Ghana

key figures

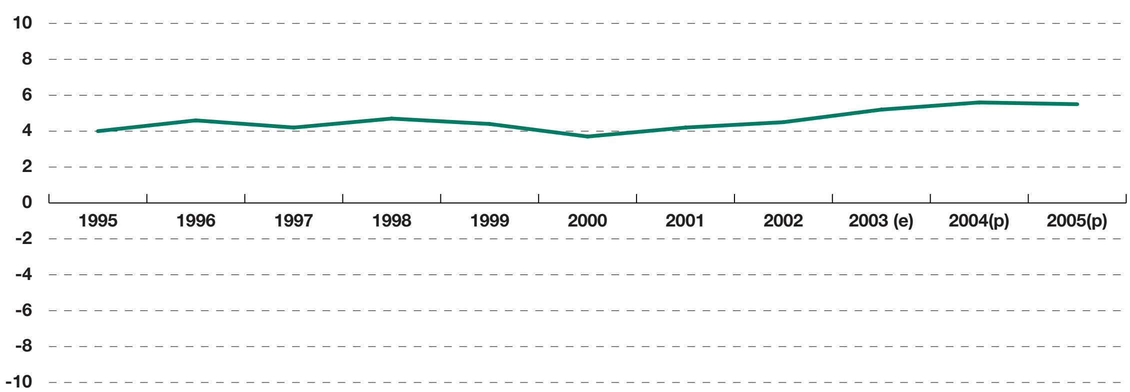
• Land area, thousands of km²	239
• Population, thousands (2002)	20 471
• GDP per capita, $ (2002)	301
• Life expectancy (2000-2005)	57.9
• Illiteracy rate (2002)	26.2

Ghana

THE GHANAIAN ECONOMY appears to be responding positively to measures taken since the poor performance of 2000. Real GDP growth has been on an upward trend, the government's fiscal position has improved, and significant improvement is also recorded in the external payments situation. The government is combining the improving macroeconomic stance with a commitment to reduce poverty systematically through the implementation of the country's PRSP. Real GDP growth, which rose from 4.5 per cent in 2002 to 5.2 per cent in 2003, is projected to increase to 5.6 per cent in 2004, and to remain stable at 5.5 per cent in 2005, following continuing improvement in agriculture and stability in macroeconomic management. Although the government has faced difficulty in reducing its domestic debt, the overall budget deficit fell to the lowest level in several years in 2003; the deficit is projected to decline further in 2004 and 2005, as the government reduces its interest burden on domestic debt. Similarly, while the monetary authorities have continued to face difficulty in reducing growth in monetary aggregates to desired levels, prudence in monetary management has contributed to a decline in the cost of borrowing. Inflation has come down, though not to required levels, and is expected to become single-digit in 2004. Furthermore, as a result of significant improvement in the external accounts (expected to continue in 2004 and 2005), the external reserve position improved to its highest level in several decades in 2003. Ghana's structural reforms are yielding positive results in attracting investment into the economy. However, in some areas of reform, especially privatisation, progress has been extremely slow. Improving the energy supply situation remains crucial to the government's development objective. The government places considerable hope on ongoing projects, such as the West African Gas Pipeline Project, to make the huge natural gas reserves of Nigeria available to Ghana. Ghana's political climate remains stable, with the country's democratic structures becoming stronger as efforts continue to be made to ensure the rule of law and enhance social order.

Growth is projected at over 5 per cent for the next 3 years following improvements in agriculture and stability in macroeconomic management.

Figure 1 - **Real GDP Growth**

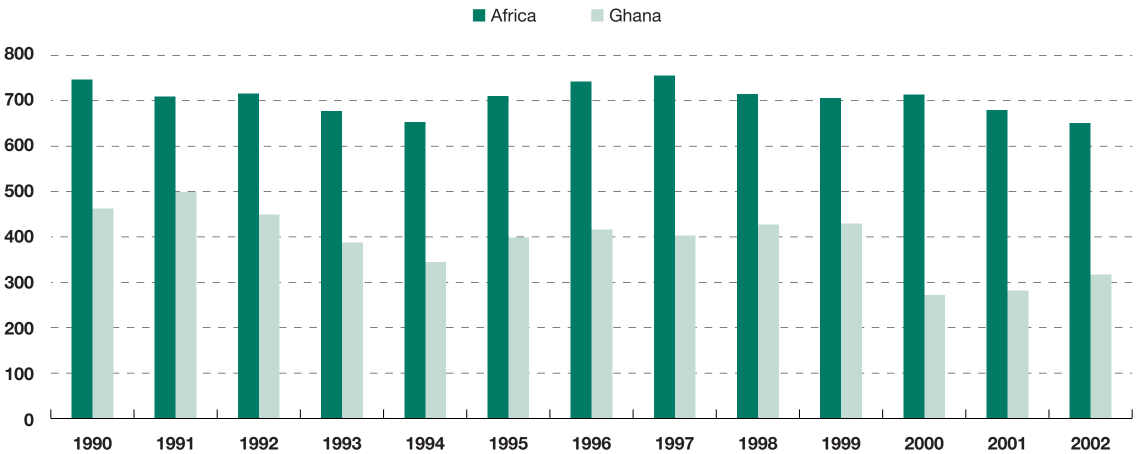


Source: IMF and domestic authorities' data; projections based on authors' calculations.

Recent Economic Developments

The medium-term economic programme is based on the Ghana Poverty Reduction Strategy (GPRS), which was adopted in 2002. The main thrust of the programme is growth and poverty reduction and implies that the government is not only concerned about poverty reduction, but also about sources of growth in

Figure 2 - **GDP Per Capita in Ghana and in Africa** (current $)

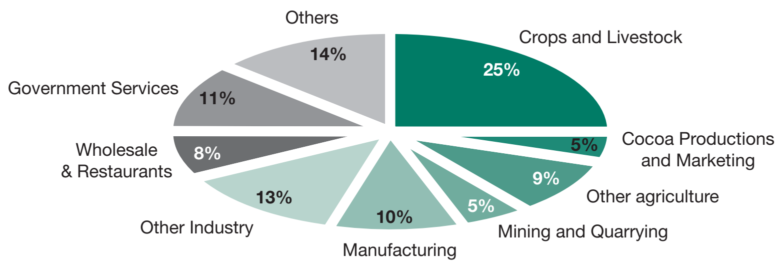


Source: IMF.

the economy that will accelerate poverty reduction. Meanwhile, the economy appears to be responding to stabilisation measures put in place following poor economic performances in 2000. However, the performance of the economy remains mixed. In 2002, while significant progress was achieved with real GDP growth reaching 4.5 per cent from 4.2 per cent in the previous year, a number of unstable underlying conditions emerged in the conduct of economic management, especially in the fiscal activities of the government. The strong growth performance continued in 2003, buoyed by a stronger growth in agriculture. Real GDP growth rose to an estimated 5.2 per cent in 2003 and is projected to remain strong, reaching 5.6 per cent in 2004, and to remain stable at 5.5 per cent in 2005. The improvement in growth is expected to follow improved agricultural performance and stability in macroeconomic management.

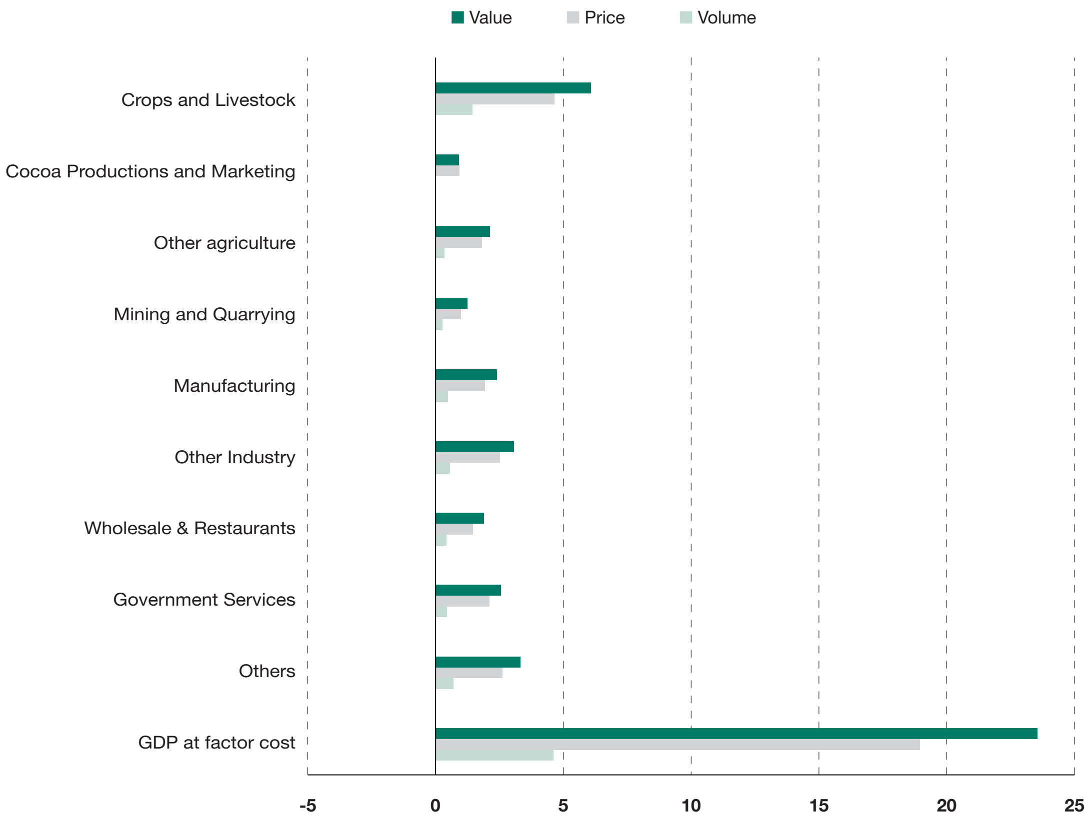
The recent relatively strong growth performance has been reflected in all sectors of the economy. Agriculture remains the dominant sector, with a 39.2 per cent share of total GDP in 2002. Total agricultural output grew by 4.4 per cent in 2002, from 4 per cent in the previous year. Agricultural output expanded by 6.1 per cent in 2003, propelled by a strong recovery in the cocoa sub-sector. The improvement in agricultural output has been reflected in all sub-sectors. In 2002, food crop production, most notably cereal crops, increased by about 31 per cent, while starchy food production increased by about 9 per cent. With regard to cash crops, the production of cocoa declined from 389 800 tons in 2000/01 to 340 600 tons in 2001/02. This was due largely to the higher incidence of black pod and capsid diseases during the 2001/02 crop season, to which the government responded with a massive country-wide spraying exercise. According to the government, the decline in officially measured cocoa output was also due to the smuggling of cocoa beans to neighbouring Cote d'Ivoire, which it has tried to avert by increasing the producer price of cocoa. These strategies appeared to yield dividends, with the 2002/03 crop year yielding about 497 000 tons of cocoa, constituting a 16.4 per cent increase in output in 2003. The government aims to achieve a farmers' share of 70 per cent in the international f.o.b price of cocoa by the 2004/05 season. At the beginning of the 2003/04 crop season in October 2003, the farmers' share had risen to 69 per cent from about 54 per cent in 2000/01, following increases in the producer price in both 2002 and 2003. The government expects the agricultural sector to spearhead growth in 2004, with an anticipated growth rate of about 6.1 per cent. This anticipation appears to be on track with the revival of cocoa production and the country's continuing good weather. However, the government relies heavily on donor support for its agricultural programmes. In 2003, this reliance was as much as 67 per cent of the budget for

Figure 3 - **GDP by Sector in 2002**



Source: Authors' estimates based on domestic authorities' data

Figure 4 - **Sectoral Contribution to GDP Growth in 2002**



Source: Authors' estimates based on domestic authorities' data.

agricultural programmes. Such high dependence on aid creates uncertainty and may limit the possibilities of growth in agriculture, given recent shortfalls in donor inflows to the country.

The industrial sector has maintained a 25 per cent share in total GDP since 1997. The sector has, however, been characterised by inconsistency in growth performance. A period of rapid expansion in the early 1990s was followed by stagnation from 1998. However, in 2002 industrial output jumped by 4.7 per cent compared with the annual average 2.9 per cent growth rate during the 1998-2001 period. The relatively strong performance in 2002 was in response to recent improvements on the macroeconomic front. Also, the government's recent direct intervention measures, notably the Presidential Special Initiatives (PSI) on cassava, garments textiles and salt, have added impetus to industrial production over the past two years. The improved industrial output in 2002 was reflected in the major sub-sectors, particularly mining and quarrying, which recorded its strongest growth of 4.5 per cent since 1997 to reverse four successive years of decline. However, the spurt in mining and quarrying growth in 2002 was largely due to the jump in international prices of minerals, as volume of output was poor. The production of all major minerals declined: gold output fell by 7 per cent while diamond output fell by 11 per cent. These figures suggest that the mining industry is yet to recover from the industrial disputes that have disrupted production during the last two years.

Growth in manufacturing was 4.8 per cent in 2002 compared with 3.7 per cent in the previous year. The manufactures that led the growth were petroleum refining, non-ferrous base metals and cement, products which were largely consumed locally, gaining from the increased economic activity during the year. On the other hand, other manufactures such as sawmill and wood products, tobacco and tobacco products, cutlery and non-ferrous products have continued to record negative growth rates since 1998.

The industrial sector is expected to grow by 5.1 per cent in 2003, reflecting improvement in capacity utilisation and the outcome of the Presidential Special Initiatives (PSI). In 2004, the PSI and a New Industrial Reform and Accelerated Growth Programme initiated in November 2003 are expected to maintain industrial growth at 5.2 per cent. Under the GPRS, Ghana is expecting longer term average annual growth of 12 per cent in the industrial sector. Such growth targets will require distinct, orchestrated strategies and policies rather than the series of special industrial projects and special initiatives that are currently being pursued.

The services sector remains the second biggest contributor to total GDP, accounting for about 33 per cent in 2002. Growth in the sector fell marginally to 4.7 per cent in 2002, mainly due to government services, as the government reduced its activities in its anti-inflationary campaign. Wholesale, retail trade, restaurants and hotels maintained strong growth in 2002 at 5.5 per cent. Tourism contributed to this strong growth. In 2002, an estimated 482 643 tourists visited Ghana; this represented an increase of over 10 per cent on the number of tourists in 2001 and continued an upward trend since 1990. It is significant to note, however, that overseas Ghanaians represent as much as 27 per cent of tourist arrivals in the country. In response to the increasing number of visitors, the number of hotels and hotel beds in the country have expanded rapidly. Whilst there were 7 500 hotel beds in 1990, there were over 20 000 in 2002, with much of the expansion occurring in the last three years. Telecommunications expanded rapidly in 2002 to boost growth in the services sector. In line with the GPRS the government has extended telephone access to several rural communities. Also, several free-phone dialing lines and prepaid phone systems were provided during 2002. Thus, access to telephone services increased by nearly 9 per cent from 199 934 subscribers in 2001 to 217 084 in 2002. In addition, growth in mobile telephony was spurred in 2002 with Ghana Telecom entering the cellular phone market with a wider coverage than the three existing operators. Growth in the services sector reached 4.9 per cent in 2003, as the government continued to give support to public transportation. The continuation of the policy of mass transportation through the provision of over 200 high occupancy buses in 2003 was a big boost to the sector. Another significant boost was the government's inter-modal transport system, under which a 400-acre inland port is being developed. A further contributing factor to the sector's growth was the crisis in Cote d'Ivoire, which resulted in Ghana's northern neighbours (particularly Burkina Faso) expanding their operations with Ghana, especially through the Tema harbour.

The demand composition of GDP in 2002 presented worrying signs as gross capital formation fell to its lowest level for some time. This situation, which also saw a low point in public gross capital formation and a stagnation in private investment, presents a major challenge for sustainable growth without foreign

Table 1 - **Demand Composition** (percentage of GDP)

	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
Gross capital formation	**20.0**	**24.0**	**26.6**	**19.7**	**19.9**	**19.7**	**20.4**
Public	14.2	9.2	12.8	6.1	6.1	6.0	6.1
Private	5.8	14.8	13.8	13.6	13.8	13.7	14.3
Consumption	**88.4**	**94.5**	**93.0**	**92.5**	**93.2**	**91.8**	**90.7**
Public	14.0	16.9	17.8	17.6	16.9	16.1	15.8
Private	74.4	77.5	75.1	74.9	76.3	75.6	74.9
External demand	**-8.4**	**-18.4**	**-19.6**	**-12.3**	**-13.0**	**-11.4**	**-11.2**
Exports	24.5	48.8	45.2	42.6	44.1	44.3	45.0
Imports	-32.9	-67.2	-64.8	-54.9	-57.2	-55.8	-56.2

Source: IMF and domestic authorities' data; projections based on authors' calculations.

savings. The demand composition of GDP in 2003 mirrored the situation in 2002, raising questions about the government's declared policy of making the private sector the engine of economic growth. Private capital formation stagnated for a third successive year in 2003. However, gross capital formation is expected to rise as a share of GDP in 2005, albeit to below historical ratios.

Macroeconomic Policy

Fiscal and Monetary Policy

The fiscal policy is currently aimed at strengthening the tax base, allocating resources (including HIPC relief) towards priority areas identified in the GPRS, and reducing the burden of domestic debt. Whilst there has been some success in the first two of these objectives, efforts in debt reduction have remained unrewarded. Domestic debt, which rose from one per cent of GDP in 1990 to 21 per cent in 1995, reached 29.6 per cent in 2002 and is expected to decline only marginally in 2003.

Notwithstanding the difficulties in expenditure management, the overall budgetary position of the government appears to have been improving recently. In 2002, the overall budget deficit fell from 7.7 per cent of GDP in 2001 to 5 per cent. In 2003, the overall deficit is estimated to have fallen to 3.2 per cent of GDP, with a significant primary surplus estimated at

Table 2 - **Public Finances** (percentage of GDP)

	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
Total revenue and grants [a]	**24.1**	**19.8**	**25.0**	**21.1**	**23.5**	**22.1**	**20.8**
Tax revenue	14.7	16.3	17.2	17.5	17.5	17.2	17.0
Grants	3.6	2.1	6.9	3.1	5.5	4.4	3.3
Total expenditure and net lending [a]	**30.4**	**27.7**	**32.7**	**26.1**	**26.7**	**23.9**	**22.1**
Current expenditure	16.4	18.5	19.9	20.0	20.6	17.9	16.0
Excluding Interest	*12.1*	*11.0*	*12.3*	*13.8*	*13.3*	*12.7*	*12.4*
Wages and salaries	5.6	5.2	6.1	8.5	7.9	7.6	7.5
Interest	4.2	7.5	7.6	6.1	7.3	5.2	3.5
Capital expenditure	14.0	9.2	12.8	6.1	6.1	6.0	6.1
Primary balance	**-2.1**	**-0.4**	**-0.1**	**1.2**	**4.2**	**3.4**	**2.3**
Overall balance	**-6.4**	**-7.9**	**-7.7**	**-5.0**	**-3.2**	**-1.8**	**-1.3**

a. Only major items are reported.
Source: Domestic authorities' data; projections based on authors' calculations.

4.2 per cent of GDP. This improvement is expected to continue, with the overall deficit projected to decline to 1.8 per cent of GDP in 2004 and 1.3 per cent in 2005. Significant primary surplus will continue in 2004 and 2005.

In 2002, the government implemented several measures to mobilise revenue, including the establishment of a National Tax Audit Team; the establishment of the secretariat of the National Revenue Agencies Board; the implementation of the uniform Tax Identification Number (TIN) scheme by all revenue agencies; and the creation of the Large Taxpayer Unit. Consequently, tax revenue rose to 17.5 per cent of GDP in 2002 from 17.2 per cent in the preceding year. However, a significant fall in non-tax revenue, especially in external grants, with only 50 per cent of anticipated inflows received, contributed to total revenue declining to the equivalent of 21.1 per cent of GDP in 2002 from 25 per cent in 2001. The government has made much of the shortfall in grants in 2002. However, this situation was actually not unusual: since 1997, with the exception of 2001, Ghana has never received all anticipated external grants. Another significant shortfall in non-tax revenue in 2002 was divestiture receipts, with less than one per cent of the anticipated amount realised. This situation reflected the stalling of the divestiture programme. The revenue situation improved significantly in 2003, with total revenue rising to 23.5 per cent of GDP. Ghana's tax effort continued to yield higher receipts, when previous measures were complemented by the creation of the National Health Premium; the Debt Recovery Levy on petroleum products; and by an increase in the road levy and higher stumpage fees in the timber sector. Also, grants rose sharply in 2003, explained by the government to be the result of timely disbursements influenced by the innovative Multi-Donor Budgetary Support (MDBS) framework arrangement with development partners. The government expects the revenue situation, both domestic and foreign inflows, to remain strong in 2004. However, no new major revenue mobilisation measures have been put in place in 2004, with the government's relying on improvements in tax administration to yield the expected gains. In the absence of new measures, total government revenue is projected to fall in 2004 and 2005. Although the domestic tax effort is expected to remain strong, a significant decline in grants could lead to a fall in total revenue to 22.1 and 20.8 per cent of GDP in 2004 and 2005 respectively.

The government's recent expenditure programme has been challenged by unanticipated large rises in the wage bill, leading to difficulties in keeping expenditure levels on target. Higher wages and salaries (especially to teachers and doctors) in 2002 exceeded the budget target by about 1.8 per cent of GDP. In an effort to arrest the exodus of doctors and other medical personnel in the public sector from the country, the government granted large salary increases and other incentives. The government's predicament arose from the lack of a consistent public sector wage policy, which relies on a *case by case* solution to new demands for increased wages. The implementation of the 2003 budget in November 2003 brought similar difficulties, with wages rising and further unexpected demands, as well as the burden of servicing the accumulated debt of the Tema Oil Refinery (TOR). Consequently, for the first time in several years, the budget required supplementary appropriation, equivalent to 4.3 per cent of the total original budget, in order to meet domestic interest payments, the public wage bill and expenditures on administration. However, it is important to note that the continuing resort to supplementary budget could have adverse effects, since it undermines confidence in the budget process among the various stakeholders, not least amongst the crucial donors. Also, it was obvious that the government had to find a more predictable approach to wage bargaining, especially as the country moved to an election year in 2004. The government appeared to have moved on the side of caution, announcing no significant increase in government expenditure in the 2004 budget. Total government expenditure is anticipated to fall in 2004 and 2005. Significantly, it is expected that the government will be able to reduce its interest payments, especially on domestic debt, in 2004 and 2005.

The monetary policy of Ghana remains focused on achieving domestic price level and exchange rate stability as key elements in an environment conducive to sustainable economic growth. The Bank of Ghana

(BOG) maintains indirect monetary policy instruments, namely Open Market Operations and Repurchase Agreements (REPOs) as its main policy instruments. However, control of the growth in money supply and liquidity management has continued to be made difficult as the expansion in monetary aggregates has generally exceeded targets.

A new Bank of Ghana (BOG) Act was promulgated at the start of 2002, conferring operational independence on the BOG and assigning the formulation of monetary policy to a Monetary Policy Committee. In 2002, the BOG also introduced the prime rate as an instrument to signal the Bank's assessment of inflationary pressure and its stance on monetary policy. In 2002 broad money supply (M2+) grew rapidly by about 50 per cent against the target of 25 per cent set for the year and compared with 41 per cent in the preceding year. This growth, much of which occurred during the last quarter of the year, was fuelled by a substantial increase (about 190 per cent) in net foreign assets of the banking system. Net domestic assets grew at the slower pace of 26 per cent during the year. The BOG tightened monetary policy from early 2003, which succeeded in slowing down the rate of expansion of M2+ to about 35.6 per cent in 2003. This rate of expansion, however, was still off the target of 25 per cent set for the year. The monetary authorities have set a 19 per cent target per cent for 2004, which, given the recent difficulties, is unlikely to be achieved.

The monetary authorities have made some progress in bringing stability to domestic price levels. However, the attainment of single-digit inflation still remains elusive. In 2002, the annual average rate of inflation was reduced to 14.8 per cent from 32.9 per cent in the preceding year. This was only a little higher than the 13 per cent target. The effect of the substantial increase in money supply during the last quarter of 2002 on domestic price levels began having effects in early 2003, as the annual rate of inflation rose sharply to 29.6 per cent in June 2003, before falling to 23.6 per cent at the end of December. Inflation is projected to fall to 8 per cent in 2004, as agricultural output increases, especially in food crops. It is estimated to rise to about 10 per cent in 2005.

The cost of borrowing in Ghana has continued to decline, albeit at a very slow pace. In 2002, the replacement of the bank rate by the stable prime rate (maintained at 24.5 per cent) led to a decline in the entire range of interest rates. The 91-day Treasury bill rate fell from 26.9 per cent at the end of 2001 to 24.9 per cent at the end of 2002. Average commercial banks lending rates also fell from 46 per cent in 2001 to about 36.2 per cent in 2002. However, 2002 continued to experience a widening gap between deposit rates and lending rates. This was indicative of the marked risk and uncertainty inherent in the economy, as well as the continuing inefficiencies in the banking system. Interest rate movement in 2003 was in tandem with movements in the prime rate. The prime rate was increased to 27.5 per cent by June 2003 in response to rising inflation before being reduced to 24 per cent in October and 21.5 per cent by the end of December as a result of improved economic fundamentals.

Ghana has maintained a flexible exchange rate policy in order to provide incentives for increased production of exportable goods and to enhance competitiveness in international markets. The foreign exchange market has remained relatively calm since the turmoil of 2000. However, the rate of depreciation of the *cedi* in both the inter-bank and forex bureaux markets was higher in 2002 than in the previous year. The *cedi* depreciated by 13.2 per cent against the US dollar in the inter-bank market in 2002, compared with 3.7 per cent in 2001. In the forex bureaux market the depreciation was higher, at 15.7 per cent in 2002 compared with 7.1 per cent in the previous year. The relatively higher depreciation of the *cedi* in 2002 was caused mainly by the fall in donor inflows, particularly in the latter part of the year. The real exchange rate of the *cedi* also depreciated in 2002. In 2003, the *cedi* remained largely stable and volatility on the foreign exchange market was reduced despite the spill over effects of the euro/dollar exchange rate movements on the international exchange rate market. By the end of the year, the *cedi* had depreciated by 4.6 per cent against the US dollar.

External Position

Ghana's external sector policy continues to focus on building up the external reserve position in order to cushion the economy against short-term external shocks. The country's trading partners have remained largely unchanged. Trade with western Europe and the United States remains dominant, though trade with ECOWAS countries, notably Cote d'Ivoire, Nigeria and Togo has become increasingly significant. Within ECOWAS, the major suppliers of Ghana's merchandise imports remain Nigeria and Cote d'Ivoire, in spite of the latter's recent crisis. The other major suppliers of Ghana's merchandise imports are the United Kingdom and Germany, while the main destination of Ghana's exports are the Netherlands, the United States, the United Kingdom and Germany.

Table 3 - **Current Account** (percentage of GDP)

	1995	2000	2001	2002	2003(e)	2004(p)	2005(p)
Trade balance	-3.9	-16.5	-18.2	-10.7	-11.3	-9.7	-9.9
Exports of goods (f.o.b.)	22.2	38.9	35.2	33.4	34.8	35.2	35.4
Imports of goods (f.o.b.)	-26.1	-55.4	-53.3	-44.1	-46.1	-44.9	-45.2
Services	-4.5	-2.0	-1.4	-1.7			
Factor income	-2.1	-2.9	-2.0	-1.8			
Current transfers	8.1	13.1	16.3	14.6			
Current account balance	**-2.4**	**-8.4**	**-5.3**	**0.5**			

Source: IMF and domestic authorities' data; projections based on authors' calculations.

In 2002 the external sector performance improved, due primarily to an improvement in the trade account. Lower import values in 2002 accounted for a lower trade deficit. As a result, the trade balance showed a deficit equivalent to 10.7 per cent of GDP, smaller than the 18.2 per cent recorded in 2001. This improvement led to a small current account surplus of 0.5 per cent of GDP in 2002. In 2003, the external sector developments remained favourable, serving to underpin the improving current account. The trade deficit rose moderately to an estimated 11.3 per cent of GDP. The trade deficit is expected to fall in 2004 thanks to higher exports and lower imports. In 2005, the trade deficit ought to remain relatively stable.

As a result of the favourable developments in the external accounts, gross international reserves rose to the equivalent of 2.3 months of imports of goods and services in 2002, compared with 1.2 months in 2001. These improvements continued in 2003. Gross external reserves at the end of the year were equivalent to 3.9 months of imports of goods and services, constituting the largest build-up of reserves since 1990.

The total value of exports rose by 1.3 per cent in 2002 on account of favourable international prices for Ghana's major exports commodities. However, in 2002 lower export volumes denied Ghana the full benefits of international price rises. Cocoa export receipts increased to $463.4 million in 2002 from $381.1 million of the previous year. The average export price per ton in cocoa went up from $1 021 in 2001 to $1 266 in 2002. However, the volume of cocoa beans exported fell from 310 476 tons in 2001 to 305 000 tons. Export earnings from gold rose by 11.5 per cent to $689.1 million in 2002. The increase in gold earnings could also be attributed to higher export prices, as volume exported went down from 2 275 000 fine ounces in 2001 to 2 227 000 fine ounces in 2002. Timber exports contributed $182.7 million to total exports in 2002, compared with $169.3 million in 2001. The increase in earnings was entirely due to price changes, as the average unit price of timber went up from $355 per cubic meter in 2001 to $386.8 per cubic meter in 2002, output of timber having remained unchanged.

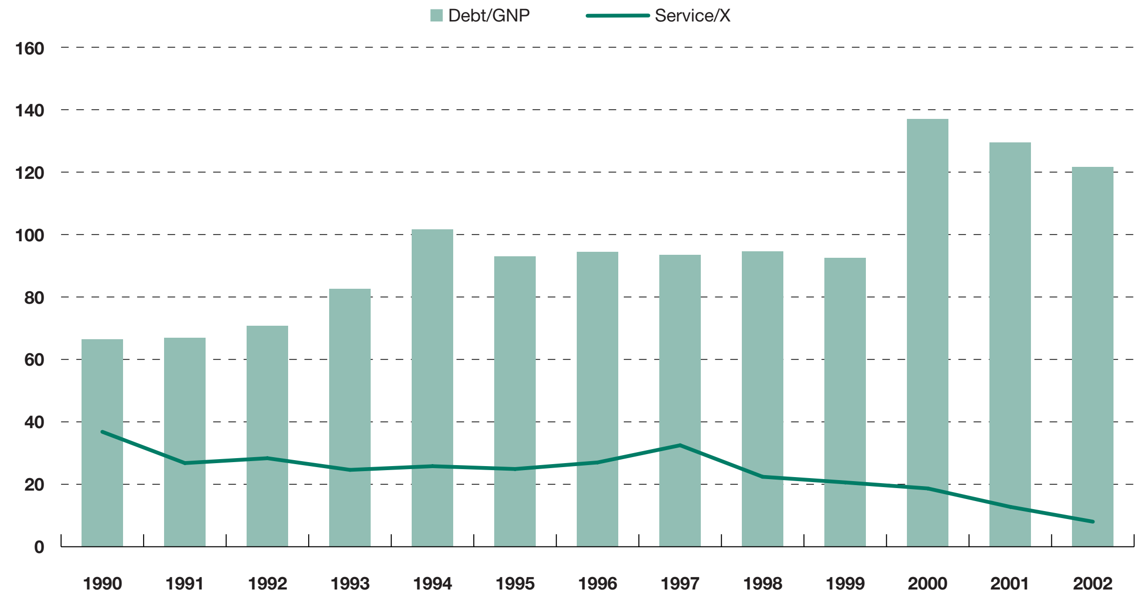
The performance of exports remained strong in 2003, with the estimated value rising by 14 per cent. This improvement was attributable both to the increased volume of exported cocoa and to a higher international price for gold. . In 2003, while cocoa prices softened, total earnings from cocoa for the year to August showed an increase of 71 per cent over the same period in 2002. Export earnings from gold increased by a further 18.4 per cent in the year to September 2003.

The total value of imports contracted by 9 per cent in 2002. Crude oil imports rose to about 18.8 per cent of total imports for two main reasons. Firstly, the average price of crude was about $25.1 per barrel, higher than the government's projection of $21 Secondly, the quantity of imported crude oil rose to meet the requirements for the thermal plant at Aboadze to generate electricity. The value of imports grew by 9.7 per cent in 2003, reflecting growth in both oil and non-oil imports.

The total external debt of Ghana stood at $6.6 billion at the end of 2002. Of this total, 68 per cent was owed to multilateral institutions, 26 per cent to bilateral creditors (Paris Club and Non-Paris Club) and 6 per cent to commercial creditors. Obligations to the IMF constituted 5.5 per cent of the total debt. Ghana reached the decision point of the enhanced HIPC Initiative in February 2002 and the Paris Club creditors agreed to restructure the country's external public debt with a cut-off date set at 20 June 1999. Total debt relief from all of Ghana's creditors is worth about $3.7 billion, which is equivalent to $2.2 billion in NPV terms or 56 per cent of total debt outstanding after the use of traditional debt relief mechanisms. Under decisions taken by the World Bank and the IMF, the World Bank's debt relief - $781 million in NPV- will be delivered over a 20-year period and will cover on average 67 per cent of debt-service obligations due to the Bank. Debt relief provided by the IMF - $112 million in NPV terms covering an average of 49 per cent of debt-service obligations – will be delivered over the next eight years. Both the World Bank and the IMF began providing debt relief immediately, as did most official bilateral creditors, resulting in an estimated $277 million in total HIPC debt relief for Ghana in 2002. By the end of the year, relief received from multilateral donors totalled $58 million, while negotiations with bilateral creditors were still ongoing. Ghana expects to reach the completion point by the end of 2004 in order to benefit fully from all debt relief that could accrue from the programme. The total debt stock is expected to decrease by about $1.6 billion by this time. The government maintains a policy of contracting new loans with a minimum grant element of 35 per cent.

However, in 2002 while long-term and medium-term debt grew by 2.4 per cent, short-term debt shot up by 20 per cent, and accounted at the end of 2002 for

Figure 5 - **Stock of Total External Debt** (percentage of GNP) **and Debt Service** (percentage of exports of goods and services)



Source: World Bank.

5.5 per cent of total debt. The risk with such an increasing reliance on short-term debt is that repayments may be bunched together to exert pressure on the balance of payments. As Ghana enjoys the benefits of its HIPC status, it is imperative that debt accumulation does not induce the risk of future debt problems.

Structural Issues

Ghana's ongoing reforms are currently focused on public enterprises and the financial sector. Ghana continues to implement structural reforms towards increasing private-sector participation in the economy and to attract investment in areas of its comparative advantage. A number of recent developments could positively impact on Ghana's investment profile. First, the $1.42 billion merger of Ghana's Ashanti Goldfield and Anglogold of South Africa in October 2003 could serve as a magnet to attract other major investors. This merger creates the world's largest gold producer, with 26 mines on four continents. Second, as part of the government's self assessment policy, it requested a sovereign rating by Standard and Poor (S&P). This was Ghana's first credit rating and was also S&P's first rating to be released under the UNDP programme to help sub-Saharan and other countries obtain sovereign credit ratings. The result published in September 2003 gave Ghana a B+ rating. The rating was supported by the government's commitment to macroeconomic stabilisation and reform, to significant political and social stability, and to substantial improvement in external liquidity. Ghana's rating compared favourably with peer group member countries including Senegal (B+) and Morocco (B), but was lower than Botswana's A rating.

In response to meeting the developmental goals of making Ghana a middle-income country by the year 2020, the broad energy-sector policy of the government is to ensure a reliable supply of high quality energy services for all homes, businesses and industries. In order to achieve these objectives Ghana has put in place several institutions and regulations. The main supporting institutions include the National Energy Board, the Energy Commission (EC), and the Public Utilities Regulatory Commission (PURC), an independent body mandated to establish and apply criteria, guidelines, and transparent procedures to regulate all aspects of the commercial interface between public utilities and their customers. Other bodies within the energy sector include the Volta River Authority (VRA) established to develop, generate, transmit and sell hydropower from the Volta River; the Electricity Corporation of Ghana (ECG), with the responsibility for electricity transmission and distribution; and the Ghana National Petroleum Corporation (GNPC), responsible for the exploration and development of indigenous petroleum resources.

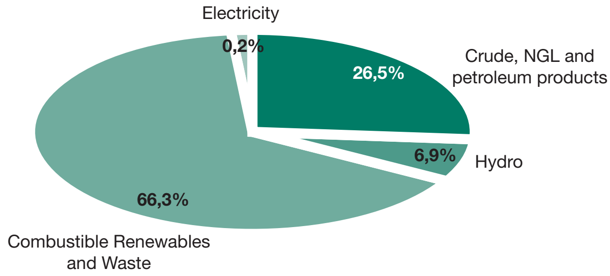
Biomass is Ghana's most important energy resource in terms of endowment and utilisation. About 69 per cent of energy consumed in Ghana is biomass (fuel-wood and charcoal). Petroleum products and electricity consumption are in the region of 21 per cent and 10 per cent respectively. In the fuel-wood sub sector, Ghana faces key problems of inefficient production and use of charcoal and firewood, and deforestation.

The second most important indigenous energy source is hydro, the potential capacity of which is estimated at about 2000 MW. About half of the country's potential power remains untapped. Electricity is produced from two main sources. Two hydro power plants with a total installed capacity of 1 070 MW provide the bulk of electricity produced in the country. Thermal power plants with installed capacity of 550 MW account for the rest. These are supplemented with imports (up to 2000 MW) from neighbouring Cote D'Ivoire.

Ghana imports all of its crude oil requirements and even though there are indications of oil and gas resources, their potential is yet to be fully exploited.

A large proportion of electricity and petroleum are consumed in the urban areas. It is estimated that 77 per cent of urban households have access to electricity, compared to only 17 per cent in rural areas. Similarly, most petroleum products are consumed in urban areas, primarily for transportation. It is only kerosene that shows higher use in rural areas where about 82 per cent of households use the product for lighting compared

Figure 6 - **Structure of Domestic Energy Supply in 2001**



Source: International Energy Agency.

to 22 per cent in urban areas. Consumption of Liquefied Petroleum Products (LPG) is estimated at about 45 000 tons per year, with the bulk of this used for cooking. About 10 per cent of urban households use LPG for cooking, while penetration of LPG in the rural areas is negligible. By and large, demand for all forms of energy is growing. The demand for fuel wood and charcoal is estimated to be increasing at 3 per cent per annum. Electricity demand is growing at about 7 per cent per annum, while consumption of petroleum products is estimated to be growing at an annual 8 per cent.

Several significant policy interventions have been made in the energy sector in recent years. The government has replaced the hitherto monopolistic and centralised structure of energy sector operations with a more decentralised one. Other measures include the commercialisation of the operations of existing state-owned power utilities; the promotion of private sector participation through public-private partnerships and/ or joint ventures, in line with the government's divestiture programme; the deregulation of the distribution of petroleum products and liberalisation of the pricing of products; and the intensification of oil and gas exploration, particularly in deep water.

The government recognises that the most important incentive for private sector investment in the energy sector is to ensure that investors are able to recover costs with adequate returns. In this regard, it is pursuing a pricing policy that ensures "full cost recovery". Within the petroleum sub-sector, attention is on the Tema Oil Refinery (TOR), which, as a strategic, state-owned enterprise, had in the past not been allowed to charge realistic prices for its petroleum products. Consequently, TOR had accumulated debts, estimated as the equivalent of 5.9 per cent of GDP at the end of 2001. By the end of the following year, this debt was estimated to have risen by the equivalent of 2 per cent of GDP. The government's reforms of the TOR debt consisted, first, of converting a portion into TOR Bonds, first issued in July/August 2001, with a second issue in December 2002. The second aspect of the reforms is an automatic adjustment formula for petroleum prices. Since the beginning of 2003, petroleum prices have been brought in line with world market levels and an independent National Petroleum Tender Board now has the responsibility of adjusting prices. As part of the reforms of the TOR debt, the government in 2003 imposed a new tax, the Debt Recovery Levy, with the proceeds used to defray accumulated debt. The government has also applied its public sector reforms towards full cost recovery to the Electricity Company of Ghana (as well as the Ghana Water Company), imposing price increases on these companies from early 2003.

The government is actively pursuing the development of the West African Gas Pipeline Project to make the huge reserves of the natural gas in Nigeria available to Ghana. In the area of crude oil refinery there is a project underway to add a secondary conversion unit (Residue Fluid Catalytic Cracker) to convert the residual fuel from the refinery into lighter products. After the unit begins operations, Ghana looks set to become a net exporter of petroleum products. Other projects in the power sub-sector include *(i)* the retrofitting of the Akosombo hydro electric power station; and *(ii)* the completion of the second phase of the Takoradi 2 (TICO) power plant.

Finally, to tackle the issue of renewable energy and expected environmental problems, a number of activities are being undertaken in the context of the GPRS. Planned measures include self-help electrification programme (SHEP); assistance to communities to develop woodlots; introduction of renewable energy technologies such as solar and biogas; and the introduction and promotion of energy efficient technologies.

Ghana's privatisation programme has almost ground to a halt. The government claims to have delayed the divestiture of targeted assets to allow for better asset valuation and achieve greater transparency and efficiency. However, while this may lead to greater value for money, the physical assets may deteriorate further, reducing their value and, thus, interest in the programme. In 2002, while the government set itself the target of "fast-tracking" the sale of 12 companies, only one company (Cocoa Processing Company) was partially privatised. In early 2003, the government maintained that the restructuring of the TOR debt should clear the way for the privatisation of Ghana Commercial Bank (GCB). However, the sale of GCB has since been put on hold in the midst of high public opposition. The government has now set itself the target of completing the divestiture of state holdings in joint venture companies by the end of 2004, a target that would require more commitment by the government than it has shown during the last two years.

In the financial sector, the government wants to see efficient mobilisation and allocation of funds, fully integrated with the global financial system and supported by a regulatory system that promotes a high degree of confidence. Significant progress continues to be made. The key developments during 2002 and 2003 included:

- The finalisation of a new Banking bill that reinforces the supervisory powers of the central bank; and bills to modernise the legal framework for the payment system;
- The preparation of an Insurance bill to strengthen the regulatory framework for the insurance industry;
- The opening of an apex bank to act as a central clearing agent for rural banks;
- Initiation of legislation on money laundering;
- Preparation of a new corporate investment plan for the state pension institution (SSNIT); and
- Drafting of a new Companies Code and a new insolvency regulation.

The Banking, Payments System bill and the Cheques and Insurance bills as well as the new Companies Code were considered by Parliament in December 2003 and are expected to be passed in early 2004.

The financial system continues to perform reasonably well. As part of the efforts to improve the quality of service, banks have continued to launch innovative products including electronic banking, telephone banking and the extension of ATM facilities. However, the banking system is still plagued by weak credit quality. In 2002, provision for bad debts as a proportion of gross loans increased by 5.2 per cent to 18.2 per cent. Moreover, the loan asset quality of the banks deteriorated, as the ratio of non-performing loans to total loans went up from 19.6 per cent to 22.7 per cent.

Political and Social Context

Ghana's political climate remains stable. The country's democracy continues to be strengthened by efforts to ensure the rule of law and to enhance social order. The parliament enjoys government support in its work on creating a legislative framework which contributes effectively to good governance. The capacity of the Attorney-General's office and the judiciary has been strengthened in numbers of personnel, technology, training and equipment. The government has made concerted efforts to enhance social order by improving the police service with more vehicles, communications equipment and technology, through higher personnel numbers and via enhanced training. In 2003, the zero-tolerance corruption pledge received a boost with the implementation of the Anti-Corruption Plan, including the passage through parliament of the Freedom of Information Act and whistle-blower legislation. Also, the effectiveness of some constitutional bodies has been enhanced, as the government more clearly defined the roles and responsibilities of the Office of Accountability, the Commissioner for Human Rights and Administrative Justice and the Serious Fraud Office. In its crusade to enhance social order, the government is planning to introduce a National Identification System (NIS). The NIS will collect, maintain and update personal details of all citizens of Ghana and other legally resident foreigners on a national register. The NIS will also enhance service delivery to people through effective and efficient targeting and communication.

Ghana has now committed itself to a systematic reduction of poverty through the implementation of the GPRS. The Strategy aims, in the medium term, to reduce the incidence of national poverty from 39 per cent in 2001 to 32 per cent in 2004, extreme poverty from 27 per cent to 21 per cent, and poverty among food crop farmers from 59 per cent to 46 per cent. However, the attainment of these targets is conditional upon international assistance, which in turn requires the government to maintain reforms to ensure macroeconomic stability, to strengthen governance and implement the agreed set of measures in priority areas. During 2002, the government's actual expenditure for basic services and income generation activities for the poor and vulnerable in society rose to 25.5 per cent of total government expenditure. About 75 per cent of that allocation was spent on basic human development services – primary health care, basic education and safe drinking water. The rest of the allocation was spent on other poverty-reducing activities such as employment generation, good governance, human rights, public safety, disaster management and on improving the well being of the vulnerable. In 2003, government expenditure for the poor is estimated at 29.6 per cent, enhanced by HIPC debt relief savings. Though the Enhanced HIPC Initiative is internationally driven, the process has been controlled internally and local priorities are driving the disbursement and use of the funds.

Ghana continues to make progress in improving access to health care and making its delivery more efficient. One of the focal points of the GPRS is the HIV/AIDS pandemic. The emphasis here is not only on the prevention of further transmission and spread of the disease, but also to improve the quality of life of people living with it, as well as orphans of HIV/AIDS victims. Following the successful introduction of the female condom, and negotiations for access to antiretroviral drugs and therapy for patients, the government in 2002 signed a five-year contract with an Indian firm for the supply of Nevirapine tablets for the prevention of mother to child transmission of HIV. The target was to bring down the prevalence rate from 3 per cent in 2002 to 2.5 per cent in 2003. Since the beginning of 2004, Ghana has begun supplying free anti-retroviral drugs to some AIDS patients in four hospitals across the country, and is currently considering local production of the life-prolonging medicines. The programme of improving health delivery and access in the country through a full-scale social health insurance scheme is progressing, in spite of some public concern about its funding. Mutual health insurance schemes were piloted in 42 districts in 2002 and are being extended to all districts in 2003. The government is continuing its efforts to reverse the brain drain in the health sector, for example by setting up a vehicle revolving fund for health workers in 2002. Over the 1993-2002 periods, it is estimated that about a third of Ghana's trained health personnel left the country.

The GPRS emphasises the provision of education as a key strategy for poverty reduction. The objective of the education programme continues to be on enhancing access to and improving the quality of free and compulsory universal basic education. The government provided in-service training to 6 267 teachers in 2002 to improve pedagogical skills, with a further 18 000 being given in-service training in 2003. Also, a Teachers' Incentive Scheme, designed to attract and retain qualified teachers especially in remote areas, was initiated in 2002. Classroom teachers in remote areas benefited from 500 motorbikes, 9 000 bicycles for male teachers, and 5 400 bicycles for female teachers to enhance their mobility. In 2003, the government made access to education a priority, with emphasis on the reduction of gender disparities and the development of skills as key medium-term programmes of the GPRS. Accordingly, about 2 000 six-unit classroom blocks for basic schools are being refurbished. Also, the government is constructing 505 three-unit classroom blocks for basic schools. Since the beginning of 2003, the government has begun to attach pre-schools to all basic schools that do not already have them. Some material support has been provided to needy girls as a strategy for increasing their enrolment and retention in school.