

Ghana: 2001 Article IV Consultation and Third Review Under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria—Staff Report; Public Information Notice, Press Release, and News Brief on the Executive Board Discussion

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 2001 Article IV consultation with Ghana and third review under the PRGF and request for waiver of performance criteria, the following documents have been released and are included in this package:

- the staff report for the combined 2001 Article IV consultation and third review under the PRGF, and request for waiver of performance criteria, prepared by a staff team of the IMF, following discussions that ended on **May 23, 2001** with the officials of Ghana on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on June 13, 2001.** 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 Public Information Notice (PIN), a Press Release, and a News Brief summarizing the **views of the Executive Board as expressed during its June 27, 2001 discussion** of the staff report on issues related to the Article IV consultation and the IMF arrangement.

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

Enhanced HIPC Initiative—Preliminary Document
Statistical Appendix
Letter of Intent by the authorities of Ghana
Memorandum of Financial Policies by the authorities of Ghana
Technical Memorandum of Understanding

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

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GHANA

**Staff Report for the 2001 Article IV Consultation and the
Third Review Under the Poverty Reduction and Growth
Facility, and Request for Waiver of Performance Criteria**

Prepared by the African Department

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June 13, 2001

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Acronyms

ADB	Agricultural Development Bank
ADMU	Aid and Debt Management Unit
BOG	Bank of Ghana
CAGD	Controller and Accountant General's Department
CEPS	Customs, Excise and Preventive Service
CFA	Communauté Financière Africaine
DIC	Divestiture Implementation Committee
DMB	Deposit Money Bank
DSA	Debt Sustainability Analysis
ECG	Electricity Company of Ghana
ECOWAS	Economic Community of West African States
EPCC	Economic Policy Coordinating Committee
ERSO	Economic Reform Support Operation
FSAP	Financial Sector Assessment Program
FSSA	Financial System Stability Assessment
GCB	Ghana Commercial Bank
GLSS	Ghana Living Standards Survey
GNPC	Ghana National Petroleum Corporation
GPRS	Ghana Poverty Reduction Strategy
GSS	Ghana Statistical Service
GT	Ghana Telecom
GWCL	Ghana Water Company Limited
HIPC	Heavily Indebted Poor Country
MDAs	Ministries, Departments and Agencies
MEFP	Memorandum of Economic and Financial Policies
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NGO	Non-Governmental Organization
NIB	National Investment Bank
NIR	Net International Reserves
NPP	New Patriotic Party
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PURC	Public Utilities Regulatory Commission
TMU	Technical Memorandum of Understanding
TOR	Tema Oil Refinery
UEMOA	West African Economic and Monetary Union (French acronym)
VAT	Value Added Tax
VRA	Volta River Authority

EXECUTIVE SUMMARY

- **Ghana's economic problems intensified during 1999-2000**, as decreasing prices on exported cocoa and increasing prices on imported petrol triggered a sharp terms of trade loss. The policy response was hesitant, but strengthened during the first half of 2000, and Ghana fulfilled five of the seven quantitative performance criteria for August 2000.
- **However, the program veered sharply off track during the second half of 2000.** Shortfalls in divestiture receipts and donor inflows were covered by domestic bank financing rather than efforts to tighten spending. As the burden of adjustment shifted to monetary policy, the authorities refrained from raising interest rates further and resorted to central bank financing of the budget. The cedi depreciated by over 50 percent during 2000, and CPI inflation increased from 14 to over 40 percent between end-1999 and end-2000. None of the fiscal or monetary performance criteria for December was satisfied. The outgoing government also left its successor with substantial accumulated arrears (external and domestic), and huge debts in the state-owned oil refinery and public utilities, as petroleum prices and utility tariffs were not adjusted as costs rose.
- **A new government was elected in December 2000 and is now making strong efforts to break the cycle of increasing deficits and rising interest costs.** The fiscal strategy for 2001 focuses on taking sufficient domestic measures to obtain a domestic primary surplus of 4 percent of GDP, while limiting domestic financing to the equivalent of 1.8 percent of GDP and seeking debt relief to meet the fiscal and balance of payments financing gaps. The main revenue measures are new taxes on petroleum products, levies on company profits, and a reduction in import tariff exemptions, while the main expenditure savings come from cuts in domestically-financed capital expenditure and a freeze on most outlays for goods and services at 2000 levels.
- **Immediate measures are also being taken to restore effective monitoring and control of public expenditure.** With FAD assistance, a cash flow and commitment forecasting system is being developed so that expenditure commitments can be held within program limits. Further work will be needed in coming months to strengthen capacity to track poverty-related expenditures, in preparation for a possible decision point under the enhanced HIPC Initiative in late 2001.
- **The monetary program targets a reduction in inflation from 40 percent at end-2000 to 25 percent by end-2001** and aims to rebuild depleted gross foreign reserves to at least 1.5 months of imports. The authorities have also committed to eliminate direct sales of foreign exchange to importers by the end of 2001, as part of a reform of the foreign exchange market aimed at ensuring a truly market-clearing exchange rate.

- **Restoring the financial health of the public energy and utility companies is one of the top priorities of the new government.** The recent doubling of ex-refinery petroleum prices and the doubling of retail electricity and water tariffs were sufficient to stop operational losses in the respective public enterprises but not to cover financial charges. The authorities plan to restructure the bulk of these debts and will implement automatic adjustment mechanisms for petroleum product prices and utility tariffs.
- **While the focus for 2001 is on restoring macroeconomic stability, work is in progress on a revamped development and poverty reduction strategy.** The new government has launched an intensive participatory process to prepare a full PRSP, the Ghana Poverty Reduction Strategy (GPRS), by the fall of 2001, building on last year's interim PRSP. The GPRS will set out the broad policy agenda for 2002-2004 and beyond, as well as setting priorities for the 2002 budget, including use of debt relief and other donor resources. Private sector development is a core theme in the new government's platform, and hence new strategies will be developed this year, with assistance from the World Bank, to increase the private sector's role in managing public enterprises, including through divestiture.
- **On the strength of the authorities' program for 2001, staff proposes completion of the third review under the PRGF arrangement.** Staff supports the authorities' request for waivers of four performance criteria for end-August 2000 and end-September 2000, as well as for an augmentation of access equivalent to 10 percent of quota, on account of the increased balance of payments need associated with the terms of trade shock.

I. INTRODUCTION

1. Three missions visited Accra between November 2000 and May 2001 to complete the third review under the PRGF and the 2001 Article IV consultation discussions.¹ The Presidential and parliamentary elections in December 2000 led to the first change in the party in power in 20 years, and the New Patriotic Party (NPP) government of President John Kufuor took office in January 2001. Starting with the second mission in February, the staff held discussions on the program review and the Article IV consultation with the newly elected government.² That mission was accompanied by a team of IMF and World Bank staff that undertook a debt sustainability analysis (DSA) and an FAD/MAE team that examined the recording and reporting of external debt flows. Appendix I contains the government's letter of intent, which requests an augmentation of access of 10 percent of quota³ and waivers for the nonobservance of three quantitative performance criteria for end-August 2000 and one structural performance criterion for end-September 2000. The Memorandum of Economic and Financial Policies (MEFP) describes the policies to be implemented during 2001. This staff report is accompanied by a Financial System Stability Assessment (FSSA) (forthcoming) and the Preliminary HIPC Initiative document (forthcoming).

2. The third review and Article IV consultation discussions have taken longer to complete than initially envisaged, owing to severe policy slippages in late 2000, followed by the change of administration at the turn of the year. The new government required time to formulate policies that would respond effectively to the difficult economic situation it inherited. Furthermore, before presenting the authorities' request for completion of the third

¹Missions took place during November 14-21, 2000, from February 21 to March 7, 2001 and during May 9-24, 2001. Discussions also took place in Washington during April 23-25, 2001. The first two missions were headed by Mr. Plant and the third by Mr. Bredenkamp (both AFR); Mr. Basu (AFR) participated in the discussions held in Washington in April and during the May mission and led a short staff visit to Accra in mid-April. Mission members included Mr. Begashaw (Resident Representative), Mr. Ellyne (AFR), Ms. Zanforlin (AFR, November mission only), Mr. Engstrom (AFR, March and April missions), Ms. Purfield (FAD) and Mr. Matzen (PDR). The World Bank participated in some mission meetings. Mr. Mirakhor and Mr. Dairi (Executive Director and Alternate Executive Director in the Fund, respectively), and Mr. Kwakye (Advisor to Mr. Mirakhor) also participated at various times in the discussions.

² The mission met with President Kufuor, Minister of Finance Osafo-Mafo, Governor Duffuor of the Bank of Ghana, and other members of the new cabinet and senior officials dealing with economic and financial matters.

³ In light of the authorities' request for an augmentation of access of 10 percent of quota, the schedule of the remaining disbursements under the PRGF arrangement will be rephased (see Appendix II, phasing table).

review under the PRGF, work had to be completed, and Executive Board decisions taken, on two instances of misreporting (forthcoming).

3. In proposing completion of the third review, on the basis of the corrective policies set out in the MEFP, the staff recommends the granting of waivers for the performance criteria on domestic financing of government, the nonaccumulation of external arrears, nonconcessional borrowing, and the appointment of a sales advisor for the divestiture of ECG. Staff also supports the authorities' request for an increase in access of 10 percent of quota (SDR36.9 million) under the PRGF arrangement, given the large terms of trade loss and associated increase in balance of payments need. Relations with the Fund are contained in Appendix II and a tentative work program is described in Appendix V. The World Bank is preparing a third ERSO adjustment credit of US\$100 million to support the policies of the new government, in addition to its large existing loan portfolio (Appendix III).

4. The last Article IV Consultation took place in November 1999 (EBS/99/200; 11/5/99), and in August 2000 the Executive Board completed the second review under the PRGF arrangement (EBS/00/160; 8/4/00).⁴ That review approved an increase in access of SDR 36.9 million. At the time, Directors supported the authorities' efforts to tighten monetary policy in order to reduce inflationary expectations and stabilize the exchange rate, and emphasized the need to accelerate structural reforms. They stressed that effective financial management and transparent budgetary execution were crucial, and encouraged the authorities to prevent the accumulation of new arrears. Ghana also received approval under Article VIII, Section 2(a), to maintain an exchange restriction in the form of special foreign exchange swap transactions between the Bank of Ghana (BOG) and commercial banks through March 2001. Those transactions have now expired.

II. ECONOMIC DEVELOPMENTS IN 2000

A. Overview

5. **Ghana suffered from a major terms of trade shock that began in 1999 and intensified in 2000, with cocoa prices falling and oil prices rising.** Weak macroeconomic policies and poor management of the major public enterprises compounded the resulting economic difficulties. Compared with the original program projections made in May 1999 (EBS/99/57; 4/16/99), the loss of foreign exchange is estimated at about US\$300 million (4 percent of GDP) in 1999 and US\$600 million (12 percent of GDP) in 2000 (Box 1). As fiscal and monetary policies were not adjusted promptly, the government's domestic primary balance worsened and the external current account deficit widened in 1999. Although macroeconomic policies were tightened during the first half of 2000 with some stabilizing

⁴ The three-year PRGF arrangement, in the amount of SDR155 million, was approved by the Executive Board on May 3, 1999 (EBS/99/57; 4/16/99).

Box 1. Ghana's Terms of Trade Loss

Cocoa prices reached a 27-year low in 2000 while oil prices rose to over \$30 per barrel, a threefold increase over 1998. The impact of Ghana's terms of trade shock from cocoa and oil price movements compared to the initial program assumptions in May 1999, is shown below. The modest improvement in the projected 2001 terms of trade is not sufficient to begin reversing this loss.

Loss of Foreign Exchange 1/
Relative to the 1999 PRGF-Supported Program

	1999	2000	2001
A. Oil Imports			
Baseline value (US dollars, fob)	-189	-227	-251
Dependency, percent of exports 2/	-9.4	-11.7	-12.6
Baseline price (US\$/barrel) 1/	12	13.6	14.2
Loss at constant volume relative to baseline price 3/	-94.5	-273.7	-243.9
B. Main Commodity Exports			
<i>Cocoa</i>			
Baseline value (US dollars, fob)	589	669	773
Export dependency, percent exports 2/	29.3	34.4	38.9
Baseline price (US\$/ton) 1/	1600	1650	1750
Loss at constant volume relative to baseline, by year 3/	-171.2	-302.5	-371.0
<i>Gold</i>			
Baseline value (US dollars)	722	779	846
Export dependency, percent exports 2/	35.9	40.1	42.6
Baseline price (US\$/oz) 1/	287	287	298
Loss at constant volume relative to baseline, by year 3/	-42.8	-21.3	-65.3
Total Loss of foreign Exchange (in millions of US dollars)			
3/	-308	-597	-680
as percent of GDP	-4.0	-12.0	-14.0
<i>Memo items (millions of US dollars):</i>			
GDP	7775	4977	4859
Exports 1/	1880	2119	2412
Terms of trade (percentage change)	-8.7	-20.3	4.7

Source: Staff estimates.

1/ Baseline scenario refers to original PRGF-supported program of May 1999 (EBS/99/57).

2/ Share of this commodity in total earnings from goods exports.

3/ Effect of current price compared to baseline price for baseline quantity, which shows the impact relative to program

effects, they were relaxed during the second half, particularly in the last quarter. Consequently, in 2000 the average inflation rate doubled and the nominal exchange rate depreciated by 50 percent (measured in U.S. dollars).

6. **During the second half of 2000, the program veered sharply off track.** Reserve money growth accelerated from 18 percent (annual rate) at end-June 2000 to 36 percent by end-2000. While four of the seven quantitative performance criteria for end-August 2000 were met, the ceiling on net domestic financing of the government was missed by a wide margin, as a result of fiscal slippages and shortfalls in divestiture receipts and donor funding (Table 1). None of the fiscal or monetary targets for December 2000 was met. As the macroeconomic situation deteriorated, and with the elections looming, progress in structural reforms came largely to a halt. One structural performance criterion for end-September 2000 and five of the six structural benchmarks were not observed (Table 2).⁵ The loss of official reserves, coupled with weaknesses in debt management systems, led to the accumulation of external and domestic payments arrears in the second half of 2000.

B. Real Growth, Prices, and the Exchange Rate

7. **Real GDP growth slowed in 2000 to an estimated 3.7 percent, from 4.4 percent in 1999, reflecting declining growth rates in agriculture and industry.** Import volumes dropped markedly (25 percent), and although the timber sector performed well and the cocoa crop was large, export volume growth was below that of real GDP. The cocoa sector suffered not only because the export price hit a 27-year low during the year, but also because the crop was sold forward before prices began to pick up at the end of the year.

8. **The value of the cedi collapsed in November 1999 and continued depreciating throughout 2000,** mainly because macroeconomic policies remained loose in the face of the terms of trade shock, but also owing to lower-than-expected aid inflows and reportedly some speculation in advance of the election. The annual inflation rate rose from 13.8 percent at end-1999 to 41 percent by end-2000,⁶ in the wake of sharp increases in domestic credit and monetary aggregates and the pass-through effects of the accompanying exchange rate depreciation (Figures 1 and 2). Thus, after several years of real appreciation, there was an estimated 34 percent real depreciation between October 1999 and end-2000, some of which has since been reversed.

⁵ The end-December quantitative and structural performance criteria were set as conditions for the disbursement associated with the fourth review, the timing of which was to have been set at the third review, but which has now lapsed. Waivers of these performance criteria are not required to complete the third review, which was conditioned only on observance of the end-August and end-September 2000 performance criteria.

⁶ Underlying this trend, nonfood inflation reached 55 percent at year-end while food inflation rose to 24 percent.

C. Fiscal Developments

9. **The government's fiscal strategy in 2000 was to reduce the domestic debt stock by raising the domestic primary surplus and increasing asset sales.** During the first half of the year, the authorities controlled cash expenditures, primarily by squeezing capital outlays. In March, parliament authorized higher levies on petroleum and in June the VAT rate was raised.⁷ At the time of the PRGF disbursement in August 2000, data for the first half of the year indicated that the programmed fiscal targets, including the domestic primary surplus of 4 percent of GDP and an overall deficit of 8 percent of GDP, were likely to be achieved.

10. **In the event, a combination of large expenditure overruns (particular in the last quarter) and spiraling debt service costs led to a poor fiscal outturn for the year as a whole,** even though domestic revenues exceeded program expectations (Table 4). Domestic capital and other recurrent outlays succumbed to pre-election spending pressures. In addition, the divestiture of Ghana Telecom did not materialize as planned, and aggregate privatization receipts fell well short of target. Substantial donor disbursements were delayed, partially due to setbacks in policy implementation (Table 1). All of these factors put pressure on domestic borrowing and intensified the vicious circle of rising domestic debt and higher interest costs.⁸ By end-2000, the overall cash deficit, including arrears clearance, amounted to almost 10 percent of GDP, and the associated recourse to domestic borrowing (8.8 percent of GDP) pushed the domestic debt stock to new heights (almost 29 percent of GDP).

11. **Weakened fiscal management and control also led to the accumulation of substantial new domestic arrears.** The public expenditure management system in Ghana, which is in the process of a major multi-year reform with World Bank assistance, came under severe strain during the last two years as fiscal problems intensified. The authorities had difficulties in tracking expenditures, and controlling payments and commitments. No audited aggregate accounts, reconciled with banking data, have been produced since 1999. As a result of budgetary pressures and weak control systems, expenditure arrears grew. The staff estimates that the stock of nonroad domestic payments arrears rose by at least 1.4 percent of GDP in 2000.⁹

⁷ Collection of these levies, which were earmarked for road expenditures, did not, however, begin until February 2001, contrary to the spirit of a prior action for the second review.

⁸ Domestic interest rates in excess of 40 percent raised the interest bill to the equivalent of 42 percent of domestic revenue (including external interest equivalent to about 12 percent of revenue).

⁹ Although there are no formal mechanisms to accurately measure the amount of nonroad arrears, preliminary estimates show an increase on the order of C550 billion.

12. **Budgetary payments for external debt service also exceeded program estimates.** This was partly a result of the depreciation of the cedi, and partly a consequence of the parastatals' inability to service their government-guaranteed external debt as their financial situation weakened and guarantees were called. Owing to a severe shortage of foreign exchange, the government had amassed external payments arrears totaling US\$89 million by end-2000.

D. Monetary and Financial Sector Developments

13. **Annual broad money growth accelerated to 40 percent at end-2000,** from 16 percent at end-1999, propelled by a 36 percent expansion in reserve money during the year (Table 5).¹⁰ Reserve money growth had been contained somewhat during the first three quarters by declines in official net foreign assets, but was ultimately dominated by a strong expansion of net domestic assets (Figure 5). For the year as a whole, central bank credit to government expanded by 6.6 percent of GDP, reflecting lax fiscal policy, aid shortfalls, and a desire to limit treasury bill issues as interest rates rose.

14. **Bank credit to the nongovernment sector rose by 90 percent in 2000,** with the near quadrupling of credit to public enterprises, most of which was accounted for by the Tema Oil Refinery (TOR).¹¹ The depreciation of the cedi and mounting government payments arrears contributed to the increase in private sector credit demand. Partly offsetting the rapid growth in domestic credit was a substantial decline in the banking system's net foreign assets (by US\$146 million) and a large drop in other items net, owing mainly to record profits by the commercial banks and offsetting valuation adjustments.

15. **Monetary policy became progressively lax over the course of the year,** as evidenced by falling real interest rates and by the decline in the cost of cedi loans relative to U.S. dollar loans (Figure 4). The Ghanaian treasury bill rate fell slightly in September, despite rising inflation, as the government relieved pressure on the market by drawing on its overdraft at the Bank of Ghana.¹²

¹⁰ The increase in reserve money in the fourth quarter was substantially larger than usual, owing to a near doubling of credit to government. The composition of reserve money at end-December appears to indicate a shortfall in required reserves, but this reflects the particular day of accounting; the banks did meet their reserve requirements on the official weekly average basis.

¹¹ Losses at TOR were partially covered by borrowing from the banking system, explained in detail below.

¹² The Bank of Ghana does not charge an interest rate on its overdraft to the government.

16. **The banking sector had a profitable year in 2000**, with net profits before tax equal to 3.9 percent of GDP, in part owing to high earnings from treasury bills. Nonperforming loans declined from 12.9 percent of gross loans at end-1999 to 11.9 percent at end-2000, but rose to 14.6 percent at end-March 2001. The Bank of Ghana (BOG) has asked the banks for close monitoring of credit facilities and strict enforcement to arrest any undesirable developments. To protect the banking system, three insolvent banks were closed during the year, and the government-guaranteed deposits were transferred to the Ghana Commercial Bank (GCB) and the Agricultural Development Bank (ADB)¹³ The privatization of National Investment Bank (NIB) early in the year collapsed as the potential buyer withdrew.

E. External Sector

17. **In the wake of the substantial real exchange rate depreciation, the current account deficit (including official transfers) fell** from US\$895 million in 1999 to US\$457 million in 2000, mainly owing to a reduction in import volumes (Table 6). In U.S. dollar terms, non-oil imports contracted by 20 percent, while oil imports rose strongly. Export volumes, which had declined in 1999, recorded only a mild recovery in 2000.

18. Capital inflows (mostly official aid) remained subdued—at a level comparable to 1999, but substantially below earlier years—and were insufficient to cover the current account deficit. As a result, the overall balance weakened and **foreign reserves declined by US\$194 million** (to the equivalent of 0.8 months of imports).

19. The recently completed **debt sustainability analysis (DSA)** shows that Ghana's outstanding external debt of US\$5.9 billion at end-2000 (equivalent to US\$3.8 billion in net present value) represents an unsustainable burden, measured against HIPC Initiative thresholds. The net present value of Ghana's external debt at end-2000 was 557 percent of fiscal revenues and 154 percent of exports, compared with the sustainable thresholds of 250 percent and 150 percent, respectively.

F. Structural Issues

20. **The divestiture program slowed during 2000.** The sale of government shares in Ghana Telecom, which was to supply the budget with US\$100 million, was not completed. After making half the expected payment in August, the buyer required that the remaining half be placed in escrow, pending a financial valuation of the company in light of the sharp depreciation of the cedi. Although four other smaller divestitures were completed, only 60 percent of the sales price was collected. In a setback for the divestiture process, court cases were launched against the Divestiture Implementation Committee (DIC), resulting in a

¹³ The deposits were covered by a government issue of C69 billion of treasury bills to the receiving banks, which represented the net cost to government after asset recoveries.

ruling that previously negotiated workers' severance pay should be raised by amounts well in excess of the capacity of the DIC to pay.

21. **The cocoa sector reform stalled** after all the eligible licensed buying companies relinquished their right to export cocoa this year to the Cocoa Marketing Company, claiming that they lacked the necessary technical capacity. Furthermore, the farmgate price received by cocoa producers—a key element in the strategy to revitalize the sector—fell below the target level of 67 percent of the export price in 2000.

22. **Delays in adjusting petroleum prices and electricity tariffs during 2000 led to huge accumulated losses in the state-owned Tema Oil Refinery and electricity companies (Box 2).** The operating costs of these companies mounted during the year, not only because of rising dollar prices for imported oil but also on account of the failure to adjust for the exchange rate depreciation. The Ministry of Energy permitted a 30 percent increase in petroleum prices in April 2000, but blocked any further increases for the remainder of the year. Electricity tariffs, which are set by the independent Public Utilities Regulatory Commission (PURC), were kept fixed at 1998 levels, as were tariffs for the water company (GWCL). The losses inflicted on TOR alone as a result of the price controls are estimated at C2 trillion (7 percent of GDP). Around two thirds of this sum is domestic bank debt, most of which is held by the state-owned Ghana Commercial Bank, forcing that bank to exceed standard prudential lending limits.

III. MEDIUM-TERM OUTLOOK

23. **The thrust of the new government's medium-term macroeconomic strategy is to reduce the burden of government debt and create a virtuous circle of declining debt-service payments, lower inflation, and lower interest rates.** The aim is to create an environment favorable to private sector-led growth and sustainable poverty reduction, and to make room within the government's budget for increased expenditures on education, health, and other priority public services. These goals—including the emphasis on restoring macroeconomic stability—received strong and broad-based support at the recent National Economic Dialogue and will be reflected in the Ghana Poverty Reduction Strategy (GPRS), which is now under preparation. The government intends to achieve them through a combination of sustained surpluses in the domestic primary budget and a firm monetary stance, and hopes that it will receive strong support from the international community, including in the form of debt relief.

24. **The current medium-term framework, which is subject to revision in the GPRS, targets by 2004 a single-digit inflation rate (5 percent), an increase in the real growth**

Box 2. Parastatal Finances

A number of parastatal companies have accumulated a significant amount of debt, primarily because their prices and tariffs have been regulated at levels below cost recovery. Despite the sharp depreciation of the cedi and increasing world market prices on petroleum during last year, the regulated petrol price was left unchanged between March of 2000 and February of 2001. Three parastatals – TOR, ECG, and VRA – have not been able to honor their debt-service obligations and have needed restructuring and rescheduling of part or all of their debt.

	TOR	ECG	VRA	GWCL
(Billions of cedis, unless otherwise indicated)				
Operating result 1/				
1999	-89.2	3.8	79.1	-4.3
2000	-1,401.8	-118.7	-182.3	-254.4
Debt as of December 31, 2000				
Current liabilities	2,461.4	...	946.3	474.8
(in percent of GDP)	9.1	...	3.5	1.8
<i>Of which:</i>				
Bank overdraft and loans	1,375.7	...	333.7	4.7
Suppliers' credits and accruals	1,085.7	431.9	612.6	470.1
Long-term loans	749.2	...	2,413.4	989.8
(in percent of GDP)	2.8		8.9	3.6

1/ Operating costs include costs of inputs, wages and salaries, administration, maintenance, depreciation, etc. Financial charges are not included.

rate (to at least 5 percent), and the restoration of a prudent level of official foreign reserves (to about three months of imports). The growth projection is intentionally conservative. Longer-term growth prospects could improve substantially as macroeconomic stability is firmly established, the inefficiencies and losses of the public enterprises are eliminated, private sector development is promoted, and public expenditures are reoriented to growth-promoting activities. Progress in raising growth and reducing poverty will depend also on the development of an effective strategy for the agricultural sector, which is where most Ghanaians earn their livelihood.

25. Investment is set to rise modestly over the medium term as a share of GDP, to around 25 percent, and to be financed to an increasing extent by domestic (public) saving, consistent with the objective of reducing debt (Table 3). The higher public saving rate derives from projected increases in the tax revenue-GDP ratio—almost half of which

will result from the full-year effects of the measures being taken this year—and significant declines in interest payments (Table 4b). The overall budget deficit is targeted to shrink from almost 10 percent of GDP in 2000 to under 3 percent by 2004.

26. **As part of its strategy to reduce the external debt burden, the government intends to seek debt relief under the enhanced HIPC Initiative.** The updated DSA (see the forthcoming preliminary HIPC Initiative document) indicates that Ghana could be eligible to receive debt relief amounting to US\$2.1 billion in present value terms, if the ratio of the net present value of debt to fiscal revenues were to be reduced from 557 percent at end-2000 to 250 percent at the completion point. This would represent a 55 percent reduction in the stock of debt. To ensure that the external debt remained sustainable after HIPC relief, the authorities would aim to mobilize continuing donor support mainly in the form of grants.

27. With a view to consolidating macroeconomic stability over the long term, **Ghana is participating in a regional plan to form a monetary union with 15 other West African countries.** A West African Monetary Institute was established in Accra in January 2001 with the responsibility for setting up a West African central bank by 2003. A Fund mission that studied the proposal (summarized in Box 3), and discussed its findings with several ECOWAS members, questioned whether the ECOWAS zone would constitute an optimal currency area, given the disparities in the size and economic structure of member countries and the lack of factor mobility.¹⁴ The study also concluded that the time designated for the participating countries to establish a monetary zone and meet the macroeconomic convergence requirements may be insufficient. The Ghanaian authorities agree that the timetable is extremely ambitious, but nevertheless view the initiative as positive insofar as it will help to promote greater economic stability within the region.

Box 3. ECOWAS Economic and Monetary Union

In April 2000, representatives of Nigeria, Ghana, Guinea, Liberia, Sierra Leone, and The Gambia declared their intention to create a monetary union by January 2003, modeled after the West African Economic and Monetary Union (or UEMOA, its French acronym), as a precursor to a wider monetary union comprising all 15 ECOWAS countries in 2004. The countries committed themselves to achieving several convergence criteria by end-2003: These included reducing central bank financing of budget deficits to 10 percent of the previous year's government revenue; lowering budget deficits to 4 percent of GDP by 2003; reducing inflation to under 5 percent; and raising official foreign reserves to at least six months of imports of goods and services. In addition, the participating countries agreed to create a Convergence Council to help coordinate macroeconomic policies and to set up a common central bank. At a summit in December 2000, the heads of ECOWAS states strengthened the integration process by establishing an ECOWAS free trade zone.

¹⁴ Paul Masson and Catherine Pattillo, *Monetary Union in West Africa: Is It Desirable and How Could It Be Achieved?*, IMF Occasional Paper No. 204 (Washington, International Monetary Fund, 2001).

IV. KEY ISSUES FOR THE 2001 PROGRAM

28. In the discussions on the program, the authorities emphasized the restoration of macroeconomic stability as their primary focus for 2001, since this was a prerequisite for launching their broader growth and poverty reduction strategy. The following key issues dominated the immediate policy agenda: (i) bringing the inflation rate down as a precursor to lower interest rates; (ii) reducing the government's domestic and external debt burden by curtailing budget deficits and seeking debt relief; (iii) strengthening public expenditure management and control; (iv) eliminating losses in the operations of key parastatals; (v) improving the functioning of the foreign exchange market; and (vi) reinvigorating the process of structural reform through divestiture and other measures to enhance the efficiency and competitiveness of the financial sector. The policies the authorities have adopted to address these and other issues are set out in the MEFP (Appendix I, Attachment I), and the scope of structural conditionality is discussed in Box 4.

A. The Macroeconomic Framework for 2001

29. The main macroeconomic objectives of the government's program for 2001 are: (i) to limit inflation to a 25 percent annual rate by year's end; (ii) to rebuild gross international reserves by at least US\$207 million to 1.5 months of imports;¹⁵ and (iii) to achieve a domestic primary fiscal surplus of at least 4 percent of GDP while limiting domestic financing to the equivalent of 1.8 percent of GDP. For the first time in two years, Ghana's terms of trade are expected to improve in 2001 (Table 3), providing some relief but still leaving the country far below its 1998 income level. Real GDP growth is conservatively projected to be 4 percent, up only slightly on last year's rate.

30. The latest data for April 2001 show annual inflation at 39.5 percent, while reserve money grew at an annual rate of 43 percent, both figures slightly below peak levels recorded earlier in the year. Meanwhile, gross international reserves fell by US\$38 million during the first four months of the year to only US\$185 million (less than three weeks of imports). Strict fiscal spending limits and a suspension of nonmultilateral debt service payments (pending a Paris Club rescheduling) have apparently eased pressure in the foreign exchange market, as the exchange rate has remained fairly stable since end-2000.

B. Reducing Inflation

31. To reduce overall inflation to 25 percent by end-2001, the Ghanaian authorities have targeted a slowdown in the growth rate of broad money this year to 34 percent, from 40 percent last year (Table 5). To this end, the Bank of Ghana will rely on restraining growth

¹⁵ The program assumptions with regard to a possible early repayment to the Fund in 2001 of a previous noncomplying disbursement are consistent with management's recommendations to the Board (forthcoming).

Box 4. Structural Conditionality

Coverage of structural conditionality in the current program

The structural prior actions, performance criteria, and benchmarks for the 2001 program are set out in Table 2 of the MEFP (Attachment I). The areas covered by these conditions can be divided into the following two categories: (i) *measures with a direct and significant bearing on the attainment of macroeconomic stability*, which include the tax changes, strengthening of public expenditure management, the target for asset sales, and the reforms of energy and utility pricing; and (ii) *measures in the Fund's domain that will improve medium-term growth prospects*; these include reform of the foreign exchange market (to increase efficiency of intermediation and exchange rate flexibility), measures to strengthen the supervisory powers of the central bank, and the elimination of the protectionist special import tax.

Status of structural conditionality from earlier programs

Table 2 reports on the status of structural conditions set under the 2000 program. All measures were subject to substantial delays, but have since been acted upon by the new government or are subject to modified conditionality under the 2001 program (e.g., the tariff reform, audit of domestic arrears, and divestiture of Bank of Ghana shareholding in commercial banks). The submission of a Bank of Ghana Law to parliament, which was a prior action for the second review, reappears in the 2001 program because the law that had been submitted was withdrawn prior to the elections and is being revised to strengthen its provisions on central bank independence.

Structural areas covered by World Bank lending and conditionality

World Bank program lending in 2001 will be delivered under a single-tranche loan, the Economic Reform Support Operation (ERSO III). The loan is assumed to be disbursed in July 2001, conditional on prior actions regarding reform of the cocoa sector, steps toward the privatization of ECG and GCB, and reform of electricity pricing. Performance benchmarks will be set for the remainder of 2001 in these same areas. While these will not have a disbursement attached to them, compliance will be taken into account for the purposes of reaching a possible HIPC Initiative decision point and for any follow-on loan from the World Bank in 2002.

Other relevant structural conditions not included

The problems created by the state ownership and control of the monopoly oil supplier, TOR, have plagued earlier programs and continue to be a major risk factor. Privatization of TOR was a structural performance criterion for the first-year program under the present arrangement, but was not achieved. If it had been feasible, the staff would have liked to have seen a more concrete plan in the program to divest TOR and would have considered conditionality to be appropriate, given the potential threat to macroeconomic stability. However, it is clear that TOR's accumulated debt needs to be dealt with, and a pricing formula put in place to avoid future losses, before any such plan can be realistically considered. The program for 2001 therefore focuses on addressing these preconditions, and reform of TOR itself will be taken up in 2002.

in its NDA to achieve monthly indicative reserve money targets.¹⁶ The overall credit program provides for a 30 percent expansion in credit to the nongovernment sector, thanks to the

¹⁶ The monetary program assumes that average velocity will rise slightly this year, consistent with recent trends, and that the money multiplier will continue to increase as a result of financial deepening and diminishing dependence on cash.

government's greatly reduced recourse to bank financing; however, the public enterprises continue to absorb a disproportionate share of this expansion in the first half of the year, largely owing to directed loans from GCB to TOR.¹⁷

32. **The NDA ceiling takes the place of the ceiling on reserve money in the 2000 program.** Given the low level of net international reserves and the problems created by excessive credit expansion last year, the monetary authorities and staff agreed that the Bank of Ghana should focus on controlling its NDA, particularly net credit to government. If the demand for money exceeds program estimates during the year, additional monetary growth could be accommodated through a larger reserve buildup.

33. **The mission emphasized the need for significantly positive real interest rates, to reduce credit demand, strengthen the incentive to save, and support the exchange rate.** The monetary authorities agreed, but wanted to move cautiously, in view of the uncertain impact of interest rate changes on the target variables. From the start of the year, net treasury bill issues by the Bank of Ghana were increased and, as of end-May 2001, the benchmark 91-day treasury bill rate had been pushed up by about 4½ percentage points, to 46.6 percent, or some 7 points above the latest (April) CPI inflation figure. The scope for much sharper increases in interest rates was limited by the stability of the cedi, which depreciated against the U.S. dollar by only 1 percent in the first five months of 2001, and hence rendered the return on treasury bills highly favorable relative to dollar assets. The staff stressed that the domestic financing of the 2001 fiscal deficit should be mobilized through treasury bill sales (across a range of maturities) to the private sector, and that the Bank of Ghana should have access to treasury bills for monetary policy operations. While recognizing the need for the latter, the authorities stated that they were considering a proposal to convert the government's overdraft with the Bank of Ghana into a low coupon, long-term bond, rather than treasury bills.¹⁸

C. Domestic Public Debt

34. **The authorities' medium-term framework seeks to reduce the domestic government debt stock, as a ratio to GDP, by more than half over the next three years.** The government wished to make a strong up-front effort toward this goal in 2001 and, hence, has programmed a cut in the domestic borrowing requirement of the budget from 8.8 percent of GDP in 2000 to 1.8 percent this year, with such borrowing being phased out completely by 2002. At the same time, domestic payments arrears totaling more than 1 percent of GDP

¹⁷ The program figures have not been adjusted for the planned transfer of a large part of TOR's bank debt to the government later in 2001 (see subsection E).

¹⁸ Although it would be preferable that the Bank of Ghana receive treasury bills, which would help its income and ability to conduct monetary policy, fiscal considerations have temporarily taken precedence.

will be repaid this year, and the arrears will be eliminated by end-2002 (Table 4). The resulting savings in the interest bill will allow a gradual improvement in the composition of expenditure, with the share of domestic primary expenditure in total outlays projected to rise from 44 percent in 2001 to over 67 percent by 2005.

35. **The tax measures (MEFP, ¶15) and expenditure savings (MEFP, ¶17) outlined in the 2001 program will be sufficient to increase the domestic primary surplus to 4¾ percent of GDP on a full-year basis, enough to cover projected domestic interest costs from 2002 onward.**¹⁹ The authorities noted that the primary surplus for 2001 (4 percent of GDP) constituted a substantial improvement on past trends, and that any attempt to achieve a larger surplus now, for instance through an increase in the VAT rate, would risk a political backlash following so closely on the increases in petroleum and utility tariffs.²⁰ Moreover, they were confident that the measures to tighten exemptions and tax administration—which have not been accounted for in the fiscal projections—would bolster revenues further, as evidenced by the strong collections in the first quarter of 2001.²¹ As regards the targeted expenditure savings, the authorities recognized that these were ambitious, but they noted that the elections and the census last year accounted for one-time outlays. They expected that the new controls on expenditure commitments would arrest any buildup of arrears (see subsection D).

D. Public Expenditure Management

36. **The new government recognizes that the failure to monitor and control public expenditures effectively over the last two years contributed to substantial overshooting of the budget deficit.** The program targets for expenditure and arrears reduction depend critically on measures to improve current public expenditure management systems, and the authorities have adopted an action plan to reflect this, with FAD technical assistance. A key element of the plan, which will be implemented from the beginning of July 2001, includes the preparation of rolling cash-flow forecasts of receipts and outlays to establish expenditure commitment ceilings for the line ministries (MEFP, ¶21). An audit of line ministries will be completed by end-August 2001 and the identified stock of domestic payment arrears will then be transferred to the Ministry of Finance for centralized liquidation. Likewise, the settlement of all government utility bills will be centralized at the Controller and Accountant General's Department (CAGD) to safeguard against the accumulation of further arrears on ministry and agency utility bills. To aid policymakers in assessing performance against the

¹⁹ Abstracting from possible interest costs associated with the takeover of parastatal debt.

²⁰ The petroleum and utility price increases constitute a form of quasi-fiscal adjustment and are equivalent, on staff estimates, to a tightening of almost 2 percent of GDP in 2001, over and above the fiscal adjustment per se.

²¹ Revenues in the first quarter exceeded the staff's projections by 20 percent.

program targets, the CAGD will produce simplified monthly reports on expenditure commitments and cash outlays that can be reconciled with banking system data.

37. **Over the coming months, further work will be needed to permit effective tracking of poverty-related expenditures**, including those funded by possible debt relief under the enhanced HIPC Initiative. Continuing technical assistance from FAD and World Bank staff is planned to help meet this need. The authorities are also working toward a revised Medium-Term Expenditure Framework (MTEF),²² with the assistance of the World Bank, to ensure that future budgets are developed in the context of rolling three-year plans.

E. Public Energy and Utility Companies

38. **The authorities have developed a three-pronged strategy for addressing the problems of the energy sector and the public utilities (MEFP, ¶¶ 32-34).** First, the pricing framework is being overhauled. Soon after the new administration took office, the loss-making enterprises—TOR, ECG, VRA, and GWCL—were permitted to raise their regulated prices and tariffs to halt their operational losses.²³ An automatic price adjustment mechanism for petroleum prices is being introduced in June 2001, and similar mechanisms for utility tariffs will be adopted shortly by the PURC, to avoid future deficits and (gradually in the case of the utilities) attain full cost recovery. Second, work began on restructuring the outstanding debt of these enterprises, part of which will be assumed by the government. Finally, financial and management audits of the companies will be undertaken by end-September 2001, with a view to seeking substantial efficiency gains.

39. **Of the parastatals, the most serious financial problems relate to TOR.** Data provided to the staff indicate that the 91 percent increase in TOR's ex-refinery prices for petroleum products, effective from February 2001, covers the company's running costs but not the finance charges on its C2.5 trillion short-term debt. The government has agreed to take over the portion of TOR's debt that was due to the government's pricing policy—an amount provisionally estimated at C2 trillion—and is developing a plan to restructure that debt by mid-August.²⁴ This will include all domestic banks' claims on TOR, now largely

²² The MTEF, which was introduced in 1999, encountered technical difficulties, including problems in assigning budget transactions under the new financial information management and budget classifications system. These problems were accompanied by a weakening in the capacity of ministries and the central treasury to produce timely accounts.

²³ Operational costs do not, however, include debt service, nor do they allow for a return on capital sufficient to fund investment.

²⁴ The authorities' preliminary ideas indicated that the debt restructuring could span 3-5 years with semiannual debt-service payments. In this event, the first payment could take place in 2002 and, therefore, would not have an impact on the 2001 budget.

consolidated in GCB, and is expected to involve an extension of maturities. TOR will be expected to service its residual debts from normal operating revenues.

40. **Bank and Fund staff, together with government officials, met jointly with the PURC to emphasize the need for the public utilities (ECG, VRA and GWCL) to reach cost recovery pricing as quickly as possible.**²⁵ In April 2001, at the request of the respective companies, PURC raised the retail electricity tariff by 96 percent, the wholesale price of electricity by 100 percent, and the water tariff by 95 percent, all effective May 1, 2001. ECG and GWCL are now reportedly covering their running costs, while VRA is still expected to make a significant loss. None of the utilities will make a profit that is sufficient to cover financial charges as well as operating costs. PURC has developed a draft "transition plan" that would not deliver full economic pricing for the utilities until the beginning of 2004, on the grounds that the public will accept additional tariff increases only as they see improvements over time in the quality of service delivery and management in these companies. The staff supported the emphasis on improving efficiency, but noted that the budget could not afford to bear the costs implied by such a gradual adjustment path, a view that the government shared. PURC's transition plan is expected to be finalized in June, following public consultation, with the next round of tariff adjustments envisaged for the beginning of October 2001. In the meantime, the government will develop a plan to restructure the utilities' debts and will assume responsibility, as needed, for their servicing costs (MEFP, ¶ 34).

F. Exchange Market Reform

41. **The segmentation and lack of price flexibility in the foreign exchange market are longstanding problems.** The Bank of Ghana controls and intermediates directly a major share of the foreign exchange inflows, selling the surrendered proceeds from cocoa and gold exports directly to TOR, for oil imports.²⁶ This has left the commercial banks with limited supplies and able to serve only their own customers. Hence, an interbank market has failed to develop, and participants report hoarding and structural shortages of foreign exchange.

42. **The staff urged the authorities to phase out of the surrender requirements between July and December 2001, while maintaining a repatriation requirement, and ensuring a corresponding transfer of TOR transactions to the commercial bank market.** The authorities endorsed the goal of establishing an interbank foreign exchange market that would supply TOR, but were reluctant to commit to a detailed reform plan until

²⁵ The PURC is a statutorily independent body, accountable neither to the government nor to parliament.

²⁶ The surrender requirements are 98 percent and 28 percent for cocoa and gold receipts, respectively.

MAE technical assistance had been put in place.²⁷ The authorities agreed, however, that the central bank would completely halt foreign exchange sales to TOR by end-2001, and it would provide additional foreign exchange to the commercial banks through some combination of direct sales and reduced surrender requirements (MEFP, ¶27). Discussions with the commercial banks indicated that, under these circumstances—and once TOR's debt situation was resolved—a consortium of large banks could provide a monthly oil facility to TOR.

43. **The staff worked closely with the Bank of Ghana to develop a detailed cash-flow projection for its foreign receipts and payments.**²⁸ Staff emphasized that the central bank should focus on meeting its NIR targets and allow the exchange rate to move to clear all other commercial transactions. The staff and the authorities agreed that the prevailing level of the real exchange rate was broadly appropriate from a competitiveness perspective, as the deterioration in the terms of trade in 1999 and 2000 had been accompanied by a comparable adjustment in the real exchange rate (Figure 7).

G. Reinvigorating Structural Reform

44. **A central theme of the new administration's strategy is to create a "golden age of business."** Among the policies they see as necessary to deliver on this goal are improved governance (see Section VI), an extensive divestiture program, and the development of an efficient financial sector with proper supervisory standards.

45. **The government is dissatisfied with the past divestiture process: collections from previous sales of public assets were small and there is suspicion that some transactions were tainted by corruption and fraud.** The government will therefore relaunch the full divestiture process only after appointment of a new governing board for the Divestiture Implementation Committee (DIC) and completion of financial and managerial audits, by September 2001, of recent and pending asset sales. As the DIC has some 30 companies in the divestiture pipeline, a clear plan will need to be established to ensure effective implementation.

46. **During 2001, the privatization effort will focus on raising at least US\$50 million by divesting government shares in private and public companies, including: Ghana Telecom, Coca Cola, Guinness Ghana Ltd., Westel, Aluworks, Ghana Consolidated**

²⁷ MAE staff outlined the steps needed to move to an interbank market in a technical assistance report of May 2000. The Bank of Ghana has now requested a resident advisor to guide them through the process.

²⁸ The Bank of Ghana has revised the accounting for gross reserves, NFA, and NIR to be consistent with recommendations of previous technical assistance (see the Technical Memorandum of Understanding (Appendix I, Attachment II).

Diamonds, Ghana Oil Palm Development Corp., Benso Oil Palm Plantation, Twifo Oil Palm Plantation and Tema Steel Company Ltd. Offers for sale have also been issued for Ghana Commercial Bank and the National Investment Bank. To the extent that total divestiture proceeds exceed the cedi equivalent of US\$50 million (which is already accounted for in the budget), the surplus will be used to reduce domestic government debt.

47. **The TOR debt to local commercial banks, estimated at about 5 percent of GDP in 2000, posed the single most serious threat to the health of the banking system.** The authorities noted that the implicit government guarantee for this debt and the planned restructuring of it (discussed above) have eliminated any immediate danger. The staff expressed concern, however, that special dispensations and central bank guarantees had been given to cover over-exposure to several companies in the energy, cocoa and construction sectors. The Bank of Ghana was aware of the dangers that such guarantees and deposits posed, but defended them as necessary to safeguard the financial system. The staff also questioned the excess foreign exchange exposures of 6 of the 17 banks, and was informed that the matter was under investigation but was partially caused by holdings of foreign exchange in anticipation of letters of credit coming due. During 2000, Ghana participated in the joint IMF/World Bank Financial Sector Assessment Program (Box 5), where many of these issues were explored in greater depth.

48. **To improve financial markets and strengthen the independence of the Bank of Ghana, the draft Banking Law and the Bank of Ghana Law will be tabled in Parliament by end-August 2001.** The Bank of Ghana Law is currently being revised to strengthen the central bank's independence, in line with technical advice provided by the Fund (MEFP, ¶ 29). As recommended in the FSSA, the Bank of Ghana will divest its shareholdings in ADB and Cal Merchant Bank during 2001, in order to avoid conflict of interest in its capacity as prudential regulator

V. POVERTY AND SOCIAL ISSUES

49. **Within the tight constraints on overall expenditure in the 2001 budget, the government has reoriented budget resources in favor of priority social sectors.** Central government allocations to health and education have been raised to 36 percent of domestic primary expenditure, representing an increase in real terms of just over 5 percent from 2000 (MEFP, ¶ 37). This increase mainly reflects the extra resources made available to the education sector from the Education Trust Fund that was established late in 2000 with earmarked VAT receipts.²⁹ However, the budget allocations for the education and health ministries have also increased in real terms from 2000, while those for infrastructure and some government service ministries have been scaled back

²⁹ The Education Trust Fund receives 20 percent of VAT collections.

Box 5. Summary of Financial Sector Stability Assessment

Ghana's growing economic problems created severe pressure on the banking sector during 2000. Stress tests performed in July 2000 indicated that banks' vulnerabilities were concentrated in credit risk. Although the quality of bank assets deteriorated during the first half of 2000, the amount of overdue and non-performing loans stabilized during the second half of 2000, at around 16 percent of banks' total portfolios at end 2000. Of particular concern was the debt of TOR, which exceeds the total amount of banking sector capital, to two large banks. Notwithstanding this, the FSAP mission found no signs of declining confidence in the banking system.

The risk of losses in the financial sector creates contingent liabilities for the budget. First, the FSAP missions indicated that the government may have to take over some of TOR's debt service to the banks, as is now envisaged under the restructuring plan being formulated. Second, the government may need to recapitalize state-owned banks. Third, there are risks associated with the Social Security and National Investment Trust (SSNIT)—investments made by SSNIT are not expected to yield sufficient income over time to meet its future obligations to pensioners.

The BOG needs more independence and should focus its operations on mainstream central bank activities. BOG lacks independence in that it formally reports to the Minister of Finance rather than the Parliament, it cannot issue regulations on its own, and remedial actions against financial institutions are subject to appeal to the Minister of Finance. The BOG is involved in commercial and financial activities because of its statutory objective to promote economic development. The BOG's shareholding in private banks could compromise its role as banking supervisor. The government should also strengthen BOG's capital base by issuing Treasury bills and longer-term government securities directly to BOG.

The long-term survival of SSNIT is a serious concern, requiring medium term action. Based on information received during the November Article IV mission, SSNIT has failed to meet almost every important performance indicator since 1996, when the last actuarial study was carried out. The weak performance is the result of a number of factors: (i) the large portfolio of real estate under construction has not generated enough cash flow; (ii) SSNIT has been forced to provide additional financing to previous investments; (iii) the cash flow from corporate loans has been weak; (iv) SSNIT has been funding a student loan program (now discontinued) that it could not control; (v) the government has often been late in paying its contributions; (vi) SSNIT's administrative expenses are high; and (vii) the return on the fixed income portfolio has been low.

The FSAP missions also specifically recommended that the authorities should:

- Continue their efforts to reduce banks' exposure to TOR;
- Review all banks' asset portfolios and their approaches to managing risk, and strengthen enforcement of prudential standards;
- Continue efforts to introduce updated insurance supervision legislation and pursue the implementation of the newly adopted securities legislation; and
- Introduce a strong legislative framework against money laundering.

50. **Government policies have also been guided by the need to protect the poorer segments of the population from the costs of the macroeconomic adjustment under the program.** To help poorer consumers to meet additional costs associated with the rise in petroleum and utility prices, the government increased the economy-wide minimum wage in real terms by almost 18 percent over 2000 levels to 5,500 cedi a day (or US\$ 0.7) in April

2001. Likewise, the Minister of Finance has pledged publicly that this year's civil service wage increase will be designed to benefit primarily those at the lower end of the pay scale. Petroleum and utility price increases have also been structured so that the price increase for products used more intensively by the poor have risen less than the overall average (MEFP, ¶ 39).

51. **In line with the government's objective to distribute the gains from economic growth more evenly across the population, the 2001 Budget incorporates a number of targeted poverty alleviation programs.** Data from the 2000 Ghana Living Standards Survey (GLLS) indicates that although the proportion of the population living in poverty declined during the 1990s (from 52 percent living below the poverty line in 1991/92 to just under 40 percent in 1998/99), the gain was unevenly distributed, with urban areas benefiting more than the rural regions. To help remedy these disparities, a number of programs for the northern, central, and crop-growing regions are being implemented in 2001 to improve agricultural infrastructure and access to potable water. These will be supported by national programs that promote HIV/AIDS awareness, while free immunization and health care services will be given to the most vulnerable population groups.

52. **Looking ahead, the government's longer-term agenda for poverty alleviation will be articulated in the Ghana Poverty Reduction Strategy (GPRS).** The government recently completed a national economic dialogue that solicited the views of civil society on the proposed strategy. On the basis of this dialogue, the government is to conduct regional consultations throughout the country during June on a first draft of the GPRS for 2002-04, and the document is scheduled to be finalized by September-October 2001. The GPRS is expected to form the basis for the 2002 budget and will identify the additional programs to benefit from possible debt relief.

VI. GOVERNANCE, TRANSPARENCY, AND REPORTING ISSUES

53. **A corruption survey carried out by the Center for Democracy and Development³⁰ last year indicated that a majority of Ghanaians see corruption as a major problem, both in the public and private sectors.** According to the survey, unofficial payments regularly consume 10 percent of household income, while many firms stated that they spend as much as 40 percent of revenue on bribes. Public officials perceive low salaries, non-transparent internal management practices, and lack of reporting mechanisms as major causes of corruption.

54. **The new government has declared a policy of zero tolerance for all acts of corruption.** The 2001 Budget announced a number of concrete anti-corruption measures,

³⁰ The survey was cofinanced by the World Bank, the U.K. Department for International Development, and the Canadian International Development Agency. It was based on more than 2,500 interviews of households, businesses and public officials.

including: a review of the tax system in order to reduce revenue losses through evasion, avoidance, and corruption; creation of Tax Courts to expedite action on tax-related issues; creation of a National Tax Audit Team, which will be equipped to conduct random audits of companies and individuals; streamlining of public procurement in order to improve monitoring and reduce the room for arbitrary decisions; requiring tax clearance certificates before public contracts are awarded to any supplier; and deepening the use of commencement and continuation certificates as a condition for the payment of work executed.

55. The government has also declared its commitment to greater transparency and accountability in public institutions. In this respect, the government has taken the important first step of ordering managerial and financial audits for all district assemblies and the major public enterprises (MEFP, ¶42). Some divested companies will also be audited in order to assess how transparent the divestiture process was with respect to pricing, modes of payment, and other procedures.

56. The weak quality of national accounts and balance of payments data continue to hamper any assessment of economic conditions. Staff held discussions with the Ghana Statistical Service on the compilation of national accounts and recommended some methodological changes in the estimation of gross capital formation. The authorities expressed interest in receiving STA technical assistance to evaluate their real sector statistics and identify areas for improvement.

VII. FINANCING REQUIREMENTS, ACCESS, CAPACITY TO REPAY, AND RISKS

57. The external financing requirement for 2001 is projected to total US\$1,160 million (Table 7). Of this, US\$316 million is expected to be met by program assistance from donors, including US\$100 million from the World Bank. A further US\$240 million is needed to fill the financing gaps in the balance of payments and budget, and it is expected that this could be covered by a nonconcessional deferral of payments due in 2001 from Paris Club creditors, with comparable action from other nonmultilateral creditors. An increase in access to PRGF resources equivalent to 10 percent of quota is being requested on account of the severity of the terms of trade shock that Ghana has experienced since the arrangement was approved. This increase would bring access under the three-year arrangement to SDR 228.8 million (62 percent of quota), of which nearly half would be made available this year (Table 9). Outstanding use of Fund credit in 2002 would be SDR 322.7 million (88 percent of quota).

58. Ghana's payments to the Fund are projected to increase sharply in 2001, on the assumption—pending a Board decision on the matter—that early repayments will be made as a result of the misreporting problems (Table 9). Repayments in 2001 will still be lower, however, than in 1997-99, and in 2002, payments will fall to a historical low before trending upwards towards 2007. Under the assumptions of this program, including expected debt relief, Ghana should be able to meet its projected obligations to the Fund.

59. In order to complete the **safeguards assessment**, staff have obtained from the Bank of Ghana audited financial statements and management letters for the years 1997-99. Staff is seeking authorization to contact the external auditors to clarify certain issues raised in the audit reports. The assessment is scheduled to be completed before the fourth review of Ghana's current PRGF arrangement (i.e., by December 2001)

60. **While the authorities' program for 2001 is strong, it is subject to a number of risks:**

- First, the high level of domestic interest rates makes the fiscal situation vulnerable to any overruns in domestic financing, for instance as a result of delays in the pace of divestitures or donor disbursements;
- Second, the new systems for controlling public expenditure commitments are untested. If they are not effectively implemented, further arrears and overruns in cash spending could result;
- Third, negotiations for the 2001 civil service pay agreement had yet to start when the program was being formulated. While the government has made clear that it will not exceed the budget appropriation (MEFP, ¶17), this commitment could come under strain;
- Fourth, gross foreign exchange reserves remain low throughout 2001, and this makes Ghana vulnerable to a shortfall in donor support or export receipts relative to program;
- Finally, delays in dealing with the structural and financial problems in the public enterprises could aggravate the fiscal situation. A particular risk arises from the fact that the strategy for reforming the pricing of public utilities is in the hands of a body (the PURC) which is not under the government's control.

VIII. STAFF APPRAISAL

61. **In 2000, the Ghanaian economy continued to suffer fallout from the large terms of trade shock that began in 1999.** Although some adjustment took place early in the year, the overall policy stance of the government in 2000 was neither sufficiently strong nor adequately sustained. Furthermore, in the run up to the December presidential and parliamentary elections, underlying disequilibria in the economy were suppressed, leaving the incoming government with a heavy burden of domestic debt, substantial external and domestic arrears, and heavy operating losses in the major parastatal enterprises.

62. **The strategy for fiscal policy in 2000 was based on government and donor commitments that ultimately proved to be unrealistic.** As the year drew to a close, revenue was broadly in line with program targets, but both donor financing and privatization receipts fell well short of what had been programmed. While the authorities' inaction on

some structural reform initiatives—notably, privatization—contributed to the shortfall in donor financing, some donors simply did not meet the commitments envisaged in the program. The fact that the sale of Ghana Telecom was not consummated aggravated the budget financing difficulties.

63. Given the shortfalls in financing, the budget was untenable, and the government chose—in an election year—to resort to domestic bank financing rather than expenditure restraint to bridge the gap. This shifted the burden of adjustment to monetary policy and the Bank of Ghana could not maintain the strong policy stance it had initiated in June 2000. Interest rates did not keep pace with rising inflation, sending the wrong signal to the private sector about the cost of borrowing. In the last quarter of the year, the government ran up a large overdraft at the central bank, reinforcing the inflationary pressures already taking hold in the economy.

64. Equally damaging was the authorities' failure to move domestic energy and other utility prices in line with rising costs. It appears that this arose in part out of a concern that consumers should be shielded from the effects of shifts in world market prices and exchange rates. Staff considers this concern to be misplaced. The costs will inevitably have to be borne in due course, if not by the consumer then by the taxpayer, and it is far from clear that taxpayer-funded subsidies for energy consumption constitute a progressive policy in an economy such as Ghana's.

65. The new authorities were caught unawares by the parlous financial state of the public sector when they took office, but they reacted promptly and appropriately. The decisions to double petroleum and utility prices were difficult, but essential to staunch the losses in the parastatal companies. It will be critical that the government and the PURC follow through on commitments henceforth to adjust prices in line with the cedi value of input costs, using automatic mechanisms that depoliticize such adjustments.

66. Likewise, the fiscal program for 2001 is prudent and faces up to the country's difficult economic circumstances. The staff strongly supports the government's emphasis on making every effort to bring down the domestic debt stock over the medium term, and welcomes the fact that this objective seems to enjoy broad public support in Ghana. The targeted domestic primary surplus of 4 percent of GDP for 2001 is a good start on this path. Looking forward, domestic primary surpluses will need to remain in the range of 4 to 5 percent of GDP over the next three to five years to complete the task. This will require some additional effort on the tax side, if further increases in priority expenditures are to be accommodated. The staff would encourage the authorities to keep open the option of raising the general VAT rate next year, while avoiding further earmarking of the resultant revenues for particular expenditures. It will be important that the international community do its part by helping Ghana to address its external debt burden, not only through debt relief but also by increasing the grant component in donor assistance.

67. Effective control of public expenditure commitments will be essential to the success of the program. Without such control, the government would be unable to exert

overall financial discipline, and could see its counter-inflation strategy undermined. Carefully balanced budget priorities would also suffer if allocations cannot be enforced. The systems being put in place to achieve the necessary commitment control are well conceived, and they need to be implemented vigorously.

68. **The staff welcomed the measures in the 2001 budget to curtail import tariff exemptions.** However, the staff emphasized the importance to trade promotion of eliminating fully the special import surcharge in the 2002 budget as planned under the program. The staff advised against the export tax on lumber products and urges the authorities to explore alternative nondistortionary measures to raise revenue and promote environmental conservation as part of the 2002 budget. In this regard, the authorities' plan to formulate a broader agenda for tariff reform by end-2001 is welcome (MEFP, ¶ 36).

69. **Monetary policy will have to remain reasonably tight in the very near term.** Interest rates need to remain clearly positive in real terms to dampen credit expansion, encourage saving and send a clear signal of the government's desire to fight inflation and strengthen external reserves. Coupled with a tight fiscal policy, such a monetary stance should succeed in bringing about a sustained decline in the current double-digit inflation rate, and as it does so, the state budget and private enterprise alike will be able to benefit from lower nominal interest rates.

70. **The staff encourages the authorities to allow the value of the cedi to be market determined, with intervention being limited to achieve the government's target for foreign reserves.** Neither foreign exchange markets nor treasury bill markets are functioning efficiently or transparently at present, thus constraining the ability of the central bank to make appropriate adjustments in its monetary policy stance. The authorities should make use of Fund technical assistance to create a functioning interbank foreign exchange market by the end of this year.

71. **The staff strongly welcomes the new government's emphasis on mobilizing the private sector as the engine of growth.** The most concrete signal of the government's intentions will be a clearly articulated privatization strategy, progressing from sales of minority shareholdings in the short run to moving ahead decisively with larger divestitures in the next two years. Of particular importance is that the divestiture program in the financial sector move ahead rapidly, as this will help to prevent further inefficient use of the resources of government-owned financial enterprises in the future.

72. **As the FSSA report notes, there is no immediate risk of a banking crisis, but if the financial viability of the parastatals is not restored, and the full weight of the debt is left solely on the banks without credible government repayment assurances, the system could come under severe strain.** The financial problems of TOR and ECG need to be addressed expeditiously, in the first instance through a government-sponsored restructuring of their debts, followed by reforms of the enterprises themselves, within the framework of a coherent energy policy. The staff urges the authorities to give priority to this agenda, with

support from the World Bank, so that implementation of the fundamental reforms can begin next year.

73. **The new government has moved quickly to carry forward work on a poverty reduction strategy for Ghana.** Public participation in the process so far appears to have been broad-based and well-organized. The goal of arriving at a strategy in time to influence the 2002 Budget is commendable. As the work continues, it will be important that the GPRS encompass not only social policies and expenditure programs but also broader reform issues, and that it give due weight to fostering faster growth and job creation.

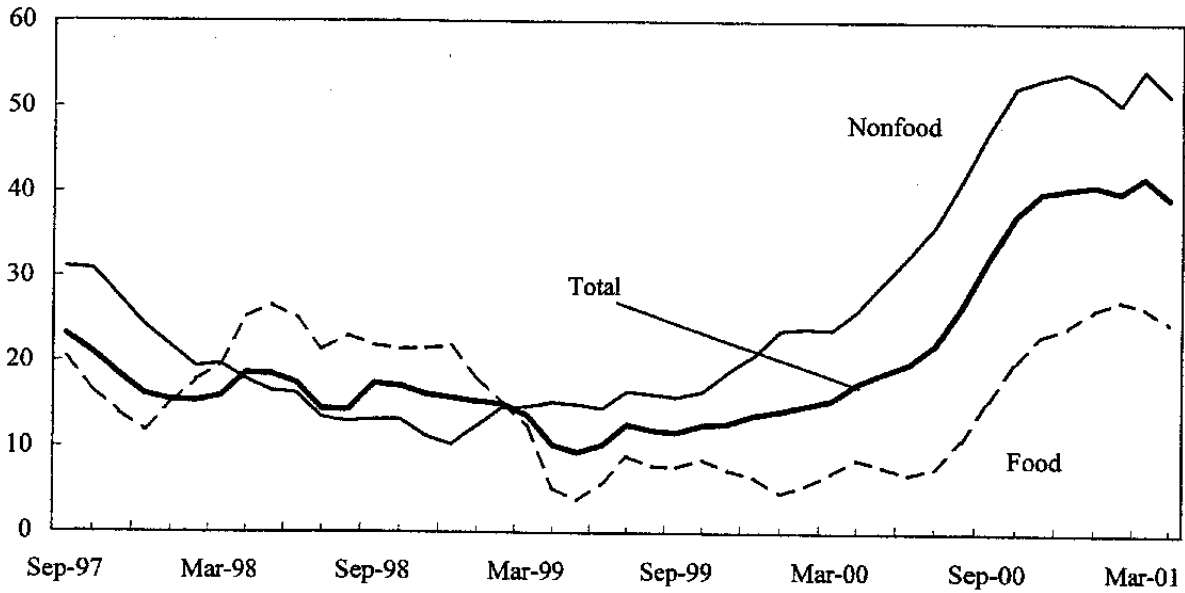
74. **The staff welcomes the new government's anticorruption campaign and its pledge to be more transparent in its dealings with the Ghanaian public and its development partners.** As further difficult economic choices have to be made, it will be critically important that the authorities communicate clearly to the public the challenges that the country faces and their strategy for addressing them. At the same time, development partners need to be apprised promptly of any unexpected developments so that a constructive dialogue can be maintained and financial support can continue to be mobilized in support of necessary policy reforms.

75. **On the strength of the authorities' program for 2001, the staff recommends completion of the third review under the PRGF arrangement,** and supports the authorities' request for waivers of the four performance criteria for end-August 2000 and end-September 2000 that were not observed. In view of the low level of foreign reserves and large-scale balance of payments financing needs, the staff also supports the authorities' request for an increase in access of 10 percent of quota.

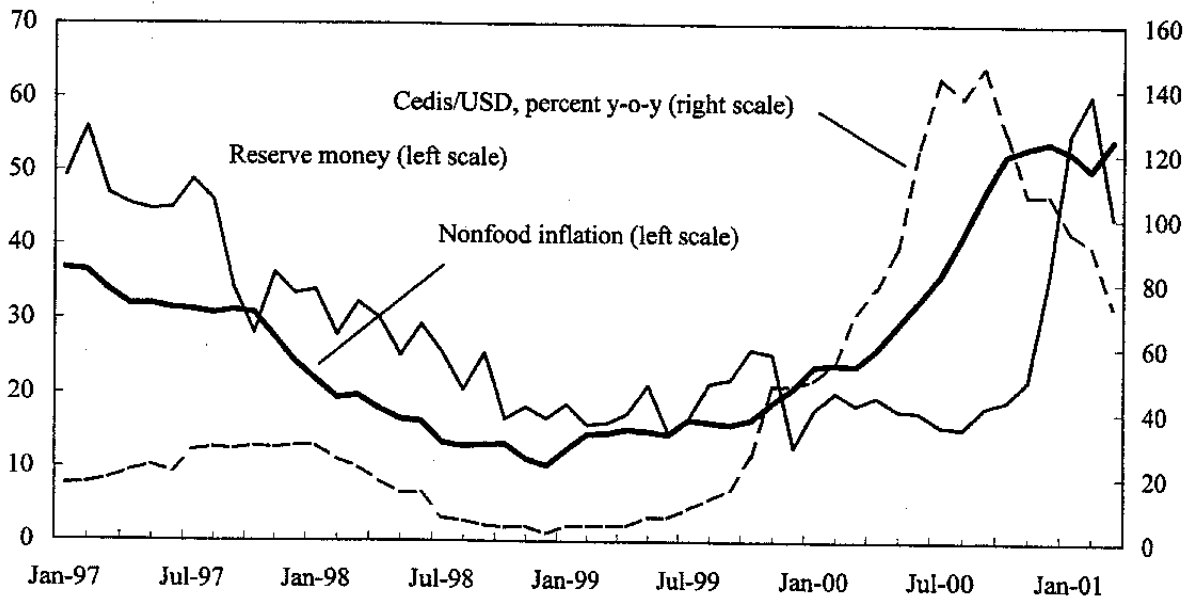
76. It is proposed that Ghana remain on the standard 12-month cycle for Article IV consultations.

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

Total inflation, food inflation, and nonfood inflation, September 1997-April 2001
(Twelve months percent change)

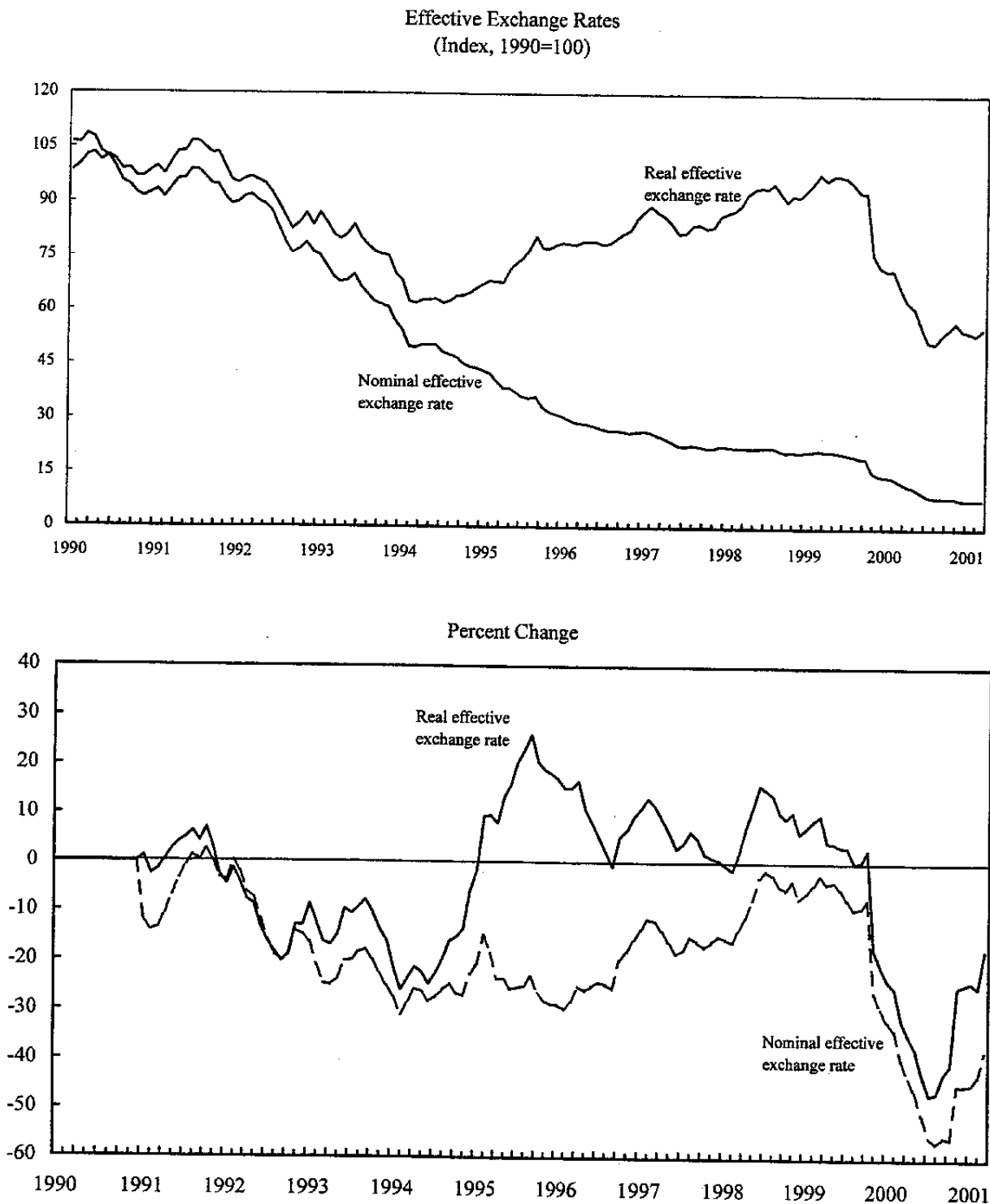


Nonfood inflation, reserve money, and the exchange rate, January 1997-March 2001
(Twelve months percent change)



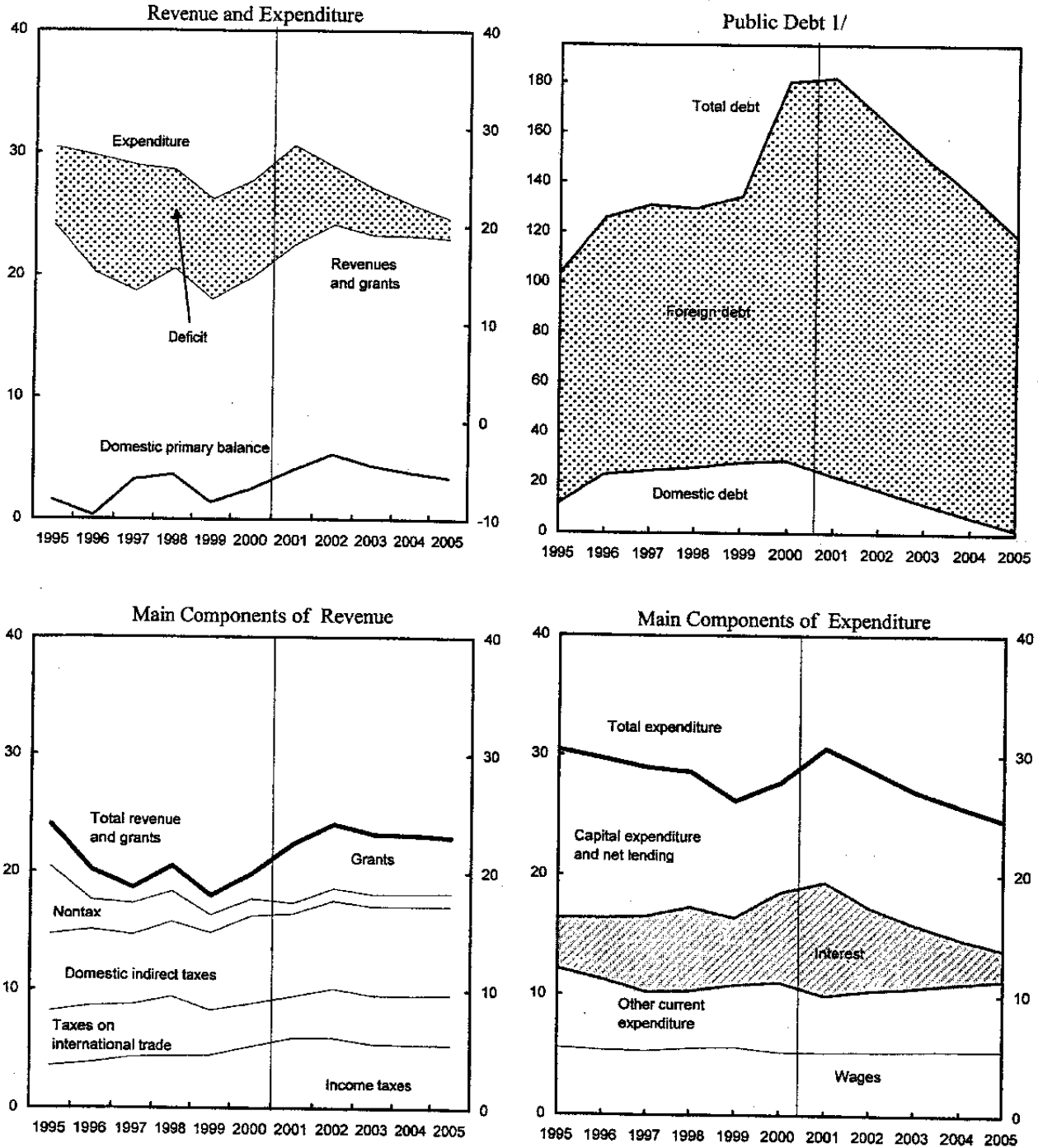
Source: Ghana Statistical Service and International Financial Statistics.

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



Sources: Ghanaian authorities; and Fund staff estimates.

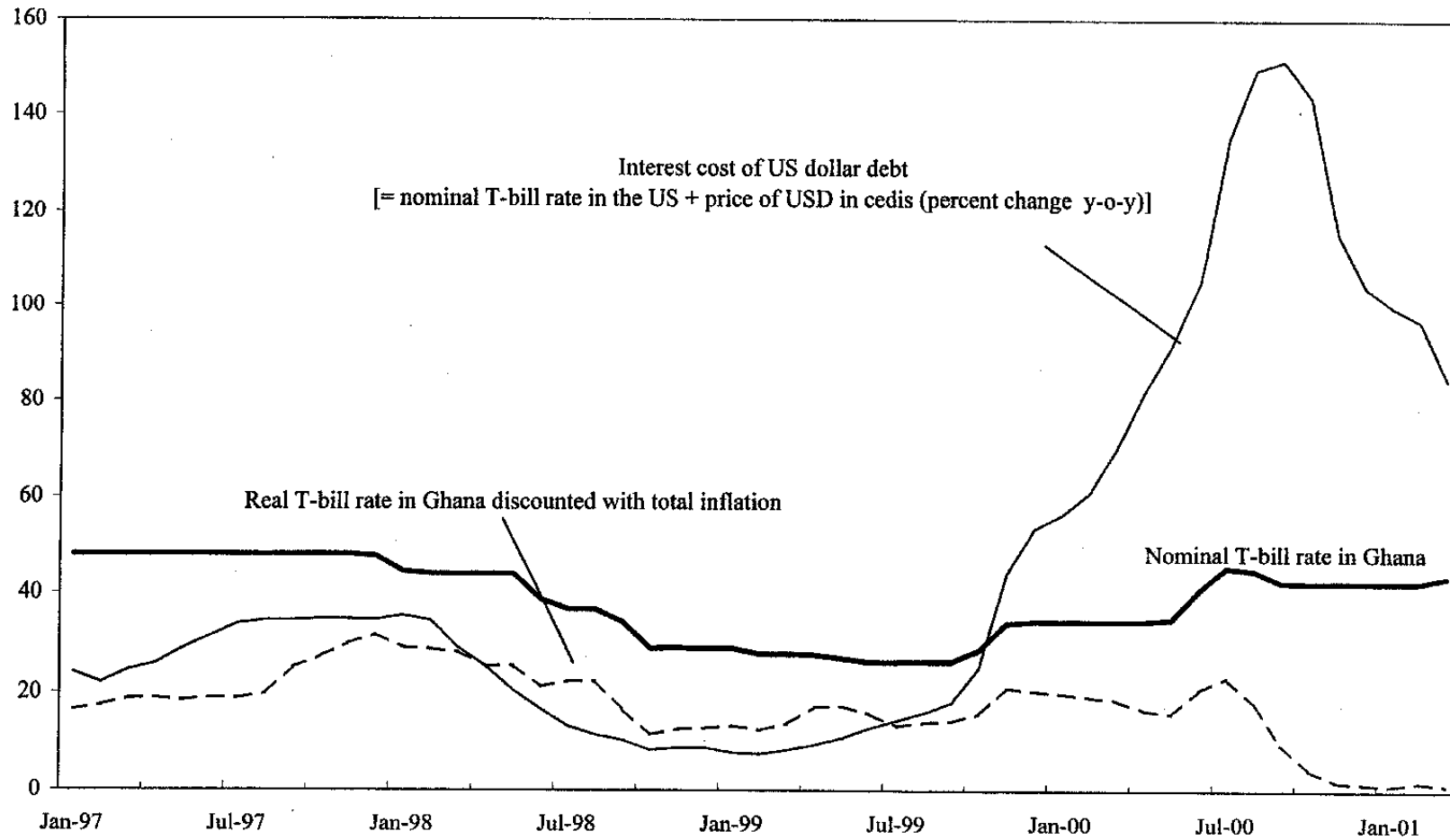
Figure 3. Ghana: Central Government Finances, 1995-2005
(In percent of GDP)



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

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

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



Source: Ghanaian authorities, International Financial Statistics, and Fund staff estimates

Figure 5. Ghana: Reserve Money and Sources, January 1998 - March 2001
(In billions of Cedis)

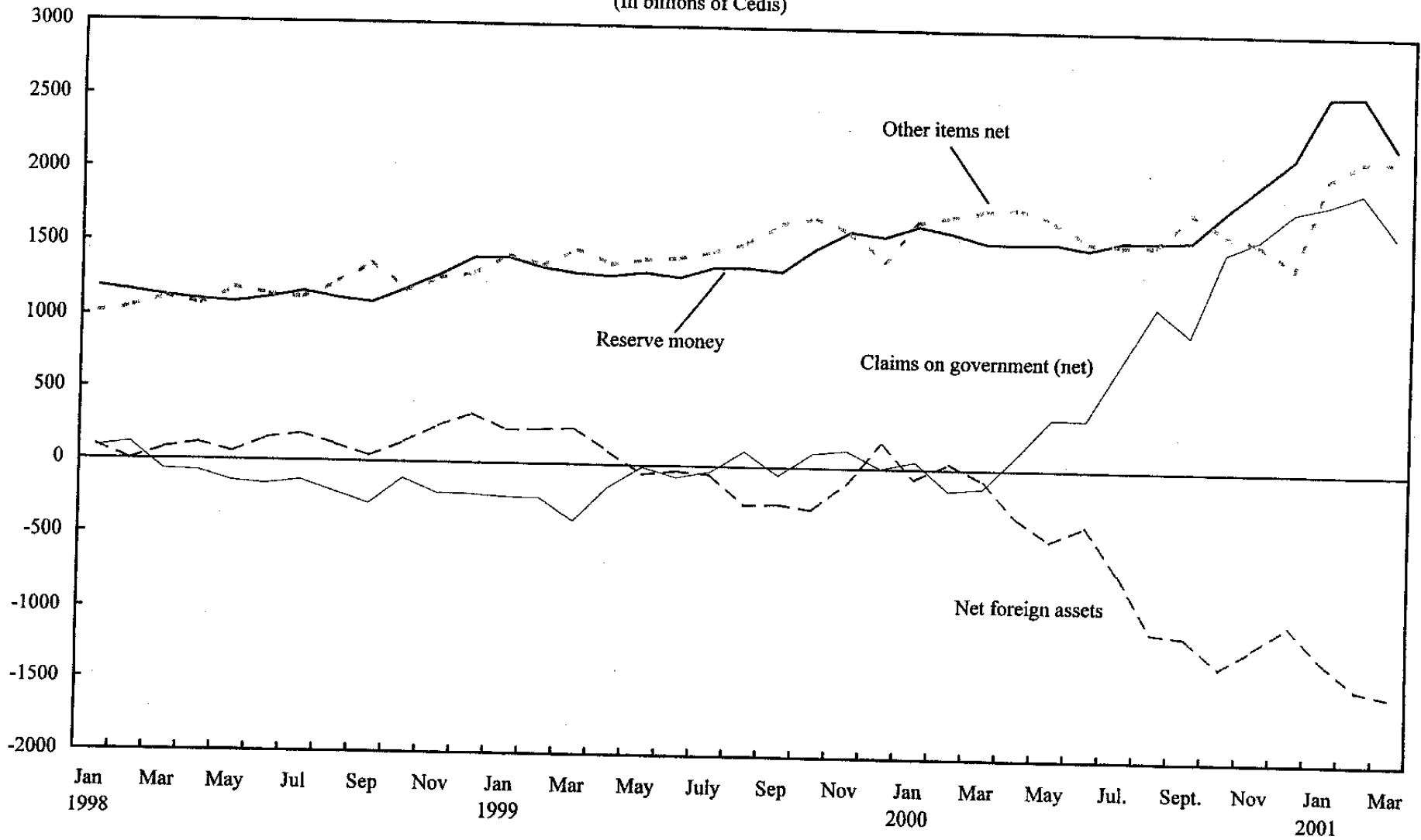
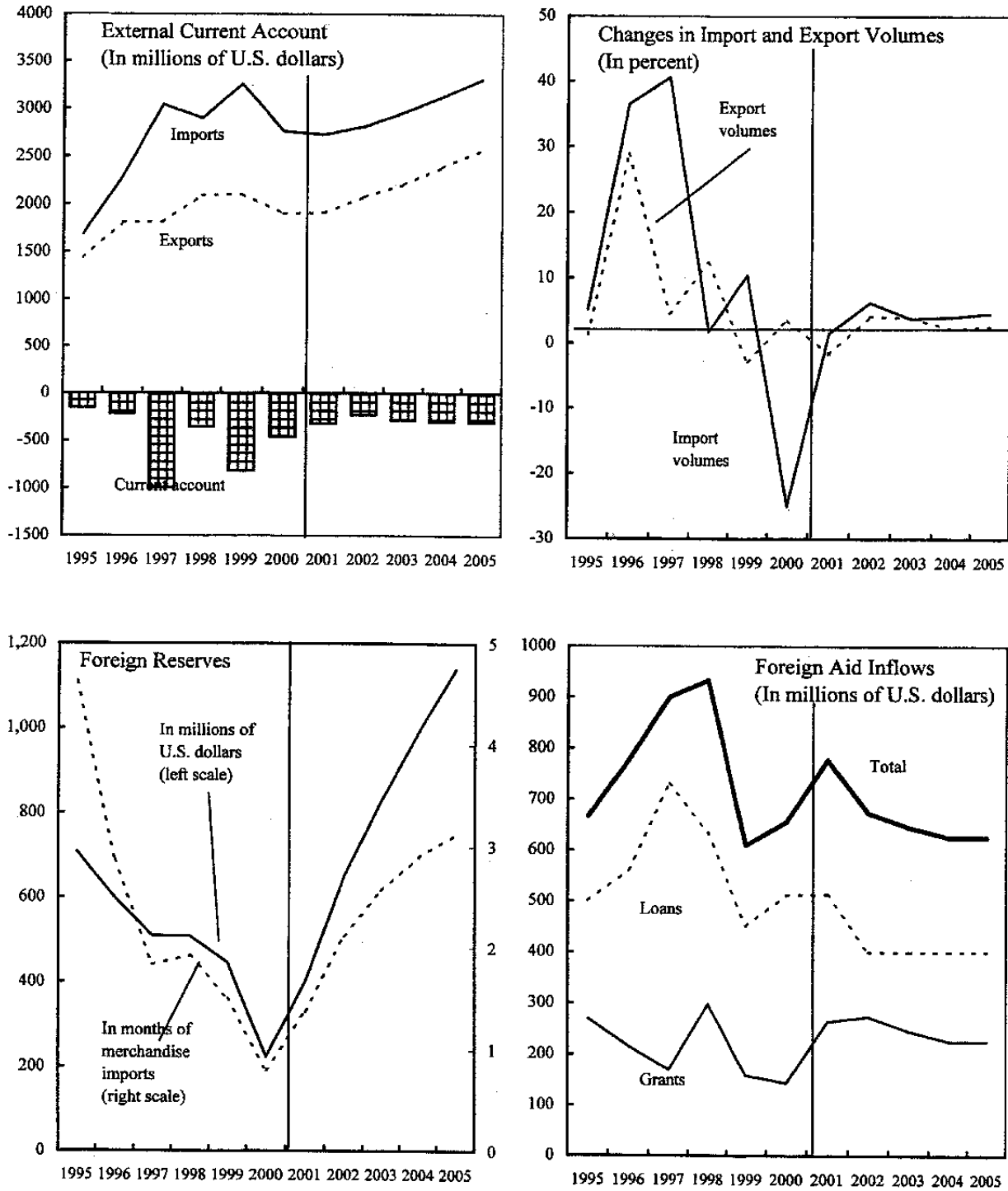


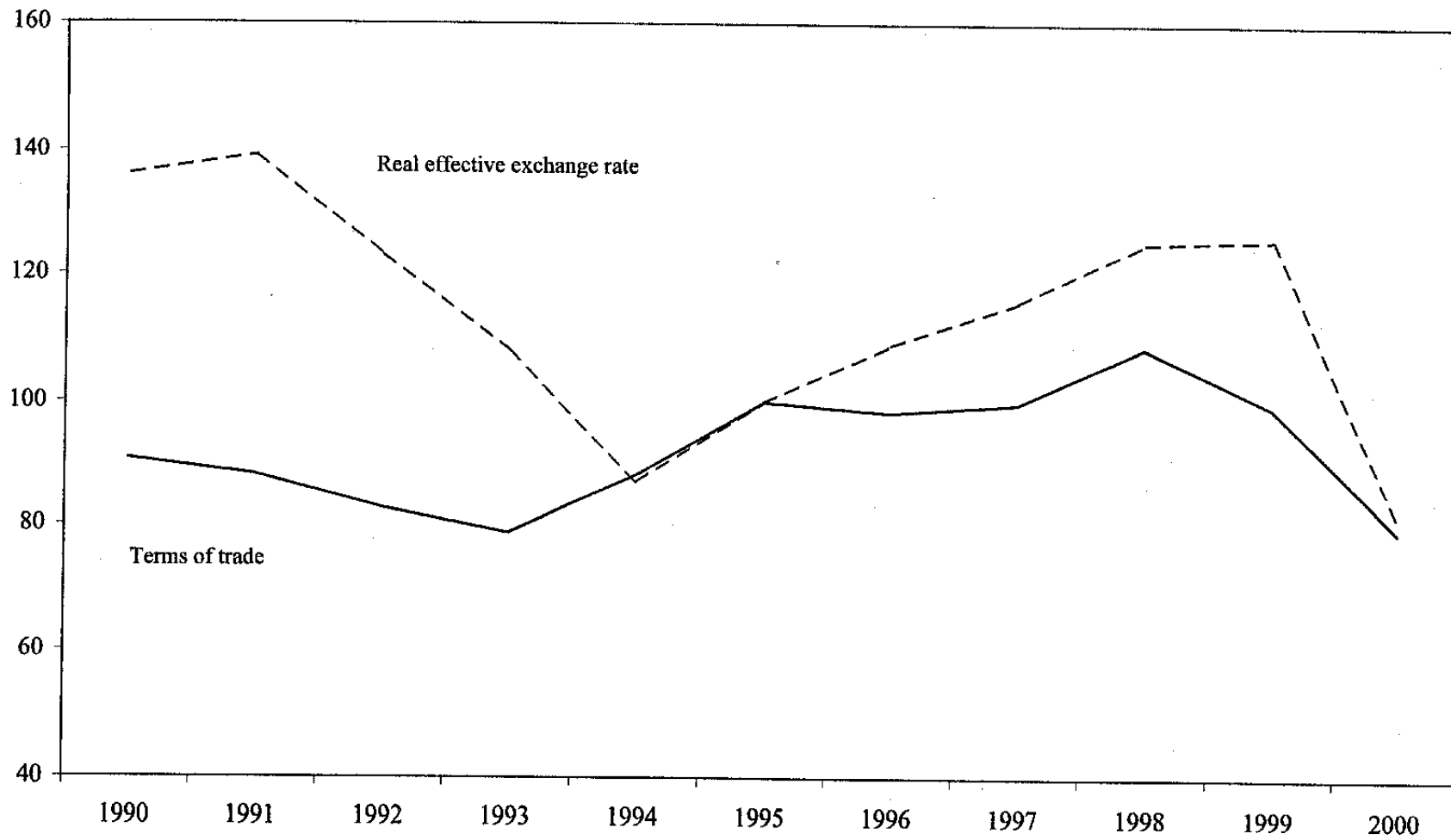
Figure 6. Ghana: Main External Indicators, 1995-2005



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

Figure 7. Ghana: Terms of Trade and the Real Effective Exchange Rate, 1990 - 2000

Index 1995 = 100



Source: Ghanaian authorities and Fund staff estimates

Table 1. Quantitative Performance Criteria, PRGF Arrangement, 2000 1/
(Cumulative from beginning of calendar year to end of month indicated)

	2000									2001				
	March		August			September			December			March		
	Benchmark		Performance criterion			Benchmark			Performance criterion			Benchmark		
	Prog. 2/	Actual	Prog. 14/	Prog. 2/	Actual	Prog. 14/	Prog. 2/	Actual	Prog. 14/	Prog. 2/	Actual	Prog. 15/	Prog. 2/	Actual
(In billions of Cedis)														
Government domestic primary surplus (floor) 3/	232	235	597	597	601	708	708	717	1,028	1,028	665	350	350	551
Government revenue, excluding grants and divestiture proceeds (floor) 4/	896	902	2,799	2,799	2,879	3,289	3,289	3,340	4,616	4,616	4,811	1,110	1,110	1500
Domestic financing of government (ceiling) 5/ 6/ 7/	406	386	153	981	1,532	416	749	1,277	233	-197	2,398	280	-746	363
Reserve money (ceiling) 8/ 9/	1,560	1,542	1,575	1,575	1,570	1,584	1,584	1,581	1,823	1,823	2,151	1,775	1,775	2,230
(In millions of U.S. dollars, unless otherwise specified)														
Change in net foreign assets of the Bank of Ghana (floor) 10/	-144	-67	-182	-309	-218	-186	-236	-220	50	49	-195	-40	98	-39
New nonconcessional external loans contracted or guaranteed by the government or the Bank of Ghana (1-15 year maturity) (ceiling) 11/	0	2	0	0	7	0	0	7	0	0	66	0	0	0
Short-term external debt outstanding contracted or guaranteed by the government or the Bank of Ghana (with an initial maturity of less than one year) (ceiling) 12/	50	40	50	50	40	50	50	40	50	50	25	50	50	40
Stock of external payment arrears 13/	0	...	0	0	38	0	0	38	0	0	89	0	0	85
<i>Memorandum item:</i>														
Stock of government road sector arrears (in billions of cedis)	225	...	278	278	220	272	272	...	172	172	150	124	124	234
Stock of government domestic nonroad arrears (in billions of cedis)	156	156	0	0	...	0	0	...	0	0	527	0	...	381
Total program support (loans and grants) assumed (in millions of U.S. dollars)	44.0	52.1	224.3	224.3	59.8	224.3	224.3	136.4	366.3	366.3	186.1	20.0	20	73.6

1/ The definitions of line items and terminology is elaborated in the Technical Memorandum of Understanding (Appendix I, EBS/00/160).

2/ After applying the adjuster for program support and for arrears where known.

3/ The domestic primary balance is defined as the difference between total revenue (excluding grants and divestiture proceeds) and noninterest domestic expenditure (excluding foreign-financed capital expenditure) on a commitment basis.

4/ Benchmark only.

5/ The ceiling will be adjusted upward/downward to the extent that the cumulative net reduction in government payments arrears is larger/smaller than programmed (see memorandum item).

6/ The ceiling on net domestic financing will be reduced by any excess in foreign program support for the budget (program loans and grants) and will be increased by 50 percent of the shortfall in foreign program support.

7/ However, performance criterion test dates (other than the last) within one quarter of a programmed disbursement date will be allowed a temporary 100 percent adjustment. The ceiling on the net domestic financing will be reduced

by any excess over programmed total divestiture receipts, but will not be increased for a shortfall in divestiture receipts. The ceiling will also be lowered/raised to the extent that the stock of external arrears are higher/lower than programmed.

8/ The ceiling on net domestic financing will be adjusted upward by the amount of the treasury bills issued on account of the "bank restructuring operations," but not exceeding the equivalent of US\$20 million.

9/ Stock at end of month indicated.

10/ To be adjusted downward to the extent of any reduction in, or shortfall in compliance with, the legal reserve requirement.

11/ The floor on net foreign assets of the Bank of Ghana will be increased by any excess in foreign program support for the budget (program loans and grants) and will be reduced by 50 percent of the shortfall in foreign program support.

12/ Performance criterion test dates, other than the last, within one quarter of a programmed disbursement date will be allowed a temporary 100 percent adjustment. The floor on net foreign assets of the Bank of Ghana

will be increased by any excess of programmed divestiture receipts in foreign currency, but will not be decreased for any shortfall. The floor will be increased by any unprogrammed increase in external arrears.

13/ External loans contracted or guaranteed other than those with grant elements equivalent to 35 percent or more, calculated using a discount rate based on OECD commercial interest reference rates.

Data revised based on information in EBS/01/86.

2/ Excluding normal import-related credits and cocoa financing by the Ghana Cocoa Board.

3/ External arrears for August and September 2000 have been verified for some creditors. More information is necessary to establish their full value.

4/ Before application of adjuster.

5/ Cumulative since end-December 2000.

Table 2. Ghana: Structural Performance Criteria and Key Benchmarks for 2000 Program

Structural performance criteria

- | | |
|--|---|
| <ul style="list-style-type: none"> • Appoint sales advisor for the divestiture of the Electricity Company of Ghana (end-September 2000). | <p>A project coordinator was selected (March 2001)</p> |
| <ul style="list-style-type: none"> • Reduce road arrears to not more than C278 billion by end-August 2000 and C172 billion by end-December 2000. All road sector arrears to be eliminated by December 2001. | <p>Met (although new arrears accumulated in 2001).</p> |
| <ul style="list-style-type: none"> • Submit to Parliament before end-December 2000 a proposal for the elimination of the special tax in all imports except on 36 items, to which the government intends to apply anti-dumping measures in compliance with domestic legislation. | <p>Not done. Top rate of tax was halved in the 2001 Budget and the tax was removed for a number of products. Special tax will be eliminated in the 2002 Budget.</p> |
| <ul style="list-style-type: none"> • As regards the 36 tariff lines associated with dumping complaints, the government will take steps to document the dumping practices and ensure that anti-dumping measures taken are justified according to existing domestic legislation; otherwise those taxes will be eliminated no later than March 31, 2001. | <p>Not done (see above). New government will prepare anti-dumping case in the course of 2001.</p> |

Key benchmarks

- | | |
|--|---|
| <ul style="list-style-type: none"> • Hire financial advisor for the concessioning of Ghana Railways (end-September 2000). | <p>Technical coordinator and transaction advisor were appointed in April 2001.</p> |
| <ul style="list-style-type: none"> • Complete survey on corruption perceptions and issue report (end-September 2000). | <p>Report issued in January 2001.</p> |
| <ul style="list-style-type: none"> • Divest all Bank of Ghana's shares in commercial banks (end-September 2000). | <p>Will be completed not later than end-December 2001 (new structural benchmark).</p> |

Table 2. Ghana: Structural Performance Criteria and Key Benchmarks for 2000 Program

<ul style="list-style-type: none"> • Improve flexibility and responsiveness of treasury bill market by accepting outlier bids (unless there is evidence of an attempt to create a false market or manipulate the price) (end-September 2000). 	<p>Weekly auction reports indicate compliance, although treasury bill bids show little variation.</p>
<ul style="list-style-type: none"> • Revise the accounting in the monetary survey to be based on the residency criterion unless otherwise advised by STA and produce an estimate of usable gross reserves (end-December 2000). 	<p>Revised estimates of net foreign assets and net international reserves provided.</p>
<ul style="list-style-type: none"> • Complete a study on Ghana's tariff structure that assesses the prospects to further reduce tariff rates (end-October 2000). 	<p>Report prepared by FAD (February 2001). Other aspects proceeding.</p>
<ul style="list-style-type: none"> • Respond to FAD's public expenditure management report from the May/June 2000 technical assistance mission (end-September 2000), and complete an audit of domestic arrears (end-December 2000). 	<p>Audit of domestic arrears not done; no official response to FAD report. Audit of domestic arrears accumulated since January 1, 2000 will be completed by end-August 2001 (as a performance criterion). New government is collaborating with FAD staff on implementation of public expenditure management reforms.</p>

Table 3. Ghana: Selected Economic and Financial Indicators, 1999-2005

	1999	2000 Prog. 1/	2000 Prelim.	2001 Prog.	2002 Proj.	2003 Proj.	2004 Proj.	2005 Proj.
(Annual percentage change, unless otherwise specified)								
National income and prices								
Real GDP	4.4	4.0	3.7	4.0	5.0	5.0	5.0	5.0
Real GDP per capita	1.8	1.3	1.2	1.4	2.4	2.4	2.4	2.4
Nominal GDP	19.0	24.3	31.9	40.0	26.5	16.6	11.8	11.8
GDP deflator	13.9	19.5	27.2	34.7	20.5	11.0	6.5	6.5
Consumer price index (annual average)	12.4	20.5	25.0	33.0	19.0	10.5	5.0	5.0
Consumer price index (end of period)	13.8	23.0	40.5	25.0	13.0	8.0	5.0	5.0
External sector								
Exports, f.o.b.	-4.1	4.3	-5.4	0.4	8.8	6.2	8.2	7.6
Imports, f.o.b.	11.4	-2.7	-15.2	-1.2	3.1	5.2	5.7	5.8
Export volume	-2.8	17.0	3.5	-1.7	4.2	3.9	2.2	2.6
Import volume	10.4	-8.8	-24.9	1.5	6.3	3.8	4.0	4.6
Terms of trade	-8.7	-16.4	-20.3	4.7	7.7	0.7	4.3	3.6
Nominal effective exchange rate (avg.)	-9.4	...	-45.3	...	...	...	...	...
Real effective exchange rate (avg.)	0.5	...	-33.3	...	...	...	...	...
Cedis per U.S. dollar (avg.)	2,647	...	5,456	...	...	...	...	...
Government budget								
Domestic revenue (excluding grants)	6.0	37.1	42.9	37.3	42.9	15.6	14.4	12.2
Total expenditure	9.0	33.5	39.6	54.5	20.4	10.1	6.9	7.3
Current expenditure	13.1	34.7	48.9	46.5	14.8	8.5	4.3	5.7
Capital expenditure and net lending 2/	2.7	31.5	24.1	70.8	30.1	12.6	10.8	9.5
Money and credit								
Net domestic assets 3/	31.5	18.9	57.0	16.1	2.6	-5.6	-8.2	-3.2
Credit to government 3/	26.7	4.7	52.4	10.8	-2.8	-16.4	-20.9	-23.0
Credit to the rest of the economy 3/	28.8	15.1	58.8	26.3	17.2	17.1	17.1	24.6
Broad money (including foreign currency deposits)	16.0	20.0	39.8	34.1	25.0	15.0	10.0	14.0
Reserve money	12.9	15.1	35.8	28.5	22.5	13.5	8.6	12.5
Velocity (GDP/average broad money)	5.0	5.2	5.0	5.1	5.0	4.9	4.9	4.9
Treasury bill yield (in percent; end of period)	34.2	...	42.0	...	...	...	...	...
(In percent of GDP, unless otherwise specified)								
Investment and saving								
Gross investment	21.5	22.8	24.0	23.7	24.2	24.8	24.9	25.0
Private	11.7	12.5	14.8	12.5	12.7	13.7	13.9	14.2
Public	9.8	10.3	9.2	11.2	11.5	11.1	11.0	10.8
Gross national saving	10.0	12.4	14.8	16.8	19.4	19.2	19.5	19.8
Private	5.5	8.6	10.3	11.1	10.1	9.4	8.4	7.8
Public	4.4	3.8	4.5	5.7	9.3	9.8	11.1	12.0
Government budget								
Domestic revenue	16.4	18.0	17.7	17.4	19.6	19.5	19.9	20.0
Total grants	1.7	3.5	2.1	5.0	4.5	3.8	3.3	3.0
Total expenditure 2/	26.2	28.1	27.7	30.6	29.1	27.5	26.3	25.2
Overall balance (cash basis; after arrears clearance)	-8.0	-8.1	-9.7	-9.6	-6.0	-4.5	-3.3	-2.5
Domestic primary balance	1.4	4.0	2.4	4.0	5.3	4.4	3.8	3.4
Divestiture receipts	0.3	2.6	1.2	1.0	0.0	0.0	0.0	0.0
External sector 4/								
Current account balance 5/	-11.5	-10.4	-9.2	-6.9	-4.9	-5.6	-5.4	-5.2
External debt outstanding	75.0	130.3	119.0	131.0	127.0	124.6	122.5	118.3
External debt service, including to the Fund	6.7	10.6	11.3	10.2	8.2	7.8	7.9	7.6
(in percent of exports of goods and nonfactor services)	21.1	19.0	23.3	20.3	16.4	15.9	16.1	15.8
(in percent of government revenue)	37.2	49.3	56.8	45.5	33.9	33.5	34.0	33.1
(In millions of U.S. dollars, unless otherwise specified)								
Current account balance 5/	-895	-503	-457	-337	-257	-321	-331	-345
Overall balance of payments	-156	68	-221	-18	-75	-98	-124	-134
External payments arrears (end of period)	62	0	89	0	0	0	0	0
Gross international reserves (end of period)	419	530	224	431	679	861	1,022	1,171
(in months of imports of goods and services)	1.5	1.8	0.8	1.5	2.2	2.7	3.0	3.2
Nominal GDP (in billions of cedis)	20,580	25,576	27,153	38,014	48,097	56,057	62,686	70,099

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

1/ Based 2000 Program in EBS/00/160

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

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

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

5/ Including official grants.

Table 4a. Ghana: Central Government Budgetary Operations and Financing, 1999-2005 1/
(In billions of cedis, unless otherwise specified)

	1999		2000		2001		2002	2003	2004	2005
	EBS/00/160				Q1					
	Prov.	Prog.	Prov.		Prov.	Proj.	Proj.	Proj.	Proj.	Proj.
Total revenue and grants	3,709	5,500	5,385		2,056	8,525	11,599	13,030	14,533	16,118
Total revenue	3,366	4,616	4,811		1,500	6,605	9,441	10,914	12,489	14,013
Tax revenue	3,056	4,266	4,415		1,460	6,255	8,935	10,324	11,829	13,238
Direct taxes	918	1,152	1,409		464	2,246	2,847	3,038	3,364	3,762
Company tax	446	514	697		214	993	1,268	1,478	1,620	1,811
Other direct taxes	472	638	713		250	1,253	1,579	1,560	1,744	1,951
Indirect taxes	1,353	2,122	2,018		709	2,668	3,594	4,223	4,753	5,277
Sales tax/VAT on dom. Goods	323	486	385		152	545	690	804	899	1,006
Sales tax/VAT on imports	469	847	887		325	1,199	1,585	1,881	2,134	2,348
Petroleum	394	587	532		163	676	1,008	1,174	1,313	1,468
Other indirect taxes	167	202	215		70	247	312	364	407	455
Trade taxes	785	991	987		286	1,341	2,012	2,311	2,610	2,967
Import duties	531	786	808		246	1,086	1,582	1,836	2,058	2,336
Cocoa export duty	254	205	179		40	255	430	475	552	631
Nontax revenue	310	351	396		40	350	506	590	660	774
Grants	343	884	574		557	1,919	2,158	2,116	2,044	2,105
Project grants	193	499	337		117	707	1,291	1,177	1,065	1,097
Program grants	150	385	238		439	1,212	867	938	979	1,009
Revenue measure (annual change = new measure)	...	...	...		...	...	481	753	1,102	1,232
Total expenditure	5,389	7,193	7,525		2,023	11,629	14,003	15,416	16,479	17,679
Recurrent expenditure	3,382	4,554	5,034		1,423	7,375	8,469	9,186	9,578	10,126
Noninterest	2,232	2,588	3,001		768	3,791	5,000	5,965	6,907	7,902
Wages and salaries	1,161	1,374	1,423		573	1,992	2,546	2,996	3,384	3,784
Goods and services	485	508	700		81	797	1,109	1,293	1,489	1,715
Subventions	287	352	445		0	505	645	760	858	969
Transfers to households	298	354	432		113	497	700	916	1,176	1,433
Interest	1,150	1,966	2,033		656	3,584	3,468	3,221	2,671	2,224
Domestic	872	1,414	1,446		476	2,651	2,345	1,873	1,145	519
External	278	552	587		179	933	1,123	1,348	1,526	1,705
Capital expenditure (total)	2,007	2,639	2,491		600	4,254	5,534	6,231	6,901	7,553
Capital expenditure (domestic)	851	1,000	1,145		181	1,300	1,887	2,503	3,173	3,715
Capital expenditure (foreign)	1,157	1,639	1,346		419	2,954	3,648	3,728	3,727	3,838
Overall balance (before arrears clearance, cash basis) 2/	-1,680	-1,693	-2,140		33	-3,104	-2,404	-2,387	-1,946	-1,562
Overall balance (before arrears clearance, exclud. grants) 2/	-2,023	-2,577	-2,714		-524	-5,024	-4,562	-4,502	-3,991	-3,667
Road arrears (clearance)	-130	-223	-328		0	-259	0	0	0	0
Other domestic payment arrears (clearance)	156	-156	-156		-146	-200	-352	0	...	...
VAT refunds	...	...	...		-5	-87	-110	-129	-144	-161
Overall balance (cash basis after arrears clearance) 2/	-1,654	-2,072	-2,624		-118	-3,651	-2,866	-2,515	-2,090	-1,722
Divestiture receipts	53	675	323		29	391	0	0	0	0
Total non-divestiture financing	1,601	1,397	2,341		123	3,259	2,866	2,515	2,090	1,722
Foreign (net)	519	1,164	-56		-240	692	680	825	794	806
Borrowing	1,200	2,894	1,811		334	3,472	3,038	3,288	3,432	3,534
Project loans	964	1,140	1,009		302	2,247	2,357	2,551	2,662	2,742
Program loans	236	1,754	802		32	1,225	681	737	770	793
Amortization 3/	-751	-1,652	-2,495		-107	-2,122	-2,359	-2,463	-2,638	-2,729
External arrears 3/	71	-78	627		-467	-658	0	0	...	...
Domestic (net) 2/	1,082	233	2,398		363	686	-235	-1,746	-2,549	-3,098
Discrepancy (above and below line data)	18	...	0		-34	...	0	0	...	...
Financing gap	...	...	0		0	1,881	2,422	3,436	3,844	4,014
Memorandum items:										
Domestic primary balance	284	1,028	665		551	1,515	2,554	2,447	2,408	2,395
Primary balance	-530	273	-107		689	480	1,064	834	725	662
Total social expenditure (health and education)	947	1,404	1,334		...	1,822	...	...	...	...
Ministry of health	164	322	222		...	337	...	...	...	...
Ministry of education, incl. Educ. Trust Fund in 2001	783	1,082	1,112		...	1,485	...	...	...	...
Real social expenditure	71	...	51		...	54	...	...	...	...
Real social expenditure per capita	4	...	3		...	3	...	...	...	...
Defense expenditure	120	185	166		...	232	...	...	...	...
Stock of domestic debt 2/	5,797	4,787	7,842		8,268	8,727	8,492	6,746	4,198	1,100
GDP at current market prices	20,580	25,576	27,153		38,014	38,014	48,097	56,057	62,686	70,099

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

1/ Above the line data for 2000 and 2001 are presented on a cash basis as the arrears build up is not reflected in expenditures.

2/ Before assumption of TOR debt; deficit and domestic debt will increase upon assumption of TOR debt.

3/ Cash amortization adjusted to accrual basis to incorporate US\$89 million in debt service arrears at end-2000 valued at 7048 cedi to the US dollar.

Table 4b. Ghana: Central Government Budgetary Operations and Financing, 1999-2005 1/
(In percent of GDP, unless otherwise specified)

	1999		2000		2001		2002	2003	2004	2005
	EBS/00/160		Prov.	Prov.	Q1		Proj.	Proj.	Proj.	Proj.
	Prov.	Prog.			Prov.	Proj.				
Total revenue and grants	18.0	21.5	19.8	5.4	22.4	24.1	23.2	23.2	23.0	
Total revenue	16.4	18.0	17.7	3.9	17.4	19.6	19.5	19.9	20.0	
Tax revenue	14.8	16.7	16.3	3.8	16.5	18.6	18.4	18.9	18.9	
Direct taxes	4.5	4.5	5.2	1.2	5.9	5.9	5.4	5.4	5.4	
Company tax	2.2	2.0	2.6	0.6	2.6	2.6	2.6	2.6	2.6	
Other direct taxes	2.3	2.5	2.6	0.7	3.3	3.3	2.8	2.8	2.8	
Indirect taxes	6.6	8.3	7.4	1.9	7.0	7.5	7.5	7.6	7.5	
Sales tax/VAT on dom. goods	1.6	1.9	1.4	0.4	1.4	1.4	1.4	1.4	1.4	
Sales tax/VAT on imports	2.3	3.3	3.3	0.9	3.2	3.3	3.4	3.4	3.3	
Petroleum	1.9	2.3	2.0	0.4	1.8	2.1	2.1	2.1	2.1	
Other indirect taxes	0.8	0.8	0.8	0.2	0.6	0.6	0.6	0.6	0.6	
Trade taxes	3.8	3.9	3.6	0.8	3.5	4.2	4.1	4.2	4.2	
Import duties	2.6	3.1	3.0	0.6	2.9	3.3	3.3	3.3	3.3	
Cocoa export duty	1.2	0.8	0.7	0.1	0.7	0.9	0.8	0.9	0.9	
Nontax revenue	1.5	1.4	1.5	0.1	0.9	1.1	1.1	1.1	1.1	
Grants	1.7	3.5	2.1	1.5	5.0	4.5	3.8	3.3	3.0	
Project grants	0.9	2.0	1.2	0.3	1.9	2.7	2.1	1.7	1.6	
Program grants	0.7	1.5	0.9	1.2	3.2	1.8	1.7	1.6	1.4	
Revenue measure (annual change = new measure)	...	...	...	...	...	1.0	1.3	1.8	1.8
Total expenditure	26.2	28.1	27.7	5.3	30.6	29.1	27.5	26.3	25.2	
Recurrent expenditure	16.4	17.8	18.5	3.7	19.4	17.6	16.4	15.3	14.4	
Noninterest	10.8	10.1	11.1	2.0	10.0	10.4	10.6	11.0	11.3	
Wages and salaries	5.6	5.4	5.2	1.5	5.2	5.3	5.3	5.4	5.4	
Goods and services	2.4	2.0	2.6	0.2	2.1	2.3	2.3	2.4	2.4	
Subventions	1.4	1.4	1.6	0.0	1.3	1.3	1.4	1.4	1.4	
Transfers to households	1.4	1.4	1.6	0.3	1.3	1.5	1.6	1.9	2.0	
Interest	5.6	7.7	7.5	1.7	9.4	7.2	5.7	4.3	3.2	
Domestic	4.2	5.5	5.3	1.3	7.0	4.9	3.3	1.8	0.7	
External	1.4	2.2	2.2	0.5	2.5	2.3	2.4	2.4	2.4	
Capital expenditure (total)	9.8	10.3	9.2	1.6	11.2	11.5	11.1	11.0	10.8	
Capital expenditure (domestic)	4.1	3.9	4.2	0.5	3.4	3.9	4.5	5.1	5.3	
Capital expenditure (foreign)	5.6	6.4	5.0	1.1	7.8	7.6	6.6	5.9	5.5	
Overall balance (before arrears clearance, cash basis) 2/	-8.2	-6.6	-7.9	0.1	-8.2	-5.0	-4.3	-3.1	-2.2	
Overall balance (before arrears clearance, exclud. grants) 2/	-9.8	-10.1	-10.0	-1.4	-13.2	-9.5	-8.0	-6.4	-5.2	
Road arrears (clearance)	-0.6	-0.9	-1.2	0.0	-0.7	0.0	0.0	0.0	0.0	
Other domestic payment arrears	0.8	-0.6	-0.6	-0.4	-0.5	-0.7	0.0	...	...
VAT Refunds	...	...	...	0.0	-0.2	-0.2	-0.2	-0.2	-0.2
Overall balance (cash basis after arrears clearance) 2/	-8.0	-8.1	-9.7	-0.3	-9.6	-6.0	-4.5	-3.3	-2.5	
Divestiture receipts	0.3	2.6	1.2	0.1	1.0	0.0	0.0	0.0	0.0	
Total non-divestiture financing	7.8	5.5	8.6	0.3	8.6	6.0	4.5	3.3	2.5	
Foreign (net)	2.5	4.6	-0.2	-0.6	1.8	1.4	1.5	1.3	1.1	
Borrowing	5.8	11.3	6.7	0.9	9.1	6.3	5.9	5.5	5.0	
Project loans	4.7	4.5	3.7	0.8	5.9	4.9	4.5	4.2	3.9	
Program loans	1.1	6.9	3.0	0.1	3.2	1.4	1.3	1.2	1.1	
Amortization 3/	-3.7	-6.5	-9.2	-0.3	-5.6	-4.9	-4.4	-4.2	-3.9	
External arrears 3/	0.3	-0.3	2.3	-1.2	-1.7	0.0	0.0	...	...
Domestic (net) 2/	5.3	0.9	8.8	1.0	1.8	-0.5	-3.1	-4.1	-4.4	
Financing gap	...	...	0.0	0.0	4.9	5.0	6.1	6.1	5.7
Memorandum items:										
Domestic primary balance	1.4	4.0	2.4	1.4	4.0	5.3	4.4	3.8	3.4	
Primary balance	-2.6	1.1	-0.4	1.8	1.3	2.2	1.5	1.2	0.9	
Ministry of health	0.8	1.3	0.8	...	0.9	...	...	...	...
(In percent of dom. primary exp.)	5.3	9.0	5.3	...	6.6	...	...	...	...
Ministry of education, incl. Educ. Trust Fund in 2001	3.8	4.2	4.1	...	3.9	...	...	...	...
(In percent of dom. primary exp.)	25.4	30.2	26.8	...	29.2	...	...	...	...
Index of real social expenditure	179.7	...	130.5	...	136.3	...	...	...	...
Index of real social expenditure per capita	175.8	...	124.5	...	126.7	...	...	...	...
Defense expenditure	0.6	0.7	0.6	...	0.6	...	...	...	...
Stock of domestic debt 2/	28.2	18.7	28.9	21.7	23.0	17.7	12.0	6.7	1.6	

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

1/ Above the line data for 2000 and 2001 are presented on a cash basis as the arrears build up is not reflected in expenditures.

2/ Before assumption of TOR debt; deficit and domestic debt will increase upon assumption of TOR debt.

3/ Cash amortization adjusted to accrual basis to incorporate US\$89 million in debt service arrears at end-2000 valued at 7048 cedi to the US dollar.

Table 5. Ghana: Monetary Survey, 1999-2005
(In billions of cedis, unless otherwise specified; end of period)

	1999	2000 1/		2001				2002	2003	2004	2005
	Dec. 1/	Dec. Prog. 2/	Dec. Act.	Mar. Act.	June Prog.	Sep. Prog.	Dec. Prog.	Dec. Proj.	Dec. Proj.	Dec. Proj.	Dec. Proj.
Bank of Ghana											
Net foreign assets	166	1,120	-511	-802	-1,403	-301	632	2,534	4,719	6,945	9,263
(in millions of U.S. dollars)	47	172	-72	-111	-185	-37	74	266	468	668	865
Net domestic assets	1,418	704	2,661	3,031	3,574	2,545	2,132	853	-874	-2,768	-4,562
Claims on government (net)	-2	-747	1,786	1,623	2,109	1,024	1,113	-58	-1,611	-3,333	-4,888
Claims on deposit money banks	11	16	15	15	15	15	15	15	15	0	0
Claims on public enterprises	11	8	8	8	8	8	8	8	8	0	0
Other items, net (assets +)	1,384	1,427	853	1,385	1,442	1,498	996	888	713	541	302
Reserve money (RM)	1,584	1,823	2,151	2,230	2,171	2,244	2,764	3,387	3,845	4,177	4,701
Currency outside banks	1,186	1,369	1,739	1,647	1,543	1,594	2,001	2,426	2,734	2,947	3,292
Bank reserves	394	449	405	574	619	642	755	953	1,103	1,221	1,400
Cash	86	54	118	100	109	113	166	210	242	268	308
Deposits	308	394	287	474	511	529	589	743	860	952	1,091
Nonbank deposits	4	5	7	9	9	9	9	9	9	9	9
Deposit money banks											
Net foreign assets	88	-326	-14	20	8	-3	-14	-15	-16	-17	-17
(in millions of U.S. dollars)	25	-50	-2	3	1	0	-2	-2	-2	-2	-2
Reserves	394	449	405	574	619	642	755	953	1,103	1,220	1,399
Bank of Ghana bills	0	0	0	0	0	0	0	0	0	0	0
Credit from Bank of Ghana	-11	16	-15	-15	-15	-15	-15	-15	-15	-15	-15
Domestic credit	5,114	6,757	8,371	9,214	9,571	11,133	11,396	13,792	15,410	16,686	18,449
Claims on government (net)	2,164	3,120	2,750	2,864	2,727	4,159	4,109	5,046	4,852	4,026	2,482
Claims	2,271	3,236	2,826	3,014	2,577	4,010	3,959	4,896	4,702	...	...
Deposits	107	117	75	150	150	150	150	150	150	...	...
Claims on non-government	2,950	3,638	5,620	6,350	6,844	6,974	7,287	8,746	10,558	12,660	15,967
Of which											
In foreign currency	995	2,272	1,687	2,340	2,449	2,613	2,776	3,076	3,257	...	...
Other items, net (assets +)	-2,241	-2,829	-4,153	-4,626	-4,559	-5,927	-5,632	-6,524	-7,005	-7,380	-7,786
Total deposits	3,343	4,066	4,593	5,167	5,625	5,831	6,491	8,191	9,476	10,494	12,030
Monetary survey											
Net foreign assets	254	793	-525	-782	-1,394	-303	619	2,519	4,703	6,928	9,246
(in millions of U.S. dollars)	72	122	-74	-109	-184	-37	72	264	466	667	864
Net domestic assets	4,280	4,647	6,864	7,604	8,571	7,737	7,881	8,106	7,516	6,513	6,077
Domestic credit 3/	5,123	6,019	10,164	10,845	11,688	12,165	12,517	13,741	13,807	13,353	13,561
Claims on government (net)	2,162	2,373	4,536	4,487	4,836	5,184	5,222	4,987	3,241	692	-2,406
Claims on non-government	2,961	3,646	5,628	6,358	6,852	6,982	7,295	8,754	10,566	12,660	15,967
Of which public enterprises	425	487	1,750	2,250	2,548	2,548	2,547	...	...	...	...
Bank of Ghana bills held by nonbanks	14	0	0	0	0	0	0	0	0	0	0
Other items, net (assets +)	-857	-1,372	-3,300	-3,241	-3,117	-4,428	-4,636	-5,635	-6,292	-6,840	-7,485
Broad money 4/	4,533	5,440	6,339	6,822	7,177	7,434	8,500	10,625	12,219	13,441	15,322
Currency	1,186	1,369	1,739	1,647	1,543	1,594	2,001	2,426	2,734	2,947	3,292
Deposits	3,347	4,071	4,600	5,175	5,633	5,840	6,499	8,199	9,485	10,494	12,030
Of which											
Foreign currency deposits	970	1,394	1,943	1,986	2,050	2,125	2,300	2,901	3,356	3,608	4,016
Memorandum items:											
	(Annual percentage change unless otherwise specified)										
Broad money	16.0	20.0	39.8	44.4	42.6	39.6	34.1	25.0	15.0	10.0	14.0
Broad money excl for cur.	10.2	13.6	23.4	32.9	39.7	50.2	41.0	24.6	14.7	10.9	15.0
Reserve money	12.9	15.1	35.8	44.0	43.4	41.9	28.5	22.5	13.5	8.6	12.5
Credit to non-government	61.4	23.1	90.1	116.7	77.0	55.5	29.6	20.0	20.7	19.8	26.1
excl. PE's and cocoa	50.4	25.2	55.5	63.1	37.0	22.8	22.5	31.0	26.1	...	...
Currency/M2 ratio	0.262	0.228	0.274	0.274	0.241	0.215	0.235	0.228	0.224	0.224	0.219
Velocity (GDP/average of M2+)	4.955	5.212	5.070	4.329	4.477	4.701	5.080	5.000	4.946	4.886	4.873
Reserve money multiplier (M2/RM)	2.862	2.984	2.948	3.060	3.305	3.312	3.075	3.137	3.178	3.218	3.260
Currency-to-deposits ratio	0.354	0.336	0.378	0.318	0.274	0.273	0.308	0.296	0.288	0.281	0.274
Bank reserves-to-deposits ratio	0.118	0.110	0.088	0.111	0.110	0.110	0.116	0.116	0.116	0.116	0.116
Exchange rate (cedis per U.S. dollar)	3,535	6,500	7,048	7,205	...	...	...	...	...	...	...

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

1/ New definition of Bank of Ghana net foreign assets begins in December 2000. End 2000 net foreign assets was -148 million US dollars according to the previous definition.

2/ Based on EBS/00/160. Program targets for 2000 have been adjusted according to the new definition of net foreign assets.

3/ Before restructuring of TOR's debt.

4/ Including foreign currency deposits.

Table 6. Ghana: Balance of Payments, 1999-2005
(In millions of U.S. dollars, unless otherwise specified)

	1999	2000	2000	2001	2002	2003	2004	2005
		Prog. 1/	Actual	Prog.	Proj.	Proj.	Proj.	Proj.
Exports f.o.b.	2,006	2,189	1,898	1,907	2,075	2,204	2,386	2,567
Cocoa beans and cocoa products	552	452	437	493	519	529	590	654
Gold	711	697	705	609	670	697	724	753
Timber and timber products	174	199	175	184	210	243	280	306
Others	569	840	581	621	677	736	792	853
Imports, f.o.b.	-3,252	-3,171	-2,759	-2,725	-2,810	-2,957	-3,125	-3,307
Non-oil	-2,919	-2,705	-2,239	-2,234	-2,395	-2,521	-2,667	-2,827
Oil	-333	-466	-520	-492	-415	-436	-457	-480
Trade balance	-1,246	-982	-860	-819	-735	-753	-739	-741
Services (net)	-269	-227	-246	-305	-334	-353	-372	-401
Of which: interest payments	-131	-150	-109	-143	-166	-185	-187	-204
Private transfers (net)	472	503	496	521	536	538	554	570
Current account balance, excluding official transfers	-1,044	-705	-611	-603	-533	-568	-557	-571
Official transfers (net)	148	202	154	266	276	247	227	227
Current account balance, including official transfers	-895	-503	-457	-337	-257	-321	-331	-345
Capital account	144	496	162	318	183	223	206	211
Official capital (net)	126	258	97	226	123	132	126	125
Long-term loans	176	220	173	106	127	131	133	137
Inflows	240	288	288	250	250	250	250	250
Amortization	-64	-68	-115	-144	-123	-119	-117	-113
Medium-term loans	-50	38	-76	120	-3	1	-7	-13
Inflows	211	311	225	264	150	150	150	150
Amortization	-261	-273	-301	-144	-153	-149	-157	-163
Private capital	18	238	65	92	59	90	80	86
Of which: divestiture receipts	17	117	51	50	0	0	0	0
Other capital and errors and omissions	596	75	74	0	0	0	0	0
Of which: change in net foreign assets of commercial banks	200	75	27	0	0	0	0	0
Of which: errors and omissions	348	0	79	0	0			
Overall balance	-156	68	-221	-18	-75	-98	-124	-134
Change in arrears	62	-18	27	-89	0	0	0	0
Financing	94	-50	194	-132	-192	-202	-201	-197
Debt deferral	0	0	0	0	0	0	0	0
Net international reserves (negative is increase) 2/	94	-50	194	-132	-192	-202	-201	-197
Use of Fund credit	-15	34	-2	75	56	-20	-40	-49
Purchase (General Resources Account)	0	0	0	0	0	0	0	0
Repurchase (General Resources Account)	0	0	0	0	0	0	0	0
Disbursements (Poverty Reduction and Growth Facility)	61	72	36	139	71	0	0	0
Repayments (Poverty Reduction and Growth Facility)	-76	-38	-37	-64	-15	-20	-40	-49
Change in reserves (negative is increase)	102	-84	196	-207	-249	-182	-161	-148
Financing gap	0	0	0	240	267	301	325	331
Memorandum items:								
Current account deficit (in percent of GDP)								
Excluding official transfers	13.4	14.6	12.3	12.4	10.0	9.9	9.1	8.6
Including official transfers	11.5	10.4	9.2	6.9	4.9	5.6	5.4	5.2
Gross international reserves								
End of period (US\$ millions)	419	530	224	431	679	861	1,022	1,171
In months of imports of goods and services	1.5	1.8	0.8	1.5	2.2	2.7	3.0	3.2
Cocoa exports								
Volume (in thousands of tons)	386	430	389	410	428	448	466	484
Price (in US\$ per ton)	1,434	1,030	1,092	1,163	1,166	1,125	1,219	1,313

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

1/ According to EBS/00/160

2/ Definition revised in 2000.

Table 7. Ghana: External Financing Requirements and Sources, 1999-2001
(In millions of U.S. dollars)

	1999	2000	2001 Prog.
Current account (excluding official transfers)	-1,044	-611	-603
Exports, f.o.b.	2,006	1,898	1,907
Imports, f.o.b.	-3,252	-2,759	-2,725
Services (net)	-269	-246	-305
Private transfers	472	496	521
Capital account	214	-313	-260
Scheduled amortization	-325	-416	-288
IMF repayments	-76	-37	-64
Other capital (net) 1/	614	139	92
Change in official reserves (increase -)	102	196	-207
Change in arrears (decrease -)	62	27	-89
External financing requirements	-666	-702	-1,158
Expected disbursements	660	702	919
Grants	148	154	266
Project and other	92	112	105
Program	56	42	161
Concessional loans	451	513	514
Project and other	358	369	359
Program	93	144	155
IMF	61	36	139
Financing gap	0	0	240

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

1/ Historical figures include errors and omissions.

Table 8. Ghana: External Public Debt and Debt-Service Payments, 1999-2005
(In millions of U.S. dollars, unless otherwise specified)

	1999	2000 1/	2001 Proj.	2002 Proj.	2003 Proj.	2004 Proj.	2005 Proj.
Total public and publicly guaranteed debt	5,833	5,947	6,405	6,707	6,968	7,211	7,450
Multilateral (including IMF)	3,992	3,993	4,173	4,364	4,475	4,568	4,656
Bilateral (including medium-term loans)	1,840	1,929	2,193	2,343	2,493	2,643	2,793
Other (short term) 2/	0	25	40	0	0	0	0
External public debt service							
Principal	401	453	352	292	288	314	324
Medium term	261	301	144	153	149	157	163
Long term	64	115	144	123	119	117	113
IMF repurchases	76	37	64	15	20	40	49
Interest	121	108	143	143	157	168	181
Medium term	48	49	56	55	61	66	71
Long term	70	55	84	83	91	99	106
IMF charges	3	4	4	5	4	4	4
Total							
Including IMF	521	560	495	434	445	483	505
Excluding IMF	443	519	427	415	420	438	452
Memorandum items:							
External public debt-service ratio 3/							
Including IMF	21	23	20	16	16	16	16
Excluding IMF	18	22	17	16	15	15	14
External public debt service/GDP (in percent)							
Including IMF	7	11	10	8	8	8	8
Excluding IMF	6	10	9	8	7	7	7
External public debt/GDP (in percent)	75	119	131	126	122	118	112

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

1/ The debt stock was revised at the end-2000 based on the DSA analysis.

2/ Short term debt of the Bank of Ghana. Excludes trade credits for Tema Oil Refinery and Cocoa Board.

3/ Ratio of external public debt service to exports of goods and nonfactor services.

Table 9. Ghana: Indicators of Fund Credit, 1999-2005

	1999	2000	2001	2002	2003	2004	2005
			Prog.	Proj.	Proj.	Proj.	Proj.
Outstanding Fund credit							
In millions of U.S. dollars	308.8	298.0	371.6	436.7	416.3	376.2	327.1
In millions of SDRs	225.9	224.6	281.1	322.7	307.7	278.1	241.8
In percent of quota	61.2	60.9	76.2	87.5	83.4	75.4	65.5
In percent of GDP	4.0	6.0	7.6	8.2	7.3	6.1	4.9
In percent of exports of goods and nonfactor services	13.2	13.2	16.3	17.7	15.9	13.4	10.9
Debt service due to the Fund							
In millions of U.S. dollars	78.6	41.1	68.2	19.4	24.8	44.2	53.0
In millions of SDRs	57.5	31.0	51.6	14.3	18.3	32.7	39.2
In percent of quota	15.6	8.4	14.0	3.9	5.0	8.9	10.6
In percent of exports of goods and nonfactor services	3.4	1.8	3.0	0.8	1.0	1.6	1.8
In percent of debt service due	15.1	7.3	13.8	4.5	5.6	9.2	10.5
In percent of gross official reserves	18.8	18.4	15.8	2.9	2.9	4.3	4.5
Gross Fund financing							
In millions of U.S. dollars	60.6	35.5	139.1	71.2	0.0	0.0	0.0
In millions of SDRs	44.3	26.8	105.2	52.6	0.0	0.0	0.0
In percent of Ghana's gross financing need 1/	4.4	3.4	13.3	8.6	0.0	0.0	0.0
Net Fund financing in millions of SDR	-11.1	-1.3	56.5	41.6	-15.1	-29.6	-36.3
Memorandum items:							
Exchange rate (U.S. dollars per SDR)	1.367	1.327	1.322	1.353	1.353	1.353	1.353
Quota (in millions of SDRs)	369	369	369	369	369	369	369
GDP (In millions of U.S. dollars)	7775	4977	4859	5306	5714	6122	6648
Debt service due (In millions of U.S. dollars)	521	560	495	434	445	483	505
Gross official reserves (In millions of U.S. dollars)	419	224	431	679	861	1022	1171

Source: Ghanaian authorities and staff calculations.

1/ In percent of goods and nonfactor services.

Table 10. Ghana: Selected Social and Demographic Indicators

	Ghana			Sub-Saharan Africa	Low income countries
	1975	1985	1995-99 1/	1995-99 1/	1995-99 1/
Population					
Total population, midyear (millions)	9.8	12.6	18.8	642.8	2,417.1
Growth rate (annual average in percent)	2.2	3.6	2.3	2.5	1.9
Urban population (population in percent) 2/	8.8	9.4	9.7	...	...
Total fertility rate (births per woman)	6.6	6.4	4.3	5.3	3.7
Population age structure (percent)					
0-14 years	45.5	45.5	43.7	44.3	37.1
15-64 years	52.0	51.8	53.7	52.9	58.6
65 and above	2.5	2.7	3.1	2.9	4.3
Life expectancy at birth (years)					
Total	51.2	55.2	57.9	46.8	59.1
Male	49.6	53.5	56.6	45.9	58.1
Female	52.9	56.9	59.3	47.7	60.2
Mortality					
Infant (per 1,000 live births)	102.6	85.2	57.1	92.4	77.3
Under age 5 (per thousand live births)	172	138	109	161	116
Adult (aged 15-59)					
Male (per 1,000 population)	430	367	316	499	288
Female (per 1,000 population)	355	302	272	453	258
Income					
GNI per capita (U.S. dollar)	310	360	400	490	420
Consumer price index (1995=100)	6	8	241	...	138
Food price index (1995=100)	...	8	214	...	...
Social indicators					
Public expenditure (percent of GDP)					
Health	...	...	1.8	1.7	1.1
Education	4.6	2.5	4.3	4.7	2.9
Social security and welfare	...	...	1.4	...	...
Health and nutrition					
Access to safe water					
(percent of population in 1990)					
Total	...	56.0	...	48.7	70.3
Urban	...	83.0	...	81.0	89.4
Rural	...	43.0	...	36.9	63.6
Immunization rate					
(percent of children under 12 months)					
Measles	...	34	73	57	64
DPT	...	29	72	59	70

Ghana: Selected Social and Demographic Indicators (concluded)

	Ghana			Sub-Saharan Africa	Low income countries
	1975	1985	1995-99 1/	1995-99 1/	1995-99 1/
Labor force					
Total labor force (in millions)	4.6	5.9	8.9	281.7	1,090.1
Participation rate (in percent)					
Male	46.7	46.5	47.2	...	...
Female	47.3	47.5	47.5	...	...
Education (1993)					
Enrollment rates (in percent of age group)					
Primary enrollment	...	...	76	...	...
Of which: female	...	...	70	...	...
Secondary enrollment	...	...	36	...	...
Of which: female	...	...	28	...	...
Literacy (percent of population 15 years and older)					
Total	36.4	51.1	70.3	60.7	61.5
Male	50.3	64.0	79.4	68.9	70.9
Female	23.0	38.6	61.5	52.6	52.0
Poverty incidence (percent of population below the poverty line) 3/					
		<u>1991/92</u>	<u>1998/99</u>		
National head count index		50.8	42.6		
Urban head count index		27.5	22.8		
Rural head count index		62.4	51.6		

Sources: Ghana Statistical Service, *Quarterly Digest of Statistics*; IMF, *International Financial Statistics*; and the World Bank.

1/ Latest available data in the period 1995 to 1999.

2/ Percent of population living in agglomerations with 1 million inhabitants or more.

3/ Poverty line estimated at Cedis 900,000 a year at mid-1992. Based on the living standards surveys conducted by the Ghana Statistical Service in collaboration with the World Bank during 1991-92 and 1998-99.

Ghana: Relations with the Fund
As of April 30, 2001

Membership Status Joined: 09/20/1957; Article VIII

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

	SDR Million	%Allocation
SDR Department		
Net cumulative allocation	62.98	100.0
Holdings	0.92	1.5

	SDR Million	%Quota
Outstanding Purchases and Loans		
ESAF arrangements	214.91	58.2

Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESAF/PRGF	05/03/1999	05/02/2002	191.90	71.05
ESAF	06/30/1995	05/02/1999	164.40	137.00
ESAF	11/09/1988	03/05/1992	388.55	388.55

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

	Overdue	Forthcoming				
	<u>04/33/2001</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Principal	0	15.1	11.0	15.1	29.6	36.3
Charges/interest	0	<u>2.9</u>	<u>3.3</u>	<u>3.3</u>	<u>3.2</u>	<u>3.1</u>
Total	0	18.0	14.3	18.4	32.8	39.3

Exchange Rate Arrangement

Ghana maintains a flexible exchange rate system, using the U.S. dollar as the intervention currency. The exchange rate in the interbank market at end-April was C7,158 per U.S. dollar for buying and C7,298 per U.S. dollar for selling.

Ghana liberalized the making of payments and transfers for current international transactions with effect from February 21, 1994. Beginning in November 1999, Ghana maintained an exchange restriction subject to Fund approval under Article VIII, Section 2(a) in the form of special foreign exchange swap transactions between the Bank of Ghana and commercial banks. In view of Ghana's intention to eliminate this exchange restriction, the Fund granted approval of the retention of the exchange restriction until March 31, 2001 or the conclusion of the next Article IV consultation with Ghana.

Article IV Consultations

The 1999 Article IV consultation (EBS/99/200; 11/05/99) was concluded by the Executive Board on November 19, 1999. Ghana is on the standard 12-month cycle.

Technical Assistance, 1994-2001

Statistics Department: Fund staff members seconded to the Bank of Ghana as financial statistics advisor during April 1991-April 1994. Money and banking statistics mission, July 1997. Balance of Payment statistics mission in March 2000.

Monetary and Exchange Affairs Department: Bank of Ghana and Ministry of Finance (instruments of monetary control), March 1994; Bank of Ghana (monetary policy and foreign exchange operations), March-April 1994; Bank of Ghana (monetary policy design and institutions), November 1996, February 1997, August 1997, April 1998, and November 1998; Bank of Ghana (foreign exchange markets), July 1999; Bank of Ghana (development of the foreign exchange market and aspects of liquidity and debt management), May 2000; Bank of Ghana and Ministry of Finance (recording and reporting external debt flows), March 2001 (with FAD). A resident expert in banking supervision was in place from December 1997 to December 1998.

Financial Sector Assessment Program: Ghana participated in the FSAP during 1999-2000.

Fiscal Affairs Department: Ministry of Finance (expenditure control), July 1996; Ministry of Finance (public expenditure management), June-July 1996; Ministry of Finance (value-added tax and customs), November 1996; and Ministry of Finance (public expenditure workshop), September-October 1997; Ministry of Finance (public expenditure management), June 2000; Ministry of Finance and Bank of Ghana (Fiscal Data Quality Assessment) February-March 2001.

Legal Department: Ministry of Finance (drafting of internal revenue regulations), January 2001; Ministry of Finance (advice/draft of new income tax laws) February-March 2001.

Bureau of Computing Services: Bank of Ghana (review of information technology), November 1996; Bank of Ghana (economic indicators database) May 1998.

Resident Representative

A Fund Resident Representative has been stationed in Accra since June 1985. Mr. Begashaw has been the Fund representative since September 1, 1998.

Ghana: Phasing of Performance Criteria, Reviews, and Disbursements under the PRGF Arrangement 1/

Expected Date	Expected Disbursement		Conditions
	SDRs (millions)	Percent of quota	
June 2001	52.6	14.25	Completion of the third review; endorsement of 2001 program.
December 2001	52.6	14.25	Compliance with end August 2001 performance criteria; completion of the fourth review.
May 2002	52.6	14.25	Compliance with end March 2002 performance criteria; completion of the fifth review.

Ghana: Relations with the World Bank Group
(As of March 4, 2001)

1. The World Bank Group's Country Assistance Strategy (CAS) for Ghana for the period of FY01-FY03 was presented to the Bank's Board on March 30, 2000. The CAS outlines the Bank's business plan to support the Government's development strategy aimed at eliminating hard-core poverty in Ghana. Within this broad goal, the Bank Group would help the Government to: (i) raise the growth rate of the economy; (ii) redefine the role of the state; and (iii) implement their strategy more effectively on the ground. Ghana is one of the pilot countries for the Comprehensive Development Framework (CDF) and the preparation of the CAS was an integral part of close donor coordination under the CDF initiative.
2. As of March 4, 2001 total commitments to Ghana amounted to US\$1,074 million with total disbursements of US\$627 million. IFC's portfolio totals 23 active projects with total commitments of US\$78.7million, which includes the approval of US\$40 million investment in Ghana Telecom. Over the three-year period covering FY01-FY03, the CAS proposes a lending program of US\$490 million for the base case and US\$640 million for the high case. Under the low case, lending would be 40 percent below the base case. Triggers include: the public sector domestic borrowing requirement, portfolio performance, cocoa reform, private participation in infrastructure, and education sector performance.
3. Recent and proposed Bank Group projects have broad sectoral coverage, including roads and other infrastructure, health, education, agriculture, environment, private sector development, and public sector management. These projects emphasize rehabilitation, maintenance, and institutional strengthening. More reliance is being put on supporting sector-wide programs and nonlending services. The Bank is moving away from infrastructure investments in telecommunications, power, ports, rails, and large urban water systems, while providing greater nonlending support (enhanced by IFC and MIGA) to promote private participation in these sectors.
4. Since the formulation of Ghana's Economic Recovery Program in 1983, the Bank has provided a series of policy-based credits to help finance urgently needed imports and support structural reforms, including trade liberalization, rationalization of public expenditures; privatization, and parastatal reform. In FY98, a one-tranche adjustment credit, the Economic Reform Support Operation, was approved. In FY99, the Bank approved a second Economic Reform Support Operation (ERSO II) adjustment credit in the amount of US\$180 million; about US\$50 million are yet to be disbursed. A Supplemental Credit to ERSO II, in the amount of about US\$50 million, was disbursed in November 2000 to assist in meeting Ghana's increased financing requirements resulting from an unanticipated terms of trade shock.

Ghana: Statistical Issues

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

Public finance

2. **The public expenditure management system has been under increasing pressure,** as fiscal problems have mounted since 1998. In particular, the authorities have experienced difficulties in adapting their systems to properly record and control payment commitments and arrears. The ambitious and comprehensive reform of the public expenditure management system through the creation of a medium-term expenditure framework and a budget and public expenditure management system (BPEMS) has added to the problems in the short-run. BPEMS is a computerized financial information management system requiring new budget classifications, which has created technical problems when assigning transactions to accounts.

3. Fiscal developments are monitored from “below the line” using data from the monetary survey produced by the Bank of Ghana (BOG) and movements in identifiable nonbank financing and external debt data compiled from records maintained by the Aid and Debt Management Unit of the Ministry of Finance (MOF). As no comprehensive audited accounts have been published for two years, the above the line aggregates are monitored by a combination of data on cash flows from the BOG and data supplied on various identifiable components of revenue and expenditure provided by the MOF and the Controller and Accountant General. This approach has a number of weaknesses. First, there is a substantial discrepancy between the above and below the line approaches to measurement of the fiscal deficit. Second, as the source of this discrepancy is difficult to identify, there can be uncertainty as to the underlying factors explaining variations from month to month in fiscal outcomes. This can lead to difficulties in prescribing appropriate remedial action. Finally, the fact that there is no reliable actual data on revenue and expenditure for the current base year can cause difficulties in projecting budget needs for the coming year.

4. Comprehensive solutions to these issues may have to await the complete implementation of the new BPEMS, but it could take some time before it is fully implemented. In the meantime, a data quality mission from FAD in February and March 2001 suggested a number of short-term, temporary solutions aimed at alleviating current data quality problems. A follow-up mission joined the AFR mission in May and plans are being prepared to station a longer-term expert in the field to work with the authorities.

5. **The coverage and timeliness of the data reported for publication in the *Government Finance Statistics Yearbook (GFSY)* need to be improved.** The latest

available data relate to the fiscal year ended December 31, 1993. The authorities reported fiscal data for the 1996 *GFSY*, but the data could not be published, as they were not sufficiently detailed to allow conversion to the government finance statistics format. No monthly or quarterly data are reported for publication in *IFS*.

Debt statistics

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

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

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

National accounts

9. **The staff believes that additional technical assistance is needed in the compilation of national accounts statistics.** This assistance should focus primarily on developing and implementing updated statistical surveys that could be used to compile better estimates of value added by sector and ensure that appropriate deflators are used in the compilation of the national accounts.

10. The Ghana Statistical Service (GSS) is the agency responsible for compiling national accounts statistics. The GSS received technical assistance from the United Kingdom's Department for International Development (DFID) through the assignment of a resident national accounts statistician in 1996.

11. The objective was to prepare new national accounts estimates using 1993 weights, based on information collected from the third Ghana Living Standards Survey (GLSS). A set of national accounts for 1993 to 1996, using 1993 weights instead of the previous 1975 weights, was published in 1998. GSS did not revise any historical data before 1993, and consequently there are breaks in the national accounts series between 1992 and 1993. GSS has not published the methods it used when the revisions were made.

12. To improve the reliability of national accounts at current prices, a comprehensive overhaul of the basic sources of data would be needed. The existing sector surveys that form the basis for the estimations are outdated. An earlier review of the methods used when compiling GDP by expenditure categories led to a number of recommendations: (1) private household expenditure should be estimated independently using detailed information from the household expenditure surveys rather than as a residual; (2) total consumption should be split into private and government consumption, deflating the former by the CPI and the latter by a price index for government output such as the average wages paid to civil servants; and (3) the constant price estimates for gross fixed capital formation in machinery and equipment should be calculated by deflating current price estimates by the relevant import unit values of that particular type of imported good.

13. Revisions to the investment data were made in consultation with the staff mission in March 2001, but this issue will require further examination. The most significant revisions concerned construction. The result was a significant decrease in the investment to GDP ratio. According to previously provided national accounts data, gross fixed investments measured in current prices increased from about 20 percent of GDP in 1995 to 30 percent in 1996 and 35 percent in 1999. These data were deemed unrealistic and suffered from certain calculation deficiencies. After the revisions, gross fixed investments remained in the range of 20 to 25 percent of GDP during the second half of the 1990s.

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

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

Prices

16. **A revised national CPI was introduced in January 1998** with a base of September 1997. The weights are based on the standard consumption basket which was estimated from the 1992 GLSS. GLSS4, completed in June 1999, will serve as the basis for a revision of the CPI's current weights to take account of the substantial shifts in relative prices since the 1992 GLSS. The authorities have reduced the lag in reporting the CPI to one month.

Labor statistics

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

Trade and Balance of Payments Statistics

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

19. **The staff 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 due to heterogeneity of the basket. When import unit values exhibit sharp fluctuations owing to product mix, the GSS was advised to use the export prices of particular groups of commodities published by Ghana's major trading partners with proper adjustments of these prices for exchange rate changes.

20. A technical assistance mission on balance of payments statistics in March 2000 found that improvements in the quality of these statistics would necessitate the introduction of surveys of key establishments, the training of staff in the BOP unit of the BOG, improved collaboration between the various government agencies responsible for collecting related data, and additional computer resources for the agencies involved. Moreover, survey data are

also needed for the services account of the BOP, in particular for travel statistics through the implementation of surveys of various travel agents and tour operators. The mission also assisted the authorities in the transition to accounting under the fifth edition of the Balance of Payments manual.

21. **The BOG has been unable to directly estimate foreign direct investment flows** into Ghana because no surveys of foreign direct investment firms are conducted and there is no reporting from the commercial banks on these flows. There are also no estimates of portfolio investments. The technical assistance mission suggested that the BOG work closely with the Ghana Investment Center and the Attorney General's Office in setting up a register of FDI companies in Ghana and initiate surveys of these establishments.

Monetary Statistics

22. **Several problems persist in Ghana's monetary statistics.** In particular, there are significant deviations between data reported by commercial banks with respect to their deposits and borrowing with the central bank and those reported by the Bank of Ghana. An STA money and banking statistics mission in 2000 proposed a plan of action to address the classification by residency of foreign currency deposits in commercial banks, as well as the proper treatment of repurchase agreements that are conducted between the Bank of Ghana and the commercial banks. Based on this and subsequent work, gross foreign reserves, net international reserves, and net foreign assets were redefined. Reporting according to the new definitions should begin in 2001.

Publication

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

Ghana: Core Statistical Indicators

(As of May 4, 2001)

	Exchange Rates	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP	External Debt/ Debt Service
Date of latest observation	Apr. 2001	Mar. 2001	Apr. 2001	Mar. 2001	Feb. 2001	Apr. 2001	Mar. 2001	Dec. 2000	Dec. 2000	Feb. 2001	2000	2000
Date received	Apr. 2001	Apr. 2001	Apr. 2001	Apr. 2001	Apr. 2001	Apr. 2001	Apr. 2001	Feb. 2001	Feb. 2001	Apr. 2001	Feb. 2001	Feb. 2001
Frequency of data 1/	D	M	W	M	M	W	M	M	A	M	A	A
Frequency of reporting 2/	W	M	W	M	M	W	M	V	A	V	A	A
Frequency of publication 2/	D	Q	Q	Q	Q	Q	M	A	A	-	V	A
Source of data 3/	BOG	BOG	BOG	BOG	BOG	BOG	MOF	BOG	BOG	MOF	MOF	MOF, BOG
Mode of reporting 4/	C, R, M	R, V, M	R, V, M	R, V, M	R, V, M	C, R, M	C, R, M	R, V	R, V	R, V, M	R, V	R, V
Confidentiality 5/	N	C	C	C	C	N	N	C	C	C	C	C

1/ A=annual; Q=quarterly; M=monthly; W=weekly; and D=daily.

2/ W=weekly; M=monthly; Q=quarterly; V=infrequently, typically during staff visits; and A=annually.

3/ Direct reporting by Bank of Ghana (BOG), Ministry of Finance (MOF), Ministry of Trade (MOT), Ghana Statistical Service (GSS), or other official agency.

4/ C=cable or facsimile; E=electronic data transfer; M=mail; R=provided to Resident Representative; and V=staff visits.

5/ C=restricted until officially published; N=no restrictions.

Work Program

The work program assumes a HIPC decision point in December 2001.

Late June	Executive Board meeting on misreporting.
Late June	Executive Board meeting on third review, program for 2001, and Preliminary HIPC document.
October	Fourth review mission.
December 2001	Board meeting on fourth review and HIPC decision point.
March 2000	Fifth review mission for end-2001 performance and 2002 program.
May 2002	PRGF Board meeting for fifth review and 2002 program.



INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
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DEPARTMENT

Public Information Notice (PIN) No. 01/84
FOR IMMEDIATE RELEASE
August 9, 2001

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

IMF Concludes 2001 Article IV Consultation with Ghana

On June 27, 2001, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Ghana.¹

Background

Ghana suffered from a major terms of trade shock that began in 1999 and intensified in 2000, with cocoa prices falling and oil prices rising together with a shortfall in donor's assistance. Weak macroeconomic policies, and poor management of the major public enterprises compounded the resulting economic difficulties. Compared with the original program projections made in May 1999, the terms of trade loss for 1999 and 2000 is estimated at US\$900 million, or 16 percent of GDP. Although macroeconomic policies were tightened during the first half of 2000 with some stabilizing effects, they were relaxed during the second half, particularly in the last quarter, in advance of the December presidential and parliamentary elections. As a result, macroeconomic conditions deteriorated further.

Real GDP growth slowed in 2000 to an estimated 3.7 percent from 4.4 percent in 1999, reflecting declining growth rates in agriculture and industry. The average inflation rate doubled, and the nominal exchange rate depreciated by 50 percent (measured in U.S. dollars per cedi). Import volumes dropped markedly (25 percent), and the export sector suffered as international cocoa prices hit a 27-year low during the year.

¹ 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. This PIN summarizes the views of the Executive Board as expressed during the June 27, 2001 Executive Board discussion based on the staff report.

Annual broad money growth accelerated to 40 percent at end-2000 from 16 percent at end-1999, as a result of rapid growth in credit to the private sector, the public enterprises, and the government. The treasury bill yield rose during the middle of the year but subsequently declined despite the rising inflation during the last four months of the year. Net international reserves fell by about US\$194 million during 2000.

The state owned Tema Oil Refinery and the electricity company accumulated large losses as a result of delays in adjusting petroleum prices and electricity tariffs to the increase in the dollar price of imported oil and the exchange rate depreciation. Electricity and water tariffs, which are set by the independent Public Utilities Regulatory Commission, were kept unchanged at their 1998 levels.

A new government was installed in January 2001 and is now making strong efforts to break the cycle of increasing budget deficits and rising interest costs. The fiscal strategy for 2001 focuses on taking sufficient domestic measures to obtain a domestic primary surplus of 4 percent of GDP, while limiting domestic financing to the equivalent of 1.8 percent of GDP and seeking debt relief to meet the fiscal and balance of payments financing gaps. The main revenue measures are new taxes on petroleum products, levies on company profits, and a reduction in import tariff exemptions, while the main expenditure savings come from cuts in domestically financed capital expenditure and a freeze on most outlays for goods and services at 2000 levels. Immediate measures are also being taken to restore effective monitoring and control of public expenditure. The effect of the revenue measures for this is estimated to be 2 percent of GDP with a full-year effect of 3.5 percent of GDP. In addition to the fiscal measures, petroleum prices and utilities tariffs were doubled in early 2001 with an impact equivalent to 2 percent of GDP.

A recently completed debt sustainability analysis showed that Ghana's outstanding external debt of US\$5.9 billion at end-2000 represents an unsustainable burden, measured against HIPC Initiative thresholds. The net present value of Ghana's external debt at end-2000 was 557 percent of fiscal revenues and 154 percent of exports, compared with the sustainable thresholds of 250 percent and 150 percent, respectively. Ghana has asked for Paris Club debt relief for 2001 and has indicated its intention to request assistance under the enhanced HIPC Initiative later in 2001.

Executive Board Assessment

While acknowledging the substantial impact of adverse terms of trade developments and recent shortfalls in donor assistance, they noted that inconsistent macroeconomic policies and inappropriate management of public finances had compounded Ghana's recent poor performance and external problems. Weak fiscal and monetary policies at end 2000, prior to elections, had led to a rise in inflation, a substantial depreciation in the exchange rate, a decline in foreign exchange reserves, and a significant rise in domestic and foreign debt as a share of GDP.

Directors recognized that the new government, which took office in January 2001, had inherited a difficult economic situation. They commended its actions in raising the prices of petroleum products and the tariffs for electricity and water in order to stem the current losses experienced

by the respective public enterprises. Directors urged the authorities to ensure that these enterprises operate in the future at full cost recovery levels, with energy and utility prices being adjusted regularly and automatically.

Directors supported the fiscal tightening in 2001, noting that reducing the domestic borrowing requirement would ease pressure on interest rates and lower budgetary interest expenditure, thereby creating room for increased social and other priority spending. They welcomed the new revenue measures, and encouraged the authorities to consider further revenue increases next year should this be necessary to provide resources for the country's poverty reduction strategy. Some concern was expressed, however, at the introduction of new trade taxes, particularly on exports. Directors emphasized the need for restraint in public sector wage negotiations, both to strengthen the budget and to reduce inflation. They also emphasized the need for appropriate support from the international donor community.

Directors urged the authorities to implement vigorously the systems being put in place to improve expenditure control, particularly at the commitment level, in order to ensure that budget allocations are respected and arrears avoided. They stressed the need to strengthen expenditure monitoring further and to integrate it with the medium-term expenditure framework used in budget planning.

Regarding the recently completed Financial System Stability Assessment, Directors noted that the substantial bank exposure covering losses of the public oil refinery and utility parastatals adds to the urgency of restoring the financial integrity of these entities. They also noted the need to address issues related to the Social Security and National Investment Trust in order to secure the health of the financial system. Directors welcomed the authorities' intent to strengthen the independence and credibility of the central bank as prudential regulator through the submission of revised legislation and the divestiture of the central bank's equity holdings in commercial banks.

Directors supported the current tightening of monetary policy designed to reduce inflation and support the exchange rate. They noted, however, that the segmentation of the foreign exchange market inhibits adjustment in the exchange rate, and encouraged the authorities to move rapidly, with technical assistance from the Fund, to develop an efficient interbank foreign exchange market. Directors also noted that the depreciation of the real exchange rate in 2000 had improved competitiveness, but that it would be important to maintain a tight fiscal policy and achieve a rapid reduction in inflation to ensure that this gain is not eroded.

Directors commended the government's emphasis on mobilizing the private sector as the engine of growth in Ghana. They emphasized that a bold and clearly articulated privatization program will provide concrete support for that strategy, and encouraged the authorities to develop such a program in the coming months.

Directors welcomed the new government's anti-corruption campaign, and looked forward to determined implementation of the authorities' commitment to greater transparency and accountability in public institutions. They attached high importance to the work underway, with Fund technical assistance, to improve the accuracy and timeliness of data provision to the Fund

as well as internal controls and reporting on external debt. Looking ahead, some Directors advised the authorities to consider the merits of publishing a monthly report on external debt service operations and of having annual audits of their debt management activities. Directors also encouraged the authorities to improve the quality, timeliness, and availability of other economic statistics.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2001 Article IV consultation with Ghana is also available.

Ghana: Selected Economic and Financial Indicators, 1996-2001

	1996	1997	1998	1999	2000 Prelim.	2001 Prog.
	(Annual percentage change, unless otherwise specified)					
National income and prices						
Real GDP	4.6	4.2	4.7	4.4	3.7	4.0
Nominal GDP	46.3	24.5	22.6	19.0	31.9	40.0
Consumer price index (annual average)	46.6	27.9	19.3	12.4	25.0	33.0
Consumer price index (end of period)	32.7	20.8	15.8	13.8	40.5	25.0
External sector						
Exports, f.o.b.	26.5	0.0	15.5	-4.1	-5.4	0.4
Imports, f.o.b.	36.3	32.5	-4.1	11.4	-15.2	-1.2
Export volume	28.9	4.6	12.3	-2.8	3.5	-1.7
Import volume	36.4	40.6	1.7	10.4	-24.9	1.5
Terms of trade	-1.7	1.5	9.0	-8.7	-20.3	4.7
Nominal effective exchange rate (avg.)	-24.6	-15.6	-7.8	-9.4	-45.3	...
Real effective exchange rate (avg.)	9.0	6.1	8.2	0.5	-33.3	...
Cedis per U.S. dollar (avg.)	1,637	2,050	2,314	2,647	5,456	...
Government budget						
Domestic revenue (excluding grants)	26.1	22.5	29.8	6.0	42.9	37.3
Total expenditure	42.8	21.3	20.9	9.0	39.6	54.5
Current expenditure	46.5	25.3	28.2	13.1	48.9	46.5
Capital expenditure and net lending 1/	38.6	16.4	11.4	2.7	24.1	70.8
Money and credit						
Net domestic assets 2/	32.3	33.5	16.3	31.5	57.0	16.1
Credit to government 2/	12.8	22.0	10.5	26.7	52.4	10.8
Credit to the rest of the economy 2/	15.7	20.9	13.8	28.8	58.8	26.3
Broad money (including foreign currency deposits)	43.1	40.8	17.7	16.0	39.8	34.1
Reserve money	44.3	33.8	16.7	12.9	35.8	28.5
Velocity (GDP/average broad money)	5.6	4.9	4.9	5.0	5.0	5.1
Treasury bill yield (in percent; end of period)	47.9	45.7	28.7	34.2	42.0	...
	(In percent of GDP, unless otherwise specified)					
Investment and saving						
Gross investment	21.2	24.8	23.1	21.5	24.0	23.7
Private	7.0	11.4	11.1	11.7	14.8	12.5
Public	13.3	12.4	11.3	9.8	9.2	11.2
Gross national saving	18.1	10.4	18.1	10.0	14.8	17.2
Private	10.6	5.3	12.2	5.5	10.3	11.5
Public	7.5	5.1	5.9	4.4	4.5	5.7

Ghana: Selected Economic and Financial Indicators, 1996-2001

	1996	1997	1998	1999	2000 Prelim.	2001 Prog.
Government budget						
Domestic revenue	17.6	17.3	18.4	16.4	17.7	17.4
Total grants	2.6	1.4	2.2	1.7	2.1	5.0
Total expenditure 1/	29.7	29.0	28.6	26.2	27.7	30.6
Overall balance (cash basis; after arrears clearance)	-9.6	-10.9	-8.7	-8.0	-9.7	-9.6
Domestic primary balance	0.3	3.2	3.6	1.4	2.4	4.0
Divestiture receipts	1.3	0.7	0.6	0.3	1.2	1.0
External sector 3/						
Current account balance 4/	-3.1	-14.4	-5.0	-11.5	-9.2	-6.5
External debt outstanding	75.7	77.9	74.8	75.0	119.0	130.4
External debt service, including to the Fund	7.0	7.6	7.5	6.7	11.3	10.4
(in percent of exports of goods and nonfactor services)	21.7	23.5	22.1	21.1	23.3	20.6
(in percent of government revenue)	34.6	40.7	36.5	37.2	56.8	46.3
(In millions of U.S. dollars, unless otherwise specified)						
Current account balance 4/	-215	-991	-371	-895	-457	-316
Overall balance of payments	-14	25	100	-156	-221	-19
Gross international reserves (end of period)	599	522	521	419	224	401
(in months of imports of goods and services)	2.0	1.8	1.6	1.5	0.8	1.4
Nominal GDP (in billions of cedis)	11,339	14,113	17,296	20,580	27,153	38,014

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

1/ Including capital outlays financed through external project aid and transfers to the local authorities.

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

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

4/ Including official grants.



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International Monetary Fund
Washington D.C. 20431, U.S.A.

IMF Executive Board Reviews Noncomplying PRGF Disbursement to Ghana

The Executive Board of the International Monetary Fund (IMF) reviewed a noncomplying disbursement to Ghana of SDR 26.75 million (about US\$34 million) under its three-year Poverty Reduction and Growth Facility (PRGF) arrangement. Subsequent to the disbursement in August 2000 (see Newsbrief 00/71), it became apparent that the information available to the Fund at the time of approval of the disbursement was incorrect. This information related to a prior action on clearance of external payments arrears and to a performance criterion on nonconcessional external borrowing. As a result of these inaccuracies in the information, the disbursement is deemed to be noncomplying.

The Executive Board decision is in the context of the strengthened safeguards adopted in April 2000 on the use of IMF financial resources (see PIN 00/28).

The Executive Board also completed the third review of Ghana's PRGF arrangement. The completion of this review allows Ghana to draw up to SDR 52.58 million (about US\$66 million--see Newsbrief 01/50).

Following the Executive Board's discussion on Ghana, the Deputy Managing Director and Acting Chairman, Eduardo Aninat, stated: "The reporting of inaccurate information took place under the previous government. The new government has been very forthcoming and cooperative throughout the enquiries into these problems and has taken steps to prevent future occurrences, including stricter procedures for authorizing external borrowing and enhanced monitoring of external debt payments. The Executive Board welcomes the new government's commitment to transparency and to strengthening the debt management system, for which it has requested Fund technical assistance. The Board concluded that waivers of nonobservance of the prior action and performance criterion could not be granted, and Ghana was asked to repay the noncomplying disbursement, together with any interest accrued thereon. It was agreed that Ghana could repay the Fund in two tranches of SDR 13.75 million by July 15, 2001, and SDR 13 million by end-December 2001."



FOR IMMEDIATE RELEASE

News Brief No. 01/50
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June 28, 2001

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IMF Completes Ghana Review Under PRGF and Approves US\$66 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Ghana's arrangement under the Poverty Reduction and Growth Facility (PRGF)¹. The Board also approved an increase of SDR 36.9 million (about US\$46 million) in the amount available to Ghana under the arrangement. As a result, Ghana will be able to draw up to SDR 52.58 million (about US\$66 million) from the arrangement immediately.

Ghana's three-year program was originally supported under the Enhanced Structural Adjustment Facility (ESAF) approved on May 3, 1999 (See Press Release 99/16), for SDR 155 million (about US\$193 million), increased to SDR 191.9 million (about US\$239 million) on August 21, 2000. So far, Ghana has drawn SDR 71.05 million (about US\$89 million) under the arrangement.

¹ On November 1999, the IMF's facility for low income countries, the Enhanced Structural Adjustment Facility (ESAF), was renamed Poverty Reduction and Growth Facility (PRGF), and its purposes were redefined. It is intended that PRGF-supported programs will in time be 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. The Ghanaian government's 2002/04 agenda for poverty alleviation will be articulated in the Ghana Poverty Reduction Strategy (GPRS). The document is scheduled to be finalized by September-October 2001. PRGF loans carry an annual interest rate of 0.5% and are repayable over 10 years with a 5 ½ year grace period on principal payments.

The Executive Board also decided to ask Ghana to repay an earlier PRGF disbursement that had been deemed noncomplying (see Press Release 01/32)

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

"Ghana's economic program for 2001 represents a strong and appropriate response to the problems that have resulted from a severe terms of trade shock and a shortfall in donors' assistance, compounded by inappropriate macroeconomic policies and poor management of public enterprises in the latter part of 2000. In light of the corrective policies being implemented by the authorities, the Fund has waived the nonobservance of a number of performance criteria under Ghana's PRGF arrangement. It completed the third review, and agreed that Ghana may request the disbursement of the fourth loan under the arrangement. The Board also approved an increase of SDR 36.9 million in the amount available to Ghana under the arrangement.

"The newly-elected government is to be commended for taking action to raise the prices of petroleum products as well as the tariffs for electricity and water in order to stem the current losses suffered by the public oil refinery and utility companies. Restoring financial viability in the parastatal sector is essential for future fiscal stability, and the Fund encourages the government to move to full economic pricing for the oil refinery and public utilities as quickly as possible.

"New fiscal measures in 2001 are aimed to achieve a domestic primary surplus of 4 percent of GDP as against 2.4 percent in 2000. Minimizing the government's domestic borrowing requirement is important as it will help reduce interest rates and lower budgetary outlays on interest payments, thereby creating room for social and other priority spending.

"The measures to strengthen the fiscal expenditure management system that are included in the program will need to be vigorously implemented to ensure that budgetary allocations are respected and new accumulation of external or domestic payment arrears are prevented. Improved public expenditure monitoring in Ghana is also important to allow effective tracking of poverty-related expenditure programs.

"The Fund commends the authorities' progress in revamping the development and poverty reduction strategy with the broad participation of

civil society, and looks forward to seeing a full Poverty Reduction Strategy Paper later in 2001.

“Based on a preliminary assessment of Ghana’s eligibility for relief under the enhanced HIPC Initiative, the Board agrees that Ghana is eligible for assistance under the Initiative,” Mr. Aninat said.