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# IMF Concludes Article IV Consultation with Ghana

The IMF Executive Board on October 31, 1997 concluded the 1997 Article IV consultation[1] with Ghana.

## Background

Ghana undertook a macroeconomic adjustment program in 1995 supported by the IMF in a three-year arrangement under the Enhanced Structural Adjustment Facility (ESAF). This program was formulated against a background of substantial budget and monetary slippages, and consequent inflationary pressures, since 1992, and weather-related food shortages in 1995. In addition, excessive central bank financing of the Ghana National Petroleum Corporation (GNPC) in 1994 and of the budget in general needed to be addressed.

Performance under the first annual ESAF arrangement was uneven. The budget deficit in 1995 was higher than envisaged, primarily because capital expenditure was higher, particularly on roads. Reserve money was above target and inflation peaked at 71 percent at end-1995. On the positive side, real GDP grew by 4.5 percent, the privatization program remained on track, the external current account balance improved significantly, and official international reserves exceeded expectations, largely because of a bumper cocoa crop.

In early 1996, the authorities took corrective measures. Monetary policy was tightened and road contracts were renegotiated to remain within budget limits. Reforms of petroleum pricing and

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[1]Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. In this PIN, the main features of the Board's discussion are described.

marketing were introduced. For the year as a whole, Ghana's performance was mixed. Real GDP grew by an estimated 5.2 percent, led by a bumper cocoa crop, and the 12-month rate of inflation fell to 33 percent in 1996 from 71 percent in 1995, reflecting the lagged effect of relatively tight monetary conditions in 1995, the good harvest in 1996, and substantial wage restraint. However, as a result of serious lapses in government expenditure control, the government's domestic primary surplus fell from 1.6 percent of GDP in 1995 to 0.3 percent in 1996, leaving virtually all debt servicing to be financed by new debt, grants, and divestiture proceeds.

In 1996, progress was made in the implementation of structural reforms, with the divestiture of the largest state-owned bank and the telecommunications monopoly. Although deregulation of the petroleum sector was introduced, when the formula for retail petroleum prices was to be applied for the first time, the prescribed increase was not implemented. Also, no headway was made on the sale of assets of the GNPC.

The government's current overall objective is to inspire the confidence of investors and the public in liberal, market-oriented policies by securing a stable macroeconomic environment and continuing structural reforms to enhance private investment, thereby creating jobs, increasing incomes, and reducing poverty. The most pressing policy challenge facing the government is the need to slow down inflation. To attain this goal, financial policies will be tightened significantly. The growth of broad money will be reduced from 40 percent in 1996 to 30 percent in 1997, while the fiscal program envisages a rise in the domestic primary surplus to 3.2 percent of GDP. Owing to an expected decline in cocoa production from the bumper crop of 1996 and the cutback in government expenditure, real economic growth is likely to be lower than the initial target of over 5 percent.

The Ghanaian authorities are pursuing a range of important economic reforms in a medium-term framework that include: (1) a comprehensive overhaul of expenditure planning and control; (2) tax reform that encompasses the replacement of the present sales tax with a value-added tax (VAT), a substantial cutback of tax and import duty exemptions, and improvements in tax and customs administration; (3) control of reserve money growth to provide the nominal anchor necessary to reduce inflation; (4) market determination of the exchange rate; (5) the strengthening of bank supervision and enforcement of banking regulations; and (6) structural reforms that include further steps in the deregulation of the petroleum and cocoa sectors, continuing divestiture of public enterprises, restructuring of the GNPC, and public service reform.

**Executive Board Assessment**

Recalling Ghana's past strong record on adjustment and reforms, Executive Directors expressed disappointment that significant policy slippages caused the interruption of the first annual arrangement under the Enhanced Structural Adjustment Facility (ESAF). They were concerned that, while inflation was reduced, it remains high and volatile, and that private investment remains weak; hence, economic growth, while strong, may not be sustainable. Directors also regretted that structural reforms had slowed in all but the divestiture component. As a result, significant fiscal and external deficits had re-emerged, placing Ghana in a difficult financial situation.

Against that background, Directors were encouraged by the policy actions and legislative changes that had been adopted since early 1997 in an effort to stabilize the macroeconomic situation, and they noted the improved fiscal performance in September. They urged the authorities to move ahead forcefully, and as soon as feasible, in the fiscal and structural areas so as to provide the basis for a program that could be supported by the second annual ESAF arrangement.

Directors emphasized the need for a tightening of fiscal policy. They were encouraged by the steps that had been taken to put in place an effective mechanism for monitoring and managing government expenditure. Directors urged the authorities to introduce the value-added tax in 1998 as Ghana needs to reduce its reliance on trade taxes and shift toward broad-based taxation of consumption. The importance of establishing a reliable taxpayer identification number system was noted. Directors noted that vigorous follow-through on the recent measures to cut back tax and customs exemptions was required for those measures to succeed. Directors welcomed the planned creation of a central revenue authority as a step in the right direction.

Directors underscored the urgency of reducing inflation as a precondition for sustainable growth. Bringing inflation down to single digits should be a priority for the government and the key objective of monetary policy. They agreed that the reserve money program provided an appropriate framework for monetary policy. Directors emphasized that it was the credibility and commitment to sound macroeconomic policies that were critical to achieving low inflation. In this regard, the exchange rate should continue to be flexibly managed and be market based. Directors emphasized the need to strengthen banking supervision and improve the financial health of commercial banks. They also welcomed the harmonization of reserve requirements on domestic and foreign currency deposits.

Directors urged the authorities to accelerate and broaden structural reforms. They welcomed the fact that the access of the national petroleum company, GNPC, to central bank credit had been curtailed and that the GNPC had begun to repay its debt to the Bank of Ghana. Directors also called for a restructuring of the oil and cocoa sectors and for increased private sector participation in the telecommunications sector. They emphasized the importance of continued implementation of petroleum price adjustments. They urged the authorities to speed up the divestiture of state-owned banks and public enterprises that remained outside the government divestiture program. Directors indicated that broad-based privatization within a clear legal and regulatory framework would send a positive signal to potential investors.

Noting the large size of Ghana's public service, Directors recommended that the authorities streamline the civil service and the autonomous government agencies—the subvented agencies—and resist any wage-related spending pressures.

Concerned about Ghana's sizeable external debt burden, Directors stressed the importance of strict adherence to the current moratorium on nonconcessional borrowing by the government.

Directors urged the authorities to improve the timeliness, quality, and reliability of key surveillance data.

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

***Press Information Notices (PINs)*** are a new series of IMF press notices (see Press Release 97/21). PINs are issued, at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies.

## Ghana: Selected Economic Indicators

| | 1993 | 1994 | 1995 | 1996 | 1997 Proj. |
|---|---|---|---|---|---|
| ***Domestic economy*** | | | *Percentage change* | | |
| Change in real GDP | 5.0 | 3.8 | 4.5 | 5.2 | 3.0 |
| Change in consumer prices (period average) | 25.0 | 24.9 | 59.5 | 45.6 | 28.3 |
| ***External economy*** | | | *In millions of U.S. dollars 1/* | | |
| Exports, f.o.b. | 1,064 | 1,227 | 1,431 | 1,571 | 1,513 |
| Imports, f.o.b. | 1,728 | 1,580 | 1,687 | 1,932 | 1,852 |
| Current account balance | -559 | -265 | -142 | -320 | -388 |
| (In percent of GDP) | -9.2 | -5.1 | -2.3 | -5.0 | -5.9 |
| Capital account balance | 630 | 479 | 432 | 279 | 263 |
| Gross official reserves | 420 | 593 | 710 | 606 | 314 |
| Debt service (including to the Fund) 2/ | 35.7 | 27.4 | 35.8 | 27.4 | 35.7 |
| Change in real effective exchange rate (in percent) 3/ | -13.2 | -17.6 | 14.9 | 12.2 | ... |
| ***Financial variables*** | | | *In percent of GDP* | | |
| General government balance | -10.4 | -9.3 | -6.7 | -10.4 | - 8.2 |
| Domestic primary balance 4/ | -3.4 | 0.8 | 1.6 | 0.3 | 3.2 |
| Change in broad money (in percent) 5/ | 27.4 | 53.0 | 40.8 | 39.7 | 31.0 |
| Interest rate (in percent) 6/ | 32.0 | 29.5 | 40.5 | 42.6 | 42.8 |

Sources: Ghanaian authorities; and IMF staff estimates.
1/ Unless otherwise noted.
2/ In percent of exports of goods and nonfactor services.
3/ (+) = appreciation.
4/ Excluding external aid.
5/ Including foreign currency deposits after 1993.
6/ Treasury bill rate.