on measures to substantially raise revenue to make room for increased poverty-related spending and development needs, strengthen public expenditure management, further reform energy

¹² WAGP is a regional project that includes an IDA Partial Risk Guarantee for Ghana in the amount of up to US\$50.0 million. This guarantee protects commercial parties that are participating in the pipeline project against sovereign risk. It requires a commitment equal to 25 percent of the total risk amount to be set aside from the Ghana IDA allocation (that is, US\$12.5 million).

¹³ Agence Française de Développement.

and utility pricing, and use appropriate monetary policy to achieve single-digit inflation. The second review under the three-year PRGF arrangement was completed in July 2004.

11. **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; private sector development and public sector reform.

- **Infrastructure** accounts for about 51 percent of commitments, and comprises several operations. The ongoing 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; investment lending to support operational efficiency, including a new operation planned for FY06; IFC investment in generation and support to the West African Gas Pipeline and Power Pool. Dialogue on water and sanitation policy has been pivotal to underpin the major new investments in urban, small town, and community water. In view of their importance for the delivery of reliable and cost-effective services, key policy issues in the power and water sectors are also part of the PRSC-supported policy agenda. Based on new developments in the government's approach to telecommunication, the Bank Group has reengaged in dialogue on sector strategy, policy and regulation.
- The **Agriculture and Rural Development** portfolio accounts for about 13 percent of commitments and emphasizes increasing agricultural productivity and diversification, deepening financial intermediation in rural areas, and rehabilitating land, forest and wildlife resources in a sustainable manner. In addition to cross-cutting issues tackled in the context of the PRSCs, three ongoing IDA operations are supporting this agenda, the restructured Agriculture Services Sub-Sector Investment (AgSSIP) Project, the Rural Financial Services SIL and the Community-Based Rural Development Project, which supports a comprehensive approach to rural-based economic growth and poverty reduction. There are also two GEF projects in support of the natural resource management agenda and preservation of biodiversity.
- In **Human Development**, there are five projects that account for 19 percent of total lending. The Board approved the financing for the Education Sector Project in February 2004. Twelve months earlier, it approved the Second Health Sector Support Program prepared using a sector-wide approach. In addition, Bank support addresses issues in adult literacy, the prevention and treatment of HIV/AIDS, and 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 (for example, 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** represents about 6 percent of commitments. The Trade and Investment Gateway SIL responds to new policy approaches by government, and seeks to attract a critical mass of export-oriented investors to Ghana to accelerate export-led growth and facilitate trade. The Land Administration project will help develop sustainable, fair, efficient and decentralized land administration system to increase land tenure security. In addition, the PRSCs support reforms aimed at tackling the high-cost business environment, promoting trade facilitation and encouraging financial intermediation. Further Bank Group support to private sector development is under active dialogue with government. The planned Micro, Small and Medium Enterprise Development Project will aim at promoting a conducive business environment and improving the enterprises' competitiveness, while the planned joint donor Economic Management Capacity Building Project will focus on strengthening specific aspects of financial and public sector management.

12. **Areas of Shared Responsibility.** The IMF and World Bank staffs collaborate closely 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 for Governance and Public Sector Management is provided mainly in the context of the PRSC, as well as through the programs supporting public sector capacity building and decentralization.

13. **Budgeting, public expenditure management (PEM), and control.** A February 2004 joint Bank-Fund assessment of the government's PEM capacity confirmed encouraging progress since the 2001 evaluation, while still highlighting the need for continued improvement in budgetary management. That assessment, the FY04 PER, and the FY05 External Review of Public Financial Management informed the identification of priority PEM actions being supported by the PRSC/MDBS. IMF technical assistance missions and a resident advisor provide technical advice to government on budget formulation, monitoring of budget execution, and expenditure control.

14. **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 and the guidelines identified in its document "Towards a New Public Service for Ghana" published in June 2004, the government is defining its public sector reform strategy focusing on the basic needs of running government and is shifting away from the technology-driven, all-encompassing reform programs of the past. The Bank's support for implementing the government strategy takes place in the context of PRSC and through investment projects at the sector level, including those aimed at supporting the government's public sector capacity building efforts and the decentralization agenda.

15. **Public enterprise reform and divestiture.** The Fund closely monitors the financial position of large public enterprises, namely in the energy and financial sectors, because of their importance for public finances and macroeconomic stability. Bank assistance is provided through sectoral projects. Bank dialogue in the energy sector, pursued through the Energy ESW and the PRSC, emphasizes the unbundling of VRA and public-private partnership options for ECG.

16. **Financial Sector.** In July 2003 a joint IMF-Bank mission carried out a mission to update the 2000-01 FSAP. The FSAP update confirmed some progress in the financial sector associated with improved macro-economic stability, emphasized the diversity of financial institutions compared to the overall small size of Ghana's financial sector, and acknowledged the existence of strong international connections and local skills able to compete on equal terms with international institutions. Despite this potential, the update concluded that the financial sector is held back by overall weak financial intermediation compared with that in other sub-Saharan African countries because of various key problems such as inefficiencies of the dominant Ghana Commercial Bank (GCB), the crowding out of the private sector, lack of long-term capital available as a result of poor allocation of pension resources, the still uneven 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), approved in 2003. The PRSC supports implementation of key actions envisaged by the FINSSP, which will also be supported by an FY06 investment credit aimed at economic management capacity building. In December 2003, the IMF published the Financial System and Stability Assessment.

ANNEX 1

Financial Relations with the World Bank Group

Active Portfolio, as of 31 March 2005 (in millions of US dollars)

Credit/Grant Number	Fiscal Year	Project Name	IDA Credit	IDA Grant	GEF Grant	IDA Guar. b/	Undisbursed	
26820-GH	1995	Ghana Thermal Power 5	175.6				15.1	
20412-GH	1998	GEF Forest Biodiversity			8.7		4.9	
31140-GH	1999	Trade Gateway and Investment	50.5				23.3	
32370-GH	1999	Community-Based Poverty Reduction	5.0				0.5	
32460-GH	1999	National Functional Literacy	32.0				12.9	
32820-GH	2000	Community Water II	25.0				1.2	
33740-GH	2000	Rural Financial Services	5.1				3.0	
34050-GH	2001	Agricultural Services	67.0				38.7	
34580-GH	2001	AIDS Response	25.0				5.3	
35540-GH	2002	Road Sector Development	220.0				153.0	
50723-GH	2002	GEF Northern Savanna			7.6		5.2	
35540-GH	2003	Health Sector Program II	57.6	32.4			29.5	
37430-GH	2003	Promoting Partnerships w/Traditional Authorities		5.0			2.0	
38170-GH	2004	Land Administration	20.5				20.7	
38650-GH	2004	Education Sector	78.0				74.2	a/
38890-GH	2004	Urban Environment and Sanitation	62.0				60.6	
39570-GH	2005	PRSC 2	85.0	40.0			0.0	
39620-GH	2005	Urban Water		103.0			106.7	a/
39710-GH	2005	Small Towns Water Supply	26.0				24.3	
39640-GH	2005	Community-Based Rural Development	60.0				60.1	a/
Total (number of credits/grants: 20)			994.3	180.4	16.3		641.2	
N.A.	2005	West Africa Gas Pipeline				50.0		
Total (number of partial risk guarantees: 1)						50.0		b/

Source: World Bank.

a/ Undisbursed amounts are greater than IDA amounts due to exchange rate fluctuations.

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

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

Ghana: Statistical Issues

1. **Ghana's provision of data to the Fund is adequate for program monitoring and surveillance purposes, but the quality and timeliness of the data need to be improved.** There are also notable deficiencies in the dissemination of statistical information to the public, as well as in the reporting for the various Fund publications, although the situation has improved recently with the publication on the Bank of Ghana's website of the Monetary Policy Committee Statement and Statistical Releases. Data for publication in the *International Financial Statistics (IFS)* on international transactions were last reported for 2000 on government finances for 1998, and on national accounts for 1997. No monthly or quarterly fiscal or BOP data are reported for publication in the *IFS*. Furthermore, the latest available data reported for publication in the *Government Finance Statistics Yearbook (GFSY)* relate to 1993. The authorities reported fiscal data for the 1996 *GFSY*, but the data could not be published because they were not sufficiently detailed to allow conversion to the government finance statistics format. Ghana Statistical Service, moreover, has experienced long delays in the release of census and survey results, irregularity of the quarterly statistical digest, and long lags in the dissemination of data. The authorities are working toward participation in the General Data Dissemination System (GDDS) and, following a May 2004 STA mission, have started providing GDDS metadata to the IMF. Areas where improvements need to be made are identified below.

National accounts and prices

2. **As a result of a methodological change in the compilation of consumer prices in 1999, both the level of the consumer price index and the rate of inflation for the 1999-2001 period may be underestimated.** As a consequence, the level of key components of nominal GDP is probably understated as well. The impact on overall GDP is less clear, however, because agriculture production may have been overstated since 1990. To address problems in the compilation of price statistics and national accounts, a peripatetic advisor was assigned to Ghana for the period 2001-04. A follow up is being undertaken as part of the GDDS project for Anglophone Africa. The work on revising the CPI and updating the weights using the fourth Ghana Living Standard Survey (1998/1999), is soon to be completed.

3. **The overhaul of the annual GDP estimates is aimed for completion in 2005.** The peripatetic STA advisor is assisting GSS in updating the base year for the national accounts to 2002, expanding the official compilations to include the expenditure side, and improving the sources and methods used. The ambition is to subsequently start developing a series of quarterly GDP estimates. A comprehensive overhaul of the basic sources of national accounts data is also needed, because existing surveys are outdated.

Labor statistics

4. **The paucity of labor statistics is a cause for concern.** Labor 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

5. **Steps have been taken to improve Ghana's fiscal data.** The Controller Accountant General's Department (CAGD) currently compiles monthly budget implementation reports, and the data are available within six weeks, although some 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 these 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 is implementing a new automated Budget and Public Expenditure Management System (BPEMS). The BPEMS covers ministries, departments and agencies. However, the economic classification is not in sufficient detail to compile data in accordance with the requirements of *GFSM 2001*—a recent mission of STA proposed the introduction of a budget classification in line with international guidelines.

6. **There are also problems of data comprehensiveness.** The CAGD and the BOG have been missing a substantial part of central government spending, like donor flows disbursed directly to ministries, and those arising from internally generated funds. They have also had difficulties in accounting for expenses undertaken by extrabudgetary funds. The operations of special funds such as the Social Security and National Insurance Trust (SSNIT), the Ghana Education Trust Fund (GETF) and the District Assemblies Common Fund (DACF) are not yet covered by the fiscal accounts. Although the majority of local government expenses are directly met from budgetary accounts, the own revenue of local governments, all spending incurred from these revenues, and transactions financed from the DACF are not yet covered. The extension of coverage of fiscal accounts to general government is encouraged. A new system for compiling more comprehensive data by the CAGD is now being introduced. In addition, the Commitment Control System has been operating for a full year, and a report for fiscal year 2004 was generated in January 2005. The GDDS project for Anglophone Africa has assigned a peripatetic short-term consultant to advise on coverage and other issues related to the implementation of the new Government Finance Statistics Manual.

7. **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. The compilation of a full set of integrated accounts that record stocks and flows, for all the sub-sectors of the general government sector, in accordance with *GFSM 2001* guidelines, could largely improve and harmonize the fiscal accounts in Ghana.

8. **Comprehensive solutions to some of the data problems may have to await the full implementation of the new BPEMS system and the 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. A joint Bank-Fund mission in 2004 assessed progress on monitoring poverty-related spending through the Heavily Indebted Poor Countries (HIPC) Assessments and Actions Plans, and a Fiscal Transparency Report on Observance of Standards and Codes (ROSC) was undertaken in July 2004, and further technical assistance was provided by STA in March 2005.

Monetary statistics and international reserves

9. **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.

10. **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 was informed in October 2001 that the BOG had revised upward the reported series on reserve money, beginning in November 1999. The previous underrecording 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.

11. **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 8 to 10 weeks.

Debt statistics

12. **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.

13. 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 single 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.

14. 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 outstanding debt data and guarantees issued.

Trade and balance of payments statistics

15. Since 1982, the BOG's Research Department has had primary responsibility for the compilation and presentation of the annual and quarterly 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 carries 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)*.

16. **Currently, the GSS is not publishing timely monthly trade statistics, although the data are available from the 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 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.

17. **The staff has recommended that the 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.

18. **The BOG has initiated work on implementing the recommendations of a TA mission on balance of payments statistics in 2000,** including on the introduction of surveys of key establishments. A survey of shipping companies was introduced in 2004, but the companies at that time proved unable to submit the required data. The collaboration among the various government agencies responsible for data collection, moreover, has improved. A new immigration form to capture data on travel statistics, in line with the Tourism Satellite Account developed by an interinstitutional committee, was introduced in March 2005. The survey on private capital flows carried out in 2000 has just been published, and the BOG intends to implement the second phase of the capital flow project in September 2005.

GHANA: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
AS OF MAY 2, 2005

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶
Exchange rates	April 25, 2005	April 28, 2005	D	W	D
International reserve assets and reserve liabilities of the monetary authorities ¹	March 2005	April 2005	M	M	Q
Reserve/base money	March 2005	April 2005	W	M	Q
Broad money	March 2005	April 2005	M	M	Q
Central bank balance sheet	March 2005	April 2005	M	M	Q
Consolidated balance sheet of the banking system	March 2005	April 2005	M	M	Q
Interest rates ²	April 25, 2005	April 28, 2005	W	W	W
Consumer price index	March 2005	April 2005	M	M	M
Revenue, expenditure, balance and composition of financing ³ – general government ⁴	NA	NA	NA	NA	NA
Revenue, expenditure, balance and composition of financing ³ – central government	Dec. 2004	Feb. 2005	M	M	I
Stocks of central government and central government-guaranteed debt ⁵	Dec. 2004	Feb. 2005	M	M	I
External current account balance	Dec. 2004	Feb. 2005	A	A	A
Exports and imports of goods and services	1997	3/2003	A	A	I
GDP/GNP	2004	Feb. 2005	A	A	I
Gross external debt	Dec. 2004	Feb. 2005	M	I	A

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

Ghana—Work Program for 2005-06

June 2005	Executive Board meeting for Article IV consultation and third PRGF review.
June 2005	Staff visit to assess recent developments in preparation for the fourth PRGF review.
October 2005	Mission to conduct the fourth program review and discuss the budget for 2006 (end-June 2005 test date).
December 2005	Executive Board meeting for fourth PRGF review.
March 2006	Mission to conduct the fifth program review (end-December 2005 test date).
April 2006	Executive Board meeting for fifth PRGF review.
September 2006	Mission to conduct the sixth (and final) review (end-June 2006 test date); discussion of ex post assessment of prolonged use of Fund resources.
October 2006	Executive Board meeting for sixth and final PRGF review.

May 20, 2005

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

Dear Mr. de Rato:

Since May 2003, the government of Ghana has been implementing a financial and economic program with support from the Fund's Poverty Reduction and Growth Facility (PRGF). We are pleased to inform you that on February 23, 2005, petroleum prices were adjusted upward as part of the commitment on petroleum sector deregulation made by the President of Ghana during the discussions for the second review. The Petroleum Deregulation Bill has been submitted to Parliament, and is expected to be passed by end-May 2005. The government of Ghana has worked diligently to implement policy commitments under the existing arrangement, particularly with respect to achieving our macroeconomic objectives. Moreover, for the first time in recent history, macroeconomic discipline was maintained during the recent presidential and parliamentary elections. However, there were some inadvertent slippages in policy implementation in 2004 for which explanation is provided below. Accordingly, we are requesting waivers for nonobservance of three quantitative and one structural performance criteria.

Below is the listing of the performance criteria that were not observed, the contributing factors for their nonobservance, and the remedial measures designed to ensure achievement of the original program objectives.

- The ceiling on net domestic financing of government operations was exceeded at end-December 2004 on account of (i) higher poverty-related and infrastructure expenditures linked to higher-than-expected foreign financing (including from recent debt relief); (ii) higher petroleum-related subsidies as a result of higher world oil prices; and (iii) a wage overrun for subvented agencies because their base wage payments was inadvertently not provided for in the program, and the monitoring of these payments was not as comprehensive as it should have been. To prevent overruns in future, the government will strengthen payroll management, including through computerization to cover all subvented agencies as well as central government employees. In any event, the program for 2005 includes a quantitative performance criterion on the absolute wage bill for the year (including all allowances).

- The ceiling on the stock of net domestic bank credit to the Tema Oil Refinery (TOR) was exceeded at end-December 2004 because of a lag in verifying and transferring the required (petroleum-related) subsidy for the last quarter of 2004. The transfer to the TOR was made in early 2005 and the related bank credit repaid. Also, as subsidies to the TOR have ceased with the establishment of a new pricing mechanism for petroleum products, this issue will not arise in future. Nonetheless, we will continue to monitor TOR's financial performance, and, for this reason, the 2005 program includes a ceiling on its outstanding bank credit.
- The (zero) ceiling on the contracting or guaranteeing of medium- to long-term nonconcessional debt was breached in August 2004 with a US\$40 million loan from Nigeria to finance Ghana's participation in the World Bank-supported West African Gas pipeline—a project of significant economic benefit to Ghana and the region. Expected financing for this project did not materialize, and the government could not make alternative arrangements in time to avoid a US\$25 million penalty (0.3 percent of GDP). However, timely prior consultation with the Fund would have prevented the misunderstanding regarding Ghana's commitment to not undertake any commercial borrowing. We have instituted mechanisms to ensure early consultation on all matters related to the program monitoring, including—but not limited to—regular meetings between officials and the IMF Resident Representative.
- The implementation of a new automatic adjustment mechanism to price petroleum products (a structural performance criterion) was met with a week's delay (February 23, 2005, against February 15, 2005), and the establishment of an independent oversight board (the National Petroleum Authority) to monitor the pricing mechanism for petroleum products is now expected by end-May 2005 (against February 15, 2005), since it is part of a whole framework of petroleum sector deregulation. These delays were necessary to allow for adequate consultation within the country, and to ensure the durability of this important, highly political and radical reform. The reform measures were taken in a difficult socio-political environment and in the context of rising world oil prices. Nevertheless, the government is committed to fully implementing this pricing mechanism as well the provisions of the legislation on the deregulation of the petroleum sector when the Bill is passed by Parliament.

The attached Memorandum of Economic and Financial Policies (MEFP) sets out the objectives for 2005. The strategy is to build on the significant improvements in macroeconomic performance during 2004, and we believe that the policies specified in the attached MEFP provide a basis for sustaining growth, lowering inflation, and alleviating poverty. Furthermore, we believe that the policies and measures described therein are adequate to achieve these objectives, but we stand ready to take additional actions if required. The government will provide the Fund with the information needed to assess our 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, the technical memorandum of understanding (TMU), and the staff report for this review, as well as the 2005 Article IV consultation 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 and conclusion of the 2005 Article IV consultation.

Accordingly, we are requesting completion of the third program review and disbursement of the fourth loan installment in an amount equivalent to SDR 26.35 million. Also, we are requesting an extension of the current PRGF arrangement to October 31, 2006, so that the final and sixth review (based on June 2006 test date) and disbursement could be completed.

Yours sincerely,

/s/

Hon. Kwadwo Baah-Wiredu, MP
Minister of Finance and Economic Planning

/s/

Hon. Paul A. Acquah
Governor, Bank of Ghana

Attachments (2)
Memorandum of Economic and Financial Policies for 2005
Technical Memorandum of Understanding

Memorandum of Economic and Financial Policies of the Government of Ghana for 2005

I. INTRODUCTION

1. In May 2003, the IMF confirmed its support for Ghana's Poverty Reduction Strategy (GPRS) and approved an arrangement under the Poverty Reduction and Growth Facility (PRGF). At that time, the GPRS targeted a decline in poverty over the long term and improvements in social indicators in line with the Millennium Development Goals (MDGs). Accordingly, government policies aimed to raise real GDP growth during 2003-05 to an average of 5 percent a year, reduce inflation to the single-digit range, and rebuild gross international reserves to three months of imports of goods and services by end-2005.
2. Since that time, Ghana has made significant progress in implementing the program. Indeed, 2004 saw significant advances in economic reform: the fiscal position was held broadly in check and the recent gains from macroeconomic stabilization were preserved, unlike in previous election years; the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative was reached, thereby ensuring long-term external debt sustainability; and the politically and socially unpopular liberalization of the petroleum sector was started, removing government involvement from the pricing of petroleum products and opening the sector to private sector participation.
3. For the second consecutive year, macroeconomic performance surpassed program projections for 2004. Real GDP growth rose to 5.8 percent on the strength of a record cocoa harvest and a broadening of economic activity. Credit growth to the private sector reached its highest level of the past five years. Twelve-month inflation was halved to 11.8 percent by end-year. Even though domestic supply shortages and inclement weather prevented further disinflation, nonfood inflation stayed within the single-digit range for most of the year. Underpinned by growing confidence in macroeconomic policies, market-determined interest rates and the nominal exchange rate for the cedi remained relatively stable through this period. Strong foreign exchange inflows from buoyant cocoa and gold exports and personal remittances, together with donor support that exceeded projections, made possible a further buildup of gross international reserves to US\$1,816 million (equivalent to 3.7 months of imports of goods and services) by the end of the 2004.
4. The credibility of macroeconomic policies was further buttressed in 2004, even though some of the program targets were missed. Faster GDP growth supported efforts to achieve the programmed reduction in domestic debt that anchors fiscal policy, but some fiscal slippages occurred relative to the projections. The slippages were largely due to higher petroleum-related subsidies necessitated by high world oil prices, increased domestic capital spending as a counterpart to higher donor-related (including HIPC) inflows, and higher-than-projected wage payments to subvented agencies caused by weak payroll management.

Nevertheless, the stance of monetary policy continued to be firm, and the monetary aggregates were broadly in line with program goals at end-2004.

5. Ghana also made progress in implementing structural reforms. Public expenditure management was further improved through the enforcement of reporting and profit transfer requirements (for state-owned enterprises) under the recently enacted Financial Administration Act (FAA). The restructuring of Ghana Commercial Bank proceeded as planned, and central bank bills were introduced to enhance the efficacy of monetary policy. Public utility prices were kept in line with cost recovery.

6. So far in 2005, the government has followed through on its long-standing commitment to withdraw from administering petroleum product prices. On February 23, 2005, a mechanism for petroleum product pricing was adopted—ensuring full recovery of all costs and taxes and ending the need for budget subsidies. The mechanism is specified along similar lines as that employed earlier, through the use of import-parity ex-refinery prices, based on competitive tenders from private-sector participants for both refined products and crude imports. Distribution margins and all other taxes and levies are added to this ex-refinery price to determine retail prices. Parliament is expected to pass (as a prior action) legislation to establish the National Petroleum Authority, an independent oversight body that is charged with monitoring the implementation of the new pricing mechanism. The composition of the authority includes representatives from government, oil-marketing companies, trade unions, and nongovernmental organizations such as the Association of Ghana Industries, and persons with knowledge, expertise, and experience in matters related to the functioning of such an entity. In addition, parliament is also expected to pass legislation to deregulate the petroleum sector, including measures to ensure a competitive market for fair prices and an adequate and continuous supply of environmentally clean and high-quality petroleum products. The legislation also includes measures to promote and encourage the entry of new participants in the downstream oil industry.

II. ECONOMIC POLICIES IN THE PERIOD AHEAD

7. Economic policies in the period ahead are being guided by the GPRS, which encompasses the government's overarching strategy. The GPRS is to be updated by end-June 2005 to cover 2006-09; recent experience—including through the participatory process—has sharpened the government's policy focus. Achieving the MDGs will require scaling up investment, sustaining economic growth, lowering inflation to single digits, and undertaking structural reform to enhance the capacity of the economy to withstand shocks. In this regard, the macroeconomic objectives for 2005 are to maintain real GDP growth of 5.8 percent; contain inflation at an average of 14½ percent even though inflation accelerated to 16.7 percent in March 2005, in response to the deregulation of petroleum product prices which were increased by 50 percent in February; and accumulate US\$130 million in net international reserves to provide a larger cushion against shocks. Accordingly, in the 2005 economic and financial program,

- fiscal policy will ensure that the ratio of net domestic debt to GDP declines to half the level at end-2002;
- monetary policy will aim at achieving the inflation and international reserves targets;
- structural measures will be taken to enhance the conditions for private sector development, including through investment in human and physical capital and a deepening of financial intermediation; and
- economic governance will be strengthened, in particular through reform of the civil service and state-owned enterprises (SOEs).

A. Fiscal Policy

8. The 2005 budget targets a domestic primary surplus of about 2½ percent of GDP, consistent with a net repayment that will achieve the targeted reduction in the ratio of net domestic debt to GDP. The achievement of the domestic debt objective is expected to result in a further durable decline in interest rates, and the reduced domestic debt service will provide much-needed room in the budget for growth-enhancing and poverty-alleviating spending. However, while the ratio of domestic debt to GDP remains appropriate as the fiscal anchor, Ghana may be reaching a point where the net marginal benefits from further reduction in domestic debt are minimal.

9. In the budget that was passed by parliament in March 2005, lower domestic debt service, together with the elimination of petroleum subsidies, provides a fiscal space of 2½ percent of GDP. This space has been used for (i) increased capital expenditures (with a significant component devoted to infrastructure); and (ii) a slight increase in poverty spending mainly for health and education to foster human capital development and address the recent deterioration in some health indicators. In line with technical assistance from the Fund, the expenditure program includes outlays to ameliorate the impact of petroleum deregulation on vulnerable households through, among other things, increased grants for education and health services in rural areas, expanded electrification, and the extension of public transportation to less developed areas.

10. The budget also calls for an increase in public sector wages, mainly to encourage capacity building and higher productivity by attracting and retaining qualified personnel. This increase, together with the slippage in wages last year and the need to clear arrears from 2004, will bring the wage bill to 9.1 percent of GDP, which experience suggests is high in light of the need to provide more resources for pressing demands to fight poverty. This year, the government will ensure tight control over wage payments by (i) establishing quarterly ceilings (inclusive of all allowances), and (ii) integrating all government employees into personnel and payroll data bases (with technical assistance from our development partners). The new data bases will include all employees under the Ghana Universal Salary Structure and subvented agencies. Over the medium term, the government will undertake a

comprehensive reform of the civil service that will include addressing employment and wage policies. The reform is expected to result in increased efficiency and productivity to support the private sector-led strategy for growth. In addition, the civil service reform is expected to reduce the wage bill to around 8.5 percent of GDP over the medium term, thereby creating further fiscal space for other high-priority spending programs.

11. On the revenue side, the budget provides for a reduction of corporate income taxes to spur investment, and an increase in the personal income tax threshold to reduce the tax burden facing low-income earners. The loss of revenue from these two measures, however, will be more than offset by the yield from petroleum taxes consequent upon the high oil prices and the full-year impact of the national health insurance levy introduced in August 2004. Following improvements in administration and with the strict enforcement of the FAA, nontax revenue will rise further this year. Thus, total tax revenue is set to increase to 24½ percent of GDP. At the same time, foreign financing is expected to be about the same as last year.

12. The government continues to improve public expenditure management in a way that will enhance transparency and accountability. Fiscal reporting in the budget has recently been expanded to include the internally generated funds of ministries, departments, and agencies (MDAs), as well as the financial statements of statutory funds and the Social Security and National Insurance Trust; the legislative framework has been strengthened; and the budget and public expenditure management system (BPEMS)—which will become the key instrument for the full implementation of the legal framework—has been deployed in a significant number of MDAs. In the period ahead, the goal will be to follow through with the proper enforcement and implementation of several key pieces of legislation, in particular, the FAA, the Financial Administration Regulations, the Procurement Act, and the Internal Audit Agency Act.

B. Monetary and Exchange Rate Policies

13. The goal of monetary policy will continue to be to reduce inflation. To achieve this goal, the central bank (the Bank of Ghana (BOG)) will keep the pace of monetary expansion broadly in line with the projected growth of nominal income, implying annual growth of reserve and broad money (excluding foreign-currency deposits) of 18 and 23 percent, respectively, during 2005. By maintaining a firm stance, the BOG will be able to contain the indirect effects of petroleum price deregulation and thereby prevent an upward spiral of inflation. The BOG has been developing its set of policy instruments, recently adding bank bills to complement treasury securities for conducting open market operations. Also, the BOG has promoted transparency by regularly and candidly assessing and reporting economic conditions and its policy stance through reports from the Monetary Policy Committee. The Monetary Policy Committee determined in March 2005 that the policy stance was appropriate to contain the indirect effects of the petroleum-related spike in inflation, and left the BOG's prime rate unchanged at 18.5 percent.

14. Ghana remains committed to a managed floating exchange rate regime for the cedi with no preannounced path for the exchange rate. Under this regime, interventions in the foreign exchange market are limited to short-term smoothing, liquidity management, and achievement of the international reserves objectives. The transmission of exchange rate effects through prices is rather strong in Ghana, so the BOG remains concerned about the potential for sharp fluctuations in the cedi's external value. While international reserves are at a record-high level, a further buildup may provide an added cushion against shocks, such as the recent surge in world oil prices.

15. As part of the ongoing reforms, the BOG intended to introduce a computerized interbank foreign exchange market, as a means of creating an active interbank market. However, it delayed this initiative out of concern over both its own capacity and that of market participants to operate the system effectively and without undue risk to exchange rate stability. Once the requisite institutional capacity exists (mainly through training), the computerized interbank market will be launched. At this time, the BOG does not consider it prudent to eliminate the surrender requirement for foreign exchange, as this would shift to one or two enterprises the responsibility for properly managing annual foreign exchange receipts that have reached US\$1 billion (about 10 percent of GDP).

III. STRUCTURAL POLICIES

16. With the benefit of recent experience and an assessment of preliminary outcomes, Ghana has reshaped the focus of the GPRS to increase the effectiveness of policies aimed at promoting private sector led growth and alleviating poverty. The main thrust of the structural policies for 2005 outlined below are consistent with this focus.

A. Financial Sector

17. The BOG will help strengthen the financial sector in order to expand private sector credit by using the Bank of Ghana Act to enforce compliance with the increased capital and capital adequacy requirements (10 percent of risk-weight assets as of April 2005, up from 6 percent earlier) or revoke their licenses; adopt the international norm of classifying non-performing loans; and facilitate access to credit and reduce lending risks, including by passing a law to establish a credit bureau. In addition, the government will step up efforts to enhance private sector credit expansion by implementing various other supporting legislation which have been enacted—such as the Long-Term Saving Bill and the Venture Capital Fund Bill, which are intended to mobilize domestic savings; and by passing the Insolvency Bill and the Companies Code to clarify creditor and borrower rights—and by accelerating the judicial and legal processes to secure land tenure, which is the only form of collateral for small- and medium-size enterprises and entrepreneurs.

18. A key element of the development strategy is to increase financial intermediation, which remains at a relatively low level. In recent years, prudential and legislative reform, better governance, and macroeconomic stability have strengthened the banking system. Also, the consolidation of the fiscal position has provided increased scope to expand credit to the

private sector at lower cost. The Financial Sector Strategic Plan continues to provide the medium-term direction of financial sector reform, with emphasis on regulatory and judicial reform, institutional capacity building, protection of private property rights, and competition.

19. In the period ahead, however, measures will be taken to address structural rigidities that impinge on the availability and cost of credit while ensuring ongoing financial stability. The secondary reserve requirement (35 percent of deposits) has served as an effective macroprudential tool, but prevents some banks from allocating their assets optimally because they have to meet the requirement by holding government or central bank securities. For the system as a whole, this requirement is not binding, as indicated by the existence of free reserves. While the BOG is moving to reduce barriers that hamper the private sector's ability to obtain credit, it remains concerned about balancing macroeconomic stability and the soundness of the financial sector, on the one hand, and efficiency and growth of the portfolios of banks, on the other hand. The BOG will move to reduce, and eventually eliminate, the secondary reserve requirement when there is firmer control over liquidity through more robust policy instruments.

B. External Policies and Debt Management

20. In December 2004, the government finalized its National Trade Policy, which fosters foreign direct investment, so as to further open the domestic market to competition, and the transfer of technology. While a further opening to the world and, equally important, regional markets will take time, the government will focus on several priority issues: harmonizing external tariffs with the members of the Economic Community of West African States; establishing a trade sector support program to make the National Trade Policy operational; and stepping up efforts to implement the President's Special Initiatives, which seek to broaden the export base (for manufactured products, such as garments and textiles, salt, industrial starch, and oil palm), create employment opportunities, and promote economic development in rural areas.

21. Reaching the completion point under the enhanced HIPC Initiative made Ghana's external debt sustainable. In line with the initiative, Ghana has completed nearly all of the bilateral negotiations with Paris Club creditors on the precise terms of the debt stock relief. Nearly all creditors committed themselves to granting additional relief beyond the HIPC Initiative. In addition, Ghana has been actively seeking to restructure the terms of some external liabilities on more favorable terms. It has recently adopted several measures to improve debt management, such as monthly reconciliation of external debt data among relevant government agencies, shifting the focus of debt management from data collection to analyzing debt sustainability, and integrating such analyses into the decision-making process of external borrowing consistent with the government's objective of debt sustainability.

22. Ghana has a great need of further funds to undertake crucial development projects. In view of the improved debt outlook, some international investment banks have signaled their desire to assist Ghana in tapping resources from international capital markets. However, Ghana's decision to access such funds will be based on (i) assurance that such borrowing

would not worsen its debt-service profile over the medium term; (ii) a strengthening of its debt management capacity to both assess and design loan proposals; and (iii) maintenance of its good track record of macroeconomic performance that will result in better financing terms. Furthermore, Ghana will seek to exhaust all available concessional assistance to meet the resource needs. On this basis, the government will avoid contracting or guaranteeing nonconcessional debt, as defined in the technical memorandum of understanding (TMU) attached to this MEFP.

C. Public Enterprise and Civil Service Reform

23. Fiscal consolidation has reduced the government's involvement in economic activity, which has been complemented over time by the divestiture of a significant number of SOEs. However, its involvement remains substantial and has a direct impact on Ghana's overall economic performance. In this regard, the 2005 program aims at improving the quality and efficiency of the civil service, enhancing the financial performance and monitoring of the largest SOEs, and reducing SOE's current and contingent liabilities to the government.

Public Enterprise Reform

24. Public enterprises account for a sizable part of Ghana's economy, with 35 SOEs and about 200 other entities that are partially owned by the government. These include some of the largest enterprises, concentrated in the service, energy, and financial sectors. While a few of the SOEs are profitable and have recently begun to remit profits to the budget, the majority operate at a loss because of technical and operational inefficiencies.

25. The private sector should lead economic development, and the government will thus move out of those activities that private agents can undertake more efficiently. In activities in which the government remains, it will ensure that public enterprises contribute positively to the budget and the wider objectives of economic policies. The primary goal of reform in this area, therefore, will focus on improving the performance of all SOEs over time, with immediate attention placed on the largest entities (such as the public utilities, Tema Oil Refinery, and Ghana Railways Corporation). The government envisages three elements to this strategy. First, it plans to expand the mandate of the Nontax Revenue Unit in the Ministry of Finance and Economic Planning by end-2005 to monitor, on a quarterly basis, the financial and operating performance of the 35 SOEs now reporting to the State Enterprise Commission, while the latter is being restructured. Second, it will continue to require each entity to produce and submit annual financial plans to the Ministry of Finance and Economic Planning—including its investment program, borrowing requirements, and projected performance (with prospective dividend payments to the budget). These financial plans will be submitted in time for the preparation of the national budget. Finally, the government will ensure that commercial entities maintain or adopt pricing policies that reflect full cost recovery.

26. By the end of this year, the Divestiture Implementation Committee is projecting revenue from the sale of shares in 12 joint-venture companies of about 0.6 percent of GDP.

However, these proceeds have not been included in the 2005 budget because of the associated uncertainty regarding time and the eventual amounts. In the event, the proceeds will be used to increase poverty-related spending and finance the civil service reform in a manner that would not give rise to future recurrent obligations or such that the additional recurrent obligations could be absorbed without compromising the overall budget objectives.

27. After Ghana Airways ceased operations in July 2004, a debt-restructuring committee was established to engage creditors and audit its liabilities. Once the committee's work is completed in September 2005, the government will devise a strategy to address this debt, which is currently estimated at US\$172 million. A task force has also been created to resolve issues associated with severance payments, and an allocation has been made in the budget to accommodate this eventuality. A new airline, Ghana International Airlines (GIA), has been established through a joint venture between the government (70 percent stake) and a U.S.-based investor. The 2005 budget makes provision for the government's equity contribution amounting to US\$4.9 million.

Civil Service Reform

28. The government has developed a policy document—*Towards a New Public Service for Ghana*—that will form the starting point for reforming the civil service. This document is to inform the policy debate by drawing important lessons about past attempts to restructure government operations. A number of shortcomings in past attempts at civil service reform include (i) the inability to tackle system wide issues, such as public sector pay, rightsizing of public-sector agencies, and human resource development; (ii) capacity constraints at managerial and professional levels; (iii) fragmented, technology-driven, and uncoordinated public sector modernization programs; and (iv) a lack of synergy of reforms between different levels of government. In looking ahead, the government has identified a number of key issues to deal with: (i) establishing a human resource policy that recognizes the need for a civil service that emphasizes professional and career development; (ii) reviewing the organization and structure of the civil service; (iii) addressing wage policy and payroll management (including pensions); and (iv) bolstering service delivery to ensure value for money.

29. Reflecting the importance of civil service reform, a Minister of State has been appointed to help accelerate it. With help from development partners, the Minister of State will present a draft action plan based on the policy document for cabinet consideration by end-June 2005. After approval by the cabinet, the implementation of the plan will begin no later than January 2006.

IV. STATISTICS

30. Progress has been made in improving the quality, timeliness, and availability of economic data. Ghana is working towards participation in the IMF's General Data Dissemination System and has started providing metadata to the IMF. The authorities intend to make Ghana's economic and financial data available on the internet. In December 2005,

GSS will publish revised national accounts (from 1990 onward), including by expenditure-based categories. A revised consumer price index reflecting current consumption patterns will also be published at that time.

V. PROGRAM MONITORING

31. Quantitative and structural performance criteria and structural benchmarks for 2005 are set out in Tables I.1 and I.2. The fourth review of the program is expected to take place by November 2005, with end-June 2005 as the test date for the quantitative performance criteria. The review will focus on, among other issues, prospects in strengthening payroll management, progress in civil service and financial sector reform, establishment of a basis for monitoring the performance of state-owned enterprises, and how the pricing mechanisms for utilities and petroleum products are working (including the oversight activities of the Public Utility Regulation Commission and the proposed National Petroleum Authority). The fifth review is expected in March 2006, with December 2005 as the test date for the quantitative performance criteria.

32. Detailed definitions and reporting requirements 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, 2005 1/
(Cumulative flows from beginning of calendar year 2005 to end of month indicated, unless otherwise indicated)

	End-March Est.	End-June Perf. criterion	End-September Indicative	End-December Perf. criterion
Performance criteria				
Net domestic financing of government (ceiling)	-119	-237	-1,374	-996
Net domestic assets of the Bank of Ghana (ceiling) 2/	166	1,170	2,095	444
Stock of net domestic banking sector credit to TOR (ceiling)	918	568	600	600
		(In billions of cedis)		
Net international reserves of the Bank of Ghana (floor)	-132	-217	-283	130
The contracting or guaranteeing of new nonconcessional external debt with original maturity greater than or equal to 1 year by the government or the Bank of Ghana (ceiling) 3/	0	0	0	0
Outstanding stock of external debt with original maturity of less than one year owed or guaranteed by the government or the Bank of Ghana (ceiling) 4/	0	100	100	100
Stock of external payment arrears (ceiling) 5/	0	0	0	0
		(In billions of cedis)		
Wage bill of the central government (ceiling) 6/	1,825	3,747	6,447	8,832
Indicative benchmarks				
Government domestic primary balance (floor)	660	1,598	2,109	2,532
Reserve money stock (ceiling)	8,087	8,313	8,633	10,777
Government revenue, excluding grants and divestiture proceeds (floor)	5,061	10,646	16,886	23,911
Poverty related expenditures (floor)	1,713	3,549	5,758	8,014

1/ Definitions of line items and terminology are elaborated in the technical memorandum of understanding. Variables are measured at end of month values, unless otherwise indicated.

2/ Based on a fixed exchange rate of 9,177 cedis/U.S. dollar, the rate prevailing at end-March 2005.

3/ This is a continuous performance criterion. It applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/123) of August 24, 2000 but also to commitments or contracted for which value has not been received, as specified in paragraph 18 of the TMU.

4/ The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/123) of August 24, 2000, as specified in paragraph 16 of the TMU.

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

6/ Cumulative from January 2005, and including subvented agencies, all allowances (including additional duty hour allowance), and clearance of all wage arrears from 2004 amounting to 149 billion cedis.

Table I.2. Ghana: Proposed Structural Performance Criteria and Benchmarks for 2005

Conditionality	Status
Prior action	
<p>Establish an independent oversight body to monitor application of the petroleum product pricing mechanism adopted on February 23, 2005.</p>	
Performance criteria	
<ul style="list-style-type: none"> • End-September 2005. Establish computerized integrated personnel and payroll databases, which will include all employees covered under the Ghana Universal Salary Structure and all subvented agencies (such as the police, universities, and research centers). • By December 31 2005. Cabinet to approve the final plan for the civil service reform covering human resource policy, reviewing the organization and structure of the civil service, and addressing wage policy and payroll management (including pensions) (in line with paragraphs 28 and 29 of the MEFP). 	
Benchmarks	
<ul style="list-style-type: none"> • Continuous. Starting January 1, 2006, Bank of Ghana will start to enforce compliance of commercial bank with the capital adequacy stipulated in the Bank of Ghana Law and Banking Act. Noncomplying banks must take timely remedial actions, or their licenses will be revoked. • By end-December 2005. The Minister of Finance and Economic Planning will issue an Administrative Directive to expand the mandate of the Non-Tax Revenue Unit at the Ministry of Finance and Economic Planning to monitor—on a quarterly basis—the financial and operating performance of the 35 state-owned enterprises that now report to the State Enterprise Commission, as well as any other key public enterprises so determined by the Minister of Finance and Economic Planning (in line with paragraph 25 of the MEFP). 	

Technical Memorandum of Understanding

1. This technical memorandum of understanding contains definitions that are intended to clarify the measurement of items in Table I.1, Quantitative Performance Criteria and Benchmarks, Poverty Reduction and Growth Facility (PRGF) Arrangement, 2005, attached to the Memorandum of Economic and Financial Policies (MEFP). Unless otherwise specified, all quantitative performance criteria and benchmarks will be evaluated in terms of cumulative flows from December 31, 2004.

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 reporting lag is explicitly specified in Table I.3). The authorities will transmit promptly to Fund staff any data revisions. For any information (and data) that is (are) relevant for assessing performance against program objectives but is (are) not specifically defined in this memorandum, the authorities will consult with Fund staff, including the Fund's Resident Representative.

Definitions

3. **Government** is defined for the purposes of this memorandum to comprise the central government as well as all special funds (the Education Trust Fund, the Road Fund, the District Assembly Common Fund, and the National Health Insurance Fund) and various subvented and other government agencies that are classified as government in the Bank of Ghana (BOG) Statement of Accounts (SOA). The Social Security and National Insurance Trust (SSNIT) and public enterprises, including Cocobod, are excluded from the definition of government. With regard to government deposits in commercial banks, the BOG's definition of government, circulated to commercial banks in May 2004, will apply for program purposes.

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

5. **Government domestic expenditure** comprises all spending from uncommitted accounts for Items 1-4, as captured by the accounts of the Controller Accountant General's Department (CAGD). Reporting will be based on the current National Expenditure Tracking System (NETS) accounting system and its associated 15-digit chart of accounts and will be fully reconciled with BOG bank statements on spending (outflows) from the 42 newly created ministries, departments, and agencies' (MDA's) operational accounts (plus any residual use of existing treasury drawing/overdraft accounts). Expenditure will also be verified by comparing it with accounts produced by the Budget and Public Expenditure

Management System (BPEMS) accounting system, until such time as it becomes fully operational.

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

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

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

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

10. **Nonbank financing** is the difference between total net cash receipts to the treasury main cash account (issues/redemptions account when it becomes operational) from the sale/repurchase of government securities, less the corresponding net cash value received from the BOG and DMBs as indicated on the Debt Registry by holder at discount value, plus deferred accrued interest on their holdings of inflation-indexed bonds. For each test date, any adjustment by the BOG to the data reported by individual DMBs, on account of their misclassification of government or for other reasons, will be reported to the Fund.

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

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

13. The **program exchange rate** for the purposes of this memorandum will be 9,177 cedis per dollar, which was the average interbank transaction rate prevailing at end-March 2005.

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

15. **Net foreign assets** are defined in the monetary survey as short- and long-term foreign assets minus liabilities of the BOG that are contracted with nonresidents. Short-term foreign assets include: monetary gold (valued at the spot market rate for gold, US\$/fine ounce, London), holdings of SDRs, reserve position and HIPC Initiative trust investment in the IMF, the HIPC Initiative Umbrella SDR account (all as reported by the IMF), foreign notes and travelers checks, foreign securities, positive balances with correspondent banks, and other positive short-term or time deposits. Short-term foreign liabilities include foreign currency liabilities contracted by the BOG at original maturities of one year or less (including overdrafts), outstanding liabilities to the IMF, and deposits of international institutions at the BOG. Long-term foreign assets and liabilities are comprised of: other foreign assets (BOG statement of accounts code 303), investments abroad (a subset of 60201), other long-term liabilities to nonresidents (a subset of 1103), and bilateral payment agreements (305). All values not in U.S. dollars are to be converted to U.S. dollars at the exchange rates prevailing at end-March 2005 and then into cedis at the program exchange rate indicated in paragraph 13. A more detailed listing of accounts to be included in the measure of net foreign assets is contained in the monetary template referred to in paragraph 7 above.

16. **Net international reserves** of the BOG are defined for program monitoring purposes and in the balance of payments as short-term foreign assets of the BOG, minus short-term external liabilities. To the extent that short-term foreign assets are not fully convertible external assets readily available to and controlled by the BOG (that is, they are pledged or otherwise encumbered external assets, including, but not limited to, the HIPC umbrella SDR account, they will be excluded from the definition of net international reserves. Net international reserves are also defined to include net swap transactions (receivable less payable) and exclude all positive foreign currency deposits at the BOG held by resident deposit money banks, public institutions, nonfinancial public enterprises, other financial institutions, and the private sector. All values not in U.S. dollars are to be converted to U.S. dollars at the exchange rates prevailing at end-March 2005 and then into cedis at the program exchange rate indicated in paragraph 13. A more detailed listing of accounts to be included in the measure of net international reserves is contained in the monetary template referred to in paragraph above.

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

18. The performance criterion on **short-term external debt** refers to the outstanding stock of external debt with an original maturity of one year or less, including overdraft positions and debt owed or guaranteed by the government or the BOG.¹⁴ Data on the BOG's short-term external debt are those reported from the statement of accounts template as short-term liabilities to nonresident commercial banks (BOG statement of accounts code 1201 plus 301 overdrafts plus Crown Agent).

19. The performance criterion on **nonconcessional medium- and long-term external debt** (Table I.1) refers to the contracting or guaranteeing of external debt with an original maturity of more than one year by the government or Bank of Ghana.¹⁵ Medium- and long-

¹⁴ (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 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. This PC does not apply to any obligations that may arise from 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.

¹⁵ (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

(continued...)

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

20. **External payment arrears** are deemed to accrue when undisputed interest or amortization payments of the government are not made within the terms of the contract, or in conformity with the terms for interim relief provided under the enhanced HIPC Initiative and the deferral agreed with the Paris Club on December 10, 2001.

External Data, Debt and Debt Service, and HIPC Relief

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

- a) All MDAs have been informed that the ADMU in the Ministry of Finance and Economic Planning is the only entity authorized to contract or guarantee external debt, and all leases with a total value above US\$100,000 should be submitted to ADMU for authorization. The ADMU will report to the IMF with a lag of not more than one month on the concessionality of all new loans contracted.
- b) The Minister of Finance and Economic Planning has sent a circular to all donor desks officers in the Minister of Finance requesting that arrangements be put in place to ensure that the ADMU is informed of all correspondence with creditors, including the latest information on disbursements and project financing developments and any notices of payment due. All new loan documents should also state clearly that the ADMU is the main initial point of contact for settlement of all debt obligations.

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. This performance criterion does not apply to any obligations that may arise from 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.

- c) Formal procedures have been established requesting donors and creditors to confirm with the ADMU debt-payment obligations—including for government-guaranteed obligations—in advance of payment due dates.
- d) Formal delegations have been put in place in the Ministry of Finance and Economic Planning and at the CAGD to ensure that an absence of signing authority does not delay payment requests. In addition, a register will be kept of the timing of formal debt-payment actions. This register should be signed by the various institutions involved in the payment of external debt.
- e) At the same time, procedures instituted in early 2003 relating to prior authorization and fiscal booking of external and other payments by direct debit will be maintained.
- f) In the event that a shortage of foreign exchange results in a queuing of debt-service obligations at the BOG, delaying payments beyond their due dates, the Ministry of Finance and Economic Planning is responsible for issuing any instructions needed to revise payment priorities and for maintaining a record of payment arrears. Formal reporting and follow-up procedures have been established for the BOG to confirm the transactions to CAGD and the ADMU in the 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 BOG and the Minister of Finance and Economic Planning and his senior officials and to the IMF staff on a monthly basis.
- g) The procedures for verifying BOG data to the Fund have been formalized, and a senior officer has been formally delegated with the responsibility for the compilation and verification of data on program conditionality to be reported. Formal reconciliation procedures to verify both the derivation of data reported to the Fund and the BOG internal audit procedures have been amended to include a periodic check that procedures are followed.
- h) **Two accounts** have been established at the BOG for the receipt and disbursement of HIPC Initiative relief. When each debt-service payment falls due, the government of Ghana (or the BOG for IMF repurchases) will transfer to the account that proportion of the amount due that, under the terms of the HIPC Initiative, does not have to be paid to the creditor. For debt owed by public enterprises under the HIPC Initiative, the Government of Ghana will transfer to the HIPC Initiative account the debt-relieved portion of the debt service payment, if the enterprise fails to do so on the due date. The ADMU will issue, in advance of the due date, a request for payment to the CAGD indicating the portions due to the creditor and the HIPC Initiative account. The ADMU will prepare a monthly report indicating for the coming month (i) the total debt service due by creditor, (ii) the amount of HIPC Initiative relief on each transaction, and (iii) the debt service paid and the transfers to the HIPC Initiative account by creditor for the previous month. This report will be provided within two weeks of the end of the month to the CAGD and the IMF.

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

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

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

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

**Statement by the IMF Staff Representative on Ghana
June 20, 2005**

This statement provides an update on economic and policy developments since the issuance of the staff report. These developments do not change the thrust of the staff appraisal.

1. A prior action for Executive Board consideration of the third review under the PRGF arrangement was the establishment of an independent oversight body to monitor application of the petroleum product pricing mechanism adopted on February 23, 2005 (Table I.2 of the Staff Report, 6/8/05). On June 14, 2005, the National Petroleum Authority Bill, 2005, was passed by Parliament and the chairperson of the Board of the National Petroleum Authority was appointed. Accordingly, the prior action has been met.
2. The adoption of the pricing mechanism for petroleum products was an important structural reform. The first tenders for petroleum crude and products—following the implementation of the pricing mechanism in February 2005—were held in March 2005 and May 2005, respectively. Given the required period for shipment, refining, and delivery, the transmission of the tender prices to retail prices is expected in early July 2005 for petroleum products and mid-July 2005 for petroleum crude.
3. In order to increase the efficiency of the transmission of monetary policy, the Bank of Ghana announced that the secondary reserve requirement for deposit money banks will be reduced from 35 percent to 15 percent, effectively July 1, 2005. This reform was accompanied by the removal of the requirement that banks hold 15 percent of deposits in the form of medium-term securities (government and central bank obligations). These measures are broadly consistent with staff advice. The assessment is that the near term effects on lending and inflation should not be significant; currently, opportunities are limited for banks to expand their loan portfolios. However, significant efficiency gains are expected over the medium term.



INTERNATIONAL MONETARY FUND

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

IMF Executive Board Concludes 2005 Article IV Consultation with Ghana

On June 20, 2005, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Ghana.¹⁶

Background

Since 2000, economic performance in Ghana has improved, with the economy growing at its fastest pace in more than a decade. In 2004, real GDP growth reached 5.8 percent, driven by agriculture—in particular, record cocoa production—and a strong pickup in the services and construction sectors—helped by increased bank credit and private inward remittances. The strong growth has helped reduce the poverty rate, which is now estimated at about 35 percent of the population. Inflation declined by half to 11.8 percent at the end of 2004, although it remained above the central bank's single-digit target. Recently, prices have jumped in response to the deregulation of petroleum product prices which were raised by an average of 50 percent in February 2005. Nonetheless, interest rates and the nominal exchange rate for the cedi vis-à-vis the U.S. dollar have remained relatively stable, suggesting that inflation expectations may be well contained.

The external sector experienced further improvement in 2004, with a buildup in gross international reserves to US\$1.8 billion (equivalent to 3.7 months of imports) at the end of the

¹⁶ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

year. Private remittances, expanding export receipts from cocoa and gold, and increases in donor support helped in this regard. The external current account (including official transfers) moved from surplus into deficit in 2004, reflecting a significant increase in capital imports tied to donor inflows, and a larger oil import bill as a result of higher world oil prices. The reaching of the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative in mid-2004 led to a marked improvement in Ghana's debt service indicators, which are projected to remain at manageable levels over the medium term.

The overall budget deficit narrowed to 3.6 percent of GDP in 2004, but was still 2 percentage points of GDP larger than expected. Total revenue and grants were higher than projected on account of a significant rise in grants, strong economic growth, new tax measures, and more efficient revenue administration. However, the additional resources were more than offset by unanticipated capital outlays, increased subsidy for petroleum products as world oil prices rose, and an overrun in wages. Partly as a consequence of these developments, the envisaged repayment of domestic debt did not transpire; instead there was domestic borrowing and only the faster GDP growth generated the authorities' targeted reduction in the domestic debt-to-GDP ratio, which is the anchor of fiscal policy. Monetary policy remained firm during 2004, and the monetary aggregates were in line with the authorities' targets.

Progress was made with structural reforms. Regulatory and legislative reforms—and the incipient macroeconomic stability—helped strengthen the financial sector, as reflected in the fact that commercial banks are now generally more liquid and profitable. Public expenditure and financial management have been enhanced, and the reform of public enterprises is ongoing with full cost recovery pricing for public utilities and the settlement of all cross-debts between the major state-owned enterprises. The adoption of a new pricing mechanism for petroleum products in February 2005 should help reduce the budget's exposure to world oil prices in the period ahead and the involvement of the government in such pricing.

Ghana's medium-term prospects appear promising, with growth projected to continue at the current relatively high rate, provided that macroeconomic stability becomes further entrenched with fiscal sustainability, inflation declines further, and the government perseveres with structural reform. Continued strong private-sector investment and the concentration of public investment on vital infrastructure should provide a solid basis for growth. After an initial rise in 2005 because of the deregulation of the prices of petroleum products, headline inflation is projected to decline significantly in the medium term (to about 6 percent)—in line with the central bank's inflation target. The main risk to this positive outlook concerns a further increase in world oil prices, which may slow growth, lead to a larger external current account deficit, and delay the achievement of single digit inflation.

Executive Board Assessment

They commended the authorities on the robust economic performance during 2004, which was supported by a further strengthening of macroeconomic policy implementation and favorable external factors. Real GDP growth outpaced earlier projections, and the buildup in international reserves provides a larger cushion against shocks. Inflation declined significantly through 2004,

although the recent deregulation of petroleum product prices has led to a jump in consumer prices. Looking ahead, adherence to prudent fiscal and debt management policies, coupled with intensified structural reforms, will be key to promoting private sector-driven growth and diversification of the production base, and to further reduce poverty.

Directors observed that faster GDP growth resulted in a reduction of the ratio of domestic debt to GDP, which is the anchor of the authorities' fiscal policy. The overall fiscal deficit narrowed during 2004, but the outturn was higher than originally envisaged. An increase in total revenue (relative to GDP) to its highest level yet was not sufficient to offset unanticipated capital outlays, increased subsidy for petroleum products as world oil prices rose, and an overrun of government wages. Directors urged the authorities to avoid further fiscal slippages that could slow the realization of the "fiscal dividend" in terms of further declines in short-term interest rates. Directors emphasized, in particular, the importance of establishing the institutional capacity to control wages and salaries. They encouraged the authorities to further improve prioritization of expenditures and to sharpen the links of the budget to the medium-term expenditure framework and the poverty reduction strategy. On the revenue side, Directors saw limited room for further increases in view of the already relatively high tax burden, but stressed that tax administration should continue to be strengthened.

Directors underscored the need to increase the fiscal space to allow room for growth-enhancing and poverty-reducing expenditures aimed at achieving the Millennium Development Goals. In this context, they saw the need to further reduce the ratio of domestic debt to GDP, primarily through cuts in low-priority expenditures and reduction in the government wage bill relative to GDP. With respect to the latter, the proposed civil service reform should prove helpful, even though Directors recognized that the primary objective of this reform is to enhance the delivery of public services.

Directors called for continuing concessional assistance from development partners to Ghana to increase spending on growth- and poverty-related activities. Directors noted that Ghana's debt sustainability remains vulnerable to external shocks and emphasized the importance of relying on financing provided on concessional terms. They also called for strengthening debt management capacity to design and assess loan proposals, and to establish a longer track record of good macroeconomic performance that would result in better financing terms and not jeopardize debt sustainability.

Directors welcomed the adoption of a new pricing mechanism for petroleum products as an important reform that will reduce the vulnerability of the budget to world oil prices, and free up resources for growth-enhancing and poverty-reducing expenditures. They also welcomed the establishment of the National Petroleum Authority to monitor the implementation of the pricing mechanism and thereby safeguard the public's interest against unfair and anti-competitive behavior. Directors stressed the importance of allowing the automatic adjustment of petroleum product prices and avoiding government involvement.

Directors welcomed the decline in inflation during 2004, and encouraged the central bank to maintain a firm stance to avoid an upward shift of inflation in light of high world oil prices and

high foreign exchange inflows. They supported the authorities' recent move to reduce banks' secondary reserve requirements as a way of strengthening the efficiency in the transmission of monetary policy. A firmer control over liquidity and low inflation would provide the framework to continue this reform in order to further enhance economic efficiency and allow all banks to take full advantage of market opportunities.

Directors agreed that the managed floating exchange rate has served Ghana well as a buffer against external shocks. They considered the level of the exchange rate as broadly appropriate, but recognized the tension in the inflation and exchange rate policy objectives. Directors also indicated that the functioning of the interbank foreign and exchange market could be enhanced by the introduction of a computerized real-time foreign exchange trading system, which should be implemented as soon as participants have the required capacity.

Directors stressed that further structural reforms would support economic growth. In particular, enhancing financial intermediation will foster private sector activity, while reform of the public enterprises should improve overall economic performance. In this regard, Directors encouraged the authorities to move quickly to develop the necessary capacity to monitor the financial and operating performance of all public enterprises, and ensure that commercially oriented entities maintain or adopt pricing policies that reflect full cost recovery. Directors noted that the Financial Sector Strategic Plan continues to provide the direction for reform, with emphasis on regulatory and judicial reform, institutional capacity building, protection of private property rights, and competition. Several Directors encouraged the authorities to continue efforts to enhance financial intermediation, and to improve access to credit for small- and medium-sized enterprises. They welcomed the implementation of the recommendations of the Financial Sector Assessment Program.

Directors encouraged the authorities to improve the quality and timeliness of economic data by strengthening the operations of the Ghana Statistical Service and participating in the General Data Dissemination System.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Ghana: Selected Economic and Financial Indicators, 2001-05

	2001	2002	2003	2004	2005
	(Annual percentage change, unless otherwise specified)				
National accounts and prices					
Real GDP	4.2	4.5	5.2	5.8	5.8
Real GDP per capita	1.6	1.9	2.6	3.2	3.2
Nominal GDP	40.2	28.3	35.4	20.7	21.5
Nominal GDP (in billions of cedis)	38,071	48,862	66,158	79,865	97,018
Nominal GDP (in millions of U.S. dollars)	5,303	6,151	7,621	8,854	10,531
Consumer price index (annual percentage)	32.9	14.8	26.7	12.6	14.3
External sector					
Exports, f.o.b.	-3.6	10.2	20.1	12.7	5.2
Imports, f.o.b.	2.6	-4.1	20.1	31.9	9.3
Export volume	-1.3	-2.1	-6.8	14.5	3.1
Import volume	10.0	-6.8	6.9	13.9	0.6
Current account balance (in percent of GDP) 1/	-5.3	0.5	1.7	-2.7	-4.0
NPV of external debt outstanding					
(in percent of exports of goods and services) 2/	161.4	157.4	175.7	89.6	92.3
(in percent of government revenue) 2/	452.4	363.6	351.0	148.9	132.5
External debt service due (in percent of GDP)	8.5	7.8	5.9	6.4	4.7
Gross international reserves (in millions of U.S. dollars, end of period)	340	632	1,427	1,816	1,971
(In months of imports of goods and services)	1.2	1.9	3.2	3.7	3.9
Terms of trade	4.8	9.4	14.8	-15.0	-6.1
Nominal effective exchange rate (annual average)	-24.0	-11.7	-17.7	-10.1	...
Real effective exchange rate (annual average)	0.6	-0.6	1.4	-1.0	...
Cedis per U.S. dollar (annual average)	7,179	7,944	8,681	9,021	...
Central government budget					
Total revenue	18.1	18.0	20.8	23.8	24.6
Grants	8.9	3.1	4.7	6.4	5.8
Total expenditure	32.7	26.1	28.8	33.3	31.9
Overall balance (excluding grants) 3/	-14.6	-8.1	-8.0	-9.5	-7.3
Overall balance (including grants) 4/	-9.0	-6.8	-4.4	-3.6	-2.6
Domestic primary balance	4.8	2.4	2.3	0.7	2.6
NPV of total government debt 2/	95.4	88.0	89.8	50.5	43.5

Ghana: Selected Economic and Financial Indicators, 2001-05

	2001	2002	2003	2004	2005
Domestic debt (net) 5/	20.9	23.9	18.3	15.2	11.4
NPV of external debt outstanding 2/	74.5	64.1	71.5	35.3	32.1
Money and credit					
Net domestic assets 6/	13.5	-15.6	7.2	1.1	15.9
Credit to central government 6/	0.0	30.7	-8.2	29.9	-0.1
Credit to public enterprises 6/ 7/	11.0	-9.5	11.2	6.6	1.9
Credit to the private sector 6/ 7/	14.2	18.2	16.4	10.1	22.1
Broad money (excluding foreign currency deposits)	48.4	49.6	40.9	26.6	23.1
Reserve money	31.3	42.6	33.4	18.8	18.0
Velocity (GDP/end-of-period broad money)	4.8	4.1	4.0	3.8	3.8
Treasury bill yield (in percent; end of period)	28.9	28.1	18.1	16.4	...

Sources: Ghanaian authorities; and IMF staff estimates and projections

1/ Including official grants.

2/ Figures for 2003 and onwards are based on an updated debt sustainability analysis, with additional information received from creditors and a reconciliation of external debt to end-2003.

3/ Before domestic arrears clearance.

4/ After domestic arrears clearance.

5/ Excluding non-interest-bearing perpetual BoG revaluation stocks and bonds issued in 2004 for recapitalization of BoG and TOR, and including deferred interest payment (cumulative) on inflation-indexed bonds.

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

7/ Credit from deposit money banks to public enterprises and the private sector, respectively. The historical series have been revised to ensure consistency with the new banking supervision reporting form introduced in July 2003, which uses a residency rather than currency definition of foreign assets and liabilities.



INTERNATIONAL MONETARY FUND

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International Monetary Fund
Washington, D.C. 20431 USA

**IMF Executive Board Completes Third Review Under Ghana's PRGF Arrangement
and Approves US\$38.7 Million Disbursement**

The Executive Board of the International Monetary Fund (IMF) has completed the third review of Ghana's economic performance under a Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review makes immediately available to Ghana an amount equivalent to SDR 26.4 million (about US\$38.7 million) under the arrangement.

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\$271.3 million). So far, Ghana has drawn SDR 79.1 million (about US\$116.2 million) under the arrangement.

In completing the review, the Executive Board also decided to extend the current PRGF arrangement to October 31, 2006 so that the sixth and final review and all disbursements under the arrangement could be completed. It also decided to waive the nonobservance of three quantitative and one structural performance criteria, as the authorities have since reviewed the factors that contributed to their nonobservance, and have put measures in place to ensure that they achieve the original program objectives.

Following the Executive Board's discussion on Ghana's request, on June 20, 2005, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

“Economic performance continued to strengthen in Ghana during 2004, with growth exceeding earlier projections and a further buildup in gross international reserves. Strengthened policy implementation helped consolidate macroeconomic stability, supported by favorable external factors including higher-than-expected inflows from donors. Inflation declined by half at the end of 2004, but the recent deregulation of petroleum product prices has led to a jump during the first quarter of this year.

“The execution of fiscal policy improved in 2004, although there were some slippages. Total revenue relative to GDP reached its highest level yet, although this was not enough to offset unanticipated capital outlays, the increased subsidy for petroleum products as world oil

prices rose, and an overrun in government wages. Consequently, the overall budget deficit narrowed but was still above the target for the year. Faster GDP growth helped reduce the ratio of domestic debt to GDP, which is the anchor of the fiscal strategy.

“Monetary policy has remained firm, contributing to the decline of inflation during 2004. The central bank is to be commended for managing significant inflows in a manner that balances monetary expansion and competitiveness. Also, the recent rapid buildup of gross international reserves provides an important cushion against shocks.

“Structural reform has progressed, thereby enhancing the environment for private sector-led growth. Efforts to strengthen public expenditure and financial management are helping to improve the transparency, accountability, and efficiency of the use of public resources. Regulatory and legislative changes and macroeconomic stability have helped strengthen the financial sector. The reform of public enterprises is ongoing, with full cost recovery for public utilities.

“The government’s decision to deregulate the petroleum sector and the adoption of a new petroleum product pricing mechanism earlier this year were important achievements. The establishment of an oversight body to monitor the application of the mechanism is also welcome, as this will ensure fair pricing and provide safeguards against anti-competitive behavior. These measures will remove government involvement in product pricing, reduce the vulnerability of the budget to world oil prices, and free up resources for growth enhancing and poverty reducing expenditures. It will be important to ensure the automatic adjustment of petroleum prices under the new mechanism.

“The reform of the civil service is also welcome. While this initiative is primarily aimed at improving the delivery of public services, it should also lead to prospective fiscal savings, in particular, through a reduction of civil service wages relative to GDP. The demand for these savings to fund priority expenditures is very high.

“Debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative has led to a substantial improvement in Ghana’s debt-service indicators. Ghana’s long-term debt sustainability is vulnerable, however, to a sustained deterioration in key economic variables, and most importantly, to a significant reduction in grants as a source of financing. Until conditions are more favorable and a longer track record of good macroeconomic performance is established, Ghana should continue to rely on concessional borrowing to finance development,” Mr. Kato said.

The PRGF is the IMF's concessional facility for low-income countries. PRGF-supported programs are based on country-owned poverty reduction strategies 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.

**Statement by Abass Mirakhor, Executive Director for Ghana
June 20, 2005**

The authorities thank staff for the constructive policy dialogue, and management and the Board for their continued support to Ghana. They are also grateful for the assistance Ghana continues to receive from its development partners. Significant progress has been made under the PRGF-supported program in preserving macroeconomic stability, strengthening growth performance, reducing poverty, and bringing Ghana to the completion point under the enhanced HIPC Initiative. This commendable performance owes much to prudent policies and steadfast implementation of structural reforms. **The authorities' commitment to financial discipline was particularly manifested during the last presidential and parliamentary elections held in December 2004, which, for the first time since 1992, broke the pattern of election-related fiscal slippages that had plagued Ghana and had interrupted the country's economic and social progress on similar previous occasions.** Also, the authorities' decision to deregulate the petroleum sector, despite strong public opposition, represents one of the boldest and most important reforms undertaken in the country with far-reaching, beneficial macroeconomic consequences.

Performance under the PRGF arrangement continues to be satisfactory, as most of the performance criteria and benchmarks for this review were observed. Some slippages, however, occurred, which, as the authorities detail in the LOI, were due either to factors beyond their control or to weak systems that are being strengthened to avert reoccurrence of these breaches. For these reasons, they request their waiver and completion of the third review, as well as extension of the PRGF arrangement from May 8, 2006 to October 31, 2006, to allow for completion of the sixth and final review.

Macroeconomic performance exceeded program targets in 2004. Real GDP growth was robust at 5.8 percent, driven by a record cocoa crop and complemented by a strong performance in other sectors as well. Headline inflation was halved to 11.8 percent and, although it accelerated to around 16.7 percent in March following the increase in petroleum prices by about 50 percent in February, underlying inflation remained broadly stable, which, together with stable interest and exchange rates, suggests that expectations are being contained. The external current account position moved from a surplus to a deficit, as increased export receipts from cocoa, timber, and gold, and higher private remittances—reflecting growing confidence in the economy—were more than offset by higher imports, driven by donor-financed capital goods and a larger oil bill. Reserves were higher than programmed in absolute terms, and the import cover increased to 3.7 percent, slightly short of the target of 3.9 months. The strengthened reserve position, together with firm macroeconomic policies, contributed to stability of the nominal exchange rate, while the real exchange rate depreciated, thereby reversing the slight appreciation in 2003 and preserving competitiveness.

Fiscal policy was implemented broadly in line with the program. The overall deficit was higher than programmed as a result of larger petroleum-related subsidies (due to high world oil prices), increased capital spending as a counterpart to higher donor-related—including HIPC—inflows, and larger wage payments to subvented agencies due to weak payroll management. Nevertheless, the deficit declined by 0.8 percent of GDP, compared to 2003, bringing the cumulative fiscal adjustment during 2001–04 to 5.4 percentage points of GDP. **Monetary policy provided a firm anchor for price stability by keeping monetary aggregates within the program targets through reinforced open market operations buttressed by an active interest rate policy.** In March, immediately following the petroleum price increase, the Monetary Policy Committee (MPC) determined the prevailing policy stance to be appropriate to contain the indirect effects and, therefore, kept the prime rate unchanged at 18.5 percent. In May, assessing the balance of risks to favor continued progress toward low and stable inflation and relative exchange rate stability, the MPC reduced the prime rate to 16.5 percent.

Ghana has moved its structural reform agenda forward. Public expenditure management was further reinforced through strengthened reporting and profit transfer requirements for state-owned enterprises (SOEs). The restructuring of Ghana Commercial Bank was kept on schedule, and the central bank added its bills to the management of liquidity. The automatic pricing mechanism for utilities has been implemented in line with full cost recovery and avoidance of budgetary subsidies. **More significantly, as elaborated in paragraph 6 of the MEFP, the authorities honored their long-standing commitment to deregulate the petroleum sector** by adopting a pricing mechanism in February that essentially ensures full recovery of all costs and taxes and ends petroleum subsidies. It is noteworthy that the highly politicized deregulation is being carried out at a rather difficult time, with unusually high world oil prices and strong domestic opposition.

Looking ahead, the authorities' strategy is to consolidate the gains in macroeconomic stabilization and to reinforce reforms to sustain a high growth trajectory to achieve a faster pace of poverty reduction and the other MDGs. In 2005, real GDP growth is expected to be maintained at 5.8 percent, while inflation will be contained at an average of 14.5 percent. Further accumulation of gross reserves would bring the import cover to 3.9 months.

The authorities agree with staff on the need to create fiscal space for priority spending, with the domestic debt-to-GDP ratio remaining as the anchor. In this context, the domestic primary surplus will be increased to allow a reduction in the net domestic debt ratio to less than half its level at end-2002. This will bring about lower interest rates and will create room for strengthened support for private sector activities as well as for growth-enhancing and poverty-related spending. **Public expenditure management will be reinforced by tightening controls and increasing transparency and accountability.** The wage bill, on an accrual basis, will be maintained at 8.9 percent despite the wage award to foster capacity building and productivity, and the 2004 arrears will be eliminated. On the revenue side, reduction of corporate tax to spur investment and an increase in the personal income

threshold to reduce the burden on low-income earners, would be offset by improved tax administration, larger yield of petroleum taxes from high oil prices, and the full-year impact of the national health insurance levy. Accordingly, the revenue-to-GDP ratio is projected to rise to 24.5 percent.

Monetary policy will be tailored to achieve the inflation and reserve targets. To this end, monetary growth will be kept in line with nominal income growth. **As staff advise, the Bank of Ghana (BOG) will remain vigilant and will maintain a firm monetary stance so as to prevent secondary effects of the hike in inflation resulting from the deregulation of the petroleum sector.** BOG will continue to develop and gear its policy instruments to reinforce open market operations and will maintain its open policy by regularly communicating its assessment of economic conditions and the decisions of the MPC to the public. Ghana will continue to maintain a managed floating exchange rate regime, which has been appropriate for absorbing shocks, safeguarding competitiveness, and building needed reserves. The BOG is proceeding in its efforts to build institutional capacity for an effective interbank foreign exchange market. The current system of foreign exchange surrender requirement has ensured orderly management of foreign exchange flows that have increased substantially. The BOG would keep the system under review, cognizant of the need to balance the objectives of stability and efficiency.

The authorities recognize the importance of intensifying structural reforms in order to sustain the robust growth. Particular attention will be given to strengthening public resource management, improving the environment for private sector activity, including through investment in human and physical capital and the deepening of financial intermediation, and reinforcing economic governance, in particular through public sector reform. Efficiency, transparency, and accountability in public expenditure management will be further reinforced by following through with the relevant pieces of legislation, including in the areas of fiscal reporting, public procurement, and audit. The financial sector will be strengthened through stricter enforcement of prudential regulations, institutional capacity building, and reinforced competition and corporate governance. Financial intermediation will also be enhanced by implementing legislation toward promoting long-term savings, reinforcing creditor and borrower rights, and accelerating the judicial and legal process regarding collateralized lending. The authorities see a need for increased availability of credit to the private sector at competitive cost. In this regard, access to credit will be facilitated and lending risks reduced, while consideration would be given to a phased reduction of the secondary reserve requirement as liquidity control takes hold.

The authorities attach great importance to public sector reform as a vehicle for enhancing economic efficiency and as a complement to their private sector-led growth strategy. A Minister of State has been appointed to accelerate the process. For the civil service, a comprehensive reform is contemplated that will address employment and wage policies based on an action plan to be derived from the policy document, *Towards a New Public Service*, whose implementation is to begin by January 2006. While fiscal consolidation and divestiture of several SOEs have reduced government's involvement in

economic activities, further reduction is envisaged to enhance efficiency. In this regard, **the privatization efforts will be intensified**. Furthermore, the financial performance and monitoring of the largest SOEs will be enhanced, and their current and contingent liabilities to government reduced. While the ultimate goal is to improve performance of all SOEs over time, immediate attention will focus on the largest ones, particularly the public utilities, the oil refinery, and the railway corporation. The government will also ensure that commercial entities adopt cost-recovery pricing policies to avoid dependence on budget subsidies.

The authorities are determined to complete the deregulation of the petroleum sector by ensuring that the automatic pricing formula is implemented without government involvement. In this regard, the establishment of the independent National Petroleum Authority, a prior action for this review, is a further evidence of the authorities' seriousness of intent.

The authorities firmly believe in the benefits of and remain committed to an open trade policy, which will be used as a vehicle to foster FDI and technology transfer. In this regard, initiatives will be taken towards enhancing regional trade integration, including by adopting the common external tariff system of the Economic Community of West African States. The export base will also be broadened in the context of the Presidential Special Initiatives to reduce the economy's vulnerabilities.

Reaching the completion point under the enhanced HIPC Initiative has improved Ghana's external debt profile significantly. Agreement has been reached with Paris Club creditors on the required debt stock relief, with almost all pledging additional relief. Ghana has also been seeking to restructure the terms of some external liabilities on more favorable terms, while reinforcing its debt management capability. In order to sustain high growth, necessary to achieve the MDGs in accordance with the GPRS, Ghana needs additional resources to increase investment, particularly in infrastructure.

Progress has been made in improving the quality, timeliness, and availability of statistics, and greater effort will be devoted to further improvements. Ghana is working towards participation in the GDDS and is already providing metadata to the Fund. It is intended to make economic and financial data available on the internet to enhance dissemination. In December 2005, the Ghana Statistical Service will publish revised national accounts (from 1990 onwards), including by expenditure-based categories. A Consumer Price Index reflecting current consumption patterns will also be published at the same time.

In conclusion, Ghana continues to make important strides in promoting macroeconomic discipline, implementing structural reforms, improving governance, enhancing the role of the private sector, accelerating growth, and alleviating poverty. The support of the international community has been instrumental in Ghana's progress and will remain crucial while the country consolidates recent gains and moves to a higher growth path capable of delivering durable poverty alleviation and other MDGs. Ghana appreciates Fund policy advice and support in catalyzing assistance from the international community.