- The first monthly fiscal report covering December 2002, as described in paragraph 28 of the MEFP, was submitted to the cabinet (including the Economic Management Team) on March 31, 2003.

3. The authorities have provided provisional data for budget execution and the central bank's balance sheet for the first quarter of 2003. These data show that:

- Net domestic financing of the government totalled ¢369 billion during the first quarter of 2003, well below the applicable program ceiling of ¢823 billion. Tax revenues exceeded the program target for the quarter by more than 10 percent.

- Reserve money contracted by ¢978 billion (17 percent) between December 31, 2002 and March 31, 2003. As a result, the stock of reserve money was around 3 ½ percent below the program's indicative benchmark at end-March.

- The net domestic assets of the Bank of Ghana (valued at the program exchange rate) declined by ¢725 billion during the first quarter of 2003, or some ¢600 billion more than was programmed.

- The net international reserves of the Bank of Ghana declined by US$17 million during the first quarter of 2003, compared to a decline of US$80 million envisaged under the program.

While the data needed to apply the program adjustors to the first quarter outturns are not yet available, it would appear that the program's quantitative performance targets for the quarter ended March 31, 2003 are likely to have been met by comfortable margins.

Statement by Abbas Mirakhor, Executive Director for Ghana
May 9, 2003

Introduction

My authorities are grateful to the staff for their hard work, and to management and the Board for their support. Since the new Government came to office early 2001, the authorities have embarked on a strong program of adjustment and reform to reduce macroeconomic and financial imbalances and lay the foundation for sustained growth and poverty alleviation. This program has been rooted in fiscal discipline, good governance, and private sector development. The authorities have demonstrated commitment to these principles by promoting transparency in the management of public resources, reinforcing anti-corruption mechanisms, and developing an environment conducive to and protective of private business and investment. The authorities' efforts have paid off in terms of macroeconomic stability, economic growth, and enhanced confidence of donors, investors, and the public. Going forward, they intend to build on these gains and accelerate reforms to achieve durable strengthening of the economy and improvement in living conditions.

Recent economic developments

Against the backdrop of severe economic imbalances driven by terms-of-trade shocks and domestic policy weaknesses, the authorities have made substantial progress in re-stabilizing the economy, concurrently with a strengthening of growth performance. Inflation declined steadily from 40.5 percent at the end of 2000 to 15.2 percent at the end of 2002. Following the increase in petroleum product prices by an average of 90 percent in January 2003, inflation shot up to 29.4 percent in February, and rose slightly to 29.9 percent in March. It is expected that this one-off rise in inflation will level off and the underlying rate will soon return to its original downward path. Real GDP growth rose progressively from 3.7 percent in 2000 to 4.5 percent in 2002—in spite of the global slowdown and shortfalls in external financing. At the same time, the external position has improved, with the current account balance (including grants) becoming positive and strong reserve build-up.

These positive achievements were the result of sound macroeconomic policies buttressed by strong reforms. Prudent fiscal management has led to a progressive reduction in the budget deficit. Tax revenue performance, in particular, has improved due to stronger collection efforts. At the same time, wide-ranging measures were initiated to strengthen expenditure management and control. Monetary policy has focused on reducing inflation and reinforcing the flexible exchange rate regime to build up reserves and protect external competitiveness.

Structural reforms have been advanced over the past two years, and groundwork laid for the privatization of "targeted" public enterprises to inject private capital, expertise, and efficiency into their operations as well as to ease budgetary strains. Auditing of the key public enterprises has been completed, while cross arrears with government have been settled. The energy and utilities sectors have been gradually commercialized, including by moving to cost-recovery prices, removing considerable strain off the financial system. Financial sector reform has also progressed, with modernization of the legal framework, strengthened supervision, and greater autonomy to the central bank along with auditing of its accounts in line with international standards. In accordance with their commitment to good governance and "zero-tolerance for corruption," the authorities have promoted transparency and accountability by strengthening public resource management and anti-corruption institutions.

Shortfalls in external financing and the need for additional remuneration to workers in the priority health and education sectors placed the budget under considerable strain in 2002. Consequently, net domestic financing turned out higher than projected. In the circumstance, the authorities have developed a new program covering 2003 – 2005 that focuses on consolidating macroeconomic stability, advancing the structural reform agenda, and providing greater impetus to growth and poverty reduction.

Poverty Reduction Strategy

The final Ghana Poverty Reduction Strategy (GPRS) was prepared through a broad consultative process involving all national stakeholders, in order to build consensus and enhance country ownership, and development partners. Its principal goal is to create wealth by transforming the nature of the economy to achieve sustainable growth, accelerated poverty reduction as well as to protect the vulnerable segments of the population in a decentralized, democratic environment. This goal is to be achieved through identified key strategies. Programs and projects for implementing the strategies over the medium term have been prioritized—based on projected funding—in terms of five thematic areas: (i) infrastructure development, (ii) modernized agriculture and rural development, (iii) investment in social services, (iv) good governance, and (v) private sector development. The GPRS aims at reducing the national poverty incidence from 39 percent in 2000 to 32 percent in 2005.

Real GDP is projected to grow by an average of 5 percent through 2005; thereafter, higher rates of 7-8 percent will be required to achieve the intended pace and depth of poverty reduction. Funding for the programs and projects under the GPRS is expected from HIPC savings, Government of Ghana (GOG) resources, additional donor support, and other non-traditional sources. Agriculture, health (including HIV/AIDS), education, housing, community amenities, and infrastructure will be the principal beneficiaries of the GPRS funding. Expenditure will be closely tracked under a new monitoring and evaluation (M&E) system. Results produced by the programs and projects will be assessed through household surveys and participatory poverty analyses.

The authorities take note of staff suggestions of improving the GPRS implementation and monitoring, and intend to remedy identified shortcomings in the context of the annual updates. They are also appreciative of staff's analysis of key issues and their pertinent recommendations on the Ghanaian economy in the Selected Issues paper, and have given their consent to the publication of the document. They take particular note of the key influences on growth and intend to accord them priority attention under the GPRS. Moreover, they are cognizant of the financial sector's potential to contribute to the development of the economy, and will vigorously pursue reforms in the sector. The authorities also acknowledge the challenges of fiscal sustainability, especially in the post-HIPC era, and will work assiduously toward achieving key prerequisites.

Medium-term objectives and policy framework

Over the medium term, real GDP growth is projected to increase to an average of nearly 5.0 percent per year, allowing real per capita GDP to rise by an average of 2.4 percent. Inflation is to be reduced to single digits by 2004, and reserves will increase to 3 months of imports by 2005. Fiscal consolidation will be the centerpiece of the authorities' medium-term program. Near budget balance is to be reached from 2005, while maintaining domestic primary surpluses. Supplemented by divestiture receipts, program aid, and HIPC relief, a phased retirement of domestic debt will be implemented to halve its ratio to GDP to15 percent by end-2005. HIPC relief will allow a significant increase in poverty-related spending.

The authorities will reinforce expenditure control, monitoring, and transparency, particularly regarding poverty-related spending and the wage bill. They intend to restore the key parastatals to financial viability, while restructuring the existing stock of parastatal debt. Financial sector development will be reinforced, including through strengthened supervision, removal of the strain of parastatal debt, and divestiture. Additional policy reforms are being supported under a Multi-Donor Budgetary Support (MDBS) program, relating to the civil service, the budgetary process and public sector accountability, governance, and decentralization. A public sector procurement bill is under parliamentary consideration. The World Bank will also be assisting in the power sector, road construction, and public sector financial management. The authorities recognize the private sector as a key development partner and the engine of growth, and will engage it strongly in the medium-term program. Discussions with the civil society and business representatives have identified key constraints to private investment and growth that will be addressed under the medium-term program.

The program for 2003

The program for 2003 focuses on further strengthening growth, ensuring effective implementation of the poverty reduction programs, and reducing inflation. Real growth is projected at 4.7 percent, which takes account of the uncertain global and regional economic outlook. The impact of the sharp correction in fuel prices in January no longer makes the original objective of reaching single-digit inflation in 2003 attainable. Despite a significant tightening of policies, inflation is expected to reach 22 percent before returning to the original path by 2004.

The authorities intend to reinforce their efforts in stabilizing and reducing the domestic debt, in order to ease the interest burden on the budget and the pressure on real interest rates. To this end, the fiscal deficit will be reduced, and net domestic financing eliminated. Far-reaching revenue-enhancing measures—yielding a total of 2.6 percent of GDP in 2003—are planned (MEFP: paragraphs 17-18). In addition to new tax measures, tax administration will be further improved. Overall, the collection efficiency of revenue agencies is expected to show a marked improvement. With respect to expenditure, the authorities will reinforce control and monitoring as a priority. To bring the wage bill under control, a hard budget constraint will be applied to wages for the first time, and payroll controls will be tightened. Furthermore, a fully integrated computerized financial and accounting system in key ministries is expected to be fully operational by end-2003. Control over expenditure commitments will receive utmost attention, based on a cash management system underpinned by quarterly expenditure ceilings.

To ensure effective monitoring of budget implementation, monthly "fiscal early warning" reports and quarterly cabinet briefings on fiscal developments are to be initiated. The authorities intend to ensure that social and other priority expenditures are fully met. HIPC-resources will allow poverty-related spending, which will be closely monitored under the poverty expenditure-tracking system, to increase to 6 percent of GDP in 2003. The authorities will remain current on statutory payments to the District Assembly Common Fund and Ghana Education Trust Fund, and will provide a limited amount of utility subsidy to the poor following the adoption of full commercial tariffs.

Key objectives of monetary policy will be to complement fiscal consolidation in reducing inflation and to build reserves. Broad money growth will be halved from 50 percent to 25 percent in 2002, and reserve money reduced from 43 percent to 25 percent. With the expected increase in net international reserves and zero net domestic financing of the budget, commercial bank lending to the private sector will increase by 16 percent in real terms, providing impetus to growth. Monetary policy implementation has been strengthened following last year's inauguration of a new Monetary Policy Committee (MPC), constituted by senior officials of the BOG and external members from both the public and private sectors. The increase in consumer price inflation in February, although anticipated, was higher than expected due to the very large adjustment of petroleum prices. The MPC has already tightened monetary conditions by raising its prime rate by one percentage point in January, and by a further two percentage points to 27.5 percent at end-March. The Bank of Ghana (BOG) will intensify open market operations—to restrain its NDA—and will use an active interest rate policy to achieve the monetary policy objectives.

Ghana's terms of trade are expected to improve further in 2003, with high cocoa and gold prices holding, concurrently with possible lower oil prices. With increased donor support, including HIPC relief, gross reserves will increase by $181 million to 2.3 months of imports of goods and services. The authorities will maintain the market-determined exchange rate regime, limiting intervention to smoothing short-term fluctuations and ensuring achievement of the targeted reserve buildup. The BOG has done considerable preparatory work to launch a computerized real time inter-bank foreign exchange market, in order to phase out foreign exchange surrender requirements. To foster debt sustainability, the authorities will pursue a prudent debt management policy and seek concessional assistance from their development partners to support their program. The authorities remain committed to their open trade policy and to promoting long-term efficiency and competitiveness.

The government will maintain the momentum of implementation of structural reforms to enhance economic efficiency and growth prospects. The divestiture program will be vigorously pursued and is expected to yield 0.7 percent of GDP in 2003. Petroleum prices were restored to full cost-recovery levels in January, to be followed by monthly adjustments by the independent National Petroleum Tender Board (NPTB) based on an automatic adjustment formula. The quasi-fiscal debt of the petroleum refinery, Tema Oil Refinery (TOR), to banks has been restructured through a bond exchange. This should pave the way for the divestiture of the Ghana Commercial Bank (GCB). The authorities are committed to full cost-recovery utility tariffs necessary to ensure viability of the electricity and water sectors. Following the second round of tariff increases in March, these sectors should be able to fully cover their costs. The Volta River Authority (VRA) will, however, continue to incur losses due to preferential tariffs offered to the major aluminum company, currently subject to international arbitration.

Financial sector reform will be carried forward to enhance the soundness of the sector and its contribution to the development of the private sector. To this end, a range of regulatory and supervisory legislation and an anti-money laundering legislation are expected to be submitted for parliament approval during 2003. The BOG will continue to conduct an external audit of its accounts in accordance with international standards and will be subject to the Fund's full Safeguards Assessment.

The authorities will remain resolute in promoting transparency, good governance, and fighting corruption. To this end, they will strengthen the public audit system, the anti-corruption strategy, the legal and administrative justice systems, and the parliamentary oversight of policy implementation. The authorities are committed to statistical accuracy and timely production and dissemination of economic and social data. A major exercise with Fund technical assistance is underway to review the National Accounts and Prices data from 1999.

While the risk of a spike in oil prices due to the Iraq war has probably abated, the authorities are striving to mitigate other risks to the program pointed out in the staff paper. Strict expenditure control measures will be implemented to avoid overruns. At the same time, planned revenue measures will be fully implemented while continuing to strengthen tax administration. Any revenue shortfalls will be offset by corresponding adjustment in non-priority expenditure ceilings in order not to affect the integrity of the budget. Furthermore, with the consolidation of policy credibility and confidence, the authorities are committed to maintaining fiscal discipline and to avoiding compromising the budget in the run-up to the 2004 elections.

Debt relief under the enhanced HIPC Initiative

The authorities are close to concluding bilateral agreements with Paris Club creditors on HIPC debt relief. Concurrently, they are continuing to pursue negotiations aimed at securing similar relief from non-Paris Club bilateral and commercial creditors. They hope that the consolidation period for interim relief from the Paris Club creditors, expired with the previous PRGF arrangement, will be extended retroactively from December 1, 2002, once a new PRGF arrangement is in place. Meanwhile, the authorities request additional interim HIPC assistance from the Fund. They are working hard to ensure that Ghana reaches the completion point in early 2004.