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Ghana: First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Ghana

In the context of the first review under the three-year arrangement under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the first review under the three-year arrangement under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on **September 14, 2003,** 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 December 3, 2003**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **December 17, 2003** updating information on recent developments.

- a Press Release summarizing the **views of the Executive Board as expressed during its December 17, 2003 discussion** of the staff report that completed the review.

- a statement by the Executive Director for Ghana.

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

Financial System Stability Assessment—Update
Letter of Intent sent to the IMF by the authorities of Ghana*
Memorandum of Economic and Financial Policies by the authorities of Ghana*
Technical Memorandum of Understanding*

*May also be included in Staff Report

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

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GHANA

First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Financial Systems, Policy Development and Review, Statistics, and Finance Departments)

Approved by Donal Donovan and Juha Kähkönen

December 3, 2003

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Overview and recent developments

- Program implementation has improved significantly in 2003. All quantitative and structural performance criteria for end-June 2003 were observed. Key macroeconomic targets for this year—zero net domestic financing of the budget, real GDP growth of 4.7 percent, year-end inflation of 22 percent—are likely to be met. The targeted accumulation of net international reserves is expected to be substantially exceeded, achieving the medium-term goal for gross reserves (three months of import cover) two years ahead of schedule.

- These positive results reflect several factors, including improved public expenditure management and strengthened revenue administration (offsetting delays in some of this year's new revenue measures), supported by a bumper cocoa harvest, higher world prices for cocoa and gold, and increased donor inflows.

- Delays in adjusting key energy and utility prices as costs rise, however, continued to be a major macroeconomic vulnerability. Additional subsidy needs for the affected public enterprises will total 1½ percent of GDP. The planned divestiture of Ghana Commercial Bank—one motivation for which was to help eliminate the soft budget constraint on the state oil refinery—was suspended, owing to political opposition.

Macroeconomic framework for 2004

- The key objectives of the medium-term macroeconomic framework in the PRGF-supported program have been retained. In 2004, real GDP growth is expected to rise to 5 percent, while inflation should fall to single digits early in the year. The fiscal framework for the 2004 budget will target a significant repayment of domestic debt, on a path that will reduce the domestic debt-GDP ratio by at least half during the 2003-05 program. Gross international reserves are projected to rise to 3½ months of imports by end-2004.

- No new revenue measures are called for in 2004, though the program assumes the (delayed) implementation of the national health insurance levy by midyear. The framework provides for the expenditure resources needed to implement the Ghana Poverty Reduction Strategy, as well as additional sums to cover some of the public enterprise subsidies incurred in 2003 and the costs of administering the 2004 elections. Poverty-related expenditures are slated to rise further as a share of GDP. A financing gap of around US$60 million (0.7 percent of GDP) is projected for 2004, which is expected to be filled by additional donor assistance.

- Supporting structural reforms for the coming year, especially in the financial sector, will be outlined at the time of the second review under the PRGF arrangement. In view of the immediate problems relating to energy and utility pricing, however, the authorities have undertaken (i) to liberalize petroleum prices by July 2004 (applying an automatic adjustment formula until then, as a structural performance criterion); and (ii) to include as a new structural performance criterion in the program the implementation of automatic adjustment formulas for electricity and water tariffs. The authorities are also proposing an alternative plan to strengthen the operations of Ghana Commercial Bank that will entail raising new share capital and developing a management contract for the bank.

Main issues raised in the staff appraisal

- Ghana has a history of poor financial discipline in election years. In finalizing and implementing the budget for 2004 (an election year), the authorities will need to resist possible political pressures to depart from their proposed expenditure framework. Particular pressures may arise with respect to the civil service wage bill, which is already disproportionately large by international standards. Staying the course on domestic debt reduction is the key to bringing down real interest rates and creating room for an expansion of credit to the private sector.

- The large, unplanned subsidies required for the public enterprises in 2003 show once again how quickly the financial costs can mount when energy and utility prices are not adjusted promptly. Rigorous implementation of the automatic price adjustment formulas for petroleum, electricity, and water will be essential for successful program implementation. Price liberalization is the best solution for the petroleum sector, and the authorities' commitment to take this step is commendable and should be implemented on schedule.

- The authorities are urged to press ahead, in collaboration with development partners, on the articulation of action plans for the next phase of their broad-based reform agenda, with the goal of promoting faster private sector-led, pro-poor growth. These plans should include civil service reform, energy sector restructuring, reform of land registration, and measures to strengthen governance. In the financial sector, where much of the new legislative framework is now moving through parliament, the focus should shift to measures that will facilitate and broaden the private sector's access to credit and capital.

- Staff supports the authorities' request for completion of the first review and disbursement of the second loan under the PRGF arrangement in an amount equivalent to SDR 26.35 million.

I. Introduction

1. An IMF mission visited Accra during September 3-14, 2003 to conduct the first review under the Poverty Reduction and Growth Facility (PRGF) arrangement.[1] The mission was conducted in parallel with staff visits from the World Bank and other development partners to review progress and policies under the Poverty Reduction Support Credit (PRSC) and Multi-Donor Budget Support (MDBS) initiative. Upon completion of the first review under the PRGF arrangement, Ghana will be eligible to draw an amount equivalent to SDR 26.35 million (7.1 percent of quota).

2. **On May 9, 2003, the Executive Board concluded the 2003 Article IV consultation with Ghana, endorsed the Ghana Poverty Reduction Strategy (GPRS) as a sound basis for promoting growth and reducing poverty, and approved a three-year arrangement under the PRGF** amounting to SDR 184.5 million (50 percent of quota).[2] Against a background of mixed policy performance in 2002, Directors welcomed the authorities' strengthened program for 2003-05, including a package of new revenue measures in support of spending priorities under the GPRS, and steps taken to tighten expenditure control. However, they viewed the substantial rise in the wage bill as a cause for concern. Directors endorsed the steps taken to strengthen the finances of major public enterprises, including through appropriate adjustments to petroleum, electricity, and water pricing, and urged full implementation of all pricing formulas during 2003. Given the recent pickup in inflation, they urged steadfast implementation of monetary policy, together with strict fiscal discipline, to ensure that the objective of reducing inflation to single digits early next year was achieved. Directors supported the authorities' structural reform priorities, including those designed to improve the business environment and develop the financial sector's participation in private sector-led growth.

3. **Dialogue with development partners has yielded tangible results in clarifying a near-term policy framework in line with GPRS objectives and garnering new donor support.** On June 24, 2003, the World Bank approved the first tranche (US$90 million) of a three-year PRSC and a related grant of US$38 million, the main goals of which are to improve the living conditions of the population by promoting growth, incomes, and employment; accelerate human resource development; and strengthen governance and public sector management. The authorities also reached agreement with Ghana's principal bilateral donors on a common framework for the MDBS, expected to provide about US$165 million in mostly grant financing during 2003.[3] At a meeting on May 9, 2003, Paris Club creditors

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[1] The staff team comprised Mr. Bredenkamp (head), Ms. Muttardy, Mr. Mathisen, (all AFR), Mr. Annett (FAD), Mr. Mansilla (PDR), and Ms. Nestorova (Research Assistant, AFR). The mission was assisted by Mr. de la Piedra (Resident Representative).

[2] IMF Country Report No. 03/133.

[3] Since the World Bank is also participating in the MDBS framework, the total MDBS package in 2003 is expected to exceed US$290 million.

agreed to extend the consolidation period for Ghana's debt-rescheduling agreement (initially to end on November 30, 2002) until March 31, 2004. Subject to satisfactory implementation of the GPRS for at least one year and observance of the completion point triggers, Ghana could reach the completion point under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative) in mid-2004, following completion of the second review under the PRGF arrangement.

II. Recent Developments and Program Performance

4. **Performance to date under the 2003 program has in most respects been favorable.** All quantitative and structural performance criteria for end-June 2003 have been observed (Table 1). The main problems have arisen in implementation of petroleum and utility pricing formulas during the second half of the year, resulting in substantial fiscal costs, and the planned sale of Ghana Commercial Bank (GCB), which was suspended in August.

5. **The fiscal program was comfortably on track during the first half of 2003,** with stronger-than-expected underlying revenue performance and expenditures kept well within budget ceilings (Table 4). Delays in implementing new tax measures (notably the legislative instrument for the National Health Insurance Levy (NHIL) announced in the 2003 budget)[4] were offset by further improvements in tax administration, in particular taxes collected by the customs service. Expenditure was substantially below programmed levels through end-June. As a result, government recourse to net domestic financing was some 2½ percent of GDP better than targeted for the first half of the year. Preliminary data suggest that execution of expenditures picked up in the third quarter, bringing net domestic financing closer to the program projections. On November 5, 2003, parliament approved a supplementary budget that increased aggregate spending allocations in line with program assumptions.[5]

6. **Fiscal discipline facilitated a decline in the pace of monetary expansion.** Broad money grew by 44 percent in the 12 months to June (compared with the 40 percent programmed), before easing to 39 percent in September (Table 5). The overshoot related entirely to higher-than-anticipated net foreign assets (Figure 5), prompting action by the Bank of Ghana to substantially increase open market operations from May to September. The high 12-month growth rate for broad money reflects a bulge in the money supply that occurred in late 2002: during the first nine months of 2003, M2 expanded by only 7 percent

[4] The authorities held back submitting the legislative instrument that would put the NHIL (a 2½ percent tax on value added) into effect, pending parliamentary consideration of a bill creating a new national health insurance scheme. That bill was passed into law on August 26, 2003, but the scheme will not be operational until mid-2004, and the levy will be implemented at that time.

[5] The budget that parliament approved in March 2003 was based on an inflation assumption that was quickly rendered infeasible by the February price spike. The PRGF-supported program took this into account, allowing for higher nominal expenditures, and assumed that government would seek approval for the additional allocations later in the year.

at an annual rate, while reserve money **contracted** by more than 10 percent, in line with program assumptions. The central bank gradually reduced its prime interest rate from 27.5 percent in June to 24 percent in October, while the three-month treasury bill yield fell to 25 percent by early November from a peak of 36 percent in July (Figure 4). The sharp decline in the yield was attributed to oversubscriptions at recent treasury bill auctions, as the government's borrowing requirement fell over the period.

7. **The program target for accumulation of net international reserves was substantially exceeded during the first half of 2003.** Even after adjusting for larger donor inflows than expected (notably, the early arrival of a large disbursement from the World Bank that had been programmed to arrive in the third quarter), net international reserves were US$211 million higher than programmed at end-June 2003 (Table 1). A bumper cocoa crop, together with strong international prices for cocoa and gold, was an important contributory factor, while the Bank of Ghana also reports evidence of strong private remittances from abroad. In September, gross international reserves passed the US$1 billion mark for the first time in Ghana's history (Figure 6).

8. **Following a spike in February 2003, when petroleum prices were raised by 90 percent, the monthly consumer price inflation rate has subsided (see Figure 1).** Annualized, seasonally adjusted inflation during the six months to September was 13 percent, in line with program projections. From January to September, the cedi depreciated by only about 8 percent in nominal effective terms, yielding a modest appreciation of the real effective exchange rate (Figure 2).

9. **On the production side, signs of robust economic activity in 2002-03 may ultimately result in higher growth rates than those assumed under the program** (4.5 percent in 2002, rising to 4.7 percent in 2003; Table 3). Agricultural production in 2002, for example, rose on average by 15 percent, led by increases in maize, rice, and cassava. Spurred by higher producer prices and an effective spraying campaign, cocoa production is expected to exceed 490,000 metric tons for the crop season ended October 2003 (compared with 390,000 metric tons programmed), by far Ghana's largest crop in recent history. Current industry forecasts call for comparable cocoa production in the 2003/04 crop year. There is also fragmentary but consistent evidence of robust investment activity (in cement production, mining, and agro-processing, among others), and continued strong growth in the services sector (tourism, banking, and communications).

10. **On the structural front, however, problems arose in two key areas**:

- **Required adjustments in domestic prices for petroleum, electricity, and water were not implemented on schedule.** Petroleum prices remained in line with the relevant formula in June (satisfying a structural performance criterion) and July. However, beginning in August (July in the case of electricity and water), when the formulas indicated the need for upward price adjustments, the government intervened to suspend the adjustments. Electricity tariffs were eventually raised by 6 percent, effective October 1, and water tariffs by 10 percent one month later, consistent with the formulas. Petroleum prices currently remain unchanged at their January 2003 level and were estimated by staff to be about 7 percent below cost recovery levels by October.

- **In mid August, the government announced that it had suspended the sale of GCB to a strategic investor.** This important reform (a structural benchmark under the program) had met with strong political opposition, which, according to the authorities, was motivated primarily by concerns that ownership of Ghana's largest bank would pass into foreign hands.

11. **Public expenditure management this year has greatly improved by comparison with 2002**. The cabinet was alerted to a modest overrun in the education sector's wage bill through June, thanks to the new "fiscal early warning" reports that were introduced in response to last year's expenditure control problems. The pilot cash management system operated satisfactorily, and there was a successful launch of a new commitment control system in several ministries on a pilot basis. However, teething problems were encountered in the rollout of the automated budget accounting system (BPEMS), and there were some delays, related to BPEMS, in producing fully reconciled budget outturn data within eight weeks of month's end.

12. **Aside from GCB, the divestiture program remained on track.** Proceeds of roughly ¢50 billion from the sale of the Cocoa Processing Company, and ¢200 billion from the sale of shares in Barclays Bank, Coca Cola, and Tema Steel, were received by the budget in the first seven months of the year, accounting for about half of total divestiture proceeds in the 2003 program.

III. Policy Discussions and Revised Program for 2003-04

13. **Discussions with the authorities focused primarily on the fiscal framework for the remainder of 2003 and 2004, the finances and pricing regimes for the energy and utility companies, and the status of reform plans for the public and financial sectors (especially GCB).** The authorities' updated policy framework is set out in their attached letter of intent and memorandum of economic and financial policies (Appendix I, Attachment I). Box 1 summarizes the structural policies being monitored under the PRGF arrangement, World Bank-supported programs, and other donor arrangements. The structural program for 2004 will be further fleshed out early next year in the context of discussions for the 2004 multi-donor budget support initiative and the second review under the PRGF arrangement.[6]

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[6] This work will be informed by five poverty and social impact assessments (PSIAs) which are already under way, with support from donors, in the following areas: petroleum pricing (United Nations Development Program); electricity pricing (World Bank); agriculture (the U.K. Department for International Development, DFID); decentralization of government (the German Gesellschaft für

(continued)

14. **The updated macroeconomic framework for 2003-04 retains the key assumptions and objectives in the GPRS and PRGF-supported program**—real GDP growth of 4.7 percent for 2003 and 5.0 percent for 2004; a reduction in the 12-month inflation rate to 22 percent by end-2003, reaching single digits early in 2004; and a halving of the ratio of domestic government debt to GDP over the course of the 2003-05 program. Reflecting the larger-than-expected buildup in gross international reserves at the Bank of Ghana so far this year, the program's original goal of achieving a reserve cover of three months of imports by end-2005 has already been reached, two years ahead of schedule (Table 3). The revised macroeconomic framework envisages a further consolidation of Ghana's international reserve position to a level approaching four months of import cover by end-2005.

A. Fiscal Policy

15. **On current projections, the objective of zero net domestic financing of the budget in 2003 is expected to be met** (MEFP ¶7-8). Total revenues (excluding grants) are expected to come in close to the program target of around 21½ percent of GDP, with the improvement in underlying revenue collections broadly offsetting a shortfall in receipts from the 2003 budget measures (Table 4). On the expenditure side, the authorities appear to have exercised substantially improved control over the wage bill this year, avoiding a repeat of the major overrun in 2002.[7] Other main categories of expenditure are also expected to remain in line with program projections, with two exceptions: transfers, which are likely to be 0.8 percent of GDP higher than planned, owing to increased subsidy payments to public enterprises; and the interest bill on domestic debt, which is now expected to be 0.3 percent of GDP lower than programmed, thanks to a faster-than-expected decline in treasury bill rates in the second half of the year. The overall fiscal deficit (including grants) in 2003 is now projected to be 4.3 percent of GDP, compared with a programmed 3.9 percent of GDP, as additional donor support will largely offset a weaker domestic primary balance.

16. **The increased subsidy payments to public enterprises reflected delays in adjusting petroleum, electricity, and water tariffs, as well as the need to help clear external arrears of the Volta River Authority (VRA).** The factors behind the pricing problems, and the authorities' plans to remedy them, are discussed in a later section. The authorities fully agreed with staff that it was important to recognize the resulting costs promptly and transparently in the budget. Of these amounts, almost two-thirds (1 percent of GDP) will be paid in 2003, and the remainder in 2004 (see Box 2). If the authorities'

Technische Zusammenarbeit/Kreditanstalt für Wiederaufbau (GTZ/KfW); and the tackling of vulnerability (DFID).

[7] The slight overspend expected on this year's wage bill (0.1 percent of GDP) is largely accounted for by the fact that a number of staff in the education sector, who had been identified as possible "ghost workers" and assumed in the budget to be removed from the payroll, were subsequently verified as genuine.

intentions with regard to petroleum and utility pricing are fully implemented, no additional subsidy needs should be incurred in 2004.

17. **The fiscal framework for 2004 envisages a net repayment of domestic debt equivalent to 2.2 percent of GDP.** This is 0.7 percent of GDP less than foreseen in the original program, owing to the unanticipated public enterprise subsidies, as well as expenses associated with the 2004 general elections (estimated at 0.4 percent of GDP, half of which is expected to be funded by donors). The revised target remains consistent, however, with the original objective of reducing the domestic debt-GDP ratio to just over 13 percent of GDP by end-2005 (Table 4), without the need for new measures. This is because the revenue base is expected to benefit by 2005 from the full-year effect of the 2003 tax measures (notably the delayed NHIL), as well as an assumed carry forward of the underlying improvement in revenue collections evident this year. Indeed, current projections indicate that the authorities may have room in 2005 to increase expenditures or reduce taxes by around ½ of 1 percent of GDP and still meet their goal for domestic debt reduction.[8]

18. **For 2004, revenues (excluding grants) are projected to rise in line with the original program framework to almost 22½ percent of GDP.** This assumes: (i) implementation of the NHIL beginning in June 2004, as well as the full-year effects of other measures announced in the 2003 budget that are already in place; and (ii) some further improvements in tax administration (albeit more modest than those achieved this year) through better enforcement and setting of performance targets for revenue agencies, aided by technology improvements at the ports and the launch of the Large Taxpayers' Unit early in 2004.

19. **Aside from the additional public enterprise subsidies and election costs, expenditures in the 2004 fiscal framework are assumed to be broadly in line with the original program.** The authorities are committed to holding the wage bill to no more than 8.5 percent of GDP in 2004 (MEFP ¶10).[9] The framework continues to provide for the recurrent and capital resources needed to implement the GPRS.[10] While projections of poverty-related expenditures cannot be made until the details of the 2004 budget are determined, the authorities are committed to raising further such expenditures in relation to GDP (MEFP ¶10).

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[8] This room for maneuver in fiscal policy, which increases steadily over the medium term, is shown in Table 4 as "contingency."

[9] The implied salary increase of 19 percent in 2004 would broadly compensate civil servants for inflation during the preceding year. The civil service received a significant real wage increase in 2003, measured against past inflation.

[10] The figures in Table 4 for foreign-financed capital expenditure as a share of GDP are lower than those originally programmed, but this is purely a valuation effect, owing to the assumption of a more appreciated exchange rate.

Box 1. Structural Conditionality

Status of conditionality under the PRGF arrangement in 2003

The implementation of structural measures during 2003 is summarized in Table 2.

Structural conditionality for 2003-04

The structural conditions for the remainder of 2003 and first half of 2004 (see Table 2, Appendix I, Attachment I) cover measures that follow up on prior actions for the conclusion of the first review and include new measures in the following areas:

- **Parastatal finances.** Stem losses in parastatals by ensuring that petroleum, electricity, and water prices remain in line with automatic adjustment formulas at least quarterly; cap further borrowing by the Tema Oil Refinery (TOR) from the banking system; develop plan for improving the governance of GCB; and clear cross arrears between utilities and government.
- **Public expenditure management.** Continue regular reporting to a cabinet subcommittee of monthly fiscal outturns in relation to quarterly budget ceilings, in order to ensure that any slippages are promptly identified and corrected.

Structural areas covered by World Bank lending and multidonor support

In support of the GPRS, next year's disbursements under the World Bank PRSC and MDBS arrangements are expected to be made following progress in the following areas:

- Promotion of growth, income, and employment (including by removing administrative barriers);
- Improvement of service delivery for human development (including through adoption of budget resource and staff allocation formulas favoring deprived areas); and
- Improvement of governance and public sector management (through passage of procurement and other legislation, improved budgeting and execution of poverty-related spending, and building on government plans for public sector pay and employment reform).

This agenda will also be supported by World Bank project loans in specific sector areas, in particular health and energy sector reform (see Appendix III).

Status of areas covered by HIPC Initiative floating completion point

A list of HIPC Initiative completion point triggers and their status of implementation was provided in IMF Country Report No. 03/133, Appendix II. Efforts in the period ahead are expected to concentrate on the following:

- full deregulation of petroleum pricing, to replace quarterly implementation of the petroleum pricing formula;
- extension of the computerized budget and accounting system to three key ministries, and establishment of accounting systems in pilot districts to pave the way for district composite budgeting.

20. **The net expenditure impact of the new national health insurance scheme (NHIS) has yet to be established, but it is expected to be small (0.1 percent of GDP in a full year).** The scheme is intended to expand access to health services by eliminating user fees. However, the level of enrollment, the costing of services to be provided, and the means-tested population in each district whose premium contributions would be subsidized by the National Health Insurance Fund (NHIF), will be known only when mutual health organizations in each district submit their first annual plans for parliamentary approval

(MEFP ¶11). The authorities are committed to working with donors on the detailed parameters of the scheme, and ensuring that the net addition to aggregate expenditures is held to the amounts assumed in the revised fiscal framework (MEFP ¶12).[11] The staff took issue with the planned diversion to the NHIF of one-seventh of workers' social security contributions, noting that this would further weaken the ability of the Social Security and National Insurance Trust (SSNIT) to cover its long-term pension liabilities (an argument that was also being made vociferously by the trade unions in Ghana). The authorities, however, maintained that SSNIT will be able to meet all its obligations for the next 20 years or so without needing to raise contribution rates, assuming the recent improvement in its investment returns was sustained, and that in this respect SSNIT was in no worse a position than many such funds around the world.

B. Public Expenditure Management and Public Sector Reform

21. **Further improvements in the public expenditure management system are planned for the coming 12 months** (MEFP ¶14-15):

- New cash management and commitment control systems (designed with technical assistance from the Fund) will be extended to all ministries, departments, and agencies (MDAs) by end-2003 to reinforce the "checks and balances" at the MDA level.

- The BPEMS will be installed in three main MDAs in early 2004 (this is a HIPC Initiative completion point trigger).[12]

- Dormant government accounts at Bank of Ghana (BOG) will be closed by the beginning of 2004 to help streamline financial control and reporting.

- With Fund technical assistance, accounting software will be installed in district administrations on a pilot basis to assist in the development of district composite budgets (also a HIPC Initiative completion point trigger).

In early 2004, the authorities intend to review and update the HIPC Initiative Assessment and Action Plan, in collaboration with Fund and World Bank staff.

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[11] Thus, the bulk of the revenues from the NHIL will substitute for rather than supplement existing funding for health expenditures. The levy will therefore make a net contribution to the budget of around 1 percent of GDP in a full year (1.1 percent of GDP revenue, minus 0.1 percent of GDP in additional health expenditure).

[12] Not all the BPEMS reporting modules will necessarily be functioning initially, however, owing to software problems for which the authorities have sought further assistance from the vendor.

22. **A new initiative is now under way to reinvigorate the public sector reform program.** A principal focus in the initial phase has been on payroll management. Building on the recently completed census of employees, staff names that have not been verified will be removed from the payroll by end-March 2004 (MEFP ¶15), while measures will be developed to strengthen the regular capacity for payroll auditing and to address fraud by individuals and misreporting by MDAs. A full-fledged "road map" for public sector reform, together with a short-term action plan, is expected to be completed by end-2003 and reviewed by the cabinet early in the new year.

23. **The authorities are endeavoring to strengthen further the links between the GPRS and budget allocations.** MDAs have been asked to reassess their spending priorities in light of progress made in executing GPRS programs during 2003, and to refine their submissions for the 2004 budget accordingly, to ensure that project implementation is sustained. The authorities also intend to allocate additional resources for monitoring and evaluation of the GPRS in the 2004 budget.

C. Public Enterprise Reforms

24. **Delays in adjusting administered prices for petroleum and utilities have continued to undermine the operations of the major public enterprises in 2003.** The government had undertaken to allow these adjustments to be made automatically on the basis of the established cost recovery pricing formulas, to be administered independently by the National Petroleum Tender Board (NPTB) and the Public Utilities Regulatory Commission (PURC). The staff noted that the government's interventions to block the required adjustments during the second half of 2003 not only entailed substantial fiscal costs but also undermined the credibility of the pricing regime. This, in turn, put at risk their plans to attract private sector involvement in (and World Bank support for) a major investment program in the electricity sector. The authorities acknowledged these points but indicated that there had been overriding political considerations at the time (reports of impending social unrest), which the government could not have ignored. Their concerns in this respect appeared to have abated by early autumn, such that they were willing to allow the electricity and water tariff adjustments to be made in October-November 2003; however, the government continued to take the position that a move to full cost recovery in petroleum pricing would not be feasible before January 2004.

25. **The authorities stated that this episode had convinced them of the need for full deregulation of the petroleum sector.** They now considered that only a regime in which the state was seen to have no responsibility for changes in petroleum prices would permit adjustments to be made routinely without provoking a political backlash. The staff strongly endorsed this judgment and urged that petroleum prices be liberalized as early as possible in 2004. Preparations for this step have since begun (MEFP ¶17-18), and the deregulation plan (to include importation as well as pricing) will be set out in the 2004 budget statement, with price liberalization to follow not later than end-July 2004. In the meantime, petroleum prices will be aligned with the adjustment formula in January and again in April 2004, to ensure a smooth transition to market-determined pricing (MEFP ¶18).

Box 2. Subsidies to Public Enterprises in 2003-04

A breakdown of the planned subsidy payments from the budget to public enterprises in 2003-04 is shown in the table below (in billions of cedis, unless otherwise indicated):

	To Be Paid in 2003	To Be Paid in 2004	Total
Lifeline	50	60	110
TOR	205	0	205
ECG	4	0	4
GWCL	15	0	15
VRA: price subsidies	90	260	350
arrears clearance	324	72	396
Total	414	332	746
Grand total	688	392	1,080
(in percent of GDP)	1.1	0.5	1.6

Sources: Ghanaian authorities; and Fund staff estimates.

The "lifeline" payments were incorporated in the original program and reflect the subsidies needed to cover reduced electricity and water tariffs for low-use customers (a proxy for the poor). The price subsidies for Tema Oil Refinery (TOR) are estimated on the assumption that full cost recovery pricing will be restored in January 2004, while those for the Electricity Company of Ghana (ECG), Volta River Authority (VRA), and Ghana Water Company Limited (GWCL) assume prices are in line with their respective formulas from October 2003 onward (for electricity) and November 2003 onward (for water).

Long-standing weaknesses in the VRA's finances had led to the accumulation of external payments obligations to the electricity company of Côte d'Ivoire and to a foreign private investor in an electricity generation project. The authorities determined that VRA would need assistance of up to US$35 million to help clear these arrears, and the cedi equivalent of this amount is reflected in the fiscal framework.

26. **The main focus in the electricity and water sectors will be on enhancing the technical and financial management of the utility companies.** In these sectors, with no competitive market structure, price liberalization is not an option. Strengthened management, however, in addition to its direct benefits, would help overcome the prevalent political objection to price increases, namely, that the companies do not "deserve" higher prices because their performance is so poor. A number of initiatives are under way, with support

from the World Bank, to achieve both short- and long-term improvements in the efficiency of the utilities (MEFP ¶19). At the same time, the authorities have pledged to allow the automatic price adjustment mechanisms to operate freely from now on, with the next alignments due in January 2004 (MEFP ¶20).

27. **Divestiture of GCB to a strategic investor now appears to be off the agenda for the near term, but the authorities are pursuing other options to strengthen the governance of the bank.** Cabinet has approved in principle a two-pronged strategy that will entail (i) floating new shares in GCB on the Ghana Stock Exchange to raise additional capital resources for use in upgrading and modernizing the bank's infrastructure; and (ii) developing and putting out to competitive tender a management contract for the bank, with a view to bringing in fresh technical and managerial expertise and strengthening management's accountability for improved performance (MEFP ¶21). The authorities intend to develop these proposals in more detail by the end of this year and announce their plan in the 2004 budget statement. They have already sought World Bank assistance to begin work on the design of the management contract. The staff endorsed the need to prepare the ground carefully for this measure, as poorly designed management contracts can lead to perverse results. While this would take time, the staff urged that the reform be put in place as soon in 2004 as technically feasible. The authorities, however, while envisaging that the share flotation and tender for the management contract would take place during 2004, do not believe it would be politically feasible to put the contract into effect until early 2005.

28. **In the meantime, to mitigate the macroeconomic risks arising from the suspension of GCB's divestiture, the program now incorporates a ceiling on Tema Oil Refinery's (TOR's) net borrowing from the banking system (MEFP ¶21).** Since GCB is TOR's principal banker, this ceiling (a performance criterion) should assist in preventing a further rise in GCB's exposure to the refinery, which already significantly exceeds supervisory norms. It will also add an element of additional financial discipline on the operations of TOR itself, and reinforce adherence to the pricing regime for petroleum products.

29. **The divestiture of government holdings in ten joint venture companies is expected to be largely completed by end-2004**. This should generate additional proceeds equivalent to 0.5 percent of GDP for the 2004 budget.

D. Monetary, Exchange Rate, and External Sector Policies

30. **The original program targets for monetary growth in 2003 and 2004 have been maintained** (Table 5). Updated projections suggest that the target of 22 percent for consumer price inflation in the 12 months to December 2003 is likely to be met, and inflation should fall to single digits early in 2004, once the effect of the February 2003 price spike drops

out.[13] The BOG will continue to make judicious cuts in its prime interest rate as inflation slows, combined with open market operations to keep monetary aggregates on track (MEFP ¶5).

31. **In view of performance to date, the authorities have raised their target for accumulation of net international reserves in 2003 from US$130 million to US$378 million** (MEFP ¶6). Of the additional buildup, around US$90 million is accounted for by greater-than-expected donor support, while higher cocoa and gold receipts also make important contributions. The real exchange rate appreciation that has accompanied Ghana's improved balance of payments position is not considered problematic, either by staff or the authorities. The real exchange rate is still well below 1995-2000 levels (Figure 2), and, since 2000, Ghana's terms of trade have improved by almost 20 percent (Figure 7).[14]

32. **The authorities' program for 2003 is fully financed,** given the donor support already disbursed or pledged for the remainder of the year. For 2004, assuming a continuation of debt relief under the enhanced HIPC Initiative, the revised program incorporates a financing gap of around US$60 million. This would imply total program support in 2004 equivalent to 3½ percent of GDP, compared with the 4 percent of GDP expected in 2003. The gap in 2004 is expected to be filled by grants from bilateral donors and concessional loans from multilateral institutions, mainly the World Bank and African Development Bank.

E. Financial Sector Reforms

33. **Work continues on the legislative agenda for the financial sector, though progress in obtaining parliamentary passage has lagged.** The authorities attributed the delays to the substantial (and unexpected) time spent by parliament over the summer on the national health insurance legislation. Now that this has passed, the government expects faster progress on the various pending financial sector bills (MEFP ¶23).

34. **The government intends to make financial sector reform a central plank of its 2004 program.** In the coming months, the cabinet is expected to consider a short-term action plan, based on the broad-ranging Financial Sector Strategic Plan (FINSSP) that was

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[13] On current projections, the alignment of petroleum and utility prices with their automatic adjustment formulas in early 2004 should lead to comparatively small adjustments that should not provide significant stimulus to the aggregate inflation rate.

[14] The cedi was categorized in a recent IMF working paper (P. Cashin, L. Cespedes, and R. Sahay, "Keynes, Cocoa, and Copper: In Search of Commodity Currencies," WP/02/223) as a "commodity currency." That is, it is subject to real appreciation (depreciation) in line with real movements in Ghana's main export commodities, cocoa and gold. The prices of these two products increased by an average of 15 percent per year in U.S. dollar terms during 2002-03 and are projected to remain strong, according to current World Economic Outlook forecasts.

completed in mid-2003. Policies in this area will be discussed in the context of the second review under the PRGF arrangement, drawing on the findings of a recent Financial Sector Assessment Program (FSAP) update mission and an ICM report on Ghana's potential access to foreign capital flows.[15] The authorities are hopeful that Standard and Poor's decision in September 2003 to grant Ghana a B+ rating will attract increased attention from potential foreign investors and facilitate access to external capital for the country's larger corporations.

35. Among the **financial reforms expected to be pursued in the course of 2004**, the following have already been identified (MEFP ¶24-26):

- development of a plan to strengthen bank supervision and address the high secondary reserve requirements (currently 35 percent), in anticipation of a rapid expansion in bank lending to the private sector;
- development of a plan to improve land registration (among other reasons, to enhance use of land as financial collateral), with assistance from the World Bank; and
- launch of a real-time interbank market for foreign exchange (by the fourth quarter of 2004), with technical assistance from the Financial Sector Reform and Strengthening (FIRST) initiative, under Fund auspices.[16]

F. Governance

36. **The authorities' efforts to strengthen governance in Ghana continue to move forward on several fronts** (MEFP ¶31):

- Parliament has begun debate on the long-awaited Procurement Bill, which will establish a new procurement oversight body (a HIPC Initiative completion point trigger); passage is expected in the current parliamentary session.[17]
- Additional resources are being provided (with support from donors) to improve the functioning of the judiciary, including through computerization; the judiciary will also be made subject to annual performance reviews.

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[15] See also the *Financial Sector Stability Assessment (FSSA) Update* (forthcoming).

[16] While an earlier launch date had been hoped for, the project advisers suggested that holding off until the fourth quarter (when Ghana's foreign exchange inflows are traditionally strongest) would help ensure a successful transition to the new trading system.

[17] In the interim, the government has established a Procurement Committee to supervise (under the direction of the independent Electoral Commission) the purchase and supply of electoral materials for voter registration and the 2004 general elections.

- Parliament will be allocated additional resources (also with donor support) to strengthen its oversight capacity.

- The government has indicated its willingness to participate as a pilot case in the Extractive Industries Transparency Initiative, which is intended to strengthen public accountability for resources accruing to the budget from the oil, gas, and mining sectors (the latter being most relevant in Ghana's case).

- The authorities will work with Fund staff to prepare a fiscal Report on Observance of Standards and Codes in early 2004.

37. **Deficiencies remain in the central and internal audit functions of government, however.** Donors have advocated using the provisions of the new Financial Administration Act to ensure that MDAs produce reports on a timely basis, while fully extending the BPEMS to ensure that MDA accounts are shared with, and identical to, accounts maintained by the Controller Accountant General's Department (CAGD).[18] Low pay and morale in the audit service have created difficulties in filling internal audit positions (a HIPC Initiative completion point trigger), and the authorities have committed to find ways to address these problems.

38. **A full safeguards assessment with respect to the current PRGF arrangement was completed on October 15, 2003.** Progress has been made in strengthening the BOG's safeguards framework following the 2001 assessment,[19] including by contracting an internationally recognized audit firm and bringing the BOG's financial reporting framework further in line with International Accounting Standards (IAS). Nevertheless, vulnerabilities remain in the external audit, financial reporting, internal audit, and internal control areas, which could pose potential risks. To further address these vulnerabilities, the authorities are committed to implementing the recommendations contained in the safeguards assessment report, including formal adoption of IAS as the BOG's accounting framework and review by the internal audit department of data reported to the Fund.

G. Statistical Issues

39. **Work has continued on the rebasing of Ghana's consumer price index (CPI) and national accounts data, under the new management of the Ghana Statistical Service**

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[18] Fiscal accounts for 2000 and 2001 are with the Auditor General in draft. The backlog in assessment of these accounts relates in part to the fact that two sets of unreconciled accounts for each year (one by MDAs as required by law, and one by the CAGD) have been presented for review.

[19] Conducted under the transitional procedures of the safeguards assessment policy with respect to the PRGF Arrangement that expired on November 30, 2002 (report of October 2001). That assessment evaluated whether the BOG publishes annual financial statements that are independently audited in accordance with international accepted standards.

(GSS). Starting in August 2003, the GSS, with assistance from an STA advisor, began computing the CPI using newly developed computational software, a partly cleaned-up historical price dataset, and revised weights based on a standard international classification and including new products in the basket.[20] Further work is needed to cross-check and validate some of the historical data, following which (most likely from January 2004 onward) the authorities expect to begin publishing the rebased index. The new national accounts statistics are also scheduled for completion and publication in early 2004.

40. **With assistance from STA, the authorities have revamped the report form for deposit money banks.** Among other attributes, this form should ensure the reporting of banks' net foreign assets on a residency basis, rather than on the basis of the currency definition traditionally used in Ghana. The data shown in Table 5 reflect the classifications incorporated in the new report form.

H. Program Risks and Capacity to Repay the Fund

41. **Program implementation over the next 6-12 months is subject to two main downside risks:**

- Further delays could occur in adjusting petroleum, electricity, and water tariffs to maintain cost recovery, resulting in fiscal losses and undermining the government's expenditure programs and/or debt-reduction plans in 2004. In recognition of the importance of avoiding this outcome, the authorities have agreed that full implementation of the automatic adjustment formulas for all three key administered prices would constitute structural performance criteria for the second review under the PRGF arrangement.

- With the elections approaching in late 2004, there may be strong political pressures to allow additional government spending next year beyond what is warranted to implement the GPRS. The authorities have stated forcefully and publicly, however, that they will not repeat the loss of financial discipline that has characterized the last three election years.

Two further risks to the budget worth noting are (i) the possibility of a further restructuring of TOR's debt to GCB, using government bonds, to facilitate the envisaged reform of GCB, and (ii) the fact that the parameters of the NHIS, and hence its precise fiscal impact, remain to be specified. In the staff's view, however, neither of these risks is of a magnitude that would pose a serious threat to the authorities' fiscal framework.

42. **Ghana's external debt-service indicators have improved significantly in 2003, as envisaged, thanks to interim HIPC Initiative relief (Table 6).** Assuming continued relief, total debt-service paid is projected to remain at manageable levels with respect to exports

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[20] The new software corrects for missing data and filters new prices for entry and specification errors.

(under 5 percent on average through 2008) and government revenues (under 7 percent). The ratios of the NPV of debt to exports and government revenues are also expected to continue falling, and to stay well below the HIPC thresholds (Table 3). Debt service paid to the Fund is projected to represent only 0.2 percent of total exports in 2003 and to peak at about 0.7 percent in 2005. Ghana should therefore remain able to service its debt to the Fund on a timely basis.

IV. Staff Appraisal

43. **After faltering in 2002, macroeconomic discipline has been restored in 2003, with all quantitative performance targets met through September, some by considerable margins.** Gains were made in reducing inflation, raising the level of official reserves to record levels, and eliminating government recourse to domestic borrowing, including through more effective public expenditure management. The authorities' task was facilitated by a bumper cocoa crop and favorable world prices for cocoa and gold, but the improvements in fiscal and monetary control are commendable nevertheless. There were some important slippages in structural policy, however, as price adjustments for petroleum, electricity, and water required during the second half of 2003 were postponed, and the government suspended the privatization of Ghana Commercial Bank.

44. **As a result of the favorable outcomes this year, the authorities have been able to retain or (in the case of official reserves) improve upon the medium-term macroeconomic objectives set out in their poverty reduction strategy.** In particular, the goal of zero net domestic financing of government in 2003 remains achievable, provided that expenditures continue to be carefully monitored and controlled, while the fiscal framework for 2004 and the medium term is consistent with the objective of reducing the domestic debt-GDP ratio by at least half over the three-year program period, with some margin to spare. The revised program assumes a continuation of the improved underlying revenue performance achieved this year. The staff supports this assumption but highlights the importance of avoiding further delay in implementation of the NHIL (beyond the mid-2004 start date now planned), since this measure is expected to make a significant contribution to the budget, especially in 2005.

45. **The goal of single-digit inflation by early 2004 remains achievable.** Inflation in recent months has subsided in line with program assumptions, and confirms that the price jump in early 2003 was a onetime alignment to the higher petroleum prices enacted at the start of the year. Despite larger-than-expected inflows of foreign exchange, monetary growth has been held close to the program targets. The central bank will need to continue its active sterilization policy if these inflows persist, in order to ensure that liquidity is kept firmly under control. In so doing, the central bank will need the full support of the fiscal authorities, in terms of their adherence to the program limits on net domestic financing, so that interest rates can continue to decline and private sector borrowing expand. Ghana's market-determined, floating exchange rate regime remains appropriate to its circumstances, and the staff considers the modest real appreciation of the cedi this year to be warranted in light of improvements in the terms of trade.

46. **Successful implementation of the program over the coming year will depend on two factors above all.** First, it will be crucial to avoid further quasi-fiscal losses in the state-owned energy and utility companies by adjusting petroleum, electricity, and water prices promptly to maintain full cost recovery. Such losses would not only risk undermining execution of the 2004 budget and diverting resources from GPRS programs, but could also jeopardize the authorities' plans to bring new investment into the energy sector and achieve much-needed improvements in the efficiency and reliability of energy supply in Ghana. Second, there are likely to be political pressures to relax discipline over government spending in 2004, an election year. It is vital that the authorities not be diverted from their GPRS expenditure framework, especially with respect to the wage bill, and the staff welcomes the government's emphatic commitments to this effect.

47. **The staff strongly endorses the planned liberalization of petroleum prices in mid-2004.** This reform would address one of the key macroeconomic vulnerabilities afflicting Ghana's economy in recent years. The authorities are rightly taking pains to prepare the ground carefully, from a technical as well as a public awareness perspective. The staff believes the timetable is realistic and strongly encourages the government to adhere to it.

48. **The new national health insurance scheme, expected to commence by mid-2004, has worthy objectives, but the detailed design phase poses some challenges.** The staff endorses the aim under the scheme of improving access to health care services by eliminating user fees. The authorities are urged, however, to work with donors under the health SWAP initiative to articulate and cost the new scheme, so as to ensure that its net addition to aggregate health sector spending is consistent with the fiscal framework for 2004 and beyond. The design of the scheme also needs to ensure adequate resources to cover the cost of health care for those unable to afford the insurance premiums, so that the poor will benefit from the reform.

49. **The decision to suspend the sale of GCB represents, in the staff's view, a major missed opportunity.** The sale had reached an advanced stage, bids having been received from several strategic investors with excellent international reputations in the sector and the capacity to upgrade and modernize the operations of Ghana's largest bank. The proposal instead to put the bank under a management contract could yield significant performance gains, if the contract is well designed. The preparatory phase should not be rushed—and the authorities should draw on World Bank advice regarding the design and sequencing of the measures to be taken—but, once this phase is complete, the staff encourages the authorities to put the management contract into effect without delay. The ceiling on TOR's bank borrowing should be rigorously enforced to help contain GCB's exposure to the refinery. In the long term, divestiture remains the best solution for GCB's problems, and should be considered again when circumstances permit.

50. **Progress continues in a number of structural areas important for the promotion of private sector-led growth that benefits the poor.** On the financial sector front, efforts are needed to approve the backlog of pending legislation and initiate the second phase of

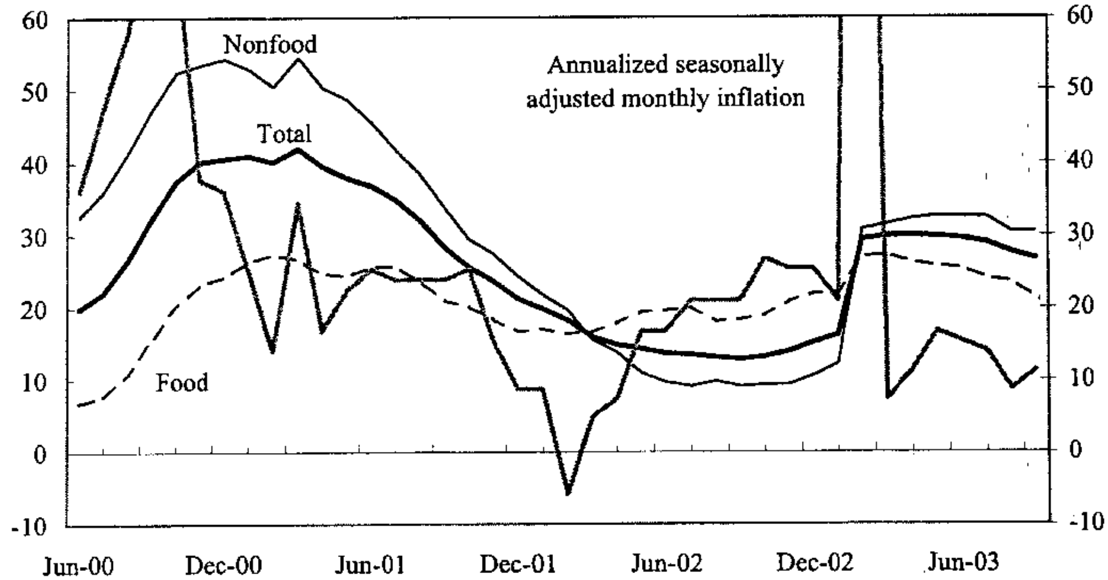
reforms, which should focus on facilitating and broadening the private sector's access to credit and capital. In other areas, the authorities are drawing on technical and financial support from development partners to prepare and implement time-bound action plans for reforms in the energy sector, the civil service, land registration, and governance.

51. **The recent appointment of new leadership at the Ghana Statistical Service should herald an intensification of efforts to improve the country's economic statistics.** A project to overhaul and rebase the price and national accounts data has been subject to repeated delays but is now near completion, and the staff urges the authorities to bring it to closure as soon as possible. Subsequent efforts should focus on improving the quality and timeliness of production and trade data, which remain comparatively poor.

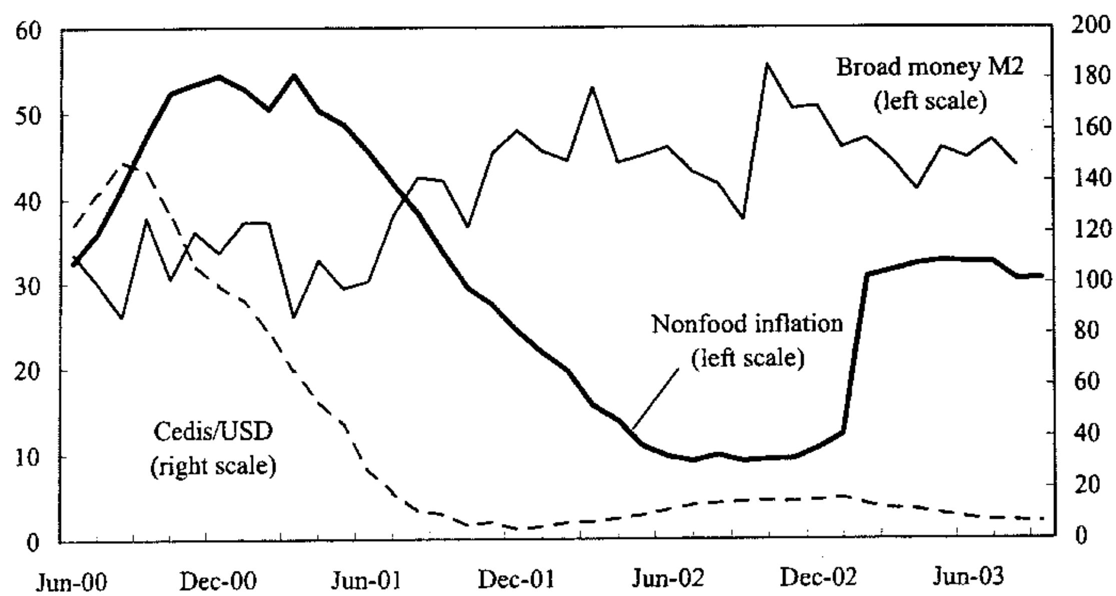
52. In view of the strength of the authorities' 2003-04 program, including the prior actions taken, the staff supports their request for completion of the first review and disbursement of the second loan under the PRGF arrangement in an amount equivalent to SDR 26.35 million.

Figure 1. Ghana: Inflation, Broad Money (M2), and the Exchange Rate

Figure 1. Total Inflation, Food Inflation, and Nonfood Inflation,
June 1999-September 2003 (Twelve-months percent change)

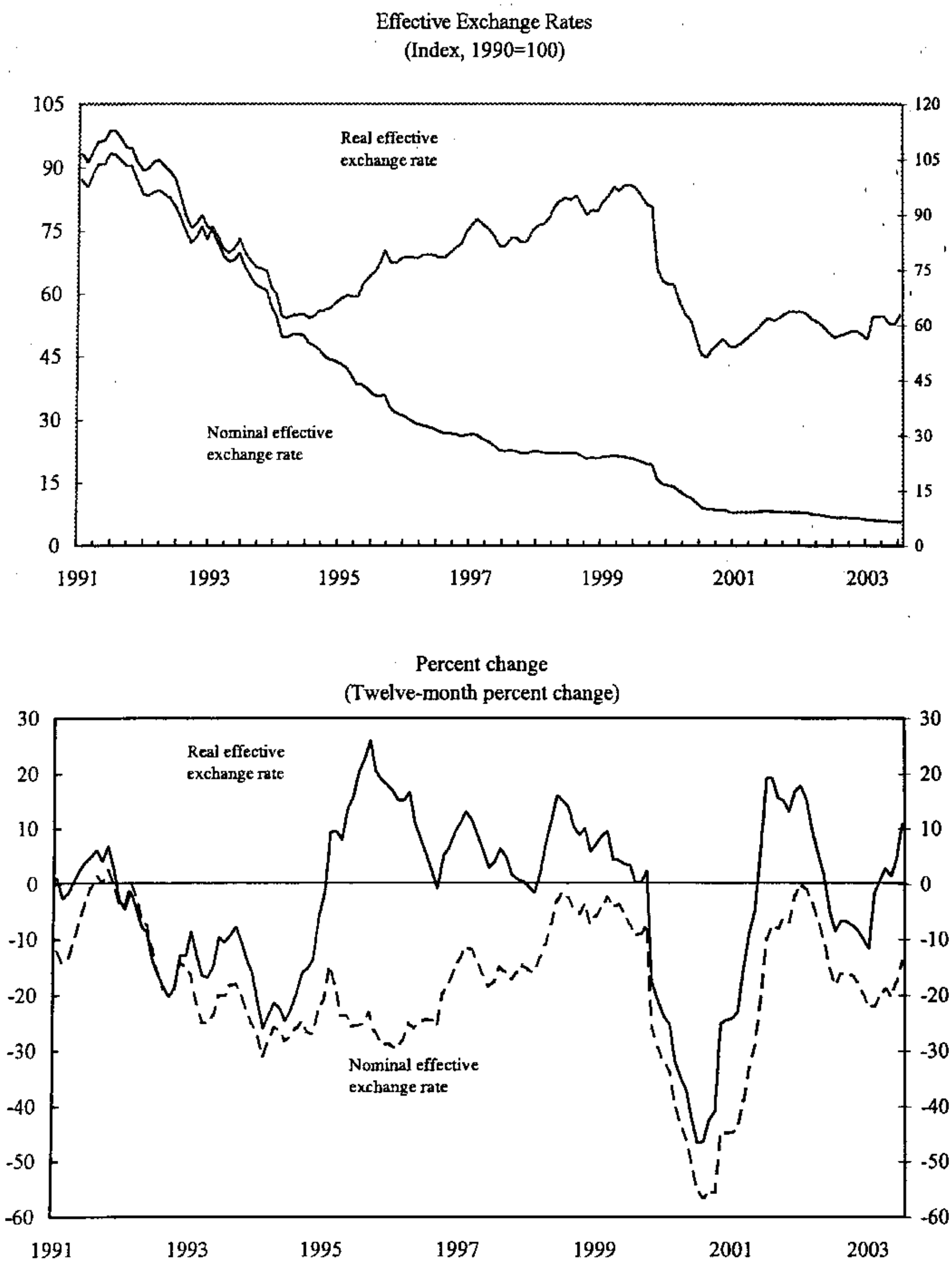


Nonfood Inflation, Broad Money (M2, excluding foreign currency deposits),
and the Exchange Rate
(Twelve-month percent change)



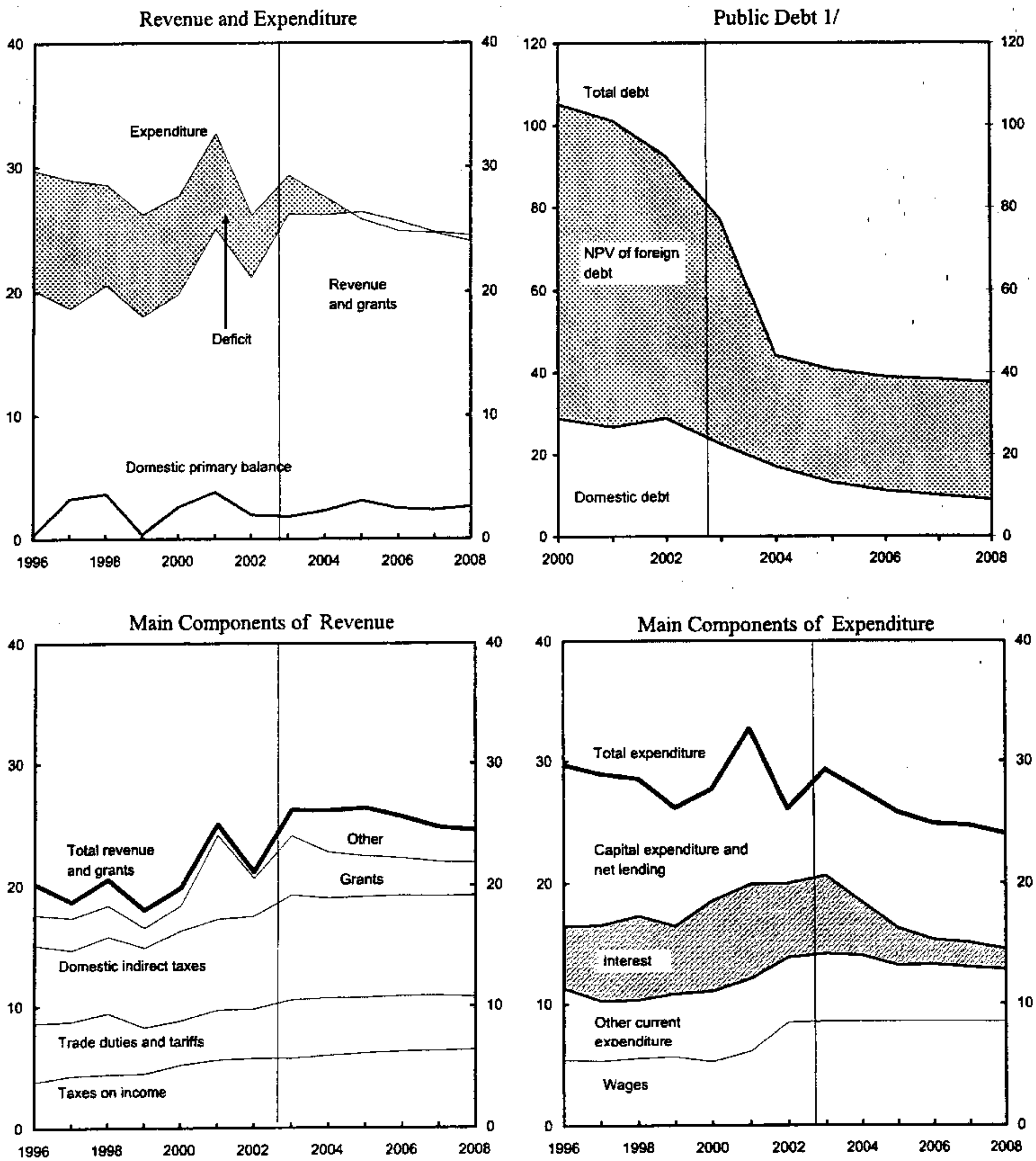
Sources: Ghana Statistical Service; Bank of Ghana; and Fund staff estimates.

Figure 2. Ghana: Real and Nominal Effective Exchange Rates, January 1991 - July 2003



Sources: Ghanaian authorities; and Fund staff estimates.

Figure 3. Ghana: Central Government Finances, 1996-2008
(In percent of GDP)

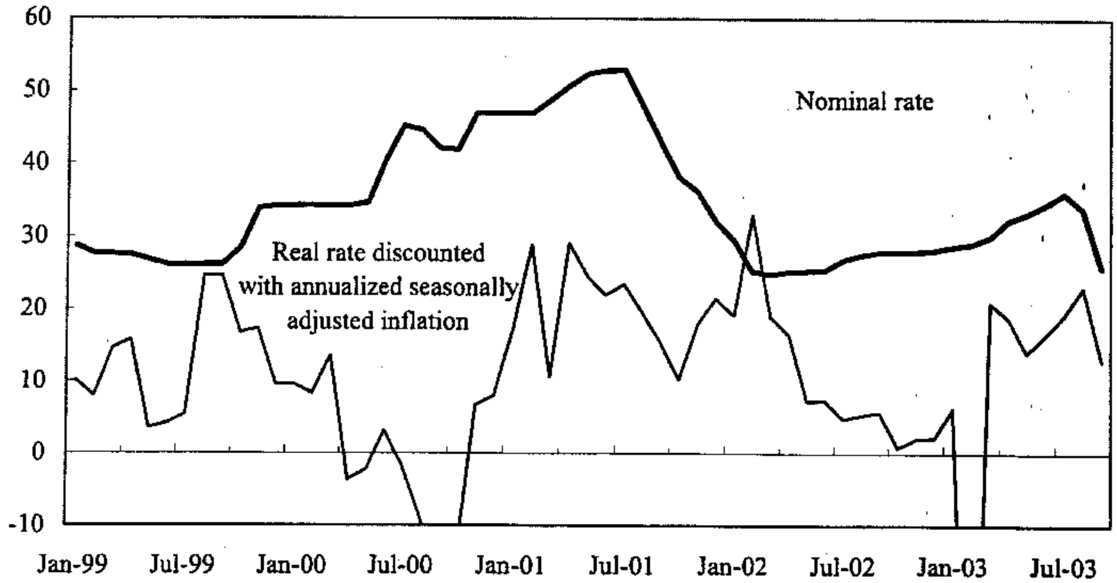


Sources: Ghanaian authorities; and Fund staff estimates and projections.

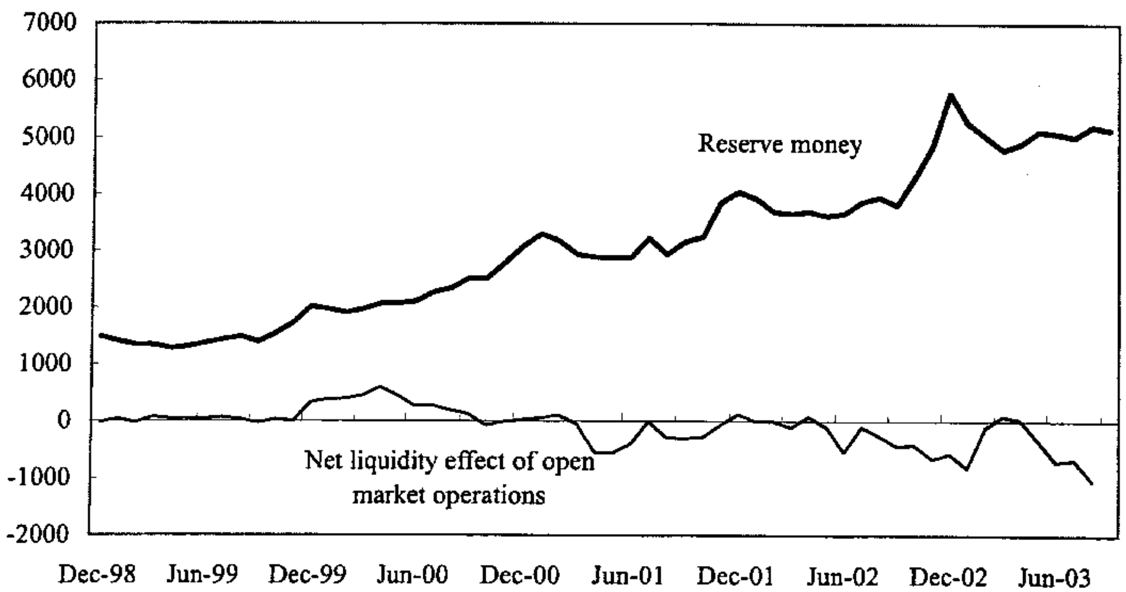
1/ Including guarantees and short-term external debt. External debt stock is evaluated at the period-average exchange rate and assumes that Ghana reaches the completion point under the enhanced HIPC Initiative during 2004.

Figure 4. Ghana: Treasury Bill Rates, Reserve Money, and Open Market Operations

Treasury Bill Rates, January 1999 - September 2003
(In percent)



Reserve Money and the Net Liquidity Effect of Bank of Ghana's Open Market Operations,
December 1998 -September 2003 1/
(In billions of cedis)

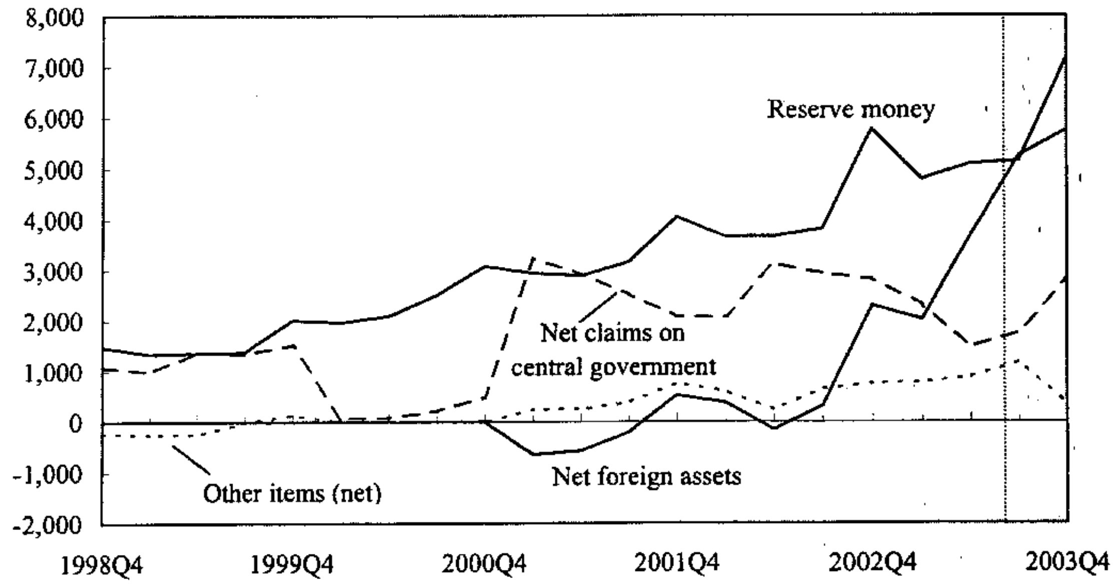


Sources: Bank of Ghana; and Fund staff estimates.

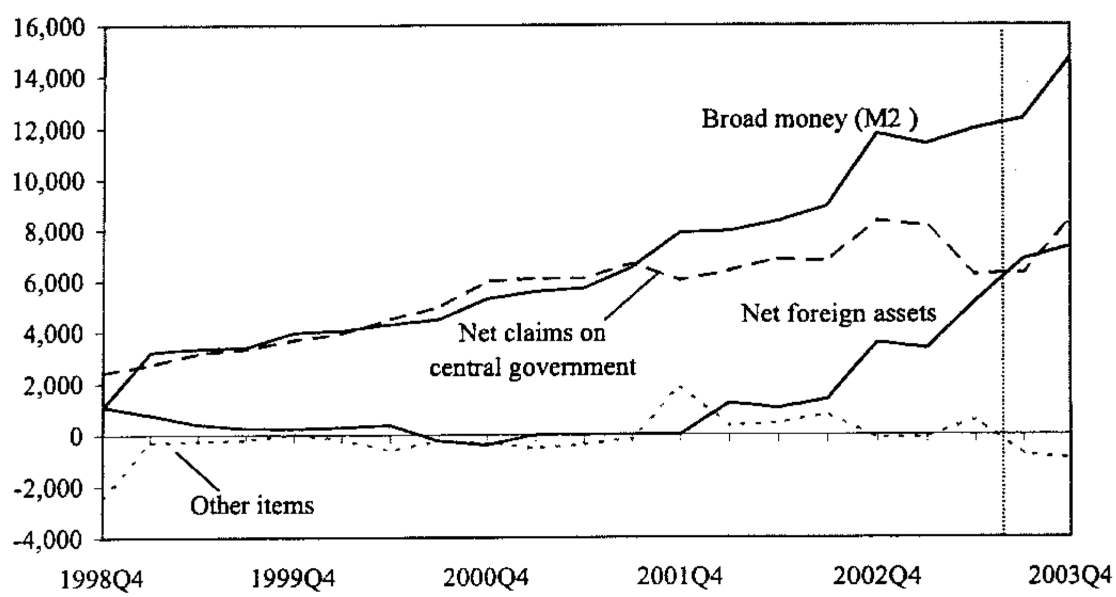
1/ Starting January 2003, includes holding of T-bills issued for monetary liquidity purposes, the cost of which is absorbed by the Bank of Ghana.

Figure 5. Ghana: Reserve Money and Broad Money (M2), 1998:Q4 - 2003:Q4

Reserve Money and Its Sources
(In billions of cedis)

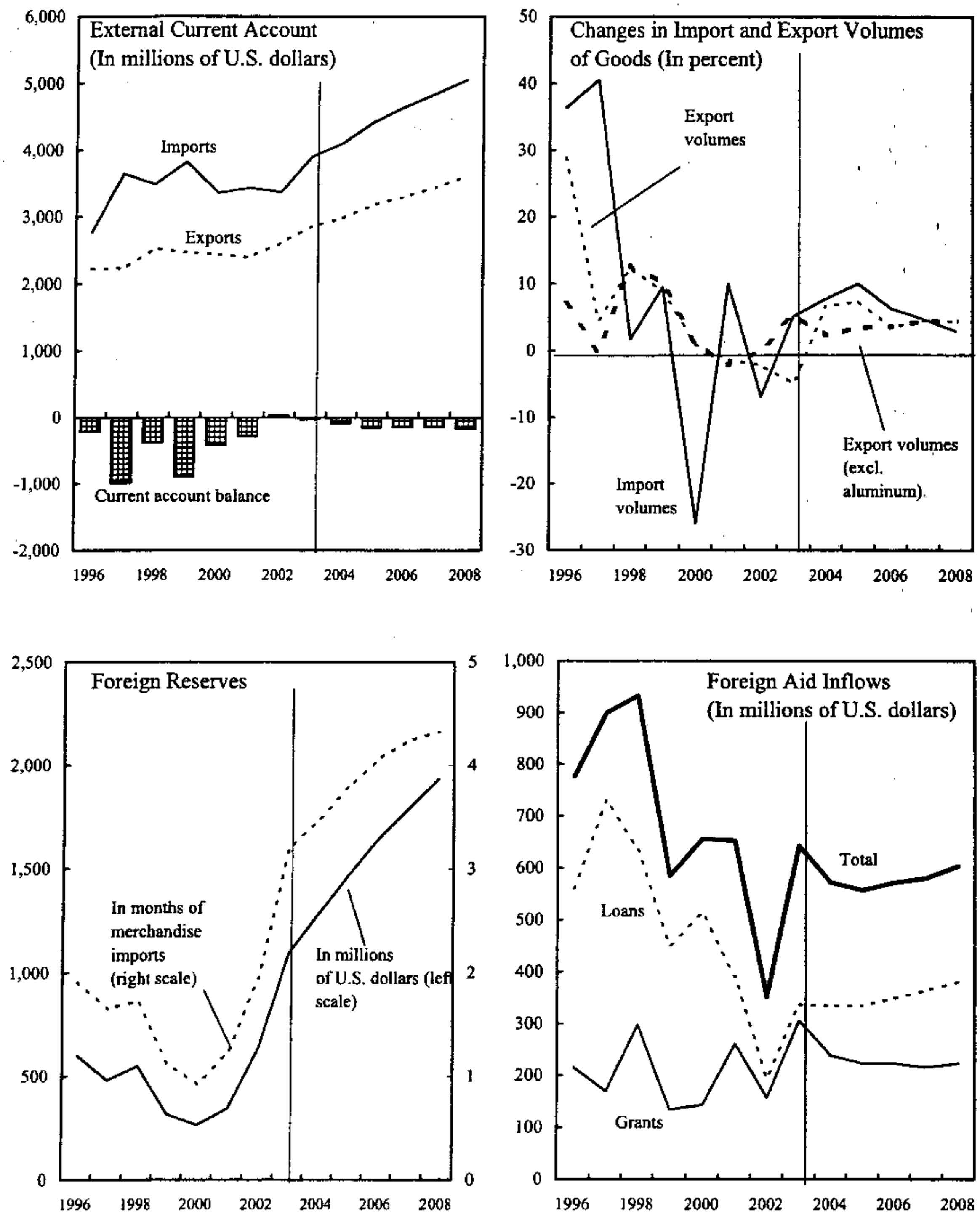


Broad Money (M2, excluding foreign currency deposits) and Its Sources
(In billions of cedis)



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

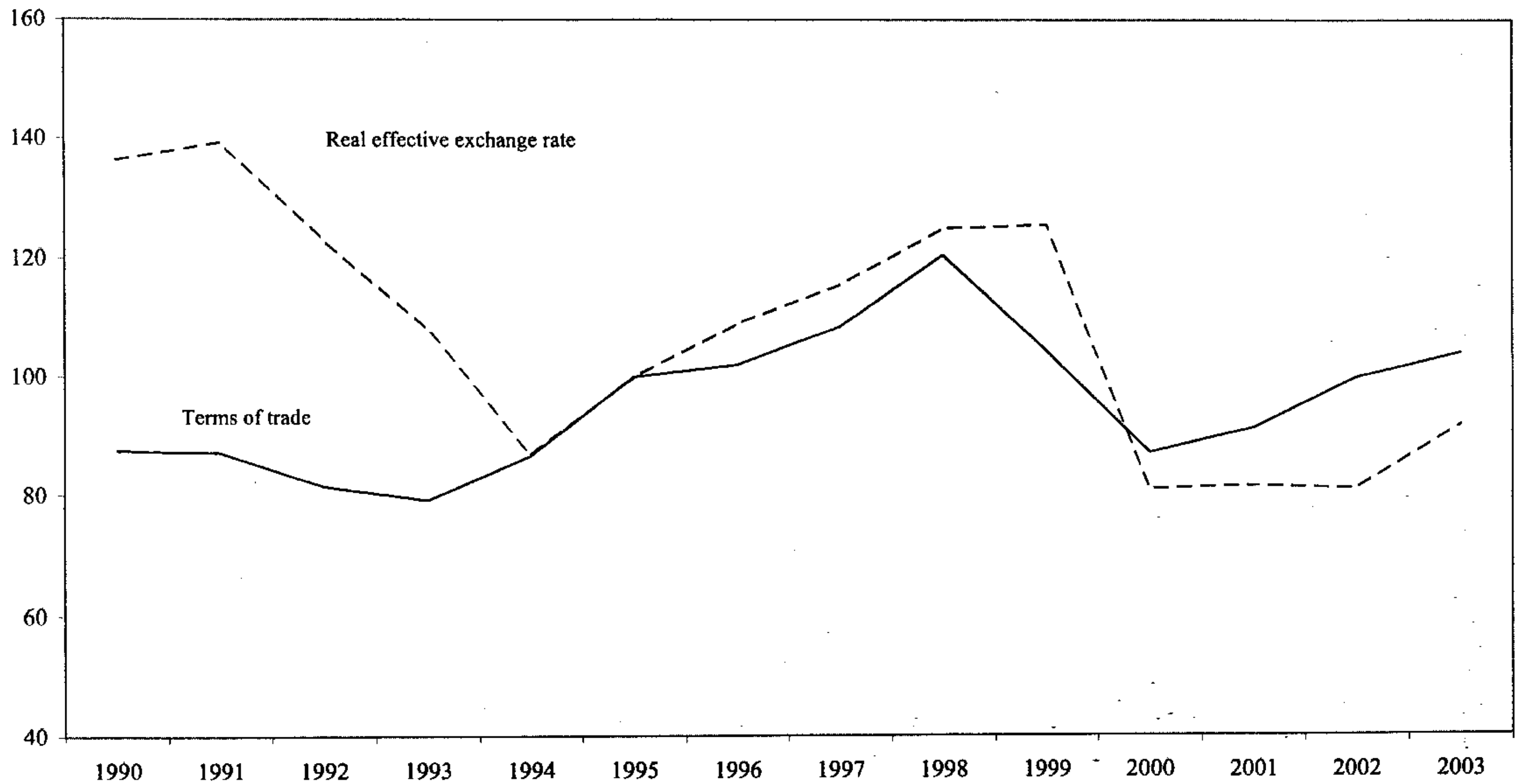
Figure 6. Ghana: Main External Indicators, 1996-2008



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

Figure 7. Ghana: Terms of Trade and the Real Effective Exchange Rate, 1990 - 2003

(Index, 1995 = 100)



Sources: Ghanaian authorities; and Fund staff estimates.

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

	End-March Benchmark			End-June Perf. criterion			End-September Benchmark			End-December Perf. Criterion	
	Prog. 2/	Adj. Prog. 3/	Actual	Prog. 2/	Adj. Prog. 3/	Actual	Prog. 2/	Adj. Prog. 3/	Prel.	Prog. 2/	Rev. Prog.
						(In billions of Cedis)					
Performance criteria											
Net domestic financing of government (ceiling) 4/	823	931	135	1,203	496	-549	43	-123	-520	0	0
Net domestic assets of the Bank of Ghana (ceiling) 5/ 6/	-121	12	-682	445	-262	-1,984	127	-40	-3,427	307	-1,857
Stock of net domestic banking sector credit to TOR (ceiling)			...			...			767		928
						(In millions of U.S. dollars)					
Net international reserves of the Bank of Ghana (floor) 7/	-80	-96	-24	-162	-81	130	-82	-63	323	130	378
The contracting or guaranteeing of new nonconcessional external debt with original maturity greater than or equal to 1 year by the government or the Bank of Ghana (ceiling) 8/	0	0	0	0	0	0	0	0	0	0	0
Outstanding stock of external debt with original maturity of less than one year owed or guaranteed by the government or the Bank of Ghana 9/	75	75	1	75	75	61	75	75	17	75	75
Stock of external payment arrears 10/	0	0	0	0	0	0	0	0	0	0	0
						(In billions of Cedis)					
Indicative benchmarks											
Government domestic primary surplus (floor)	-421	...	364	35	...	709	928	...	1,308	1,881	1,167
Reserve money stock	4,965	...	4,789	4,837	...	5,085	5,197	...	5,144	7,180	7,184
Government revenue, excluding grants and divestiture proceeds (floor)	2,608	...	2,730	5,958	...	5,758	9,819	...	9,420	14,108	13,941
Stock of government road sector arrears	165	...	216	110	...	108	55	...	54	0	0
						(In millions of U.S. dollars, unless otherwise specified)					
Memorandum items:											
External program support (loans and grants)	31	...	17	90	...	172	182	...	203	230	293
Paid public and publicly guaranteed debt service (after debt relief) 11/	22	...	20	74	...	75	94	...	96	143	146
Divestiture receipts	6	...	6	25	...	24	49	...	36	49	49
o/w: in foreign exchange	0	...	0	2	...	0	37	...	0	37	25
Average petroleum spot price (APSP in $/barrel) 12/	30.8	...	31.3	30.0	...	28.9	29.0	...	28.8	28.0	28.5

1/ Definitions of line items and terminology are elaborated in the EBS/04/42 technical memorandum of understanding (TMU).
2/ As in EBS/03/42 (4/3/03), Supplement I (4/25/03). Before application of adjusters, as indicated in the TMU.
3/ After application of adjusters, as indicated in the TMU.
4/ Value at end of month indicated. Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with an upside cap of $75 million, as explained in the TMU.
5/ Based on a fixed exchange rate of 8,504 cedis/$, the rate prevailing at end-December 2002.
6/ Value at end of month indicated. Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with an upside cap of $75 million, and for higher-than-programmed oil prices, with an upside cap of $30 million, as explained in the TMU.
7/ Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with a downside cap of -$75 million, and for higher-than-programmed oil prices, with a downside cap of -$30 million, as explained in the TMU.
8/ This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/123) of August 24, 2000 but also to commitments or contracted for which value has not been received, as specified in paragraph 15 of the TMU.
9/ The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/123) of August 24, 2000, as specified in paragraph 14 of the TMU.
10/ This is a continuous criterion. The TMU stipulates the precise program definition of payment arrears.
11/ Debt service to be paid by Ghana after projected HIPC relief in 2003.
12/ Average from beginning of 2003 to end of month indicated, as explained in the TMU.

Table 2. Ghana: Status of Structural Performance Criteria and Benchmarks for 2003

Structural performance criteria		**Status**
a.	Implement fully the automatic adjustment formula for petroleum product prices, as specified in the technical memorandum of understanding (June 30, 2003).	**Met.** Ghana's domestic petroleum product prices were in line with the formula for June and July. However, world market prices subsequently moved above the formula threshold in August-October 2003.
Structural benchmarks		
b.	Approval by cabinet of final purchase agreement for Ghana Commercial Bank (September 30, 2003).	**Not met.** Government announced in mid-August that it had suspended the sale to a strategic investor in order to consider other options.
c.	Submit to the Economic Management Team the monthly fiscal reports described in the MEFP, with a maximum lag of eight weeks, for January-April 2003 (June 30, 2003) and May-July 2003 (September 30, 2003).	**Met.**
d.	Implement the published plan for adjusting electricity and water tariffs, including 12 percent tariff increases in March 2003, and automatic adjustments in line with the published cost recovery formulas thereafter (September 30, 2003).	**Partly met.** March 2003 tariff increases were implemented. However, increases in line with the electricity and water formulas for July 2003 were postponed.

Table 3. Ghana: Selected Economic and Financial Indicators, 2000-08

	2000	2001	2002	2003		2004	2005	2006	2007	2008
			Est.	Prog. 1/	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percentage change, unless otherwise specified)									
National income and prices										
Real GDP	3.7	4.2	4.5	4.7	4.7	5.0	5.0	5.0	5.0	5.0
Real GDP per capita	1.2	1.6	1.9	2.1	2.1	2.4	2.4	2.4	2.4	2.4
Nominal GDP	31.9	40.2	28.3	33.6	33.6	18.9	12.5	11.5	11.0	11.3
GDP deflator	27.2	34.6	22.8	27.6	27.6	13.3	7.1	6.2	5.7	6.0
Consumer price index (annual average)	25.2	32.9	14.8	26.9	26.4	8.6	6.0	5.0	5.0	5.0
Consumer price index (end of period)	40.5	21.3	15.2	22.0	22.0	7.0	5.0	5.0	5.0	5.0
External sector										
Exports, f.o.b.	-3.5	-3.6	10.2	12.1	10.7	4.0	7.6	3.3	4.0	4.3
Imports, f.o.b.	-15.2	2.6	-4.1	16.8	17.5	5.3	8.3	5.4	4.6	4.5
Export volume	1.0	-1.3	-2.1	2.7	-4.8	6.6	7.5	3.6	4.4	4.4
Import volume	-26.0	10.0	-6.8	7.6	5.2	7.8	10.1	6.4	4.8	3.0
Terms of trade	-16.6	4.8	9.4	0.7	4.1	-0.2	1.7	0.7	-0.2	-1.6
Nominal effective exchange rate (avg.)	-46.3	-24.0	-11.7	...	...	...	...	...	...	...
Real effective exchange rate (avg.)	-35.5	0.6	-0.6	...	...	...	...	...	...	...
Cedis per U.S. dollar (avg.)	5,431	7,179	7,944	...	...	...	...	...	...	...
Government budget										
Domestic revenue (excluding grants)	42.9	43.5	27.5	60.3	58.4	24.6	15.7	9.2	10.4	11.2
Total expenditure	39.6	65.5	2.4	50.0	50.1	11.8	5.3	7.4	10.3	8.3
Current expenditure	48.9	50.5	28.8	33.5	37.7	6.0	-0.6	4.9	9.2	7.3
Capital expenditure and net lending	24.1	95.7	-38.7	104.1	90.3	25.2	17.0	11.6	12.1	9.8
Money and credit										
Net domestic assets 2/	49.1	13.5	22.9	-1.7	-7.2	1.9	1.0	-2.1	-2.0	-0.8
Credit to government 2/	57.7	0.0	30.0	0.0	0.0	-7.9	-6.0	-6.8	-6.6	-5.5
Credit to public enterprises 2/ 3/	20.9	11.0	-9.5	1.5	2.8	0.6	0.4	0.4	0.3	0.3
Credit to the private sector 2/ 3/	29.7	14.2	18.2	18.8	17.9	19.1	13.3	12.1	7.3	7.8
Broad money (excluding foreign currency deposits)	33.4	48.4	49.6	25.0	25.1	18.9	12.5	11.5	11.0	11.3
Reserve money (excluding foreign currency deposits)	52.6	31.3	42.6	24.5	24.6	18.8	12.4	11.4	11.0	11.2
Velocity (GDP/end-of-period broad money)	5.1	4.8	4.1	4.4	4.4	4.4	4.4	4.4	4.4	4.4
Treasury bill yield (in percent;end of period)	42.0	28.9	28.1	...	...	...	...	...	...	...
	(In percent of GDP, unless otherwise specified)									
Investment and saving										
Gross investment	24.0	26.6	19.7	23.0	22.3	23.0	23.7	24.0	24.2	24.3
Private	14.8	13.8	13.6	13.6	13.6	13.8	14.1	14.4	14.5	14.7
Public	9.2	12.8	6.1	9.4	8.7	9.2	9.6	9.6	9.7	9.5
Gross national saving	15.6	21.3	20.2	21.2	21.9	22.0	22.1	22.6	22.9	22.8
Private	14.3	16.1	19.0	14.9	16.3	14.2	11.9	12.3	12.7	12.3
Public	1.3	5.1	1.2	6.3	5.6	7.8	10.1	10.3	10.2	10.6
Government budget										
Total revenue	17.7	18.1	18.0	21.6	21.4	22.4	23.0	22.6	22.4	22.4
Grants	2.1	6.9	3.1	4.6	4.8	3.8	3.4	3.1	2.8	2.7
Total expenditure	27.7	32.7	26.1	29.3	29.3	27.6	25.8	24.9	24.7	24.0
Overall balance (excluding grants) 4/	-10.0	-14.6	-8.1	-7.7	-8.0	-5.2	-2.8	-2.3	-2.3	-1.6
Overall balance (including grants) 5/	-9.7	-9.0	-6.8	-3.9	-4.3	-1.7	-0.2	-0.2	-0.3	-0.2
Domestic primary balance	2.6	3.8	2.0	2.9	1.8	2.3	3.1	2.5	2.4	2.6
Divestiture receipts	1.2	0.0	0.0	0.7	0.7	0.5	0.0	0.0	0.0	0.0
Net domestic financing	8.5	2.3	4.8	0.0	0.0	-2.2	-2.6	-2.3	-2.0	-2.2
External sector										
Current account balance 6/	-8.4	-5.3	0.5	-1.8	-0.4	-1.0	-1.6	-1.4	-1.3	-1.5
NPV of external debt outstanding										
(in percent of exports of goods and services)	156.5	164.4	149.6	...	143.5	78.6	80.9	85.2	89.6	93.4
(in percent of government revenue)	559.4	418.3	374.8	...	258.6	124.3	121.7	125.2	128.2	129.5
External debt service, including to the Fund	11.2	8.5	7.8	6.3	6.1	4.9	4.6	3.9	3.6	3.2
(in percent of exports of goods and nonfactor services)	23.0	18.9	18.4	15.6	16.8	14.1	13.3	11.9	11.2	10.2
(in percent of government revenue)	56.5	34.1	37.1	24.2	24.2	18.8	17.2	15.1	14.1	12.5
	(In millions of U.S. dollars, unless otherwise specified)									
Current account balance 6/	-419	-283	30	-131	-28	-89	-150	-137	-141	-171
Overall balance of payments	-123	17	40	-77	202	-63	-55	-6	41	49
Change in external arrears (decrease -)	27	34	-61	0	0	0	0	0	0	0
Gross international reserves (end of period)	264	344	635	811	1,095	1,284	1,467	1,644	1,788	1,934
(in months of imports of goods and services)	0.9	1.2	2.0	2.3	3.2	3.5	3.8	4.1	4.2	4.4
Nominal GDP (in billions of cedis)	27,153	38,071	48,862	65,262	65,262	77,620	87,287	97,290	108,007	120,197

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

1/ As in EBS/03/42 (4/3/03), Supplement 1 (4/25/03).
2/ In percent of broad money at the beginning of the period.
3/ Credit from deposit money banks to public enterprises and the private sector, respectively. The historical series have been revised to ensure consistency with the new banking supervision reporting form introduced in July 2003, which uses a residency rather than currency definition of foreign assets and liabilities.
4/ Before domestic arrears clearance.
5/ After domestic arrears clearance and including contingency funds.
6/ Including official grants.

Table 4a. Ghana: Central Government Budgetary Operations and Financing, 1999-2008 1/

	1999	2000	2001	2002	2003 H1 Prog. 2/	2003 H1 Est.	2003 Year Prog. 2/	2003 Year Proj.	2004 Proj.	2005 Proj.	2006 Proj.	2007 Proj.	2008 Proj.
	(In billions of cedis, unless otherwise specified)												
Total revenue and grants	3,709	5,385	9,532	10,333	7,509	7,138	17,099	17,099	20,292	23,022	24,941	27,267	30,142
Total revenue	3,366	4,811	6,904	8,800	5,958	5,758	14,108	13,941	17,372	20,097	21,947	24,227	26,951
Tax revenue	3,056	4,415	6,557	8,542	5,333	5,386	12,003	12,556	14,722	16,668	18,662	20,661	23,070
Direct taxes	918	1,409	2,124	2,790	1,651	1,617	3,678	3,732	4,619	5,361	6,095	6,836	7,686
Company tax	446	697	967	1,162	708	614	1,629	1,774	2,215	2,616	2,974	3,301	3,674
Other direct taxes	472	713	1,157	1,629	943	1,003	2,049	1,959	2,403	2,746	3,122	3,535	4,013
Indirect taxes	1,353	2,018	2,865	3,757	2,505	2,559	5,484	5,681	6,437	7,306	8,122	8,928	10,126
Sales tax/value-added tax (VAT) on domestic goods	323	385	509	729	512	462	1,013	1,024	1,279	1,510	1,684	1,869	2,080
Sales tax/value-added tax (VAT) on imports	469	887	1,455	1,598	869	1,092	2,174	2,569	2,925	3,327	3,758	4,070	4,720
Petroleum	394	532	647	1,080	895	787	1,811	1,596	1,620	1,744	1,873	2,092	2,328
Other indirect taxes	167	215	254	350	229	217	486	491	614	725	808	897	998
Trade taxes	785	987	1,568	1,995	1,178	1,210	2,841	3,143	3,667	4,000	4,445	4,896	5,257
Import duties	531	808	1,060	1,669	959	1,142	2,188	2,398	2,800	3,276	3,698	4,062	4,383
Cocoa export duty	254	179	300	326	219	80	653	745	867	724	747	834	875
Nontax revenue 3/	310	396	348	258	201	171	395	435	517	581	648	719	801
2003 revenue measures	...	...	...	...	424	201	1,710	950	2,132	2,848	2,636	2,847	3,080
Health Levy (2.5 percent of value added)	...	...	...	...	0	0	319	0	420	993	1,107	1,228	1,367
Retain National Reconstruction Levy	...	...	...	...	36	52	157	162	346	409	0	0	0
Debt-recovery charge on petroleum products	...	...	...	...	315	149	945	766	1,205	1,265	1,328	1,394	1,464
Timber licenses	...	...	...	...	73	0	290	23	161	181	202	224	249
Grants	343	574	2,627	1,533	1,550	1,381	2,991	3,158	2,921	2,925	2,994	3,040	3,191
Project grants	193	337	1,566	467	578	294	1,130	951	871	905	931	959	1,050
Program grants	150	238	1,061	558	678	712	1,193	1,479	1,055	955	984	941	968
HIPC assistance (multilateral)	0	0	0	508	294	374	668	727	995	1,065	1,079	1,141	1,172
Total expenditure	5,389	7,525	12,451	12,753	9,144	7,704	19,132	19,139	21,388	22,517	24,181	26,679	28,896
Recurrent expenditure	3,382	5,034	7,578	9,763	6,274	5,445	13,029	13.448	14,261	14,177	14,872	16,245	17,437
Noninterest	2,232	3,001	4,593	6,763	4,156	3,496	8,602	9,228	10,838	11,480	12,865	14,054	15,412
Wages and salaries 3/	1,161	1,423	2,317	4,142	2,725	2,593	5,450	5,576	6,632	7,458	8,312	9,228	10,270
Goods and services 3/	485	700	703	1,452	979	457	2,047	2,047	2,734	2,737	3,051	3,286	3,547
Subventions 3/	287	445	788	0	0	0	0	0	0	0	0	0	0
Transfers	298	432	785	1,168	451	446	1,106	1,605	1,472	1,285	1,501	1,541	1,595
Of which: utility subsidy	...	...	257	480	25	0	50	688	392	67	75	83	92
National Health Insurance Fund	...	...	...	...	28	0	216	0	25	56	63	70	77
Interest	1,150	2,033	2,985	3,001	2,118	1,950	4,427	4,220	3,423	2,696	2,007	2,191	2,025
Domestic (accrual)	872	1,446	2,310	2,212	1,679	1,508	3,557	3,381	2,450	1,706	992	1,133	907
Of which: interest on 2003 TOR bonds	...	...	...	...	239	244	444	439	186	149	135	135	0
External (accrual)	278	587	675	789	439	442	870	838	972	990	1,015	1,058	1,118
Capital expenditure (total)	2,007	2,491	4,873	2,990	2,870	2,259	6,103	5,691	7,128	8,340	9,309	10,434	11,460
Capital expenditure (domestic)	851	1,145	1,341	1,338	1,545	1,486	3,355	3,265	4,635	5,751	6,532	7,453	8,193
Of which: discretionary expenditure	727	611	417	475	694	620	1,563	1,270	2,356	3,086	3,575	4,196	4,532
Capital expenditure (foreign)	1,157	1,346	3,532	1,652	1,325	773	2,749	2,426	2,492	2,589	2,777	2,982	3,266
Overall balance (before arrears clearance, modified cash basis) 3.	-1,680	-2,140	-2,920	-2,420	-1,635	-566	-2,034	-2,039	-1,096	505	759	588	1,246
(in percent of GDP)	-8.2	-7.9	-7.7	-5.0	-2.5	-0.9	-3.1	-3.1	-1.4	0.6	0.8	0.5	1.0
Overall balance (before arrears clearance, exclud. grants) 4/	-2,023	-2,714	-5,547	-3,953	-3,185	-1,946	-5,024	-5,197	-4,017	-2,420	-2235	-2452	-1945
Road arrears (clearance)	-130	-328	-44	-208	-110	-133	-220	-240	0	0	0	0	0
Other domestic payment arrears (clearance)	156	-156	-442	-630	-98	-183	-197	-391	-97	-97	-97	-97	0
Of which: to statutory funds	0	0	-235	-247	-48	0	-97	-97	-97	-97	-97	-97	0
VAT refunds	0	0	-27	-55	-48	-28	-96	-108	-126	-145	-163	-178	-204
Contingency 5/	0	0	0	0	0	0	0	0	0	-420	-740	-629	-1,324
Overall balance (modified cash basis after arrears clearance) 4/	-1,654	-2,624	-3,433	-3,313	-1,892	-909	-2,546	-2,778	-1,319	-157	-241	-316	-282
Overall balance from below the line	-1,862	-2,585	-2,961	-2,994	-2,066	-949	-2,720	-2,952	-1,319	-157	-241	-316	-282
Discrepancy between above- and below-line data 6/	-208	39	472	319	-174	-40	-174	-174	0	0	0	0	0
Divestiture receipts	53	323	12	5	115	205	429	425	427	0	0	0	0
Of which: costs of divestiture	...	...	-144	-6	-1	0	-17	-11	0	0	0	0	0
Total nondivestiture financing	1,809	2,262	2,949	2,988	1,951	743	2,292	2,527	892	157	241	316	282
Foreign (net)	448	134	1,428	-781	-558	-31	-366	17	-85	-47	252	890	1,314
Project loans	964	1,009	1,966	1,185	747	479	1,619	1,475	1,621	1,685	1,846	2,023	2,216
Program loans	236	802	1,056	160	0	782	712	1,080	980	1,018	1,048	1,079	1,111
Amortization due	-751	-1,677	-1,593	-2,125	-1,306	-1,292	-2,696	-2,537	-2,687	-2,750	-2,642	-2,212	-2,013
Exceptional financing	71	-190	659	1,241	1,096	1,096	2,204	2,036	2,530	2,340	2,109	1,586	1,613
External payment arrears	71	-190	-467	-461	0	0	0	0	0	0	0	0	0
Additional donor financing	0	0	0	0	108	0	226	0	545	489	636	536	714
Traditional rescheduling	0	0	1,126	1,450	745	827	1,537	1,578	1,472	1,320	982	621	491
HIPC assistance (nonmultilateral)	0	0	0	252	243	268	441	457	513	531	491	429	409
Savings due to inflation-indexed bonds	0	0	0	197	211	228	453	474	180	133	118	0	0
Domestic (net) 4/	1,290	2,319	862	2,332	1,203	-549	0	0	-1,733	-2,269	-2,238	-2,160	-2,644
Banking system	1,267	2,295	-979	943	1,203	-2,098	0	0	-1,168	-1,050	-1,342	-1,460	-1,336
Nonbanks	23	24	1,841	1,389	0	1,549	0	0	-565	-1,219	-896	-700	-1,309
Memorandum items:													
Total enhanced HIPC relief	...	...	...	759	537	643	1,108	1,184	1,508	1,595	1,570	1,570	1,581
Total poverty spending (GPRS definition) 7/	...	...	1,730	2,339	...	1,574	4,426	4,487	...	...	...	...	...
Domestic primary balance (2001 prov. includes discrepancy)	77	704	1,442	964	35	709	1,881	1,167	1,772	2,720	2,386	2,542	3,142
Stock of domestic debt 4/	5,797	7,842	10,195	14,106	15,411	15,722	14,559	14,774	13,221	11,425	10,785	10,785	10,785
Of which: TOR debt restructuring bonds	0	0	979	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	2,400	979
GDP at current market prices	20,580	27,153	38,071	48,862	65,262	65,262	65,262	65,262	77,620	87,287	97,290	108,007	120,197

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

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

2/ As in EBS/03/42 (4/3/03), Supplement 1 (4/25/03).

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

4/ Domestic debt stock estimates include TOR bonds issued in 2001 and 2002.

5/ Indicates scope for additional expenditure and tax cuts (if negative) or expenditure cuts and tax increases (if positive), assuming adherence to the target path for the domestic debt-GDP ratio from EBS/03/42, sup. 1 (4/25/03).

6/ Projected discrepancy in 2003 reflects float.

7/ The GPRS dedicates 80 percent of enhanced HIPC relief to poverty spending and 20 percent to domestic debt reduction. Projections for poverty spending from 2004 onward are not available.

Table 4b. Ghana: Central Government Budgetary Operations and Financing, 1999-2008 1/ (concluded)

	1999	2000	2001	2002	2003				2004	2005	2006	2007	2008
					H1	H1	Year	Year					
					Prog. 2/	Est.	Prog. 2/	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(In percent of GDP, unless otherwise specified)												
Total revenue and grants	18.0	19.8	25.0	21.1	11.5	10.9	26.2	26.2	26.1	26.4	25.6	25.2	25.1
Total revenue	16.4	17.7	18.1	18.0	9.1	8.8	21.6	21.4	22.4	23.0	22.6	22.4	22.4
Tax revenue	14.8	16.3	17.2	17.5	8.2	8.3	18.4	19.2	19.0	19.1	19.2	19.1	19.2
Direct taxes	4.5	5.2	5.6	5.7	2.5	2.5	5.6	5.7	6.0	6.1	6.3	6.3	6.4
Company tax	2.2	2.6	2.5	2.4	1.1	0.9	2.5	2.7	2.9	3.0	3.1	3.1	3.1
Other direct taxes	2.3	2.6	3.0	3.3	1.4	1.5	3.1	3.0	3.1	3.1	3.2	3.3	3.3
Indirect taxes	6.6	7.4	7.5	7.7	3.8	3.9	8.4	8.7	8.3	8.4	8.3	8.3	8.4
Sales tax/value-added tax (VAT) on domestic goods	1.6	1.4	1.3	1.5	0.8	0.7	1.6	1.6	1.6	1.7	1.7	1.7	1.7
Sales tax/value-added tax (VAT) on imports	2.3	3.3	3.8	3.3	1.3	1.7	3.3	3.9	3.8	3.8	3.9	3.8	3.9
Petroleum	1.9	2.0	1.7	2.2	1.4	1.2	2.8	2.4	2.1	2.0	1.9	1.9	1.9
Other indirect taxes	0.8	0.8	0.7	0.7	0.4	0.3	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Trade taxes	3.8	3.6	4.1	4.1	1.8	1.9	4.4	4.8	4.7	4.6	4.6	4.5	4.4
Import duties	2.6	3.0	2.8	3.4	1.5	1.8	3.4	3.7	3.6	3.8	3.8	3.8	3.6
Cocoa export duty	1.2	0.7	0.8	0.7	0.3	0.1	1.0	1.1	1.1	0.8	0.8	0.8	0.7
Nontax revenue 3/	1.5	1.5	0.9	0.5	0.3	0.3	0.6	0.7	0.7	0.7	0.7	0.7	0.7
2003 revenue measures	...	...	...	...	0.6	0.3	2.6	1.5	2.7	3.3	2.7	2.6	2.6
Health Levy (2.5 percent of value added)	...	...	...	...	0.0	0.0	0.5	0.0	0.5	1.1	1.1	1.1	1.1
Retain National Reconstruction Levy	...	...	...	...	0.1	0.1	0.2	0.2	0.4	0.5	0.0	0.0	0.0
Debt-recovery charge on petroleum products	...	...	...	...	0.5	0.2	1.4	1.2	1.6	1.4	1.4	1.3	1.2
Timber licenses	...	...	...	...	0.1	0.0	0.4	0.0	0.2	0.2	0.2	0.2	0.2
Grants	1.7	2.1	6.9	3.1	2.4	2.1	4.6	4.8	3.8	3.4	3.1	2.8	2.7
Project grants	0.9	1.2	4.1	1.0	0.9	0.5	1.7	1.5	1.1	1.0	1.0	0.9	0.9
Program grants	0.7	0.9	2.8	1.1	1.0	1.1	1.8	2.3	1.4	1.1	1.0	0.9	0.8
HIPC assistance (multilateral)	0.0	0.0	0.0	1.0	0.5	0.6	1.0	1.1	1.3	1.2	1.1	1.1	1.0
Total expenditure	26.2	27.7	32.7	26.1	14.0	11.8	29.3	29.3	27.6	25.8	24.9	24.7	24.0
Recurrent expenditure	16.4	18.5	19.9	20.0	9.6	8.3	20.0	20.6	18.4	16.2	15.3	15.0	14.5
Noninterest	10.8	11.1	12.1	13.8	6.4	5.4	13.2	14.1	14.0	13.2	13.2	13.0	12.8
Wages and salaries 3/	5.6	5.2	6.1	8.5	4.2	4.0	8.4	8.5	8.5	8.5	8.5	8.5	8.5
Goods and services 3/	2.4	2.6	1.8	3.0	1.5	0.7	3.1	3.1	3.5	3.1	3.1	3.0	3.0
Subventions 3/	1.4	1.6	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers	1.4	1.6	2.1	2.4	0.7	0.7	1.7	2.5	1.9	1.5	1.5	1.4	1.3
Of which: utility subsidy	...	...	0.7	1.0	0.0	0.0	0.1	1.1	0.5	0.1	0.1	0.1	0.1
National Health Insurance Fund	...	...	...	...	0.0	0.0	0.3	0.0	0.0	0.1	0.1	0.1	0.1
Interest	5.6	7.5	7.8	6.1	3.2	3.0	6.8	6.5	4.4	3.1	2.1	2.0	1.7
Domestic (accrual)	4.2	5.3	6.1	4.5	2.6	2.3	5.5	5.2	3.2	2.0	1.0	1.0	0.8
Of which: interest on 2003 TOR bonds	...	...	...	...	0.4	0.4	0.7	0.7	0.2	0.2	0.1	0.1	0.0
External (accrual)	1.4	2.2	1.8	1.6	0.7	0.7	1.3	1.3	1.3	1.1	1.0	1.0	0.9
Capital expenditure (total)	9.8	9.2	12.8	6.1	4.4	3.5	9.4	8.7	9.2	9.6	9.6	9.7	9.5
Capital expenditure (domestic)	4.1	4.2	3.5	2.7	2.4	2.3	5.1	5.0	6.0	6.6	6.7	6.9	6.8
Of which: discretionary expenditure	3.5	2.2	1.1	1.0	1.1	1.0	2.4	1.9	3.0	3.5	3.7	3.9	3.8
Capital expenditure (foreign)	5.6	5.0	9.3	3.4	2.0	1.2	4.2	3.7	3.2	3.0	2.9	2.8	2.7
Road arrears (clearance)	-0.6	-1.2	-0.1	-0.4	-0.2	-0.2	-0.3	-0.4	0.0	0.0	0.0	0.0	0.0
Other domestic payment arrears	0.8	-0.6	-1.2	-1.3	-0.2	-0.3	-0.3	-0.6	-0.1	-0.1	-0.1	-0.1	0.0
Of which: to statutory funds	...	...	-0.6	-0.5	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	0.0
VAT Refunds	...	...	-0.1	-0.1	-0.1	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Contingency 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	-0.8	-0.6	-1.1
Overall balance (modified cash basis after arrears clearance) 5/	-8.0	-9.7	-9.0	-6.8	-2.9	-1.4	-3.9	-4.3	-1.7	-0.2	-0.2	-0.3	-0.2
Overall balance from below the line	-9.0	-9.5	-7.8	-6.1	-3.2	-1.5	-4.2	-4.5	-1.7	-0.2	-0.2	-0.3	-0.2
Discrepancy between above and below line data 6/	-1.0	0.1	1.2	0.7	-0.3	-0.1	-0.3	-0.3	0.0	0.0	0.0	0.0	0.0
Divestiture receipts	0.3	1.2	0.0	0.0	0.2	0.3	0.7	0.7	0.5	0.0	0.0	0.0	0.0
Of which: costs of divestiture	...	...	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total nondivestiture financing	8.8	8.3	7.7	6.1	3.0	1.1	3.5	3.9	1.2	0.2	0.2	0.3	0.2
Foreign (net)	2.2	0.5	3.8	-1.6	-0.9	0.0	-0.6	0.0	-0.1	-0.1	0.3	0.8	1.1
Project loans	4.7	3.7	5.2	2.4	1.1	0.7	2.5	2.3	2.1	1.9	1.9	1.9	1.8
Program loans	1.1	3.0	2.8	0.3	0.0	1.2	1.1	1.7	1.3	1.2	1.1	1.0	0.9
Amortization due	-3.7	-6.2	-4.2	-4.3	-2.0	-2.0	-4.1	-3.9	-3.5	-3.2	-2.7	-2.0	-1.7
Exceptional financing	0.3	-0.7	1.7	2.5	1.7	1.7	3.4	3.1	3.3	2.7	2.2	1.5	1.3
External payment arrears	0.3	-0.7	-1.2	-0.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additional donor financing	...	...	0.0	0.0	0.2	0.0	0.3	0.0	0.7	0.6	0.7	0.5	0.6
Traditional rescheduling	0.0	0.0	3.0	3.0	1.1	1.3	2.4	2.4	1.9	1.5	1.0	0.6	0.4
HIPC assistance (nonmultilateral)	...	...	...	0.5	0.4	0.4	0.7	0.7	0.7	0.6	0.5	0.4	0.3
Savings due to inflation-indexed bonds	0.0	0.0	...	0.4	0.3	0.3	0.7	0.7	0.2	0.2	0.1	0.0	0.0
Domestic (net) 5/	6.3	8.5	2.3	4.8	1.8	-0.8	0.0	0.0	-2.2	-2.6	-2.3	-2.0	-2.2
Banking system	6.2	8.5	-2.6	1.9	1.8	-3.2	0.0	0.0	-1.5	-1.2	-1.4	-1.4	-1.1
Nonbanks	0.1	0.1	4.8	2.8	0.0	2.4	0.0	0.0	-0.7	-1.4	-0.9	-0.6	-1.1
Memorandum items:													
Total enhanced HIPC relief	...	...	...	1.6	0.8	1.0	1.7	1.8	1.9	1.8	1.6	1.5	1.3
Total poverty spending (GPRS definition) 7/	...	...	4.5	4.8	...	2.4	6.8	6.9	...	...	...	...	...
Domestic primary balance (2001 prov. includes discrepancy)	0.4	2.6	3.8	2.0	0.1	1.1	2.9	1.8	2.3	3.1	2.5	2.4	2.6
Stock of domestic debt 5/	28.2	28.9	26.8	28.9	23.6	24.1	22.3	22.6	17.0	13.1	11.1	10.0	9.0
Of which: TOR debt restructuring bonds	0.0	0.0	2.6	4.9	3.7	3.7	3.7	3.7	3.1	2.8	2.5	2.2	0.8

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

1/ From 2001 onward, above-the-line data for domestic recurrent and capital expenditure are presented on a cash basis (payment vouchers); arrears not reflected in line expenditures.
2/ As in EBS/03/42 (4/3/03), Supplement 1 (4/25/03).
3/ From 2002 onward, subvented agency expenditure for wages and salaries and goods and services are subsumed under their respective line items.
4/ Indicates scope for additional expenditure and tax cuts (if negative) or expenditure cuts and tax increases (if positive), assuming adherence to the target path for the domestic debt-GDP ratio from EBS/03/42, sup. 1 (4/25/03).
5/ Domestic debt stock estimates include TOR bonds issued in 2001 and 2002.
6/ Projected discrepancy in 2003 reflects float.
7/ The GPRS dedicates 80 percent of enhanced HIPC relief to poverty spending and 20 percent to domestic debt reduction. Projections for poverty spending from 2004 onward are not available.

Table 5. Ghana: Monetary Survey, 2002-05

	2002	2003								2004	2005
	Dec. Act.	Mar. Prog. 1/	Mar. Est.	June Prog. 1/	June Est.	Sep. Prog. 1/	Sep. Est.	Dec. Prog. 1/	Dec. Proj.	Dec. Proj.	Dec. Proj.
Bank of Ghana	(In billion of cedis, unless otherwise specified; end of period)										
Net foreign assets	2,297	1,662	2,024	977	3,682	1,784	5,246	3,969	5,750	7,483	9,224
(in millions of U.S. dollars)	272	187	235	106	423	185	600	397	655	813	973
Net domestic assets	3,470	3,303	2,765	3,860	1,403	3,414	-101	3,211	1,433	1,051	371
Claims on government (net)	2,818	2,968	2,318	3,516	1,509	3,184	1,380	3,271	2,818	2,760	2,504
Claims on deposit money banks 2/	-375	-767	-767	-703	-1,087	-764	-2,390	-945	-1,736	-1,927	-2,350
Claims on rest of the economy	271	433	433	433	135	433	16	433	16	16	16
Other items, net (assets +)	757	669	782	615	846	561	892	452	336	202	201
Reserve money (RM)	5,767	4,965	4,789	4,837	5,085	5,197	5,144	7,180	7,184	8,534	9,595
Currency outside banks	4,672	3,979	3,944	3,885	4,210	4,084	4,151	5,802	5,802	6,899	7,760
Bank reserves	1,056	946	790	912	845	1,073	946	1,339	1,335	1,588	1,787
Cash	273	165	196	160	182	226	170	355	355	422	475
Deposits	783	782	594	752	663	847	775	983	980	1,166	1,312
Nonbank deposits	40	40	56	40	30	40	47	40	47	47	47
Deposit money banks											
Net foreign assets 3/	1,275	2,300	1,326	2,582	1,479	3,224	1,568	3,489	1,627	2,397	2,676
(in millions of U.S. dollars)	151	259	154	279	170	335	179	349	185	260	282
Reserves	1,056	946	790	912	845	1,073	946	1,339	1,335	1,588	1,787
Net claims on Bank of Ghana 2/	375	767	767	703	1,087	764	2,390	945	1,736	1,927	2,350
Domestic credit	12,637	13,786	12,925	14,098	12,616	14,102	13,637	14,596	15,086	16,880	18,490
Claims on government (net) 4/	5,535	6,409	5,814	6,241	4,746	5,413	4,933	5,283	5,535	4,425	3,630
Claims on nongovernment 4/	7,102	7,377	7,111	7,857	7,871	8,690	8,705	9,313	9,550	12,455	14,859
Of which Public enterprises (PE) 4/	965	980	1,121	1,000	1,286	1,025	1,299	1,070	1,299	...	...
Private sector	5,980	6,197	5,904	6,757	6,407	7,565	7,306	8,085	8,094	...	...
Other items, net (assets +) 3/	-4,718	-6,292	-4,621	-6,569	-4,238	-6,516	-5,990	-6,493	-5,956	-6,343	-6,794
Total deposits	10,625	11,508	11,186	11,726	11,789	12,647	12,551	13,875	13,827	16,449	18,509
Monetary survey											
Net foreign assets	3,571	3,963	3,350	3,559	5,161	5,008	6,814	7,458	7,377	9,880	11,900
(in millions of U.S. dollars)	423	446	390	385	593	521	779	746	840	1,073	1,255
Net domestic assets	11,765	11,564	11,836	12,092	10,868	11,763	9,936	12,259	12,299	13,515	14,417
Domestic credit	15,726	17,180	15,676	18,046	14,260	17,719	15,034	18,300	17,919	19,656	21,010
Claims on government (net) 4/	8,353	9,377	8,132	9,757	6,255	8,597	6,313	8,554	8,353	7,185	6,135
Claims on nongovernment 4/	7,373	7,803	7,544	8,290	8,005	9,123	8,721	9,746	9,566	12,472	14,875
Other items, net (assets +)	-3,961	-5,616	-3,839	-5,954	-3,392	-5,956	-5,097	-6,041	-5,620	-6,142	-6,594
Broad money (M2+) 5/	15,336	15,527	15,186	15,651	16,029	16,772	16,750	19,717	19,676	23,395	26,317
Broad money (M2)	11,783	11,633	11,384	11,625	11,973	12,367	12,363	14,763	14,737	17,522	19,711
Currency	4,672	3,979	3,944	3,885	4,210	4,084	4,151	5,802	5,802	6,899	7,760
Deposits 5/	10,664	11,548	11,242	11,766	11,819	12,687	12,599	13,915	13,874	16,496	18,556
Memorandum items:	(Annual percentage change, unless otherwise specified)										
Broad money (M2)	49.6	46.5	43.4	39.7	43.9	38.3	38.5	25.0	25.1	18.9	12.5
Reserve money (RM)	42.6	35.5	30.7	32.0	38.8	36.3	34.9	24.5	24.6	18.8	12.4
Velocity (GDP/end-of-period M2)	4.147	4.515	4.614	4.858	4.717	4.909	4.910	4.420	4.428	4.430	4.428
Reserve money multiplier (M4/RM)	2.043	2.429	2.377	2.403	2.355	2.379	2.403	2.056	2.051	2.053	2.054
Bank reserves-to-deposits ratio 6/	0.148	0.124	0.106	0.118	0.109	0.130	0.115	0.149	0.149	0.149	0.150
Broad money (M2+) 5/	49.6	44.5	41.3	39.0	42.4	38.2	38.2	28.3	28.3	18.9	12.5
Reserve money (RM+) 7/	48.2	45.1	40.6	40.4	51.6	37.5	40.1	26.0	26.0	18.8	12.4
Velocity (GDP/end-of-period M2+)	3.186	3.383	3.459	3.608	3.523	3.620	3.624	3.310	3.317	3.318	3.317
Reserve money multiplier (M2+/RM+)	2.395	2.737	2.763	2.855	2.708	2.842	2.786	2.445	2.439	2.441	2.442
Foreign currency deposits to total deposits	0.333	0.337	0.334	0.342	0.339	0.347	0.348	0.356	0.356	0.356	0.356
Currency-to-deposits ratio 5/	0.438	0.345	0.351	0.330	0.356	0.322	0.329	0.417	0.418	0.418	0.418
Currency/M2+ ratio	0.305	0.256	0.260	0.248	0.263	0.244	0.248	0.294	0.295	0.295	0.295
Credit to the private sector 8/	33.7	29.8	23.7	29.3	22.6	34.4	29.1	37.9	35.4	34.8	21.4
Net international reserves (millions of U.S. dollars)	123	49	100	-33	253	47	446	259	501	659	819
Exchange rate (cedis per U.S. dollar, e.o.p.)	8,439	...	8,600	...	8,700	...	8,745	...	...	...	...

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

1/ As in EBS/03/42 (4/3/03), Supplement I (4/25/03).

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

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

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

5/ Including foreign currency deposits.

6/ Excluding foreign currency deposits.

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

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

Table 6. Ghana: Balance of Payments, 2000-08

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

	2000	2001	2002	2003		2004	2005	2006	2007	2008
		Prel.	Prov.	Prog. 1/	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Exports f.o.b.	1,936	1,867	2,057	2,314	2,277	2,368	2,548	2,633	2,738	2,855
Cocoa beans and cocoa products	437	381	463	614	772	784	817	819	820	836
Gold	705	618	689	755	770	756	797	817	844	873
Timber and timber products	175	169	182	185	176	188	201	214	242	261
Others	619	699	723	761	560	640	733	783	831	885
Imports, f.o.b.	-2,759	-2,831	-2,714	-3,169	-3,189	-3,359	-3,639	-3,834	-4,010	-4,190
Non-oil	-2,239	-2,314	-2,206	-2,580	-2,582	-2,788	-3,087	-3,291	-3,453	-3,605
Oil	-520	-517	-508	-588	-608	-571	-552	-543	-557	-585
Trade balance	-823	-964	-657	-854	-912	-990	-1,091	-1,202	-1,272	-1,335
Services (net)	-246	-182	-214	-291	-285	-288	-296	-286	-265	-243
Of which: interest payments	-109	-106	-124	-113	-119	-118	-120	-117	-118	-120
Private transfers (net)	496	600	680	656	783	841	899	1,015	1,066	1,070
Current account balance,										
excluding official transfers	-573	-546	-190	-490	-413	-438	-487	-472	-471	-509
Official transfers (net)	154	263	221	359	385	349	337	335	330	337
Of which: HIPC grants	0	0	62	73	79	111	114	112	115	115
Current account balance,										
including official transfers	-419	-283	30	-131	-28	-89	-150	-137	-141	-171
Capital account	163	192	-65	99	129	166	127	165	206	247
Official capital (net)	97	104	-115	12	54	65	69	104	141	183
Medium- and long-term loans										
Inflows	513	391	195	296	337	334	334	349	364	381
Amortization	-416	-288	-309	-284	-283	-269	-265	-245	-223	-198
Private capital	65	88	50	87	75	101	57	61	66	64
Of which: divestiture receipts	51	0	0	37	25	47	0	0	0	0
Other capital and errors and omissions	134	107	74	-45	101	-140	-32	-34	-25	-27
Of which: change in net foreign assets of commercial banks	27	-77	-18	-110	-34	-75	-22	-34	-25	-27
errors and omissions	95	164	32	0	0	0	0	0	0	0
Overall balance	-123	17	40	-77	202	-63	-55	-6	41	49
Change in arrears	27	34	-61	0	0	0	0	0	0	0
Financing	96	-50	21	28	-202	2	3	-60	-95	-119
Debt deferral	0	150	-35	-35	-35	-35	-35	-35	0	0
Net international reserves (negative is increase) 2/	96	-200	-157	-130	-378	-157	-160	-178	-201	-208
Of which: use of Fund credit	-2	1	54	51	52	32	23	-2	-57	-62
Disbursements (PRGF)	35	67	68	72	73	73	73	36	0	0
Repayments (PRGF)	-37	-66	-14	-21	-21	-41	-50	-39	-57	-62
Change in reserves (negative is increase)	52	-79	-291	-181	-460	-190	-183	-176	-145	-146
Exceptional financing 3/	0	0	214	216	212	221	198	153	106	88
Financing gap	0	0	0	49	0	61	53	66	54	70
Of which: additional donor financing	0	0	0	25	0	61	53	66	54	70
Memorandum items:										
Current account deficit (in percent of GDP)										
Excluding official transfers	11.5	10.3	3.1	6.9	5.5	5.1	5.2	4.7	4.3	4.3
Including official transfers	8.4	5.3	-0.5	1.8	0.4	1.0	1.6	1.4	1.3	1.5
Gross international reserves										
End of period (U.S. dollars millions)	264	344	635	811	1,095	1,284	1,467	1,644	1,788	1,934
In months of imports of goods and services	0.9	1.2	2.0	2.3	3.2	3.5	3.8	4.1	4.2	4.3
Cocoa exports										
Volume (in thousands of tons)	389	370	367	395	468	475	489	504	519	535
Price (in US dollars per ton)	1,092	1,021	1,266	1,500	1,650	1,650	1,670	1,620	1,570	1,550
External debt service paid										
In percent of exports of goods and nonfactor services	21.9	11.2	10.2	5.6	5.0	3.3	4.6	4.9	4.9	4.7
In percent of government revenue	60.2	28.0	24.1	10.6	8.9	5.1	6.9	7.2	6.9	6.4

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

1/ As in EBS/03/42 (4/3/03), Supplement 1 (4/25/03).

2/ Definition changed from net foreign assets to net international reserves at the end of 2000.

3/ Includes interim HIPC relief from Paris Club creditors comprising Naples and Cologne flow terms, as described in EBS/02/20.

December 3, 2003

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

Dear Mr. Köhler:

1. On behalf of the government of Ghana, we hereby transmit an attached memorandum of economic and financial policies (MEFP) that sets out the objectives and policies that the government intends to pursue for the remainder of 2003, as well as fiscal objectives for 2004 consistent with the Ghana Poverty Reduction Strategy (GPRS) and its underlying medium-term economic framework.

2. The government of Ghana has made substantial progress in raising revenue to make room for increased poverty-related spending and development needs, strengthening public expenditure management, and using appropriate monetary policy to deliver on our inflation target. Looking forward, the policies set out in the attached memorandum, together with continuing implementation of the broader policy agenda in the GPRS, aim at solidifying these gains in the period ahead. The prior actions for the first review, performance criteria and benchmarks for the second review, and quarterly indicative targets through end-2004, are set out in Tables I.1 and I.2 of the MEFP.

3. In support of our objectives and policies, the government of Ghana hereby requests the completion of the first review and the disbursement of the second loan under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 26.35 million (7.1 percent of quota). We understand that completion of the first review and the disbursement of this loan are conditioned upon observance of all prior actions set forth in Table I.2 of the MEFP. In support of its overall economic program, the government will continue seeking support from bilateral and multilateral donors and creditors.

4. The government of Ghana will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

5. The government of Ghana believes that the policies and measures set forth in the MEFP are adequate to achieve the objectives of the 2003 program supported by the PRGF arrangement, but will take further measures to that end if deemed necessary. During the implementation of the arrangement, the government of Ghana will consult with the Managing Director on the adoption of any measures that may be appropriate, at the initiative of the government or whenever the Managing Director requests such a consultation.

6. The government intends to make the contents of this letter and those of the attached MEFP and technical memorandum of understanding (TMU), as well as the staff report on the first review under the PRGF arrangement, available to the public and authorizes the IMF to arrange for them to be posted on the IMF website, subsequent to Board completion of the first review.

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

Yours sincerely,

/s/
Hon. Yaw Osafo-Maafo, MP
Minister of Finance and Economic Planning

/s/
Hon. Paul A. Acquah
Governor, Bank of Ghana

Attachments (2)
Memorandum of Economic and Financial Policies for 2003-04
Technical Memorandum of Understanding

Memorandum of Economic and Financial Policies of the Government of Ghana for 2003-04

December 3, 2003

I. Introduction

1. The Ghana Poverty Reduction Strategy (GPRS), which was finalized in February 2003, defined the government's economic objectives and policy agenda for 2003-05. The implementation of this strategy is receiving broad-based support from the international community. Consistent with the goals established in the GPRS, this memorandum updates our macroeconomic framework and structural reform agenda for the remainder of 2003, and outlines a fiscal framework for the 2004 budget, which is currently under preparation. Our detailed policy agenda for 2004 will be set out at the time of the second review under the PRGF arrangement, together with our annual progress report on implementation of the GPRS. Subject to continued satisfactory performance under the PRGF arrangement and implementation of other applicable conditions, we hope that Ghana will attain the completion point under the enhanced HIPC Initiative around mid-2004.

II. Program Performance During 2003

2. Macroeconomic policy implementation during the first half of this year was strong, and all quantitative and structural performance criteria through end-June 2003 were observed:

- Although there were some delays in implementing the new measures approved by Parliament as part of the 2003 budget, underlying fiscal revenues exceeded expectations, while expenditures were kept within budget ceilings. This contributed to a net repayment of domestic government debt equivalent to 0.8 percent of GDP during the first half of the year (2½ percent of GDP better than programmed).

- Following the jump in inflation in early 2003, associated with a 90 percent increase in petroleum prices, monthly inflation subsided in line with program expectations. The 12-month CPI inflation rate was 26.8 percent in September, down from a peak of 30 percent in April. During the first half of 2003, broad money expanded at an annual rate of only 9 percent, while reserve money contracted.

- At end-June, the Bank of Ghana's net international reserves exceeded the program target by US$211 million, even after adjusting for larger-than-expected donor inflows, thanks in part to a bumper cocoa crop.

3. On the structural reform agenda:

- In the face of strong public opposition, the government announced on August 15 that it had suspended the sale of a majority interest in Ghana Commercial Bank (GCB) to a strategic investor, to allow time to consider other possible options.

a. The prices of domestic petroleum products, electricity, and water remained in line with the established automatic formulas through end-June 2003, without need for adjustments. Beginning in August (July in the case of electricity and water), the pricing formulas indicated the need for upward adjustments in these prices, but the adjustments were temporarily delayed, pending an examination of continuing losses by the Tema Oil Refinery (TOR) and the public utilities.

b. The new cash management system has contributed to improved expenditure control in 2003. Expenditures were held within budget ceilings, and the monthly "fiscal early warning" reports—which were produced on schedule—served their intended purpose in flagging to Cabinet an incipient overrun in the education sector's wage bill. Technical problems, however, were encountered in the rollout of the automated budget accounting system (BPEMS), which contributed to continuing difficulties in producing fully reconciled budget outturn data within eight weeks of month's end.

c. Progress was made with regard to the planned divestiture of government stakes in a number of joint venture enterprises, with collection during the first half year of about half of the proceeds targeted for 2003.

III. The Program for 2003-04

A. Growth and Inflation Objectives

4. The government is maintaining its objectives for real GDP growth in 2003 (4.7 percent) and 2004 (5.0 percent). We also remain committed to bringing 12-month CPI inflation down to 22 percent by end-2003, and to single digits in 2004, while raising our goal for the buildup in net international reserves at the Bank of Ghana.

B. Monetary Policy

5. To achieve the inflation objective, the Bank of Ghana intends to keep the pace of monetary expansion within the original program targets. This implies bringing the 12-month growth rate of broad money (excluding foreign currency deposits) down from 44 percent at end-June 2003 to around 25 percent by end-December 2003. The intermediate goal of 24 percent growth in reserve money (excluding banks' foreign currency deposits) during 2003 will be adhered to in support of this objective.

6. In order to secure a desired buildup in net international reserves of at least US$378 million in 2003 (up from a previously targeted US$130 million), the central bank's net domestic assets, calculated at the program exchange rate, will be reduced by not less than ¢1,857 billion in the year to December 31, 2003. The corresponding quarterly targets are

shown in Table I.1. The Bank of Ghana will use open market and repurchase operations, and adjustments in its prime rate as necessary, to achieve its monetary objectives.

C. Fiscal Policy

7. The medium-term framework underlying the GPRS and the PRGF-supported program aims at halving the domestic debt-GDP ratio by end-2005 from its end-2002 level. To achieve this, the medium-term fiscal program envisages zero net domestic financing in 2003, consistent with the original program, and net domestic debt repayments of 2-2½ percent of GDP in 2004 and 2005.

8. Despite lower-than-programmed yields from some of the new revenue measures introduced in the 2003 budget, and the expectation of a modest overrun on the government wage bill, the outlook for this year's fiscal program remains broadly on track:

- Improved underlying tax revenue performance, reflecting in part intensified efforts to strengthen compliance, is expected to broadly outweigh lower receipts from the new revenue measures and the adverse impact on petroleum-related revenues of lower-than-expected demand for petroleum products. Consistent with the revised revenue assumptions, we intend in November 2003 to begin the new timber auctions that were envisaged in the 2003 budget.

- The wage bill is projected to overshoot its target by just under 2½ percent (0.1 percent of GDP), most of which is attributable to salaries for some 30,000 staff in the education sector who were not covered in the budget calculations but who were subsequently validated. The revised nominal wage target for 2003 is ¢5,576 billion, up from ¢5,450 billion in the original program.

- Delayed adjustment of petroleum product prices and electricity and water tariffs will require additional budget subsidies to TOR and the utility companies totaling ¢574 billion, while VRA requires additional government assistance totaling ¢396 billion to clear the company's external arrears. Of these amounts, ¢638 billion will be paid in 2003 and the remainder in 2004.

- Expenditures on goods and services and domestically financed capital projects are expected to be broadly in line with the original program, to ensure funding of the government's GPRS priorities. Payments into the Ghana Education Trust Fund are now being made with a one month rather than a one quarter lag, implying an additional ¢130 billion in transfers to this fund in 2003.

- Based on a verification of domestic payments arrears outstanding at end-2002, the government now expects to clear more arrears in 2003 than planned at the time of the budget. These comprise settlement of (i) ¢240 billion in road sector arrears (¢20 billion more than planned); (ii) ¢97 billion cedis to the District Assembly Common Fund and the Ghana Education Trust Fund, in line with the budget assumption, and

(iii) ¢294 billion in nonroad nonstatutory fund arrears, up from ¢100 billion planned in the budget.

- Current estimates suggest that total poverty-related expenditures are likely to reach almost ¢4,500 billion (6.9 percent of GDP) in 2003, slightly above the program target.

9. The budget appropriation approved by Parliament in March 2003 was based on a lower inflation assumption than the fiscal framework underlying the program. The government therefore submitted to Parliament a request for a supplementary appropriation that is in line with the fiscal framework set out in this memorandum, so as to ensure that the expenditures envisaged in the program for 2003 can be executed, and Parliament approved this appropriation on November 5, 2003. The government will continue to monitor budget implementation closely, and if necessary will adjust non-poverty-related expenditures to ensure that the target of zero net domestic financing in 2003 is not exceeded.

10. The fiscal outlook for 2004 and the medium term should allow the government's expenditure needs, as envisaged in the GPRS, to be met in full, while adhering to the GPRS target path for domestic debt reduction:

- The targeted ratio of revenues (excluding grants) to GDP in 2004 remains in line with the GPRS, at around 22 ½ percent. The projections assume implementation of the NHIL in June 2004, via legislative instrument.

- The 2004 budget will incorporate a wage bill of ¢6,632 billion, which is equivalent to 8½ percent of projected GDP. If the timing of the 2004 salary increase for government workers is similar to that in 2003, this would allow for an average salary increase of about 19 percent.

- Budgetary subsidies to public enterprises in 2004 will be limited to ¢392 billion, including ¢60 billion needed to cover the cost of preferential utility tariffs for the poorest consumers.

- Consistent with spending plans under the GPRS, domestic capital expenditure will increase by around 0.7 percent of GDP in 2004, to 6 percent of GDP.

- The government will remain current on all transfers to the GETF and the DACF, as well as on other expenditure commitments, and will pay the ¢97 billion due under the medium-term plan for eliminating arrears to the statutory funds.

- The 2004 budget will incorporate a further increase in poverty related expenditure as a share of GDP.

11. On August 26, 2003, Parliament approved the legislative framework for a new national health insurance scheme (NHIS). The scheme is intended to provide basic health service to all Ghanaians, while replacing the "cash and carry" system of user fees at the point

of delivery. It will be funded through premium payments to mutual health organizations (MHOs) to be established in each district, and subsidy payments from a national health insurance fund (NHIF) to reimburse MHOs for the cost of exemptions granted to the poor. The NHIF, which is expected to begin operations in July 2004, will receive funds from a National Health Insurance Levy of 2½ percent on goods and services, and 2½ percent of workers' salaries out of their current contribution of 17½ percent to SSNIT. The NHIS legislation stipulates that the council administering the fund shall annually submit to Parliament the formula for distributing subsidies to MHOs.

12. The new scheme is projected to result in a net addition to aggregate budgetary health sector expenditure of around ¢50 billion per year, relative to the amounts assumed in the medium-term fiscal framework underlying the GPRS. In elaborating the details of the scheme over the coming months, the government will work, together with donors participating in the health sector wide approach (SWAP), to ensure that its design will be consistent with the program's expenditure assumptions, and will incorporate adequate safeguards to manage the budgetary impact on a continuing basis.

13. The government stands ready during 2004 to (i) take appropriate measures, as and when necessary, to preserve the program's revenue objective; and (ii) curtail nonpoverty-related expenditures if needed to stay within the program target for net domestic financing.

D. Public Expenditure Management and Tax Administration

14. An enhanced commitment control and cash management system, designed with technical assistance from the IMF and run on a pilot basis in a number of ministries, departments and agencies (MDAs) this year, will be put in place in all MDAs by January 1, 2004. This system should reinforce hard budgets constraints at the MDA level and guard against the buildup of arrears.

15. The government will also act on the results of the recently completed public sector census, and remove any irregular names from the payroll by March 31, 2004. Other public expenditure management reforms expected in 2004 include:

- alignment of the functional classification of expenditure with GFS;
- simplification of the medium-term expenditure framework (MTEF);
- further efforts, especially within the Multi Donor Budget Support (MDBS) framework, to incorporate all donor project resources and MDAs' internally generated funds into the budget;
- improved and more timely reconciliation of treasury and banking data to allow for the production of accounts 8 weeks after the end of the month;
- rollout of the budget and public expenditure management system (BPEMS) to three further MDAs (health, education, and roads and transport); and

- the closure, by January 1, 2004, of all overdraft accounts at the Bank of Ghana, as well as government accounts that have been dormant for more than one year.

16. The Large Taxpayers' Unit (LTU) will be fully operational in early 2004, administering the tax accounts of more than 350 large taxpayers on a unified basis. This will contribute to further efficiency gains in revenue administration which are expected to be on the order of 5 percent.

E. Public Enterprise Reform

17. Petroleum pricing over the years has resulted in an underrecovery of costs by TOR, as a result of which, by end-2002, the refinery had incurred debts of over ¢3.5 trillion (7 percent of GDP). The indebtedness of TOR has imposed a heavy burden on the budget, in the form of subsidies and interest on debt assumed by the government. This has had adverse distributional implications, by absorbing resources that could have been devoted to the poverty reduction priorities in the GPRS. Furthermore, over 90 percent of TOR's current debt (i.e., excluding the portion taken over by government) is owed to GCB, posing a systemic risk to the banking system. Against this background, the government has decided to accelerate the program for deregulation of the petroleum sector that was previously approved by Cabinet. The program will:

- promote competition in petroleum product marketing, including by providing scope for new entrants;

- allow private sector operators to import crude oil and/or refined petroleum products on their own account; TOR will stand ready to refine its own crude oil or that of other registered importers (on a fee basis), for the domestic market or for export; and

- allow petroleum prices to be market determined, through free competition among the oil marketing companies (OMCs).

18. The first phase of the deregulation process will involve the liberalization of the import of finished petroleum products by the OMCs in April 2004. The plans for the deregulation program will be announced in the 2004 budget, and petroleum prices will be liberalized by end-July 2004. Government has started negotiations with the OMCs on new operating arrangements that will apply under deregulation. A National Petroleum Planning Committee has been established with representation from the OMCs, Ministry of Energy, Ministry of Finance and Economic Planning, National Petroleum Tender Board, and Bank of Ghana to advise on the process of deregulation. Government will also undertake a comprehensive program of public education and awareness. During the transition period, government will ensure that domestic petroleum prices converge to international market levels, to avoid large adjustments immediately after deregulation. To this end, prices will be aligned with the automatic adjustment formula, as specified in the TMU, by January 30, 2004, and realigned by April 30, 2004.

19. The government remains committed to achieving and maintaining full cost recovery in electricity and water pricing, as well as to improving the efficiency of the utility companies. Accordingly:

- Effective October 1 and November 1, 2003, electricity and water tariffs were increased in cedi terms by 6 percent and 10 percent, respectively. These adjustments were in line with the automatic pricing formulas, and passed through the effects of higher world prices for petroleum products, the depreciation of the cedi, and changes in the generation mix for producing electricity from hydro and thermal sources.

- Ghana's state energy companies have been in discussions with the Ministry of Energy and the World Bank on ways to improve their financial and operating performance. These will include: (i) technical improvements to raise plant efficiency, reliability, and utilization; (ii) collection improvements, including by restricting customer lines of credit, better monitoring of bulk customers, and prosecuting nonpayers; and (iii) stricter enforcement of performance targets contracted with company managers.

- Cross debts among the entities—the Volta River Authority, the Electricity Company of Ghana, the Ghana Water Company Limited, and Tema Oil Refinery—and with government have obscured the true financial picture of the companies and inhibited the development of a viable operating plan. Accordingly, the Auditor General's Department undertook and completed a study to determine the size of all cross debts, and with, approval from the Ministry of Finance and Economic Planning, these debts will be settled by end-December 2003.

- Work is under way to install prepayment meters, to help reduce nontechnical revenue losses in the electricity and water sectors.

20. The pricing formulas for electricity and water will continue to be administered directly by the Public Utilities Regulatory Commission (PURC). The PURC has the mandate and independent authority to make quarterly price adjustments according to the formulas without further approval from government ministries, and this independence will henceforth be strictly observed. Electricity and water tariffs will be fully aligned with their respective automatic pricing formulas, which are specified in the TMU, as of January 30, 2004 and April 30, 2004.

21. The government remains committed to bringing new capital and strengthened management to GCB in order to improve the bank's efficiency and enhance its contribution to the Ghanaian economy. Cabinet has approved in principle a strategy that aims at: (i) raising additional resources through a flotation of new shares in GCB on the Ghana Stock exchange; and (ii) putting out to competitive tender a management contract for the bank, with terms that require the managers to improve GCB's financial performance and service delivery. We will announce further details of this plan, including a broad timetable for implementation, in the 2004 budget statement. In the interim, to contain the impact of TOR's

finances on GCB's balance sheet, a program ceiling (performance criterion) has been established on net bank borrowing by TOR.

22. By the end of 2004, the government intends to complete action on the divestiture of state holdings in joint venture companies. These and other asset sales are expected to yield around ¢425 billion in 2004.

F. Financial Sector and Land Reform

23. In the course of 2003-04, the government will strive to obtain Parliamentary approval for:

- the Banking Bill, to reinforce the central bank's powers to conduct effective supervision of the banking system;
- the Payments System Bill and the Bills and Cheques Bill, to modernize the legal framework for the payments system; and
- the Insurance Bill, to strengthen the regulatory framework for insurance companies operating in Ghana.

We will also submit to Parliament an Anti-Money Laundering Bill, seeking its enactment before end-2004, and will initiate legislation in the following areas:

- establishment of a legal framework for credit rating agencies, to enhance the access of individuals and small businesses to credit; and
- corporate insolvency and a new Companies Code.

24. If, as envisaged, the supply of treasury bills is sharply curtailed over the medium term, commercial banks will be looking to expand their lending to the private sector. In this environment, while banking supervision may need to be enhanced to ensure that banks are adequately managing their additional balance sheet risk, the level of secondary reserve requirements (35 percent) could become a binding constraint. The Bank of Ghana will consider what steps may be needed in these areas, and its plan of action will be assessed at the time of the second review under the PRGF arrangement.

25. The lack of an adequate land registry system impedes foreign investment and limits the contribution which the financial system can make to growth. Improvements in this area call for centralization, simplification, and improvement in the efficiency of land titling services; timely adjudication of the backlog of land disputes; and introduction of land auctions and title insurance to alleviate corruption, reduce delays in land procurement, and enable the use of land for collateral purposes. In consultation with the World Bank, the government will draw up a concrete plan to address land registration issues, for implementation beginning in early 2004.

26. Work is under way on the establishment of a computerized real-time interbank market for foreign exchange. The FIRST Initiative has agreed to provide technical assistance, under IMF auspices, to help the Bank of Ghana complete preparations for launch during 2004.

G. External Sector Policies

27. The government will strive to ensure that all necessary actions are fully implemented, notably in the areas of public expenditure management and reform of the civil service, to facilitate timely donor disbursements under the PRSC and MDBS. The government will continue negotiations aimed at securing relief under the enhanced HIPC Initiative from non-Paris Club creditors and completing bilateral agreements with Paris Club creditors.

28. The Bank of Ghana will continue to allow the cedi exchange rate to be market determined, limiting interventions to smoothing short-term fluctuations in the exchange market and ensuring achievement of the targeted buildup of net international reserves.

29. The government reiterates its commitment not to implement the tariff measures proposed in the 2003 budget during the period of the PRGF arrangement.

H. Good Governance and Statistical Transparency

30. During 2003-04, the government will:

- take steps to ensure full staffing of internal audit positions (a HIPC completion point trigger);

- seek passage of the Procurement Bill, to pave the way for establishment of a regulatory and oversight body to implement the new code (also a HIPC completion point trigger);

- provide regular government reports to Parliament on the implementation of the budget and GPRS, and strengthen Parliament's capacity to exercise oversight; and

- provide adequate resources in the 2004 budget to ensure the continued operation of the Fast Track Court, and reestablish commercial courts with donor assistance.

31. The government notes that the Bank of Ghana has conducted and published an external audit of its 2002 financial statements in accordance with International Accounting Standards. In response to a full safeguards assessment by the IMF in mid-2003, the Bank of Ghana intends to implement the recommendations contained in the safeguards assessment report. These include formal adoption of IAS as the Bank's accounting framework, and review by the internal audit department of data reported to the Fund.

32. The government is committed to the production of timely and accurate statistics in support of transparency and to allow a better assessment of developments in the economy. In the context of work to rebase the CPI, a number of data corrections are being made with the

aim of publishing the revised series (using 2002 weights) beginning in January 2004. Work has been proceeding in parallel to re-base and revise the national accounts, and the new data are expected to be published during the first half of 2004.

IV. Program Monitoring

33. **Technical memorandum of understanding.** The program will be monitored using the definitions, data sources, and frequency of monitoring set out in the accompanying TMU. The government will make available to Fund staff all core data, appropriately reconciled and on a timely basis, as specified in the TMU.

34. **Prior actions.** The government will undertake a number of actions prior to the IMF Board meeting to consider the completion of the first review under the PRGF arrangement, in order to ensure effective implementation of the economic program described in this memorandum (Table I.2).

35. **Performance criteria**. Table I.1 shows the quantitative performance criteria and benchmarks for end-December 2003, with quarterly indicative benchmarks for March, June, September, and December 2004. The end-June 2004 targets will be converted to performance criteria at the time of the second review. Structural performance criteria and benchmarks with corresponding dates are identified in Table I.2. In addition, the nonaccumulation of external payment arrears (as defined in the TMU) will constitute a continuous performance criterion, as will the standard injunctions against imposing or intensifying restrictions on current payments introducing or modifying multiple currency practices, concluding bilateral payments agreements that are inconsistent with Article VIII, or imposing or intensifying import restrictions for balance of payments reasons. The phasing and conditions for further disbursements during the second year of the arrangement shall be established at the time of the second review.

36. **Program review**. The second review under the PRGF arrangement will be completed by May 14, 2004. This review will focus on: (i) implementation of the public expenditure management and control system; (ii) the design and implementation of the energy and utility pricing formulas; (iii) measures to strengthen the finances of key public enterprises; and (iv) the next phase of reforms of the financial sector.

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

	End-March Benchmark			End-June Perf. criterion			End-September Benchmark			End-December Perf. Criterion	
	Prog. 2/	Adj. Prog. 3/	Actual	Prog. 2/	Adj. Prog. 3/	Actual	Prog. 2/	Adj. Prog. 3/	Prel.	Prog. 2/	Rev. Prog.
	(In billions of cedis)										
Performance criteria											
Net domestic financing of government (ceiling) 4/	823	931	135	1,203	496	-549	43	-123	-520	0	0
Net domestic assets of the Bank of Ghana (ceiling) 5/ 6/	-121	12	-682	445	-262	-1,984	127	-40	-3,427	307	-1,857
Stock of net domestic banking sector credit to TOR (ceiling)			...			...			767		928
	(In millions of U.S. dollars)										
Net international reserves of the Bank of Ghana (floor) 7/	-80	-96	-24	-162	-81	130	-82	-63	323	130	378
The contracting or guaranteeing of new nonconcessional external debt with original maturity greater than or equal to 1 year by the government or the Bank of Ghana (ceiling) 8/	0	0	0	0	0	0	0	0	0	0	0
Outstanding stock of external debt with original maturity of less than one year owed or guaranteed by the government or the Bank of Ghana 9/	75	75	1	75	75	61	75	75	17	75	75
Stock of external payment arrears 10/	0	0	0	0	0	0	0	0	0	0	0
	(In billions of cedis)										
Indicative benchmarks											
Government domestic primary surplus (floor)	-421	...	364	35	...	709	928	...	1,308	1,881	1,167
Reserve money stock	4,965	...	4,789	4,837	...	5,085	5,197	...	5,144	7,180	7,184
Government revenue, excluding grants and divestiture proceeds (floor)	2,608	...	2,730	5,958	...	5,758	9,819	...	9,420	14,108	13,941
Stock of government road sector arrears	165	....	216	110	...	108	55	...	54	0	0
	(In millions of U.S. dollars, unless otherwise specified)										
Memorandum items:											
External program support (loans and grants)	31	...	17	90	...	172	182	...	203	230	293
Paid public and publicly guaranteed debt service (after debt relief) 11/	22	...	20	74	...	75	94	...	96	143	146
Divestiture receipts	6	...	6	25	...	24	49	...	36	49	49
o/w: in foreign exchange	0	...	0	2	...	0	37	...	0	37	25
Average petroleum spot price (APSP in $/barrel) 12/	30.8	...	31.3	30.0	...	28.9	29.0	...	28.8	28.0	28.5

1/ Definitions of line items and terminology are elaborated in the EBS/04/42 technical memorandum of understanding (TMU).
2/ As in EBS/03/42 (4/3/03), Supplement 1 (4/25/03). Before application of adjusters, as indicated in the TMU.
3/ After application of adjusters, as indicated in the TMU.
4/ Value at end of month indicated. Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with an upside cap of $75 million, as explained in the TMU.
5/ Based on a fixed exchange rate of 8,504 cedis/$, the rate prevailing at end-December 2002.
6/ Value at end of month indicated. Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with an upside cap of $75 million, and for higher-than-programmed oil prices, with an upside cap of $30 million, as explained in the TMU.
7/ Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with a downside cap of -$75 million, and for higher-than-programmed oil prices, with a downside cap of -$30 million, as explained in the TMU.
8/ This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/123) of August 24, 2000 but also to commitments or contracted for which value has not been received, as specified in paragraph 15 of the TMU.
9/ The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/123) of August 24, 2000, as specified in paragraph 14 of the TMU.
10/ This is a continuous criterion. The TMU stipulates the precise program definition of payment arrears.
11/ Debt service to be paid by Ghana after projected HIPC relief in 2003.
12/ Average from beginning of 2003 to end of month indicated, as explained in the TMU.

Table I.1. Ghana: Quantitative Performance Criteria and Benchmarks, PRGF Arrangement, 2004 1/ (concluded)
(Cumulative flows from beginning of calendar year 2002 to end of month indicated, unless otherwise indicated)

	End-March Benchmark	End-June Benchmark	End-September Benchmark	End-December Benchmark
	Prog. 2/	Prog. 2/	Prog. 2/	Prog. 2/
Performance criteria	(In billions of cedis)			
Net domestic financing of government (ceiling) 4/	-255	-533	-1,725	-1,733
Net domestic assets of the Bank of Ghana (ceiling) 5/ 6/	-2,720	-3,050	-3,075	-1,850
Stock of net domestic banking sector credit to TOR (ceiling)	326	301	192	658
	(In millions of U.S. dollars)			
Net international reserves of the Bank of Ghana (floor) 7/	362	441	433	536
The contracting or guaranteeing of new nonconcessional external debt with original maturity greater than or equal to 1 year by the government or the Bank of Ghana (ceiling) 8/	0	0	0	0
Outstanding stock of external debt with original maturity of less than one year owed or guaranteed by the government or the Bank of Ghana 9/	75	75	75	75
Stock of external payment arrears 10/	0	0	0	0
Indicative benchmarks	(In billions of cedis)			
Government domestic primary surplus (floor)	1,493	2,244	2,654	2,939
Reserve money stock	6,193	6,501	6,416	8,534
Government revenue, excluding grants and divestiture proceeds (floor)	17,482	21,501	26,095	31,313
Stock of government road sector arrears	0	0	0	0
Memorandum items:	(In millions of U.S. dollars, unless otherwise specified)			
External program support (loans and grants)	305	434	463	581
Paid public and publicly guaranteed debt service (after debt relief) 11/	158	202	220	256
Divestiture receipts	55	65	77	96
o/w: in foreign exchange	25	45	65	73
Average petroleum spot price (APSP in $/barrel) 12/	28.2	27.8	27.4	27.0

1/ Definitions of line items and terminology are elaborated in the EBS/03/42 technical memorandum of understanding (TMU).
2/ Before application of adjusters, as indicated in the TMU.
3/ After application of adjusters, as indicated in the TMU.
4/ Value at end of month indicated. Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with an upside cap of $75 million, as explained in the TMU.
5/ Based on a fixed exchange rate of 8,504 cedis/$, the rate prevailing at end-December 2002.
6/ Value at end of month indicated. Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with an upside cap of $75 million, and for higher-than-programmed oil prices, with an upside cap of $30 million, as explained in the TMU.
7/ Program targets adjusted for cumulative differences between actual and projected amounts of program support, public and publicly guaranteed debt service paid, and divestiture receipts with a downside cap of -$75 million, and for higher-than-programmed oil prices, with a downside cap of -$30 million, as explained in the TMU.
8/ This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/123) of August 24, 2000 but also to commitments or contracted for which value has not been received, as specified in paragraph 15 of the TMU.
9/ The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by Decision 12274-(00/123) of August 24, 2000, as specified in paragraph 14 of the TMU.
10/ This is a continuous criterion. The TMU stipulates the precise program definition of payment arrears.
11/ Debt service to be paid by Ghana after projected HIPC relief in 2003 and 2004.
12/ Average from beginning of 2003 to end of month indicated, as explained in the TMU.

Table I.2. Prior Actions, Structural Performance Criteria and Benchmarks for 2003-04

Prior actions for completion of the first review under PRGF arrangement

1. Obtain parliamentary passage of a supplementary expenditure appropriation that is consistent with aggregate government expenditures for 2003 of not more than ¢19,233 billion.

2. Bring electricity and water tariffs into line with the automatic adjustment formulas, based on calculated values through September 2003.

3. Cabinet approval in principle of a strategy for GCB, as described in paragraph 21 of this memorandum.

Structural performance criteria

4. Ensure that petroleum product prices are in line with the automatic adjustment formula as specified in the technical memorandum of understanding [January 30, 2004 and April 30, 2004].

5. Ensure that electricity and water tariffs are in line with their respective automatic adjustment formulas as specified in the technical memorandum of understanding [January 30, 2004 and April 30, 2004].

6. Announcement in the 2004 budget statement of a plan for transforming the ownership and management control of GCB, consistent with the strategy described in paragraph 21 of this memorandum, including a timetable for implementation [March 31, 2004].

Structural benchmarks

7. Submit to the Economic Management Team the monthly fiscal reports described in the TMU, with a maximum lag of eight weeks, for August-October 2003 [December 31, 2003] and November 2003-January 2004 [March 31, 2004].

8. Determine and settle all cross arrears between VRA, ECG, GWCL, TOR, and government [December 31, 2003].

GHANA

Technical Memorandum of Understanding

1. This technical note contains definitions and adjuster mechanisms that are intended to clarify the measurement of items in Table I.1, Quantitative Performance Criteria, PRGF Arrangement, 2003, attached to the Memorandum of Economic and Financial Policies. Unless otherwise specified, all quantitative performance criteria and benchmarks will be evaluated in terms of cumulative flows from December 31, 2002.

Provision of Data to the Fund

2. Data with respect to all variables subject to performance criteria and indicative benchmarks will be provided to Fund staff on a monthly basis with a lag of no more than eight weeks (except for select data for which the data reporting lag is explicitly specified in Table I.3). The authorities will transmit promptly to Fund staff any data revisions. For variables that are relevant for assessing performance against program objectives but are not specifically defined in this memorandum, the authorities will consult with Fund staff as needed on appropriate measurement and reporting.

Definitions

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

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

5. **Government domestic expenditure** comprises all spending from uncommitted accounts for Items 1-4, as captured by the accounts of the Controller Accountant General's Department (CAGD). Reporting will be based on the current NETS accounting system, and its associated 15-digit chart of accounts, and will be fully reconciled with BOG bank statements on spending (outflows) from the 42 newly created MDA Operational Accounts (plus any residual use of existing Treasury Drawing/overdraft accounts, with these latter accounts to be closed by end-2003). Expenditure will also be verified by comparing it to accounts produced by the BPEMS accounting system, until such time as the latter system becomes fully operational.

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

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

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

the measure of the domestic primary balance (including unspent balances remaining in committed accounts).

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

10. The **program exchange rate** for the purposes of this memorandum will be 8504 cedis per dollar, i.e., the simple average of the buying and selling interbank transactions rates for December 31, 2002.

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

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

13. **Net international reserves** (NIR) of the Bank of Ghana are defined for program monitoring purposes and in the balance of payments as short-term foreign assets of the Bank of Ghana, minus short-term external liabilities. To the extent that short-term foreign assets are not fully convertible external assets readily available to and controlled by the Bank of Ghana (i.e., they are pledged or otherwise encumbered external assets, including, but not limited to, the HIPC umbrella SDR account, and assets used as collateral or guarantees for third party liabilities such as the two identified encumbered accounts held abroad totaling US$9.3 million as of June 2003) these will be excluded from the definition of NIR. Net

international reserves are also defined to include net swap transactions (receivable less payable), and exclude all positive foreign currency deposits at the BOG held by deposit money banks, public institutions, nonfinancial public enterprises, other financial institutions, and the private sector. All values are to be converted to U.S. dollars at actual market exchange rates prevailing at the test date. A more detailed listing of accounts to be included in the measure of NIR is contained in the Monetary Template referred to above.

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

15. The performance criterion on **short-term external debt** refers to the outstanding stock of external debt with original maturity of one year or less, including overdraft positions and debt owed or guaranteed by the government or the Bank of Ghana.[21] Data on the Bank of Ghana's short-term external debt are those reported from the statement of accounts template as short-term liabilities to non-resident commercial banks (1201 plus 301 overdrafts plus Crown Agent). The limit on short-term external debt will exclude US$5.5 million in overdrafts with correspondent banks which are in dispute, until such time as these assets are re-classified.

16. The performance criterion on **nonconcessional medium- and long-term external debt** (Table I.1) refers to the contracting or guaranteeing of external debt with original maturity of more than one year by the government or Bank of Ghana.[22] Medium- and long-

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

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

(continued)

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

17. The **stock of payment arrears in the road sector** will include any arrear on a duly certified expenditure commitment that was not paid during a period of 90 days after the date the bill was issued. Any arrear in foreign currency will be converted into cedi at the actual exchange rate prevailing at the end of period date. Data on the stock of road arrears will be reported to the IMF staff monthly (with the lag specified in Table I.3) by the monitoring and evaluation department of the Ministry of Roads and Highways. At end-October 2002 the stock of road arrears was recognized to be ₵219.8 billion, and is expected to be paid down according to the quarterly schedule in Table I.1, which will be an indicative benchmark under the program.

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

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

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

21. **Automatic adjustment formulas for the pricing of petroleum, electricity and water** are defined to ensure full cost recovery at Ghana's state-owned oil refinery (TOR) and utilities by passing on to consumers changes in the costs of exogenously determined inputs including crude oil, exchange rates, and the electricity generation mix. **In the case of petroleum products,** the formula (see Table I.4) will be calculated by the tenth of each month, using an average of representative petroleum product prices (fob Mediterranean, from Platt's Oilgram) for the previous three calendar months for each of the following products—premium gasoline, kerosene, gas oil, residual fuel oil, and liquefied petroleum gas. The formula will then add TOR's shipping, insurance, and related charges, to arrive at a set of ex-refinery prices at full-cost recovery levels. Premix will be computed as a weighted

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considered concessional unless accompanied by a grant or grant element provided by a foreign official entity equal to at least 35 percent of the combined loan.

average of premium gasoline (96.67 percent) and engine oil (3.33 percent) at full cost recovery prices. All full-cost recovery prices, and the prices currently charged by TOR, will each be multiplied by TOR's sales volumes for those products for the previous month, and the resulting actual and full-cost recovery sales values summed across products. A price adjustment will be deemed to be triggered, either upward or downward, when the sum of actual values differs from the sum of full-cost recovery values by more than 2.5 percent. If an adjustment is triggered, prices will need to be raised or lowered such that the summed value of the new prices times their volumes equals the summed full cost recovery value. The National Petroleum Tender Board will bring the ceilings on ex-refinery and ex-pump prices in line with the formula at a minimum once a quarter, on or before January 30 and April 30, 2004. Maximum ex-pump prices will be set to reflect new ex-refinery prices plus the full pass through of all taxes, levies, and distributor margins as indicated in Table I.4. Whether or not price changes are triggered, NPTB will inform TOR, oil marketing companies, and the public, including the IMF, of the results of the formula's calculations as set out in Table I.4 on the above test dates.

22. The quarterly electricity and water tariffs will be announced publicly at the latest by the end of the first month of each quarter, starting January 2004, and implemented retroactively to the beginning of the month. The electricity tariffs will be calculated according to the formula in Table I.5, and the water tariffs will be calculated subsequently according to the formula in Table I.6, using data from the specified sources. Projected variables in the formulas will be calculated as follows:

(i) for the price of Nigerian Bonny Light crude oil in the coming quarter, the futures prices on the last working day of the current quarter will be used, as quoted on the NYMEX, for deliveries of Light Sweet Crude in each month of the coming quarter, averaged across the three months, plus US$0.15 for the premium of Bonny Light over Light Sweet.

(ii) for the U.S. inflation rate in the coming quarter, the recorded change in the U.S. consumer price index during the latest three-month period for which data are available in International Financial Statistics will be used.

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

(iv) the percentage contribution of hydro power to the generation mix will be assumed not to exceed 50 percent.

ADJUSTERS

23. **Deviations in official external program support, external debt service payments, and divestiture receipts** from the amounts programmed in Table I.1 will trigger adjusters for domestic financing of government, net domestic assets of the Bank of Ghana and net international reserves as indicated below. These and other adjusters as set out below will be measured cumulatively from the beginning of 2003.

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

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

26. **Oil price adjuster.** NIR floors will be adjusted downward, and NDA ceilings upward, when world oil prices exceed the baseline price path assumed in the program. The floor on NIR will be reduced by the cumulative quarterly difference (if positive) between actual oil prices and projected prices as defined in Table I.1, multiplied by a coefficient of 20 (a multiplier which quantifies the approximate impact that a US$1 rise in oil prices has on the value of oil imports in Ghana) on an annual basis. For September the adjuster will be computed as the difference (if positive) between the average actual and forecast prices during the first quarter, times a coefficient of 20*(3/4); for December, the adjuster will be the difference (if positive) between the half-year actual and forecast prices, times a coefficient of 20. The adjuster at all test dates will be capped at US$30 million. The ceiling on the NDA of the Bank of Ghana will be raised by the same adjuster amounts as for NIR, converted to cedis at actual exchange rates, up to a cap equivalent to US$30 million.

Reporting of Data to the IMF

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

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

External Data, Debt and Debt Service, and HIPC Relief

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

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

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

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

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

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

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

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

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

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

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

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

Item number	Variable Name	Description	Source	Premium	Kerosene	Gasoil	Premix	RFO	LPG	Total
1	Product Price	f.o.b. Mediterranean price, averaged for the previous three calendar months. The respective prices used are: from Platt's Oilgram Platt's Oilgram Price Report Premium 0.15 G/L, Jet Av. Fuel, Gasoil 0.2, 1% Fuel Oil, and from and Platt's LPGaswire LPGaswire: W. Med. Ex.-Ref/Stor Butane.		257.99	225.14	208.76		142.38	191.93	
2	Suppliers commission ($ per metric ton)	Outcome of a tendering process for the various products.	NPTB from TOR	22.73	35.4	21		15.84	79.84	
3	Insurance ($ per metric ton)	Suppliers' insurance cost	NPTB from TOR	0.36	0.32	0.30		0.20	0.34	
4	CIF ($ per metric ton)	Total cost of insurance & freight	Sum of 1+2+3	281.08	260.86	230.06		158.42	272.11	
5	Related charges (% of CIF)	Pegged at 13.85% and include off loading, in transit losses, inspection, L/C costs, purchasers commission, demurrage, financial costs, storage, in-plant losses, rack loading cost, operation margin.	NPTB from TOR	13.85	13.85	13.85		13.85	13.85	
6	Related charges ($ per metric ton)		Product of 4 x 5	38.93	36.13	31.86		21.94	37.69	
7	Total cost ($ per metric ton)		Sum of 6 + 4	320.01	296.99	261.92		180.36	309.80	
8	Conversion (liters per metric ton)	Constant	NPTB	1,379.70	1,238.10	1,187.60		1,110.30	1,000.00	
9	Ex-refinery full-cost price ($ per liter)		Product of 7 x 8	0.2319	0.2399	0.2205		0.1624	0.3098	
10	Cedis per US dollar exchange rate	Average of the exchange rates on the 26th day (or the last work day before the 26th day) of the previous three calendar months.	Bank of Ghana/Bloomberg Fin. Svcs.	8,596.67	8,596.67	8,596.67		8,596.67	8,596.67	
11	**Ex-refinery full-cost recovery price (cedis per liter)**		Product of 9 x 10	1,993.91	2,062.10	1,895.97	1,990.64 2/	1,396.48	2,663.21	
12										
13	**Ex-refinery current price (cedis per liter)**		Previously Gazetted	2,251.69	2,116.43	1,768.60	2,148.33	912.56	1,800.00	
14	15% ad-valorem excise tax		Legislated	337.75	317.46	265.29	322.25	136.88	270.00	
15	Specific charge		Legislated	200.00	100.00	200.00	0.00	200.00	100.00	
16	Road fund		Legislated	400.00	0.00	400.00	0.00	0.00	0.00	
17	Energy fund		Legislated	5.00	5.00	5.00	0.00	5.00	0.00	
18	Exploration		Legislated	3.00	3.00	3.00	0.00	3.00	0.00	
19	Stock fund		Legislated	30.00	30.00	30.00	0.00	30.00	0.00	
20	Debt recovery levy (up to amount indicated)		Act 642	640.00	640.00	640.00	640.00	640.00	640.00	
21	Boost margin		Set Jan. 2003	88.00	88.00	88.00	0.00	0.00	0.00	
22	Prim. Distr. margin		Set Jan. 2003	44.00	44.00	44.00	0.00	0.00	0.00	
23	Ex-depot prices (cedis per liter)		Sum of 13+14+15+16+17+18+19+20+21+22	3,999.44	3,343.89	3,443.89	3,110.58	1,927.44	2,810.00	
24	UPPF margin		Set Jan. 2003	130.00	230.00	130.00	130.00	0.00	0.00	
25	Dealers margin		Set Jan. 2003	110.00	110.00	110.00	110.00	0.00	0.00	
26	Marketers margin		Set Jan. 2003	205.00	205.00	205.00	205.00	0.00	990.00	
27	**Ex-pump current maximum price (cedis per liter)**		Sum of 23+24+25+25	**4,444.44**	**3,888.89**	**3,888.89**	**3,555.58**	**1,927.44**	**3,800.00**	
	Trigger mechanism:									
28	Volume sales in previous month (in liters)	Example only: June 2003	NPTB from TOR	55,476,800	8,421,550	77,067,000 ...		3,514,500	4,774,856	
29	Previous month's actual refinery sales		Product of 28 x 13							290,842,805,979
30	Refinery sales at full cost recovery		Product of 28 x 11							291,723,015,179
31	Percent difference (relative subsidy)		Sum of 30/29							-0.3
	Triggered if actual and full cost recovery total sales differ by more than 2.5 percent									

1/ Calculations based on 27 March- 26 May 2003 Platt prices, existing ex-refinery prices, and May 2003 volumes.

2/ Premix price computed as a weighted average of [premium gasoline (96.67 percent) and gasoil (3.33 percent)] at full cost recovery prices.

Table I5. Ghana: automatic adjustment formula for electricity tariffs 1/

Item number	Variable	Source	Symbol	Oct-03
6	Base thermal variable energy prices:		Po	
7	Oil fired simple cycle plant (cents/kWh)	Gazetted 26 July 2002		4.61
8	Oil fired simple combined plant (cents/kWh)	Gazetted 26 July 2002		3.03
9	Fuel price (for liquid fuels, Bonny Crude Oil)	The average of three months futures prices, as quoted on the NYMEX on the last working day of the quarter, plus US$0.15.	FP	30
10	Base fuel price US$/bbl	Gazetted 26 July 2002	FPo	22
11	CPI of the USA	The change in the US CPI during the latest three-month period for which data is avaialable as reported by the International Financial Statistics.	CPI	1.09%
12	Base CPI of USA	Gazetted 26 July 2002	CPIo	2.00%
13	Annual fuel coefficient	Gazetted 26 July 2002	α	0.89
14	Annual CPI coefficient	Gazetted 26 July 2002	β	0.11
15	Adjusted variable energy prices:		P	
16	Adjusted variable energy price (cents/kWh), simple cycle plant	Sum of 7 x (13 x 9/10+14 x (1+11)/(1+12))	P2	6.10
17	Combined cycle plant	Sum of 8 x (13 x 9/10+14 x (1+11)/(1+12))	P3	4.01
18	Percentage of hydro contribution to the generation mix	Not to exceed 50 percent.	X1	50%
19	Percentage of simple cycle thermal energy in the total generation mix	Projection for the next tariff period of three months.	X2	16%
20	Percentage of combined cycle thermal energy in the total generation mix	Projection for the next tariff period of three months.	X3	34%
21	Hydro cost (cents/kWh) determined by PURC	Long-run marginal cost of hydro production or the average VRA cost for the past 5 years.	Hc	1.50
22	System capacity price (cents/kWh)	Gazetted 26 July 2002	K	1.67
23	Effective percentage thermal capacity contribution to system demand	Percentage of thermal capacity contribution to meet domestic demand as Gazetted 26 July 2002.	n	56%
24	Bulk generation charge adjusted (cents/kWh)	Sum of (16 x 19 + 17 x 20 + 18 x 21) +23 x 22	BGCadjust (cents/kWh)	4.05
25	Bulk generation charge adjusted (cedis/kWh)	Sum of 24 x 31/100	BGCadjust (cents/kWh)	360.0
26	Transmission service charge (cents/kWh)	Gazetted 26 July 2002	TSC (Cents/kWh)	0.90
27	Transmission service charge (cedis/kWh)	Product of 26 x 31/100	TSC (Cedis/kWh)	80.10
28	Bulk supply tariff (cedis/kWh)	Sum of 25 + 27	BST (Cedis/kWh)	440.1
29	Bulk supply tariff (cents/kWh)	Sum of 28/31 x 100	BST (Cents/kWh)	4.95
30	Distribution service charge for the previous period (cedis/kWh)	Gazetted 26 July 2002	DSC_{t-1}	285
31	Exchange rate (cedis/US$)	The interbank transaction rate quoted by the Bank of Ghana for the last day of the second month in the preceding quarter, multiplied by the percentage change in that rate from the last day of the second month in the quarter before that.	$EXCH_t$	8900
32	Distribution service charge for the next period (cedis/kWh)	Sum of 30 x 31/$EXCH_{t-1}$	DSCt (Cedis/kWh)	298.4
33	Distribution service charge for the next period (cents/kWh)	Sum of 32/31 x 100	DSCt (Cents/kWh)	3.35
34	Average end-user tariff (cedis/kWh)	Sum of 32 +28	EUT_t	738.5
35	Change in average end-user tariff			6%
	Memo:			
	Average end-user tariff (cents/kWh)	Sum of 29 + 33	EUT	8.30

1/ Electricity Tariffs in Ghana will be adjusted according to the "Public Utilities Regulatory Commission (PURC) Publication on Electricity Tariffs" published in the Ghana Gazette on July 26, 2002 and "Guidelines for Implementing Automatic Adjustment Formula (AAF) for Electricity and Water Tariffs in Ghana" published on July 18, 2003.

Table I.6. Ghana: water tariff formula

ι nber	Variable	Source	Symbol	N
6	Average water tariff for previous period, t-1 (cents/m³)	Gazetted 26 July 2002	PT-1	
7	Average end-user electricity tariff for next period t (cents/kWh)	Electricity Formula	ET	
8	Average end-user electricity tariff for previous period t-1 (cents/kWh)	Electricity Formula	ET-1	
9	CPI of the USA	The change in the US CPI during the latest three-month period for which data is avaialable as reported by the International Financial Statistics.	CPI	
10	Base CPI of the USA	Gazetted 26 July 2002	CPIo	
11	Average end-user electricity tariff coefficient	Gazetted 26 July 2002	α	
12	CPI coefficient	Gazetted 26 July 2003	β	
13	Average water tariff for next period t (cents/m³)	Sum of 6 x ((11 x 7/8)+12 x (1+9)/(1+10))	PT	
14	Average exchange rate in the next period t	The interbank transaction rate quoted by the Bank of Ghana for the last day of the second month in the preceding quarter, multiplied by the percentage change in that rate from the last day of the second month in the quarter before that.	EXCHt	
15	Average water tariff for next period t (cedis/m³)	Sum of 13 x 14 x 0.01		
16	Period change in percent of average water tariffs			

Ghana: Relations with the Fund
(As of September 30, 2003)

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

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

III. SDR Department	SDR Million	%Allocation
Net cumulative allocation	62.98	100.0
Holdings	6.38	10.12

IV. Outstanding Purchases and Loans	SDR Million	%Quota
PRGF arrangements	281.31	76.23

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	5/9/2003	5/8/2006	184.50	26.35
PRGF	05/03/1999	11/30/2002	228.80	176.22
ESAF	06/30/1995	05/02/1999	164.40	137.00

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

	Forthcoming				
	2003	2004	2005	2006	2007
Principal	2.74	29.62	36.26	28.04	41.07
Charges/interest	0.93	2.21	2.05	1.90	1.71
Total	3.67	31.83	38.31	29.94	42.78

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

	Forthcoming				
	2003	2004	2005	2006	2007
Principal	0.30	25.45	36.26	28.04	41.07
Charges/interest	0.93	2.21	2.05	1.90	1.71
Total	1.23	27.67	38.31	29.94	42.78

VII. Implementation of HIPC Initiative:

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

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

Safeguard Assessment:

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

Exchange Rate Arrangement

Ghana accepted the obligations under Article VIII, Sections 2(*a*), 3, and 4 of the Fund's Articles of Agreement on February 2, 1994. Accordingly, Ghana maintains a flexible exchange rate (defacto classified as a managed float), using the U.S. dollar as the intervention currency, that is free of restrictions on payments and transfers for current international transactions. At end-September 2003, the midpoint exchange rate for transactions in the interbank market was ₵8,745 per U.S. dollar.

Article IV Consultation and Current Fund Arrangement

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

FSAP Participation

Ghana participated in the FSAP during 1999–2000, and a Financial System Stability Assessment (FSSA) was issued to the Executive Board in 2001 (SM/01/177; 6/19/01). The results of a recently returned FSAP Update mission will be reported to the Board concurrent with the first program review.

Technical Assistance, 1999–2003

Fiscal Affairs Department: All Ministry of Finance: public expenditure management, June 2000; tax policy, October 2000; (with Bank of Ghana) fiscal data quality assessment, February and May 2001; external debt including for HIPC, June and August, 2001; public expenditure management, budget and debt advisor, August 2001-present; tax and customs administration, September 2001; peripatetic advisor on the establishment of a Large Taxpayers' Unit, February 2002–January 2003; review of public expenditure management reforms and assessment of long-term advisor, August 2002 and March 2003; tax peripatetic, May 2003.
IMF Institute: Ghana Institute of Management and Public Administration: financial programming course, March 2000.
International Capital Markets: Bank of Ghana: pilot study of access to private capital, May 2003.
Information Technology Services: Bank of Ghana: implementation of data management system, April 1999.
Legal Department: All Ministry of Finance: drafting of internal revenue regulations, January 2001; advice/draft of new income tax laws, February-March 2001.

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

Resident Representative

A Fund Resident Representative has been stationed in Accra since June 1985. Mr. de la Piedra is the current Resident Representative, having assumed the post in October 2001.

Ghana: IMF-World Bank Relations

(As of August 28, 2003)

A. Partnership in Ghana's Development Strategy

Ghana's poverty reduction strategy is set forth in the Ghana Poverty Reduction Strategy (GPRS). The broad objectives of the GPRS are to create an environment favorable to private sector-led growth and sustainable poverty reduction, and to create room within the Government's budget for increased expenditures on education, health, and other priority services. The GPRS focuses on: (i) achieving macroeconomic stability; (ii) stimulating employment and production; (iii) improving access to basic social services; (iv) strengthening the protection of the vulnerable and excluded; and (v) improving public sector performance and governance. Preparation of the GPRS started in 2001 and continued throughout 2002, to ensure extensive discussions within civil society and the donor community. The final version was circulated in early 2003.

B. The World Bank Group Country Assistance Strategy and Portfolio

The World Bank Group's last Country Assistance Strategy (CAS) for Ghana was discussed by the Board on March 30, 2000. Building on the Government of Ghana's Development Strategy for Poverty Reduction, which focused on eliminating persistent poverty, the Bank Group strategy, described in the CAS, has been to help the Government to: (i) raise the growth rate of the economy; (ii) redefine the role of the State; and (iii) implement its strategy more effectively on the ground. IDA's strategy in Ghana has emphasized deepening its collaboration with other development partners through the institutional mechanisms of the Comprehensive Development Framework (CDF), including co-chairing, with Government, meetings of the "Mini-CG", a donor coordination forum held quarterly in Accra. The most recent mini-CG was held on June 30, 2003.

A new CAS for Ghana (FY04-FY06), joint with IFC, is due to be presented to the Bank's Board in early 2004. The preparation of the CAS was formally launched with a workshop held in Akosombo, Ghana, March 3-5, in which the Finance Minister and other senior technical officials participated. The workshop discussed how the Bank's support to the GPRS could effectively help achieve desired outcomes, and focused on sustainable growth and job creation, human development and service delivery, and governance and empowerment. Civil society consultations were held in June 2003 in five areas--Accra, Takoradi, Ho, Kumasi and Bolgatanga. A full CAS mission is planned for October 2003. During that mission, key stakeholders, including Government officials, representatives of Parliament, private sector, civil society, and development partners, will be consulted.

Ghana launched its Economic Recovery Program in 1983, and the Bank's first Structural Adjustment Credit was approved in 1987. Since 1983, the Bank has approved approximately

US$1.1 billion in the form of adjustment support for policy reform, covering macroeconomic policies, as well as sectoral reforms in education, agriculture, the financial sector and private sector development.

The Bank's cumulative commitments to Ghana as of August 1, 2003, amount to US$4.5 billion, and total 140 operations. As of August 12, 2003, the portfolio contained 19 active projects totaling US$894.5 million, of which US$554.0 million remains undisbursed. The portfolio is diverse in terms of sectoral priorities and lending instruments. It consists of one single-tranche Poverty Reduction Support Credit and Grant (PRSC I) to support policies and reforms aimed at achieving the objectives of the Government's poverty reduction strategy. PRSC I would also provide financial assistance to help Ghana close financing gaps, which are of financial and fiscal origins. Others include 12 credits aimed at building critical physical and social infrastructure in urban and rural areas, five APLs in agriculture, public sector reform, community water, urban development and AIDS, a LIL in community development, and one TA project to assist in privatization.[23] Three operations are currently rated unsatisfactory. The June 2002 Country Portfolio Performance Review (CPPR) addressed key portfolio issues, which include delayed effectiveness, slow disbursements, frequent extensions of closing projects, and weak monitoring and evaluation.

With the new CAS under preparation, the FY04-06 lending program is still being defined. Projects in FY04 include Land Administration ($25 million), approved in July, Education Sector (US$65m), Community Rural Development (US$80m), and PRSC II (US$125m). Projects planned for FY05 include Water Restructuring (US$100m), Urban V Phase II (US$75m), Accountability and Capacity Building (US$28m), Community Water II (US$26m), second Urban Environmental Sanitation (US$42m) and PRSC III (US$125m).

Non-lending services during FY04 include updates on the core diagnostics, as well as targeted analyses to strengthen the analytical base for the assistance program supported by the FY04-06 CAS. This work includes a CFAA update, a new CPAR, and a CEM on growth, poverty and public sector management. ESW for FY04 includes a Poverty Note, Financial Sector Assessment Update, Energy Policy Note and Rural Development ESW. In addition, starting in FY04, annual PERs will be carried out in collaboration with the government and development partners. A series of PSIAs will also be carried out.

C. IMF-World Bank Collaboration in Specific Areas

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

[23] The PRSC, which is fully disbursed, is not part of the active portfolio.

Areas in which the Fund leads. In general, the IMF leads the policy dialogue on macroeconomic policies, including overall fiscal and monetary policies. The IMF has supported Ghana's poverty reduction efforts through several arrangements under the Poverty Reduction and Growth Facility (PRGF). The Government had requested a new three-year arrangement for 2003-05, under the PRGF, and this was put in place in May 2003, following discussions by the Fund's Board of Executive Directors. Reforms under the PRGF center around measures to substantially raise revenue to make room for increased poverty-related spending and development needs, strengthen public expenditure management, further reform energy and utility pricing, and use appropriate monetary policy to deliver on the single-digit inflation target.

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

- **Infrastructure.** Infrastructure accounts for 56.2 percent of commitments, including support to the Roads Sector program. Ghana Thermal supports several measures to maintain electricity supply, including regulatory reforms to encourage private sector participation. Community Water II provides water and sanitation in small towns in four regions. Two Urban projects respond to the need to improve the urban environment in five cities, strengthen management capacities of District Assemblies (DAs), and support decentralization.

- The **Agriculture and Rural Development** strategy (15.5 percent of total lending) emphasizes increasing agricultural productivity and diversification, deepening financial intermediation in rural areas, and rehabilitating land, forest and wildlife resources in a sustainable manner. The Village Infrastructure credit builds the capacity of DAs in planning, managing and maintaining investments at the community level. Two GEF projects address the preservation of biodiversity.

- In **Human Development,** there are four projects that account for 17.0 percent of lending. The Board approved Bank financing for the Health Sector Support Program in February 2003.[24] In addition, Bank support addresses issues in adult literacy, HIV/AIDS, and community development. The latter credit tests approaches for community-based poverty reduction actions through nutrition and food security interventions.

- IDA's strategy in **Private Sector Development** is supported by three credits (9.7 percent of commitments). Trade Gateway and Investment seeks to attract a critical mass of export-oriented investors to Ghana, to accelerate export-led growth and facilitate trade, while the Public Enterprise Privatization TA aims to improve the business environment through policy and regulatory reform in key sectors, including energy and

[24] Total Bank financing for the Health program is US$90m, of which US$33m is a grant.

telecommunications. The recently-approved Land Administration project will help to address several difficult issues, including restructuring of six land sector public agencies, and legal and institutional reform in land tenure.

Areas of Shared Responsibility. The IMF and World Bank staff maintain a close collaborative relationship in supporting the Government's structural reforms, in the areas of budgeting, expenditure and financial management, public sector reform and privatization, and the financial sector, as outlined below. Public Sector Management accounts for the remaining 1.6 percent of total Bank lending.

- **Budgeting, public expenditure management and control.** A joint Bank-Fund assessment of the Government's capacity to track poverty reducing expenditures highlighted the need to substantially improve budgetary management. IMF technical assistance missions and a resident advisor provide technical advice to Government on budget formulation, monitoring of budget execution, and expenditure control. The Bank's support to the Government's comprehensive Public Financial Management Reform Project (PUFMARP) enabled the rollout in early 2003 of the computerized budget and public expenditure management system (BPEMS), which comprises systems for budget formulation, budget execution, and financial management. PUFMARP closed on July 31, 2003.

- **Public sector reform.** The Fund closely follows public service reforms through their impact on macroeconomic aggregates (wage bill, overall government expenditure) and discusses the macroeconomic trade-offs the government faces in supporting a large public sector. In recent years, the Government has launched a number of major initiatives to redefine the functions of the state and to improve performance of the public sector. Among these reforms, the Bank's Public Sector Management Reform Project (PSMRP), scheduled to close on August 31, 2003, plays a central role. PSMRP aims to: (i) restructure the functions of the core central management agencies and subvented agencies (including the formulation of performance contracts for government ministries); (ii) reform public sector pay policy (including salary enhancement schemes); (iii) rightsize of government (functional reviews of agencies, redeployment of staff and development of alternative employment program for retrenched staff); and (iv) develop a revised regulatory framework for state enterprises (focusing on clarification of roles and responsibilities). The next phase of PSMRP will be combined with the follow-up to PUFMARP in the new Accountability and Capacity Building operation. Under ongoing public procurement reforms, documented in the CPAR, a Public Procurement Bill was been submitted to Parliament for enactment.

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

Energy ESW and the PRSC, emphasizes the unbundling of VRA and private-public participation options for ECG.

- **Financial Sector.** In July 2000, the World Bank and the IMF carried out a joint Financial Sector Assessment Program (FSAP) review of the Ghanaian Financial Sector. Since the FSAP, follow-up support has been provided by the Fund on the treasury bill and foreign exchange markets, while the Bank has provided support in the areas of banking and non-bank financial institution regulation and supervision, insurance regulation and supervision, capital markets regulation and supervision, and, to a lesser extent, social security.

Financial Relations with the World Bank Group
Active Portfolio, as of August 12, 2003 (in millions of U.S. dollars)

Credit Number	Fiscal Year	Sector		IDA	Undisbursed
C26820-GH	1995	Ghana Thermal Power		175.6	23.4
C28360-GH	1996	Urban Environmental Sanitation		71.0	2.7
C28770-GH	1996	Public Enterprise and Privatization		26.4	5.9
CN0200-GH	1997	Village Infrastructure		30.0	7.6
C20412-GH	1998	Forest Biodiversity (GEF)	a)	8.7	6.4
C31140-GH	1999	Trade Gateway and Investment		50.5	25.3
C31190-GH	1999	Public Sector Management		14.3	2.4
C32370-GH	1999	Community Development		5.0	3.7
C32460-GH	1999	National Functional Literacy		32.0	24.0
C32820-GH	2000	Community Water II		25.0	16.0
C33300-GH	2000	Urban 5		10.8	5.1
C33740-GH	2000	Rural Financial Services		5.1	4.7
C34050-GH	2001	Agricultural Services		67.0	56.7
C34580-GH	2001	AIDS Response		25.0	18.3
C35540-GH	2002	Road Sector Development	*	220.0	222.0
C50723-GH	2002	GEF Northern Savanna	a)*	7.6	7.9
C35540-GH	2003	Health Sector Program Support II	b)*	90.0	95.6
C37430-GH	2003	Promoting Partnerships w/Trad. Autho.		10.0	5.2
C38170-GH	2004	Land Administration		20.5	21.1
Total (number of credits: 19)				894.5	554.0

Source: World Bank
a) Grant
b) Grant element amounts to US$33 million
* Undisbursed amounts are greater than IDA credit amounts due to exchange rate fluctuations.

For additional information, please contact Nichola Dyer, Country Program Coordinator, Tel. 473-8742 or Marcelo Andrade, Senior Country Economist, Tel. 473-8378.

Ghana: Statistical Issues

1. **There are notable deficiencies in the quality and timeliness of core surveillance data reported by Ghana.** In general, statistical information from official sources is not disseminated to the public on a timely basis. The reporting of data to the Fund for purposes of publication in the *International Financial Statistics* has improved, but data on international transactions still show a lag of about four to five months. The *Quarterly Economic Bulletin of the Bank of Ghana* is now published more regularly, but the data show lags of up to six months. The Ghana Statistical Service (GSS) publishes the *Quarterly Digest of Statistics* with even longer lags. The government has agreed to take steps to ensure that both quarterly bulletins are published regularly, with a lag of not more than 60 days. The staff has encouraged the authorities to make this information available on the government and the Bank of Ghana web sites. Areas where improvements need to be made are identified below.

Prices

2. **In order to review the problems in the compilation of price statistics and national accounts, a peripatetic advisor has been assigned to Ghana** and three other African countries. The advisor conducted assessment and follow-up missions to Ghana in 2001-03 and finalized a work plan with the GSS, which is the agency responsible for compiling price statistics and national accounts statistics. Progress has been made on implementing the work plan, and it is now expected that revisions to the Consumer Price Index and GDP (by type of activity at current and constant prices) will be completed by early 2004.

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

National accounts

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

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

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

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

Labor statistics

8. **The paucity of labor statistics is a cause for concern.** Wage statistics are almost nonexistent, although some wage indicators are available from the Social Security National Insurance Trust (SSNIT). The Ministry of Employment has been receiving technical assistance from the United Nations Development Program and the International Labor Organization in the design and compilation of labor statistics.

Public finance

9. **Steps were taken in 2001-02 to improve Ghana's fiscal data**. The Controller Accountant General's Department (CAGD) currently compiles monthly budget implementation reports, but the data are available with long lags and many factors undermine their reliability. There are, for example, discrepancies in the data reported by the CAGD and the BOG, although these have narrowed in recent months. Above-the-line data from the CAGD are narrower in coverage than below-the-line BOG data. The lack of comprehensive and timely reconciliation of monthly treasury data with bank accounts undermines the reliability of the data. To address the shortcomings, the government has formed a committee to define the nature of "broad" and "narrow" government; moved to a system of immediate booking for so-called direct debits and more frequent reporting of government account balances; and rolled out and begun testing a new automated Budget and Public Expenditure Management System (BPEMS) in two key ministries, with plans to extend the system to four other ministries next year.

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

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

12. **Comprehensive solutions to some of the data problems may have to await the full implementation of the new BPEMS system (expected in 2004) and incorporation of Fund technical advice.** Various missions from FAD have suggested a number of short-term, temporary solutions aimed at alleviating current data quality problems. A long-term advisor from FAD has been working on public expenditure and debt management issues in the Ministry of Finance since August, 2001. Early in 2004, a joint Bank/Fund mission is expected to conduct a second round of Initiative for Heavily Indebted Poor Countries (HIPC) Assessments and Actions Plans (AAP), and a fiscal Report on Observance of Standards and Codes (ROSC), evaluating the effectiveness of actions taken to date to improve institutional setups, budget formulation, budget tracking, and information presentation.

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

Monetary statistics and international reserves

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

15. **Ghana's monetary and international reserve data were significantly revised in early 2002, and are now based on a detailed mapping and automated software system**

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

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

Debt statistics

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

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

19. To enable systematic comparison of the budget, **the balance of payments, and the BOG cash-flow data,** the authorities should clearly identify the various government

subsectors for which data are reported and prepare a clear classification of financing, as well as debt data, both guaranteed and non-guaranteed.

Trade and balance of payments statistics

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

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

22. **In mid-2003, Ghana began producing quarterly balance of payments data.** Further effort is needed to implement recommendations of a technical assistance mission on balance of payments statistics in 2000, which found that improvements in the quality of these statistics would necessitate the introduction of surveys of key establishments, the training of staff in the Balance of Payment Unit of the BOG, improved collaboration among the various government agencies responsible for data collection, and additional computer resources. In addition, the introduction of surveys of various travel agents and tour operators is needed to improve the quality of the information in the balance of payment services account. Ghana only reports annual data to STA. Although the latest available data refer to 2002, their quality is questionable. There are no data available for Portfolio Investment in the financial account, even though Ghana reports substantial data relating to portfolio investment of the current account (income). Revised 2002 data submitted to STA for publication in the Balance of Payments Yearbook 2003, have not been published because of serious flaws in the quality of the information on exceptional financing transactions. The BOP counterparts from the BOG did not respond to repeated queries from STA.

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

Ghana: Core Statistical Indicators
(As of November 13, 2003)

	Exchange Rates	International Reserves 1/	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Bal 2/	GDP/ GNP	External Debt 3/	Debt Service 3/
Date of latest observation	Aug. 2003	Aug. 2003	Aug. 2003	Aug. 2003	Aug. 2003	Sept. 2003	July 2003	Oct. 2002	2002	Dec. 2002	2001	Dec. 2002	Dec. 2002
Date received	Sep. 2003	Oct. 7 2003	Oct. 7 2003	Oct. 7 2003	Nov. 6 2003	Nov. 6 2003	Aug. 2003	Jan. 2003	Aug. 2003	Jan. 2003	June 2002	Jan. 2003	Jan. 2003
Frequency of data 4/	D	M	M	W	M	W	M	M	A	M	A	M	M
Frequency of reporting 4/	W	M	M	M	M	W	M	V	A	V	A	V	V
Source of data	BOG	BOG	BOG	BOG	BOG	BOG	MOF	BOG	BOG	MOF	MOF	BOG, MOF	BOG, MOF
Mode of reporting 5/	E,R	E,V	E,V	E,V	E,V	E,R	C,R	R,V	R,V	R,V,M	R,V	R, V	R,V
Confidentiality	N	C	C	C	C	N	N	C	C	C	C	C	C
Frequency of publication	D	Q	Q	Q	Q	W	M	A	A	...	V	A	A

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

Statement by the IMF Staff Representative
December 17, 2003

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

2. The Ghanaian authorities informed the staff on December 10, 2003, that all of the prior actions had been implemented:

- On November 5, 2003, parliament passed a supplementary budget consistent with aggregate expenditures for 2003 of less than ¢19,233 billion.

- Electricity tariffs were increased by 6 percent, effective October 1, 2003, and water tariffs by 10 percent, effective November 1, 2003. Tariff levels were in line with the automatic adjustment formulas (as specified in the staff report, Appendix I, Attachment II, Tables I.5 and I.6) as of these dates.

- On November 20, cabinet approved a strategy for Ghana Commercial Bank that would "use the Ghana Stock Exchange to seek additional resources through a flotation of new shares in the bank and, through competitive tender, procure a management contract for the bank to ensure improvements in its financial performance and service delivery." This decision is consistent with paragraph 21 of the authorities' memorandum of economic and financial policies (staff report, Appendix I, Attachment I).

3. The following information has become available since issuance of the staff report:

- The consumer price index declined in October 2003 by 0.4 percent over the preceding month, bringing the 12-month inflation rate down from 26.8 percent in September to 24.6 percent in October. (The program target for December 2003 is 22 percent.)

- The Bank of Ghana has reported (provisionally) that its net international reserves reached US$668 million at end-November 2003. This implies an accumulation since end-2002 of US$545 million, which exceeds the program target for 2003 as a whole (US$378 million).

- Reserve money data for November 2003 show an expansion of 6 percent since the beginning of the year, comfortably below the path envisaged under the program. Broad money (M2) grew by 36.6 percent in the 12 months through September 2003, compared to a programmed 38.5 percent for the same period.

- Interest rates in the treasury bill market have continued to fall. At the latest auction, the yield on three-month treasury bills dropped to 18½ percent, the lowest rate since 1986.

- Fitch Ratings have published a B sovereign rating for Ghana, with a "positive" outlook. Other countries with this rating include Cameroon, Mozambique, and Turkey.

Press Release No. 03/222
FOR IMMEDIATE RELEASE
December 17, 2003

International Monetary Fund
Washington, D.C. 20431 USA

IMF Completes First Review Under Ghana's PRGF Arrangement and Approves US$38.5 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Ghana's economic performance under a Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review makes immediately available to Ghana an amount equivalent to SDR 26.35 million (about US$38.5 million) under the arrangement.

Ghana's three-year PRGF arrangement was approved on May 9, 2003 (See Press Release No. 03/66) for SDR 184.5 million (about US$270 million). So far, Ghana has drawn SDR 26.35 million (about US$38.5 million).

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

Following the Executive Board's discussion on Ghana's request, Shigemitsu Sugisaki, Deputy Managing Director and Acting Chair, stated:

"The authorities are to be commended for their successful conduct of macroeconomic policy in 2003. The economy is on a steady growth path, fiscal discipline has been restored, and official reserves have exceeded targets. The fiscal framework for 2004 and the medium term will support the objective of reducing the domestic debt-GDP ratio by at least half over the three-year program period. Steadfast implementation of the authorities' monetary targets should bring about single-digit inflation in early 2004. As a result, prospects for achieving the medium-term macroeconomic and economic reform objectives set out in their poverty reduction strategy are good.

"The authorities are committed to steadfast implementation of well-prepared structural reforms, which will be further developed early next year. An immediate priority will be to continue to adjust prices to achieve full cost recovery for petroleum, electricity, and water. Although the planned divestiture of the Ghana Commercial Bank (GCB) was suspended, the authorities are taking welcome steps to strengthen its financial management and operational efficiency.

"Successful implementation of Ghana's poverty reduction strategy over the coming year will depend on avoiding further losses in the energy and utility companies, and liberalizing petroleum prices as intended in mid-2004. It will also be vital that the authorities remain resolute in their commitment to counter pressures to raise government spending in 2004, an election year. Achievement of these objectives will help to consolidate the progress already made under the 2003–2006 PRGF-supported program. This, together with action on the remaining policy triggers under the enhanced Initiative for Heavily Indebted Poor Countries and continued strong program implementation, will help pave the way for Ghana to reach the HIPC completion point around mid-2004," Mr. Sugisaki stated.

Statement by Abbas Mirakhor, Executive Director for Ghana
December 17, 2003

My authorities thank the staff for their hard work, fruitful dialogue, and constructive advice. The authorities have implemented their program with vigor and commitment. All quantitative and structural performance criteria and benchmarks for June and September were observed, and all prior actions for this review completed. Moreover, key macroeconomic targets for 2003 are expected to be achieved. The authorities' pursuit of strong adjustment policies and reforms—focused on financial discipline, transparency, accountability, and private sector development—has been supported by financial and technical assistance from the international community, for which they are grateful. They intend to consolidate and build on the gains made thus far to lay a firm foundation for sustained growth and poverty alleviation.

Recent economic developments

Economic activity has been relatively strong in 2003; the real GDP growth target of 4.7 percent is expected to be achieved. The disinflation path has been restored and the end-December inflation target of 22 percent is within reach. The 2003 fiscal program has been broadly on track. Strengthened administration has led to improvement in tax revenue performance. Expenditure has been kept within the target, lower capital spending and interest payments on domestic debt offsetting larger transfers to public enterprises, including for arrears settlement. The fiscal targets are expected to be achieved, with **no net domestic financing** despite larger-than-programmed arrears payment. Poverty spending is expected to rise from 4.8 percent to 6.9 percent of GDP, while the domestic debt-to-GDP ratio should decline from 28.9 percent to 22.6 percent. Budget implementation is being monitored closely and non-poverty-related expenditure will be adjusted, as needed, to observe the zero net domestic financing target for 2003. Expenditure management has been reinforced to prevent overruns and accumulation of arrears, including through the use of a cash-management system and the issuance of monthly "early warning reports." Progress was made in the divestiture of government stakes in a number of joint venture enterprises. To promote cost recovery and phase out budgetary subsidies, prices of petroleum products, electricity, and water were brought in line with the respective pricing formulae through June. The delay in effecting further adjustment of petroleum prices was, in part, to allow a full pass-through of previous large price increases as well as to firm up plans for liberalization of the petroleum sector. Effective October 1 and November 1, electricity and water tariffs were increased to ensure a pass-through of higher world oil prices and the depreciation of the cedi as well as changes in the mix of hydro- and thermal-generated power.

Monetary policy has supported the strong fiscal stance; the Bank of Ghana (BOG) has pursued an active interest rate policy, raising its prime rate in response to the surge in inflation in February, and subsequently lowering it in line with the downward trend in inflation and inflation expectations. Recent further declines in treasury bill rates confirm downward inflation expectations and improved credibility of macroeconomic policies. Monetary growth for 2003 is expected to be held to about 25 percent as targeted. The robust

NFA trend has been the major factor behind monetary expansion, to which BOG responded with sterilization operations. Exchange rate management has remained flexible to reflect market trends, with limited intervention aimed at smoothing short-term exchange rate fluctuation. Ghana's external position has strengthened markedly, thanks to the strong performance of its traditional exports, cocoa and gold, and a sharp growth in private transfers, a further indication of growing confidence in the economy.

The 2004 Program and medium-term objectives

The macroeconomic objectives over the medium term are to achieve average real GDP growth of 5 percent, reduce inflation to single digits, and build up external reserves to over four months of import cover. The medium-term program will rely on fiscal consolidation for a steady reduction of the domestic debt-to-GDP ratio from 28.9 percent in 2002 to 9 percent by 2008. Paying down the domestic debt will crowd-in private sector activity and release the related savings on interest payments to fund poverty-related programs in the context of the Ghana Poverty Reduction Strategy (GPRS).

Consistent with the medium-term objectives, the fiscal program for 2004 aims at budget consolidation and further reduction of the deficit. The wage bill will be kept at 8.5 percent of GDP; its rise has been driven largely by the needs of the education and health sectors, **priority areas under the GPRS.** The authorities recognize that lasting containment of the wage bill requires acceleration of civil service reforms and will press ahead with implementation of their plans for public sector pay and employment reform with World Bank assistance. Statutory transfers to the Ghana Education Trust Fund (GETF) and the District Assembly Common Fund (DACF) in 2004 will be current, including the scheduled payments under the arrears-elimination plan. Divestiture receipts and debt relief, including under the HIPC Initiative, will enable additional repayment of the domestic debt. The revenue objective and the net domestic financing target will be preserved. To this end, non-poverty-related expenditures will be curtailed as needed. A new national health insurance scheme (NHIS) is expected to become operational from June 2004, to be funded through premium payments to mutual health organizations (MHOs) and subsidy payments from a national health insurance fund (NHIF). The NHIF will receive funds from a National Health Insurance Levy of 2.5 percent on goods and services, and 2.5 percent of workers' pensions contribution to the Social Security and National Insurance Trust (SSNIT). The implementation of the NHIS is projected to result in a net addition to the health sector budget of about ¢50 billion per year relative to the GPRS projections. The authorities will be working with donors to ensure consistency with expenditure assumptions and to provide safeguards to manage the budgetary impact on a continuous basis.

Monetary policy stance will aim at achieving the objective of lowering inflation from 22 percent in 2003 to 7 percent in 2004, thus resuming the original path of disinflation interrupted due to the sharp increase in petroleum prices in February 2003. To this end, the BOG will maintain an active interest rate policy and reinforce open market operations for liquidity management. It will also maintain its flexible exchange rate policy.

Expenditure control at both commitment and cash payment levels will be strengthened by introducing the new enhanced system designed with Fund technical assistance. Other expenditure-management reforms, geared to eliminating overruns and build-up of arrears, are elaborated in paragraph 15 of the MEFP. Revenue administration will also be further strengthened, including by monitoring performance of revenue agencies and operationalizing the Large Taxpayers' Unit (LTU). The authorities are committed to achieving and maintaining full cost recovery as well as improving efficiency of the utility companies. Therefore, the automatic pricing formulae will be strictly implemented under the authority of the independent Public Utilities Regulatory Commission (PURC). The World Bank is assisting the authorities to improve the financial and operational procedures of the energy companies, including enforcement of performance targets. These measures are expected to **eliminate budgetary subsidies** except for small assistance to low-income households and the scheduled payments for arrears settlement. The divestiture strategy will be further reinforced, including by completing the action plan regarding the sale of state holdings in joint-venture companies.

The energy sector has long been a major source of macroeconomic instability, budgetary, strain, and risk to the financial system. Substantial budgetary subsidies to the sector to cover persistent losses have diverted resources away from social spending and other priority outlays. In view of this, the authorities intend to accelerate the process of liberalization of the petroleum sector. The main objectives of the program are to: (i) promote competition in petroleum product marketing and retailing activities of the Oil Marketing Companies (OMCs); (ii) allow private sector operators to import crude oil or refined products; (iii) ensure that the Tema Oil Refinery (TOR) will refine not only its own crude but also that of other registered importers; and (iv) by allow prices to be market-determined, thereby de-linking the petroleum pricing regime from the budget.

The authorities appreciate the FSAP recommendations and the FSSA update report. They are committed to maintaining the momentum of financial sector reforms and **addressing remaining vulnerabilities.** Legislation has been drafted to enhance financial sector regulation and development, and the authorities will strive to ensure their early passage. The Parliament is expected to pass soon the Anti-Money Laundering Bill. Legislation will also be initiated on credit reference agencies and corporate insolvency. To promote collateralized lending by the financial system as well as to facilitate foreign investment, a land reform plan will be drawn up with World Bank assistance for implementation in early-2004.
While the authorities consider divestiture of the Ghana Commercial Bank (GCB) an important element of the financial sector reform program, strong **public opposition** preempted its sale. As the staff report indicates, alternative options have been identified to achieve the objectives of reducing government ownership and control, imposing hard budget constraints on public enterprises, including TOR, while strengthening management and operational efficiency of GCB. In this regard, additional resources will be raised through floatation of shares on the Ghana Stock Exchange (GSE) and management contract put out to competitive tender. Full details of this plan and its implementation timetable will be announced in the 2004 budget statement. Meanwhile, a performance-criterion ceiling has been established on net bank borrowing by TOR to contain the impact of its finances on GCB's balance sheet. The independence of the pension fund, SSNIT, will be further

strengthened, including in its funding arrangements and investment policies, while its financial operations will be closely monitored to promote the long-term viability of the fund. The enhanced independence, supervisory capacity, and safeguards of BOG will be further strengthened.

The government will maintain the momentum in improving governance by promoting further transparency, accountability, efficiency, and the rule of law. In this respect, steps will be taken to strengthen state audit staff, seek passage of the Public Procurement Bill, provide regular reports to Parliament on implementation of the budget and GPRS, and strengthen the courts system. In furtherance of improving the compilation, reporting, and transparency of data, work is progressing on re-basing and revising the CPI and national accounts series, with the new data expected to be published during the first half of 2004.

The implementation of the GPRS is on course and available resources under the HIPC Initiative are making a positive impact on the social sectors, particularly education and health. Poverty-related spending is being closely tracked to **ensure appropriate targeting**. A full progress report on the GPRS will be prepared in conjunction with the second review. The authorities are grateful for the broad support of the international community for the GPRS. They will strive to meet donor conditionalities to ensure timely disbursements under the Poverty-Reduction Support Credit (PRSC) and the Multi-Donor Budgetary Support (MDBS) programs. They will continue negotiations on securing HIPC relief from non-Paris Club creditors and complete bilateral agreements with Paris Club creditors. With the benefit of interim HIPC relief, Ghana's debt stock and debt service ratios have improved significantly. The authorities are strongly committed to meeting the trigger conditions in order to reach the completion point around mid-2004.

The authorities' commitment to implementation of reforms has achieved considerable success. While they are pleased with the progress made thus far, they are fully cognizant of the challenges ahead and are firmly committed to staying the course of their program in order to consolidate and build on the gains made. They will remain steadfast and vigilant, especially during the period of the run-up to elections. Taking due note of the potential risks to the program, indicated in the staff report, the authorities are determined to **mitigate them** to the extent possible. They thank the Fund, the World Bank, and the development community for the strong support to their program, and believe that they can continue to count on such support in a timely and predictable manner that enables them sustain the momentum of policy implementation and strong performance. As always, they are grateful to the Executive Board for advice and support.