FOR AGENDA

EBS/84/172

CONFIDENTIAL

August 9, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Ghana - Staff Report for the 1984 Article IV Consultation and Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Ghana and its request for a stand-by arrangement equivalent to SDR 180.0 million. Draft decisions appear on pages 40 and 41.

It is understood that the Executive Director elected by Ghana will be requesting the Board for a waiver of the circulation period, to enable this subject to be brought to the agenda for discussion on Monday, August 27, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Ballali (ext. (5)8386).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

GHANA

Staff Report for the 1984 Article IV Consultation and Request for Stand-By Arrangement

Prepared by the African Department
and the Exchange and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal
and Treasurer's Department)

Approved by J. B. Zulu and Eduard H. Brau

August 8, 1984

I. Introduction

The 1984 Article IV Consultation discussions with Ghana were held in Accra during May 19-June 13, 1984 concurrently with discussions for a stand-by arrangement in support of an 18-month adjustment program through December 1985. The Ghanaian representatives included Mr. P.V. Obeng, the Coordinating Secretary (a position similar to that of Prime Minister); Dr. Kwesi Botchwey, the Secretary for Finance and Economic Planning; Mr. J.S. Addo, the Governor of the Bank of Ghana; Mrs. Theresa Owusu, the Under Secretary for Finance and Economic Planning, as well as the Secretaries for Lands and Natural Resources, Fuel and Power, Industry, Trade, and senior officials of the Ministry of Agriculture, the Cocoa Marketing Board (CMB) and other public and private institutions. The staff representatives were Messrs. J.W. Kratz (head-AFR), and D. Ballali (AFR), Ms. S. Eken (ETR), Messrs. J. Diamond (FAD) and R. Kronenberg (AFR), and Ms. Coker (secretary-AFR). Mr. Ali Yasseri, assistant to the Executive Director for Ghana, participated in the discussions during June 5-11, 1984.

In the attached letter (Appendix II) dated July 30, 1984, the Government of Ghana requests a stand-by arrangement, in support of an adjustment program covering the second half of 1984 and the calendar year (also the fiscal year) 1985, in an amount equivalent to SDR 180 million, representing 88 percent of quota (or about 65 percent of quota on an annual basis). Of this amount, SDR 83.5 million would be provided from ordinary resources and SDR 96.5 million from borrowed resources. As of August 2, 1984 the Fund's holdings of Ghana's currency subject to repurchase amounted to SDR 359.0 million (or 175.6 percent of quota), including SDR 120.5 million (58.9 percent of quota) under the compensatory financing facility. If the proposed stand-by arrangement is fully utilized outstanding Fund credit to Ghana (after taking into account scheduled repurchases) would increase to 204.6 percent of quota under tranche policies or 263.6 percent of quota including the CFF. A waiver of the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement will be required.

Under the proposed stand-by arrangement, purchases would be made in six equal installments. The first purchase of SDR 30 million would be available after Executive Board approval of the arrangement. The second purchase would be available after November 14, 1984, upon meeting end-September 1984 performance criteria. The third purchase, available after February 14, 1985, is conditional on observance of end-December 1984 performance criteria and the satisfactory completion of the first review, which will include understandings on the budget for 1985, exchange and interest rate policies, satisfactory external financing arrangements for 1985 and progress toward import and exchange liberalization. The fourth purchase will be available after May 14, 1985 upon observing end-April 1985 performance criteria. 1/ The fifth purchase would be available after August 14, 1985 upon meeting end-June 1985 performance criteria and the satisfactory completion of the second review of the program. The sixth and final purchase would be available after November 14, 1985 upon observance of end-September 1985 performance criteria. The proposed phasing of purchases, as well as the scheduled repurchases during the program period, are summarized in Table 1. A summary of Ghana's relations with the Fund is provided in Appendix III.

Close cooperation with the World Bank was maintained during the preparation and implementation of the 1983/84 program. In support of Ghana's adjustment effort, an IDA Reconstruction Import Credit (RIC), amounting to $40 million was approved by the Bank's Executive Board in mid-1983. After delays, this credit is now expected to be fully disbursed in 1984. After an interval of 13 years, the Consultative Group for Ghana was reconvened in Paris in November 1983 under the auspices of the Bank. In January 1984 the Bank's Executive Board approved two IDA credits amounting to US$93 million for an Export Rehabilitation project (ERP). Extensive contacts between the Bank and Fund staffs were maintained during preparation of the latest mission to Ghana as well as in the field in Accra. The last few days of the Fund staff mission overlapped with an IBRD economic mission which was assisting the authorities prepare for the next Consultative Group meeting in Paris in December 1984 and carrying out preappraisal work on a second RIC. The new RIC is expected to amount to about US$ 50 million and to be disbursed in 1985. A section on World Bank activities is under preparation and will be issued shortly as a supplement to this Staff Report. A summary of Ghana's relations with the Bank appears in Appendix IV.

1/ Since Executive Board discussion related to the completion of the first review is expected to take place sometime in March 1985, the date for these performance criteria has been shifted from end-March to end-April, 1985.

Table 1. Ghana: Purchases and Fund Position During Period of Arrangement

	Outstanding at beginning of Arrangement August , 1984	1984		1985			
		Upon Board Approval	Nov.	Feb-April	May-July	August-Oct	Nov-Dec
			(In millions of SDRs)				
Transactions under tranche policies (net) 1/	--	30.0	30.0	30.0	30.0	30.0	30.0
Purchases	--	30.0	30.0	30.0	30.0	30.0	30.0
Ordinary resources	(--)	(15.0)	(15.0)	(15.0)	(15.0)	(15.0)	(8.5)
Enlarged access resources	(--)	(15.0)	(15.0)	(15.0)	(15.0)	(15.0)	(21.5)
Repurchases	--	--	--	--	--	--	--
Ordinary resources	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Enlarged access resources	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Transactions under special facilities (net) 2/	--	--	--	--	--	--	--
Purchases	--	--	--	--	--	--	--
Repurchases	--	--	--	--	--	--	--
Total Fund credit outstanding (end of period)	359.0	389.0	419.0	449.0	479.0	509.0	539.0
Under tranche policies 1/	238.5	268.5	298.5	328.5	358.5	388.5	418.5
Special facilities 2/	120.5	120.5	120.5	120.5	120.5	120.5	120.5
			(As percent of quota)				
Total Fund credit outstanding (end of period)	175.5	190.2	204.9	219.6	234.2	248.9	263.6
Under tranche policies 1/	116.6	131.3	146.0	160.7	175.3	190.0	204.6
Special facilities 2/	58.9	58.9	58.9	58.9	58.9	58.9	58.9

Sources: IMF, Treasurer's Department; and the stand-by arrangement (Appendix I).

1/ Ordinary and enlarged access resources.
2/ Compensatory Financing Facility.

II. Background

1. An overview of the adjustment effort and performance under the 1983/84 program

For the first time in nearly two decades Ghana has successfully implemented a major adjustment program with Fund support. For many years, political instability and the fear of a possible coup d'état that could be triggered by an exchange rate adjustment prevented adoption and implementation of necessary adjustment measures. In any case, the Government that was in power and failed to take the measures in time was overthrown.

The present Government faced strong opposition when it introduced the adjustment measures in 1983. However, the Government demonstrated strong commitment to the program. In June 1984, the borders with Ivory Coast, Togo and Upper Volta were reopened and the night curfew, which had been in force since the Government came to power two and a half years earlier, was lifted.

The program has achieved considerable progress in restructuring relative prices, especially correcting the overvaluation of the cedi and improving the financial position of the productive sectors. The large depreciation of the cedi (by 92 percent in terms of U.S. dollars between April 21, 1983 and March 26, 1984) restored the competitive position of Ghana's main export products, particularly cocoa, gold and timber which account for over 90 percent of total exports. Ghana made substantial progress in reducing the budget deficit as a percent of GDP (from 4.4 percent in 1982 to 2.6 percent in 1983), decreasing the rate of inflation (from 122 percent in 1983 to a projected 35 percent in 1984), and reducing external payments arrears. Selected financial data and ratios appear in Table 2. Ghana made all the scheduled purchases under the one-year stand-by arrangement upon observing the relevant performance criteria (Appendix V) and successfully completing two reviews. The adoption and the timely implementation of the adjustment measures also helped restore confidence and secure external financing from bilateral, multilateral and private sources.

Nonetheless, Ghana's economic recovery, particularly during the first half of the program, was much slower than projected because of unfavorable weather conditions in the West African region, lower levels of imports, transportation difficulties (including the breakdown of the railway system and a deterioration of port facilities), and power cuts. As a result of these factors which were largely beyond the control of the authorities, real GDP is estimated to have increased by only 0.7 percent in 1983, after a drop of 6.4 percent in 1982, and against the program's projection of 2.5 percent.

Table 2. Ghana: Selected Financial Data and Ratios, 1978-84

(Calendar years, except central government finances, which, through 1981, were on fiscal year beginning July)

	1978	1979	1980	1981	1982	1983	1984
National accounts							
GDP real growth (per cent)	8.3	-3.7	1.7	-5.6	-6.4	0.7	5.4
GDP per capita growth (in per cent)	6.1	-6.1	-2.4	-8.1	-9.9	...	...
Fixed investment to GDP	5.4	4.2	5.8	3.5	1.3	...	...
Domestic saving to GDP	4.0	5.9	5.0	2.3	1.4	3.0	5.0
Prices and wages							
National consumer price index (per cent change	73.3	54.2	50.1	116.5	22.3	122.8	35.0
Real producer price for cocoa (in cedis per ton)	100.0	114.7	128.7	60.3	128.9	97.9	112.9
Real public sector wages (index: 1975 = 100)	34.2	22.2	19.7	20.5	16.7	13.1	15.1
Central government finances (Through mid-1982 the fiscal year was July-June. Beginning 1983 the fiscal year is the calendar year.) 1/							
Overall deficit as a per cent of GDP	7.4	5.2	8.0	5.8	4.4	2.6	2.2
Overall deficit as a per cent of M_2 at beginning of period	47.0	35.7	68.5	51.2	33.0	33.3	26.7
Overall deficit as a per cent of total expenditure	41.4	38.0	58.9	50.0	43.0	32.5	21.2
Money and credit (percent change; end of period)							
Net domestic assets	87.6	7.2	28.7	58.3	20.1	41.0	28.8
Of which: claims on Government	(61.9)	(9.1)	(33.0)	(63.2)	(3.8)	(23.5)	(8.5)
Money (M_2)	68.5	15.5	33.8	51.3	23.4	48.8	13.7
Interest rates (at end of period)							
Savings deposits	7.50	7.50	7.50	18.0	8.0	11.0	...
Maximum lending rate	12.50	12.50	12.50	25.0	14.0	19.0	...

Table 2. Ghana: Selected Financial Data and Ratios, 1978-84 (concluded)

(Calendar years, except central government finances, which, through mid-1981, were on fiscal year beginning July)

	1978	1979	1980	1981	1982	1983	1984
Balance of payments							
Exports (per cent change in SDR value)	-14.1	15.4	2.8	-28.9	-8.8	-25.2	29.7
Imports (per cent change in SDR value)	-13.2	-0.1	12.3	16.0	-34.1	-6.8	44.7
Current account (in millions of SDRs)	-36.8	94.3	21.4	-357.7	-98.5	-244.2	-302.7
Current account to GDP (in per cent)	-0.4	1.2	--	-1.5	-0.3	-2.7	-4.2
Oil imports to total imports (in per cent)	10.1	21.4	31.8	36.3	52.1	27.2	27.6
Export volume (per cent change)	-32.2	-12.4	1.0	-10.0	8.0	-28.0	-4.0
Import volume (per cent change)	-16.2	-10.0	-8.0	-4.0	-35.0	-8.0	40.0
Terms of trade (per cent change)	24.3	-5.2	-5.0	-30.0	-18.0	-4.0	31.0
Nominal effective exchange rate (depreciation -)	-51.1	4.9	5.8	6.3	5.2	-89.9	...
Real effective exchange rate (depreciation -)	-23.5	45.8	32.2	108.3	30.4	-76.5	--
External debt to GDP 2/	8.1	9.1	7.2	3.9	3.8	13.7	...
External debt service to merchandise exports	3.2	6.7	6.6	10.6	14.3	30.1	36.5
External payments arrears (in millions of US$)							
Outstanding at the end of period	488.9	427.4	342.5	512.2	575.9	439.5	286.6 3/
Gross international reserves (in millions of SDRs)	224.0	385.0	154.9	171.6	203.0	204.3	243.0 4/
Equivalent weeks' imports	18.7	32.3	11.54	11.0	19.8	21.0	17.6

Sources: Data and estimates provided by the Ghanaian authorities; staff estimates, projections, and calculations.

1/ For the four-year period 1978-81, the fiscal data in this table refers to the year beginning July 1, and 1982 here refers to government operations during the calendar year, which is a spliced estimate. Transactions in 1983 exclude the ₵ 7.42 billion involved in the debt of the Cocoa Marketing Board.

2/ Government and government-guaranteed medium- and long-term debt.

3/ Outstanding at the end of March 1984.

4/ Outstanding at the end of April 1984.

2. Recent economic developments and policies

a. Recent trends in production

As noted, real output in 1983 was lower than projected at the beginning of the program period. The modest 0.7 percent growth in real GDP occurred during the second half of 1983 as real GDP continued to decline precipitously during the first half of the year. A number of factors were responsible for the lower than projected rate of economic recovery in 1983. First, the impact of the drought, which affected the whole Western Africa region, was more severe than ealier estimated. Its effect on agricultural production of food crops and exports was exacerbated by the accompanying bush fires which destroyed food in the fields as well as stocks in storage. Secondly, the deterioration in both the physical and human infrastructure had been far more rapid and serious than was realized before the adoption and implementation of the program. Difficulties arising from the lack of proper maintenance of factory and office equipment and transportation bottlenecks were compounded by the depletion of skills in the civil service and all other key sectors in the economy. During the late 1970s and early 1980s a large number of skilled people migrated to neighboring countries and overseas in search of better economic conditions and higher remuneration. Thirdly, the level of imports in 1983 was much lower than programed, mainly the result of delays in the disbursement of already committed external resources from bilateral and multilateral sources, as well as lower exports than projected.

Finally, the slow supply response has also been due to power cuts. Three consecutive years of drought reduced the water level of the Volta Lake at Akosombo dam to a precarious 235 feet, far below the designed operating minimum of 248 feet. As a result in mid-1983, four out of the six generators at Akosombo had to be shut down, also necessitating the complete closure of the Valco aluminum smelting works at Tema, with substantial loss of foreign exchange to the country. The remaining two generators could supply Ghana's other domestic needs as well as maintain exports to Togo and Benin. However, on December 1, 1983 one of the remaining two generators had also to be shut down. As a result exports of electricity to Benin and Togo had to be reduced and a careful plan of power cuts to domestic users was instituted.

Production of food crops fluctuated during the 1970's, but beginning in 1980 it started to fall rapidly. The downward trend accelerated in 1981 and 1982, partly on account of the prolonged drought. By the end of 1982 a serious shortage of food emerged which was exacerbated in early 1983 by the arrival of an estimated one million returnees from Nigeria. With the coming of the new harvest on to the market during July-September, 1983, supplemented by the arrival of some food aid, the food shortage was significantly alleviated. However, toward the end of the year the food situation tightened again. In 1984 the rains came early and they have continued to fall, promising at least normal rainfall for the first time since 1980.

Despite a large increase in the cocoa producer price, cocoa production as well as purchases of the CMB continued to decline in 1983/84 (October-September), mainly because of the effects of drought and bush fires. Purchases for the 1983/84 crop year are now estimated at 158,000 metric tons (153,662 tons have already been purchased from the main crop and the remainder expected to be purchased from the mid-crop during June and July). This outturn is higher than the 150,000 tons projected at the beginning of the crop season. It is, however, about 12 percent lower than the 179,000 tons purchased in 1982/83.

Minerals, dominated by gold, are Ghana's second most important export after cocoa. Like cocoa and other exports, mineral output had declined very sharply over the years. Production of gold declined by nearly half from 614,000 fine troy ounces in 1974 to only 331,000 ounces in 1982. Gold output dropped further by 15 percent to 281,000 ounces in 1983. The main reasons for the decline in output were a shortage of equipment and spare parts due to lack of foreign exchange and the declining profitability in the mining sector reflecting the increasing overvaluation of the cedi prior to April 1983. Following the large depreciation of the cedi in April 1983, and the subsequent adjustments, the gold sector has become very profitable again.

Production of diamonds, manganese and bauxite dropped precipitously through 1982. Manganese and bauxite registered some increase in 1983, while diamonds recorded a further sharp decline. More than any mineral, diamond production suffers from serious problems of old and deteriorated mining equipment and a lack of spare parts. The modernization program for manganese production, which has been underway for the past few years, is now facing new problems. The new nodulizing plant is oil fired and major decisions have to be made regarding the supply and cost of fuel oil required to power the plant. In addition to shortages of equipment and spare parts, bauxite faces serious transportation problems to the port. The western railway system has stopped operating because of rotten sleepers.

Timber and other forestry products have also been faced with the problem of equipment and spare parts due to lack of foreign exchange. This problem was exacerbated by the overvaluation of the cedi which was a major disincentive to export. With the new exchange system, exports of timber became once again very profitable after April 1983. Production and volume of exports of timber increased in 1983.

For more than a decade the industrial sector has been faced with serious problems related to low capacity utilization. These problems stemmed from the industrial policy pursued in the past, which was based on import substitution with its heavy dependency on imported inputs. Thus, the lack of foreign exchange has been at the core of the problems in the industrial sector. Other related factors that aggravated industrial sector problems included the increasing overvaluation of the cedi which stifled exports of manufactured products, government domestic pricing policy which led to losses in the manufacturing sector, and government labor regulations which discouraged the laying off of workers. As a result, the share of industrial production in the GDP fell from about 12 percent in the mid-1970s to less than 7 percent in 1982. Immediately after the 1983 adjustment measures, the industrial producers, like importers, faced a temporary cash flow squeeze and had difficulties in financing inputs. However, towards the end of 1983 this problem had eased. In the face of price deregulation and increased imports, some industries raised capacity utilization from an average of 20 percent to about 30 percent. The share of industrial output in the GDP rose to above 7 percent in 1983. Capacity utilization remained low during the first half of 1984 because of the power cuts and the sluggish inflow of imported inputs.

b. Prices and incomes

Price developments in 1983 were closely related to the food situation. Before the commencement of the adjustment program severe food shortage due to the drought and bush fires, the increase in population on account of returnees from Nigeria and, to some extent, an accommodating monetary policy, had led to very sharp increases in prices during the first half of 1983. During January-June 1983 prices for staple foodstuffs more than quadrupled and the national consumer price index rose by 122.9 percent. With the coming of the new harvest on to the market, food prices fell sharply during July-September, 1983. The consumer price index also registered a significant decline during the third quarter of 1983. As the small 1983 food harvest was consumed, the food supply situation tightened, but a continued inflow of food aid moderated the price increase. As a result, during the second half of 1983, the consumer price index rose by 8.7 percent. The national consumer price index, with half its weight accounted for by food, rose in 1983 over 1982 by 122.8 percent. In the early months of 1984 prices continued to rise due to more rapid price deregulation and to the expected seasonal tightening of food supplies. However, beginning May 1984, price increases appear to have eased.

In 1983 the authorities implemented extensive price deregulation measures. During the first four months of 1983 the Government allowed prices to rise and all consumer subsidies were eliminated. The price of domestically produced food items were completely determined by market conditions. Following the exchange rate action in April 1983, the prices of all imported items, except petroleum products, were raised fully to reflect the more than tenfold increase in their cost in terms of local currency, as well as the increased costs of distribution and profit margins. For locally manufactured products, manufacturers and retailers submitted requests for price changes to the Prices and Incomes Board (PIB). The agreed final price allowed a full pass-through of all production cost plus a margin of profit. Despite the Government's intention to implement these price guidelines flexibly, there were delays on the part of the PIB, mainly due to manpower shortages in processing the applications. Thus, in December 1983 the Government decided to take further action to promote the intended flexibility and reduce the scope for price controls. The new measures maintained price controls on 23 items, whose prices continued to require Cabinet approval. For all other items, the PIB, in consultation with the affected manufacturers, importers and other sellers, set reference prices (explained below).

The 1983/84 program provided for a phased pass-through of prices of petroleum products. Thus in the first nine months of the program period retail prices of petroleum products were increased substantially. The prices were, on the average, more than doubled in April 1983. They were raised on the average by more than 50 percent in October 1983. In March 1984 the Government effected a full pass-through and eliminated the subsidy more than three months ahead of the program's schedule.

The cocoa producer price was raised by 67 percent to ₵ 20,000 per metric tons in May 1983, for the 1983/84 crop year (October-September) as an important measure in the program aimed at reducing the erosion in farmers' incomes and increasing incentives. This increase restored the real producer price to about its 1975 level. The Government also undertook to adjust the cocoa producer prices annually and to establish them at levels that would provide adequate incentives to farmers and also take into account the erosion of the prices in real terms.

Real wages in the civil service had declined by 83 percent between 1975 and 1982. In the context of the 1983/84 program, the minimum wage was raised from ₵ 12 to ₵ 25 per day effective May 1, 1983. Wages and salaries were to be raised, on the average, by 60 percent in the civil service and by 25 percent in in public and private sector enterprises. No further wage and salary increases were to take place in 1983. As it turned out, in order to hold down government expenditures, even the 60 percent wage and salary increase in the civil service scheduled to take effect in May 1983 was staggered through the end of 1983. Given the more than 100 percent increase in the cost of living, real wages and salaries declined further in 1983, and by the end of 1983 strong pressures for wage increases began to mount.

c. Fiscal developments and policies in 1983

In April 1983, in recognition of the indebtedness forced on the Cocoa Marketing Board by previous government producer pricing policy (producer prices were tripled without commensurate resources being made available to the CMB), the Government took over ₵ 7.4 billion of the resulting CMB debt. As a consequence of this transfer to the CMB, total 1983 actual expenditure increased to ₵ 25.6 billion, the deficit to ₵ 12.4 billion, and net domestic financing from the banking system increased to ₵ 10 billion (see memorandum item in Table 3). As this very large single transaction is not expected to be repeated the analysis below is based on data excluding this transaction.

The factors responsible for a lower than projected imports and level of economic activity in 1983 were reflected in the fiscal developments (Table 3). Total revenue and grants amounted to ₵ 10.2 billion compared with ₵ 12.7 billion estimated in August 1983 during the first review mission, and with ₵ 14.6 billion in the original budget estimates. The revenue shortfall was mainly due to lower than anticipated imports which affected import duties and sales taxes on imports and the lower-than-projected level of economic activity which affected receipts from excise taxes and other taxes on domestic goods. At the same time, the 1983 budget announced a number of new revenue measures: simplifying the import tariff schedule; changing corporate income tax assessment to a current year basis; revising the base for the gold export levy; and increasing substantially a wide range of charges for departmental goods and services. The 1983 budget raised the gross minimum wage and restructured civil service pay-scales, increasing the wage bill by 60 percent in order to partially restore incentives. However, anticipating the shortfall in revenue, the authorities responded by cutting programed expenditures, particularly development expenditure. Thus, total expenditure and net lending in 1983 amounted to ₵ 15.2 billion compared with ₵ 17.1 billion in the August 1983 estimates and ₵ 18.2 billion in the original budget estimates. The overall budget deficit of ₵ 4.9 billion, compared with a deficit of ₵ 4.4 billion in the August estimates and ₵ 3.6 billion in the original budget estimates, was 2.6 percent of GDP against 4.4 percent of GDP in 1982. In financing this deficit, government recourse to the banking system totalled ₵ 2.6 billion, of which ₵ 1 billion arose in the second half of 1983 (i.e., during the first half of the 1983/84 program). Nonbank financing amounted to ₵ 1.7 billion and net foreign financing was ₵ 0.7 billion (gross inflows amounted to ₵ 2.0 billion and amortization totalled ₵ 1.3 billion).

d. Monetary and credit developments

A cautious monetary policy was pursued by the authorities throughout the program period, despite pressures emanating from the shortfall in government revenue. As a result, monetary and credit developments were broadly within the envisaged targets (Table 4). Following a period of a rather rapid expansion in credit and monetary aggregates, particularly during the first half of 1983, the 1983/84 program sought to reduce the rate of expansion during the second half of 1983 and during the rest of the program period. Against an increase of 29 percent in net domestic assets of the banking system during the first half of 1983, the program projected an increase of 24 percent during the second half of the year and 15 percent during the first half of 1984. As it turned out, net domestic assets of the banking system rose by only 9.3 percent during the second half of 1983 and by an estimated 20 percent during the first

Table 3. Ghana: Summary of Central Government Operations, 1982-84

(In millions of cedis)

	1982 Jan.-Dec.	1983 Original Projection	1983 Provisional Outturn Jan.-June	July-Dec.	Jan.-Dec.	1984 Projected in January	Revised 1984 Revised in June
Total revenue and grants	5,253.2	14,630.6	2,706.7	7,534.3	10,241.0	22,583.8	21,870.0
Revenue	5,201.2	14,466.8	2,670.7	7,513.7	10,184.4	22,533.8	21,820.0
Taxes on income and property	(1,506.2)	(2,001.7)	(729.4)	(1,050.1)	(1,779.5)	(2,526.4)	(3,225.8)
Taxes on international transactions	(788.0)	(8,421.9)	(580.6)	(4,409.3)	(4,989.9)	(9,731.1)	(8,897.6)
Taxes on goods and services	(2,146.5)	(3,243.2)	(506.8)	(1,182.5)	(1,689.3)	(7,269.6)	(6,513.0)
Nontax revenues	(760.5)	(800.0)	(853.9)	(871.8)	(1,725.7)	(3,006.7)	(3,183.6)
Foreign grants	52.0	163.8	36.0	20.6	56.6	50.0	50.0
Total expenditure and net lending	9,220.1	18,191.7	5,192.4	9,985.1	15,177.5	28,462.5	27,761.7
Current expenditure	8,029.4	14,865.6	4,599.9	8,803.6	13,403.5	22,597.8	22,709.5
Of which:							
Interest	(2,168.1)	(3,385.4)	(1,359.7)	(1,668.1)	(3,027.8)	(3,740.0)	(3,955.4)
Operating deficit of the Petroleum Department	(--)	(960.5)	(319.9)	(775.0)	(1,094.9)	(500.0)	(140.3)
Other current expenditure	(5,861.3)	(10,519.7)	(2,920.3)	(6,360.5)	(9,280.8)	(18,357.8)	(18,613.8)
Capital expenditure	816.7	2,375.0	465.2	889.2	1,354.4	4,573.7	3,724.1
Net lending	374.0	951.1	127.3	292.3	419.6	1,291.0	1,328.1
Overall deficit	-3,966.9	-3,561.1	-2,485.7	-2,450.8	-4,936.5	-5,878.7	-5,891.7
Financing (net)	3,966.9	3,561.1	2,485.7	2,450.8	4,936.5	5,878.7	5,891.7
Foreign (net)	215.1	1,046.6	...	...	686.9	2,728.7	2,991.7
Borrowing	(...)	(2,851.3)	(...)	(...)	(1,973.1)	(7,157.5)	(5,639.6)
Repayments	(...)	(-1,804.7)	(...)	(...)	(-1,286.2)	(-4,428.8)	(-2,647.9)
Domestic (net)	3,718.0	(2,514.5)	...	...	4,297.8	3,150.0	2,900.0
Banking system	(433.6)	(2,014.5)	(1,570.0)	(1,002.0)	(2,572.0)	(1,800.0)	(1,800.0)
Social security	(371.0)	(200.0)	(...)	(...)	(230.0)	(350.0)	(350.0)
Other	(2,913.4)	(300.0)	(...)	(...)	(1,495.8)	(1,000.0)	(750.0)
Unidentified	33.8	--	...	...	-48.2	--	--
Memorandum items							
Overall deficit including one-time transfer to CMB	-3,966.9	-3,561.1	-9,908.1	-2,450.8	-12,358.9	-5,878.7	-5,891.7
Net domestic financing from banking system including debt assumed from CMB	433.6	2,014.5	8,992.4	1,002.0	9,994.4	1,800.0	1,800.0

Sources: Ministry of Finance and Economic Planning; and staff estimates.

Table 4. Ghana: Monetary Survey, 1982-84

	Actuals						Projections		
	1982	1983				1984	1984		
	Dec.	June	Aug.	Oct.	Dec.	March	June	Sept.	Dec.
	(In billions of cedis)								
Net foreign assets	-1.02	-1.27	-1.97	-8.23	-8.80	-10.82	-12.46	-13.23	-15.50
Net domestic assets	16.01	20.67	20.72	21.78	22.60	25.10	27.00	26.50	29.10
Claims on government (net)	11.06	20.06	19.82	20.05	21.06	21.68	22.86	22.66	22.86
Cocoa financing	5.55	0.79	--	0.26	0.52	2.66	1.60	--	3.30
Claims on rest of economy	2.22	2.76	3.06	3.53	3.85	4.62	6.15	6.55	7.35
Other items (net)	-2.82	-2.94	-2.16	-2.06	-2.83	-3.86	-3.61	-2.71	-4.41
Revaluation account 1/	--	--	1.14	7.78	8.43	9.65	10.21	10.99	11.65
Broad money	14.84	19.26	19.75	21.18	22.08	23.78	24.60	24.11	25.10
SDR allocations	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
	(In annual percentage change)								
Net domestic assets	20.1	52.6	52.2	52.0	41.2	50.4	30.6	24.8	28.8
Broad money	23.4	57.1	60.6	60.9	48.8	54.8	27.7	15.0	13.7

Sources: Bank of Ghana; and the Economic and Financial Program.

1/ Loss arising from revaluation of foreign assets and liabilities of the banking system following the new measures on the exchange system introduced in April 1983 and the unification in October 1983. These figures exclude the revaluation loss with respect to all accounts with the Fund.

half of 1984. For the program period July 1983-June 1984, net domestic assets rose by about 31 percent compared with 26 percent projected in the original program and during the second review of the program. Seasonal factors discussed below were largely responsible for the outcome. Broad money rose by about 28 percent during the program period.

The much lower-than-projected expansion in credit during the first six months of the program was mainly due to the difficulties faced by importers in obtaining the necessary credit and to the late cocoa crop. Following the more than tenfold change in the exchange rate, many importers faced a temporary cash flow squeeze and were unable to raise the necessary local currency to acquire the foreign exchange. Meanwhile, the commercial banks were reluctant to raise overdraft facilities by such a large margin and continued to impose large deposit margins. Subsequently, later in 1983 the Bank of Ghana persuaded the commercial banks to reduce the deposit margins to a maximum of 20 percent. The authorities also moved to assist importers through Central Bank guarantees and by encouraging arrangements whereby importers received down payments from their customers. By early 1984 commercial bank lending to importers started to increase and the importers' liquidity problem eased. The sluggish credit demand during July-December 1983 was also due to a change in the seasonal pattern of the cocoa crop. The 1983/84 cocoa crop came late, suggesting that crop financing requirements would reach their peak during the first half of 1984 instead of in December 1983.

The second half of the program period saw the picking up of credit demand for imports as well as for cocoa financing. Cocoa crop financing had been projected to decline from a peak of ₵ 3.0 billion at the end of December 1983 to ₵ 0.6 billion at the end of June 1984. Instead, cocoa financing reached its peak about March 1984 and by the end of June 1984 some ₵ 1.6 billion was still outstanding. It is expected to wind down to zero by end-September 1984. The change in the anticipated seasonal cocoa financing required an upward adjustment of ₵ 0.9 billion in net domestic assets of the banking system for end-June 1984. The late crop not only affected the pattern of cocoa financing, but also cocoa forward sales, cocoa shipments as well as cocoa export earnings and government revenue from cocoa export tax. Cocoa export earnings and government revenue will now reach their peak during the third quarter of 1984 instead of the second quarter. As a result, the program limit for end-June 1984 for net claims on the Government had to be raised by ₵ 0.7 billion. Exchange rate policy and adjustments made during 1983/84 are discussed in Section III.

In the context of the 1983/84 program, the authorities adopted a more flexible interest rate policy. In line with their commitment to narrow the differential between the prevailing structure of interest rates and the rate of inflation and achieve positive real interest rates in the medium term, interest rates were adjusted in October 1983. All interest rates were raised by 3 to 5 percentage points.

For example, the commercial bank savings deposit rate was raised from 8 percent to 11 percent and the commercial bank maximum lending rate was raised from 14 percent to 19 percent. At this time, with the average annual inflation rate for 1984 estimated at 35 percent, interest rates are still significantly negative in real terms.

e. Balance of payments developments and other policies

Ghana continued to experience balance of payments difficulties in 1983 because of the decline in output of cocoa and other export products, low levels of capital inflows, rising debt burden and the need to reduce external payments arrears (Table 5). 1/ After a cumulative decline of over 50 percent in the previous three years, Ghana's terms of trade improved by about 4 percent in 1983.

Total exports declined from US$607 million in 1982 to about US$440 million in 1983 compared with the original program projection of US$591.0 million. The value of cocoa exports declined from US$407 million in 1982 to US$271 million in 1983. Both volume and prices were responsible for the poor cocoa export performance in 1983. World prices for Ghana cocoa were the lowest since the early 1970s. Nevertheless, the value of cocoa exports was about US$68 million higher than the initial projections. The shortfall was in non-cocoa exports such as timber, gold and other minerals. Non-cocoa exports were US$169 million compared with US$252.0 million projected at the beginning of the program. Despite some recovery in the timber sector in 1983, the value of exports did not increase significantly due to depressed export prices.

Total imports declined further by about 10 percent in 1983 and amounted to US$531 million compared with US$957 million projected at the beginning of the program. Of the total shortfall, US$52 million was on account of oil imports and US$374 million on account of other imports. The lower level in imports reflected the foreign exchange constraint due to the shortfall in exports and, particularly, net capital inflows. The decline in imports in 1983 more than offset the shortfall in exports, and consequently, the trade deficit was US$92 million compared with the projection of US$366 million at the beginning of the program. The current account deficit was US$261 million (2.7 percent of GDP) compared with US$525 million in the initial projections.

Total net official capital inflows which declined by 40 percent in 1983 were US$67 million compared with an estimate of US$266 million at the beginning of the program. The large shortfall was due to lower disbursements than projected of both long-term and medium-term capital.

1/ The reasons for shortfalls and downward revisions of the balance of payments outcome in 1983 against original program estimates were discussed in detail during the first and second review of the 1983/84 program (EBS/83/223 and EBS/84/60). In particular see Table 2 in EBS/84/60, Supplement 1, issued April 4, 1984.

Table 5. Ghana: Balance of Payments, 1983-85

(In millions of U.S. dollars)

	1982	1983	1984 Prog.	1984 Revised Est.	1985 Proj.
Exports (f.o.b.)	607.0	439.6	643.0	564.0	662.0
Cocoa	(406.5)	(270.7)	(365.0)	(372.0)	(399.0)
Noncocoa	(200.5)	(168.9)	(278.0)	(192.0)	(263.0)
Imports (f.o.b.)	-588.7	-531.1	-878.0	-760.0	-968.0
Oil	(-306.9)	(-144.5)	(-250.0)	(-210.0)	(-253.0)
Non-oil	(-281.8)	(-386.6)	(-628.0)	(-550.0)	(-715.0)
Trade balance	18.3	-91.5	-235.0	-196.0	-306.0
Services (net)	-209.4	-279.5	-284.6	-274.0	-276.0
Freight and insurance	(-29.4)	(-27.1)	(-65.0)	(-43.0)	(-53.0)
Investment income	(-81.7)	(-82.0)	(-90.6)	(-96.0)	(-119.0)
Other services	(-98.3)	(-170.4)	(-129.0)	(-135.0)	(-104.0)
Unrequited transfes (net)	82.4	110.0	81.0	150.0	55.0
Government	(83.6)	(113.9)	(85.0)	(146.0)	(51.0)
Private	(-1.2)	(-3.9)	(-4.0)	(4.0)	(4.0)
Current account balance	-108.7	-261.0	-438.6	-320.0	-527.0
Official capital (net)	112.8	67.4	347.0	171.0	135.0
Long-term loans (net)	15.8	37.1	230.0	149.0	169.0
Gross inflows	(55.2)	(84.4)	(265.0)	(199.0)	(222.0)
[Of which: World Bank]	[...]	[23.1]	[159.0]	[80.0]	[110.0]
Amortization	(-39.4)	(-47.3)	(-35.0)	(-50.0)	(-53.0)
Medium-term loans	97.0	30.3	117.0	23.0	-27.0
Gross inflows	(103.2)	(67.8)	(208.0)	(128.0)	(224.0)
Amortization	(-6.2)	(-37.5)	(-91.0)	(-105.0)	(-251.0)
Trust Fund	--	--	--	-1.0	-7.0
Private capital (net)	11.3	44.7	62.0	115.0	125.0
Direct investment	(16.4)	(14.5)	(9.0)	(9.0)	(12.0)
Suppliers' credits	(-5.1)	(11.8)	(53.0)	(53.0)	(60.0)
Other	(--)	(18.4)	(--)	(53.0)	(53.0)
Nonmonetary S-T capital	-1.7	55.0	-53.1	-55.0	--
Monetary S-T capital	15.3	5.9	--	--	--
Errors and omissions	-1.7	-155.0	--	--	--
Overall balance	27.3	-243.0	-82.7	-89.0	-267.0
Financing	-27.3	243.0	82.7	89.0	66.0
IMF (net)	-5.3	258.7	95.0	159.0 1/	126.0 2/
SDRs	-9.7	16.5	--	--	--
Foreign exchange	-43.7	0.4	--	--	--
Payments arrears	35.2	-33.7	-90.0	-70.0	-60.0
Bilateral balances	-3.8	1.1	--	--	--
Financing gap	--	--	77.7	--	201.0

Sources: Data provided by the Ghanaian authorities; and Fund staff estimates.

1/ Includes purchases of US$100.2 million under the 1983/84 arrangement and US$63.0 million under the proposed 1984-85 arrangement, less repurchases of US$4.2 million.
2/ Purchases of SDR 120 million under the proposed arrangement.

Net disbursements of official long-term capital fell short by about US$79 million. The largest single shortfall resulted from the World Bank's RIC of US$40 million. At the time of the IBRD's Executive Board approval of the credit in June 1983 it was indicated that most of this amount would be utilized in 1983. However, only about US$5 million was disbursed in 1983. Gross disbursements of official medium-term capital were much lower than originally projected because of a substantial shortfall in the disbursements of oil credits. Of the US$138.6 million of oil credits projected only US$10 million became available as a medium-term credit and US$53 million as short-term credit. Repayments of longterm and medium-term official debt were close to the original projections. Net inflow of private capital was US$45 million compared with US$192 million estimated at the beginning of the program. As discussed during the second review of the program (EBS/84/60) a change in the investment program in the gold sector and delays and longer project preparation periods in the timber sector were the reasons for the shortfall.

The overall balance of payments recorded a deficit of US$243 million compared with a deficit of US$141 million projected at the beginning of the program. The deficit was financed through purchases under the stand-by arrangement and compensatory financing facility amounting to US$259 million. Nevertheless, gross reserves declined by US$10 million because of the need to reduce external payments arrears and other short-term liabilities.

An important goal of Government debt management policy is to avoid the contracting and guaranteeing of loans which would aggravate Ghana's future debt service burden. Therefore, the authorities decided to limit during the period of the stand-by arrangement (August 3, 1983-August 2, 1984) the contracting and guaranteeing by the Government of external loans on nonconcessional terms in the maturity range of 1-12 years to US$400 million, and in the maturity range of 1-5 years, to US$250 million. Net disbursements of loans with an original maturity of less than one year (other than trade-related credits and bridging loans) were limited to US$100 million; and net disbursements of bridging loans were restricted to US$200 million during the period of the stand-by arrangement. These limits have been observed. As of end-June 1984 the Government had obtained loans on nonconcessional terms in the maturity range of 1-5 years amounting to US$141 million. Bridging loans totalling US$110 million were contracted at the beginning of the program period and were repaid during August-December 1983. No short-term loans with an original maturity of less than one year that are subject to the ceilings were contracted.

The program provided for a reduction, through net cash payments, of external arrears on payments and transfers for current international transactions and on debt amortization, by US$100 million during the program period from the total amount of US$601.1 million outstanding at the end of April 1983. The schedule of net cumulative reductions was as follows: US$10 million by end-August 1983, US$35 million by end-October 1983, US$60 million by end-December 1983, US$80 million by end-March 1984, and US$100 million by end-June 1984. Outstanding arrears at the end of December 1983 amounted to US$439.5 million against US$576.9 million at end-December 1982 and US$601.1 million at end-April 1983. The drop of US$161.5 million during April-December 1983 included the US$70 million reduction through net cash payments and US$91 million valuation adjustment with respect to arrears on the remittances of profits and dividends. In March 1984 an agreement was reached with Nigeria regarding arrears on oil imports amounting to US$156.1 million. Of the total, US$20 million was settled through net cash payments and the remaining amount was consolidated. Total outstanding arrears at the end of March 1984 amounted to US$286.6 million, respresenting a decline of US$314.0 million during the program period, of which US$85 million was through net cash payments.

III. The 1984-85 Economic and Financial Program

The attached letter of intent sets forth Ghana's economic and financial objectives for the 18-month period through December 1985 and the policies being followed to achieve them. The authorities are committed to sustaining the adjustment over the medium term and they intend to remain in close contact with the Fund staff in order to assure the full implementation of the proposed program and to formulate a set of policies to be pursued beyond the duration of the proposed arrangement.

The main objective of the proposed 18-month program is to enhance the adjustment effort and build on the progress of the 1983/84 program so as to bring about balance of payments viability in the medium term and allow the economy to resume growth under conditions of stability. The immediate aim is to reduce further the rate of inflation, continue to improve the balance of payments and achieve a real GDP growth of at least 5 percent in 1984. The attainment of these objectives will be aided by the return of normal weather conditions and the expected increase in imports. The measures to achieve these objectives include further action on the exchange rate, an increase in the cocoa producer price, significant action on price deregulation, a freeze on wages and salaries for the rest of 1984, a further reduction in the budget deficit as a percent of GDP, an important shift in interest rate policy and continued reduction of external payments arrears. These measures and the short-term policies aimed at achieving the objectives are described below. A summary of the economic and financial program appears in Table 6.

1. Exchange rate policy

A key element of the 1983/84 economic and financial program was the far-reaching reform of the exchange system. Within a year, the

Table 6. Ghana: Summary of Economic and Financial Program, 1984-85

	1983	1984-85 Program	
		1984	1985
Assumptions			
Real GDP growth (per cent)	0.7	5.4	5.0
Terms of trade changes (per cent)	4.0	31.0	-3.0
Exports of cocoa			
Volume (thousand tons)	174	155	175
Unit price (U.S. dollars per ton)	1,556	2,400	2,280
National consumer price index (per cent)	122.8	35.0	...
Targets			
Balance of payments			
Current account			
In millions of U.S. dollars	-261.0	-320.0	-527
As per cent of GDP	-2.7	-4.2	-6.3
Overall budget deficit			
In billions of cedis	-4.9	-5.9	...
In per cent of GDP	-2.6	-2.2	...
Net domestic assets of the banking system			
Changes in billions of cedis	6.6	6.5	...
Changes in per cent	41.2	28.8	...
Of which:			
Net claims on Government			
Changes in billions of cedis	2.6	1.8	...
Changes in per cent	23.3	8.5	...

Principal elements of the program

Action Already Taken	Progress Expected During Program Period
1. External	
a. Exchange rate: Depreciated the exchange rate from ₵ 2.75 = US$1 to ₵ 35 = US$35 during the 1983/84 program. Adopted policy of periodic adjustment to avoid loss of competitiveness.	Exchange rate to be adjusted further before Executive Board consideration of the proposed program, in accordance with the movement of the index during January-April 1984. A comprehensive examination of the exchange rate policy to be undertaken during the first review mission in time for the 1985 budget. The formula and the deflator for periodic adjustments will be examined as well as the adequacy of the present level of the exchange rate.

Table 6. Ghana: Summary of Economic and Financial Program, 1984-85 (continued)

	b. External payments arrears: Commitment for phased reductions in arrears through net cash payments by US$90 million during the program period.	The schedule of cumulative net cash reductions will be as follows: US$15 million by end-September 1984; US$30 million by end-December 1984; US$45 million by end-March 1985; US$ 60 million by end-June 1985; US$75 million by end-September 1985 and US$90 million by end-December 1985.
	c. External borrowing: Commitment to limit the contracting of government- and government-guaranteed external loans on non-concessional terms in the maturing range of 1-12 years to US$400 million and, as a subceiling, 1-5 years to US$250 million during the period of the stand-by arrangement. Bridging loans against Fund purchases will be limited to US$75 million. Net disbursements of loans with an original maturity of less than one year, other than trade-related credits, limited to US$100 million during the period of the stand-by arrangement.	
2.	Fiscal	
	Improvements in expenditure control and monitoring and tax administration. Expenditures held strictly within budgeted limits.	The authorities will adhere to the 1984 budget targets, with further adjustment to take place in 1985. Should expenditure appear to exceed budgeted limits or revenue to fall short of projections, the authorities will take additional discretionary revenue measures so as not to exceed the ceilings on bank financing. Further improvements in the monitoring of the main expenditure and the revenue items on a monthly basis.

Table 6. Ghana: Summary of Economic and Financial Program, 1984-85 (concluded)

3. Monetary and credit policy

Continuation of a cautious monetary policy and strict observance of credit ceilings. Increased flexibility of interest rate policy and a specific timetable for achieving positive real interest rates. Adoption of a formula and timetable for achieving positive real interest rates by December 1985 or June 1986, at the latest.	Adjustment of interest rates by 2 percentage points before Board discussion of the proposed program. Implementation of the formula for periodic adjustments in interest rates according to an agreed timetable.

4. Prices and incomes

Cocoa producer prices were raised by 50 percent to ₵ 30,000 per ton in early May 1984, for the 1984/85 crop year.	New cocoa producer price for the 1985/86 crop year to be announced by early May 1985.
All consumer subsidies now eliminated following full passthrough of all costs for importing petroleum and petroleum products.	
Major step has been taken in price deregulation by allowing manufacturers, retailers and other traders to set freely their own prices without reference to the Prices and Incomes Board. Price controls will remain on 23 items, but these controls will be flexibly administered.	
Salaries and wages were increased by 40 percent in March 1984.	No further wage and salary increases during the remainder of 1984.

exchange rate was depreciated from ₵ 2.75 = US$1 to ₵ 35 = US$1, representing a depreciation of 92 percent (1,173 percent in terms of local currency). In April 1983 the authorities introduced a multiple exchange rate system, based on bonuses and surcharges applied at the banks and other authorized dealers of foreign exchange. Through the operation of the system the exchange rate was depreciated from ₵ 2.75 = US$1 to an average of about US$25 = US$1. The Government expressed its commitment to continue with a flexible exchange rate policy and to unify the exchange rate system by the end of the stand-by arrangement. To maintain Ghana's international competitiveness, the exchange rate was kept constant in real terms. As provided for in the program, the exchange rate was to be adjusted periodically in accordance with the index which measures the differential in the inflation rates in Ghana and its major trading partners. In October, the authorities abolished the multiple exchange rate system, depreciated the average exchange rate by 21 percent and unified it at ₵ 30 = US$1, more than nine months ahead of schedule. In March 1984 the Government adjusted the exchange rate to ₵ 35 = US$1, a further depreciation of 16.7 percent, in accordance with the movement in the index during October-December 1983 (Chart 1).

Exchange rate policy will continue to be an important element of overall policy. The authorities are committed to continue to pursue a flexible and realistic exchange rate policy. The Government has undertaken to adjust further the exchange rate by August 1984 or, in any case, before Executive Board consideration of the proposed program, in accordance with the movement of the index during January-April 1984.

A comprehensive review of the exchange rate policy will be undertaken during the first review mission later this year, in time for the 1985 budget. The issues that will be examined will include (a) the authorities' proposal to adopt an unbiased formula and a stable deflator which will be used in future to maintain the exchange rate constant in real terms; and (b) the adequacy of the present level of the exchange rate and the extent of the need to adjust the exchange rate beyond the goal of keeping it constant in real terms. In considering the adequacy of the level of the exchange rate, account will be taken of Ghana's international competitiveness and medium-term balance of payments viability as well as the future need to narrow the scope of special licenses and export retention schemes.

2. Cocoa producer price

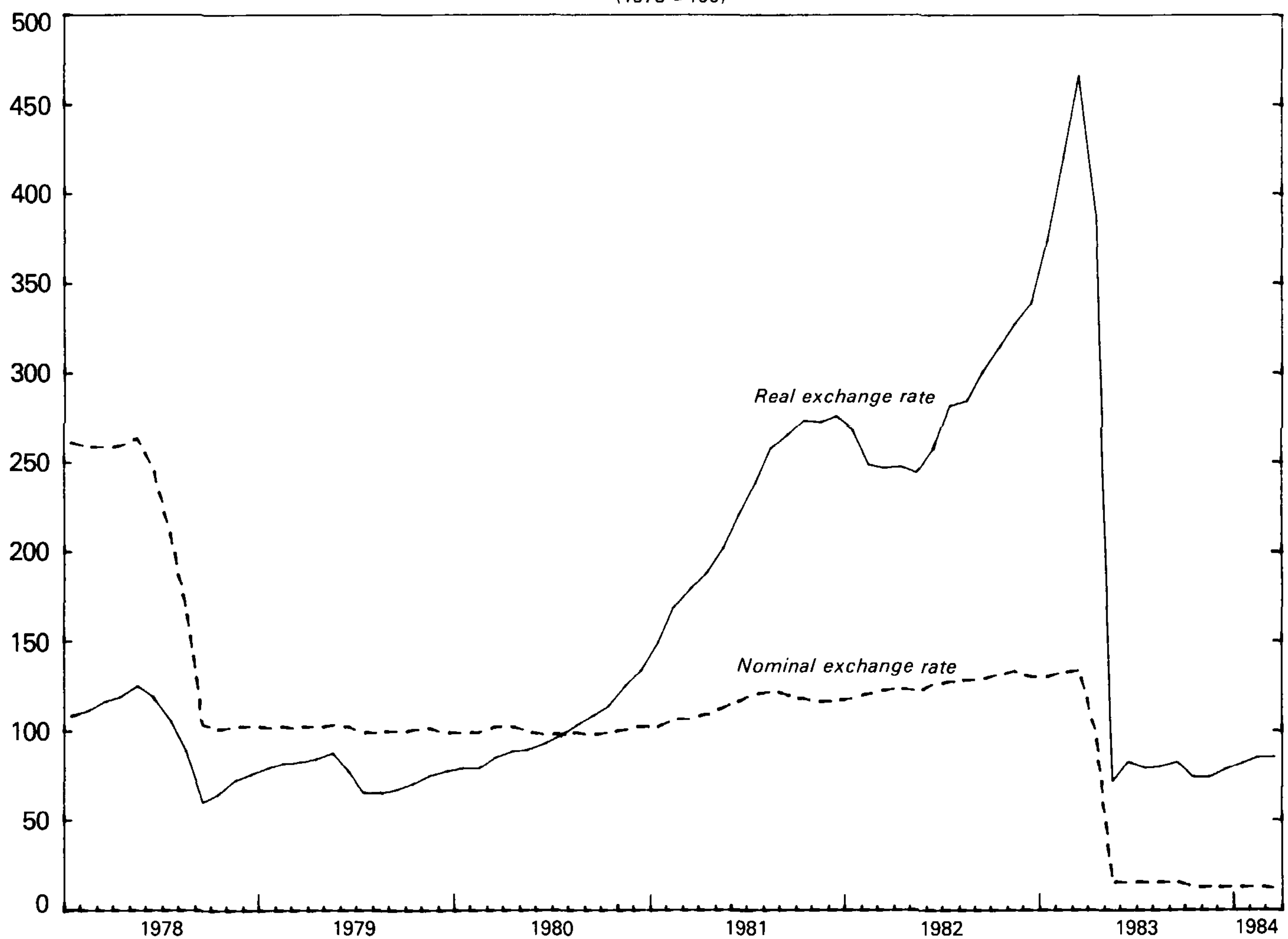
In early May 1984 the Government announced the new cocoa producer price for the 1984/85 crop year (October-September). The new producer price, which has also benefited the small mid-crop during June-July 1984, is ₵ 900 per head-load or ₵ 30,000 per metric ton, representing an increase of 50 percent. The new price takes into account developments in consumer prices and costs in the rural areas and aims at ensuring

CHART 1

GHANA

NOMINAL AND REAL EXCHANGE RATES[1]

(1978 = 100)



Source: IMF Data Fund.

[1]Trade weighted.

that there is no erosion of financial incentives to farmers since the last increase in mid-1983. The new price was decided by a newly established committee responsible for reviewing the cocoa producer price on a continuous basis so as to ensure that future prices provide adequate incentives to farmers. The 1984/85 price has been adopted in consultation with the World Bank in connection with the credit for Export Rehabilitation Project (ERP), about 25 percent of which will finance the rehabilitation of the cocoa sector.

3. Other pricing and incomes policies

a. Price deregulation

The 1983/84 program provided for a gradual lifting of price controls. Since the adoption of a flexible exchange rate policy in early 1983 the authorities have moved steadily toward price decontrol. All domestically produced food items remained free of all forms of price controls or guidelines. The immediate pass-through of the effects of the exchange rate adjustment for all goods, including petroleum products, remains in effect whenever there is an exchange rate adjustment.

In December 1983 the Prices and Incomes Board moved to a system of reference prices. Under the system, the prices agreed with the PIB were to be considered as merely a reference rather than rigidly controlled system. Reasonable deviations from the system were tolerated. However, the operation of the system proved somewhat more cumbersome than had been anticipated. Although businessmen were generally satisfied with the reference prices that were ultimately recommended, considerable time was required to assemble the documentation needed to support requests for reference price revisions. Moreover, the limitations arising from the staffing problems at the PIB caused additional delays. Some manufacturers and sellers were faced with the dilemma of either selling at prices far in excess of existing reference prices or withholding output from the market until the new prices were provided. Often the manufacturers sold at higher prices, with official toleration, rather than withhold the output from the market.

In the context of the 1984-85 program, the Government decided, therefore, that it would cease requiring manufacturers, retailers and other sellers to submit documentation to the PIB for prior establishment of reference prices. The Government will allow enterprises to freely set their own prices which they will be required to post. For the information of the public, the PIB will continue to publish reference prices based on its own estimates of production costs. Where a market price were to diverge quite substantially from the reference price, the PIB could request some information from the seller. Nonetheless, reference prices will serve only as guidelines to the general public. The Government has decided to implement and publish this important change in pricing policy before Executive Board consideration of the proposed program. In view of a continued sharp decline in real wages, price controls will continue to be maintained on the 23 basic items. 1/ However, the flexible administration of these prices already exercised by the authorities will be enhanced. For example, in the case of prices of imported final products in this group, adjustment is automatic under agreed guidelines.

b. Incomes policies

The Government is extremely concerned with the insufficiency of the wage level in the civil service and throughout the economy. Its impact on efficiency, work morale and the brain drain has been immeasurable. For example, by 1982, real wages and salaries had fallen to 17 percent of the 1975 level. They declined further in 1983. In April 1984 nominal wages and salaries were raised on the average by 40 percent. Despite mounting pressures, the Government has undertaken not to raise wages further in 1984. The Government is aware that the problem of wages cannot be addressed merely by periodic wage increases. It believes that the problem can be eased only gradually largely through a policy of redeployment of redundant labor in the civil service and the public sector to other productive sectors in the economy. It is very important to the authorities, therefore, that the expected economic recovery materializes so as to increase employment opportunities in the productive sectors. By reducing the number of employees it is expected that the wages of those retained could be raised without much change in the existing wage bill. The authorities are in the process of experimenting with redeployment in two public sector enterprises, the Ghana Industrial Holdings Corporation (GIHOC) and the Cocoa Marketing Board (CMB), the latter with the assistance of the World Bank. The Government hopes that it will be able to articulate and define redeployment policy with in the context of the 1985 budget.

4. Financial policies

a. The 1984 budget

The 1984 budget (January-December) which was announced on March 27, 1984, was discussed during the second review of the 1983/84 stand-by arrangement (EBS/84/60; 3/16/84, and Supplement 1). Some revisions have been made in the light of recent developments. As indicated in Table 3, total revenue projections for 1984 have been revised downward by ¢ 0.7 billion to ¢ 21.9 billion mainly as a result of downward revisions in projected imports (see section 5 below). However, through a combination of expenditure cuts and an additional discretionary revenue measure, the projected overall budget remains at ¢ 5.9 billion, which represents a decline from 2.6 percent of GDP in 1983 to 2.2 percent of GDP this year.

1/ The coverage of the 23 items is discussed in detail in the RED, to be issued shortly.

Although total revenue collection during January-March, 1984 was on target, revenue from import duties amounted to only ₵ 0.6 billion compared with earlier projections of ₵ 1.0 billion. For the year as a whole, revenue from taxes on international transactions have been revised downward from ₵ 9.7 billion to ₵ 8.9 billion. Revenue from taxes on domestic goods and services have also been revised downward, while nontax revenue has been revised slightly upward. A positive development during 1983-84 has been the continued marked improvement in tax administration and compliance, particularly with respect to income and property taxes. As a result, revenue from income and property taxes has been revised upward from ₵ 2.5 billion to ₵ 3.2 billion. Nontax revenue is also expected to be higher than earlier projected because of increases in a number of administrative fees and charges. Nonetheless, to ensure that the overall budgetary objectives are achieved and that bank financing of the deficit does not exceed ₵ 1.8 billion, the authorities announced a new discretionary revenue measure in June, 1984. This involved an additional tax of ₵ 5 on a packet of 20 cigarettes, estimated to yield an extra ₵ 446 million during July-December, 1984. As a result of the revisions and the new tax measure, total revenue in 1984 is projected at ₵ 21.9 billion against ₵ 22.6 billion in the budget statement.

Projected total expenditure for 1984 has been cut from ₵ 28.5 billion to ₵ 27.8 billion. The major cuts are in development expenditure, which has been reduced from ₵ 4.6 billion to ₵ 3.7 billion. The cuts fell mainly on the Ministries of Agriculture, Works and Housing, Roads and Highways, and Information. While projected current expenditure on goods and services remains substantially unchanged, interest payments have been revised upward to reflect the previously assumed public enterprise debt and revised projections of foreign exchange rate adjustments. The subsidy on petroleum products, which ended with the new prices announced in the budget, resulted in a operating deficit for the Petroleum Department of only ₵ 140 million, compared to the ₵ 500 million originally projected for the first quarter. This was the result of the low level of oil imports and consumption during the first quarter of 1984.

In financing the deficit of ₵ 5.9 billion, the original objective of a total increase on net claims on Government by the banking system of ₵ 1.8 billion remains unchanged. Earlier projections of nonbank financing of ₵ 1 billion have been revised downward to ₵ 750 million to reflect increased tax obligations and a possible tightening of the liquidity of the larger domestic companies, as the impact of the 1983 windfall receipts arising from the large exchange rate depreciation dissipates. Projected net foreign financing remains largely unchanged at ₵ 3.0 billion, principally reflecting gross inflows from IDA's Reconstruction Import Credit, African Development Fund co-financing, and oil credits. A major part of foreign amortization represents the repayment of previous oil credits. For 1985, savings mobilization through the public sector will be one of the main budgetary objectives.

b. Monetary and credit policies

Credit ceilings have been set for end-September and end-December, 1984. The ceilings take into account seasonal factors, particularly those related to cocoa financing and shipments. The overall objective is to allow net domestic assets of the banking system to increase by ₵ 6.5 billion and net claims on the Government by the banking system by ₵ 1.8 billion during calendar year 1984 as envisaged during the second review of the 1983/84 stand-by arrangement (EBS/84/60). As indicated in Table 4, for end-September 1984, both net domestic assets of the banking system and net claims on the Government will have to be reduced from the June, 1984 levels now estimated at ₵ 27.00 billion and ₵ 22.86 billion, respectively. Thus, net domestic assets of the banking system will not exceed ₵ 26.50 billion on September 30, 1984 and will not exceed ₵ 29.10 billion on December 31, 1984. Net claims on the Government by the banking system will not exceed ₵ 22.66 billion on September 30, 1984 and will not exceed ₵ 22.86 billion on December 31, 1984.

The projected ₵ 6.5 billion expansion in net domestic assets of the banking system during 1984 represents an increase of 29 percent compared with an increase of 41 percent in 1983 and 31 percent during the 1983/84 program period. Broad money is projected to increase by 14 percent in 1984 compared with 49 percent in 1983 and 25 percent during the 1983/84 program period.

c. Interest rate policy

The authorities have, in the context of the 1984-85 program, made a major policy decision with regard to interest rates, with the adoption of a formula and a time-table for attaining real positive rates. It will be recalled that in the course of the 1983/84 program the authorities adopted a flexible interest rate policy so as to promote the role of interest rates as an instrument for resource mobilization and resource allocation. At the same time the authorities indicated their commitment to achieve positive real interest rates in the medium-term. Thus, the authorities have undertaken to raise all interest rates further by 2 percentage points before Board discussion of the proposed program. The savings deposit rate will rise to 13 percent per annum and the maximum lending rate to 21 percent. Subsequent adjustments will, however, be based on a formula related to the rate of inflation. The formula allows phased periodic increases which will lead to positive real interest rates. With these periodic adjustments in the nominal rates and in view of the expected deceleration in the rate of inflation, the authorities have undertaken to achieve real positive interest rates by June 1986 at the latest. The authorities have indicated that they would achieve positive real interest rates by the end of 1985 if inflation decelerates as fast as now envisaged. The attainment of positive real interest should facilitate the authorities' goal of increasing domestic savings significantly in the medium term.

5. Balance of payments and other external policies

a. Balance of payments projections for 1984

The overall balance of payments is estimated to show a significant improvement in 1984 compared with 1983, mainly as a result of improvements in the terms of trade, and increases in cocoa receipts and capital inflows. The current account deficit is estimated to widen, reflecting increased availability of capital to finance the rise in imports needed to support increased economic activity. However, the 1984 estimates for both exports and disbursements of long-term loans are lower than had been projected earlier this year.

Total exports are estimated to increase by 28 percent in 1984 and to amount to US$564 million but they will be US$79 million less than earlier projections due to shortfalls in the volume of timber, gold, and other mineral exports. In the timber and mining sectors the major bottleneck has been the railway system. In addition, timber exports were affected by power cuts and the slow arrival of imports of machinery and spare parts. Gold exports were unfavourably influenced by the lack of equipment and temporary interruptions caused by the change in the management of the State Gold Mining Corporation. Most of the improvement in the value of total exports in 1984 is due to a sharp increase in export unit values of cocoa. The volume of cocoa exports is estimated to decline by 4 percent.

Total imports in 1984, financed with Ghana's own foreign exchange earnings and from anticipated capital inflows, will rise to US$760 million, representing an increase of 43 percent over 1983, but will be US$118 million less than projected in December 1983 during the second review mission. Of this total, crude oil imports will account for an estimated US$210 million. The volume of imports is projected to increase by about 40 percent based on the weighted average of export unit value indices of Ghana's major trading partners. The current account deficit has been revised downward from US$438 million estimated earlier to US$320 million, equivalent to 4.2 percent of GDP. This has been possible because the shortfall in total exports in 1984 compared with earlier projections has been more than offset by the cutback in total imports and higher inflows of official transfers.

Total net official inflows are now estimated at US$171 million compared with earlier projections of US$347 million due to lower-than-projected disbursements of both long-term and medium-term capital. The downward revisions reflect shortfalls in disbursements from both multilateral and bilateral sources. However, the largest single downward revision has been on estimates of disbursements of the Export Rehabilitation project (ERP) approved by the World Bank's Executive Board in January 1984. Of the net total official capital inflows, US$149 million is long-term and US$23 million is medium-term capital. The low level medium-term net capital inflows reflects large repayments of oil credits. Projected inflows of private capital are higher than anticipated on account of imports under special licenses. 1/

The overall balance of payments deficit is projected at US$89 million against an earlier estimate of US$83 million. The deficit will be financed from net purchases from the Fund totalling US$159 million (US$100.2 million already drawn under the 1983/84 program and US$63 million expected to be purchased under the proposed arrangement). However, no increase in gross reserves is projected because of the need to reduce external payments arrears by US$70 million in 1984.

b. Policies on external debt and payments arrears

As already noted, the Government debt management policy is geared toward pursuing a prudent external debt management policy so as not to aggravate Ghana's future debt burden. At the end of 1983, Ghana's long-and medium-term public external debt outstanding amounted to about US$1.3 billion. In 1983, mainly due to a sharp drop in exports, service payments of these debts, which amounted to US$132.2 million, were equivalent to 30 percent of merchandise export earnings. Debt service payments will increase in the next few years as discussed below in the medium-term balance of payments outlook. Therefore, the program limits the contracting of government- and government-guaranteed external loans on non-concessional basis in the maturity range of 1-12 years to US$400 million and, as a subceiling, limits those in the maturity range of 1-5 years to US$250 million during the period of the stand-by arrangement. Oil credits to refinance the existing US$120 million loan which will be recontracted in early 1985 are included in the above ceilings. Bridging loans against Fund purchase will be limited to US$75 million. Disbursements of loans, on a net basis, with an original maturity of less than one year, other than trade-related credits, will be limited to US$100 million during the period of the stand-by arrangement.

During the 1984-85 program, the authorities have decided to reduce, through net cash payments, external arrears on payments and transfers for current international transactions and on debt amortization by US$90 million from the amount outstanding at the end of June 1984. The scheduled cumulative net cash reductions will be as follows: US$15 million by end of September 1984; US$30 million by end of December 1984; US$45 million by end of March 1985; US$60 million by end of June 1985; US$75 million by the end of September 1985 and US$90 million by

1/ Special licenses are discussed in the Recent Economic Developments paper to be issued shortly.

the end of December 1985. The authorities intend to continue to reduce the level of net payments arrears during 1984-85 in an orderly and non-discriminatory manner, not only as scheduled under the stand-by arrangement, but by more than indicated, if Ghana's international reserves position permits.

6. The Medium-Term Economic Outlook

With appropriate policies and inflows of concessional external resources, Ghana's medium-term outlook indicates a fairly strong recovery of output and exports and a sustainable balance of payments position in three to five years. The figures for imports and capital inflows are based on the authorities' recovery program as subsequently revised following discussions with Fund staff. If exports and capital inflows turned out to be lower than projected, both the level of imports and the GDP growth rate would have to be revised downwards.

Cocoa output is projected to increase from about 158,000 tons in 1983/84 to about 300,000 tons in 1988/89. These projections assume that the cocoa producer prices will be reviewed annually and adjusted to avoid the erosion of the real price and to provide adequate incentives to farmers to encourage better husbandry and rehabilitation of existing cocoa farms. The recently initiated program to increase the supply of inputs and consumer goods to cocoa farmers would also play an important role in achieving production targets. The Government is in the process of implementing programs designed to improve the efficiency of the cocoa sector and these programs are supported by the IBRD through the Export Rehabilitation Project and by the EEC through the STABEX and other loans. Gold production and exports are projected to increase from about 300,000 ounces in 1984 to over 465,000 ounces in 1988. The rehabilitation and expansion programs are being undertaken by the two gold mining companies financed by external resources. For this, a syndicate loan of US$75.6 million involving the IFC has been arranged for the Ashanti Gold Company and the State Gold Mining Company will be receiving disbursements of US$29.5 million from IDA over the three years to rehabilitate the mines. Recent adjustments in the exchange rate have made timber exports profitable, but the improvement in the timber sector during the past year had been much weaker than anticipated because of the slower arrival of transport equipment. Some companies also experienced production problems related to financial difficulties and management problems. With some improvements in management and increased availability of imported inputs, capacity utilization is expected to increase from the present level of 20 percent to about 65 percent in 1985. With the availability of spare parts and equipment and improvement in the transportation, exports of timber are expected to increase from $21 million in 1984 to $100 million in 1988. For the medium-term, production increases in the range of 5-10 percent are also projected for other export items as well as for domestic consumer goods. As a consequence real GDP is projected to grow by at least 5 percent in

1984 and 6-7 percent in 1985 and thereafter by an annual rate of growth of about 4 percent through 1987. The higher GDP growth rate for 1984 and 1985 is due to a one-time quantum jump in agricultural output resulting from the return of normal weather conditions evident in 1984.

In the medium-term fiscal and monetary policy would need to be consistent with the goal of attaining balance of payments viability by the end of 1988. Monetary and credit policy should be consistent with a continued sharp reduction in the rate of inflation, and would aim at directing an increasing share of the available credit to productive sectors. The principal role of fiscal policy will be to support the stabilization and rehabilitation effort, including the mobilization of public savings through the public sector. While a policy of continued expenditure restraint will continue to be pursued, certain categories of expenditure will have to increase in real terms so as to carry out repairs of the infrastructure and to address the deeply eroded wage and salary incentives. The latter problem will be addressed largely through the redeployment of some workers to other sectors of the economy so as to allow a raise for the remaining workers without a large increase in the wage bill. Government efforts will, therefore, have to focus on raising revenue to permit higher future expenditure levels without increasing the size of the deficit in relation to GDP and without undue recourse to the banking system. Revenue should benefit substantially from the projected economic recovery, from increases in exports and imports as well as from further improvements in tax administration. An encouraging beginning toward improved tax administration was evident in 1983/84.

The medium-term balance of payments outlook is presented in Table 7. Largely as a result of the expected increase in output of major export products, export earnings are projected to double in four years and reach US$1,140 million in 1988. After a slight decline in 1985, reflecting a projected decline in world cocoa prices, Ghana's export unit prices are also expected to show some steady increase. 1/ As successful pursuit of the adjustment process in Ghana depends on increasing the aggregate domestic output, large import inflows are required in the short run to revive the production process.

The size of the import program would be limited by export earnings, availability of external resources and the need to reduce external arrears. Imports of about $968 million are projected for 1985 to make up for the shortfalls in previous years and to undertake the reconstruction program which will generate sufficient momentum for a sustained economic recovery. This would represent an increase of about 25 percent

1/ Export unit values for cocoa are projected to decline by 5 percent in 1985 and to increase by 3-4 percent annually during 1986-88. Gold prices are projected to remain roughly unchanged in 1985 and to increase by less than 2 percent annually thereafter. For other exports annual price increases of less than 5 percent are projected.

Table 7. Ghana: Medium-Term Balance of Payments Projections, 1984-88

(In millions of U.S. dollars)

	1984	1985	1986	1987	1988
Exports (f.o.b.)	564	662	829	984	1,140
Cocoa	(372)	(399)	(528)	(642)	(765)
Noncocoa	(192)	(263)	(301)	(342)	(375)
Imports (f.o.b.)	-760	-968	-1,060	-1,159	-1,266
Oil	(-210)	(-253)	(-273)	(-293)	(-313)
Non-oil	(-550)	(-715)	(-787)	(-866)	(-953)
Trade balance	-196	-306	-231	-175	-126
Services (net)	-274	-276	-311	-328	-337
Of which: interest payments 1/	(-96)	(-119)	(-144)	(-149)	(-146)
Unrequited transfers (net)	150	55	125	135	155
Official 2/	(146)	(51)	(120)	(130)	(150)
Private	(4)	(4)	(5)	(5)	(5)
Current account balance	-320	-527	-417	-368	-308
Capital account (net)	231	260	319	442	487
Official	171	135	184	292	322
Long-term 3/	(149)	(169)	(220)	(262)	(310)
Medium-term 4/	(23)	(-27)	(-26)	(40)	(22)
Other 5/	(-1)	(-7)	(-10)	(-10)	(-10)
Private capital	115	125	135	150	165
Direct investment	(9.0)	(12)	(20)	(30)	(40)
Suppliers' credits	(53.0)	(60)	(65)	(70)	(75)
Other	(53.0)	(53)	(50)	(50)	(50)
Other	-55	--	--	--	--
Overall balance	-89	-267	-98	74	179
Financing	89	66	-80	-201	-230
Use of Fund resources 6/	159.0	126.0	-19.6	-140.8	-177.4
Purchases	(163.2)	(126.0)	(--)	(--)	(--)
Repurchases	(-4.2)	(--)	(-19.6)	(-140.8)	(-177.4)
Payments arrears reductions 7/	-70	-60	-60	-60	-53
Financing requirement	--	201	178	127	51

Sources: Bank of Ghana; and staff estimates.

1/ Includes estimated interest payments on projected new borrowings.

2/ 1984-85 are based on existing commitments only and 1986-88 are based on projections.

3/ 1984-85 are based on existing commitments. Gross inflows are projected to increase at an annual rate of about 16 percent during 1984-88.

4/ 1984 and 1985 are based on existing contracts. $75 million of new loans in 1986 and $100 million in 1987 and in 1988 are assumed. Inflows of oil credits projected to decline from $120 million in 1985, to $100 million in 1986, to $75 million in 1987, and to $50 million in 1988.

5/ Repayments for the Trust Fund loans.

6/ Purchases of $126 million are assumed in 1985 under the proposed program. For 1986-88 no new programs are assumed and the figures reflect repurchases due to the Fund.

7/ Outstanding payments arrears are scheduled to be eliminated by the end of 1988.

in the volume of nonoil imports in 1985, given a projected price increase of 4-5 percent in Ghana's nonoil imports. Thereafter, an annual increase of 10 percent in nonoil imports are projected which would imply an annual increase of about five percent in volume. The volume of oil imports is projected to increase from 1.10 million metric tons in 1984 to 1.25 million metric tons in 1985. These increases in the volume of imports are considered necessary to achieve the growth targets described above. It should be noted that the projected import level of US$1,266 million in 1988 will be about equal in real terms to the average import level of about US$870 million during 1978-80. Reflecting the projected increase in imports, the trade account is projected to widen to US$306 million in 1985, but decline continuously thereafter with exports growing at a higher rate than imports.

Because of the projected increase in interest payments on external borrowing needed to maintain the projected level of imports, and the rise in freight and insurance charges on these imports, the deficit on the services account is projected to increase continuously from US$274 million in 1984 to US$337 million in 1988. Reflecting these developments and on the basis of existing commitments of official transfers, the current account deficit is expected to widen from US$320 million in 1984 to US$527 million in 1985 and decline steadily thereafter. 1/ The increase in the current account deficit reflects the need to increase imports to sustain the economic recovery and to achieve a favorable supply response. The current account deficit is projected to amount to about US$308 million in 1988, assuming that official transfers during 1986-88 remain at about the 1984 level. On this basis, the ratio of the current account deficit is projected to increase from 4.2 percent of GDP in 1984 to 6.3 percent of GDP in 1985 but to fall to about 3 percent of GDP in 1988.

On the basis of existing commitments, net long-term official capital inflows are projected to amount to US$169 million in 1985. Net capital inflows are projected to increase to US$220 million in 1986 and to reach US$310 million by 1988, with gross inflows increasing by 15 percent annually. Net medium-term official capital is projected to register outflows in 1985-86 and inflows in 1987-88. Oil credits are projected to decline gradually from US$120 million in 1985 to US$50 million in 1988 and other new medium-term loans would be limited to about US$100 million a year. As incentives to invest in Ghana increase and the private sector access to suppliers' credits improves, net private capital inflows are projected to increase from US$115 million in 1984 to US$165 million in 1988. Furthermore, the planned revision in the Investment Code should result in some increase in

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1/ Official transfers and long-term capital inflows for 1985 are based on existing commitments only whereas for 1986-88 they include estimates of disbursements from new commitments. On this basis, the additional commitments required, which the authorities hope will be realized following the Consultative Group meeting in December, are clearly indicated.

capital inflows. The overall balance of payments deficit is projected to widen from US$89 million in 1984 to US$267 million in 1985. Taking into account the scheduled purchases from the Fund under the present stand-by arrangement and the scheduled reductions in payments arrears, such an overall balance of payments deficit would require additional capital inflows of about $200 million in 1985. Filling this financing gap will be the main subject of discussion at this year's Consultative Group meeting. The overall balance of payments is projected to narrow quickly after 1985 and to turn into a surplus in 1987. The overall balance of payments surplus is projected to reach US$179 million in 1988. However, residual financing requirements will remain because of repurchases with respect to drawings under the stand-by arrangements and compensatory financing facility of 1983 and the intention to eliminate existing payments arrears by 1988. The additional financing requirements are projected to decline continuously to about US$50 million by 1988. In view of the external debt service outlook in the next few years, the authorities would not seek more financing on commercial terms than the amounts assumed in this scenario. To the extent that residual financing requirements could not be secured on concessional terms, the authorities would need to reduce imports.

The projections of the debt service payments for the period 1984-88 are presented in Table 8. Ghana's debt service payments are projected to increase continuously from US$232 million in 1984 to US$496 million in 1988. Excluding Fund charges and repurchases, total debt service payments are projected to increase from US$206 million in 1984 to US$360 million in 1985 and to decline continuously thereafter to about US$287 million in 1988. Debt service payments (including Fund charges) as a ratio of exports of goods and services are projected to increase from 39 percent in 1984 to 57 percent in 1985 but to decline during 1986-88 and to amount to about 42 percent in 1988. If obligations to the Fund are excluded, the debt service ratio will increase from 34 percent in 1984 to 51 percent in 1985 but decline much faster in the following years and would amount to only 24 percent in 1988. To the extent that more medium- and long-term financing on concessional terms could be mobilized and export growth turned out to be more favorable, the decline in the debt service ratio during 1986-88 could be much steeper than indicated above.

7. Performance criteria

Performance criteria for the proposed program include (a) phased ceilings on net domestic assets of the banking system, with subceilings on net credit to the Government for the period to end-December 1984; (b) phased cumulative reductions of external arrears through net cash payments amounting to US$90 million for the entire period of the stand-by arrangement (of which US$30 million by end-December 1984); (c) limits on the contracting and guaranteeing of new nonconcessional foreign loans by the Government for the entire period of the stand-by

Table 8. Ghana: Government- and Government-Guaranteed External Debt Projections, 1984-88

(In millions of U.S. dollars)

	1984	1985	1986	1987	1988
Service payments on existing debt 1/					
Interest	46.3	40.8	37.4	33.5	29.9
Amortization	94.0	92.5	96.1	96.8	82.1
M-T	(44.2)	(39.2)	(38.6)	(38.6)	(24.3)
L-T	(49.8)	(53.3)	(57.5)	(58.2)	(57.8)
Trust Fund	1.2	7.4	10.0	10.0	10.0
Fund charges and repurchases 2/					
Charges	21.4	36.13	45.13	42.44	31.63
Repurchases	4.2	--	19.64	140.83	177.38
Service payments on new debt					
Interest	1.9	7.5	20.4	32.1	43.8
M-T 3/	(1.9)	(7.5)	(15.7)	(24.7)	(33.3)
L-T	(--)	(--)	(4.7)	(7.4)	(10.5)
Amortization	--	--	--	9.0	38.5
Oil credits 4/					
Interest	1.8	9.0	13.2	10.5	7.5
Amortization	60.7	202.4	171.2	100.0	75.0
Total external debt service payments	231.5	395.7	413.0	475.1	495.8
Interest and charges	71.4	93.4	116.1	118.5	112.8
Amortization payments	160.1	302.3	296.9	356.6	383.0
			(In percent)		
Debt service payments as a ratio of exports of goods and services					
Excluding Fund charges and repurchases	34.3	51.4	40.0	28.3	24.1
Including Fund charges and repurchases	38.9	56.5	47.4	46.1	41.7

Sources: Bank of Ghana; and staff estimates.

1/ Debt outstanding as of end-1983.

2/ Includes obligations under the proposed SDR 180 million stand-by arrangement.

3/ Assumes an average maturity of 5 years, 2 years' grace period, and an interest rate of 10 percent. Excludes debt service payments on the IFC portion of the AGC loan as those are not guaranteed by the Government.

4/ Includes repayments of oil credits to Nigeria and Libya as well as service payments on new oil credits of $120 million in 1985, $100 million in 1986, $75 million in 1987, and $50 million in 1988. Assumes an interest rate of 12 percent in new oil credits.

arrangement; (d) limits on disbursements of short-term loans and bridging loans for the entire period of the stand-by arrangement; (e) the carrying out and completion of two reviews with the Fund by March 1985 and August 1985, on policies to be pursued during the period of the stand-by arrangement, in particular with respect to exchange rate policy, interest rate policy and fiscal policy for 1985. These policies will take into account the results of the Consultative Group meeting to be held in December 1984. The third purchase (available after February 14, 1985) and the fifth purchase (available after August 14, 1985) will be subject to the satisfactory completion of the first and second reviews, respectively; and (f) the standard clauses relating to the exchange and trade restrictions and multiple currency practices. The quantitative performance criteria are shown in Table 9.

IV. Staff Appraisal

For the first time in nearly two decades Ghana has successfully implemented a major adjustment program with Fund support. The measures implemented in the 1983/84 program represented a major initial step in a sustained medium-term effort to rehabilitate the Ghanaian economy. The authorities' commitment to sustain this effort through the medium term was demonstrated during 1983/84. In the face of political opposition and a severe drought, they took strong additional measures to ensure the attainment of the program's objectives. In the key areas of exchange rate policy and price increases for petroleum products, they advanced the timetable for implementation and attained the aims of the program several months ahead of schedule. In implementing the budget for 1983, they cut expenditure substantially when revenue was not forthcoming as projected. In addition, they made substantial policy changes in price deregulation. They also substantially reduced external payments arrears, both through net cash payments and consolidation.

The authorities are concerned, however, that despite these efforts, the economic recovery has fallen far short of the program's objectives and the supply response continues to be disappointing. Factors beyond the control of the authorities were largely responsible for the outturn, including unfavorable weather conditions, which affected production of foodcrops, exports, and hydroelectric power, transportation difficulties, and lower levels of imports due mainly to delays in disbursing committed external resources. To ensure that similar delays do not occur during 1984-85, the Ghanaian authorities have made a special effort to alert the multilateral development institutions and bilateral donors involved in Ghana.

The proposed program for 1984-85 will build on the progress achieved to date and will seek to enhance the adjustment effort. It aims at continued restructuring of relative prices in favor of producing sectors and exports, reducing the underlying rate of inflation, and promoting

Table 9. Ghana: Quantitative Performance Criteria and Targets for 1984

	Outstanding (end of month, in billions of cedis)					
	1983			1984 Projections		
	June	Dec.	Mar.	June	Sept.	Dec.
Net domestic assets	20.67	22.60	25.10	27.00	26.50 1/	29.10 1/
Net claims on Government	20.06	21.06	21.68	22.86	22.66 1/	22.86 1/
Cocoa financing	0.79	0.52	2.66	1.60	--	3.30
Credit to rest of the economy	2.76	3.85	4.62	6.15	6.55	7.35
Other items (net)	-2.94	-2.83	-3.86	-3.61	-2.71	-4.41
				Cumulative changes from end-December 1983		
Net domestic assets				4.4	3.9	6.5
Of which: Net claims on Government				1.8	1.6	1.8

	Actual outstanding End-March 1984	Remaining reductions under the 1983/84 program	Cumulative net cash reductions 1/ Sept. 1984	Dec. 1984	March 1985	June 1985	Sept. 1985	Dec. 1985
External payments arrears (In millions of U.S. dollars) Scheduled reductions 1/	286.8	15	15	30	45	60	75	90

	During August 1984–December 1985
New nonconcessional external borrowings contracted or guaranteed by Government	
(In millions of U.S. dollars)	Maximum
of maturities 1-12 years	400.00 1/
of which: 1-5 years	250.00 1/
External loans of less than 1 year maturity other than trade related credits	
Net disbursements	100.00 1/
Bridging loans outstanding	75.00 1/

1/ Performance criteria.

economic activity throughout the economy, so as to bring about balance of payments viability in the medium term. In addition to further action on the exchange rate, reduction of external payments arrears, and the control of liquidity creation, the important policy actions of the 1984-85 program are in the area of pricing and interest rate policy. The decision to allow sellers at the wholesale and retail levels to fix their own prices marks a major policy departure from the rigid price controls of the past. Equally significant is the adoption by the authorities of a formula and a timetable to achieve positive real interest rates by mid-1986 at the latest. Fiscal policy during 1984-85 would be geared toward supporting these objectives by limiting the size of the fiscal deficit and the recourse to the banking system. These policies, together with increased imports, should provide a firm basis for a resumption of growth of output and exports under conditions of stability. A return of normal weather conditions being experienced in 1984 will also facilitate the attainment of these objectives as well as the objective of achieving a real GDP growth of at least 5 percent in 1984-86 and 4 percent in the subsequent years.

The successful implementation of the proposed 1984-85 program by the authorities will substantially enhance Ghana's objective of rehabilitating the economy and achieving viability in its balance of payments position. The medium-term policies aim at achieving this viability by the end of 1988, which, in the view of the staff is an appropriate time horizon. In Ghana's circumstances, the current account deficit will have to be initially enlarged as foreseen for 1985 so as to accomodate an increase in imports needed to sustain the economic recovery. In the meantime, the financing requirements during 1985-88 will need to be filled through concessional resources and exceptional balance of payments assistance. To achieve this, it is necessary for the multilateral and bilateral donors to increase their commitments of concessional resources and to expediate the pace of disbursements. In this connection, the indications of donor support expected at the meeting of the Consultative Group on Ghana which is scheduled to meet in Paris in December 1984 under the auspices of the World Bank will have an important bearing on the further progress achievable by Ghana in 1985 and beyond. The successful completion of the first review will depend on the existence of satisfactory external financing arrangements for 1985.

For the authorities' economic policies to succeed, a number of other problems and obstacles will have to be addressed vigorously in the short and medium term. First, the slow supply response has been used by certain segments of Ghanaian society to raise questions about the effectiveness of adjustment programs. The rains and the prospect of a good crop this year should, hopefully, ameliorate some of these pressures. Secondly, the deterioration in the physical and human infrastructure has made the implementation and the monitoring of the program more difficult and has affected the pace of policy response. Some of the bottlenecks in transportation (railways and port facilites) and manpower are being tackled with the assistance of the World Bank. These efforts need to be speeded up. Thirdly, the question of eroded wage and salary incentives will need to be examined closely and a medium-term solution provided as an important step toward rebuilding an efficient civil and public service. The authorities' efforts at redeployment need to be supported and expanded, possibly with World Bank support. Already, the Government is resisting labor unions' demands for further substantial adjustments in wages in 1984 following the deep erosion of real wages in 1983. Fourthly, given the very low level of domestic savings (an average of about 3 percent of GDP during 1979-83), policies must emphasize domestic resource mobilization. In this connection, budgetary and interest rate policy must be geared toward raising public and private savings so as to provide sufficient domestic counterparts funds to absorb the projected external resources. Finally, after an initial period of stabilization and emergency rehabilitation of the economy, Ghana would need an investment program during 1986-88 so as to allocate effectively the resources to be generated externally and domestically. In this regard, the authorities intend to prepare a comprehensive investment program with the World Bank's technical assistance before the end of 1985. Such a program would be important for maintaining an adequate level of donor support and allocating donor resources effectively. The launching of the program will have to be preceeded by adequate preparation to ensure that the implementing capacity is sufficiently improved to carry it out. This should include a comprehensive review of the effectiveness of implementing agencies, particularly the parastatals, possibly with the assistance of the World Bank.

Policies must also include a gradual and systematic program of liberalization and easing of restrictions. In this connection, a comprehensive review of exchange rate policy will be undertaken during the first review of the program scheduled to be completed by March 15, 1985. For the time being, Ghana continues to maintain restrictions on payments and transfers for current international transactions, including accumulated payments arrears. It also maintains bilateral payments agreements with two Fund members (Yugoslavia and Romania). The authorities concur with the staff that steps should be taken to reduce reliance on restrictive practices and reduce payments arrears as the balance of payments situation improves. The exchange restrictions evidenced by the external payments arrears and restrictions on transfer of balances under the bilateral payments arrangements with the Fund members are subject to Fund approval. In view of the scheduled reduction and eventual elimination of external payments arrears during the period of the stand-by arrangement from the Fund, the staff recommends the approval of the restrictions pertaining to such arrears until August 31, 1985, or the next Article IV consultation, whichever comes first. The staff urges the authorities to eliminate or renegotiate the bilateral payments arrangements in order to eliminate the transfer restrictions involved in their operation. It is recommended that the next Article IV consultation with Ghana be held on a standard 12-month cycle.

The staff considers that the adjustment program outlined in the attached letter of intent of July __, 1984, requesting a stand-by arrangement in an amount equivalent to SDR 180.0 million, represents a substantial effort toward tackling Ghana's economic and financial difficulties and achieving a viable balance of payments position in the medium term and merits the financial support of the Fund.

V. Proposed Decisions

In view of the foregoing, the following draft decisions are proposed for adoption by the Executive Board:

(i) 1984 Consultation

1. The Fund takes this decision relating to Ghana's exchange measures subject to Article VIII, Section 2, in concluding the 1984 Article XIV consultation with Ghana and in the light of the 1984 Article IV consultation with Ghana conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The restrictions on payments and transfers for current international transactions as described in EBS/84/172 and in SM/84/ , are maintained by Ghana in accordance with Article XIV except that the exchange restrictions evidenced by external payments arrears and the restrictions on transfer of balances under the bilateral payments arrangement with Fund members are subject to approval under Article VIII, Section 2. The Fund notes the intention of the authorities to remove these exchange restrictions as soon as possible and grants approval for the retention of the exchange restrictions that are evidenced by external payments arrears scheduled for reduction under the stand-by arrangement for Ghana, until August 31, 1985 or the completion of the 1984 Article IV consultation with Ghana, whichever is the earlier. The Fund urges Ghana to terminate the remaining bilateral payments arrangements with Fund members as soon as possible.

(ii) Stand-By Arrangement

1. Ghana has requested a stand-by arrangement in the amount equivalent to SDR 180.0 million for the period from August __, 1983 to December 31, 1985.

2. The Fund waives the limitation in Article V, Section 3(b)(iii).

3. The Fund approves the stand-by arrangement attached to EBS/84/172.

GHANA: Stand-By Arrangement

Attached hereto is a letter dated July __, 1984 from the Secretary for Finance and Economic Planning and the Governor of the Bank of Ghana, requesting a stand-by arrangement and setting forth the objectives and policies that the authorities of Ghana intend to pursue for the period of this stand-by arrangement, and understandings of Ghana with the Fund regarding reviews that will be made of the progress in realizing the objectives of the program and of the policies and measures that the authorities of Ghana will pursue for the remaining period of this stand-by arrangement.

To support these objectives, policies and measures, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from August __, 1984 to December 31, 1985, Ghana will have the right to make purchases from the Fund in an amount equivalent to SDR 180.0 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. a. Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 30.0 million until November 14, 1984, the equivalent of SDR 60.0 million until February 14, 1985, the equivalent of SDR 90.0 million until May 14, 1985, the equivalent of SDR 120.0 million until August 14, 1985, and the equivalent of SDR 150 million until November 14, 1985.

b. None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Ghana's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 1, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Ghana will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Ghana's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota:

a. during any period in which:

(i) the limit on net domestic assets of the banking system referred to in paragraph 23 of the attached letter and specified in the table annexed to that letter, or

(ii) the limit on net claims on the Government by the banking system referred to in paragraph 23 of the attached letter and specified in the table annexed to that letter is not observed, or

(iii) the targets for the reduction of external payments arrears as described in paragraph 26 of the attached letter and specified in the table annexed to that letter

are not being observed, or

b. if the limits on the contracting of new nonconcessional public ;and publicly guaranteed external debt as described in paragrph 27 of the attached letter are not observed, or

c. during any period after February 13, 1985, or August 13, 1985, respectively, until the policies of the program have been reviewed and suitable performance criteria with regard to net domestic assets of the banking system and net claims on the Government by the banking system, or any other suitable performance criteria, have been established in consultation with the Fund as contemplated in paragraphs 23 and 31 of the attached letter, or after such performance criteria have been established, while they are not being observed, or

d. while Ghana has any overdue financial obligations to the Fund, or, if Ghana

(i) imposes new or intensifies existing restrictions on payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Ghana is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Ghana and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Ghana's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Ghana. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Ghana and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Ghana, the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources will be determined in accordance with Rule G-4(b) of the Fund's rules and regulations. Ghana will consult the Fund on the timing or purchases involving borrowed resources in accordance with Rule G-4(d).

8. Ghana shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

9. a. Ghana shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement, in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Ghana's balance of payments and reserve position improves.

b. Any reductions in Ghana's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

c. The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that the repurchase will be completed not later than seven years from the date of purchase.

10. During the period of the stand-by arrangement, Ghana shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Ghana or of representatives of Ghana to the Fund. Ghana shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Ghana in achieving the objectives and policies set forth in the attached letter.

11. In accordance with paragraph 31 of the attached letter, Ghana will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the stand-by arrangement and while Ghana has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Ghana's balance of payments policies.

Accra, Ghana
July 30, 1984

Mr. J. de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Larosière:

1. For the first time in nearly two decades Ghana has successfully implemented a major adjustment program. The comprehensive adjustment program which covered the year through June 30, 1984, was supported by a one-year stand-by arrangement with the Fund in the amount of SDR 238.5 million (equivalent to 150 percent of Ghana's quota then in force or 116.6 percent of the current quota of SDR 204.5 million). Ghana also purchased SDR 120 million under the Compensatory Financing Facility on account of a shortfall in exports during the calendar year 1982. The stand-by arrangement provided for five equal phased purchases, each in the amount of SDR 47.7 million. All purchases were made upon meeting the relevant performance criteria and successfully completing two reviews. The fifth and final purchase was in mid-May 1984.

2. The adjustment measures which were initiated in April 1983 and implemented over the past year, focussed on a substantial restructuring of relative prices, especially correcting the over-valuation of the cedi, and improving the financial position of productive sectors. The large depreciation of the cedi has also restored the competitive position of Ghana's main export products, particularly cocoa, gold, and timber which account for 90 percent of total exports.

3. Although incentives were restored and all the monetary targets of the program adhered to, the economic recovery, particularly during the first half of the program, was much slower than projected. This outcome was mainly the result of unfavourable weather conditions and lower levels of imports, due mainly to unexpected delays in disbursing committed external resources. Thus, overall agricultural output is estimated to have dropped by 7.5 percent in 1983. The decline was particularly large for food crops. Industrial production, which rose during the latter part of 1983, aided by the inflow of imported inputs, was the only sector to register a real increase in 1983. As a result real GDP is estimated to have increased by only 0.7 percent in 1983, after a drop of 6.5 percent in 1982.

4. Despite the disappointing results in the real sector, we have made a major step toward restoring external confidence in Ghana, reducing the rate of inflation, stopping the precipitous decline in real output and easing somewhat the tight supply situation and reducing external payments arrears. The program also achieved a significant reduction of the overall budget deficit as a percent of GDP. Consequently, Ghana's economic

performance is expected to improve in 1984, aided by increased capital inflows and favourable weather conditions, which should result in some recovery in export and nonexport agricultural production.

5. The Government is in the process of implementing measures which are the basis for a comprehensive adjustment program covering the period of July 1984-December 1985. In support of this 18-month adjustment program, the Government of Ghana hereby requests from the International Monetary Fund a stand-by arrangement for the period ending December, 1985 for an amount equivalent to SDR 180 million or 88 percent of quota.

6. The 18-month program that we intend to implement will build on the success of the 1983/84 program and will aim at enhancing the adjustment effort so as to support other measures that seek to rehabilitate the infrastructure and remove the bottlenecks that have slowed the supply response. The overall aim is to bring about balance of payments viability in the medium-term and allow the economy to resume more rapid growth under conditions of stability. The short-term policies and measures aimed at achieving these objectives are described below.

7. A key element of the 1983/84 adjustment program was the reform of the exchange system. Within a year the exchange rate was depreciated from ₵ 2.75 = US$1 to ₵ 35 = US$1, representing a depreciation of 1,173 percent in local currency terms. First, in April 1983 a multiple exchange rate system was introduced and the exchange rate was depreciated from ₵ 2.75 = US$1 to an average of ₵ 25 = US$1. Then, on October 10, 1983 the average exchange rate was depreciated further by 21 percent and unified at ₵ 30 = US$1. To maintain Ghana's international competitiveness, we undertook to keep the exchange rate constant in real terms. The exchange rate has been adjusted periodically in accordance with the index which measures the differential in the inflation rates in Ghana and its major trading partners. Thus, on March 26, 1984 the Government adjusted the exchange rate to ₵ 35 = US$1.

8. We want to restate once again our commitment to continue with a flexible exchange rate policy and to enhance this flexibility during the course of 1984-85 program. The Government intends, therefore, to adjust the exchange rate by August 1, 1984 in accordance with the movement in the agreed index. A further adjustment will be made in early October, 1984. In the discussions with the Fund staff, the question of the adequacy of the present level of the exchange rate was raised. It was pointed out that the periodic adjustments undertaken during 1983/84 were intended merely to maintain the exchange rate constant in real terms. As the present formula and method of deflating the exchange rate has an in-built bias for overstating, there is, therefore, a prima facie case that the present index has done more than maintain the competitiveness of the rate and has resulted in some further real adjustments. In any case, a comprehensive examination of the adequacy of the level of the exchange rate will be undertaken during the first

review mission later this year, in time for the 1985 budget, and the option of adopting an unbiased formula and a more stable deflator will also be examined. The exchange rate policy will aim at enhancing Ghana's international competitiveness and establishing balance of payments viability in the medium term. The exchange rate will be established at a level that will also be consistent with the narrowing of the scope of special import licences and the export retention schemes.

9. Pricing policy under Ghana's 1983/84 adjustment program was aimed at promoting a more efficient allocation of resources while seeking to discourage speculation and monopolistic practices which contribued to high rates of inflation and inequitable distribution in the past. The Government therefore continued to set prices for a small number of basic consumer goods, which have traditionally been subject to price control. The prices of these items were periodically adjusted during the past twelve months so as to pass-through fully all costs arising from first the surcharge on foreign exchange and then the subsequent exchange rate adjustments (April 1983, October 1983, and March 1984) as well as changes in wages (April 1983 and March 1984) and other costs. Manufacturers and retailers of other nonfood products were required, as they had been in the past, to submit information about their production costs to the Prices and Incomes Board, which had to approve the final prices. The agreed final price allowed for a full pass-through of all production costs, including the higher cost of imported inputs associated with depreciation of the cedi, plus a reasonable profit margin. Domestically produced food items remained free of all forms of price controls or guidelines.

10. In December of 1983, the PIB moved to a system under which the agreed prices were considered reference prices rather than rigidly controlled prices. It was the intention of the Government to implement the system of reference prices flexibly so as to provide sufficient incentives and tolerate reasonable deviations. However, actual operations of the reference price system proved somewhat more cumbersome than had been anticipated. Although reference price adjustments fully reflected changes in costs, considerable time was required for manufacturers to assemble the documentation needed to support a request for a reference price revision, and severe limitations in staffing at the Prices and Incomes Board tended to cause additional delays. In the periods immediately following exchange rate and wage adjustments, many manufacturers were faced with the prospect of either selling at prices far in excess of the existing reference price or withholding their output from the markets until a new one could be calculated.

11. Even though most manufacturers sell rather than withhold the output from the markets, nonetheless in order to bring about the intended flexibility of the reference price system, which was designed to inform the consuming public about costs while maintaining incentives to produce and sell, the Government has decided to cease requiring that all manufacturers and retailers submit documentation to the Prices and Incomes

Board for the prior establishment of a reference price. Rather, enterprises will be free to set their own prices which they will be required to post. For purposes of public information the Prices and Incomes Board will continue to publish reference prices based on its own estimate of production costs. In cases where market prices are seen to diverge widely from the reference price, the Board could request new information about production cost structures; reference prices, nevertheless, will serve only as guidelines. The Government will publish and implement these changes in pricing procedures as soon as possible, but in any case not later than August 1, 1984.

12. In view of the very large declines that have been recorded in real wages, price controls will be maintained on a select group of 23 basic items. However, efforts will be intensified to ensure that changes in production costs are promptly reflected in the controlled price so as to maintain the flow of goods to the market. In any case, prices of imported final products in the group of 23 are automatically adjusted. Prices of domestically produced foodstuffs will remain free from control. Under the system described above, the Government's budget will provide no subsidies to any consumer goods.

13. Real wages and salaries, which had fallen by 84 percent between 1975 and 1982, declined further in 1983 despite a more than doubling of the minimum wage at the time of 1983 budget measures. To redress at least in part this continued drop, wages and salaries in the civil service were raised on average by about 40 percent on April 1, 1984. Similar increases were subsequently granted in the rest of the public sector and in the private sector. The lack of financial resources obliges the Government not to grant any further wage increases during the remainder of 1984.

14. The Government is fully aware of the insufficiency of the wage level in the civil service and throughout the economy and of its pernicious impact on efficiency and work morale. It recognises that price controls and highly regulated distribution channels are stop-gap measures rather than viable solutions. The Government believes that existing hardships can be eased only gradually through a policy of redeployment of redundant labour in the civil service and the public sector. It is in the process of defining such a policy, with the first active steps to be taken in the 1985 budget. GIHOC and the Cocoa Marketing Board have developed their own redeployment programs, the latter with the assistance of the World Bank. By reducing the number of employees, it is hoped that the wage bill of those retained can be raised in the medium-term. The Government is aware that such a policy can be introduced only gradually but that the chances for a successful implementation will increase once the economic recovery begins to take hold. We recognize that the long-term solution to the employment problem is linked with increased investment. The Government is also concerned that such gradual redeployment must be supported by increased availability of

quick disbursing program aid on concessional terms. In this regard, the Government urges the Fund to assist in mobilizing such resources from bilateral donors and other appropriate international development institutions.

15. In preparing its 1983/84 adjustment program the Government recognized that revitalization of the cocoa sector required the restoration of the real producer price for cocoa to at least its 1975 level. Consequently, the producer price was raised by 67 percent from ₵ 12,000 per ton to ₵ 20,000 per ton in April 1983. To prevent an erosion in the real level, the cocoa producer price was raised further by 50 percent to ₵ 30,000 per ton on May 1, 1984. In addition, steps were taken to increase the supply of essential inputs such as insecticides, while at the same time the rate of subsidies applied to these inputs was reduced, and in some cases eliminated. In order to give greater meaning to the financial incentives of a higher producer price, efforts were also made to increase the supply of basic consumer items to cocoa farmers. Despite these measures, the volume of cocoa production declined by about 12 percent to 158,000 tons in 1983/84. The main reason for this unanticipated decline was the persistence of severe drought conditions and accompanying damage caused by bush fires. In addition, procedural delays in the disbursement of foreign loans prevented the increased supply of inputs from having much effect on the 1983/84 crop. In view of the improved weather conditions and adequate insecticide supplies cocoa production is now expected to recover to 175,000 tons in 1984/85.

16. Although the existing producer price is likely to remain in effect for the 1984/85 main crop, the adequacy of this price will be continuously kept under review by a committee chaired by the PNDC Coordinating Secretary and including, among others, the Secretary for Finance and Economic Planning, the Chief Executive of the Cocoa Marketing Board, and several representatives of the cocoa farmers. Should it be determined that the existing price no longer provides adequate incentives to producers, a new price would be announced.

17. After several years of rapid decline, production in the timber, mining, and industrial sectors demonstrated very modest increases during the 1983/84 program period, despite very substantial improvements in financial incentives. The biggest impediment to a more rapid supply response in these sectors has undoubtedly been the collapse of the country's transportation infrastructure. Deterioration of certain stretches of the railway system has brought bauxite exports to a virtual standstill and has eliminated a major evacuation route for timber and cocoa. Although the latter two products can, to a certain extent, be shifted to road transportation, the condition of the road network is also poor, and roads are generally impassable during the rainy season. In addition, the capacity of the port facilities at Tema and Takoradi to load and unload ships has seriously deteriorated, adding to delays in sending exports out of the country and bringing in much needed imported

parts and equipment. The severe transporation bottlenecks are being addressed by four IDA projects.

18. A second important constraint on the industrial and timber sectors during the 1983/84 program has been the major cut-back in hydroelectric power generation necessitated by severe drought conditions during 1982-83. With the return of more normal weather conditions in 1984, prospects are good for an eventual increase in hydroelectric production. Even if the rains remain favourable, however, it will take a considerable amount of time to rebuild the minimum safe water levels at the dam sites. Consequently, it is likely that power reductions will continue to be necessary during much or all of the 1984/85 program period. To minimize the disruption currently being experience by manufacturers now operating with power on alternative days, the Government is moving to a system, as the placement of power lines allows, whereby industries would be allowed to use electricity at any time subject to a given monthly quota, thereby freeing the industries to determine their own production schedules.

19. Recognizing the importance which private capital inflows must play in Ghana's economic recovery, the Government is currently in the process of reviewing its investment code with a view to making investments in Ghana more attractive. In revising the existing code emphasis will be given to increasing the automaticity of the system so as to avoid costly delays in processing applications, and to providing greater assurances regarding the investors' ability to repatriate profits and dividends promptly, especially with regard to investments that are net earners of foreign exchange. The Government is awaiting the comments on a draft code from UN consultants before promulgating it later in the year.

20. The 1984 budget, announced on March 27, 1984, continues the cautious fiscal policy initiated in 1983. The budget initially called for total revenues of ₵ 22.6 billion, total expenditure of ₵ 28.5 billion, and an overall budget deficit of ₵ 5.9 billion. Given envisaged price developments, this increase in the deficit represent a decline in real terms over the 1983 deficit of ₵ 4.9 billion, from 2.6 percent of GDP in 1983 to 2.2 percent of GDP in 1984. Of this deficit, no more than ₵ 1.8 billion will be financed from the domestic banking system (see paragraph 23). Unfortunately, the supply bottlenecks experienced at the end of 1983, such as oil shortages and transportation problems, persisted into the first part of 1984 and continued to depress revenues. The revenue position suffered further by late shipments of the cocoa crop, physical constraints at the ports, and administrative problems in collecting duties. However, the Government is determined that the deficit of ₵ 5.9 billion will not be exceeded. As a result of this shortfall in revenues, the Government has revised its expenditure projections down to ₵ 27.8 billion and has introduced new revenue measures to obtain a total revenue of ₵ 21.9 billion. These measures

consist of an additional tax of ₵ 5 per packet of cigarettes, which would yield an additional ₵ 446 million during the remainder of the year. It has also taken measures to redress the administrative problems that have curtailed import duties.

21. A major source of the budgeted increase in revenue will be from the expected higher import and export levels and values. Due to a more favorable exchange rate as well as higher cocoa prices, the Cocoa Marketing Board is expected to increase substantially its contribution to the budget despite the fall in crop size. The gradual easing of the bottlenecks at the ports, improved tax administration, and the increased flow of non-oil imports will directly increase revenues from import duties despite downward revisions in import levels. The flow of these imports will indirectly enhance receipts from taxes on domestic goods and services. The 1984 budget also announced a major overhaul of the rate structure of personal income taxes and tax reliefs. Despite the lowering of the average effective tax rate, total revenues from personal and corporate income taxation are expected to increase in 1984 due to improved tax administration and increased incomes. Nontax revenues are also expected to benefit from a number of increases in administrative fees and charges announced in the budget. Regarding the increase in expenditure, a substantial part is accounted for by a 40 percent increase in the minimum wage required to mitigate the continuing loss of incentives following the more than doubling of consumer prices in 1983. The expenditure projected for 1984 will also raise the development budget from ₵ 1.4 billion to ₵ 3.7 billion. The major part of this expenditure is being aimed both at replacing essential equipment and undertaking repairs, and will be partly financed through external assistance.

22. The Government is committed to improving efficiency in the public sector, especially with regard to its manpower needs. Accordingly, by the end of 1984 the Government intends to have fully revised nominal rolls of civil servants on which to base a medium-term plan for the productive redeployment of redundant and underutilized personnel.

23. During the second review of the 1983/84 program credit ceilings were set for end-March 1984 and end-June 1984. Only indicative targets were set for the end-September and end-December, 1984. These ceilings and targets took into account seasonal factors, particularly those related to cocoa financing and cocoa shipments. It was then projected that cocoa financing would reach its peak of an estimated ₵ 3.0 billion in March 1984 and would then decline to ₵ 1.4 billion by June 1984 and disappear by September 1984. It was also projected that cocoa shipments and cocoa export earnings as well as government revenue from cocoa export tax would peak during the second quarter of 1984. However, as it turned out, the 1983/84 cocoa crop (and the forward sales) came much later than was foreseen in December-January and, as a result, cocoa financing outstanding at the end of June 1984 will remain at an estimated ₵ 1.6 billion. Cocoa shipments, export earnings and government revenue

have experienced an even longer lag and will now peak during the third quarter of 1984. This development has affected the limits on net domestic assets of the banking system and net claims on the Government that were set for end-June 1984. Since this mainly reflects a change from anticipated seasonality rather than in the adjustment effort, the limits for June have been raised by ₵ 0.9 billion and ₵ 0.7 billion, respectively. These limits have been adjusted largely due to seasonal factors. Thus, the ceilings set for September 1984 are close to the original indicative targets, and ceilings for December 1984 have been set exactly at the indicative target. To attain this objective, particularly with respect to net claims on the Government by the banking system, we intend to introduce additional discretionary revenue measures before August 1, 1984, as already indicated. The ceilings on net domestic assets and net claims on the Government appear in the table of performance criteria. It will be noted that the original overall objective of a total increase in net domestic assets of ₵ 6.5 billion and ₵ 1.8 billion of net claims on the Government by the banking system remains unchanged.

24. For years Ghana's interest rate policy lacked flexibility. However, in the course of the 1983/84 program we adopted a flexible interest rate policy, so as to advance the role of interest rates as an instrument for resource mobilization and resource allocation. Thus, in October 1983 the structure of interest rate was raised by 3-5 percentage points (or by 35-40 percent). At that time, the savings deposit rate was raised from 8 percent to 11 percent per annum and the maximum lending rate from 14 percent to 19 percent per annum. By August 1, 1984 we intend to raise all interest rates by 2 percentage points. Thus, the savings deposit rate will rise from 11 percent to 13 percent per annum and the maximum lending rate from 19 percent to 21 percent. We intend to pursue a flexible exchange rate policy during the program period. With appropriate adjustments in interest rates and the projected deceleration in the rate of inflation, we intend to achieve positive real interest rates by the end of 1985 and, in any case, not later than by the end of June 1986.

25. In 1984, the balance of payments is estimated to show a significant improvement compared with 1983, mainly as a result of the recovery in cocoa export receipts and increases in capital inflows. However, compared with earlier projections, the performance of noncocoa exports has been disappointing so far and disbursements of long-term loans have been slow. Total exports are now estimated at $564 million compared with the earlier estimate of $643 million due to shortfalls, particularly in the volume of timber, mineral and gold exports. In the timber and mining sectors the major bottleneck has been the railway system. In addition, timber exports were largely affected by power cuts and the slow arrival of imports of machinery and spare parts. Gold exports were unfavourably influenced by the lack of equipment and temporary interruptions caused by the change in the management of the State Gold

Mining Corporation. With Ghana's own foreign exchange earnings and anticipated capital inflows, the total import bill is estimated to reach $760 million in 1984, which will represent a 43 percent growth over 1983 but will be $118 million less than earlier projections. Of this total, crude oil imports will account for an estimated $210 million. The shortfall in total exports in 1984 compared to earlier projections is expected to be more than offset by the cutback in total imports and higher inflows of official transfers. Thus, the current account deficit has been revised downward, from $438 million envisaged early in the year to $320 million, equivalent to 4.2 percent of GDP. Total net official capital inflows are now estimated at $171 million compared with earlier projections of $347 million due to lower disbursements than projected of both long-term and medium-term capital. Projected inflows of private capital are higher-than anticipated on account of imports under special licenses. As a result, the overall balance of payments deficit is expected to reach $89 million.

26. Before the stabilization program Ghana had accumulated large external arrears. At the end of December 1983, such arrears amounted to $439.5 million after $70.2 million had already been reduced under the program through net cash payments. In March 1984, an agreement was reached with Nigeria on $156.1 million of arrears on oil imports. Of the total, US$20 million was settled through net cash payments, and the remaining amount has been consolidated. The total amount of arrears was reduced through net cash payments by $40 million (including the US$20 million paid to Nigeria) during January-June 1984. To continue to improve Ghana's international creditworthiness, the Government will avoid any further accumulation of external payments arrears and will reduce the level of payments arrears through phased net cash payments during the program period as shown in the table of performance criteria. Payments arrears will be reduced in an orderly and non discriminatory manner.

27. At the end of December, 1983, medium- and long-term public external debt outstanding amounted to about $1.3 billion. During 1983, service payments on these debts, which amounted to $132.2 million, were equivalent to 30 percent of merchandise export earnings. However, total debt service payments are expected to increase considerably in the next few years. This is due to increased disbursements of medium- and long-term loans for the rehabilitation of the infrastructure and export sectors, large repurchase obligations to the Fund, rescheduling agreements with Libya and Nigeria and the need for continued credits to finance essential oil imports. The Government, therefore, recognizes the need to pursue a prudent external debt management policy so that the debt service burden will not contribute unduly to the pressure on the balance of payments. It is the intention of the Government to limit the contracting of government- and government-guaranteed external loans on non-concessional terms in the maturity range of 1-12 years to $400 million, and, as a subceiling, to limit those in the maturity range of 1-5 years to $250 million during the period of the stand-by arrangement. Oil import credits,

to refinance the existing $120 million one year loan, will be included under the above ceilings. Disbursements of loans, on a net basis, with an original maturity of less than one year, other than trade-related credits and bridging loans against Fund purchases will be limited to US$100 million, and bridging loans against Fund purchases to $75 million during the period of the stand-by arrangement.

28. Despite a projected decline in cocoa export unit values, total exports are projected to increase to about $662 million in 1985 with a pickup in volumes of all categories of exports, resulting from a progressive rehabilitation of the infrastructure and the arrival of necessary equipment and spares. It is projected that nominal import growth of about 30 percent would be needed to maintain a volume of imports in real terms which would enable the economy to achieve a moderate growth rate and to make up for the estimated shortfalls in imports in 1984. Taking into account the expected service payments and existing commitments of official transfers, this would imply a further increase in the current account deficit to over $500 million. Based on existing commitments of external loans and scheduled amortization payments, such a current account deficit would require additional capital inflows of around $200 million, or somewhat higher than the commitments obtained at the November 1983 Consultative Group meeting. The Government is hopeful that this financing gap for 1985 can be filled at this year's Consultative Group meeting. In view of the external debt service outlook in the next few years, the Government is reluctant to obtain financing on commercial terms. To the extent that such financing cannot be secured on concessional terms, the Government will have to reduce imports to levels which would further retard recovery of the Ghanaian economy.

29. Because of the foreign exchange constraint, imports into Ghana are controlled within the framework of an annual import program. However, in the past uncertainties about the availability of foreign exchange have made its actual implementation difficult. This year a Foreign Exchange Allocation and Monitoring Committee has been formed which is responsible for the formulation of the import program, the sectoral allocation of foreign exchange and the monitoring of the use of licences. Allocations within sectors are the responsibility of the ministries concerned. However, final allocations need to be approved by the Foreign Exchange Allocation and Monitoring Committee before the licences are issued. This committee will also ensure that the letters of credit are opened without delays and in line with the Government's priorities. This year's import program has been formulated with the objective of increasing Ghana's foreign exchange earning capacity through increased exports and efficient import substitution. Of the total, 17.1 percent is allocated to industry, 15 percent to export sectors, 9.4 percent to agriculture and 8.8 percent to transportation. As in the past years, the 1984 import program does not allocate foreign exchange for imports of non-essential goods. Imports for priority sectors have been safeguarded within a core import program. In the event of a shortfall in

foreign exchange resources, only imports for sectors outside the core program will be reduced. In the context of the annual import program certain manufacturers in the export sector are allowed to retain up to 20 percent of their export proceeds in bank accounts maintained abroad and to use the balances for financing of essential imports. Although these imports are subject to licensing requirements, the licences are issued automatically once the availability of resources in these accounts is assured. An export retention scheme of 10 percent applies to the cocoa sector.

30. During the period of the stand-by arrangement, the Government does not intend to introduce multiple currency practices, to impose any new or intensify any existing restrictions on payments and transfers for current international transactions, to conclude any bilateral payments agreements with Fund members, or to introduce any new or intensify any existing restrictions on imports for balance of payments reasons.

31. The Government believes that the policies set forth in this letter are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. The Government will consult with the Fund on the adoption of any measures that may be appropriate, in accordance with the policies of the Fund on such consultation. Progress made in the implementation of the program, taking into account balance of payments developments, including the envisaged changes in the exchange rate system, as well as the Government's interest rate policy, fiscal policy and quantitative credit ceilings, will be reviewed to reach understandings with the Fund by March 15, 1985 and by August 15, 1985. The completion of these reviews will constitute performance criteria.

Sincerely yours,

/s/

Dr. Kwesi Botchwey
PNDC Secretary for Finance and
Economic Planning

/s/

J.S. Addo
Governor
Bank of Ghana

GHANA--Relations with the Fund
(As of June 30, 1984)

I. Membership Status

(a) Date of membership	September 19, 1957
(b) Status	Article XIV

A. Financial Relations

II. General Department

(a) Quota	SDR 204.5 million
(b) Fund holdings of local currency	SDR 563.5, or 275.6 percent of quota

	Millions of SDRs	Percent of quota
(c) Use of Fund credit	359.0	175.5
Credit tranches	238.5	116.6
CFF	120.5	58.9
(d) Repurchase obligations (July 1984-December 1984)	none	--

III. Current stand-by arrangement and special facilities

(a) On August 3, 1983 the Executive Board approved a one-year stand-by arrangement for SDR 238.5 million (150 percent of Ghana's quota then in force). The arrangement provided for five equal purchases. So far, Ghana has made all purchases, each of SDR 47.7 million. The last purchase, having met the end-March, 1984 performance criteria, was made in mid-May 1984.

(b) There was only one other one-year stand-by arrangement in the past ten years. It was approved by the Executive Board on January 10, 1979 for SDR 53 million (50 percent of Ghana's quota at that time). Ghana made one purchase of SDR 32 million. A subsequent purchase was subject to successful completion of a review. A change of government took place in early June 1979 while a staff review mission was in Accra. The review could not be completed and the arrangement lapsed on January 9, 1980.

(c) On August 3, 1983 the Board also approved Ghana's request for a CFF purchase of SDR 120.5 million (75.8 percent of the quota then in force) on account of a shortfall in export during the calendar year 1982.

GHANA--Relations with the Fund (continued)
(As of June 30, 1984)

IV. SDR Department

(a) Net cumulative allocation	SDR 62.98 million
(b) Holdings	SDR 5.25 million, or 8.34 per cent of net cumulative allocations

V. Administered accounts:

Trust Fund loans	
(i) Disbursed	SDR 48.96 million
(ii) Outstanding	SDR 48.96 million

VI. Overdue obligations to the Fund — None

B. Nonfinancial Relations

VII. Exchange system

Ghana maintains a flexible exchange rate system, using the U.S. dollar as the intervention currency. In April 1983 Ghana depreciated the cedi through the introduction of a multiple exchange rate system. In October 1983 the exchange rate system was unified at the rate of ₵ 30 = US$1 compared with the exchange rate of ₵ 2.75 = US$1 that prevailed prior to April 1983. In March 1984 the cedi was depreciated to the existing rate of ₵ 35 = US$1. Ghana maintains restrictions on payments and transfers for current international transactions and exchange restrictions in the form of external payments arrears.

VIII. Last Article IV Consultation and Stand-by Arrangement

May 1-25, 1983; Executive Board discussion, August 3, 1983 (EBM/83/117 and 118). Decisions as follows:

Article IV Consultation

1. The Fund takes this decision relating to Ghana's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1983 Article XIV consultation with Ghana, in the light of the 1983 Article IV consultation with Ghana conducted under Decision No. 5392-(77/63) adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Ghana maintains restrictions on payments and transfers for current international transactions and multiple currency practices as described in EBS/83/140 and in SM/83/161. The Fund notes the intention of the authorities to remove these restrictions as soon as possible

GHANA--Relations with the Fund (continued)
(As of June 30, 1984)

and welcomes their intention to unify the exchange rate system by July 31, 1984. In the meantime, the Fund grants approval for the maintenance of the multiple currency practices and the retention of the exchange restrictions in the form of external payments arrears until July 31, 1984 or the completion of the 1984 Article IV consultation with Ghana, whichever is the earlier. The Fund urges Ghana to terminate the remaining bilateral payments arrangements with Fund members as soon as possible.

Ghana was placed on a 12-month Article IV consultation cycle.

First Review of Stand-by Arrangement

August 14-29, 1983; Executive Board discussion, October 24, 1983 (EBM/83/149). Decision as follows:

1. Ghana has consulted with the Fund in accordance with paragraph 4(C) of the stand-by arrangement for Ghana (EBS/83/140, Supplement 1, August 4, 1983) and paragraph 24 of the letter of intent signed by the Secretary for Finance and Economic Planning and the Governor of the Bank of Ghana dated July 7, 1983, attached to the stand-by arrangement, in order to reach understandings subject to which purchases may be made by Ghana under the stand-by arrangement.

2. The letter dated September 30, 1983 from the Secretary for Finance and Economic Planning and the Governor of the Bank of Ghana shall be attached to the stand-by arrangement for Ghana as representing further understandings reached for the period until the second review, and the letter dated July 7, 1983 shall be read as supplemented and modified by the letter of September 30, 1983. Accordingly, the ceilings on net domestic assets of the banking system and net claims on the Government for end-October and end-December, 1983 shall be in accordance with paragraph 6 of the letter dated September 30, 1983.

Second Review of Stand-by Arrangement

December 3-19, 1983 and January 7-22, 1984; Executive Board discussion, April 6, 1984 (EBM/84/56). Decision as follows:

1. Ghana has consulted with the Fund in accordance with paragraph 4(C) of the stand-by arrangement for Ghana (EBS/83/140), Supplement 1, August 4, 1983) and paragraph 24 of the letter of intent signed by the Secretary for Finance and Economic Planning and the Governor of the Bank of Ghana dated July 7, 1983, attached to the stand-by arrangement, in order to establish performance criteria subject to which purchases may be made by Ghana under the stand-by arrangement.

GHANA--Relations with the Fund (concluded)
(As of June 30, 1984)

2. The letter dated March 25, 1984 from the Secretary for Finance and Economic Planning and the Governor of the Bank of Ghana shall be attached to the stand-by arrangement for Ghana as representing further understandings reached for the remaining period of the stand-by arrangement, and the letter dated July 7, 1983 shall be read as supplemented and modified by the letter of September 30, 1983 and by the letter of March 25, 1984. Accordingly, the ceilings on net domestic assets of the banking system and net claims on the Government by the banking system referred to in paragraph 4(c) of the arrangement for end-March and end-June, 1984 shall be in accordance with paragraph 11 of the letter dated March 25, 1984.

IX. Technical Assistance

Panel Expert	Bank of Ghana (banking operations and accounts): 1981-82

X. Resident representative/Advisor None

GHANA - Relations with the World Bank Group
(As of June 30, 1984)

(In millions of U.S. dollars)

Lending operations 1/

	IBRD and IDA		
	Total commitments 2/	Disbursed 3/	Undisbursed 4/
Loans and credits fully disbursed	230.3	230.3	--
Oil palm	13.6	13.5	0.1
Telecommunications	23.0	15.0	8.0
National Investment Bank	10.0	9.9	0.1
Agricultural development	21.0	16.1	4.9
Second NIB	19.0	10.0	9.0
Agricultural development	29.5	4.0	25.5
Third Highway	25.0	19.2	5.8
Railway	29.0	4.6	19.5
Water supply project	13.0	1.5	10.7
Reconstruction CIMAO	9.3	--	8.9
Energy project (petroleum exploration)	11.0	0.6	10.0
Reconstruction import credits	40.0	19.8	18.7
Export Rehabilitation project	93.1	0.1	91.7
Petroleum refinery 5/	6.9	--	6.9
Oil Palm II 5/	25.0	--	25.0
Total	598.7	344.6	244.8
Less amount paid	55.3	--	--
Total outstanding	543.4	344.6	244.8

Source: World Bank.

1/ Less cancellations.
2/ U.S. dollar equivalent at time of Board approval (loans denominated in SDR).
3/ Converted into U.S. dollars at exchange rate applicable on transaction date.
4/ Converted into U.S. dollars at exchange rate applicable on June 30, 1984.
5/ Approved but, not yet effective as of June 30, 1984.

Ghana: Summary of Policy Measures of the 1983/84 Program: Status of Implementation

Principal elements of the 1983/84 stand-by program

Action during April-May 1983	Progress Expected During Program Period	Status of Implementation
1. External		
a. Exchange rate: The official exchange rate of ¢ 2.75 = US$1 was adjusted in April 1983 with the aim of achieving an average exchange rate of ¢ 25 = US$1 through a multiple exchange rate system based on bonuses and surcharges at the banks (and other authorized dealers) resulting in two effective rates, ¢ 23.375 = US$1 and ¢ 29.975 = US$1.	Periodic adjustment to avoid loss of competitiveness. Explicit recognition of the implicit rates as the new official exchange rates by October 1, 1983. Narrowing of the differential of the two rates; and unification of the two rates at a realistic level before the end of the stand-by arrangement on August 2, 1984.	The authorities not only ended the system of bonuses and surcharges and the multiple exchange rates, but moved to a unified rate of ¢ 30=US$1 on October 10, 1983, far ahead of schedule. In March the authorities adjusted the exchange rate to ¢ 35 = US$1 in accordance with the movement during October-December 1983 of the index which measures the inflation differential between Ghana and its major trading partners.
b. External payments arrears: Commitment for phased cash reduction of external payments arrears by US$100 million during program period.	Arrears would be reduced through cash payments from the end-April 1983 level of US$601.1 million by US$10 million by end-August 1983, by US$35 million by end-October 1983, by US$60 million by end-December, 1983, by US$80 million by end-March 1984, and by US$100 million by end-June 1984.	Arrears were reduced by US$39.1 million to US$562.0 million by end-August, by US$62.4 million to US$538.4 million by end-October, by US$70.0 million to end-December 1983. Arrears dropped by US$161.5 million during April-December 1983, US$70 million through net cash payments and US$91 million through valuation adjustment with respect to arrears on profits and dividends. Following reductions and consolidation of arrears to Nigeria total arrears dropped to US$286.6 million by the end of March 1984, a decline of US$314.0 million, of which US$85 million through net cash payments.

Ghana: Summary of Policy Measures of the 1983/84 Program: Status of Implementation

c. External borrowing: New commitments within 1-12 year maturity limited to US$400 million; within this, 1-5 years' maturity limited to US$250 million. Net disbursements on loans of less than one-year maturity limited to US$100 million. Bridging loans are limited to US$200 million.		Two loans of US$141 million with maturities US$400 million of 1-5 years and 1-12 years were contracted by the Government. No net disbursements on loans of than one-year maturity. Bridging loans amounting to US$110 million were disbursed before approval of stand-by arrangement, all of which has been repaid.
2. Fiscal		
Projected revenue increase is largely a by-product of adjustment measures. New tax measures include simplification and raising effective tariff rates on imports, an enhanced export tax on gold. Substantial increases of fees and charges by government departments and government agencies. Expenditure control system has been strengthened. Given projected revenue and the programmed financing, expenditures will be held strictly within budgeted limits. Should expenditures appear to exceed these limits, the authorities will take additional revenue measures or reduce expenditure so as not to exceed the ceiling on bank financing.	Monitoring of expenditures and the main revenue items on a monthly basis.	In 1983, faced with revenue shortfall due mainly to delay in imports, the authorities cut expenditure to levels far below those indicated in the program. In addition, in October 1983 and in May-June 1984, the authorities implemented contingency emergency revenue measures to attain the budgetary objectives. There was significant improvement in tax administration and expenditure control. As a result, government recourse to the banking system remained within the stipulated ceiling. The 1984 budget limits government additional recourse to the banking system to ₵ 1.8 billion and reduces the overall budget deficit from about 2.6 percent to about 2.2 percent of GDP.

3. Prices and incomes

Cocoa producer price increased by 67 per cent to ₵ 20,000 per ton effective May 1, 1983 for the 1983/84 crop year (October-September).	Future cocoa producer prices would be adjusted annually to levels that provide incentives to farmers and ensure no erosion of the prices in real terms.	A new cocoa producer price for the 1984/85 crop year was announced in early May 1984. The new price, which ensures that there is no erosion of the real price since mid-1983, is ₵ 900 per head-load or ₵ 30,000 per metric ton (an increase of 50 percent).
Full pass-through to domestic prices of higher import costs following the changes in the exchange system, except for petroleum products, which will receive a maximum budget subsidy of ₵ 1.0 billion in 1983. In April retail prices of petroleum products were, on a weighted average, increased by 104 per-cent. Substantial increases, mostly by 100 to 300 per cent, in prices, rates, and tariffs charged by public utilities and other public sector entities.	Full pass-through of retail prices for petroleum products during the program period. Prices to be raised periodically, starting October 1983.	Substantial increases in re-tail prices of petroleum pro-ducts averaging over 45 percent were effected in October 1983. The petroleum subsidy in 1983 exceeded the target under the program because of the unification of the exchange rate ahead of the original schedule and because of the need to import more expensive refine dprodocs necessitated by a temporary shutdown of the oil refinery following an explosion in August 1983. In March 1984 the authorities effected a full pass-through, more than three months ahead of schedule. The subsidy during January-March 1984 was ₵ 140 million against ₵ 500 million provided for in the budget estimates.

Ghana: Summary of Policy Measures of the 1983/83 Program: Status of Implementation

There were no price controls on domestically produced food items. For other items, including domestic manufactured items, a flexible policy of setting prices at economic levels was being implemented.		A flexible pricing policy has been pursued in setting prices. In 1983, the effects of the exchange rate adjustment on domestic prices of imported goods were passed through. This policy continued to be pursued whenever the exchange rate was adjusted. In December 1983, action was taken to enhance pricing flexibility. Price controls were limited to 23 items. Only reference prices were set for all other items. Reasonable deviatioins from the the references prices have been tolerated.
Real wages and salaries in the civil service were down to 16 percent of the 1975 level. Wages and salaries were to be raised, on the average, by 60 percent in the civil service effective May 1, 1983 and, on the average, by 25 percent in the public sector enterprises and the private sector.	No additional increase in wages and salaries were to be allowed in 1983.	No further wage and salary increases took place in 1983 and the increase that was awarded on May 1, 1983 was implemented gradually. In March 1984 wages and salaries in the public sector were increased by 40 percent so as to mitigate loss of morale and work incentives following an increase of more than 100 percent in the cost of living in 1983.

Sources: Economic and Financial Program and the Stand-By Arrangement.

Ghana - Statistical Issues

1. Coverage, Currentness, and Reporting of Data in IFS

		Latest data in August, 1984 IFS
Real Sector	- National Accounts	1981
	- Prices	February, 1984
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/surplus	Fy ended June 1982
	- Financing	Fy ended June 1982
	- Debt	Fy ended June 1982
Monetary Accounts	- Central Bank	April 1984
	- Deposit Money Banks	April 1984
	- Other Financial Institutions	1978
External Sector	- Merchandise Trade: Values	1982
	- Merchandise Trade: Prices	1982
	- Balance of payments	1982
	- International Reserves	May 1984
	- Exchange Rates	June 1984

During the past year, the reporting of data for inclusion in the IFS has been timely.

2. Outstanding Statistical Issues

Government Finance

Data refer to the central government only, which is by far the most important part of general government. During the mission the authorities have made an effort to provide data for local government (through 1983) for the first time. The data will appear in RED to be issued shortly.

Monetary Accounts

The cedi was depreciated on October 10, 1983 and on March 26, 1984. There was a delay in revaluing the commercial banks' foreign assets and liabilities, shown on Report Form 20R for October and November 1983. This is now being rectified. The data shown for December 1983 and January 1984 were appropriately converted on the basis of prevailing market rates. The coverage of the deposit money banks' sector needs to be reviewed and data for other financial institutions are very uncurrent.

External sector

a. Merchandise Trade--Value and Prices

Time series data on trade volumes and unit prices have not been up-dated since 1977, although the July 25, 1983 RED (SM/83/161) has the following series which IFS does not have: Exports of wood in volume; petroleum imports and exports; employment by sectors; and earnings per employee by sectors. The forthcoming RED will update these data through 1983. Publication of these data in the IFS is being considered.

b. Balance of payments

Outstanding questions are related mainly to reconciliation of the various data sources available from the authorities.

3. Technical Assistance

Real Sector

The authorities requested technical assistance on general economic data at the Annual Meeting in Toronto. A mission is scheduled to go to Ghana in August, 1984 to review the methodology of the Consumer Price and the Wholesale Price Indices, and sources of data for international trade.

Money and Banking

As mission to assist the authorities improve the quality, coverage and timeliness of money and banking statistics is under consideration.