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EBS/83/140
Correction 1

CONFIDENTIAL

July 28, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Ghana - Staff Report for the 1983 Article IV Consultation and Request for Stand-By Arrangement

Taking into account Ghana's repurchase from the Fund on July 29, 1983, the following revisions have been made in EBS/83/140 (7/7/83):

Page 2, para. 2, line 5: for "SDR 114.5 million" read "SDR 116.7 million"
line 6: for "SDR 124.0 million" read "SDR 121.8 million"

Page 4, column 1, line 2: for "27.8" read "29.1"
line 3: for "19.9" read "18.6"
column 2, line 2: for "21.6" read "22.5"
line 3: for "26.1" read "25.2"

Page 41, item 3, line 2: for "SDR 5,995,115" read "SDR 3,995,115"
line 5: for "SDR 47,634,770" read "SDR 51,634,770"

The following corrections have also been made:

Page 27, 2nd full para., lines 2 and 3: for "¢ 19.2 million" read "¢ 19.2 billion"

Page 47, line 3: for "900 per cent" read "990 per cent"

Corrected pages are attached.

Att: (5)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

GHANA

Staff Report for the 1983 Article IV Consultation and Request for Stand-By Arrangement

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

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

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

July 7, 1983

Contents

I. Introduction

The 1983 Article IV consultation discussions with Ghana were held in Accra during May 1-25, 1983, when there were concurrent discussions on a one-year stand-by arrangement. The Ghanaian representatives included Dr. Kwesi Botchwey, PNDC Secretary for Finance and Economic Planning, Mr. J.S. Addo, Governor of the Bank of Ghana; Dr. J. Abbey, Executive Secretary of the newly created National Policy Implementation and Monitoring Secretariat (and recently appointed Secretary of Trade), as well as the Secretaries for Agriculture, Industry, and Fuel and Power; and the Deputy Secretary for Lands and Natural Resources and the Chief Executive of the Cocoa Marketing Board. The head of the mission also met with Mr. P.V. Obeng, the PNDC Coordinating Secretary, a position similar to that of a Prime Minister. The staff representatives were Messrs. J.W. Kratz (head-AFR), K.M. Huh (ETR), D. Ballali (AFR), J. Diamond (FAD), and R. Kronenberg (AFR), and Ms. C. O'Connor (secretary-TRE). Mr. Ghassem Salehkhou, Executive Director elected by Ghana, participated in the policy discussions during May 9-10, 1983.

In the attached letter (Appendix II) dated July 7, 1983, the Government of Ghana requests a stand-by arrangement, in support of an adjustment program covering the year through June 30, 1984, in an amount equivalent to SDR 238.5 million, representing 150 per cent of quota. Of this amount, SDR 116.7 million would be provided from ordinary resources and SDR 121.8 million from borrowed resources. As of June 30, 1983 the Fund's holding of Ghana's currency subject to repurchase amounted to SDR 11.995 million or 7.54 per cent of quota.

In this case maximum access is proposed because Ghana has adopted a comprehensive adjustment program with major measures already in place. The potential growth of exports is such that a decisive improvement in the balance of payments can be expected by the time that repurchases fall due. By 1987, when Fund charges and repurchases will be heavy, broad equilibrium is projected in the overall balance of payments. Thereafter it is projected that surpluses will be built up as a basis for net repurchases to the Fund.

Ghana is also requesting a purchase of SDR 120.5 million (75.8 per cent of quota) under the compensatory financing facility on account of a shortfall in exports during the calendar year 1982. There are no outstanding purchases under this facility. This purchase and those under the proposed stand-by arrangement, if fully utilized, would increase outstanding Fund credit to Ghana (after taking into account scheduled repurchases) to 223.3 per cent of the present quota (or 173.6 per cent of the proposed quota under the Eighth General Review of SDR 204.5 million), of which the equivalent of 75.8 per cent (or 58.9 per cent of the proposed new quota) would represent purchases under the compensatory financing facility. A waiver of the limitation in Article V, Section 3(b)(iii) of

the Articles of Agreement will be required. Under the proposed phased purchases under the stand-by arrangement, SDR 47.7 million would be available after Executive Board approval of the arrangement. The second purchase, available after October 14, 1983, would be subject to Ghana's meeting the performance criteria for end-August 1983. Subsequent purchases would be available after December 14, 1983, upon meeting the end-October 1983 performance criteria; the fourth purchase after February 14, upon meeting the end-December 1983 performance criteria; and the final purchase after May 14, 1984, subject to meeting the end-March 1984 performance criteria. The second and fourth purchases would also be subject to a satisfactory completion of the two reviews provided for under the program. The proposed phased purchases, as well as the scheduled repurchases during the program period, are summarized in Table 1. A summary of Ghana's relations with the Fund is provided in Appendix IV.

The last Article IV consultation discussions with Ghana were held in Accra during the period January 21-February 2, 1980. The staff report (SM/80/80) and the report on recent economic developments (SM/80/99) were considered by the Executive Board on May 9, 1980. During 1980 and 1981 there were extensive contacts between the Fund staff and the Ghanaian authorities in an effort to reach an agreement on a set of policies for a program that could be supported through the use of Fund resources. As the authorities postponed the adoption of corrective measures, Ghana was plunged into a severe economic and financial situation. On December 31, 1981, the elected civilian government that came to power in September 1979 was replaced by the Provisional National Defense Council. An update on economic developments through the end of 1981 was issued for the information of the Executive Directors on April 2, 1982 (SM/82/57). Ghana continues to avail itself of the transitional arrangements of Article XIV.

In early 1982 the PNDC established a National Economic Review Committee to undertake a thorough review of the economy with the aim of developing an adjustment program which would help in rehabilitating the Ghanaian economy. By July 1982 the work of the committee was sufficiently advanced to invite a Fund team for a brief visit. Subsequently, a framework for a financial program was developed and discussed with the Fund staff in Washington in September 1982 and February 1983. On April 21, in the context of the 1983 Budget Statement, the Government announced a large number of important measures, described in detail below, which were consistent with the framework program that had been discussed with the staff in February. A staff mission arrived in Accra soon thereafter to conclude the discussions of the comprehensive program.

The World Bank and the Fund have cooperated closely in preparing the groundwork for support of the authorities' program. Following the implementation of the main measures of the program in April and agreement between the Ghanaian authorities and the Fund staff on a draft letter of intent, the World Bank Executive Board approved a fast disbursing Reconstruction Import Credit amounting to SDR 36.3 million (US$40.0 million)

Table 1. Ghana: Proposed 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	--	43.7	47.7
Total outstanding Fund credit					
As per cent of quota (cumulative)					
Net credit	110.8	138.3	165.8	193.3	223.3 1/
Net credit excluding CFF	35.0	62.5	90.0	117.5	147.5 1/

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

1/ Equivalent to 173.6 per cent of new proposed quota or 114.7 per cent excluding purchases under the CFF.

in fiscal 1983. 1/ Amortization payments total ¢ 1.8 billion, of which ¢ 1.1 billion represents government-assumed debt payments on behalf of a number of public enterprises unable to finance foreign debt repayments in 1983 due to the sudden effect of the huge exchange rate depreciation. Total net domestic financing is projected at ¢ 2.5 billion. Bank financing will be limited to ¢ 2.3 billion during the 1983 fiscal year and to ¢ 1.4 billion for the program period June 1983-June 1984, or about 8 per cent of broad money at the beginning of the period.

(2) Monetary and credit policies

Cautious monetary and credit policies will be pursued during the program period. With June 1983 as the base month, an expansion in net domestic assets of ¢ 5 billion is programed for the 12-month period to June 1984 or equivalent to about 29 per cent of projected money stock at the beginning of the period. The increase in net domestic assets is phased over the program period through ceilings and targets. A major part of this increase will be directed to the private sector and the commercial public sector enterprises so as to support the economic recovery. These targets take into account seasonal factors, particularly those related to cocoa financing and the initial needs of importers and manufacturers following the massive changes in the exchange system. Thus, net domestic assets of the banking system, which are subject to periodic ceilings, have been allowed to exceed ¢ 5.0 billion during the peak of the cocoa purchasing season, on condition that they will be reduced to the target of ¢ 5.0 billion net increase by June 1984. The expansion of net domestic credit to the Government is limited by periodic subceilings. Given the uncertainty of the impact of adjustment measures during the initial period, credit ceilings have been set, as a performance criterion, for only the period through August 31, 1983.

To this end, net domestic assets of the banking system, which stood at ¢ 17.6 billion on March 31, 1983 and which are projected at ¢ 19.2 billion on June 30, 1983, will not be allowed to increase to more than ¢ 20.9 billion by August 31, 1983; net claims on the Government by the domestic banking system, which stood at ¢ 11.7 billion on March 31, 1983 and which are projected to increase to ¢ 20.1 billion by June 30, 1983 (including about ¢ 7.4 billion CMB debt assumed in April by the Government), will not be allowed to exceed ¢ 20.4 billion by August 31, 1983. During calendar year 1983, the increase in net claims on the Government will be kept to ¢ 2.3 billion and during the program period (end-June 1983-end-June 1984) to only ¢ 1.4 billion or 1.3 per cent of GDP (Table 7).

1/ The figure of ¢ 2.7 billion assumes that, of the 600,000 tons of crude oil imports during July-December 1983 (valued at ¢ 3.24 billion or US$138.6 million), only 500,000 will be sold and reflected in the budget. The remaining 100,000 tons will be either in storage or at various stages of processing and distribution.

For the remainder of the program period, only indicative credit targets have been set for end of October and December 1983 and end of March and June 1984. The credit limits and targets established are consistent with the budgetary objectives and with other objectives of the program and are designed to accommodate the seasonal requirement for cocoa financing, which is projected to increase by ¢ 0.6 billion during July 1, 1983-June 30, 1984, after rising to a seasonal peak of ¢ 3.0 billion. Claims on the rest of the economy are projected to rise by ¢ 3.0 billion during the period July 1, 1983 to June 30, 1984. Most of the increase, which would occur during July 1-December 31, 1983, is intended to accommodate the immediate requirements of importers and manufacturers, arising from the enlarged import program and the extensive changes in the exchange system.

The credit targets are consistent with a moderate expansion in broad money and a decline in net foreign assets, reflecting mainly the use of Fund resources and a reduction in payments arrears. Consistent with the credit targets, broad money is projected to increase by only 9.6 per cent during the program period July 1, 1983-June 30, 1984 compared with 47 per cent for the calendar year 1983 and 33 per cent for the period July 1, 1982-June 30, 1983. During the first review of the program, credit ceilings will be reviewed in the light of the latest projections of the size of the cocoa crop for 1983/84 (October-September) and developments related to the operations of the multiple exchange system, and performance criteria will be set for October 31, 1983 and December 31, 1983. The performance criteria with regard to credit ceilings for the end of March and June 1984 will be set during the second review mission, when the budget for 1984 will be discussed.

To control total domestic credit and the increase in the monetary base, the Bank of Ghana announced additional measures soon after the 1983 Budget Statement. The guidelines for sectoral allocation of credit were revised, in line with the main thrust of the financial and economic program, to permit expanded lending, particularly for exports, imports, domestic manufacturing, and agriculture. To accommodate the projected sudden increase in credit requirements of the private sector, particularly among importers and manufacturers, the authorities reduced commercial banks' cash reserve ratios and the ratios of holdings of other liquid assets to deposits applied at the Bank of Ghana.

The Government recognizes the need to have interest rates on deposits positive in real terms. However, the Ghanaian authorities believed that, with the sharp increase of credit needs by manufacturers and importers as a result of the large de facto devaluation, this was not the moment for raising their costs further by an immediate increase in interest rates. Furthermore, they consider that, with the success in reducing inflation during 1982, interest rates are less negative than a year ago. Nonetheless, interest rate policy will be reconsidered once

GHANA: Stand-By Arrangement

Attached hereto is a letter dated July 7, 1983 from the Secretary for Finance and Economic Planning and the Governor of the Bank of Ghana, requesting a stand-by arrangement and setting forth the objectives and policies that the authorities of Ghana intend to pursue for the period of this stand-by arrangement, and understandings of Ghana with the Fund regarding a review that will be made of the progress in realizing the objectives of the program and of the policies and measures that the authorities of Ghana will pursue for the remaining period of this stand-by arrangement.

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

1. For the period of one year from , 1983, Ghana will have the right to make purchases from the Fund in an amount equivalent to SDR 238.5 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. a. Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 47.7 million until October 14, 1983, the equivalent of SDR 95.4 million until December 14, 1983, the equivalent of SDR 143.1 million until February 14, 1984, and the equivalent of SDR 190.8 million until May 14, 1984.

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

3. Purchases under this stand-by arrangement shall be made from borrowed resources until purchases reach the equivalent of SDR 3,995,115; thereafter purchases under the arrangement shall be made from ordinary and borrowed resources in the ratio of 2 to 1 until purchases under the arrangement reach the equivalent of SDR 51,634,770; and then from ordinary and borrowed resources in the ratio of 1 to 1.2, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Ghana will not make purchases under this stand-by arrangement, other than the initial purchase of SDR 47.7 million that it may request not later than within 15 days of the effective date of this arrangement, that would increase the Fund's holdings of Ghana's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota:

a. during any period in which:

(i) the limit on net domestic assets of the banking system referred to in paragraph 13 of the attached letter and specified in the table annexed to that letter; or

(ii) the limit on net claims on the Government by the banking system referred to in paragraph 13 of the attached letter and specified in the table annexed to that letter is not observed; or

(iii) the understandings with regard to the exchange rate of the cedi referred to in paragraph 4 of the attached letter are not being observed; or

(iv) the targets for the reduction of external payments arrears as described in paragraph 18 of the attached letter are not being observed; or

b. if the limits on the contracting of new nonconcessional public and publicly guaranteed external debt as described in paragraph 19 of the attached letter are not observed; or

c. during any period after October 14, 1983, or February 14, 1984, respectively, until the policies of the program have been reviewed and suitable performance criteria with regard to net domestic assets of the banking system and net claims on the Government by the banking system, or any other performance criteria the Fund deems to be necessary, have been established in consultation with the Fund as contemplated in paragraphs 13 and 24 of the attached letter, or after such performance criteria have been established, while they are not being observed; or

d. during the entire period of this stand-by arrangement, if Ghana

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

(ii) introduces new, or modifies existing, multiple currency practices except as contemplated in paragraph 4 of the attached letter, or

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

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

capital goods, and basic foodstuffs, and transfers in respect of official commitments. All other payments are subject to a surcharge of 990 per cent, resulting in an effective exchange rate of ₵29.975 = US$1. In addition, purchases of foreign exchange for medical treatment, education abroad, travel, and for unrequited private transfers which were subject to foreign exchange transfer taxes ranging from 50 per cent to 80 per cent are now subject to a tax of 5 per cent. On the receipts side, transactions are also divided into two groups. Exchange receipts falling under the first group, consisting of cocoa and other traditional export products, which are expected to represent about 81 per cent of total foreign exchange receipts in 1983 (82 per cent in 1982), receive a bonus equivalent to 750 per cent of the official rate of ₵ 2.75 = US$1. The exchange rate adjustments have restored the profitability of these traditional exports. The 20 per cent export bonus scheme, which had been applied to non-cocoa exports, has therefore been abolished. All other receipts receive a bonus of 990 per cent. The average exchange rate for payments and receipts transactions resulting from the system of surcharges and bonuses is about ₵ 25 = US$1, and this rate is approximately equal in real terms to the exchange rate in 1972. Surcharges are collected, and bonuses are paid, by authorized dealers. These dealers are required to surrender promptly to the Bank of Ghana surcharges collected, and the Bank of Ghana refunds them bonuses paid. The system will be operated to ensure that, over time, the Bank of Ghana does not incur losses in its exchange transactions. It is the intention of the Government to announce the implicit rates resulting from the administration of the surcharge/bonus system as the new official exchange rates. Such an announcement will be made no later than October 1, 1983, that is, before the end of the stand-by arrangement's first review, which is presently envisaged to be completed by mid-October 1983. Beginning October 1, 1983, the two exchange rates will be adjusted quarterly on the basis of an agreed formula which takes into account the differential in the rate of inflation in Ghana and Ghana's major trading partners. Also, it is the objective of the Government to unify the exchange rate at a realistic level by the end of the stand-by arrangement. To this end, the less depreciated rate will be depreciated faster than the more depreciated rate. The operation of the exchange rate system will be reviewed with the Fund during the two reviews under the stand-by arrangement (see paragraph 24). The Government intends to continue to pursue a flexible exchange rate policy following the unification of the exchange rate with the aim of maintaining Ghana's international competitive position.

5. As indicated above, real output in virtually all productive sectors of the economy, including agriculture, industry, and mining, has declined sharply since the mid-1970s, the result of a severe shortage of foreign exchange, a deterioration in the capital stock, inadequate

price incentives, and a weakened transportation and distribution network. The adverse effects of the inappropriate policies pursued over the course of the past decade have recently have exacerbated by the related natural disasters of serious drought and extensive damage by bush fires. Added to all these problems has been the economic burden of reabsorbing over a very short period of time at least one million Ghanaian returnees from abroad, representing about 10 per cent of the total national population.

6. Apart from subsistence farming, the production of cocoa has long been Ghana's single most important economic activity as well as an essential source of government revenue. In recent years, however, cocoa production has suffered a steady decline in the face of a large deterioration in the real producer price of cocoa and a reduction in the availability of essential imported inputs, such as insecticides. The Government recognized that revitalization of the cocoa sector required the restoration of the real producer price to at least its 1975 level. Consequently, the producer price of cocoa was increased from ¢ 4,000 to ¢ 12,000 per metric ton in November 1981, and has been raised further to ¢ 20,000 per ton in April 1983. In the future, producer prices for cocoa as well as for other export crops will be adjusted annually and established at levels which will provide adequate incentives to farmers, and there will normally be no erosion of these prices in real terms. The Government is also aware that increased prices, alone, will not provide an adequate incentive if farmers are unable to use these proceeds to purchase basic consumer goods. It has, therefore, undertaken to ensure that a more regular and wider supply of consumer goods becomes available to the rural population. It also intends to make enough foreign exchange available to the Cocoa Marketing Board for the purchase of insecticides to complete at least two sprayings during every crop season. In addition, the importation of the necessary spraying material and the cocoa evacuation equipment has been facilitated by drawing on Stabex credits obtained in 1982. The first beneficial effects of these measures will be rapidly felt, and the volume of cocoa purchases is expected to increase by 17 per cent to 210,000 tons in 1983/84. Over the medium term, farmers' confidence will continue to be rebuilt, 150,000 acres of fire-destroyed trees will be replanted with the financial assistance of the Food and Agricultural Organization, and an additional 150,000 acres of damaged trees are expected to rejuvenate naturally. Yields will also increase significantly, reflecting the cumulative effects of regular spraying. The Government consequently believes that cocoa production is likely to exceed 300,000 tons per annum by 1987. Recognizing that domestically produced food has for some time now been selling at market prices, government subsidies on specific inputs have already been sharply reduced and are expected to be eliminated over the program period.