

BUFF/10/69

June 4, 2010

**Statement by the Staff Representative on Ghana
Executive Board Meeting
June 9, 2010**

1. This statement provides information that has become available since the circulation of the staff report for the combined first and second reviews under the Extended Credit Facility Arrangement for Ghana (EBS/10/86). It does not alter the thrust of the staff appraisal.
2. **Adjustments to electricity and water tariffs.** On May 31, 2010, Ghana's Public Utility Regulatory Commission (PURC) announced increases in electricity and water tariffs, effective June 1, 2010, marking the first increase in both tariff schedules since November 2007. Electricity tariffs have been increased by between 21 and 42 percent for residential users and by 63 to 130 percent for non-residential users. The subsidized lifeline tariff for small residential users was left unchanged. The average electricity tariff, weighted by 2009 sales, increased by 58 percent, substantially exceeding the increase of 33 percent established as a prior action for the completion of the second ECF review. The PURC noted that, based on projected generating costs, these tariffs would broadly cover operating costs, while continuing budget support would be needed to finance new investments and plant refurbishment. Water tariffs have been increased by 21 to 32 percent for residential users, and by 40 to 64 percent for non-residential users. The PURC also announced that it is considering reintroducing an automatic formula for the periodic adjustment of tariffs.
3. **Public sector salary adjustments.** Negotiations for salary increases in 2010 concluded in May with agreement on a cost-of-living increase of 10 percent for all public workers, retroactive to the beginning of 2010. The salary increase is lower than the 17 percent assumed in the 2010 program projections, based on parity with the increase in minimum wages for 2010. The savings from the smaller-than-programmed salary adjustment is estimated at up to 0.7 percent of GDP. Net savings will likely be smaller than this, however, as some low-income public sector workers will receive wage increases of more than 10 percent to avoid their salaries falling below the minimum wage, and some workers will receive upward salary adjustments as a result of the move to a single spine pay structure for the public service starting in 2010.
4. **Net international reserves.** Provisional end-March 2010 data show that net international reserves of the Bank of Ghana rose \$155 million between end-December 2009 and end-March 2010, to a level \$238 million above the unadjusted program floor.

5. **Financial sector developments.** The interest rate spread on Ghana's sovereign 10-year bond (maturing 2017) widened from 274 basis points at end-April 2010 to 467 basis points on June 1, paralleling global movements in risk spreads. The cedi has remained broadly stable against the U.S. dollar since March 2010, and has appreciated almost 8 percent against the Euro between end-April and June 1. Domestic interest rates have fallen 50 to 100 basis points since April, reflecting falling inflation expectations and monetary easing.