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EBS/83/223

CONFIDENTIAL

October 7, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Ghana - Review of Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a review of the stand-by arrangement for Ghana. A draft decision appears on page 23.

As agreed at Executive Board Meeting 83/148 today, this subject will be brought to the agenda for discussion on Monday, October 24, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Kratz (ext. 72852) or Mr. Ballali (ext. 75169).

Att: (1)

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INTERNATIONAL MONETARY FUND

GHANA

Review of the Stand-By Arrangement

Prepared by the African Department, the Exchange and Trade Relations Department and the Fiscal Affairs Department

(In consultation with the Legal and Treasurer's Departments)

Approved by J.B. Zulu and W.A. Beveridge

October 7, 1983

I. Introduction

On August 3, 1983, the Executive Board discussed the staff report for the 1983 Article IV consultation and approved Ghana's request for a stand-by arrangement (EBS/83/140, 7/7/83), in support of a comprehensive adjustment program covering the year through June 30, 1984, in an amount equivalent to SDR 238.5 million (150 percent of quota). The Board also approved Ghana's request for a purchase of SDR 120.5 million (75.8 percent of quota) under the Compensatory Financing Facility on account of a shortfall in exports during calendar year 1982. The stand-by arrangement provides for two comprehensive reviews with the Fund on the progress under the program to be completed by October 15, 1983 and February 15, 1984.

Following the Executive Board approval of the requests on August 3, 1983, Ghana purchased SDR 120.5 million under the CFF and also made the first of five scheduled purchases under the arrangement, each amounting to SDR 47.7 million. As of September 30, 1983 the Fund's holdings of Ghana's currency subject to repurchase amounted to SDR 55.7 million or SDR 176.2 million (110.8 percent of present quota) including the CFF purchase. The second purchase, available after October 14, 1983, and the fourth purchase, available after February 14, 1984, will be subject to satisfactory completion of the first and second reviews, respectively, in addition to meeting the relevant performance criteria. The scheduled purchases and repurchases are summarized in Table 1. A summary of Ghana's relations with the Fund is provided in Appendix III.

To initiate the first review, a staff mission consisting of Messrs. Kratz (head-AFR), Huh (ETR), Ballali (AFR), Diamond (FAD), Kronenberg (AFR), and Ms. Noel (secretary-AFR), visited Accra during August 14-29, 1983. Mr. Ghassem Salehkhou, Executive Director elected by Ghana, participated in policy discussions during August 14-17, 1983. The purpose of the mission was to review progress under the program and set credit ceilings, as performance criteria, for end-October and end-December, 1983, as well as to discuss with the authorities the then

Table 1. Ghana: Schedule of Purchases and Repurchases
During July 1983 - June 1984

(In millions of SDRs)

	1983			1984	
	July-Aug.	Oct.	Dec.	Jan.-March	Apr.-June
Purchases					
Stand-by arrangement	47.7	47.7	47.7	47.7	47.7
Ordinary resources	29.1	22.5	21.7	21.7	21.7
Borrowed resources	18.6	25.2	26.0	26.0	26.0
Compensatory financing facility	120.5	--	--	--	--
Repurchases					
Credit tranches	4.0	4.0	--	4.0	--
Compensatory financing facility	--	--		--	--
Net purchases	164.2	43.7	47.7	43.7	47.7
Total outstanding Fund credit					
As per cent of quota (cumulative)					
Net credit	110.8	138.3	168.3	195.8	225.8 1/
Net credit excluding CFF	35.0	62.5	92.5	120.0	150.0 1/

Sources: Stand-By Arrangement, EBS/83/140; and IMF Treasurer's Department.

1/ Equivalent to 175.6 per cent of new proposed quota or 116.6 per cent excluding purchases under the CFF.

forthcoming action with regard to the exchange rate, interest rates, and retail prices for petroleum products. In the attached letter to the Managing Director, dated September 30, 1983, the Secretary for Finance and Economic Planning and the Governor of the Bank of Ghana review the progress under the program and outline the performance criteria for end-October and end-December, 1983 and an accelerated action on the exchange rate as well as measures on the interest rates, retail prices of petroleum products and, if necessary, additional measures on the budget.

Close cooperation with the World Bank has been maintained throughout the preparation and implementation of the program. An IDA Reconstruction Import Credit (RIC) amounting to US$40 million which was approved by the World Bank Executive Board on June 28, 1983, following the implementation of the main measures of the program and submission by Ghana of the draft letter of intent, is now expected to be fully disbursed by the end of the year. A World Bank staff mission was also in Accra during the stay of the Fund mission to assist the authorities in preparing for a Consultative Group meeting on Ghana which is now tentatively scheduled to be held in Paris during November 23-24, 1983. The conference will be chaired by a senior staff member of the World Bank. Ghana's relations with the World Bank Group are summarized in Appendix IV.

II. The 1983/84 Program and Its Implementation

1. An overview of program implementation

The authorities remain strongly committed to implementing the program fully, and the economic recovery, after a slow start, appears now to be gaining momentum. The first half of 1983 was beset by an acute shortage of food, severe transportation problems, virtually exhausted supplies of imported goods, including spare parts, and the impact on the economy of resettling about a million returnees from Nigeria. In the early months of the program, imports did not pick up as quickly as earlier projected, despite disbursement of some external financing, including bridging loans, during the second quarter. With the coming onto the market of the new harvest during July-September, the food shortage has to some extent been alleviated and food prices have fallen sharply. The transportation bottleneck is also easing, with assured supplies of crude oil and the arrival of spare parts, including tires and batteries, which were particularly in short supply. The authorities have been implementing all the measures of the program and, on the basis of preliminary data through July 1983 and the discussions during the mission, the performance criteria for end-August, 1983 are likely to have been met. Nonetheless, delayed arrival of imports has meant that total imports for 1983 will be lower than previously projected; the consequent lower-than-expected economic activity has necessitated a revision of the balance of payments and of projected government operations. With a projected downward adjustment of exports and net capital inflows, both the current account deficit and the overall balance of payments deficit, as well as the size of government revenue and expenditure will be smaller than earlier projected. Selected financial data and ratios reflecting these revisions appear in Table 2. The authorities will continue to take appropriate measures to avoid possible slippage and have decided to advance the implementation of some key measures, particularly in the exchange rate area. A summary of measures under the stand-by program and the current status of implementation is shown in Table 3.

2. The exchange system

It will be recalled that on April 21, 1983 the Ghanaian authorities adopted a multiple exchange system as a transitional arrangement, based on a system of bonuses and surcharges, applied at the banks and other authorized dealers of foreign exchange, which effectively resulted in two rates, ₵ 23.375 = US$1 and ₵ 29.975 = US$1. The operation of the system has resulted in an implicit average exchange rate of ₵ 24.692 = US$1, compared with the rate of ₵ 2.75 = US$1 which had been in effect since mid-1978. The program provided that the average effective exchange rate was to be kept constant in real terms by adjusting the two effective exchange rates, and the exchange rate system was to be unified at a realistic level by the end of the stand-by arrangement on August 2, 1984. These goals were to be achieved in three steps. First, the Government would announce the implicit effective exchange rates resulting from bonuses and surcharges explicitly as the new official exchange rates by October 1, 1983 and, in any case, before the completion of the first review. Secondly, the two rates were to be adjusted quarterly, so that the weighted average exchange rate moved in accordance with an index which measured the inflation rate differential between Ghana and Ghana's major trading partners. Thirdly, the exchange rates were to be unified at a realistic level by the end of the stand-by arrangement.

Despite administrative complexities, the multiple exchange system has operated better than expected during the five months it has been in existence and the authorities believe that the system has served a useful purpose as a transitional measure. To reaffirm their continued commitment to implement the program and to end the complexities entailed in administering the system, the authorities decided not only to abolish the bonuses and surcharges but to move on October 10, 1983 to a unified exchange rate, more than nine months in advance of their commitment in the letter of intent of July 7, 1983. Taking into account the inflation differential between Ghana and its major trading partners, the new unified exchange rate has been set at ₵ 30 = US$1, representing a further depreciation in terms of local currency of 21.5 percent of the average exchange rate of ₵ 24.692 = US$1, in effect since April 22, 1983. The Government intends to continue with a flexible exchange rate policy after unification so as to maintain Ghana's international competitive position.

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

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

	1978	1979	1980	1981	1982	1983	1984
National accounts							
GDP real growth (per cent)	8.3	-3.7	0.7	-1.8	-7.2	-9.1	3.9
GDP per capita growth (in per cent)	6.1	-6.1	-1.0	-7.1	-8.2	...	...
Fixed investment to GDP	5.4	4.2	5.8	3.5	1.3	8.0	10.5
Domestic saving to GDP	4.0	5.9	5.0	2.5	1.4	-4.4	-0.2
Prices and wages							
National consumer price index (per cent change)	73.3	54.2	50.1	116.5	22.3	50.0 1/	25.0
Real producer price for cocoa (in cedis per ton)	177.0	203.0	203.0	98.0	240.0	284.0	284.0
Real public sector wages (index: 1975 = 100)	36.3	28.2	31.9	16.9	16.0	17.9 2/	...
Central government finances (Through mid-1982 the fiscal year was July-June. Beginning 1983 the fiscal year is the calendar year.) 3/							
Overall deficit as a per cent of GDP	7.4	5.2	8.0	5.2	4.6	3.9	2.5
Overall deficit as a per cent of M_2 at beginning of period	46.5	35.2	68.5	51.2	33.0	29.7	19.2
Overall deficit as a per cent of total expenditure	41.4	38.0	58.9	50.0	43.0	25.8	...
Money and credit (percent change; 1984 is year through June)							
Net domestic assets	87.6	7.2	28.7	58.3	20.1	62.3	24.2
Of which: claims on Government	(61.9)	(9.1)	(33.0)	(63.2)	(3.8)	(27.1)	7.1
Money (M_2)	68.5	15.5	33.8	51.3	23.4	48.3	13.4
Interest rates (at end of period)							
Savings deposits	7.50	7.50	7.50	18.0	8.0	11.0	...
Maximum lending rate	12.50	12.50	12.50	25.0	14.0	19.0	...

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

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

	1978	1979	1980	1981	1982	1983	1984
Balance of payments							
Exports (per cent change in SDR value)	-14.1	15.4	12.6	-30.0	-12.6	-9.1	38.7
Imports (per cent change in SDR value)	-13.2	-0.5	26.6	-15.0	-28.4	55.7	12.8
Current account (in millions of SDRs)	-36.8	94.2	12.5	-138.0	-15.1	-335.1	-413.2
Current account to GDP (in per cent)	-0.4	1.2	--	-0.6	--	-6.9	-10.1
Oil imports to total imports (in per cent)	10.1	21.4	28.2	32.4	58.0	20.3	22.0
Export volume (per cent change)	-32.2	-12.4	38.4	-25.2	12.3	-16.6	11.0
Import volume (per cent change)	-16.2	-10.0	1.2	-20.6	-30.4	49.4	1.9
Terms of trade (per cent change)	24.3	-5.2	-25.1	-26.8	-17.7	1.0	15.0
Nominal effective exchange rate (depreciation -)	-51.1	4.9	5.8	6.3	5.2	...	...
Real effective exchange rate (depreciation -)	-23.5	45.8	32.2	108.3	30.4	...	...
External debt to GDP	8.1	9.7	5.1	3.0	2.8	...	...
External debt service to merchandise exports	3.2	5.3	4.7	7.6	10.7	23.6	35.8
External payments arrears (in millions of US$)							
Outstanding	488.9	427.4	342.5	512.2	575.9	559.7 4/	... 4/
Scheduled reduction	--	--	--	--	--	60.0 4/	... 4/
Gross international reserves (in millions of SDRs)	224.0	226.8	151.8	161.0	202.8	174.8 5/	...
Equivalent weeks' imports	18.7	19.0	10.0	12.5	22.0	11.9 5/	...

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

1/ Most of the increase in the national consumer price index took place during the first four months of 1983, before adoption of the adjustment measures; price increases are expected to slow considerably during the second half of 1983.

2/ The recent increase in wages and salaries affects only the last eight months of the year.

3/ For the four year period 1978-81, the fiscal data in this table refers to the year beginning July 1, and 1982 here refers to government operations during the calendar year, which is a spliced estimate.

4/ Arrears to be reduced by US$60 million during April-December 1983, and by US$100 million during the program period.

5/ End-July 1983.

Table 3. Ghana: Summary of Policy Measures of the Program: Current Status of Implementation

Principal elements of the 1983/84 stand-by program

Action Already Taken	Progress Expected During Program Period	Current Status of Implementation
1. External		
a. Exchange rate: The official exchange rate of ¢ 2.75 = US$1 was adjusted in April 1983 with the aim of achieving an average exchange rate of ¢ 25 = US$1 through a multiple exchange rate system based on bonuses and surcharges at the banks (and other authorized dealers) resulting in two effective rates, ¢ 23.375 = US$1 and ¢ 29.975 = US$1.	Periodic adjustment to avoid loss of competitiveness. Explicit recognition of the implicit rates as the new official exchange rates by October 1, 1983. Narrowing of the differential of the two rates; and unification of the two rates at a realistic level before the end of the stand-by arrangement on August 2, 1984.	The authorities have decided not only to end the system of bonuses and surcharges and the multiple exchange rates, but to move to a unified rate on October 10, 1983, more than nine months ahead of schedule. Taking into account the inflation differential between Ghana and its major trading partners, the new unified exchange rate has been set at ¢ 30 = US$1.
b. External payments arrears: Commitment for phased cash reduction of external payments arrears by US$100 million during program period.	Arrears would be reduced through cash payments from the end-April 1983 level of US$601.1 million by US$10 million by end-August 1983, by US$35 million by end-October 1983, by US$60 million by end-December, 1983, by US$80 million by end-March 1984, and by US$100 million by end-June 1984.	Arrears were reduced from from US$601.1 million at the end of April to US$562.0 million at the end of August, US$29 million more than required under the program. The authorities are confident that they will adhere to the reductions set for the remainder of the program period.

Table 3 (continued). Ghana: Policy Measures Stand-by Program: Current Status of Implementation

c. <u>External borrowing</u>: New commitments within 1-12 year maturity limited to US$400 million; within this, 1-5 years' maturity limited to US$250 million. Net disbursements on loans of less than one-year maturity limited to US$100 million. Bridging loans are limited to US$200 million.		No new loans with maturities of 1-12 years contracted or guaranteed by the Government. No net disbursements on loans of less than one-year maturity. Bridging loans amounting to US$110 million were disbursed before approval of stand-by arrangement, half of which has been repaid.
2. Fiscal		
Projected revenue increase is largely a by-product of adjustment measures. New tax measures include simplification and raising effective tariff rates on imports, an enhanced export tax on gold, and a net wealth tax. Substantial increases of fees and charges by government departments and government agencies. Expenditure control system has been strengthened. Given projected revenue and the programmed financing, expenditures will be held strictly within budgeted limits. Should expenditures appear to exceed these limits, the authorities will take additional revenue measures or reduce expenditure so as not to exceed the ceiling on bank financing.	Monitoring of expenditures and the main revenue items on a monthly basis.	Faced with revenue shortfall due mainly to delay in imports, the authorities have cut expenditure to levels far below those indicated in the program. In addition, the authorities have formulated contingency emergency revenue measures to be implemented at short notice, if necessary, and are prepared to implement further expenditure cuts.

Table 3 (continued). Ghana: Policy Measures Stand-by Program: Current Status of Implementation

3. Prices and incomes		
Cocoa producer price increased by 67 per cent to ₵ 20,000 per ton effective May 1, 1983.		
Full pass-through to domestic prices of higher import costs following the changes in the exchange system, except for petroleum products, which will receive a maximum budget subsidy of ₵ 1.0 billion in 1983. In April retail prices of petroleum products were, on a weighted average, increased by 104 per cent.	Full pass-through of retail prices for petroleum products during the program period. Prices to be raised periodically, starting October 1983.	Substantial increases in retail prices of petroleum products to be effected on October 10, 1983, to the equivalent of crude oil being imported at ₵ 20 = US$1 against ₵ 15 = US$1 prevailing since April 22, 1983. The maximum budgeted subsidy remains at ₵ 1.0 billion through December 1983.
Substantial increases, mostly by 100 to 300 per cent, in prices, rates, and tariffs charged by public utilities and other public sector entities.		
Price controls on domestically produced food items removed in late 1982 and early 1983. For other items, including domestic manufactured items, a flexible policy to set prices at economic levels is being implemented.		Prices of domestically produced food items, which are market determined, fell very substantially during July and August, as the new harvest came onto the market. A flexible policy is being applied in setting prices of domestically manufactured goods.

Table 3 (concluded). Ghana: Policy Measures Stand-by Program: Current Status of Implementation

Real wages and salaries in the civil service were down to 16 per cent of the 1975 level. Wages and salaries have been raised, on the average, by 60 per cent in the civil service effective May 1, 1983 and are in the process of being raised, on average, by 25 per cent in the public sector enterprises and the private sector.	No further increases in wages and salaries in 1983.	No further wage and salary increases have taken place and the increase that was awarded on May 1, 1983 has been implemented gradually.

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

3. Pricing policies

a. Petroleum products

With effect from April 22, 1983 the retail prices of petroleum products were about doubled, as an initial step toward a pass-through of the increased cost in terms of local currency resulting from the importation of crude petroleum at the new implicit exchange rate equivalent to ₵ 23.375 = US$1. The retail prices per imperial gallon were raised as follows: premium gasoline, from ₵ 12.30 to ₵ 25.00; regular gasoline, from ₵ 11.30 to ₵ 21.50; gas oil, from ₵ 8.50 to ₵ 15.50; and kerosene, from ₵ 5.00 to ₵ 13.20. However, compared with world market prices, these new domestic prices were equivalent to crude oil being imported at ₵ 15 = US$1, thereby requiring a subsidy for the difference. The necessary subsidy, explicitly provided for in the budget, was not to exceed ₵ 1.0 billion during May-December, 1983. To achieve this, and to eliminate the subsidy by the end of the stand-by arrangement, the retail petroleum prices were to be raised further periodically. In conformity with these undertakings, the authorities will raise, effective October 10, 1983, the prices of petroleum products per imperial gallon as follows: premium gasoline, from ₵ 25.00 to ₵ 31.50; regular gasoline, from ₵ 21.50 to ₵ 27.00; gas oil, from ₵ 15.50 to ₵ 20.00; and kerosene, from ₵ 13.20 to ₵ 16.00. These adjustments will bring the prices of these products equivalent to crude oil being imported at an implicit exchange rate of ₵ 20 = US$1. Despite faster progress on the unification of the exchange rate than earlier agreed, the subsidy will still not exceed ₵ 1.0 billion in 1983, partly on account of reduced consumption of petroleum products following the slower than planned arrival of oil imports during the third quarter.

b. Other pricing and incomes policies

The authorities continue to pursue a far more flexible pricing policy than in the past. After some initial administrative delays, the effects of the exchange rate adjustment on domestic prices of imported and locally processed goods have now been passed through. For many other non-food items, including domestic manufactured goods, a flexible policy is being applied in setting their prices. Price controls on domestically produced food items were removed in late 1982 and early 1983 and, given the food shortage at that time, the prices for some staple food items rose at least fourfold during the first half of 1983. However, with the coming of the new harvest onto the market during July-September, 1983, the food shortage has been alleviated, at least temporarily, and many food prices have fallen to about a third of what they were in May-June, 1983. In the case of maize, for instance, an important staple food item, the price has fallen from ₵ 300-350 to ₵ 50-70 per "American tin" (a metal container commonly used in Ghana as a measure for grain sales). Given that the size of this year's harvest is below average, the authorities fear that the improvement might be very temporary and food shortages could re-emerge before the end of the year.

With effect from May 1, 1983, the Government raised wages and salaries. The minimum wage was raised from ₵ 12 to ₵ 25 per day, although the average increase in the civil service remuneration was limited to 60 percent. For the public enterprises and the private sector, increases in basic remuneration to be secured through collective bargaining could not exceed 25 percent. No further wage and salary increases are contemplated during 1983 and the increases that were to take effect on May 1 have been implemented very gradually.

4. Financial policies

a. The 1983 revised budget

The delay in the arrival of projected imports, particularly during July-August, has resulted in lower projections of import levels for 1983 and, in conjunction with the consequent lower-than-expected economic activity, has necessitated a revision of balance of payments prospects and government operations (Table 4). The slower-than-anticipated flow of imports during the second quarter and part of the third quarter resulted in lower-than-projected revenues, particularly from import duties and the sales tax on imports. The low level of economic activity caused receipts from company tax, excise and other taxes on domestic goods also to fall short of earlier projections. In response to revenue shortfalls, the Government cut expenditure quite sharply. During the first half of 1983 the authorities cut expenditure by more than ₵ 1.0 billion from the level previously projected. Thus, despite the revenue shortfall, government recourse to the banking system remained within the projected path. Since June, the revenue prospects have improved significantly, with the collection of ₵ 1.1 billion from the cocoa export tax, equivalent to the amount projected for the year as a whole, and the gold export tax which came into effect on April 22, 1983. It is expected that with the accelerated arrival of imports, revenue prospects will improve considerably during the last four months of 1983.

For the year as a whole, total revenue and grants are now expected to be ₵ 12.7 billion rather than ₵ 14.6 billion, the main changes being a downward revision in projected revenue from import duties, sales tax on imports, and selective excises. Total expenditure and net lending (including the ₵ 1.0 billion subsidy on prices for petroleum products) has been revised to ₵ 17.1 billion from ₵ 18.2 billion, reflecting cuts in current expenditure on goods and services and in development expenditure. The overall budget deficit is now estimated at ₵ 4.4 billion against ₵ 3.6 billion originally projected. However, the additional ₵ 0.8 billion in the overall deficit will be largely covered by new foreign financing from IDA's Reconstruction Import Credit (RIC). Thus, strictly on the basis of the revised budgetary forecast, no additional borrowing from the banking system for the remainder of 1983 over the amount targeted earlier in the program is required. Therefore, the subceilings on government borrowing from the banking system for end of

Table 4. Ghana: Summary of Central Government Operations, 1979/80-1983

(In millions of cedis)

	Preliminary actual 1979/80	Preliminary actual 1980/81	Budget estimates 1981/82	Preliminary actual 1981/82	January-December 1982	Budget estimates January-December 1983	Revised Budget estimates January-December 1983
Total revenue and grants	2,949.9	3,279.3	6,131.4	4,855.3	5,253.2	14,630.6	12,650.9
Revenue	2,949.9	3,234.3	6,083.4	4,803.3	5,201.2	14,466.8	12,492.2
Foreign grants	--	45.0	48.0	52.0	--	163.8	158.7
Total expenditure and net lending	4,758.0	7,985.9	10,375.1	9,703.2	9,220.1	18,191.7	17,059.8
Current expenditure	4,072.8	6,329.3	8,358.4	8,602.6	8,029.4	14,865.6	13,892.1
Capital expenditure	594.7	1,390.0	1,677.5	926.9	816.7	2,375.0	2,216.7
Net lending	90.5	266.6	339.2	173.7	374.0	951.1	951.0
Overall deficit	-1,808.1	-4,706.6	-4,243.7	-4,847.9	-3,966.9	-3,561.1	-4,408.9
Financing (net)	1,808.1	4,706.6	4,243.7	4,847.9	3,966.9	3,561.1	4,408.9
Foreign	300.1	367.3	220.0	389.3	215.1	1,046.6	1,608.9 1/
Domestic	1,575.8	3,909.0	4,023.7	4,211.0	3,718.0	2,514.5	2,800.0
Of which: Banking system	(1,058.6)	(3,113.7)	(3,273.7)	(1,672.7)	(433.6)	(2,014.5)	(2,300.0)
Social security	(148.0)	(285.5)	(500.0)	(210.0)	(371.0)	(200.0)	(200.0)
Other	(369.2)	(509.8)	(250.0)	(2,328.3)	(2,913.4)	(300.0)	(300.0)
Unidentified	-67.8	430.3	--	247.6	33.8	--	--

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

1/ This figure comprises gross inflows of ₵ 3,520 million (of which ₵ 750 million represents the IDA Reconstruction Import Credit), less amortization of ₵ 1,911 million.

October and end of December 1983 have been set close to the original indicative targets. The subceiling for end of October is ₵ 20.78 billion against the indicative target of ₵ 20.58 billion and for end of December it is ₵ 21.08 billion against the indicative target of ₵ 20.78 billion. Given the uncertainties surrounding some revenue items, particularly those related to the expected bunching or possible shortfalls of imports (including oil imports which provide foreign financing for the budget) toward the end of 1983 and early 1984, this small extra margin of ₵ 0.3 billion has been adopted. In addition, the authorities have formulated a contingency plan of emergency revenue measures and expenditure cuts which could be implemented, if necessary, at short notice.

b. Monetary and credit policies

Despite strong pressures emanating from a shortfall in government revenue, the authorities have pursued a cautious monetary and credit policy. During the first half of the year, monetary and credit developments were within envisaged targets. Developments during the third quarter indicate that the ceilings for the end of August, which are performance criteria, on total net domestic assets of the banking system and on net claims on the Government are likely to be respected. For this reason, in transforming credit targets for the end of October and the end of December into performance criteria, no major adjustments were made. The only adjustment on the targets projected in May has been, as noted above, an additional ₵ 0.3 billion in permissible growth in net claims of the banking system on the Government through December, 1983, with a corresponding adjustment on total net domestic assets. Thus, total net domestic assets of the banking system will not exceed ₵ 23.67 billion on October 31, 1983 and will not exceed ₵ 25.67 billion on December 31, 1983. Net claims on the Government by the domestic banking system will not exceed ₵ 20.78 billion on October 31, 1983 and will not exceed ₵ 21.08 billion on December 31, 1983 (Table 5).

Although the final projections of the size of the cocoa crop are made only toward the end of September, just before the beginning of the new crop year on October 1, the authorities and the Fund staff have agreed to keep the credit requirements of the Cocoa Marketing Board as projected. However, the Ghanaian authorities estimate that this year's crop will be late, as a result of late rains, which means financing requirements could peak in early 1984 rather than late in 1983. There has also been a delay in the expected increased borrowing by importers. The importers had not used import licenses expeditiously partly because of initial uncertainties and administrative difficulties and partly because, following the exchange rate action in April, the commercial banks had been demanding a 100 percent deposit margin. Subsequently, the Bank of Ghana persuaded the commercial banks that the deposit margins should not exceed 20 percent. In addition, some banks had experienced liquidity problems due to the large amounts in terms of local currency needed by importers following the large exchange rate adjustment. Although some banks might not be as

Table 5. Ghana: Monetary Survey, 1981-84

	Actuals				Projections			
			1983		1983			1984
	1981	1982	March	June	Aug.	Oct.	Dec.	June
	(In billions of cedis)							
Net foreign assets	-1.16	-1.05	-1.20	-1.35	-1.50	-20.6	-22.02	-24.85
Net domestic assets	13.33	15.94	17.43	20.66	20.87	23.67	25.67	24.17
Claims on government (net)	10.66	11.04	11.66	20.06	20.38	20.78	21.08	21.48
Cocoa financing	2.95	5.55	6.85	0.79	--	1.50	3.00	0.60
Claims on rest of economy	1.88	2.22	2.25	2.77	4.68	5.58	5.78	6.28
Other items (net)	-2.16	-2.88	-3.32	-3.25	-4.19	-4.19	-4.19	-4.19
Revaluation account 1/	--	--	--	--	--	18.71	20.00	22.57
Broad money	12.03	14.74	16.08	19.17	19.22	20.14	21.86	20.25
SDR allocations	0.15	0.15	0.15	0.15	0.15	1.64	1.64	1.64
	(In annual percentage change)							
								Program period
Net domestic assets	58.3	20.1	30.2	52.6	53.3	65.2	62.3	17.0
Claims on Government (net)	63.2	3.8	10.3	37.3 2/	41.4 2/	31.5 2/	27.1 2/	7.1
Cocoa financing	89.1	88.1	57.8	--	--	--	--	-24.1
Claims on rest of economy	32.4	18.1	18.4	34.0	122.8	155.5	160.4	126.7
Broad money	51.3	23.4	36.7	52.5	56.3	53.0	48.3	13.4

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

1/ Loss arising from revaluation of foreign assets and liabilities of the banking system following the new measures on the exchange system introduced in April 1983 and unification.

2/ CMB debt amounting to ¢ 7.4 billion was taken over by the Government in June 1983. The changes during the twelve month period ending from June to December, 1983 include the CMB debt for comparability.

liquid as in the past, the Ghanaian authorities believe that the banking system as a whole is sufficiently liquid to cope with the new demand for credit. Consequently, the Bank of Ghana has been encouraging commercial banks to engage in inter-bank lending.

c. Interest rate policy

The program provides that the interest rate policy be examined during the two reviews. In line with the authorities' commitment to narrow the differential between the prevailing structure of interest rates and the rate of inflation, the Government has decided to make a substantial adjustment in the structure of interest rates. On October 10, 1983, all interest rates will be raised by 35 to 40 percent. For example, the Bank of Ghana discount rate will rise from 10.5 percent to 14.5 percent; the commercial banks' maximum lending rate will rise from 14 percent to 19 percent, and the deposit rate, from 8.25 percent to 11.5 percent (Table 6). The authorities recognize the importance of interest rates as an instrument for mobilization of savings and effective allocation of resources and intend to pursue a policy of continued gradual adjustment leading to positive real interest rates over time.

5. Balance of payments and other external policies

a. Balance of payments

The balance of payments projections for 1983 has been revised in the light of shortfalls both on exports and imports. Total exports in 1983 are now estimated at US$556 million or 6 percent lower than earlier projections, mainly on account of lower gold exports and a sluggish recovery of timber exports. The shortfall in these products has been somewhat offset by a stronger than anticipated recovery in cocoa exports, which have been revised upward by 4 percent, due in part to a larger mid-crop already purchased at the higher producer price (¢ 600 per headload as against ¢ 360 before). The slower-than-anticipated pace of imports during the first eight months of the year has resulted in total imports for 1983 being revised downward by 16 percent to US$803 million. Thus, the trade deficit has been revised downward from US$366 million to US$248 million.

Importers were slow in utilizing import licenses issued to them because they faced a temporary cash flow squeeze following the large exchange rate adjustment in April and, for a while, they were uncertain of the operating modalities of the new exchange system. In addition, the higher cash margins that the commercial banks required contributed to this initial hesitation on the part of importers. Transportation bottlenecks, particularly on road haulage from the ports, have also imposed constraints on importers. The transportation situation is being alleviated as imports of equipment and parts financed partly by the World Bank's reconstruction import credit began to arrive in September. In

Table 6. Ghana: Interest Rate Structure of Banks, September 1978 to Date

(In percent per annum)

	Sept. 15, 1978 to July 23, 1981	July 24, 1981 to May 30, 1982	May 31, 1982 to Oct. 9, 1983	Oct. 10, 1983 to date
Bank of Ghana				
Discount rate	13.50	19.50	10.50	14.50
Advances to Government	14.50	20.50	10.50	14.50
Government stocks	4.00 - 8.00	4.00 - 8.00	4.00 - 8.00	5.50 - 11.00
Treasury bills discount rate	12.00	18.25	9.50	13.00
Commercial banks				
Deposit rates				
Demand deposits	--	--	--	--
Time or fixed deposits				
Three months	12.125	18.25	8.25	11.50
Six months	12.375	18.50	8.50	11.50
Over 12 months	13.00	19.00	9.00	12.50
Savings deposits	12.00	18.00	8.00	11.00
Lending rates				
To export sector	13.00	22.00	9.00	12.50
To agricultural sector	13.00	22.00	9.00	12.50
With Bank of Ghana guarantee	15.00	23.50	12.00	16.50
Without Bank of Ghana guarantee	18.50	25.50	14.00	19.00

Source: Bank of Ghana, Accra.

general, the result of these earlier delays is that imports will tend to bunch in the fourth quarter of 1983 and some of the imports that were expected in 1983 will be arriving in early 1984.

In view of these developments, the current account in 1983 is projected to record a deficit of US$361 million compared with a deficit of US$525 million in earlier projections. Downward revisions have also been made in the inflows of medium-term government capital and private capital, mainly because the drawdown of resources in the pipeline will occur over a longer period of time than originally assumed. Nonetheless, the overall balance of payments deficit has been revised downward by US$41 million to US$100 million (Table 7).

Balance of payments prospects for 1984 and for the medium term will depend on the speed of recovery in the cocoa, timber and mining sectors and on the level of imports financed through concessional external assistance. In this regard, the outcome of the Consultative Group meeting being organized by the World Bank in Paris will be of great significance to Ghana's prospects for an accelerated economic recovery.

b. Policies with regard to external debt and arrears

The authorities have expressed their intention to continue to pursue a prudent debt management policy so that the debt service burden will not unduly contribute to pressures on the balance of payments. Thus, during the first seven months of 1983, the Government has contracted external loans, exclusive of oil import credits, totaling US$100 million, consisting entirely of concessional loans with maturities of 18-40 years. The Government has not contracted or guaranteed any nonconcessional medium term (1-5 year maturities) or long-term (6-12 year maturities) loans during the first eight months of 1983. Bridging loans contracted in mid-1983 were reduced by half in August to US$55 million. Since the stand-by arrangement came into effect, no disbursements of loans with an original maturity of less than one year, other than trade related credits, have been made.

With regard to external arrears on payments and transfers for current international transactions and debt amortization, the amounts that were outstanding at the end of April, 1983 have been revised from US$619.7 million to US$601.1 million, to correct double counting and to take account of some arrears on interest payments. Under the stand-by arrangement, the Government undertook to reduce these arrears through cash payments by US$10 million by the end of August, 1983. The authorities have actually reduced these arrears by US$39.0 million to US$562.0 million by the end of August. Additional reductions during September included arrears on service payments of debt rescheduled under the 1974 Rome Agreement. It is the intention of the Government to continue reducing outstanding arrears not only in accordance with the commitment under the standby arrangement, but to reduce them further, in a nondiscriminatory manner, if Ghana's international reserves position will allow.

Table 7. Ghana: Summary of Balance of Payments, 1979-83

(In millions of U.S. dollars)

	1980	1981 1/	1982 1/	1983 Original proj.	1983 Revised proj.
Current balance	16.3	-162.7	-16.6	-525.0	-360.9
Trade balance	184.3	-22.3	98.2	-366.0	-247.6
Exports (f.o.b.)	1,208.9	766.4	627.2	591.0	555.6
Imports (f.o.b.)	1,024.6	-788.7	-529.0	-957.0	-803.2
Services (net)	-247.7	-223.3	-197.2	-238.0	-212.1
Of which: investment income	-66.3	-62.7	-60.4	-41.0	-45.8
Unrequited transfers (net)	79.7	82.9	82.4	79.0	98.8
Of which: Government	82.9	87.2	83.6	81.0	101.4
Government capital (net)	187.9	57.3	149.7	266.0	242.8
Long-term (net)	131.0	67.3	61.5	116.0	116.4
Credit	(147.7)	(87.2)	(82.6)	(150.0)	(150.0)
Debit	(-16.7)	(-19.9)	(-21.1)	(-34.0)	(-33.6)
Medium-term (net)	56.9	-10.0	88.2	150.0	126.4
Credit 2/	(78.1)	(0.4)	(95.9)	(167.3)	(143.7)
Debit	(-21.2)	(-10.4)	(-7.7)	(-17.3)	(-17.3)
Private capital (net)	19.8	26.3	31.7	192.0	92.3
Direct investment	9.2	10.4	21.4	...	...
Suppliers' credits	0.3	-13.0	-5.1	...	...
Monetary short-term capital	10.3	28.9	15.4	...	...
Nonmonetary short-term capital (net)	1.8	1.5	-1.7	-74.0	-73.7
SDR allocation	14.3	12.7	--	--	--
Errors and omissions	-158.6	-197.6	-106.7	...	...
Overall balance	81.5	-262.5	56.4	-141.0	-99.5
Financing	-81.5	262.5	-56.4	141.0	99.5
Monetary authorities 3/	3.8	103.4	-87.8	201.0	159.5
IMF (net)	(-28.9)	(-14.9)	(-6.8)	(264.7)	(264.9)
Other foreign assets	(32.7)	(118.3)	(-81.0)	(-63.7)	(-105.4)
Payments arrears 3/	-78.9	141.4	35.2	-60.0	-60.0
Bilateral balances	-6.4	17.7	-3.8	...	...

Sources: Bank of Ghana; and staff estimates.

1/ Provisional.
2/ Includes Trust Fund and distribution of gold profits.
3/ Minus sign denotes a decrease in net liabilities.

6. Performance criteria

As outlined in the stand-by arrangement (EBS/83/140), the following are the performance criteria: (a) ceilings on total net domestic assets of the banking system, with subceilings on net claims on the Government by the banking system; (b) cumulative reductions through net cash payments of external payments arrears; (c) limits on the contracting and guaranteeing of new nonconcessional foreign loans by the Government with maturities of 1-5 years and 1-12 years; (d) limits on disbursements of short-term loans and bridging loans; (e) the standard clauses relating to the exchange and import restrictions; and (f) the intention to consult and reach understandings with the Fund, in the context of the two reviews, on the policies to be pursued during the period of the stand-by arrangement, in particular exchange rate and interest rate policies. The second purchase and the fourth purchase will also be subject to the satisfactory completion of the first and second review, respectively. The quantitative performance criteria as well as the targets are shown in Table 8.

Table 8. Ghana: Quantitative Performance Criteria and Targets for 1983-84

	Outstanding (end of month, in billions of cedis)						
	March Actual	June 1983 Actual	August 1983	October 1983	December 1983	March 1984	June 1984
Net domestic assets	17.43	20.66	20.87 1/	23.67 1/	25.67 1/	25.87 2/	24.17 2/
Net claims on Government	11.66	20.06	20.38 1/	20.78 1/	21.08 1/	21.18 2/	21.48 2/
Cocoa financing	6.85	0.79	--	1.50	3.00	2.80	0.60
Credit to rest of the economy	2.25	2.77	4.68	5.58	5.78	6.08	6.28
Other items (net)	-3.32	-3.25	-4.19	-4.19	-4.19	-4.19	-4.19
			Cumulative changes from end-June 1983				
Net domestic assets			0.2	3.0	5.0	5.2	3.5
Of which:							
Net claims on Government			0.3	0.7	1.0	1.1	1.4

	Actual outstanding End-April 1983	Cumulative cash reductions 1/				
		Aug. 1983	Oct. 1983	Dec. 1983	Mar. 1984	June 1984
External payments arrears (In millions of US dollars)						
Scheduled reductions	601.1	10	35	60	80	100
Actual reduction	601.1	39				

New non-concessional external borrowings contracted or guaranteed by Government (In millions of US dollars)	During August 3, 1983 - August 2, 1984	
	Maximum	By August 31, 1983
of maturities 1-12 years	400.00 1/	None
of which: 1-5 years	250.00 1/	None
External loans of less than 1 year maturity		
Net disbursements	100.00 1/	None
Bridging loans outstanding	200.00 1/	55.0

1/ Performance criteria.
2/ These targets were not revised during the first review mission.

III. Staff Appraisal

In April 1983, the Government of Ghana embarked on a major adjustment effort intended to be an important first step in a sustained effort to deal with Ghana's serious structural imbalances and to rehabilitate the economy. All the main measures were put in place prior to concluding discussions for the one-year program which came to be supported by the stand-by arrangement approved by the Executive Board on August 3, 1983. The key measure in the authorities' adjustment program was the reform of the exchange rate system. The other measures included a substantial increase in the cocoa producer price, a phased pass-through of petroleum prices, increased deregulation of prices and limited increases in wages and salaries. In addition, the supporting budgetary and monetary policies aimed at reducing liquidity creation and improving the effectiveness of resource allocation. In the course of the program year, the authorities undertook to implement wide-ranging measures affecting exchange rate and interest rate policies, pricing policies as well as policies affecting the external sector. Progress in implementing these policies were to be examined during the two reviews provided for in the program.

During discussions related to the first review, the authorities reaffirmed their commitment to implement fully all the measures during the program period. During the first few months of the program period, the authorities have implemented all the measures scheduled under the program. In the key area of the exchange rate, they have advanced the schedule of implementation, and they have also made a substantial first adjustment in their interest rate structure. In the implementation of the budget for 1983, they have not hesitated to cut expenditure substantially when revenue was not forthcoming as fully as expected. In addition, they have implemented the agreed increases in petroleum prices and reduction in external payments arrears.

Despite the authorities' commitment and the progress made so far, some uncertainties and obstacles to a continued implementation and full attainment of the objectives of the program still need to be taken into account. First, the administrative capacity to implement and monitor the program needs to be improved. The authorities are intent on stepping up their efforts to strengthen this. Secondly, serious drought conditions this year have been partly responsible for low overall output, particularly for food crops. Favorable supply responses in 1984 will depend critically on the short rains during October-November, 1983 and the long rains starting April, 1984. The short rains in 1983 will have a strong bearing on balance of payments developments during the second half of the program period (January-June), since poor rainfall would result in a diversion of resources to food imports instead of spare parts and essential capital equipment. Thirdly, bilateral external assistance to Ghana in the recent past has been low. A favorable response of Ghana's traditional bilateral donors to its adjustment efforts is urgently needed, both in the short as well as over the medium term. Under the auspices of the World Bank, and with the assistance of the staff of both the World Bank and the Fund, the authorities are preparing for a Consultative Group meeting tentatively scheduled for late November 1983. Thereafter, the review mission in early December will be in a position to review and revise the assessment of Ghana's medium-term economic prospects.

In the meantime, the authorities need to maintain their present will and momentum through 1983-84 and beyond for tangible and lasting results to materialize. The measures which have been taken in the context of the program so far and which are envisaged for the period immediately ahead reflect the commitment of the authorities to the adjustment effort. The staff believes, therefore, that the program deserves continued Fund support.

IV. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

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

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

Washington, September 30, 1983

Dear Mr. de Larosiere:

1. Ghana's stand-by arrangement with the Fund, approved by the Executive Board on August 3, 1983, in support of our comprehensive adjustment program covering the year through June 30, 1984, provides for two comprehensive reviews with the Fund on the progress under the program, to be completed by October 15, 1983 and February 15, 1984.

2. The first review was initiated through a staff mission that visited Accra during August 14-29, 1983. The main purposes of the mission were to set performance criteria for the end of October and December 1983, to discuss exchange rate and interest rate policies, and to review the progress in implementing and monitoring the main measures of the program that were announced in April, 1983. These measures included a major reform of the exchange system, a substantial increase in the cocoa producer price for the 1983/84 crop, a phased increase in the prices of petroleum products, a full pass-through to domestic prices of higher import costs following the changes in the exchange system, decontrol of prices on domestically produced food items and a more flexible policy in setting prices of other essential items, as well as wage and salary increases. Under the program, fiscal policy is aimed at reducing the overall budget deficit. Credit and monetary policies are directed toward channelling the allowable increase in credit mainly to the private sector and the commercial public sector enterprises, while reducing considerably the rate of monetary expansion during the program period. The balance of payments objective is geared to increase imports necessary to support the economic recovery and to reduce external payments arrears.

3. Following the discussions related to the first review, we want to reaffirm our commitment to implement all the measures of the program and even to advance the timetable for implementing certain key measures, particularly in the area of the exchange system. It will be recalled that on April 21, 1983, the Government introduced, as a transitional arrangement, a multiple exchange rate system based on bonuses and surcharges applied by the banks and other authorized dealers of foreign exchange, which effectively resulted in two exchange rates, namely ₵ 23.375 = US$1 and ₵ 29.975 = US$1, and an implicit average exchange rate of ₵ 24.692 = US$1, compared with the rate of ₵ 2.75 = US$1, which had remained fixed since mid-1978. Furthermore, the program provided that the implicit average exchange rate was to be kept constant in real terms and the exchange rates unified at a realistic level by the end of the stand-by arrangement. To achieve these goals, the implicit effective rates resulting from the bonuses and surcharges were to be explicitly announced as the new official exchange rates by October 1, 1983. Secondly, beginning also October 1, 1983, the rates were to be depreciated periodically so as to reflect the inflation differential between Ghana and its major trading partners. To end

the complexities of both the system of bonuses and surcharges and of a multiple rate structure, the Government has decided to move to a unified exchange rate system on October 10, 1983, far in advance of our commitment in the original letter of intent. Taking into account the inflation differential, the new unified exchange rate will be set at ₵ 30 = US$1. This represents a depreciation of 21.5 per cent in terms of local currency of the implicit average exchange rate of ₵ 24.692 = US$1. As already expressed in our letter of July 7, 1983, the Government intends to continue to pursue a flexible exchange rate policy with the aim of maintaining Ghana's international competitive position.

4. On April 21, 1983, the prices of various types of petroleum products were raised to the equivalent of crude being imported at ₵ 15 = US$1. In order to reduce the subsidy and to phase it out by June, 1984, the Government has decided to raise the prices of petroleum products, in cedis per imperial gallon, as follows, effective October 10, 1983: premium gasoline, from ₵ 25.00 to ₵ 31.50; regular gasoline, from ₵ 21.50 to ₵ 27.00; gas oil, from ₵ 15.50 to ₵ 20.00; and kerosene, from ₵ 13.20 to ₵ 16.00. These adjustments imply that the retail price of petroleum products will be equivalent to crude being imported at ₵ 20 = US$1. The necessary subsidy during May-December, 1983 was budgeted not to exceed ₵ 1.0 billion. The Government is confident that this objective will be met.

5. The Government's continued ability to control expenditure was evident in budgetary developments during the first half of 1983. Although revenue outturn fell short of projected levels mainly because of slower than anticipated increases in imports, government recourse to the banking system remained within the projected path. This was achieved through a reduction by ₵ 1 billion of programmed expenditure during the first half of 1983. The low level of economic activity and the consequent impact on domestic output caused receipts from excise and other taxes on domestic goods to be lower than projected. While personal income tax receipts were largely on target, revenues from company taxation suffered from the slowdown in economic activity. The revenue situation since June has been considerably improved partly due to the collection of ₵ 1.1 billion from the cocoa export tax and the payment of the gold export tax for the period May-August, 1983. It is expected that the revenue position will improve considerably during the remainder of 1983 with the faster implementation of the import program. The consequent revival in economic activity is also expected to provide increased revenue from taxes on incomes and domestic goods and services. For the year as a whole, total revenue is now projected at ₵ 12.7 billion and total expenditure (including the ₵ 1.0 billion subsidy on prices for petroleum products) has been revised downward to ₵ 17.1 billion. The overall budget deficit is projected at ₵ 4.4 billion against ₵ 3.6 billion estimated in May, 1983. The new budget projections include ₵ 750 million of additional foreign financing, representing the part of the World Bank reconstruction import credit on IDA terms

that is expected to accrue to the 1983 budget. Given the uncertainty of revenue flow arising from a bunching of imports during the fourth quarter of 1983 and first quarter of 1984, the Government has formulated a contingency plan of emergency revenue measures and expenditure cuts which could be implemented if required during the remainder of the year.

6. During the first half of the year, monetary and credit developments were within envisaged targets. We have continued to pursue a cautious monetary and credit policy during the third quarter of the year. We are, therefore, confident that the ceilings for end-August on total net domestic assets of the banking system and on net claims on the Government have been respected. For this reason, in transforming credit targets for end-October and end-December into performance criteria, no major adjustments are deemed necessary. Thus, net domestic assets of the banking system will not exceed ₵ 23.67 billion on October 31, 1983 and will not exceed ₵ 25.67 billion on December 31, 1983. Net claims on the Government by the domestic banking system will not exceed ₵ 20.78 billion on October 31, 1983 and will not exceed ₵ 21.08 billion on December 31, 1983. The only change from the targets is an additional ₵ 0.3 billion in allowable growth in net claims on the Government through December 1983. The indicative credit targets for end-March, 1984 and end-June, 1984, set in May, 1983, have not been revised at this stage.

7. In line with our undertaking to review interest rates, the Government has decided to make a substantial adjustment in the structure of interest rates. On October 10, 1983, all interest rates will be raised by 35 to 40 per cent. For example, the Bank of Ghana discount rate will rise from 10.5 per cent to 14.5 per cent, the maximum commercial bank lending rate will rise from 14 per cent to 19 per cent and the deposit rate from 8.25 per cent to 11.50 per cent. It is the intention of Government to pursue a policy that will ensure that, in the medium term, interest rates will be positive in real terms.

8. Revised balance of payments projections will differ somewhat from the earlier ones, mainly because of a slower than expected takeoff of imports following the adjustment measures and inflows of new external resources. It is now projected that the current account will record a deficit of US$361 million compared with a deficit of US$525 million forecast in May, 1983. This reduction is expected to result from the decline in the projected trade deficit from US$366 million to US$248 million. The value of total exports is projected to be 6 per cent lower than projected earlier, mainly due to lower gold exports and a somewhat slower recovery in timber exports. On the other hand, the pace of recovery of cocoa exports has continued, and the value of the projection has been revised upward by 4 per cent relative to the May projection. The projection of the value of total imports (f.o.b.) has been revised downward, by 16 per cent. The slower than expected growth in imports

during the first eight months of the year was caused both by some initial domestic financial constraints and physical impediments. The temporary cash flow squeeze following the large exchange rate adjustment in April and the higher cash margins initially required by banks contributed to the hesitancy on the part of importers to open letters of credit. In addition, transportation bottlenecks, particularly on road haulage from the ports, have imposed physical constraints on the ability to import. The transport situation will improve as imports of transportation equipment and parts financed by the World Bank's reconstruction import credits begin to arrive. Import activity is therefore expected to pick up during the remainder of the year. The overall balance of payments deficit is projected to decline by US$41 million to US$100 million. The Government has begun to review balance of payments prospects for 1984. The actual outcome for 1984 depends in part on a donor's conference being organized by the World Bank and planned to be held during the third week of November in Paris. Following the conclusion of this conference, the balance of payments projections for 1984 and over the medium term will be reexamined.

9. In line with our undertaking to pursue a prudent external debt management policy, we have avoided contracting loans that accentuate the debt service burden. External loans contracted by the Government during the first seven months of 1983, exclusive of oil import credits, totalled US$100 million, and they consisted entirely of concessional loans within the maturity range of 18-40 years. Through end-August, 1983, the Government had not contracted or guaranteed nonconcessional medium-term (1-5 year-maturity range) and long-term (over 5-year and up to 12-year maturity range) loans. Since August 1983, outstanding bridging loans have been reduced by fifty per cent to US$55 million; no disbursements of loans with an original maturity of less than one year, other than trade related credits, have been made since August 1983. Under the stand-by arrangement, the Government has undertaken to reduce external arrears on payments and transfers for current international transactions and on debt amortization, which totalled US$601.1 million at the end of April 1983, by US$10 million by the end of August 1983. We are glad to report that by end-August 1983 we had actually reduced these arrears by US$39 million. It is the intention of the Government to not only reduce the level of net payments arrears through cash payments as scheduled under the stand-by arrangement, but also to reduce it further in 1983 if Ghana's international reserves position permits. Priority will be given to reduce payments arrears with respect to service payments on rescheduled debt.

10. The Government believes that the policies set forth in this letter are adequate to achieve the objectives of the program, but will take, with appropriate Fund support, any further measures that may become necessary for this purpose. The Government will consult with the Fund on the adoption of any measures that may be appropriate, in accordance with the policies of the Fund on such consultation.

Progress made in the implementation of the program, taking into account balance of payments developments, including the Government's interest rate and exchange rate policies, will be reviewed to reach understandings with the Fund by February 14, 1984. The completion of this review will constitute a performance criterion.

Sincerely yours,

/s/

Dr. Kwesi Botchwey
PNDC Secretary for Finance
and Economic Planning

/s/

J.S. Addo
Governor
Bank of Ghana

GHANA - Basic Data

Area, population, and GDP per capita

Area	238,537 square kilometers
Population: Total (1981)	12.1 million
Growth rate	2.7 per cent
Density	51 persons per square kilometer
GDP per capita (1981; in 1975 prices)	SDR 137

	1978	1979	1980	1981	1982
Gross domestic product		(In percentage change)			
At current prices	88.0	34.2	45.5 1/	87.0 1/	12.0 2/
At 1975 prices	8.3	-3.7	0.7 1/	-1.8 1/	-7.2 2/
Selected price indices					
Consumer prices 1/	73.3	54.2	50.1	116.5	22.3
Wholesale prices	47.4	65.9	42.9	49.8	36.0

Government finance (year ending June)	1977/78	1978/79	1979/80	1980/81	1981/82
		(In millions of cedis)			
Revenue and grants	1,383.8	2,578.4	2,949.9	3,279.3	4,855.0
Expenditure and net lending	3,193.1	4,400.0	4,758.0	7,985.9	9,703.2
Exceptional receipts	--	631.0	--	--	--
Overall deficit (-)	-1,809.3	-1,821.6	-1,808.1	-4,706.6	-4,847.9
External borrowing (net)	67.2	-43.7	300.1	367.3	389.3
Domestic bank borrowing (net)	1,457.0	727.8	1,058.6	3,113.7	1,672.7
Domestic nonbank borrowing (net) (including discrepancies)	285.1	1,137.5	449.4	1,225.6	2,785.9

Monetary survey (end of period)	1978	1979	1980	1981	1982
		(In millions of cedis)			
Foreign assets (net)	-893.3	-528.7	-358.3	-1,158.9	-1,023.1
Of which: payments arrears 3/	1,181.9	933.3	715.9	1,104.9	1,201.7
Net domestic assets	6,073.1	6,540.4	8,416.4	13,329.2	16,007.8
Of which: claims on Government (net)	4,499.6	4,905.8	6,526.4	10,655.4	11,063.6
Money	4,127.9	4,681.6	6,087.0	9,415.0	11,204.7
Quasi-money	1,005.0	1,262.3	1,863.6	2,615.5	3,634.5

GHANA - Basic Data (concluded)

	1978	1979	1980	1981	1982
			(In percentage change)		
Net domestic assets	87.6	7.2	28.7	58.3	20.1
Of which: claims on Government (net)	(61.9)	(9.1)	(33.0)	(63.2)	(3.8)
Money and quasi-money	68.5	15.5	33.8	51.3	23.4
			(In millions of U.S. dollars)		
Balance of payments					
Exports, f.o.b.	894.6	1,065.7	1,208.9	766.4	627.2
Imports, f.o.b.	-781.9	-803.1	-1,024.6	-788.7	-529.0
Trade balance	112.7	262.6	184.3	-22.3	98.2
Services	-217.1	-219.6	-247.7	-223.3	-197.2
Transfers	58.3	78.8	79.7	82.9	82.4
Invisibles (net)	-158.8	-140.8	-168.0	-140.4	114.8
Current balance	-46.1	121.8	16.3	-162.7	-16.6
Official capital (net)	107.2	127.9	187.9	57.3	149.7
Errors and omissions	-145.6	-108.0	-158.6	-197.6	-106.7
Capital balance (including errors and omissions)	-33.3	-14.5	50.9	-112.5	73.0
SDR allocation and distribution of gold profits	3.9	18.4	14.3	12.7	--
Overall balance	-75.5	125.7	81.5	-262.5	56.4
Changes in official short-term external position 4/	75.5	-125.7	-81.5	262.5	-56.4
International reserves	-61.7	-44.9	13.8	112.0	-87.8
Current payments arrears	129.9	-74.9	-78.9	103.4	35.2
Bilateral balances	7.3	-5.6	-6.4	17.7	-3.8
Gross international reserves (end of period)	280.5	293.0	197.6	189.8	223.9

Sources: Ministry of Finance and Economic Planning; Central Bureau of Statistics; and Bank of Ghana.

1/ Preliminary estimates of the Central Bureau of Statistics, Accra.
2/ Central Bureau of Statistics and staff estimates.
3/ Comprises pre- and post-1972 arrears arising from the implementation of the Investment Policy Decree.
4/ Increase in assets -.

GHANA--Relations with the Fund
(As of September 30, 1983)

IMF data

Date of membership:	September 19, 1957
Quota:	SDR 159 million
Proposed quota:	SDR 204.5 million
Intervention currency and the rate:	U.S. dollar; ₵ 2.75 = US$1.00 1/
Local currency/SDR equivalent:	₵ 1.0 = SDR 0.344
Holdings of SDRs:	SDR 9.90 million, 15.65 per cent of net cumulative allocation
Fund holdings of Ghanaian cedis:	SDR 335.2 million, 210.81 per cent of quota
Of which: oil facility	None outstanding
Trust Fund assistance:	Ghana did not qualify for a Trust Fund loan in the first period. Ghana received SDR 48.96 million in the second period.
Distribution of gold profits:	US$13.83 million
Gold distribution:	74,457 ounces

Staff contacts and technical assistance

Review of stand-by mission	August 14-25, 1983
Article IV consultation and Use of Fund resources mission	May 1-25, 1983
Use of Fund resources discussions (Washington)	January 28-February 18, 1983
Use of Fund resources discussions (Toronto and Washington)	September 2-22, 1982
Staff visit (Use of Fund resources)	July 25-29, 1982
Staff mission (Use of Fund resources)	November 17-December 8, 1981
Use of Fund resources discussions (Washington)	July 17-30, 1981
Staff visit (Use of Fund resources)	June 20-23, 1981
Staff mission (Use of Fund resources)	May 6-28, 1981
Staff mission (CFF)	April 12-17, 1981
Technical assistance, FAD	March 6-13, 1981
Staff mission (Use of Fund resources)	January 26-30, 1981
Technical assistance, CBD	December 28-30, 1980
Staff mission (Use of Fund resources)	December 15-19, 1980
Staff mission (Use of Fund resources)	October 26-November 8, 1980
Staff mission (Use of Fund resources)	September 10-12, 1980
Staff mission (Use of Fund resources)	July 4-7, 1980
Staff visit (Use of Fund resources)	April 23-26, 1980

Staff mission (Article IV consultation discussions)	January 21-February 2, 1980
Technical assistance, CBD	January 21-February 2, 1980
CBD Panel Expert	February 1981-September 1982

1/ Since April 22, 1983 a multiple exchange system is in effect, through bonuses and surcharges applied by the banks and other authorized foreign exchange dealers, resulting in two effective rates of ₵ 23.375 = US$1 and ₵ 29.975 = US$1 or an implicit average of about ₵ 25 = US$1. On October 10, 1983 the authorities will move to a unified rate of ₵ 30 = US$1.

GHANA - Relations with World Bank Group
(As of September 30, 1983)

(In millions of U.S. dollars)

Lending operations 1/

	IBRD and IDA		
	Total commitments	Disbursed	Undisbursed
Loans and credits fully disbursed	194.4	194.4	--
Oil palm	13.6	12.8	0.8
Telecommunications	23.0	13.1	9.9
National Investment Bank	10.0	9.4	0.6
Ashanti cocoa project	14.0	13.9	0.1
Second Highway	18.0	16.9	1.1
Agricultural development	21.0	15.2	5.8
Second NIB	19.0	5.2	13.8
Agricultural development	29.5	3.2	26.3
Third Highway	25.0	16.5	8.5
Railway	29.0	--	29.0
Water supply project	13.0	--	13.0
Energy project (petroleum exploration)	11.0	--	11.0
Reconstruction import credit	40.0	--	40.0 2/
Total	460.5	300.6	159.9
Less amount paid	45.7	45.7	--
Total outstanding	414.8	254.9	159.9

Source: World Bank.

1/ Less cancellations.
2/ About US$ 5.0 million is estimated to have been disbursed during the first two months through August 1983. The whole amount is expected to be disbursed by the end of December 1983.