

**FOR
AGENDA**

EBS/83/223
Correction 1

CONFIDENTIAL

October 20, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Ghana - Review Under Stand-By Arrangement

The following corrections have been made in EBS/83/223 (10/7/83):

Page 4, first full para., line 8: for "mid-1978. The"
read "mid-1978 (Chart 1). The"

Page 4a: Chart I (Ghana - Nominal and Real Effective Exchange Rates)
inadvertently omitted.

Page 5, Table 2, line 1; under 1983: for "-9.1" read "1.7"

Page 6, Table 2, line 13; under 1983: for "559.7" read "541.1"

Corrected pages are attached.

Att: (4)

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

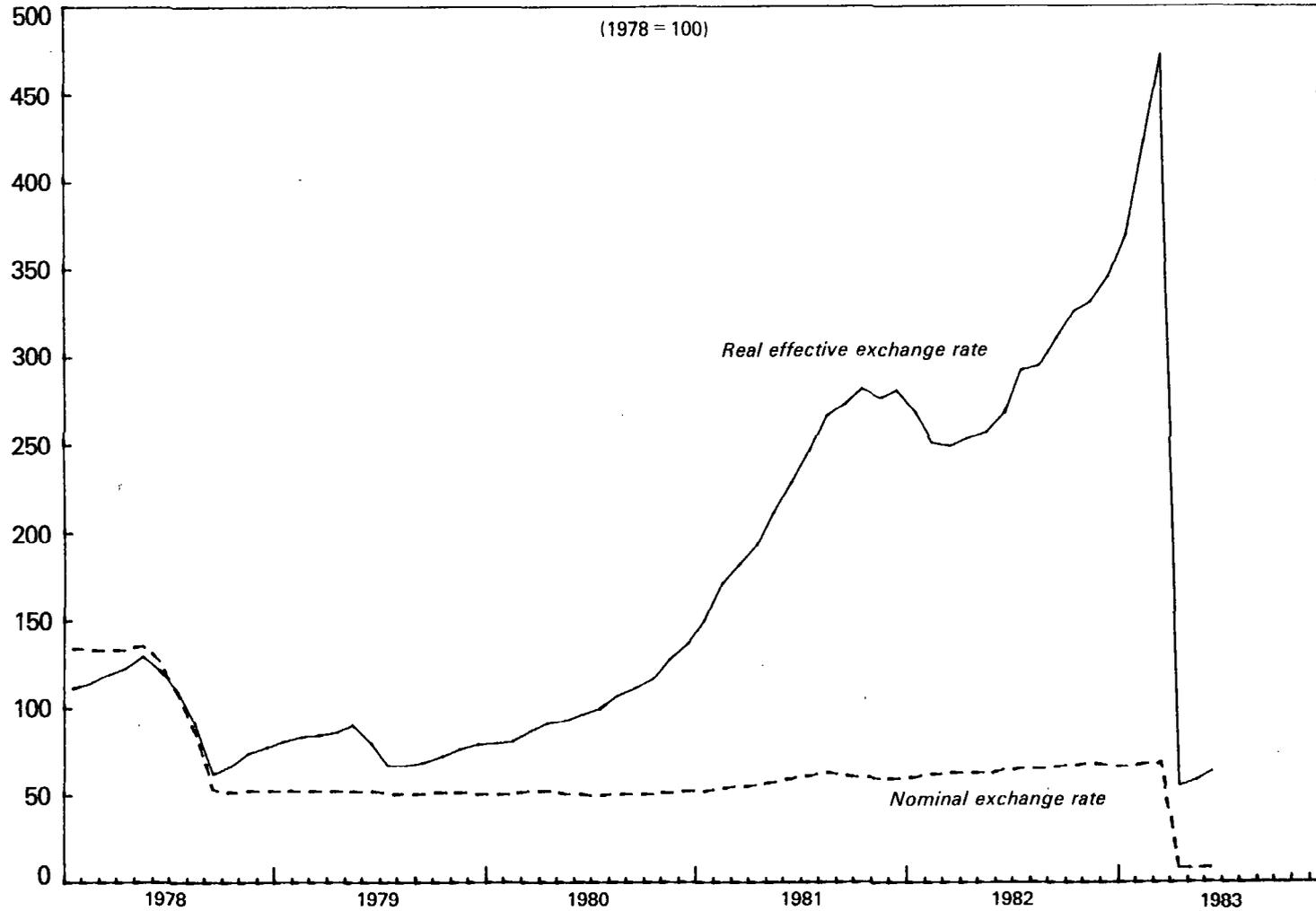
overall balance of payments deficit, as well as the size of government revenue and expenditure will be smaller than earlier projected. Selected financial data and ratios reflecting these revisions appear in Table 2. The authorities will continue to take appropriate measures to avoid possible slippage 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, $\text{¢ } 23.375 = \text{US\$1}$ and $\text{¢ } 29.975 = \text{US\$1}$. The operation of the system has resulted in an implicit average exchange rate of $\text{¢ } 24.692 = \text{US\$1}$, compared with the rate of $\text{¢ } 2.75 = \text{US\$1}$ which had been in effect since mid-1978 (Chart 1). 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 $\text{¢ } 30 = \text{US\$1}$, representing a further depreciation in terms of local currency of 21.5 percent of the average exchange rate of $\text{¢ } 24.692 = \text{US\$1}$, 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.

CHART 1
GHANA
NOMINAL AND REAL EFFECTIVE EXCHANGE RATES¹



Source: IMF Data Fund.

¹Trade weighted. Chart 1 shows developments only through June, 1983; a 20 per cent further depreciation at the time of unification on October 10, 1983 is not reflected in the chart.

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
<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 (Through mid-1982 the fiscal year was July-June. Beginning 1983 the fiscal year is the calendar year.) ^{3/}</u>							
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	29.9	19.2
Overall deficit as a per cent of total expenditure	41.4	38.0	58.9	50.0	43.0	25.8	...
<u>Money and credit (percent change; 1984 is year through June)</u>							
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
<u>Balance of payments</u>							
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	1.0
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	541.1	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.

End-July 1983.