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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/128

10:00 a.m., August 27, 1984

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
A. Alfidja	
	H. G. Schneider
	C. Flamant, Temporary
A. Donoso	
	D. C. Templeman, Temporary
	S. R. Abiad, Temporary
	M. B. Chatah, Temporary
	T. Yamashita
G. Grosche	D. Hammann, Temporary
J. E. Ismael	
R. K. Joyce	G. W. K. Pickering, Temporary
	C. Robalino
	N. Coumbis
R. N. Malhotra	A. S. Jayawardena
	J. E. Suraisry
	T. de Vries
	K. G. Morrell
G. Salehkhou	
F. Sangare	E. I. M. Mtei
	J. M. Jones, Temporary
	J. E. Rodríguez, Temporary
	A. K. Juusela, Temporary
	T. A. Clark
Zhang Z.	

L. Van Houtven, Secretary
R. S. Franklin, Assistant

Also Present

T. Owusu, Under Secretary for Finance and Economic Planning of Ghana. African Department: O. B. Makalou, Deputy Director; D. T. S. Ballali, J.-C. K. Brou, F. d'A. Collings, D. E. Syvrud, I. C. Tandeciarz. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; H. W. Gerhard, S. Kanesa-Thasan, C. Puckahtikom. Fiscal Affairs Department: J. Diamond, J. C. Tavares. Legal Department: J. V. Surr. Advisors to Executive Directors: A. A. Agah, L. K. Doe, L. Ionescu, A. Vasudevan. Assistants to Executive Directors: R. L. Bernardo, J. Bulloch, K. Murakami, J. K. Orleans-Lindsay, D. J. Robinson, Shao Z., A. J. Tregilgas, A. Yasseri.

1. GUINEA-BISSAU - 1984 ARTICLE IV CONSULTATION, AND PURCHASE TRANSACTION - FIRST CREDIT TRANCHE

The Executive Directors considered the staff report for the 1984 Article IV consultation with Guinea-Bissau, together with a request for a purchase equivalent to SDR 1.875 million in the first credit tranche (EBS/84/156, 7/30/84; and Sup. 1, 8/22/84). They also had before them a report on recent economic developments in Guinea-Bissau (SM/84/194, 8/13/84; and Cor. 1, 8/23/84).

Mr. Alfidja remarked that, following protracted and intensive discussions, the Government of Guinea-Bissau had reached a political consensus on an approach to economic and financial policies; in December 1983, the authorities had begun to implement a far-reaching program of economic adjustment and reform. For most of the 1970s and into the early 1980s, the economy of Guinea-Bissau had experienced pronounced fluctuations in real output, especially in the agricultural sector. Those swings had been the result mainly of the adverse weather that had affected much of the region. However, other factors such as inadequate producer incentives and the marketing system had contributed to the uneven economic performance during those years.

In 1982 and 1983, some improvements had been registered in the fiscal area, particularly by comparison with the deterioration observed in 1980 and 1981, Mr. Alfidja continued. The ratio of the overall budget deficit to GDP had been quite high; in an effort to restore viability to the fiscal sector and to the economy as a whole, the authorities had taken steps to reduce the growth of both current and capital outlays. As a result, the fiscal deficit as a proportion of GDP had decreased by 5 percentage points between 1982 and 1983.

The external position of the economy, which had deteriorated significantly in 1982, had improved in 1983, with the ratio of the current account deficit to GDP falling by 4 percentage points as a result of lower imports and an improved balance on the services account, Mr. Alfidja commented. However, the overall balance of payments position had remained under pressure in both 1982 and 1983. In light of those worrisome developments, the Government of Guinea-Bissau had undertaken to implement a one-year adjustment program in December 1983. That program, which formed part of a medium-term development plan covering 1983-86, was aimed at laying the foundation for a gradual restoration of soundness in the fiscal and external sectors. To that end, the authorities had demonstrated their determination to adjust by taking decisive and very difficult measures in a number of areas. For example, on the external side, the peso had been depreciated in foreign currency terms by 50 percent at one go, and the authorities had adopted a flexible approach to exchange rate policy. In the real sector, the implementation of new price and marketing arrangements had led to substantial upward adjustments of several producer and consumer prices and to the expansion of private initiatives in trading and transportation. In the fiscal area, improvements were expected through a combination of revenue-increasing policies and expenditure-restraining measures.

As noted in the staff report, the authorities planned to raise taxes on income and some consumer goods and to enforce tax laws more strictly as a way of improving revenue. They intended to meet the objective of reduced expenditure mainly through action to restrain the growth of the wage bill.

Commenting on monetary policy, Mr. Alfidja noted that the Government intended to pursue policies supportive of the overall economic adjustment effort and gradually to reduce reliance on bank credit for budget financing. As part of the monetary reform that he had referred to in his statement to the Executive Board at the previous Article IV consultation with Guinea-Bissau (EBM/83/82, 6/8/83), interest rates on deposits had been established for the first time, and lending rates had been raised. With regard to the external debt problem, the authorities intended to follow a cautious path in cooperating with creditors in order to reach agreement on a repayment schedule for existing arrears. Finally, he wished to stress the courage of the Government of Guinea-Bissau in adopting and implementing difficult policy measures at an early stage. Those measures were steps in the right direction, and the authorities were committed to carrying on the adjustment effort, he hoped with the support of both the Fund and Guinea-Bissau's creditors. He also hoped that the Board would approve the authorities' request for a first credit tranche purchase.

Mr. Hammann stated that he was in full agreement with the staff appraisal and could support the proposed decisions. Guinea-Bissau, despite its potential, was one of the poorest countries in the world. Among the reasons for the deep-seated external and internal imbalances in the economy were ill-conceived structural and demand management policies in what had been intended as a centrally planned economy. He was happy to note that the authorities had been slowly changing their approach and were at present prepared to conduct economic policies in a more liberal and realistic framework. Still, given the nature of the imbalances, any solution to Guinea-Bissau's problems would require a comprehensive approach implemented over a long period and bolstered by a high degree of commitment. The process directed toward gradually diminishing the imbalances should be based on a correct set of relative prices accompanied by suitable fiscal, monetary, and external policies.

An adequate structure of prices for producers as well as consumers would have a large and beneficial impact on Guinea-Bissau's economy, Mr. Hammann continued. According to the staff, some progress resulting from earlier price increases was already visible; however, further reviews of prices were necessary and should be conducted in close cooperation with the Fund to ensure appropriate incentives for producers and consumers. The staff had indicated that in setting producer prices, the authorities would take into account relevant prices in neighboring countries; such an approach was appropriate, particularly given the poor statistical base in Guinea-Bissau. In that respect, he wondered whether the recent price increases for producers had represented increases in real terms. Consumer prices for energy had already been adjusted, and, although the overall level of energy prices seemed appropriate, their structure involved some cross-subsidization; for example, the price of diesel fuel for power generation was lower than the price of such fuel for other purposes. He encouraged the authorities to reconsider their pricing policy if it became necessary to make further price adjustments in the energy field.

Deficiencies in the distribution network were another reason for the serious internal imbalances in Guinea-Bissau, Mr. Hammann commented. He agreed with the staff that measures intended to improve efficiency and productivity deserved priority. In his view, it was less important for the authorities carefully to delineate the areas of specialization of the two respective state enterprises than it was for them to consider the extent to which distribution and transportation, as well as other sectors of the economy, could be made accessible to private initiatives.

On fiscal policy, Mr. Hammann noted that, in 1984, a small share of expenditures was to be covered by ordinary revenues. The authorities should work toward gradually narrowing the budget gap. The successful implementation of the structural policies mentioned earlier would have a positive impact in that respect, since the taxable base and revenues were being enlarged. Given that the longer-run repercussions were difficult to assess, however, it seemed advisable for the authorities generally to rely on a strategy that combined expenditure restraint with a strengthening of revenues. He would welcome staff comment on the future stance of fiscal policy in Guinea-Bissau. In that connection, he welcomed the planned study by the World Bank on public sector enterprises. Those enterprises that proved to be financially nonviable should be closed, while others should be placed on a sounder footing through improved management and more flexible price and employment policies.

The conduct of monetary policy in Guinea-Bissau should be facilitated by a lower degree of monetary financing of the budget, Mr. Hammann considered. He was pleased to note that interest rates were at present accorded a far more active role than in the past in mobilizing savings and allocating resources. The measures undertaken thus far seemed to be steps in the right direction; however, he echoed the staff's view that the full effect of recent interest rate changes would materialize only if interest rates were roughly in line with inflation. Moreover, deposit rates should be lower, not higher, than lending rates in order to avoid financial disintermediation and eventually to allow for a viable banking sector.

On the external side, Mr. Hammann considered that structural improvements would have a beneficial effect on the supply of exports, an effect that could be supplemented by a realistic exchange rate policy designed to secure Guinea-Bissau's competitiveness and provide adequate incentives for producers. An exchange rate policy guided by those considerations should also give the authorities some room for maneuver in their effort to ease the present exchange and trade restrictions. Over the longer run, such a policy would in addition make a valuable contribution toward the achievement of a viable balance of payments position. Of course, given the vast difference at present between import and export levels, the changes he had mentioned would take some time to be effective. Finally, he was appreciative of Guinea-Bissau's renewed desire to cooperate with the Fund and to implement the necessary policy measures. He also welcomed the fact that Guinea-Bissau was current in its obligations to the Fund, which allowed the institution to offer financial support to the authorities in their adjustment endeavors.

Mr. Templeman indicated that he could support the request for a first credit tranche purchase, given the actions taken or planned by the Government of Guinea-Bissau. While the program did not entail a high degree of conditionality, it represented a beginning toward a longer-run process of development and adjustment that would require a more rapid pace of policy changes.

As to the medium-term projections in the staff report, Mr. Templeman observed that the slight drop--to 15.1 percent--expected in the ratio of the current account deficit to GDP by 1988 did not represent the achievement of a sustainable balance of payments position. The debt service ratio was expected to jump from 26 percent in 1983 to 51 percent in 1984; while that ratio would fall to 39 percent by 1988, it would still be quite high for a small country possessing limited resources to service its debt. Aid inflows were projected to remain basically constant, but they must be used productively to generate the development needed to produce viable import substitutes and exportables over the medium term. In general, Guinea-Bissau appeared to have a long-term need for development aid in the form of both financial flows and technical assistance of the sort that could appropriately be provided by the World Bank. He noted from the staff report that the World Bank was planning a study of parastatals, and that, in 1985, some $16.3 million was slated for nonproject disbursements from IDA. He would appreciate any further information that the staff might provide regarding the nature of that assistance.

He could endorse several of the policy actions already taken under the adjustment program begun in December 1983, including the large devaluation and the additional weekly adjustments to the exchange rate made throughout much of 1984, Mr. Templeman continued. The resulting higher local currency returns to producers of exports and import substitutes should be a strong incentive to increase production. He urged the authorities to continue with flexible management of the exchange rate, at least until the official exchange rate was at its equilibrium level and the parallel market had dwindled. On a related matter, he could also endorse the increases in producer prices announced earlier in the year.

The main elements of the 1984 program were aimed at containing the recent economic deterioration, with the share of the budget deficit in GDP expected to fall from 22.3 percent in 1983 to 17.3 in 1984, Mr. Templeman observed; however, 17.3 percent was still a high figure. In his view, a slower rate of growth in current expenditures was the most appropriate way of reducing the deficit. The introduction of interest payments on bank deposits should generate some domestic savings, which would indicate to donors that an effort was being made to provide domestic resources for development. However, he agreed with Mr. Hammann that interest rates should be higher on loans than on deposits. Given the expected high rate of inflation, there was unlikely to be any expansion in credit to the private sector in real terms in 1984. The private sector could be one of the best sources of economic growth, and he therefore urged the authorities to implement a monetary policy that was more accommodating to the private sector and less accommodating to the public sector.

In sum, Mr. Templeman considered that the macroeconomic policy changes being undertaken went in the right direction. The problem was that the achievement of domestic and external equilibrium remained distant goals; in the circumstances, he urged the authorities to implement additional policy changes, even during the current program, to speed up adjustment. He also hoped that the authorities would promote the policies needed to generate economic development over the longer term.

Mr. Morrell, agreeing with the staff assessment of Guinea-Bissau's economy, indicated that he could support the proposed decisions. Guinea-Bissau's balance of payments position was clearly unsustainable and required both adjustment and financial assistance. The staff had estimated that the current account deficit in 1984 would be about 17 percent of GDP and that total outstanding debt would reach the equivalent of 116 percent of GDP. Scheduled external debt service during 1984 would apparently represent nearly 52 percent of exports, and gross foreign reserves would amount to about six weeks' imports. The program, designed to deal with those problems, was deserving of Fund support and encouragement. It was based on a recognition by the authorities that the root cause of the country's balance of payments difficulties had been the policies pursued in the preceding decade, particularly the system of centralized economic planning and a development program that had neglected the country's comparative advantage in the rural sector. Those policies had been responsible for misallocation of resources, low growth, supply shortages, depressed exports, mounting external debt, and greater dependence on foreign aid to finance basic necessities.

The program appeared to satisfy the requirements for a first credit tranche purchase, Mr. Morrell continued. The measures adopted at end-1983, and those to be pursued during 1984, should begin to tackle the problems of the economy by concentrating on correcting fundamental price distortions and redressing the fiscal and balance of payments disequilibria. Hence, he could agree with the staff that the nature and magnitude of the measures already adopted were important and showed the authorities' determination to correct the distortions. Still, those policies should be extended. He urged the authorities to move producer prices quickly to export parity, continue efforts to improve the efficiency of state enterprises, monitor balance of payments developments closely to identify an appropriate pace for the depreciation of the peso, and carefully review both the structure and level of interest rates, including giving consideration to requiring interest payments on loans provided to the Government.

It would of course take several years to overcome the imbalances in Guinea-Bissau, and the current request was likely to be only a precursor to others, Mr. Morrell remarked. In the circumstances, the authorities should persevere with their prudent and realistic financial policies, especially since any delays or reversals, however temporary, would only make the inevitable adjustment that much more difficult. The authorities should also make every effort to improve the statistical base required for the formulation and monitoring of economic policies. In general, there was good reason to be optimistic about Guinea-Bissau's chances for success. The economy had considerable potential, particularly in agriculture, fisheries, and forestry; and there was every reason to believe that its prospects over the longer run would be promising if adequate price incentives, a flexible approach to exchange rate adjustment, a rigorous program to improve marketing arrangements, and prudent demand management policies were all followed.

Mr. de Vries remarked that the authorities in Guinea-Bissau had taken a number of important measures: they had adjusted the exchange rate, raised producer prices, and increased food prices; however, a number of disequilibria remained that would inevitably need to be tackled. In that context, he welcomed the indication that a preliminary understanding had been reached with the World Bank staff regarding an examination of the state economic enterprises. He hoped that the study in question could be concluded relatively quickly so that it could be useful to the authorities in their effort to adjust.

Against a broad array of expected developments in 1984, little was known about what had actually happened thus far, even though it was already nearly end-August, Mr. de Vries continued. Part of the problem might be related to the lack of a reliable statistical base in Guinea-Bissau. Experience suggested that national authorities were likely to make serious mistakes in conducting economic policy if they did not know what was happening in their economy; in that respect, technical assistance from the Fund might be useful. Such assistance might also help to shrink the size of the "errors and omissions" item in the balance of payments, at present equivalent to 15 percent of exports. A final area in need of improvement was the debt service ratio, which remained uncomfortably high, even without an effort to eliminate arrears.

Mr. Abiad noted that the staff reports had clearly outlined the serious economic and financial difficulties that Guinea-Bissau had experienced over the previous decade. The broad nature of those difficulties was reflected in high repressed inflation, large external imbalances, and erratic and unbalanced economic growth. The deterioration in the country's economic situation had been due in part to relatively large fiscal imbalances, rapid liquidity expansion, and poor competitiveness. Moreover, price controls, which had been intended to protect the living standard of the urban population, were reported to have led to supply shortages and growing parallel markets and to have contributed to the accumulation of external debt. And those problems had been further compounded in recent years by severe droughts, adverse terms of trade, and dislocations associated with a long liberation war.

Against the unfavorable background that he had mentioned, there were indications that a turnaround in the economy was achievable within a reasonable period, Mr. Abiad continued. As noted by the staff, Guinea-Bissau had considerable economic potential in agriculture, fisheries, forestry, and minerals. Moreover, the adjustment program that the authorities had been implementing since December 1983 seemed to be a strong first step in a medium-term plan designed to lay the groundwork for sustained growth and a revitalization of the export sector while reducing liquidity expansion and easing underlying inflationary pressures. He could support the views of his colleagues and the staff on policies already implemented or planned and could therefore go along with Guinea-Bissau's request for a purchase in the first credit tranche.

Mr. Suraisry stated that, like others, he was in broad agreement with the staff appraisal and could support the proposed decisions. It was clear that Guinea-Bissau was suffering from serious economic imbalances caused, inter alia, by deep structural problems. The corrective measures adopted by the authorities affecting prices, public enterprises, and monetary policy, had all been steps in the right direction and should lay the foundation for a sustainable balance of payments position in future. The authorities were to be commended for the determination that they had shown and for the actions that they had taken to tackle the problems facing the economy. Of course, given the deep-seated nature of those problems, the authorities' efforts would have to be continued. The demand management policies being pursued should not be relaxed; equally important, the structural measures directed toward removing market distortions and eliminating the economy's bottlenecks should continue if the economy's production capability were to be fully exploited.

The statistics on the economic potential of Guinea-Bissau were striking, Mr. Suraisry considered. Only 30 percent of arable land was under cultivation; only 2 percent of the potential fish catch was caught; timber production could easily be increased several times over; sizable mineral resources existed in the country. Those facts should give the authorities a considerable incentive to adjust because they showed that, with determination and good planning, the economic position of Guinea-Bissau could be improved significantly. In that context, he was pleased to note the involvement of the World Bank in the adjustment effort. Also welcome was the authorities' intention to negotiate a financial program with the Fund for 1985. Of course, for their efforts to be successful, the authorities would need to attract foreign aid, which could best be encouraged through the adoption of appropriate economic policies. In sum, while the economic imbalances in Guinea-Bissau were large, the potential of the economy made it likely that a continuation of the adjustment effort would lead to a substantial improvement in the economic situation.

Mr. Jones commented that he could support the staff appraisal and the proposed decisions.

The staff representative from the African Department agreed with those Directors who had expressed concern about the size of the current account deficit. However, the staff expected that the continuation of prudent expenditure policies together with some enlargement in the taxable base would bring about a substantial reduction in the deficit. Of course, success in that area would take time: it would require the removal of price distortions as well as the incorporation of a substantial part of the economy that was at present operating at a subsistence level.

With regard to questions on nonproject assistance by the World Bank, the staff representative indicated that there had been some hesitation by the Bank concerning the sort of nonproject assistance that should be provided. In 1983, the Bank had begun discussions with the authorities on possible structural adjustment credits. In February 1984, the possibility of a preliminary letter containing relevant policy actions had been discussed with the authorities, and that was to have been followed by a structural adjustment of credit. Two months later, on the occasion of the Round Table Conference in Lisbon, the direction in which the Bank had been planning to proceed had no longer been clear. However, an appraisal mission had recently returned from Guinea-Bissau and would be presenting a proposal to the Executive Board for an emergency import credit of $8 million. In addition, the Bank would be continuing with the preparation of a structural adjustment credit, but in an amount of $12 million. In essence, the originally envisaged structural adjustment credit for $20 million had thus been split into two parts. The effect of the split was to allow for accelerated disbursements to Guinea-Bissau, which should help to increase the availability of supply of goods and services, particularly to the rural sector.

Mr. Alfidja echoed the importance of improving the availability of supply of goods and services in Guinea-Bissau. Such an improvement was necessary if the policies that the authorities had been implementing were to succeed. The authorities hoped, during the Annual Meetings, to hold discussions that would lead to further Fund involvement in Guinea-Bissau. The needs of the country were large, while its quota was small; however, the authorities were committed to taking important structural adjustment measures, and he hoped that their commitment would be viewed in a positive light during negotiations for further Fund involvement in Guinea-Bissau.

The Acting Chairman made the following summing up:

Executive Directors who spoke noted with satisfaction the authorities' adoption of a stabilization program as a first and important step to restructure the current critical economic and financial situation. While noting that external factors had contributed significantly to Guinea-Bissau's problems, Directors were of the view that the economic policies that had been followed during the past decade had also had a significant impact on economic performance. They supported the Government's determination to correct the structural problems in the economy, with special emphasis on price distortions, which had thus far prevented a sustained and balanced economic growth. They also welcomed the authorities' intention to reduce the overall fiscal deficit in central government operations, to restructure the marketing and distribution networks with greater reliance on private sector participation, and to follow a flexible approach regarding producer pricing, exchange rate, and interest rate policies.

Directors observed that further progress would be required over the medium term to overcome the imbalances that existed in the economy. The containment of central government current expenditures together with a widening of the tax base--which could be brought about in part through structural changes in pricing--were mentioned as important objectives. Also mentioned was the need for improvement in the performance of state enterprises and for more adequate incentives--for example, in producer prices--so as to increase and diversify agricultural output and exports. In that regard, Directors welcomed the planned study by the World Bank on the situation of public sector enterprises in Guinea-Bissau and the assistance that was to be provided to the authorities in agricultural policy.

Directors emphasized the importance of a prudent monetary policy in support of the needed structural changes and of the shift in government financial policy. At the same time, monetary policy should facilitate the adoption of an appropriate structure and level of interest rates. In that connection, Directors considered it important that lending rates should exceed deposit rates.

Directors also stressed the importance of the continued pursuit of a flexible exchange rate policy. Noting the large present and prospective current account deficit and external debt burden, Directors emphasized the need for sizable inflows of foreign concessional assistance to Guinea-Bissau. They attached importance in that regard to the need for continued economic policy adjustments in order to encourage external sources of aid and finance and to assure those sources of finance that the resources provided by them would be put to productive use. In that connection, note was taken of the likelihood that further assistance from both the Fund and the World Bank would be needed.

Directors also took note of the inadequacies in economic and financial statistics and hoped that the authorities would redress those inadequacies so that improved and more timely data would be available for the formulation and monitoring of economic policies. The possibility of Fund technical assistance to improve the economy's statistical base was raised in that regard. In sum, Directors felt that Guinea-Bissau had begun to make some major changes in the right direction and, while the imbalances that existed in the economy were large, Guinea-Bissau's economic potential was also quite large.

It is expected that the next Article IV consultation with Guinea-Bissau will be held on the standard 12-month cycle.

The Exective Board then adopted the following decisions:

Decision Concluding Article XIV Consultation

1. The Fund takes this decision relating to Guinea-Bissau's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1984 Article XIV consultation with Guinea-Bissau, in the light of the Article IV consultation with Guinea-Bissau, conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Guinea-Bissau continues to maintain restrictions on payments and transfers for current international transactions, including external payments arrears, and a bilateral payments agreement with a Fund member, as described in SM/84/194. The Fund encourages Guinea-Bissau to eliminate arrears, to reduce its reliance on other exchange restrictions, and to terminate the bilateral payments agreement with a Fund member, as soon as possible. In the meantime, the Fund grants approval until December 31, 1984 for the maintenance of exchange restrictions evidenced by the accumulation of arrears on payments and transfers for current international transactions.

Decision No. 7785-(84/128), adopted
August 27, 1984

Purchase Transaction - First Credit Tranche

1. Guinea-Bissau has requested a purchase equivalent to SDR 1.875 million.

2. The Fund notes the intentions of Guinea-Bissau, as stated in the letter of July 20, 1984 from its Ministers of Economy and Finance and of Commerce and Tourism, and the Minister-Governor of the National Bank of Guinea-Bissau, attached to EBS/84/156, and approves the purchase in accordance with the request.

Decision No. 7786-(84/128), adopted
August 27, 1984

2. GHANA - 1984 ARTICLE IV CONSULTATION AND STAND-BY ARRANGEMENT

The Executive Directors considered the staff report for the 1984 Article IV consultation with Ghana, together with a request for an 18-month stand-by arrangement in an amount equivalent to SDR 180 million (EBS/84/172, 8/9/84; and Cor. 1, 8/23/84; Sup. 1, 8/24/84; and Sup. 2, 8/24/84). They also had before them a report on recent economic developments in Ghana (SM/84/204, 8/20/84).

Mrs. Teresa Owusu, Under Secretary for Finance and Economic Planning for Ghana, was also present.

Mr. Salehkhou made the following statement:

The present economic situation, its immediate and longer-term prospects, and the measures so far undertaken by the authorities to address the serious economic imbalances, should be viewed from at least two broad perspectives: (i) the most difficult problems confronting the authorities prior to August 1983, their subsequent initial and yet comprehensive response, and (ii) the fact that because of the considerable emerging resource gap, both domestic and external, government-oriented measures have their limitations in the absence of a massive injection of external resources.

(i) The current situation in Ghana is a culmination of the cumulative effects of a downward economic spiral that began in the 1970s. The basic problem was a convergence of inadequate domestic policies exacerbated by adverse exogenous events. Throughout the previous decade, the economic progress was marred by large recurrent budget deficits induced by the need to support an inefficient parastatal system and to support public sector employment, low production levels, high inflation rates, inefficient trading system, and serious external imbalances. Later in the same decade, the downward trend in the international primary commodity prices, recession in industrial countries, recurrent droughts, and other adverse external factors contributed to a rapid decline of the economy. Unfortunately for Ghana, the steepest decline in cocoa and gold production (two main export items) occurred at a time of unprecedented high world prices in 1976-79. Closely related to, and as a result of, the economic disturbances, the country was faced with the twin constraints of marked deterioration in critical infrastructure and the rapid loss of talented skilled workers, who left the country for better employment opportunities and more favorable social prospects abroad in the face of a serious erosion in their real wages and social environment. The following illustrative table (World Bank figures) shows the extent of economic deterioration:

Since 1970 (figures are approximate), per capita income has fallen by 30 percent; real export earnings have fallen by 52 percent;

the net domestic savings rate has declined from 12 percent of GDP to 3 percent of GDP; the rate of investment has decreased from 14 percent of GDP to 2 percent of GDP; real wages have plunged by over 80 percent; yet population has grown by almost 50 percent.

However, it should be remembered that Ghana is a country endowed with abundant natural resources. Apart from cocoa, they range from timber and gold to bauxite, manganese, and diamonds. Forests cover more than a third of the country's area, while their products account for only about 3 percent of export revenue. Above all, the country is richly endowed with human resources, characterized by a proud populace who, although fallen on hard times after a promising start during the initial phase of independence, has shown remarkable perseverance, fortitude, and forbearance in the face of recurrent adversity and discomfort.

The 1983-84 Fund-supported adjustment program was bold and ambitious in that it incorporated substantive corrective measures on exchange rates and in the fiscal and credit sectors. In fact, the extent of economic imbalances that had surfaced after years of distortions did necessitate the implementation of comprehensive corrective measures aimed at restoring confidence and paving the way for sustainable economic development.

These major initial measures have now been fully implemented by the Government. The performance criteria were scrupulously observed and even surpassed, sometimes at significant social cost. Measures aimed at correcting the overvaluation of the cedi have restored the competitiveness of Ghana's main export items, and price reform measures have aimed at addressing cost-price distortions. Domestic, fiscal, and credit policies have been designed to ensure full consistency with external and growth objectives.

Despite all the efforts and sacrifices, the outcomes of the 1983/84 program do not reflect the original expectations. There are at least two fundamental reasons for this: (a) the problems, common to other countries in the West African region, of drought and other natural calamities, and (b) more important, a critical slowing down in the inflow of external resources, which has only partly been alleviated after the 1983 adjustment program with the Fund.

Notwithstanding the subsequent turn of events, the program did succeed in at least arresting further deterioration in the basic economic trends, and in some sectors even caused major improvements. However, the real sector and the infrastructure, which are most crucial and intricately interconnected, remained beyond redemption.

The present program is intended as a follow-up of the previous one. Its general aim is to continue the gains recorded so far, to arrest further deterioration in some sectors while reducing payments arrears and moving toward a sustainable balance of payments. In other words, it aims to normalize the general postadjustment climate and to institutionalize the corrective mechanism already put in place to assist the economy to stabilize and prolong the current gains and to adapt better to future exogenous shocks. In this sense it should not be regarded as a panacea, but as a continuation of a series of palliative measures, pending a fundamental improvement in the real sector, which would necessarily require massive doses of outside concessional capital. Yet even now, this makeshift economic blueprint could prove fragile and vulnerable to exogenous shocks, if fundamental support measures on infrastructure and production are not forthcoming.

The new program has been well tailored to move in this direction. Regarding the exchange rate, after a major devaluation, the present formula will maintain the competitive position of the external sector. The exchange rate has been adjusted periodically, on the basis of an index that measures the differential between inflation rates in Ghana and those in its major trading partners. Similarly, on interest rates, the authorities have worked out a formula to continue the present flexible policy that aims at positive real interest rates in the near future. This major policy decision should be viewed in the light of special characteristics of the economic and credit situation in Ghana. As a result of the massive devaluation last year, it has been difficult for importers and manufacturers to raise the necessary local currency requirements, and therefore any sudden expected increase in interest rates could further aggravate the problem, considering the crucial role of imports in strengthening investment and their lower than projected volume during the previous program. Furthermore, considering the previous years which were marked by an erosion of confidence in the banking system, the authorities have embarked on a major drive to restore savers' confidence in the monetized economy. In this light, they feel that the present flexible interest rate policy adequately complements the Government's overall objectives and provides for sufficient time to analyze the effects of the present system.

The performance criteria for the net domestic assets of the banking system and net claims on the public sector are consistent with the overall objectives of the program and would maintain the cautious stance of the monetary and credit policies of the authorities, which aim in particular at controlling inflation. Likewise, the 1984 budget projects a lower overall deficit through a combination of expenditure cuts and additional descretionary revenue measures. It is obvious, however, that much would depend on the realization of export and import projections whose revenue-generating effects will prove crucial to the outcome of the budgetary performance. The Government will take additional corrective measures should such actions prove necessary.

A major reform measure of the Government concerns price deregulation. At present, domestically produced food items are freely priced, and consumer subsidies have been totally eliminated. Within the framework of the present program, the enterprises will be free to fix and post their own prices. Price controls will, however, be maintained on some basic items in view of the continued erosion in real wages and living standards.

For the program to be successful, it is essential that the authorities continue to build up existing administrative capacity; to do so adequately, they need to address the question of falling real wages by offering greater incentives. This might appear, prima facie, to hamper further adjustment. However, considering that the budget deficit is projected to equal only 2.2 percent of GDP, which compares very favorably by the standards of other countries in the region, there is evidently sufficient room for maneuver even at the risk of a slight increase in the deficit ratio. In other words, on the scale of priorities, the crucial issue of real wages should have a place of prominence.

In a medium-term context and perhaps with additional financial resources, the authorities will be able to rehabilitate the manufacturing sector by enhancing the stronger subsectors that enjoy comparative advantages. These subsectors include mining and forest industries and other industries that are based on making maximum use of Ghana's natural resources, including aluminum production, textiles, and processing of agricultural products. In industry and agriculture, massive investments are needed to gradually aim at further diversification. This would mean fully utilizing the existing capacity in cocoa production and at the same time mobilizing resources toward greater gold and timber production. Regarding cocoa prices and market trends, the international cocoa price has fallen significantly in the past few years and has displayed erratic movements. It is determined more by supply than by demand considerations, since the bulk of cocoa goes into production of chocolate, in many countries considered a luxury item. Because of these features, the production, price, and marketing of cocoa are governed by special considerations that make them sensitive to changes in the economic and social environment in both producing and consuming countries. It is essential, therefore, that serious thought be given, in a medium-term context, to relying more heavily on other export proceeds.

(ii) As to the second crucial topic, it should be emphasized that most indicators of aid and resource flows show that as early as 1981 the per capita total recorded net flow was far lower in Ghana than in middle-income oil importers in sub-Saharan Africa.

> Per capita net official development assistance (ODA) was also far lower on a comparative basis. In 1983, despite the conclusion of the stand-by agreement with the Fund, net official capital inflows declined by 40 percent and medium-term loans by 70 percent. For 1984, the program's target for net official capital has been revised downward by 50 percent. Some of the decline has been due to the slower than projected disbursement of the World Bank loans. However, despite moderate improvements, available flows fall far short of expectations, despite the good track record of the Government and its scrupulous and faithful observance of a major Fund-supported adjustment program. The authorities are concerned that one of the main expectations at the inception of the adjustment program--that such concessional flows would be forthcoming in far greater volumes, in support of the authorities' determination and sacrifices--has not fully materialized. One factor appears to the the relative lack of comprehensive economic information on Ghana, which I hope the Fund and the Bank staff can remedy. As the staff correctly underscores the significance of outside financial resources for Ghana, it is essential for donors to increase their commitments of concessional resources and to expedite the pace of disbursements. However, staff indications point to considerable financing requirements for the next three years, whereas the undeniable fact is that such external resources are the sine qua non for the future development of Ghana. The authorities hope that during the next Consultative Group meeting on Ghana, the Fund and the World Bank will ensure that the crucial importance of this factor is further emphasized and explained to the participants and will assist the authorities in building the necessary machinery for effective follow-ups.

Mr. Clark noted that the previous stand-by arrangement had been the first to be implemented successfully in Ghana in nearly 20 years. All performance criteria had been met; the authorities had adopted a number of measures--notably the unification of the exchange rate--ahead of schedule; and they had reacted promptly to a shortfall in revenue by making substantial expenditure cuts. Those actions combined to form an impressive example of what could be accomplished when a government was determined to adjust. The authorities' efforts were all the more impressive in that they had been made in the face of severe weather and difficult political pressures.

As a result of the various measures already adopted, the authorities had substantially reduced the budget deficit, had brought down the rate of inflation quite sharply, had improved the structure of relative prices considerably, and had made a start in what would be a long process of eliminating external arrears, Mr. Clark continued. The measures outlined in the new program should help to consolidate and build upon that progress. The thrust of policy and the structure of price incentives in the Ghanaian economy were at present much more appropriate than in the past. However, as had been stressed during the review of the previous program, the recovery in the real economy had been slow. The deterioration in Ghana's industry and infrastructure and the loss of skilled manpower had proved to be far more serious than originally envisaged; the problem of limited supply capacity had been compounded by serious transport difficulties. For example, in 1983, more than 70 percent of the truck and bus fleet had been inoperative, and, of that number, more than half had merely lacked tires. While Ghana was self-sufficient in natural rubber and had a tire factory capable of meeting 80 percent of domestic needs, the factory was at present operating at only 20 percent capacity because of the poor condition of capital equipment. The situation in the tire industry served to illustrate that a great deal of rehabilitation and new investment would be necessary if Ghana's human and natural resources were again to be deployed effectively. It was encouraging to note from the staff paper that the authorities intended to prepare a comprehensive investment program, with World Bank assistance, by end-1985. In the meantime, the World Bank had set a number of projects in motion, including four in the transport sector, and, together with an IFC-led syndicate of foreign investors, was active in gold mining as well.

It was unfortunate that, in the face of Ghana's need for investment, domestic savings remained extremely low, even with the projected rise in 1984, Mr. Clark commented. One priority of the authorities must therefore be to raise domestic savings, and that priority reinforced the case for an increase in real interest rates. Fundamentally, however, the scope for an increase in savings was limited by the low per capita income in Ghana. He would be interested in the staff's assessment of what the potential for increasing domestic savings might be. Public savings, although improved, remained negative. In those circumstances, the maintenance of adequate investment would depend for some years to come on an increase in external assistance. The results of the Consultative Group meeting in December 1984 would be important in that respect.

The implementation of a medium-term structural adjustment program would require improvements in administrative and managerial capacity as well, Mr. Clark remarked. It was therefore important to improve incentives in the civil service and to reverse at least some of the sharp reduction in real wages that had occurred since 1975. Without such changes, there would be a continuing risk that Ghana would lose its most talented public servants. At the same time, of course, the authorities would have to take account of the need to increase public savings; particular importance must therefore be attached to the authorities' plans to redeploy labor from the public to the private sector and to reverse the substantial increase in the number of civil servants that had taken place in previous years. The process would obviously take time, but he hoped that the staff would be able to make some preliminary assessment of the progress toward that end during the first scheduled review of the program. Given the influx of some 1 million refugees in 1983, a redeployment of labor would not be easy; at the least, it was essential the economic recovery should be sustained.

With regard to fiscal policy, Mr. Clark said, he was encouraged to note the improvement in tax administration and compliance in 1983. However, he had also observed that the burden of expenditure cuts in 1984 had fallen on development expenditure rather than on current expenditure. It was to be hoped that the reduction in the budget in the Ministry of Roads and Highways would not hold up the effort to improve the transportation infrastructure.

As to external policy, Mr. Clark endorsed the staff's view that an increase in imports--and, hence, in the current account deficit--would be necessary in 1984 if recovery were to be supported and if the potential to increase exports were to be unlocked. Any further limitations on imports could be counterproductive at the present stage, a point that underlined the importance not only of encouraging an increase in capital inflows but also of making certain that committed amounts were disbursed in a timely fashion. In that respect, he had taken note of the staff's remarks about delays in the disbursement of World Bank loans. On another matter related to external policy, he had been encouraged to read in the letter of intent of the importance attached by the authorities to the role of private capital inflows in Ghana's economic recovery. He looked forward to the publication of the revised Investment Code later in 1984 and hoped that the staff would be able to look closely at the Code during the first review. Given Ghana's economic potential, a liberal attitude toward foreign direct investment could pay substantial economic dividends.

On two miscellaneous points, Mr. Clark said, he was pleased that the difficulties in supplying sleeper cars for the railway system had apparently been resolved. He wondered when the railway was expected to be operational, so that bauxite exports could resume. Climatic factors also played a role in the difficulties facing the agricultural and other sectors of the Ghanaian economy. For example, the water level in the Akosombo Dam, which had produced more than 80 percent of Ghana's electricity in 1982, remained dangerously low, despite the relatively good rains thus far in 1984. According to the staff, only one of the six generators was in operation, a development that had serious effects on domestic production and exports, particularly of aluminium.

On a presentational matter, Mr. Clark welcomed Supplement 1 to the staff paper, detailing World Bank programs in Ghana. A similar approach could perhaps be taken with advantage in other cases. More generally, his chair had made a number of suggestions in previous discussions on Ghana about the way in which Fund/Bank collaboration might be reported to the Executive Board. He was happy to see that it had been possible to follow some of those suggestions; he hoped that the others could be taken up in due course.

In sum, the Ghanaian authorities had made strenuous efforts to put their economy on the right path, Mr. Clark commented. Unfortunately, they had begun from a very weak base, and the situation would remain difficult for some time because of the cumulative deterioration in much of Ghana's industry and infrastructure, adverse weather conditions, and the critical shortage of foreign exchange. Fund programs could play an important role in helping the Ghanaian authorities to resolve their problems, and he could therefore support Ghana's request for a stand-by arrangement. However, it should be remembered that Fund programs were not sufficient in themselves; much would depend on an increase in external assistance from other sources, a result that the World Bank could play an important role in achieving.

Mr. Templeman remarked that, since the late 1970s, inflation in Ghana had been high, GDP growth had been nonexistent or negative, savings and investment ratios had been minuscule, and real export growth had fluctuated between "modest and negative rates." Moreover, there had been a steady compression of import volumes, and external arrears had grown. In fairness, it must be admitted that those developments had in large part been due to events beyond the authorities' control, as had been demonstrated by the continuing decline in the terms of trade between 1978 and 1983. Nonetheless, the reasonably successful conclusion of the 1983/84 stand-by arrangement showed that the authorities were not waiting for outside forces to be reversed but were cognizant of the importance of adjusting to certain international realities. The policy actions adopted under the program recently ended and those that had been described in EBS/84/172, Supplement 2 served to demonstrate the authorities' commitment to improving Ghana's economic situation. In the circumstances, he could support the request for a stand-by arrangement.

Ghana's policy mix appeared to be directed toward a structural realignment of the economy, Mr. Templeman continued. The emphasis was on generating increased production through price incentives, both by increasing producer prices and by continuing with flexible management of the exchange rate. As a result of action already taken in those areas, cocoa production was estimated to have increased substantially during the previous crop year and was projected almost to double by 1988/89. While considering that projection optimistic, he admitted that, if producer prices remained adequate, production would undoubtedly increase. Indications that the exchange rate system could have been unified several months ahead of schedule in 1983 without any drop in official reserves appeared to have convinced the authorities that appropriate pricing policies were the best stimuli to increased production of exports. He was pleased to see the commitment to continued flexible management of the exchange rate during the proposed stand-by arrangement, and he welcomed the indication that a comprehensive examination of exchange rate policy would be undertaken during the first review. The automatic pass-through of exchange rate changes to many final domestic prices should help to moderate import demand and stimulate production of domestic substitutes.

The proposed monetary and fiscal policies under the program seemed to be moving in the right direction, Mr. Templeman commented. The elimination of the petroleum subsidy in March 1984, combined with expenditure control in other areas, was projected to reduce the fiscal deficit to 2.2 percent of GDP by the end of the year. He was pleased that the authorities viewed the private productive sectors as a source of future employment, with the potential for easing the burden on the public sector. He could support the sharp deceleration in money growth and welcomed the authorities' commitment to implementing a formula and a timetable for attaining positive real interest rates by December 1985 or at least no later than June 1986. He hoped that that timetable could be accelerated. Given Ghana's need for sustained economic development, an expanded domestic savings base was crucial; and more realistic interest rates could help in that expansion and thus contribute to the attainment of economic viability.

Ghana should limit its commercial foreign borrowing, Mr. Templeman agreed. The expected decline in the current account deficit after 1985, if it materialized, should moderate the demand for foreign credit. In any case, the debt service ratio was projected to increase over the next few years, and Ghana's expected continued reliance on exports of primary products dictated that extreme caution must be used in debt management. He was pleased to see that the authorities were planning to make cash payments totaling $90 million to reduce external arrears by the end of the stand-by arrangement, a move that should help to restore creditors' confidence. Finally, with regard to the staff's forecast of a financing gap of $201 million for 1985, he would sound a note of caution about holding overoptimistic expectations for official assistance. If the December 1984 Consultative Group meeting did not produce sufficient sums, some further strengthening of the adjustment effort might be called for. Finally, Ghana had made an admirable effort to reform its economic policies, notably on pricing; the benefits of the changes already adopted should be enhanced under the current program. By end-1985, the market-oriented policies outlined in that program would have been in place for about two and a half years and would have begun to exert a cumulative impact on economic activity that would extend well beyond the period of Fund support.

Mr. de Vries observed from the staff reports that a major adjustment effort was under way in Ghana; it was equally clear that the response of the productive sectors to that adjustment effort had thus far been disappointing. Indeed, Mr. Salehkhou had produced a striking comparison between the more recent situation and that in the 1970s in per capita incomes, real export earnings, net domestic savings, investment, real wages, and population growth. Of course, Ghana's resource base was rich, and the problems were therefore not insurmountable; but they needed to be tackled with both domestic policy measures and external finance.

Major improvements had been taking place in the budget, Mr. de Vries continued; indeed, in Ghana the budget deficit was relatively low by comparison with neighboring countries. Unfortunately, the savings ratio was also quite low. It might be more helpful to view government deficits in relation to available domestic savings than to compare them to deficits in other countries in the region. In any event, it would be desirable to increase domestic savings in Ghana or, if that were not possible, to further reduce the drain posed on existing savings by the deficit. In that regard, he agreed with Mr. Clark that monetary policy, and particularly interest rate policy, had an important role to play.

Interest rate policy was a controversial matter in Ghana, Mr. de Vries observed. According to the papers, a formula for arriving at positive real interest rates by 1986 had been bandied about for some time, although the formula had not been spelled out in the staff paper, which left him with the impression that it might still be a contested item. The authorities had courageously dealt with the controversial issue of petroleum prices through a lifting of controls. They had freed a great many other prices as well, although a number of restrictions remained.

On exchange rate policy, Mr. de Vries welcomed the flexible management of the rate for the cedi but queried whether the real level currently being maintained was appropriate. The forthcoming program review might present a good opportunity for the staff to examine the matter.

Structural measures should also be adopted to put the economy on the right path, Mr. de Vries considered. Certainly, measures affecting manpower and the restoration of incentives were necessary, although a more crucial need was the establishment of an investment program for the period 1986-1988. It was hoped that such a program could be agreed, with assistance from the World Bank, before the end of 1985.

The role of the World Bank had been mentioned repeatedly in the staff papers; indeed, Supplement 2 of the staff report had been devoted almost entirely to World Bank activities in Ghana, Mr. de Vries continued. Still, the supplementary information had not fully satisfied his curiosity about certain matters. For example, he had found no answer to the question of why World Bank disbursements had continuously lagged behind planned totals. He would appreciate staff comment on that matter. While on the subject of the World Bank, he wished to reiterate a point made on other occasions regarding the need for a close look by the Executive Board at whether or not the objectives of the Fund and the World Bank were in harmony. In particular, he would appreciate knowing the priorities of the World Bank and having an indication of whether or not that institution was mainly interested in investing only in those countries where private bankers went. In his view, the World Bank should not be playing the same role as that played by private bankers. Perhaps the objectives of the Fund and the World Bank were in harmony, although there had been indications in recent papers--particularly with respect to countries in Africa--that some problems existed. He hoped that the Executive Board would have an opportunity to look into the matter; in the meantime, the concerns that had on a number of occasions been expressed by his chair and others should be conveyed to the World Bank.

In sum, Mr. de Vries considered, much progress had been made in Ghana, although additional measures were required. Also needed was a well-designed investment program and appropriate external resources, not only from the Fund and the World Bank, to finance it.

Mr. Morrell stated that, like others, he was in broad agreement with the staff appraisal and could support the proposed decisions. It was clear that the authorities' adherence to the 1983 program had been outstanding and that an important step had been taken toward addressing the macroeconomic problems and those of a structural nature that had been festering for a decade. It was important that the authorities should sustain and broaden their adjustment effort, a move that called for continued demand restraint and flexibility in prices, foreign exchange, and capital. At the same time, attention should be paid to relieving structural bottlenecks, providing requisite imports, improving transportation, and halting the depletion of skilled manpower. In some instances, those objectives might conflict, and he encouraged the Fund and Bank to coordinate closely in providing advice to the authorities on how best to reconcile them.

Among the successes achieved under the program, Mr. Morrell observed, the large depreciation of the cedi had restored competitiveness, the budget deficit had fallen from 4.4 percent of GDP in 1982 to 2.6 percent of GDP in 1983, and the rate of inflation had decreased sharply from 122 percent in 1983 to 35 percent at present. However, in the face of adverse weather conditions, lower levels of imports, and transportation difficulties, no progress under the program had been registered in either the external position or overall GDP growth. In 1983, exports had declined by 25 percent, the current account deficit as a percentage of GDP had widened to 2.7 percent, and output had increased by only 0.7 percent, against a target of 2.5 percent. The drought had clearly restricted agricultural output and power generation; although better weather should lead to a reversal of those restrictions, other problems would not be so easily resolved. The shortfalls in exports of timber and gold and other minerals had been rooted in supply problems relating mainly to constraints in securing imported spare parts and in transportation.

While he was grateful for the staff's detailed description of World Bank activities in Ghana (EBS/84/172, Supplement 2, 8/24/84), he was concerned, like Mr. de Vries, that the report did not explain the cause of the delays in the disbursement of certain World Bank credits, Mr. Morrell commented. He would be interested in knowing the cause of those delays and how they might be prevented in future. The disbursements from the World Bank were to have helped the authorities to alleviate some of the structural difficulties; without improvement in those areas, progress under the program as a whole would clearly be impeded, since financial incentives alone were not sufficient to bring about recovery and external viability. Of course, those financial incentives were still necessary; and, in that respect, he welcomed the authorities' intention to continue with the pricing and demand restraint policies that had underpinned the previous program. In particular, continued flexibility in exchange rate policy was required, and he was pleased to see that it was intended to take a comprehensive look at exchange rate policy during the first scheduled review of the program. In passing, he wondered whether a floating exchange rate regime would be among the options looked at in the first review. He had found no mention in the staff reports of how the official exchange rate compared with the parallel rate--which would be one indication of the appropriateness of the current exchange rate--nor any discussion of the extent of trading, if any, in the parallel market.

On price deregulation and incomes policy, Mr. Morrell said that, given the continued sharp fall in wages, the Government might understandably be reluctant to remove the remaining 23 basic items from the regulated list. However, he encouraged flexible administration of those regulated prices--a move intended by the authorities--as an interim measure. On interest rate reform, he welcomed the commitment toward positive real interest rates by mid-1986 at the latest, and he took note of the adjustments made in the past few days. He also considered fiscal and monetary targets under the program to be sufficiently tight. Finally, as emphasized by Mr. Salehkhou and the staff, the projections showed that considerable financing was needed for the success of the program and for Ghana's future development. In his view, the Ghanaian authorities' strong action to date merited financial support from the international community, and he hoped that it would be forthcoming so that considerably stronger, and perhaps more painful, adjustment measures would not be required.

Mr. Grosche considered that the Ghanaian authorities should be commended for their achievements under the previous stand-by arrangement as well as for their commitment to attaining the program's objectives in the face of political opposition and severe drought. Unfortunately, despite their efforts, the supply response of the economy had been disappointing; and he shared the authorities' concern about the slow rehabilitation of production facilities. A number of factors had been singled out by Mr. Salehkhou and the staff as responsible for the lack of progress: among those mentioned was the depletion of skilled manpower in the civil service and other key sectors of the economy through migration to neighboring countries. That migration had lasted for more than a decade, and would naturally take some time to reverse. In that regard, confidence in a stable economic environment would be of crucial importance, and he shared the staff's feeling that the issue of eroded salary incentives would need to be examined.

Another factor responsible for the slow supply response in the Ghanaian economy was the low level of imports, Mr. Grosche continued. During a previous Board discussion on Ghana in April 1984, several Directors had mentioned that the explanation for the shortfall had been lacking in detail. The staff had repeatedly pointed to delays in disbursing external resources that had already been committed, although

Mr. Salehkhou had suggested that the cause of the shortfall in imports had been that concessional inflows had fallen short of expectations. He would appreciate a detailed explanation about the extent to which the import of necessary raw materials and spare parts had been hampered by delays in disbursing committed resources, why those delays had occurred, and the extent to which the lack of commitments should be blamed.

While it was regrettable that World Bank loans also had been disbursed only with delays, he had taken some satisfaction in the fact that the Bank was offering assistance in different areas and seemed prepared to play an important role in providing necessary resources, Mr. Grosche remarked. In particular, he was pleased that close cooperation between the Fund and Bank staff had been maintained, both at headquarters and in the field.

Structural reforms as well as the rehabilitation of the infrastructure and production facilities would continue to be of importance during the new program period and in the years ahead, Mr. Grosche considered. He agreed with the staff that an investment program should be designed in order to identify those areas deserving of priority, and the staff should use the scheduled reviews of the program to report on progress. Particular attention should be paid to the agricultural sector. Due to price adjustments, cocoa producer prices in real terms had become comparable to those in 1975. Still, all producer prices should be examined closely in order to check whether they continued to create the desired incentives. He welcomed the deregulation of most consumer prices; however, as Mr. Morrell had pointed out, price controls remained on 23 items. He wondered whether the staff could indicate the share of those 23 items in total domestic demand.

The aim of continuing to restructure relative prices in favor of producing sectors and exports should center on the exchange rate, Mr. Grosche said. The overvaluation of the cedi had probably been one of the most important factors leading to distortions in the economy, an ailing manufacturing center, shrinking exports, and growing balance of payments difficulties compounded by arrears. The move to a more realistic exchange rate had been a major step, and he encouraged the authorities to adhere to their policy of periodic adjustments of the rate in order to avoid a loss of competitiveness. In that regard, the exchange rate was to have been adjusted recently in accordance with the movement of the index in January-April 1984; he was happy to note that that adjustment had taken place.

The authorities had reacted quickly to the revenue shortfall in 1983 by cutting expenditures, Mr. Grosche observed. However, given the mounting wage pressures, they would likely have to exhibit some flexibility in implementing further expenditure cuts. Because of the increasing deficit, additional revenue measures might become unavoidable if the ceilings on bank financing were not to be exceeded. Nevertheless, he was heartened that a larger share of the financing of the budget was being provided by foreign sources; hence, despite the enlarged deficit, recourse to domestic sources of financing could be decreased in relative as well as in absolute terms. At the same time, he shared the staff's view that, given the low rates of domestic savings, budgetary and interest rate policies must be geared toward improving public and private sector savings so as to provide sufficient domestic counterpart funds to absorb the projected external resources. In that connection, he strongly welcomed the authorities' intention to move toward positive real interest rates by mid-1986; their commitment to that goal had been clearly demonstrated in upward adjustments already effected, including the most recent increase by 2 percentage points. In conclusion, he was hopeful that further progress could be made under the Ghanaian program and could support the proposed decisions.

Mr. Alfidja said that it was refreshing to note that the Ghanaian authorities had successfully implemented the previous stand-by arrangement in the context of the Government's economic recovery program. They deserved to be commended for their strong political commitment, their decisive and flexible approach to tackling the difficult economic problems confronting the economy, and their sustained effort in meeting all the performance criteria of the 1983/84 program. The authorities had been able to take courageous steps to correct the distortions in the exchange rate by establishing a more realistic rate for the cedi vis-à-vis foreign currencies. The pursuit of more appropriate pricing policies had resulted in encouraging progress toward restructuring relative prices, thereby improving production incentives; the budget deficit had been further reduced; and the rate of inflation--because of improvements in the supply of food crops and the pursuit of prudent fiscal and credit policies--was under control. Unfortunately, those positive and important developments had not been fully reflected in the real sector of the economy. The rate of expansion in real GDP at 0.7 percent had fallen far short of the 2.5 percent target for 1983. Most of the factors contributing to the disappointing overall economic performance--particularly the drought that had beset the entire West African region--had been beyond the authorities' control. However, also to blame had been the delays that the Ghanaian authorities had encountered in the disbursement of committed external resources, delays that had partially accounted for the low level of imports in 1983. As Mr. Salehkhou had noted in his statement, net official capital inflows had declined by 40 percent and medium-term loans by 70 percent, despite the good track record of the Government and its scrupulous and faithful observance of a major Fund-supported adjustment program. The Fund's catalytic role in Ghana's case appeared to have been less effective than expected in attracting adequate contributions from other multilateral and bilateral donors. He urged foreign aid donors to accelerate the disbursement of approved external resources in order to enable the Ghanaian economy to finance essential imports.

Commenting on the main elements of the program for 1984/85, Mr. Alfidja welcomed the Ghanaian authorities' commitment to build on the progress of the preceding program. The objectives of making further reductions in the rate of inflation, improving the balance of payments position, and achieving a real growth rate of at least 5 percent in 1984 were admirable, and the measures outlined for achieving those objectives seemed appropriate.

It was encouraging to note that, during the previous week, the authorities had taken the courageous step of further depreciating the cedi in accordance with their commitment to follow a flexible exchange rate policy, Mr. Alfidja continued. The further decontrol of prices--announced during the previous week--had also been a welcome development. On incomes policy, he shared the authorities concern about the continued decline in real wages and its adverse effects on the country's administrative capacity and efficiency. In that regard, he had found Mr. Salehkhou's observations about the Government's wage policy to be relevant.

With regard to monetary and credit policy, Mr. Alfidja welcomed the authorities' decision to raise all interest rates in conformity with their determination to pursue a flexible interest rate policy. The major policy actions for the proposed program were currently in place. Judging by the resolve with which the Ghanaian authorities had thus far tackled their economic and financial problems, he had no doubt that they would maintain their strong performance to ensure the successful implementation of the adjustment program and the restoration of confidence by the international financial community. In the circumstances, he could support the proposed decisions.

Mr. Suraisry stated that he too could support the proposed decisions. The Ghanaian authorities should be commended for having successfully completed the 1983-84 stand-by arrangement with the Fund. Despite unfavorable weather conditions and lower than expected capital inflows, the authorities had introduced far-reaching reforms in key policy areas. As a result, growth had picked up, inflation had fallen, and the external position had improved. Such developments were impressive, particularly against the background of the disappointing performance of the economy over the previous decade. They represented a major, albeit only a first, step toward restoring domestic and external confidence in the Ghanaian economy.

Deserving of note was the emphasis on growth and new investment, which were essential for rebuilding the Ghanaian economy, Mr. Suraisry considered. He also welcomed the close involvement of the World Bank in support of the adjustment effort. For the short term, he could endorse the objectives of further reducing inflation and of strengthening the balance of payments. The achievement of those aims would require firm financial policies of the sort already adopted. The recent improvement in tax administration and compliance was particularly encouraging, as was the authorities' willingness to take additional fiscal measures if necessary. He could support the program's generally cautious monetary and credit policies, which seemed well designed to promote savings and channel sufficient credit to productive sectors. The authorities should be commended for their decision to deregulate domestic prices and to raise producer prices to more realistic levels. At a time of high inflation, those far-sighted moves should encourage private sector activity and benefit the economy over the medium term. The authorities' action on the exchange rate was also commendable, and their intention to manage that rate flexibly in future was appropriate. The scheduled review of exchange rate policy in early 1985 should provide an opportunity to assess progress in that important area. He fully endorsed the authorities' prudent approach toward external debt management, and he welcomed their continuing commitment to reducing arrears in an orderly and nondiscriminatory manner.

For the medium term, it was clear that a number of deep-rooted structural problems remained to be tackled, Mr. Suraisry said. The economy had abundant natural resources, which could be used to their full potential if the following requirements were met: first, a carefully planned investment program aimed at diversifying the productive base, repairing infrastructure, and overcoming transportation bottlenecks; second, a clear plan to rebuild administrative capacity and redeploy surplus labor to productive sectors; and, third, adequate financing from both domestic and external sources. In that latter context, he hoped that the Consultative Group meeting in December would address the need to accelerate disbursements under agreed loans. In general, the authorities had already taken a first step toward meeting the requirements mentioned above. It was particularly encouraging to note, for example, that they were restructuring export industries, reviewing the investment code, and formulating a public sector employment policy, all with assistance from the World Bank. If they were to pursue those efforts, and if the international community were to respond favorably, there was a good chance that the economy would be able to recover over the medium term.

Mr. Pickering joined other Directors in commending the Ghanaian authorities for the bold implementation of the stand-by program begun in August 1983, the first time in nearly two decades that Ghana had successfully implemented a major adjustment program with Fund support. The program had certainly been a rigorous one, with a massive correction in the exchange rate, continued success in cutting the budget deficit, and good progress toward reducing external payments arrears. However, in economic performance, Ghana had experienced much slower recovery than had been hoped. Moreover, unfavorable weather, difficulties with infrastructure, and lower levels of imports had made the authorities' determination to persist with adjustment all the more laudable. In view of the Fund's experience in Ghana over the past 12 months, he could warmly support the proposed 18-month stand-by arrangement, which would build on progress achieved under the previous program. The immediate aim of improving real GDP growth in 1984 while reducing inflation and improving the overall balance of payments was both ambitious and realistic.

On specific elements of the proposed program, Mr. Pickering noted that, in the area of demand management, control of the overall budget deficit and a significant slowdown in the growth of the money supply had appropriately been targeted. In addition, the authorities had indicated that they would achieve positive real interest rates by end-1985 if inflation decelerated as envisaged, or by June 1986 if it did not. However, those targets seemed somewhat distant, in view of the need to mobilize public savings; it might be preferable if the authorities attempted to achieve positive real interest rates earlier than the 1985 deadline. Especially if the inflation targets were not met, it would be unfortunate if interest rates remained significantly negative in real terms, as they were at present.

The authorities' continued commitment to eschew consumer subsidies and to take a flexible approach to setting cocoa producer prices for 1985/86 would have important structural implications for development in Ghana, Mr. Pickering continued. While the authorities' decision not to increase public sector salaries through the remainder of 1984 was understandable--given the overall constraints on the Ghanaian economy--it was crucial for the authorities to improve the efficiency and morale of public sector employees. In that regard, they needed to undertake quickly the redeployment of some workers to other sectors of the economy and to improve wage and salary incentives so as to attract capable people to public service. The World Bank could play an important role in that effort, and the Fund should also stand ready to provide technical assistance where required.

The current economic framework being established by the Ghanaian authorities with the assistance of the Fund would be successful only if additional multilateral and bilateral assistance were provided, Mr. Pickering considered. He hoped that the Consultative Group on Ghana would be successful in mobilizing such resources and in expediting the pace of their disbursements. He endorsed the staff decision to tie the completion of the first review of the program to the establishment of satisfactory external financing arrangements for 1985; he hoped that such a requirement would not lead to undue delays in the completion of the first review. In sum, while there were legitimate reasons for concern about the medium-term prospects of the Ghanaian economy, the Fund was fulfilling a useful role in formulating with the authorities an appropriate set of policies to facilitate the achievement of a viable balance of payments position over the medium term. However, as noted in Table 7 of the staff report, fairly large amounts of financing would be needed over the next four years if the adjustment effort was to meet with success.

Mr. Sangare joined others in commending the Ghanaian authorities for having successfully completed the previous stand-by arrangement with the Fund. Ghana's request for a new stand-by arrangement demonstrated the authorities' commitment to the adjustment process and their willingness to continue working with the Fund in seeking solutions to Ghana's economic problems; hence, he could support the request.

The results of the adjustment efforts had been positive, as reflected in recent economic developments in Ghana, Mr. Sangare continued. The competitiveness of the country's major export commodities had been restored, the financial position of the public sector had improved, and inflation had dropped substantially. The program for 1984/85 gave him confidence that the appropriate steps were being taken to consolidate the successes already achieved. He was encouraged that the authorities were apparently aware of the need to combine stabilization policies with those aimed at creating the conditions for sustained economic growth. Such an approach was particularly important because economic activity had declined considerably since 1979.

The optimistic outlook for economic growth in 1984 was a welcome break from the past, Mr. Sangare considered. However, it was important that domestic policies were buttressed by adequate capital inflows, which would enable Ghana to import much-needed equipment, raw materials, and spare parts, the lack of which had stifled domestic production. It was for that reason that efforts to speed up disbursement of committed external resources--which had been well below expectations in 1983--were so important. In his view, one of the main problem areas had been the delay in disbursements from the World Bank. In 1983, there had been a major shortfall with respect to the Bank's Reconstruction Import Credit; lately, revisions had been made in the estimates of disbursements under the Export Rehabilitation Project approved by the Bank in January 1984. He joined Mr. de Vries in asking the staff to explain the steps that were being taken to correct the problem.

Fiscal policy in Ghana seemed to be headed in the right direction, with a continuation of the Government's commitment to restraining expenditure, combined with efforts to improve tax administration, Mr. Sangare observed. However, as noted by Mr. Clark, expenditure cuts had fallen heavily on development expenditures. Unless the projects that were being scaled back or postponed were not directly productive, such an approach could hamper the longer-term growth prospects for the economy. On a related matter, he noted an apparently recurrent problem of revenue shortfalls in many stand-by arrangements, including that with Ghana in 1983. In many instances, the shortfalls had resulted from lower imports--and, hence, lower revenues from import duties--and sluggish economic growth. As his chair had remarked on a number of occasions, the revenue shortfalls might suggest a need for caution in making estimates of growth rates and the ability of countries to import, particularly since many elements of the given program were dependent on the assumptions made about those two variables.

A moderate increase projected for the money supply seemed consistent with the need to reduce inflation, which remained high in Ghana, Mr. Sangare said. It was important to note that inflation in Ghana was not a purely monetary phenomenon; the shortage of food had contributed to the problem. In addition to adopting a restrictive stance on monetary policy, the authorities should intensify their efforts to stabilize the food supply and increase domestic production. On interest rate policy, he could endorse the authorities' flexible approach and their commitment to achieving positive real rates of interest in the medium term while continuing with efforts to bring inflation under control. Such an approach was consistent with the view that his chair had expressed on other occasions that it was not practicable for interest rates to "chase after" inflation, particularly when prices were rising quite rapidly; rather, in aiming at positive real rates of interest, the authorities should place emphasis on containing inflation and on easing expectations about it. The goal of increasing domestic savings was important, given the financing needs of the Ghanaian economy. However, it was likely that interest rates might be less effective as a policy tool at present, given the more than 83 percent decline in real income between 1975 and 1983 and the low rate of capacity utilization, which was bound to have negative effects on the profitability of business. It seemed that some improvements would have to take place in those areas, particularly in business profits, before much reliance could be placed on interest rates.

Welcoming the projected increase in export earnings for 1984, Mr. Sangare indicated that he was encouraged by the potential for increased production for export and believed that the authorities had managed the exchange rate appropriately. He urged them to continue with their pragmatic exchange rate policy, which had been an important element in the 1983 program. On the issue of external debt, the authorities seemed to be well aware of the need to be cautious so as not to aggravate Ghana's future debt burden. As the Fund was becoming a major lender to Ghana, it was important that the economic picture should continue to improve rapidly so that the country would be in a position to repay the Fund--whose loans carried a relatively short maturity--without serious difficulty.

Mr. Zhang said that he could agree with the analysis presented in Mr. Salehkhou's statement, particularly relating to developments in the real sector. The Ghanaian authorities had carried out a strong adjustment effort and had made significant improvements in many areas. It was, however, clear that additional Fund resources would be necessary to support a continuation of the adjustment effort. In that respect, he could fully support Ghana's request for a stand-by arrangement.

Mr. Chatah noted that it was encouraging that the serious effort of the Ghanaian authorities over the past 12 months to correct long-standing imbalances and distortions in the economy had begun to produce positive results. Those were reflected in a substantial reduction in the budget deficit as a percentage of GDP, a rapid deceleration in the rate of inflation, a significant increase in the low level of domestic savings, and a reduction in external payments arrears. Those developments had been achieved despite adverse exogenous conditions, largely because of the strength of the wide range of corrective measures that the authorities had introduced as part of the program supported by the previous stand-by arrangement with the Fund. Indeed, measures envisaged in the program had been implemented in a timely fashion--in some instances ahead of schedule--and virtually all the relevant performance criteria had been observed. However, it was disappointing that, despite the determined adjustment effort and the encouraging performance in the financial area thus far, the real sector of the economy had responded slowly to the various price stimuli, including the substantial depreciation of the cedi. He welcomed the increased emphasis on the need to address the elements bearing on a more vigorous recovery of economic activity in the period ahead; such a recovery could enhance the adjustment process in the financial sector and would go a long way toward stimulating domestic savings. In passing, he observed that the outcome of the previous stand-by arrangement with Ghana illustrated the inherent limitations of Fund programs in cases characterized by deep-rooted structural problems.

On exchange rate policy, Mr. Chatah considered the increased flexibility of the exchange rate of the cedi to be welcome. However, he would have expected the large appreciation of the exchange rate--which the staff had reported had restored the competitiveness of Ghana's main export products--to have led to a significant increase in exports. Instead, as shown in Table 5 of the staff report, the dollar value of exports had declined in 1983, and the program's initial projections for 1984 had been revised downward to an amount lower than in 1982. During the April review of the expired stand-by arrangement (EBM/84/56, 4/6/84), his chair had raised a question regarding the magnitude of the initial exchange rate adjustment and had wondered whether that adjustment had perhaps not been somewhat excessive, given the importance of an adequate level of imports for the economic recovery. The staff indicated in EBS/84/172 that the exchange rate had continued since that time to be adjusted periodically in accordance with the index that measured the differential in inflation rates between Ghana and its major trading partners. However, the staff had also implied that the price index used in gauging real exchange rate movements involved a distorted bias stemming mainly from the fact that the exchange rate deflator, currently used to keep the rate constant in real terms, was based largely on the consumer price index. That index in turn relied rather heavily on changes in food prices--which themselves reflected developments in part outside the control of the authorities--as well as in import prices, which were clearly dependent on changes in the exchange rate. In view of the central role assigned to exchange rate policy in Ghana's investment program, he welcomed the scheduled review of that policy, although he would have preferred a somewhat earlier review.

On the proposed program for 1984/85, Mr. Chatah noted, additional adjustment measures were aimed at strengthening growth prospects and the export sector while at the same time easing further the underlying inflationary pressures through greater control of the fiscal deficit and more appropriate pricing policies. Beyond those efforts, there was a need for structural adjustment, and the staff had appropriately emphasized that requirement as well as the need for concessional resources to cover the financing requirements during 1985-88 in view of the expected widening of the external current account associated with larger imports, which were essential for output growth. Like others, he hoped that the bilateral donors that had already made commitments would expedite the disbursement of their pledges and that multilateral institutions and countries in a position to assist Ghana in its adjustment effort would do so. In conclusion, in view of Ghana's commendable record in implementing the previous arrangement and the strength of the new program, he could fully support the request for a stand-by arrangement as well as the proposed decisions.

Mr. Malhotra joined others in commending the Ghanaian authorities for their successful implementation of the 1983/84 stand-by arrangement. The program for the 1984/85 proposed stand-by arrangement was impressive, and he could fully support it. Still, as noted by others, the economic picture remained a matter of great concern. The serious economic declines, which had been deepening over the past several years, could not be quickly reversed; however, an effort had to be made to tackle the difficulties experienced in the real sector of the economy and to address the obvious structural problems.

The involvement of the World Bank in some important sectors of the Ghanaian economy was to be welcomed, Mr. Malhotra continued. In designing the Reconstruction Import Credit and the Export Rehabilitation Project, the World Bank seemed to be acting in harmony with the objectives of the Fund.

On specific areas for concern in Ghana, Mr. Malhotra observed, the major problems in the real sector of the economy had become increasingly complex. The loss of skilled manpower, the deterioration of infrastructure, and the inadequacy of imports should all be given priority attention. Moreover, real wages had been falling, a development that could not but have an adverse effect on the morale of the civil service as well as the efficiency of the public sector. Besides, savings in the public sector and overall savings in the economy were insufficient. The difficulties that he had mentioned demanded difficult choices from the authorities, and it was to be hoped that the Fund and the World Bank would be able to provide proper guidance to the authorities in making those choices.

He had been greatly impressed by Mr. Salehkhou's emphasis on the need for an increase in the inflow of external resources, Mr. Malhotra said. It was apparent that, while the adoption of sound policies would certainly be helpful to the adjustment effort, real sector improvement would ultimately depend on an adequate flow of resources to finance the required improvements. In that respect, developments thus far in Ghana had not been satisfactory. The delay in the inflow of committed resources could have been due to problems in the economy itself or in the procedures adopted by those who had committed the resources. A quick study of the problem might show the way to its rapid resolution. At present, Ghana was attempting to implement a difficult program that demanded fairly rapid disbursement of committed aid from donor countries or from multilateral institutions like the World Bank. It was crucial for the resources to be disbursed quickly, but it would also be necessary for official development assistance to rise substantially so that there could be more resources available for countries like Ghana.

The staff representative from the African Department, recalling comments by a number of Directors on the problem of low domestic savings in Ghana and on the relationship between the level of savings and interest rate and exchange rate policy, observed that the authorities were agreed that interest rates would need to move toward becoming positive in real terms. Moreover, they recognized that exchange rate policy was a necessary, although insufficient, condition for mobilizing resources. Another element of the problem was the loss in confidence in the banking system. Policies pursued through 1982 had driven the population away from use of the banks; since then, the authorities had eliminated or changed those policies with a view to rebuilding public confidence in the system. On the specific formula and schedule for achieving positive real interest rates, he noted that the authorities were firmly in agreement on the size and pace of the increases needed to meet the 1985/86 target, which should be achievable if the rate of inflation decelerated as expected.

With respect to the shortfalls in disbursements of committed resources, the staff representative said that, as late as mid-1983, it had been expected that the entire amount of $40 million committed under the program would have been disbursed by the end of the year; in the event, only about 5 million had been disbursed by that time. The reasons for the delay could probably be attributed to the donor countries and to the Ghanaian authorities themselves. In seeking explanations for the problem, the staff had come to the conclusion that it was the international competitive bidding procedures and the amount of paperwork required that were probably at fault. In 1983, some effort had been made to correct the procedures, but that effort had itself led to a lag. At end-1983, the Ghanaians had hired consultants to help speed up the process, and some improvement had been registered. As for the problems in 1984, error had been made in the earlier estimates. Specifically, $67 million had been indicated as the disbursement figure for the Export Rehabilitation Project; the amount should have read only $38 million, and even that figure had been revised since then to $17.5 million, which it was hoped would indeed be disbursed before the end of 1984.

As suggested by a number of Directors, Ghana's exchange rate policy would be given a careful look during the first scheduled review under the arrangement, the staff representative commented. The issues to be addressed at that time were relatively broad, although account would be taken of the points raised by Executive Directors. On the question of the parallel market, he noted that the market continued to exist but that the rate had fallen considerably during the past year. The parallel market was not monitored in any formal sense, and it was difficult to be precise about how far the rate had fallen.

In response to a question by Mr. Grosche, the staff representative observed that, historically, the producer price had been an important incentive in Ghana, often eliciting a quite strong response. However, over the past few years, supply had been a problem. The lack of consumer goods had given some incentive to smuggle, not so much for monetary gain but because the goods themselves were unavailable in the localities where they were desired, because of either transportation problems or a shortage of foreign exchange. The authorities were addressing those difficulties and, during 1984, they had made a special effort through the Cocoa Marketing Board (CMB) to ensure that some of the essential consumer goods reached the rural areas.

On price controls, the staff representative remarked that there was far more flexibility than might at first appear with respect to the remaining 23 controlled items. For example, the item "textiles" covered only two particular types; other types of textiles were not controlled. The flexibility had been particularly obvious in the imported items in the sense that an agreement had been reached between the sellers and the Prices and Incomes Board (PIB) on a formula for the movement of prices.

The issue of wages in Ghana was difficult for the authorities at present, and the pressure to increase real wages was to some extent tied to the need to deregulate the prices of the remaining 23 controlled items, the staff representative from the African Department said. The authorities had been working toward resolving that dilemma and had given some consideration to a redeployment of labor, an approach with which two institutions outside the Central Government had experimented with acceptable results. Those institutions were the Cocoa Marketing Board and the Ghana Industrial Holdings Corporation. For the Government to broaden the initial effort of those institutions would involve a kind of coordinated effort among the public sector enterprises to absorb from within--rather than outside--the public sector the skilled employees that they would be needing as the recovery progressed. Of course, whether or not the budgetary situation at present would allow for such an approach was questionable, but serious thought was certainly being given to various ways of dealing with wages and employment difficulties.

The staff representative from the Exchange and Trade Relations Department observed, first, that the collaborative effort between the World Bank and the Fund had been quite satisfactory in the view of the Fund staff. There had of course been instances in which differences of view had surfaced, but those had not been related to the objectives of the adjustment program or to the general thrust of policy needed to meet those objectives; in the relatively few cases in which differences of view had arisen, the problems had occurred mainly at the operational level, by way of delays in the World Bank's assessment of members' investment programs, pricing policies, or parastatal enterprises, for example. In any event, Executive Directors would have an opportunity to discuss the issue of Bank/Fund collaboration in all its aspects on the basis of two papers that would shortly be circulated.

Mr. Grosche inquired whether he was correct in his understanding that the problem of imports in Ghana was related mainly to slow disbursements of external resources and not to the level of commitments.

The staff representative from the African Department responded that, for 1983 and 1984, the delay in disbursements had been at the root of the problem; for 1985 and beyond, new commitments would likely be required.

Mr. Salehkhou remarked that, until the program associated with the previous stand-by arrangement had been implemented, Ghana's reputation with respect to performance under stand-by arrangements and cooperation with the Fund had not been particularly impressive. However, it was clear from the remarks of his colleagues that confidence in Ghana's willingness to adjust had been re-established; he hoped that that confidence would be reflected in the forthcoming Consultative Group meeting in December.

In his view, the aid commitments under the previous program had been insufficient and had exacerbated the problem of low imports; in addition, disbursements from the World Bank had been slow, Mr. Salehkhou continued. His chair had been the first to suggest the importance of a clearer collaboration between the Fund and the World Bank, and he was happy to note that attention had been paid to that suggestion. It was to be hoped that, with respect to all member countries of the Fund, such collaboration could be extended so that, at least in cases like that of Ghana, some of the supply-side difficulties could be eased.

Executive Directors had rightly pointed to a number of specific problems facing the Ghanaian authorities, including wage disparities--which had led to a deterioration in morale among the work force--the severe drought that had adversely affected Ghana and all other countries in West Africa for a number of years, and the lack of infrastructure, Mr. Salehkhou said. Even with support from the Fund and the international community, the task of adjustment would not be easy. Fortunately, the transportation system had been improved along with other infrastructural facilities; however, the economic "vehicle," no matter how modern or well oiled, could not function without able operators; and, unless sufficient incentives could be provided to re-establish the morale of the work force, it was questionable how much further adjustment would be possible in Ghana. In that regard, Executive Directors had departed somewhat from the usual Fund prescription and had indicated a willingness in the forthcoming review to react favorably to the authorities' desire to ensure that compensation was sufficient. He hoped that the review would also pay attention to the need in Ghana for increased growth rather than merely a correction of certain economic dislocations.

Interest rates had always been a sensitive issue in Ghana, Mr. Salehkhou considered. While the authorities had made a commitment to achieving positive real interest rates by 1985/86, it should be emphasized that the containment of inflation was a more important goal. By focusing on imports and questions of supply, the authorities could reduce the inflation rate to the level of the rate of interest, which was in many respects a better approach than the effort to raise the interest rate to the level of inflation.

The Acting Chairman made the following summing up:

Executive Directors concurred with the thrust of the staff appraisal presented in the Article IV consultation report. They noted that, although the economic recovery had fallen far short of the program's objectives and the supply response continued to be slow, those results had been due to factors largely beyond the control of the authorities, including the impact of unfavorable weather conditions on foodcrops, exports, and hydroelectric power generation. In addition, mention was made of transportation difficulties and lower levels of imports, which had been due mainly to a shortfall in disbursements of committed external resources, including World Bank credits. Directors wondered why delays in those disbursements had occurred, a matter that the staff will examine with the participants at the forthcoming Consultative Group Meeting. Directors noted that adequate external financing was essential to the success of Ghana's adjustment efforts and considered that Ghana's efforts fully deserved international support.

Directors commended the authorities for having successfully implemented the 1983/84 program in the face of very difficult circumstances. They noted that considerable progress had been made in restructuring relative prices, improving the financial position of productive sectors, and restoring the competitive position of Ghana's exports. They also observed that substantial progress had been made in reducing the budget deficit as a proportion of GDP and in reducing the rate of inflation and the level of external payments arrears.

Directors emphasized that the successful implementation of the 1983/84 program represented only the first step in the sustained effort that would be necessary to rehabilitate the Ghanaian economy. In that respect, Directors welcomed the adoption of the 1984/85 program designed to consolidate the progress already achieved and set the stage for a resumption of growth. Directors endorsed the general objectives of the 1984/85 program, including the aim of continuing to restructure relative prices in favor of producing sectors and exports, reducing further the underlying rate of inflation, speeding up the rehabilitation of industry and infrastructure, and promoting economic activity throughout the economy as a way of laying the basis for external payments viability.

Regarding the policies under the program, Directors attached importance to a flexible management of the exchange rate. In that respect, they welcomed the comprehensive review of exchange rate policy that would be conducted on the occasion of the first program review later in 1984. They also underscored the importance of price flexibility and welcomed the action undertaken by the authorities in the area of price deregulation, although a question was raised about the remaining price controls. Directors strongly emphasized the importance of adopting policies that would raise the rates of domestic savings and investment from their present very low levels; hence, they welcomed the adoption of a schedule for achieving positive real interest rates and even encouraged the authorities to accelerate the envisioned timetable. Directors stated that the economic recovery would facilitate the effort to resolve issues relating to the erosion in real wages and to the need to rebuild an effective public administration; but the need for flexibility in wage policy to deal with those matters was cited as being important.

On fiscal policy, Directors stressed that, although the fiscal deficit as a share of GDP was relatively low by comparison with that in other countries, it was desirable to maintain the effort to reduce the deficit, especially in the light of the low savings rate and the wish of the Government to make more resources available to the private sector. Directors encouraged the authorities to concentrate on controlling current expenditures rather than development expenditures in the effort to reduce the deficit.

Directors considered that Ghana's short-term and medium-term objectives of stabilization, rehabilitation, and balance of payments viability depended on continued pursuit of appropriate policies as well as on substantial increases in the external resources needed to finance a higher level of imports. The increase in imports would be necessary to undertake the repair of the infrastructure and to raise capacity utilization in order to sustain the economic recovery. Directors observed that, in the circumstances, the current account would initially be enlarged as foreseen in 1985 to accommodate the increase in imports. They cautioned, however, that Ghana's future debt servicing burden could become a serious problem, and they urged the authorities to seek substantial increases in concessional resources. In that regard, they emphasized the importance of the forthcoming Consultative Group Meeting and the role of the World Bank. While Directors noted that Ghana's adjustment efforts deserved and, indeed, required external support, they cautioned that, if the projected financing gap for 1985 were not filled, more significant adjustments would be necessary. In addition, they urged the authorities to create the necessary machinery for a quick follow-up after donors had made their commitments.

Finally, Directors strongly urged the authorities to move expeditiously, in collaboration with the World Bank, to formulate a medium-term investment program as a means of effectively allocating the expected increase in external and domestic resources. Such an effort was necessary, they said, to complement the more flexible pricing policies being pursued by the Government and, more directly, to lay the basis for economic growth.

It is expected that the next Article IV consultation with Ghana will be held on the standard 12-month cycle.

The Executive Board then took the following decisions:

Decision Concluding 1984 Article XIV 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/84/204, are maintained by Ghana in accordance with Article XIV except that the exchange restrictions evidenced by external payments arrears and the restrictions on transfers of balances under the bilateral payments arrangements 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 next Article IV consultation with Ghana, whichever is earlier. The Fund urges Ghana to terminate the remaining bilateral payments arrangements with Fund members as soon as possible.

Decision No. 7787-(84/128), adopted
August 27, 1984

Stand-By Arrangement

1. Ghana has requested a stand-by arrangement in the amount equivalent to SDR 180 million for the period from August 27, 1984 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 set forth in EBS/84/172, Supplement 4.

Decision No. 7788-(84/128), adopted
August 27, 1984

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/84/127 (8/10/84) and EBM/84/128 (8/27/84).

3. AFGHANISTAN - 1984 ARTICLE IV CONSULTATION - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63) adopted April 29, 1977, the Executive Board agrees to extend the period for completing the 1984 Article IV consultation with Afghanistan to not later than September 14, 1984.

Decision No. 7789-(84/128), adopted
August 21, 1984

4. ANNUAL REPORT, 1984

The Executive Board approves the transmittal of Chapter 1, Revision 1, and Revision 1, Supplement 1; Chapter 2, Revision 1, and Revision 1, Supplement 1; and Chapter 3, Revision 1, and Appendices I-VIII to the 1984 Annual Report to the Board of Governors, under cover of the letter set forth in EBD/84/71, Supplement 1, Correction 1 (8/13/84).

Adopted August 13, 1984

5. NEW ZEALAND - TECHNICAL ASSISTANCE

In response to a request by the New Zealand authorities for technical assistance, the Executive Board approves the proposal set forth in EBD/84/223 (8/22/84).

Adopted August 24, 1984

6. APPROVAL OF MINUTES

a. The minutes of Executive Board Meeting 84/29 are approved. (EBD/84/213, 8/6/84)

Adopted August 10, 1984

b. The minutes of Executive Board Meetings 84/30 through 84/32 are approved. (EBD/84/214, 8/7/84)

Adopted August 13, 1984

c. The minutes of Executive Board Meeting 84/33 are approved. (EBD/84/215, 8/9/84)

Adopted August 15, 1984

d. The minutes of Executive Board Meetings 84/34 through 84/36 are approved. (EBD/84/218, 8/10/84)

Adopted August 20, 1984

e. The minutes of Executive Board Meetings 84/37 and 84/38 are approved. (EBD/84/221, 8/20/84)

Adopted August 24, 1984

7. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors as set forth in EBAP/84/168 (8/9/84), EBAP/84/174 (8/14/84), EBAP/84/175 (8/16/84), EBAP/84/181 (8/20/84), EBAP/84/183 (8/21/84), by an Advisor to an Executive Director as set forth in EBAP/84/171 (8/13/84) and Supplement 1 (8/21/84), and by Assistants to Executive Directors as set forth in EBAP/84/180 (8/17/84) and EBAP/84/182 (8/21/84) is approved.

8. STAFF TRAVEL

Travel by the Acting Managing Director as set forth in EBAP/84/169 (8/13/84) is approved.

APPROVED: May 28, 1985

LEO VAN HOUTVEN
Secretary