

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBS/83/140  
Correction 2

CONFIDENTIAL

August 12, 1983

To: Members of the Executive Board  
From: The Acting Secretary  
Subject: Ghana - Staff Report for the 1983 Article IV Consultation  
and Request for Stand-By Arrangement

The following corrections have been made in EBS/83/140 (7/7/83):

Page 6, Table 2: GDP real growth rates and changes in the national  
consumer price index for 1978 and 1979, and the  
overall budget deficit for 1978 have been corrected

Page 7, Table 2: ratios for 1983 and 1984 and changes in export  
volumes for 1978-84 have been corrected

Page 59: GDP growth rates for 1978-80 and consumer prices for 1978  
and 1979 have been corrected

Corrected pages are attached.

Att: (3)

on IDA terms on June 28, 1983. In addition, the World Bank is considering an export rehabilitation credit of US\$60-70 million to be disbursed mainly in 1984. As of June 30, 1983, Ghana had received 20 IDA credits and 10 IBRD loans, amounting to total net commitments of US\$419.4 million, of which US\$251.9 million is fully disbursed and outstanding. Ghana's relations with the World Bank Group are summarized in Appendix V.

The performance of the Ghanaian economy over the last four years and the related policies are discussed in Section II of this paper. Section III is a report of the discussions related to the Article IV consultation and of the economic and financial program for 1983/84. The medium-term economic outlook is presented in Section IV. Section V concludes with the staff appraisal and the proposed decisions. The basic economic data on the Ghanaian economy are set out in Appendix III.

## II. Background--Economic Developments and Policies

### 1. Recent trends in production

The severe structural imbalances that prevailed in Ghana during most of the 1970s deepened during 1980-82. After a modest recovery in 1980, real output dipped again by about 2 per cent in 1981 and dropped further by 7 per cent in 1982. According to preliminary estimates of Ghana's official national accounts, real output was about 17 per cent less in 1982 than in 1974; on a per capita basis, output fell by more than 30 per cent (Table 2). <sup>1/</sup>

Agriculture remains the main economic activity in Ghana. Cocoa production, which until 1980 accounted for two thirds of export receipts, has declined more or less continuously since the mid-1960s, with the decline accelerating in recent years. Although several factors are no doubt responsible for the decline in cocoa production, the steady decrease in real producer prices has been of major importance. This was partly attributable to the increasing overvaluation of the cedi as well as to the sharp drop in the world market prices which occurred since 1980. Although the cocoa producer price was doubled to ¢ 2,666 per metric ton in 1978, and raised again by 50 per cent to ¢ 4,000 per ton in 1979, these increases lagged far behind the rate of inflation. Moreover, the price of ¢ 4,000 per ton remained unchanged until late 1981. Thus, in 1980/81 the real cocoa price fell to only 26 per cent of its

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<sup>1/</sup> Over the years an increasing share of transactions has taken place in the parallel market or on barter terms, but official data on national accounts continue to cover largely those transactions that are conducted through officially recognized channels.

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
						Program	
<u>National accounts</u>							
GDP real growth (per cent)	8.3	-3.7	0.7	-1.8	-7.2	1.7	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
<u>Prices and wages</u>							
National consumer price index (per cent change)	73.3	54.2	50.1	116.5	22.3	50.0 <u>1/</u>	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 <u>2/</u>	...
<u>Central government finances <sup>3/</sup></u>							
Overall deficit as a per cent of GDP	7.4	5.2	8.0	5.2	4.6	3.1	2.5
Overall deficit as a per cent of M <sub>2</sub> at beginning of period	46.5	35.2	68.5	51.2	33.0	24.0	19.2
Overall deficit as a per cent of total expenditure	41.4	38.0	58.9	50.0	43.0	19.6	...
<u>Money and credit (per cent change; 1984 is year through June)</u>							
Net domestic assets	87.6	7.2	28.7	58.3	20.1	61.6	26.1
Of which: claims on Government	(61.9)	(9.1)	(33.0)	(63.2)	(3.8)	(25.1)	7.0
Money (M <sub>2</sub> )	68.5	15.5	33.8	51.3	23.4	47.3	9.6
Interest rates (at end of period)							
Savings deposits	7.50	7.50	7.50	18.0	8.0	...	...
Maximum lending rate	12.50	12.50	12.50	25.0	14.0	...	...

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
						Program	
<u>Balance of payments</u>							
Exports (per cent change in SDR value)	-14.1	15.4	12.6	-30.0	-12.6	-3.6	38.7
Imports (per cent change in SDR value)	-13.2	-0.5	26.6	-15.0	-28.4	85.0	12.8
Current account (in millions of SDRs)	-36.8	94.2	12.5	-138.0	-15.1	-486.3	-413.2
Current account to GDP (in per cent)	-0.4	1.2	--	-0.6	--	-10.0	-10.1
Oil imports to total imports (in per cent)	10.1	21.4	28.2	32.4	58.0	26.0	22.0
Export volume (in per cent)	-32.2	-12.4	38.4	-25.2	12.3	-6.0	11.0
Import volume (in per cent)	-16.2	-10.0	1.2	-20.6	-30.4	-76.0	1.9
Terms of trade (in per cent)	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	<u>4/</u> ... <u>4/</u>
Scheduled reduction	--	--	--	--	--	60.0	<u>4/</u> ... <u>4/</u>
Gross international reserves (in millions of SDRs)	224.0	226.8	151.8	161.0	202.8	189.0	<u>5/</u> ...
Equivalent weeks' imports	18.7	19.0	10.0	12.5	22.0	11.0	<u>5/</u> ...

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/ Through mid-1982 the fiscal year was July-June. Beginning 1983 the fiscal year is the calendar year. 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-April 1983.

level in 1974/75. Mainly as a result of this, cocoa purchases by the Cocoa Marketing Board (CMB) declined from 402,000 metric tons in 1975/76 to 258,000 metric tons in 1980/81. To a great extent this reflected a fall in production, but there was also smuggling to neighboring countries, estimated by the CMB at over 45,000 tons during the 1980/81 crop year. The tripling of the cocoa producer price in November 1981 to £ 12,000 per ton for the 1981/82 crop more than restored the 1979/80 real price, but since the increase was not accompanied by the necessary adjustment in the exchange rate, it resulted in heavy losses for the CMB, financed by recourse to the banking system.

Production of food crops has fluctuated, but since 1980 it fell rapidly, partly on account of severe drought conditions. By the end of 1982 a serious shortage of food had become evident. This situation was further aggravated by the arrival in early 1983 of about one million returnees from Nigeria, who, in most cases, found their way to their home villages. The returnees are estimated to have augmented Ghana's population by 10 per cent and have put severe pressure on food supplies. As a result, between January and April 1983 prices for basic food staples rose on the average by 300 per cent. In the case of maize and rice, the price increases were even higher.

Production of minerals, though accounting for only about 2 per cent of GDP, is the second most important export and has also declined over a number of years. Production of gold declined by about half from 614,000 fine troy ounces in 1974 to only 331,000 ounces in 1982. The reasons for the decline were mainly a shortage of equipment and spare parts due to a lack of foreign exchange, but also declining profitability reflecting the increasing overvaluation of the cedi. A 1980 study of the gold sector sponsored by the Government and the UNDP concluded that Ghana has the potential to raise gold production from the present 300,000-360,000 ounces to well over 2 million ounces a year; even over the next three years, with appropriate policies and some imports of spare parts and equipment, gold production could be doubled. Production of diamonds, manganese, and bauxite has also dropped precipitously, also largely because of lack of spare parts and equipment. Like gold, Ghana's known bauxite reserves are large, but most of them are located in the interior far from the railway transport system and hydroelectric power. It would require substantial capital investment and higher financial returns to exploit them.

After cocoa and minerals, timber and other forestry products are Ghana's third largest export. However, their share in total official exports declined from 8 per cent in 1975 to less than 3 per cent in 1982, reflecting a continued decline in output, increased domestic sales, and smuggling. A large portion of the domestically sold timber products has been smuggled to neighboring countries. The rate of smuggling appears to

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 <u>1/</u>	87.0 <u>1/</u>	12.0 <u>2/</u>
At 1975 prices	8.3	-3.7	0.7 <u>1/</u>	-1.8 <u>1/</u>	-7.2 <u>2/</u>

Selected price indices

Consumer prices <u>1/</u>	73.3	54.2	50.1	116.5	22.3
Wholesale prices	47.4	65.9	42.9	49.8	36.0

(In millions of cedis)

Government finance

(year ending June)

	<u>1977/78</u>	<u>1978/79</u>	<u>1979/80</u>	<u>1980/81</u>	<u>1981/82</u>
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

(In millions of cedis)

Monetary survey (end of period)

1978      1979      1980      1981      1982

Foreign assets (net)	-893.3	-528.7	-358.3	-1,158.9	-1,023.1
Of which: payments arrears <u>3/</u>	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 Govern- ment (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)

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
	(In percentage change)				
Net domestic assets	87.6	7.2	28.7	58.3	20.1
Of which: claims on Govern- ment (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)				
<u>Balance of payments</u>					
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	-43.8	-27.0
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 <u>4/</u>	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
<u>Gross international reserves</u> (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 -.