FOR AGENDA

EBS/83/140

CONFIDENTIAL

July 7, 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

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Ghana and its request for a stand-by arrangement. Draft decisions appear on page 40.

It is proposed to bring this subject, together with a paper on a request by Ghana for a purchase under the compensatory financing facility (document to be issued shortly), to the agenda for discussion on Wednesday, August 3, 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. 73072).

Att: (1)

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 114.5 million would be provided from ordinary resources and SDR 124.0 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	27.8	21.6	21.7	21.7	21.7
Borrowed resources	19.9	26.1	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/ ; 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.

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). 1/

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

1/ 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 Program	1984 Program
National accounts							
GDP real growth (per cent)	8.6	-3.9	0.7	-1.8	-7.2	1.7	3.9
GDP per capita growth (in per cent)	6.1	-6.1	-1.0	[illegible]	-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)	73.1	54.4	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 3/							
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_2 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	41.0	38.0	58.9	50.0	43.0	19.6	...
Money and credit (per cent change; 1984 is year through June)							
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_2)	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 Program	1984 Program
Balance of payments							
Exports (per cent change in SDR value)	-14.1	15.4	12.6	-30.0	-12.6	-28.8	38.8
Imports (per cent change in SDR value)	-13.2	-0.5	26.6	-15.0	-28.4	47.7	12.8
Current account (in millions of SDRs)	-36.8	94.2	12.5	-138.0	-15.0	-491.0	-416.0
Current account to GDP (in per cent)	-0.4	1.2	--	-0.6	--	-10.0	-10.1
Oil imports to total imports	10.1	21.4	28.2	32.4	58.0	21.9	22.0
Export volume (in per cent)	-33.4	--	18.9	-10.0	3.7	-6.0	22.3
Import volume (in per cent)	-16.2	-10.0	--	-20.6	-31.1	-67.5	1.9
Terms of trade (in per cent)	24.3	-5.2	-25.1	-26.8	-17.7	1.0	15.7
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	4.8	5.8	10.7	21.8	23.3
External payments arrears (in millions of US$)							
Outstanding	488.9	427.4	342.5	512.2	575.9	... 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	189.0 5/	...
Equivalent weeks' imports	18.7	19.0	10.0	12.5	22.0	11.0 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/ 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 have accelerated during 1979-81, as the scope of parallel markets for goods and foreign exchange broadened. As a result, the volume of recorded exports of logs fell by more than 70 per cent, from 729,300 cubic meters in 1975 to an estimated 200,000 cubic meters in 1982. The recorded volume of timber and plywood exports fell by more than 55 per cent and 45 per cent, respectively, during the period 1975-82.

Manufacturing, whose share of GDP fell from 12 per cent in the mid-1970s to less than 6 per cent of GDP in 1982, has experienced great difficulties, in part because of its high dependency on imported inputs. With the intensification of foreign exchange shortages, capacity utilization declined sharply, from over 60 per cent prior to 1975 to only about 20 per cent in 1982.

2. Price developments

For many years, Ghana has experienced high rates of inflation, which the authorities sought, unsuccessfully, to contain through price controls. The effectiveness of these controls declined rapidly as goods moved through marketing channels, and at the retail level transaction prices were often multiples of the official price. Large profits, which escaped taxation, accrued to merchants and middlemen. The official price indices, which generally are based on actual transactions in the market place and are considered to be a reasonably good indicator of inflation, have risen, on average, by 82 per cent per annum in the years 1977-81.

In early 1982, the new Government launched a campaign to force the selling of hoarded stocks of goods at controlled prices. As a result, food shortages, following two years of drought, and the general supply situation grew more critical. This campaign, together with the demonetization of the 50 cedi notes and other budgetary and monetary action (see below), caused the consumer price index to drop temporarily during the first quarter of 1982, but by September 1982 it had risen again to approximately the December 1981 level. Over the full year of 1982, the national price index rose by 22 per cent compared with 116 per cent in 1981. Beginning in early 1983 price controls were relaxed further and the index is likely to have risen substantially.

Throughout most of the 1970s domestic prices for petroleum products had been subsidized. For the period 1974-80 petroleum consumption, particularly kerosene, was subsidized through the budget. Beginning, however, in 1978, there was a shift in policy, and by late 1980 all budgetary subsidies were removed and domestic energy prices became aligned with those in the world market. However, despite the removal of direct subsidies, petroleum consumption in Ghana continued to be heavily subsidized through the overvalued exchange rate. To curb consumption and conserve energy, the authorities introduced a rationing system for the two main products, premium and regular gasoline. Diesel fuel and other petroleum products, however, were not rationed. During the period 1979-82, oil consumption in Ghana has fallen by 6 per cent, but this was no doubt partly due to the decline in economic activity.

3. Fiscal developments

Since the early 1970s the fiscal situation in Ghana deteriorated sharply, as evidenced by large budget deficits, which averaged over 11 per cent of GDP from 1974 through 1978. There was some improvement, as a result of the adoption of stabilization measures, and the overall budget deficit fell to 5 per cent in 1979/80. This, however, was not sustained beyond mid-1980. A further deterioration was especially sharp during the 18 months through December 1981, as the tax base was further eroded; the yield on the important revenue items declined, even in nominal terms. Despite the shrinking size of the Government in relation to GDP, the fiscal deficit worsened from about 5 per cent in 1979/80 to 8 per cent of GDP in 1980/81 (Table 3).

In February 1982, the new Government, which came to power on the last day of 1981, announced the suspension of the 1981/82 budget. The action involved a cutback of current expenditure and a virtual cessation of capital expenditure. Efforts were made to remove "ghost" workers from the payroll and to reduce fraud and waste. Revenue collection, particularly from direct taxation, increased substantially as a result of more stringent tax collection measures. Thus, the Government succeeded in achieving its stated aim of reducing the budget deficit for 1981/82 (July-June) from a projected deficit of ₵ 8.0 billion to ₵ 4.8 billion, or from 10 per cent to 6 per cent of GDP. During the period January-June 1982, there was net repayment of credit by the Government to the banking system. This reflects in part the utilization of the proceeds of the partial currency withdrawal, discussed below, but also a very stringent expenditure policy. Capital expenditure virtually ceased, while, in addition, fairly effective expenditure control procedures were instituted, with the approval of the PNDC. With the decision to shift the fiscal year, effective January 1983, to coincide with the calendar year, the Government operated under ad hoc quarterly budgets for the second half of 1982, during which period expenditures continued to be held down.

4. Monetary and credit developments

The financing of budget deficits has been the main source of credit and liquidity expansion in the Ghanaian economy for most of the 1970s. From mid-1978 until mid-1980 the credit and monetary expansion slowed down, mainly as a result of a drop in government financing requirements. However, in 1980, particularly during the second half, the fiscal situation again worsened. In 1980, net domestic assets of the banking system rose by 29 per cent (against 7 per cent the previous year), with net claims on Government rising by 33 per cent and broad money by 34 per cent (against 15 per cent). In 1981 the situation deteriorated further. Net domestic assets rose by 58 per cent, with net claims on Government increasing by 63 per cent and broad money by 51 per cent (Table 4).

Table 3. Ghana: Summary of Central Government Operations, 1978/79-1983

(In millions of cedis)

	1978/79	1979/80	1980/81	1981/82	1982	1983
	Preliminary Actuals				Calendar	Calendar Projected
Total revenue and grants	2,578.4	2,949.9	3,279.3	4,855.3	5,253.2	14,630.6
Revenue	2,578.4	2,949.9	3,234.3	4,803.3	5,201.2	14,466.8
Foreign grants	--	--	45.0	52.0	--	163.8
Total expenditure and net lending	4,400.0	4,758.0	7,985.9	9,703.2	9,220.1	18,191.7
Current expenditure	3,499.7	4,072.8	6,329.3	8,602.6	8,029.4	14,865.6
Capital expenditure	796.0	594.7	1,390.0	926.9	816.7	2,375.0
Net lending	104.3	90.5	266.6	173.7	374.0	951.1
Exceptional receipts	631.0	--	--	--	--	--
Overall deficit	-1,821.6	-1,808.1	-4,706.6	-4,847.9	-3,966.9	-3,561.1
Financing (net)	1,821.6	1,808.1	4,706.6	4,847.9	3,966.9	3,561.1
Foreign	-43.7	300.1	367.3	389.3	215.1	1,046.6
Domestic	1,701.4	1,575.8	3,909.0	4,211.0	3,718.0	2,514.5
Banking system	(727.8)	(1,058.6)	(3,113.7)	(1,672.7)	(433.6)	(2,014.5)
Social security	(187.0)	(148.0)	(285.5)	(210.0)	(371.0)	(200.0)
Other	(786.6)	(369.2)	(509.8)	(2,328.3)	(2,913.4)	(300.0)
Unidentified	163.9	-67.8	430.3	247.6	33.8	--

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

Table 4. Ghana: Monetary Survey, 1978-84

	1978	1979	1980	1981	1982	1983 June	1983 Dec.	1984 June
				(In billions of cedis)				
Net foreign assets	-0.90	-0.53	-0.34	-1.16	-1.02	-11.87	-13.58	-15.21
Net domestic assets	6.10	6.54	8.42	13.33	16.01	19.17	25.37	24.17
Claims on government (net)	4.50	4.91	6.53	10.66	11.06	20.08 1/	20.78 1/	21.48
Cocoa financing	0.87	1.34	1.56	2.95	5.55	--	3.00	0.60
Claims on rest of economy	1.06	1.16	1.42	1.88	2.22	3.28	5.78	6.28
Other items (net)	-0.36	-0.87	-1.08	-2.16	-2.77	-4.19	-4.19	-4.19
Revaluation account 2/	--	--	--	--	--	11.39	11.39	11.39
Broad money	5.13	5.94	7.95	12.03	14.84	17.37	21.86	19.03
SDR allocations	0.04	0.07	0.11	0.15	0.15	1.32	1.32	1.32
				(In annual percentage change)				
								Program period
Net domestic assets	87.6	7.2	28.7	58.3	20.1		61.6	26.1
Claims on Government (net)	61.9	9.1	33.0	63.2	3.8		25.1 1/	7.0
Cocoa financing	220.4	54.0	16.4	89.1	88.1		--	...
Claims on rest of economy	32.5	9.4	22.4	32.4	18.1		160.4	91.5
Broad money	68.5	15.5	33.8	51.3	23.4		47.3	9.6

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

1/ Includes CMB debt of ¢ 7.4 billion taken over by the Government before June 1983 and which was ¢ 5.55 billion at the end of 1982. Excluding CMB debt, the increase is 21 per cent.

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

In calendar year 1982, reflecting the fiscal developments, there was again a significant slowdown in the monetary expansion. Net domestic assets of the banking system rose by 20 per cent, while net credit to the Government increased by only 4 per cent. Broad money rose by 23 per cent. The sharp reduction in the rate of government recourse to the banking system was also aided by its decision to recall and demonetize the ₵ 50 bank notes; ₵ 1.3 billion out of a total outstanding ₵ 50 notes of ₵ 1.5 billion was withdrawn from the public. The Government utilized the ₵ 1.3 billion for debt retirement at the central bank. On a net basis, government outstanding debt to the banking system during the first half of 1982 was reduced by ₵ 643 million.

Other measures introduced by the Government in early 1982 which affected the banking system included: (a) the blocking and investigation of all deposit accounts in excess of ₵ 50,000; (b) the introduction of compulsory payment by check for all business transactions in excess of ₵ 1,000; (c) the introduction, with the 1982/83 cocoa marketing season, of a system of payment to farmers by check instead of the traditional cash; (d) a temporary recall of personal bank loans for financing trading inventories; (e) the reduction in the structure of interest rates by about half (e.g., the maximum lending rate was reduced from 25.5 per cent to 14 per cent per annum, and the savings deposit rate was reduced from 18 per cent to 8 per cent per annum).

During the second half of the calendar year 1982, government borrowing from the banking system rose by ₵ 1,051 million, since some of the measures introduced during the first half of 1982 had a once-and-for-all impact. Were it not for the recall and demonetization of the ₵ 50 bank notes, government borrowing from the banking system would have risen by about 16 per cent instead of 4 per cent in 1982. However, by far the main source for monetary expansion in 1982 was the Cocoa Marketing Board (CMB) whose borrowing from the banking system rose by ₵ 2,603 million or 88 per cent, following the increase in producer prices in November 1981. Bank borrowing by the rest of the public sector increased by ₵ 86 million (or 19 per cent) and borrowing by the private sector by ₵ 217 million (or 16 per cent).

5. Balance of payments developments

Ghana has experienced severe balance of payments difficulties for over a decade. The decline in output of cocoa and other export products was the main reason for these difficulties, and in recent years this was compounded by the sharp drop in the world prices for all of Ghana's export products, particularly cocoa. Imports have been controlled, and invisibles and capital transfers have been restricted. With relatively small net capital inflows, the level of recorded imports and other payments has generally been adjusted to levels comparable to declining exports, except that external payments arrears have been accumulated.

The volume of imports has fallen more or less continuously for the past five years (1978-82), except in 1980. As a result, there have been chronic shortages of raw materials and spare parts, with detrimental effect on exports and domestic industries. Balance of payments developments are summarized in Table 5.

Ghana's outstanding external debt is low by the standards of many developing countries. Some debt service payments were rescheduled as a result of the 1974 Rome agreement. Debt service payments amounted to US$66.9 million (interest payments US$35.0 million and amortization US$31.9 million) in 1982, equivalent to 10.7 per cent of merchandise export earnings (Table 2).

III. Report on the Discussions and the 1983/84 Economic and Financial Program

1. Report on the discussions

The discussions with the authorities covered all the major sectors of the economy, but the main focus was on production prospects in the light of the shift in policies. The Ghanaian representatives stated that the adjustment program they had announced was geared toward reversing the erosion in price incentives in all the major producing sectors. The measures already in place would raise relative incomes in agriculture and the export sectors, these measures included a substantial depreciation of the cedi, the increase in the cocoa producer price, and a reduction in bank financing of the budget deficit. They stated that they would use the pricing system as the main incentive instrument instead of government subsidies, which would be phased out and eventually eliminated.

The Ghanaian representatives noted that real output in 1982 had dropped to its lowest level in more than a decade. The situation had been aggravated by unusually severe drought conditions for three consecutive years, which would make the recovery in 1983 less strong than had earlier been expected. They explained that the unusual drought and dry Harmattan winds from the Sahara have caused widespread bush fires, resulting in extensive damage to food crops and cocoa. They noted that the food situation would have been grave even without the added burden of the officially estimated 1.0-1.2 million returnees from Nigeria. Prospects for food production in the immediate future will largely depend on rainfall, which should have started in April. Recent reports indicate that rains began to fall in early June 1983. If they persist through end-August, it should be possible to narrow the projected food gap. In any case, large food imports are needed this year, and the authorities have budgeted US$65 million for these imports. Official data for food imports in 1983 coming in as aid to returnees from Nigeria and for other food assistance were not available, but unofficial estimates by aid agencies in Accra reported commitments so far of about US$20 million.

Table 5. Ghana: Summary of Balance of Payments, 1979-83

(In millions of U.S. dollars)

	1979	1980	1981 1/	1982 1/	1983 2/
Current balance	121.8	16.3	-162.7	-16.6	-525.0
Trade balance	262.6	184.3	-22.3	98.2	-366.0
Exports (f.o.b.)	1,065.7	1,208.9	766.4	627.2	591.0
Imports (f.o.b.)	-803.1	-1,024.6	-788.7	-529.0	-957.0
Services (net)	-219.6	-247.7	-223.3	-197.2	-238.0
Of which: investment income	-45.8	-66.3	-62.7	-60.4	-41.0
Unrequited transfers (net)	78.8	79.7	82.9	82.4	79.0
Of which: Government	81.4	82.9	87.2	83.6	81.0
Government capital (net)	132.1	187.9	57.3	149.7	266.0
Long-term	108.2	131.0	67.3	61.5	116.0
Medium-term 3/	23.9	56.9	-10.0	88.2	150.0
Private capital (net)	-3.0	19.8	26.3	31.7	192.0
Direct investment	-2.8	9.2	10.4	21.4	...
Suppliers' credits	-5.4	0.3	-13.0	-5.1	...
Monetary short-term capital	5.2	10.3	28.9	15.4	--
Nonmonetary short-term capital (net)	-31.4	1.8	1.5	-1.7	-74.0
SDR allocation	14.2	14.3	12.7	--	--
Errors and omissions	-108.0	-158.6	-197.6	-106.7	...
Overall balance	125.7	81.5	-262.5	56.4	-141.0
Financing	-125.7	-81.5	262.5	-56.4	141.0
Monetary authorities 4/	(-45.2)	3.8	103.4	-87.8	201.0
IMF (net)	(29.0)	(-28.9)	(-14.9)	(-6.8)	(264.7)
Other foreign assets	(-74.2)	(32.7)	(118.3)	(-81.0)	(-63.7)
Payments arrears 4/	-74.9	-78.9	141.4	35.2	-60.0
Bilateral balances	-5.6	-6.4	17.7	-3.8	--

Sources: Bank of Ghana; and staff estimates.

1/ Provisional.

2/ Projection.

3/ Includes Trust Fund and distribution of gold profits.

4/ Minus sign denotes a decrease in net liabilities.

The Ghanaian representatives estimated that about 300,000 acres of cocoa had been affected by the fires out of 4.2 million acres under cocoa. As a result, the authorities have revised projections for the 1983/84 cocoa crop downward by 10 per cent. However, this loss may be offset by a rise in world cocoa prices, which have risen by more than 20 per cent since the end of 1982, following reports of drought conditions in West Africa and bush fires in Ghana, Togo, and Ivory Coast. Given the importance of cocoa, a thorough review of the whole sector is being undertaken with the aim of streamlining and increasing the efficiency of the CMB and adopting a flexible producer price policy. In this connection, the cocoa producer price was increased by 67 per cent for the mid-crop and the 1983/84 crop. To ensure a speedy recovery of cocoa production, the authorities intend to maintain subsidies on spraying machines and insecticides through the 1983/84 crop season.

With regard to public finances, the Ghanaian representatives stated that the restoration of the deeply eroded tax base through the new exchange system and the new pricing policy was the key element in improving the Government's financial position. Only a few revenue measures have been introduced, although such measures will be necessary in subsequent years. With regard to expenditure projections, the Ghanaian representatives stated that efforts to contain expenditures would continue and that they would build on expenditure control procedures instituted last year.

On the external policies, the Ghanaian representatives stated that the use of the exchange rate as an active instrument of policy had for many years encountered strong resistance within Ghana. However, in recent years the distortions had become so large that drastic action became compelling and, therefore, a large adjustment was implemented in April 1983 (see below). The Ghanaian authorities emphasized the enormous political risk they were taking in tackling the exchange rate. They said that the recent exchange rate action would be followed by a shift in policy toward flexiblity in exchange rate management. They emphasized their commitment to sustain those adjustment efforts for the next several years. The Ghanaian authorities concurred that the balance of payments situation has continued to be difficult in 1983, mainly because the adjustment measures would benefit only the second half of the year. However, 1984 should benefit from the full favorable impact of these and subsequent measures. The Ghanaian representatives believe that export growth would accelerate in the medium term, aided by both projected increases in volumes and expected improvements in the terms of trade following the economic recovery in the industrial countries.

The Ghanaian representatives said that the potential for liberalizing the trade and payments system at this time was limited, since the availability of foreign exchange from international capital markets and a strong export growth would be medium-term events. Thus, the import program and import licensing would continue to be the main instrument for allocating scarce foreign exchange and the issuing of import licenses in 1983 would be strictly limited to the projected foreign exchange availability. The import program for 1983 gives priority to raw materials and spare parts for the agriculture, mining, timber, and transport sectors, so as to improve capacity utilization, as well as to essential food items.

The Ghanaian authorities recognize that Ghana's debt service payments, which were in the range of 5 to 6 per cent of export earnings during the past several years through 1981, will rise rapidly in the next few years. In the circumstances, the authorities emphasized their intention to pursue a prudent external debt management policy and to improve their debt monitoring arrangements so as to contain the future debt burden.

2. The 1983/84 economic and financial program

The attached letter signed by the PNDC Secretary for Finance and Economic Planning and the Governor of the Bank of Ghana sets forth Ghana's economic and financial objectives for the period to be covered by the proposed stand-by arrangement, and the policies being followed to achieve them. A summary of Ghana's economic and financial program appears in Table 6. The authorities have also indicated that they wish to continue to receive Fund support in the medium term, and will remain in close contact with the staff in order to formulate a set of policies to be pursued after the duration of this arrangement. In view of the great uncertainties in Ghana's present economic circumstances, the authorities have agreed to two comprehensive reviews with the Fund of the progress under the program, to be completed by October 15, 1983 and February 15, 1984.

The program is intended to be a major first step in a sustained effort to deal with the serious structural imbalances and to rehabilitate the Ghanaian economy. The measures focus on a substantial restructuring of relative prices in favor of producing sectors and exports, on improving the financial position of the public sector, on increasing the volume of imports, which would promote an increase in economic activity throughout the economy, and on a reduction of external payments arrears. These measures are expected to bring forth supplies in the marketplace and reabsorb a substantial portion of parallel market activity into normal channels. The improved supply situation through increased domestic production and imports, in conjunction with a reduction in the rate of liquidity expansion, should result in a cutback in the underlying inflationary pressures. For the calendar year 1983, the national consumer price index is projected to rise by about 50 per cent over 1982, mainly due to sharp rises in prices of staple foodstuffs in early 1983. For the program period, July 1983-June 1984, the index is estimated to rise by

Table 6. Ghana: Summary of Economic and Financial Program, 1983/84

	1983	1983/84 Program
Assumptions		
Real GDP growth (per cent)	1.7	3.9 1/
Terms of trade changes (per cent)	1.0	8.0 1/
Exports of cocoa		
Volume (thousand tons)	190	225 1/
Unit price (U.S. dollars per ton)	1,822	2,268 1/
National consumer price index (per cent)	50.0	25.0 1/
Targets		
Balance of payments		
Current account		
In millions of U.S. dollars	-525.0	-445.0 1/
As per cent of GDP	-10.0	-10.0
Overall budget deficit		
In billions of cedis	-3.6	...
In per cent of GDP	-3.1	-2.5 1/
Net domestic assets of the banking system		
Changes in billions of cedis	9.9	5.0
Changes in per cent	61.6	26.1
Of which:		
Net claims on Government		
Changes in billions of cedis	2.3	1.4
Changes in per cent	25.1 2/	7.0

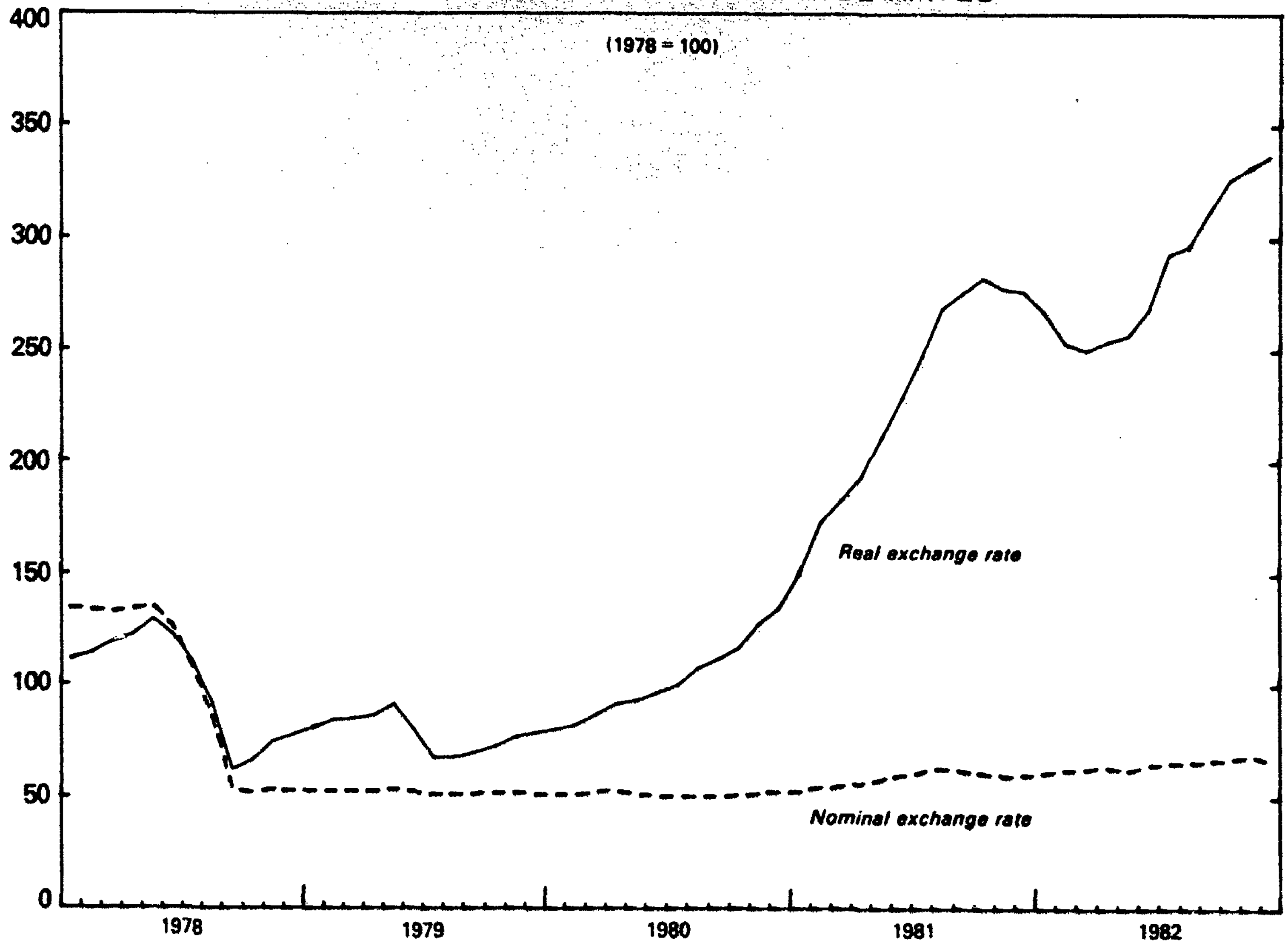
Principal elements of the program

Action Already Taken	Progress During Program Period
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 during the period of the stand-by arrangement.
b. External payments arrears: Commitment for phased cash reduction of external payments arrears by US$100 million during program period.	Arrears will be reduced through cash payments from the end-April 1983 level of US$619.7 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.
c. External borrowing: 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.	

CHART 1

GHANA

NOMINAL AND REAL EXCHANGE RATES[1]



Source: IMF Data Fund.

[1] Trade weighted.

2. Fiscal	
Expenditure control system has been strengthened. Given projected revenue and the programed financing, expenditures will be held strictly within budgeted limits. Should expenditures appear to exceed these limits, the authorities will take additional revenue measures so as not to exceed the ceiling on bank financing. Substantial increases of fees and charges by government departments and central government agencies.	Monitoring of expenditures and the main revenue items on a monthly basis.
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 in October 1983 and January 1984.
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.	
Real wages and salaries in the civil service are 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.

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

1/ Refers to calendar year 1984.
2/ It is 25.1 per cent including CMB debt, or 20.8 per cent excluding CMB debt.

by about 25 per cent over the preceding 12-month period. The measures are expected to lay the necessary basis for a sustained growth of production and exports and, over time, to strengthen the balance of payments. To achieve these objectives, the program calls for the set of policy measures described below. It should be emphasized that a precise quantification of the impact of these measures is difficult, in view of the magnitude of the disequilibrium that has to be dealt with, the size of the intended adjustment in the short term, and Ghana's weak and incomplete data base. Targets and performance criteria for the program period are indicated in Table 7.

a. The exchange system

The most important measure under the adjustment program is the far-reaching reform of the exchange system introduced on April 21, 1983 in the context of the 1983 Budget Statement. The new exchange system involves, as a transitional arrangement, the introduction of a multiple exchange rate system, based on a system of bonuses and surcharges to be applied by the banks and other authorized dealers of foreign exchange, which effectively results in two rates, namely ¢ 23.375 = US$1 and ¢ 29.975 = US$1 (compared with the rate of ¢ 2.75 = US$1, which had remained fixed since mid-1978). The reform's aim is to achieve an initial average effective rate of about ¢ 25 = US$1 (equivalent to a depreciation of 809 per cent in terms of local currency or 89 per cent in terms of U.S. dollars) on both the receipts and payments side, which would restore the exchange rate in real terms close to what it was in 1972, the last year in which the overall balance of payments was broadly sustainable.

On the payments side, transactions have been classified under two broad categories. Transactions falling under the first category, estimated to comprise about 54 per cent of total payments in 1983, are subject to a surcharge at the rate of 750 per cent of the official exchange rate of ¢ 2.75 = US$1. This results in an effective exchange rate of ¢ 23.375 = US$1. Transactions to which this rate is applied are import payments for crude oil, essential raw materials, 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. Under this arrangement, which became effective on April 22, 1983, the initial average effective exchange rate on the payments side is ¢ 26.41 = US$1. This is an effective depreciation of 860 per cent in terms of local currency or 90 per cent in terms of U.S. dollars. 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 uniform foreign exchange transfer 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, gold, timber, and other traditional export products, which are estimated

Table 7. Ghana: Quantitative Performance Criteria and Targets for 1983-84

	Outstanding (end of month)						
	March Actual	June 1983 Objective	August 1983 (Performance Criterion)	October 1983	December 1983	March 1984	June 1984
Net domestic assets	17.56	19.17	20.87 1/	23.47	25.37	25.87	24.17
Net claims on Government	11.74	20.08	20.38 1/	20.58	20.78	[illegible].18	21.48
Cocoa financing	6.85	--	--	1.50	3.00	2.80	0.60
Credit to rest of the economy	2.24	3.28	4.68	5.58	5.78	6.08	6.28
Other items (net)	-3.27	-4.19	-4.19	-4.19	-4.19	-4.19	-4.19
			Cumulative changes from end-June 1983				
Net domestic assets			1.7	4.3	6.2	6.7	5.0
Net claims on Government			0.3	0.5	0.7	1.1	1.4
Cocoa financing			--	1.5	3.0	-0.2	-2.4
Other items (net)			--	--	--	--	--

	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)	619.7	10	35	60	80	100

	During June 1, 1983 - July 31, 1983
New external borrowings (In millions of US dollars)	
of maturities 1-12 years	400.00 1/
of which: 1-5 years	250.00 1/
External loans of less than 1 year maturity	
Net disbursements	100.00 1/
Bridging loans	200.00 1/

1/ Performance criteria.

to represent about 81 per cent of total foreign exchange receipts in 1983, receive a bonus equivalent to 750 per cent of the official exchange rate of ¢ 2.75 = US$1. This exchange rate adjustment (equivalent to ¢ 23.375 = US$1) more than restores the profitability of these traditional exports. All other receipts, including receipts from invisibles and capital, receive a bonus of 990 per cent. The 20 per cent export bonus scheme, which had applied to noncocoa exports, has been abolished. The initial average effective exchange rate on the receipts side is ¢ 24.63 = US$1, equivalent to an effective depreciation of 89 per cent in terms of U.S. dollars. 1/

Under the system, surcharges are collected, and bonuses are paid, by authorized dealers (mainly the banks, but also such other authorized dealers as the major hotels). These dealers are required to surrender promptly to the Bank of Ghana all the surcharges collected, and the Bank of Ghana provides refunds for all the bonuses paid. The system is being closely monitored, and the Bank of Ghana should not incur losses from these exchange transactions.

The program provides that, as a minimum, the present effective exchange rates be kept constant in real terms and be unified at a realistic level by the end of the period covered by the stand-by arrangement. These goals will be achieved in steps. First, the Government will announce the implicit effective rates resulting from surcharges and bonuses explicitly as the new official exchange rates by October 1, 1983 and, in any case, before the completion of the first review. Secondly, beginning also October 1, 1983, the two exchange rates will be depreciated quarterly so that the weighted average exchange rate will move in accordance with an index which measures the differential between indices of the inflation rates in Ghana and Ghana's major trading partners. These quarterly adjustments are intended to keep the exchange rate from appreciating again vis-à-vis major trading partners and competitors. Thirdly, the exchange rate will be unified at a realistic level by the end of the program period. To this end, the less depreciated rate will be adjusted faster than the more depreciated rate. In any case, the operation of the exchange rate system will be reviewed with the Fund during the two reviews under the stand-by arrangement.

b. The cocoa producer price

A steady decrease in the real producer price for cocoa has been the main reason for the accelerated decline in cocoa output and CMB purchases. Consequently, effective May 1, 1983, the Government raised the cocoa

1/ The section on the exchange and trade system in the paper on Recent Economic Developments provides details of transactions both on the payments and receipts side subject to the surcharges and bonuses under the multiple exchange system.

producer price from ¢ 12,000 to ¢ 20,000 per metric ton. This increase restores the real producer price to about its 1975 level. Future policy on the cocoa producer price will be guided by the recommendation of an extensive review, which is currently in progress and which partly relies on a large-scale study undertaken in mid-1981 by a group of consultants sponsored by the World Bank. In any case, future producer prices for cocoa as well as for other export crops would be adjusted annually and would be established at levels which provide adequate incentives to farmers, and they would be raised to levels that would ensure that there would normally be no erosion of these prices in real terms. The CMB surplus, after the producer price has been paid and the CMB operating costs met, will continue to accrue to the Government. The authorities recognize that increased prices alone will not provide adequate incentive to farmers to raise production and to sell to the CMB, if farmers are unable to use the sales proceeds to purchase basic consumer goods. The Government has, therefore, undertaken to ensure that a more regular and wider supply of consumer goods becomes available to the rural population and that enough foreign exchange is made available to the CMB for the purchase of insecticides so as to undertake at least two sprayings during every crop season. The importation of the necessary spraying material as well as of cocoa evacuation equipment has been facilitated by drawing on a Stabex credit obtained in 1982. As a result of these measures, the volume of cocoa purchases is projected to increase by at least 22 per cent to 220,000 tons in 1983/84. As farmers' confidence is rebuilt, cocoa production in the medium term is projected to increase quite rapidly (Section IV).

c. Other pricing and incomes policies

Over the past few months the Government has allowed prices to rise and has eliminated all consumer subsidies, except for a temporary subsidy on petroleum products. The Government's Incomes Policy Guidelines announced in the 1983 budget aim at ensuring equal remuneration for comparable work and qualifications, narrowing excessive salary and wage differentials, and limiting future salary and wage increases to rates consistent with increases in productivity.

(i) Pricing policy for petroleum products

Over the years, Ghana has reduced the consumption of petroleum products in response to the sharply rising oil import prices and the need to conserve energy. Consumption of oil was reduced by about 10 per cent between 1974 and 1980, and the Government intends to reduce it by a further 16 per cent during 1983. As in the past, the reduction will be achieved through the combination of an annual limit on importation of crude oil, a rationing system, and frequent adjustments to domestic prices. In view of the serious deterioration of the public transportation system and the recent large changes in the exchange system, the program provides for a consumer subsidy for petroleum products on a temporary basis. The subsidy, which is explicitly indicated in the 1983 budget, will be phased out by June 1984. The Budget Statement announced the initial action on the phased pass-through of petroleum prices. With effect from April 22, 1983, the retail prices of petroleum products were about doubled. These prices, in cedis 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. Crude petroleum is being imported at the new implicit exchange rate equivalent to ₵ 23.375 = US$1. Compared with world market prices, however, the recent increases bring domestic retail prices for refined petroleum products to a level equivalent to crude oil being imported at only ₵ 15 = US$1, requiring a subsidy for the difference. The price pass-through will be phased so that by the end of the program period domestic prices would be equal to world market prices at the then prevailing exchange rate. To limit the cost of the subsidy, the prices will be raised to the equivalent of crude being imported at ₵ 20 = US$1 by October 1, 1983, and to the equivalent of the less depreciated rate by January 1, 1984, thereby eliminating the need for a budgetary subsidy. Thereafter, prices will be moved with the less depreciated rate so as to avoid a recurrence of the need for a subsidy. After the unification of the exchange rates, prices for petroleum products will fully reflect movements in the unified rate. The necessary subsidy, not exceeding ₵ 1.0 billion during the eight months, May-December 1983 has been provided for in the budget. Any unforeseen changes in the cost structure, including changes in the cost of importation, refining, and distribution, which would otherwise lead to a subsidy being larger than ₵ 1.0 billion for the eight-month period will be passed on to the consumers in the form of increased retail prices.

(2) Price decontrol

The program provides for a gradual lifting of price controls. Since early January 1983, the Ghanaian authorities have implemented extensive price deregulation with as little publicity as possible, with a view to avoiding the exacerbation of short-term inflationary expectations, given this year's serious food shortages and a generally tight supply situation. In this process, all domestically produced foodstuffs have been freed from all price controls. For imported items, the prices have been raised to reflect fully the approximately tenfold increase (on average) in their cost in terms of local currency, plus the cost of distribution and a profit margin in the range of 10-20 per cent. For locally manufactured products, the manufacturers and retailers of these products are required, as in the past, to submit any changes in their selling prices for approval by the Government's Prices and Incomes Board. The agreed final price allows for a full pass-through of all production costs plus a profit margin, again, in the range of 10-20 per cent. The Government will implement these price caps and guidelines flexibly. Even the 23 prices on 14 items, mainly essential consumer goods, which have historically been under price control and on which the Government intends to keep a firm cap, have been raised substantially, as mentioned in the Budget Statement (see the Recent Economic Developments report). In addition, effective June 1, 1983, the Government substantially increased the prices charged by all the major public utilities and transport operators. 1/

(3) Incomes policy

As noted, real wages for civil servants in 1982 were about 16 per cent of the 1975 level, despite periodic wage adjustments, including the tripling of the minimum wage and significant increases in other wages and salaries in November 1980. However, the wage and salary levels for employees of the public and private enterprises were higher because these employees have, through collective bargaining, increased their wages from the levels set in November 1980. The new guidelines raise the minimum wage from ₵ 12 to ₵ 25 per day and limit the average increase in the civil service remuneration to 60 per cent, reflecting less-than-proportional increases in the higher wage and salary brackets. For nonprofit organizations, which require transfers from the budget, wage increases will be granted only if they would involve no additional transfers. For the public enterprises and the private sector, the guidelines limit the average increase in basic remuneration under collective bargaining agreements to around 25 per cent or a maximum of ₵ 2,083 per annum, whichever is the lower.

d. Financial policies

(1) The 1983 Budget

The key fiscal problem in Ghana has been the erosion of the tax base. The main impetus to the projected large increase in revenue is, therefore, a by-product of the measures in the adjustment program. The impact of the large exchange rate adjustment, the expected shift to official market transactions, the expected increase in imports and the restoration of economic activity should restore the tax base sufficiently to meet the Government's revenue objectives for 1983. In the circumstances, only minor new revenue measures were deemed necessary. These measures include a net wealth tax and an increase in the export duty on gold (which has become very profitable under the new exchange system) 2/,

1/ The increases on rates and tariffs were as follows: railway freight rates by 380 per cent, railway passenger tariffs by 100 per cent, road freight rates by 100 per cent, water supply charges by 150 per cent, telecommunications tariffs by 325 per cent on domestic and 127 per cent on external services, postal rates by 365 per cent, and electricity charges by 40 per cent.

2/ The former special export tax on gold was at the rate of ₵ 3.00 per ounce on exports exceeding 100,000 ounces; the first 100,000 ounces exported by any company were exempt from tax. The new tax will be levied at the rate of 20 per cent on all exports of gold.

and the introduction of a system whereby corporate taxes and income taxes of the self-employed are paid on a current basis. The schedule of tariff rates on imports has been simplified and reduced to three rates: zero for oil, 25 per cent, and 30 per cent. The 1983 budget also announced very substantial increases, in most cases more than tenfold, on a wide range of licenses, fees, and charges on departmental sales of goods and services. 1/ For the fiscal year 1983, total revenue is projected to rise to ¢ 14.6 billion or 13 per cent of GDP compared with ¢ 5.2 billion or 6 per cent of GDP in 1982.

Total government expenditure and net lending are projected at ¢ 18.2 billion for 1983 or 16 per cent of GDP. Current expenditure, projected to rise to ¢ 14.9 billion, accommodates an average increase in civil service wages and salaries up to 60 per cent, as a step toward restoring work incentives and curtailing absenteeism. Another important current expenditure item is the subsidy on petroleum products, which is budgeted not to exceed ¢ 1 billion during 1983. The increase in capital expenditure from ¢ 816.7 million in 1982 to ¢ 2,375 million in 1983 reflects mainly the impact of the exchange rate adjustment. Only a small real increase is assumed, aimed at replenishing essential supplies and carrying out necessary repairs. Net lending is projected to increase from ¢ 374 million in 1982 to ¢ 951 million in 1983, mainly in the form of increased capital subscription and providing short-term loans to public sector enterprises.

The buoyant revenue prospects and containment of expenditure are expected to result in a narrowing of the overall deficit in nominal terms from ¢ 4.0 billion in 1982 to ¢ 3.6 billion in 1983, representing a greater decline in relative terms from 4.6 per cent of GDP in 1982 to 3.1 per cent in 1983. 2/ It is the Government's intention to reduce this ratio further to 2.5 per cent of GDP in 1984, the first half of which is covered by the stand-by arrangement.

Total net foreign financing in 1983 is projected at ¢ 1 billion. The major component is an oil loan from Libya amounting to ¢ 2.7 billion

1/ For example, a fee for a hospital bed in an open ward has been increased from ¢ 0.50 to ¢ 7.50 for adults and ¢ 5.00 for children, hospital consultation fees from ¢ 0.50 to ¢ 25.00 per visit, money lender's license raised from ¢ 20 to ¢ 2,000, rent on the use of government warehouses from ¢ 0.67 per ton to ¢ 100 per ton (see paper on Recent Economic Developments).

2/ This favorable budgetary outcome largely stems from the proportionately greater impact of the changes in the exchange system and other adjustment measures on revenues rather than expenditures. Thus the major part of this improvement in revenue results from the restoration of the international tax base and the cocoa export duty (see Recent Economic Developments report).

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 million 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 prices stabilize following the recent extensive changes in the exchange system. In any case, they agreed, and the program provides, that interest rate policy would be examined during the two reviews with the aim of reaching understandings with the Fund on a schedule for narrowing and later reversing the differential between the prevailing structure of interest rates and the rate of inflation.

The Government has moved to rationalize and regularize the stopgap measures affecting the banking system that were introduced in 1982. The recall and demonetization of the ₵ 50 notes that took place in March 1982 collected ₵ 1.3 billion out of ₵ 1.5 billion then in circulation. The collected amount was applied to the budget. The Government has already made arrangements to refund the owners of the ₵ 50 notes. Those with amounts between ₵ 50 and ₵ 500 are being refunded in cash; amounts between ₵ 550 and ₵ 1,000 are to receive a 6 per cent stock of five years' maturity not redeemable before the fourth year; amounts of ₵ 1,050 and above are to receive a 6 per cent stock of 10 years' maturity, not redeemable before the sixth year. The total amount for cash refunds in 1983 will be ₵ 200 million, which has been taken into account in the 1983 government debt repayment appropriations. Deposits of ₵ 50,000 and above, as of December 31, 1981, which were frozen pending the vetting or determination of fraud and tax liability, are being unfrozen as soon as the tax liabilities, if any, are paid. The general requirement that all payments of ₵ 1,000 and above must be made by check was not implemented, except in the case of cocoa farmers. Instead, the Government is studying the system of payment by check with the view to finding a way to encourage its widespread use. The order of January 19, 1982 to banks to recall all personal loans for financing trade inventories lapsed a month later on February 19, 1982.

e. Balance of payments and other external policies

(1) Balance of payments policies

Balance of payments prospects for 1983 are surrounded by a large measure of uncertainty. A great deal of caution has, therefore, been exercised in making the 1983 balance of payments projections. Total exports in 1983 are projected to decline by 6 per cent to US$591 million, due to both declining volumes and a slow recovery in world prices for Ghana's exports (most of 1983 cocoa bean exports were sold forward in 1982 at 1982 prices). An 81 per cent increase projected for imports, necessary to revitalize the economy and alleviate acute shortages of essential goods, will be to a large extent supported by a projected sharp rise in external resources. A deterioration in the services account is expected, as a result of increased payments on freight and insurance on the enlarged imports program. With a worsening in the terms of trade (on the basis of forward sales of cocoa), the current account is projected to register a deficit of US$525 million, equivalent to 10 per cent of GDP. Capital inflows are projected to increase quite substantially, and the overall balance of payments is projected to record a deficit of US$141 million. This deficit will be financed by Fund drawings, which will also enable a reduction in payments arrears and a modest buildup of gross reserves.

In 1983 a drop in cocoa exports accounts for most of the decrease in total exports. The share of cocoa, the largest export, is projected to continue to fall, as a result of both a sharp drop in prices through the end of 1982 (due to forward sales of cocoa beans) and a declining volume of exports. The share of minerals, particularly gold, will continue to increase. Total gold exports are projected to rise by 18 per cent to US$144 million in 1983. Timber exports are projected to stage a major recovery. The sharp decline in recorded timber exports in the last three years was mainly due to the precipitous depreciation of the cedi in the parallel market, which resulted in a rapid shift in the timber industry from exports to domestic sales. Most of the domestic sales were eventually smuggled to neighboring countries. The major changes in the exchange system are expected to cause a shift back into recorded exports. Thus timber exports are projected to more than double in 1983 to US$36 million, due entirely to a shift from domestic sales to exports through normal channels. The share of other exports, particularly manufactured goods, is expected to show a small increase. With the substantial depreciation of the cedi, exports of some manufactured goods have once again become profitable. However, the re-emergence of exports of manufactured goods has not been taken into account in the export projections.

As noted, the volume of imports in Ghana has been determined by the availability of foreign exchange. The large increase in capital inflows projected under the program has permitted the authorities to plan for an increase in the import program for 1983 to US$957 million (f.o.b.), of which crude oil imports are projected at US$210 million. The deficit in the services account is projected to rise to US$238 million, mainly due to a rise in payments on freight and insurance, which are dependent on the level of imports.

Capital inflows are projected to rise substantially in 1983. Official long-term net capital inflows are projected to increase to US$266 million, reflecting largely loans in the pipeline, mainly from multinational institutions and including the recent reconstruction import credit from the World Bank. About 66 per cent of crude oil imports will be financed through a noninterest-bearing one-year credit from Libya. Private medium-term capital, mainly in the form of suppliers' credit and direct investment, is estimated at US$192 million. Most of the private capital is for revitalizing the gold and timber sectors.

(2) External medium- and long-term debt

At the end of 1982, medium- and long-term public external debt outstanding amounted to US$1,192.6 million. During 1982, service payments on these debts, which amounted to US$66.9 million, were equivalent to 10.7 per cent of export earnings, reflecting the low levels of external loans obtained by Ghana in recent years. However, total debt service payments are expected to increase significantly in 1983 as repayments on debt rescheduled under the 1974 Rome agreement begin and also as there are service payments on account of short-term credits obtained in 1982 and 1983. On the other hand, a rescheduling agreement reached with Libya concerning the crude oil import credits obtained in 1982 and originally due during the second half of 1983 has helped to reduce the debt service burden in 1983. The credits, rescheduled for one year, total US$95.8 million. As disbursements of medium- and long-term external loans to rehabilitate Ghana's long-neglected infrastructure as well as manufacturing and agriculture accelerate, debt service payments on these loans will also increase in the future. A prudent external debt management policy will be pursued by the Government so that the debt service burden will not contribute unduly to the pressure on the balance of payments. Thus the contracting and guaranteeing by the Government of external loans on nonconcessional terms in the maturity range of 1-12 years will be limited to US$400 million and in the maturity range of 1-5 years to US$250 million during the period of the stand-by arrangement. The latter ceiling will exclude about US$277 million of a Libyan credit for oil imports covering a year's supply and effective July 1983, which is expected to be repaid interest free one year after each shipment. Disbursements of loans, on a net basis, with an original maturity of less than one year, other than trade-related credits and bridging loans, will be limited to US$100 million and bridging loans to US$200 million during the period of the stand-by arrangement.

(3) Policies with regard to exchange and import restrictions

Ghana has accumulated large arrears on payments and transfers for current international transactions and on debt amortization. At the end of April 1983, such arrears amounted to US$619.7 million. The Government recognizes that the regularization of these obligations with external creditors is important to restore confidence in the Ghanaian economy and to attract foreign loans and investments. However, the short-term balance of payments outlook precludes their elimination during the period of the stand-by arrangement. The program provides, therefore, a phased reduction through net cash payments of these arrears, in an orderly and nondiscriminatory manner, by US$100 million during the period of the stand-by arrangement, of which US$60 million will be effected during the second half of the calendar year 1983. The Government indicated its determination not to accumulate new arrears and to eliminate existing arrears as soon as possible.

f. Performance criteria

The stand-by arrangement includes the following performance criteria: (a) ceilings on total net domestic assets of the banking system, with subceilings on net credit to 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 on the contracting of 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 policy and interest rate policy. Purchases in mid-October 1983 (second purchase) and mid-February 1984 (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 7.

IV. The Medium-Term Economic Outlook

For some time the Ghanaian authorities have believed, and the Fund staff has concurred that, with appropriate policies, Ghana could make a fairly rapid economic recovery because of the country's comparatively favorable natural resource endowment (cocoa, gold, timber, manganese, bauxite, and a large potential for food production) and the existence of a relatively developed infrastructure, including skilled manpower. The measures the authorities are implementing at present are regarded as an initial but decisive step toward a sustained effort to rehabilitate the economy and realize the country's potential. These measures are aimed at effecting a turnaround in output and exports and should substantially strengthen the balance of payments in the medium term.

With the corrective measures now being implemented, together with subsequent measures, a steady increase in output in agriculture, mining, and manufacturing is foreseen. Cocoa purchases by the CMB are projected to recover from the 180,000 metric tons in 1982/83 (October-September) to at least 220,000 tons in 1983/84 and to rise steadily to at least 300,000 tons by 1986/87. These results are based on an annual review of the cocoa producer price to avoid the erosion of the real price and to provide adequate incentives to farmers, on at least two sprayings a year, and on availability of some basic consumer goods in the cocoa growing areas. Gold production and exports, which have become very profitable at the new exchange rate, are projected to rise from 360,000 fine ounces in 1983 to 420,000 ounces in 1984 and to more than double by 1987. The rehabilitation and expansion programs now being undertaken by the two gold mining companies are financed mainly by private suppliers' credits and direct investment. The Ashanti Goldfields are in the process of implementing a large rehabilitation and expansion program which would eventually involve an investment of US$100 million to raise production from 300,000 ounces in 1983 to 360,000 ounces in 1984 and to 550-600,000 ounces by 1987. Production by the State Gold Mining Corporation is projected to rise from the present 60,000 ounces to 165,000 ounces by 1985, with an investment of US$35 million, to be financed partly by the World Bank. The sharp decline in timber exports in the past few years was, as already noted, mainly due to a rapid shift from exports into domestic sales and smuggling, since the continued overvaluation of the cedi made exports of timber increasingly unprofitable. On the basis of the exchange rate system introduced in April 1983 alone, exports of timber are expected to more than double from US$16.1 million in 1982 to US$36 million in 1983 and to rise further to US$55 million in 1984. In addition, if requests for import licenses by the timber sector amounting to US$60 million are granted, exports could rise to as much as US$70 million in 1984 and continue to grow by 5-10 per cent thereafter. Production increases in the range of 5-10 per cent are also projected for the other export items, as well as for domestic consumer goods and staple food items. As a consequence, real GDP is projected to grow by 1.7 per cent in 1983 and 4 per cent in 1984 and thereafter by an annual rate of about 2-3 per cent through 1987.

In the medium term, the principal role of fiscal policy will be to maintain an appropriate stance with respect to the stabilization goals of the Government, while providing the necessary resources to rehabilitate the economy. The Government intends to reduce the overall budget deficit from 3.1 per cent of GDP in 1983 to 2.5 per cent in 1984. To maintain an appropriate ratio in the medium term will require continued restraint on certain categories of expenditure and increased government revenues. However, since the basic infrastructure has fallen into disrepair, and given the deep erosion in wage and salary incentives in the civil service, certain categories of expenditure will have to increase in real terms. To finance these outlays, while maintaining a prudent demand management stance, will require in future years substantial mobilization of resources, including discretionary tax measures and modifications of the tax structure.

Balance of payments prospects in the medium term are outlined in Table 8. The projected steady improvement in the balance of payments during 1984-87 is the result of the expected increase in the volume of

Table 8. Ghana: Balance of Payments Projections, 1983-87

(In millions of U.S. dollars)

	1983	1984	1985	1986	1987
Current balance	-525	-445	-438	-415	-363
Trade balance	-366	-260	-215	-150	-70
Exports (f.o.b.)	591	820	965	1,140	1,345
Imports (f.o.b.) 1/	-957	-1,080	-1,180	-1,290	-1,415
Services (net)	-238	-285	-333	-385	-423
Of which:					
investment income 2/	-55	-80	-113	-140	-158
Unrequited transfers	79	100	110	120	130
Capital (net) 3/	384	302	362	362	380
Government	192 4/	195	222	242	260
Private	192	107	140	120	120
Overall balance	-141	-143	-76	-53	17

Sources: The Ghanaian authorities; and staff estimates.

1/ Assumes: (a) elasticity of imports with respect to GDP of 1.1 during 1984-87; (b) annual rate of growth of real GDP of 4 per cent in 1984 and 2 per cent during 1985-87; and (c) annual rate of increase in the unit value of imports of 8 per cent in 1984 and 7 per cent during 1985-87.

2/ Including estimated interest payments on projected new borrowings (see Table 9).

3/ Including estimated amortization of projected new borrowings (see Table 9).

4/ Including nonmonetary short-term capital.

exports and a rise in world prices for Ghana's exports. As a result of the expected increase in output of the major export products and an improvement of the external demand, exports are projected to grow by 39 per cent in nominal U.S. dollar terms in 1984 and thereafter by an average of 18 per cent per annum during 1985-87. Imports would rise by 13 per cent in 1984 and by an average of 9 per cent per annum during 1985-87; the rate of increase in the unit value of imports is estimated to be 8 per cent in 1984 and about 7 per cent for the period 1985-87. With exports growing at a substantially higher rate than imports, the trade account deficit is projected to decline substantially from US$366 million in 1983 to about US$70 million in 1987. The improvement in the current account will be less dramatic because interest payments on external borrowing needed to maintain the projected level of imports will increase the deficit on the services account, which is projected to widen from US$238 million in 1983 to US$423 million in 1987. On this basis, the ratio of the current account deficit is projected to fall from 10 per cent of GDP in 1984 to 8 per cent of GDP in 1987. With a downward trend in the debt service ratio after 1987 (see below), such a scenario seems sustainable. Net capital inflows are projected to increase from US$300 million in 1984 and rise gradually to US$380 in 1987. About one third of net capital inflows is projected to consist of suppliers' credits by the private sector. The overall balance of payments deficit, estimated to be in the range of US$140-145 million in 1983 and 1984, is projected to decline rapidly thereafter, and to record a small surplus in 1987.

The projections of the debt service payments for the period 1983-89 are prudent and even pessimistic to some extent. The assumptions with regard to export growth and the rise in capital inflows after 1984 are cautious compared with Ghana's potential. If the Ghanaian authorities succeed in presenting a strong medium-term plan to the envisaged donors' conference to be organized through the World Bank late this year, it is conceivable that more medium- and long-term financing would become available and on more favorable terms. However, under both favorable and less favorable assumptions, Ghana will not be able to avoid an immediate rise in its debt service ratio in the interest of economic rehabilitation. But even on the assumptions presented in Table 9, which, though not an absolutely worst-case scenario, are pessimistic, the debt service ratio is projected to decline after 1987.

Table 9. Ghana: Service Payments on External Debt, 1983-89

	1983	1984	1985 (Projection)	1986	1987	1988	1989
	(In millions of U.S. dollars)						
1. Service payments on existing debt 1/	96.6	97.3	96.6	97.5	94.7	81.3	77.8
Interest	35.5	34.3	31.4	28.9	26.0	23.5	20.0
Amortization	61.1	63.0	65.2	68.6	68.7	57.8	57.8
2. Service payments on new borrowings 2/	23.7	169.8	265.6	408.0	483.0	545.0	622.0
Interest 3/	11.0	27.0	44.0	54.0	66.0	78.0	89.0
Amortization 4/	12.7	142.8	221.6	354.0	417.0	467.0	533.0
3 Total (1 + 2)	120.3	267.1	362.2	505.5	577.7	626.3	699.8
Interest	46.5	61.3	75.4	82.9	92.0	101.5	109.0
Amortization	73.8	205.8	286.8	422.6	485.7	524.8	590.8
4. Fund charges and repurchases 5/	19.5	26.4	29.6	49.3	168.0	151.1	45.7
5 Total (3 + 4)	139.8	293.5	391.8	554.8	745.7	777.4	745.5
	(In per cent)						
6. Service payments as a ratio of exports of goods and services 6/							
Excluding Fund charges and repurchases	17.4	28.6	33.1	39.2	38.1	35.0	34.0
Including Fund charges and repurchases	20.3	31.4	35.8	43.0	49.1	43.5	36.3

Sources: The Ghanaian authorities; and staff estimates.

1/ Outstanding at the end of 1982.

2/ Assumes: (a) average annual interest rate on government long-term loans of 5 per cent, with average grace period of 6 years and average maturity period of 10 years; (b) average annual interest rate on suppliers' credits of 10 per cent, with average maturity period of 5 years; and (c) average annual interest rate on borrowing for balance of payments support of 8 per cent.

3/ Assumes that one half of interest payments on new borrowings are made during the borrowing year, and the remainder during the following year.

4/ Includes short-term oil import credits and borrowings for balance of payments purposes. During 1982-83 such credits were obtained interest free. It is assumed that outstanding amounts will be repaid in 1983 and 1984. It is further assumed that during 1985-89 such credits will be obtained each year interest free, repaid in the following year, and a new credit will be obtained on similar terms. As regards borrowings for balance of payments purposes the financing requirements during 1984-89 are assumed to be larger than the projected balance of payments deficits because payments arrears are assumed to be reduced progressively. Borrowings for balance of payments purposes, which may include additional purchases from the Fund, are assumed to be obtained, on average, on 7-year terms, with 3-year grace periods, during 1985-89.

5/ With respect to past purchases, purchases under the proposed stand-by arrangement and CFF. Estimates of charges and repurchases with respect to purchases under possible future arrangements with the Fund are included in (2) (see footnote 4/).

6/ During 1985-87 merchandise export earnings are projected to grow, on average, by 18 per cent per annum, and earnings from services by 15 per cent per annum.

V. Staff Appraisal

During most of the 1970s the Ghanaian economy suffered from severe structural imbalances which, at first, arose from the cumulative impact of large budgetary deficits, rapid increases in domestic bank credit, and the maintenance of a fixed exchange rate, despite very high rates of domestic inflation. The authorities sought, unsuccessfully, to contain the high rates of inflation through rigid price controls. Subsequently, the situation was compounded by a rapid deterioration in capital equipment, inadequate price incentives in the agricultural and export sectors, and the broadening of parallel market activity, which led to a steady drop in real output and a rapidly shrinking size of government operations in relation to GDP. An attempt to contain the deteriorating economic and financial situation in 1978/79 was largely unsuccessful, because the stabilization effort was not sustained. During 1980-82 these difficulties deepened, and the distortions in the economy became so large and evident that drastic action became inescapable.

The Government of Ghana has recognized the seriousness of the problem and has recently taken corrective measures to arrest Ghana's economic decline and to provide a firm basis for an economic recovery, in support of which it has requested support from the Fund. The measures were put in place in April 1983 prior to concluding discussions for the proposed one-year program. The Government's economic and financial program aims at a substantial restructuring of relative prices in favor of producing sectors and exports, at improving the financial position of the public sector, at increasing the volume of imports necessary for increased economic activity, and at a reduction of external payments arrears. The authorities believe that these measures will bring supplies into the marketplace and reabsorb parallel market activities into normal channels. In addition, the supply situation would improve through increased domestic production and imports. The improved supply situation, together with a reduction in the injection of new liquidity, should lead to a cutback in the underlying inflationary pressures and, over time, strengthen the balance of payments.

The key measure in the authorities' adjustment program is the reform of the exchange system. The authorities have shown great courage in tackling the exchange rate, which had become a highly sensitive political issue in the last decade. Successive governments in Ghana had eschewed corrective action because of perceived political consequences in case of use of the exchange rate as an active policy instrument. When the present Government, after protracted internal discussions extending over a year, introduced the new measures, it faced strong initial political opposition from various quarters. However, it now appears that the resistance is being overcome, mainly because of systematic efforts by the Government to educate the public on the eventual favorable impact of a major adjustment program.

In view of the magnitude of the adjustment measures being implemented and the possibility of slippages and delays, a precise quantification of the impact of measures in 1983, particularly on the balance of payments, is difficult. The result will depend to some extent on the timing of disbursements of external assistance and the resolve of the authorities to implement the program. With regard to the latter, the political situation remains difficult despite the Government's success in marshalling the support of a broad and growing spectrum of Ghanaians. It should be noted that, when faced with difficult problems at the height of a serious drought and the influx of about a million returnees, the authorities decided upon adjustment action despite the political risks and the recognition that a period of particular hardship would ensue until the next food crop season. The authorities, aware of the dangers of ineffective implementation of the program, intend to monitor it carefully. During the two reviews with the Fund, the authorities' progress in developing a strict budgetary stance and flexible approaches toward interest rates, exchange rate management, and pricing policies will be closely examined. The authorities will be expected to react quickly and prudently to developments, including those which at this time may not be foreseen.

The Government realizes that the imbalances in the Ghanaian economy are so large and deeply rooted that their elimination will require a determined and sustained effort over the medium term. With appropriate policies and inflows of concessional external resources, Ghana's medium-term economic outlook indicates a fairly strong recovery of the major sectors, in particular exports, and a sustainable balance of payments position in four to five years.

Ghana's present foreign exchange difficulties do not permit a significant immediate easing of restrictions in 1983, other than the reduction in external payments arrears and an enlarged import program provided for in the program. Ghana continues to maintain restrictions on payments and transfers for current international transactions, including accumulated payments arrears. It also maintains payments agreements with two Fund members (Yugoslavia and Romania). The authorities concur with the staff that steps should be taken to reduce reliance on restrictive practices and reduce payments arrears as the balance of payments situation improves. The introduction on a temporary basis of multiple currency practices entailed in the system of bonuses and surcharges on foreign exchange transactions is subject to Fund approval; so is the multiple currency practice arising from a temporary 5 per cent tax on purchases of foreign exchange for education, travel, and medical treatment abroad and on private transfers. The external payments arrears and the bilateral payments arrangements with Fund members are subject to Fund approval. In view of the authorities' intention to simplify the multiple currency practices and unify the exchange rate system by the end of the proposed stand-by arrangement, as well as to reduce external payments arrears, the staff recommends their approval until July 31, 1984, or the next Article IV consultation, whichever comes first. It is recommended that the next Article IV consultation with Ghana be held on a standard 12-month cycle.

The staff considers that the adjustment effort outlined in the attached letter of intent of July 7, 1983, requesting a stand-by arrangement in an amount equivalent to SDR 238.5 million, represents substantial progress toward tackling Ghana's long-standing economic difficulties and achieving a viable balance of payments position in the medium term and merits the financial support of the Fund.

VI. Proposed Decisions

In view of the foregoing, the following draft decisions are proposed for adoption by the Executive Board:

(i) 1983 Consultation

1. The Fund takes this decision relating to Ghana's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1983 Article XIV consultation with Ghana, in the light of the 1983 Article IV consultation with Ghana conducted under Decision No. 5392-(77/63) adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Ghana maintains restrictions on payments and transfers for current international transactions and multiple currency practices as described in EBS/83/140 and in SM/83/ . The Fund notes the intention of the authorities to remove these restrictions as soon as possible and welcomes their intention to unify the exchange rate system by July 31, 1984. In the meantime, the Fund grants approval for the maintenance of the multiple currency practices and the retention of the exchange restrictions in the form of external payments arrears until July 31, 1984 or the completion of the 1984 Article IV consultation with Ghana, whichever is the earlier. The Fund urges Ghana to terminate the remaining bilateral payments arrangements with Fund members as soon as possible.

(ii) Stand-By Arrangement

1. The Government of Ghana has requested a stand-by arrangement in the amount equivalent to SDR 238.5 million for a period of 12 months from July , 1983 to July , 1984.

2. The Fund approves the stand-by arrangement attached to EBS/83/140, and waives the limitation in Article V, Section 3(b)(iii).

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 5,995,115; 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 47,634,770; 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.

When Ghana is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Ghana and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Ghana's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Ghana. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Ghana and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Ghana, the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources will be normally either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. Ghana will consult the Fund on the timing of purchases involving borrowed resources.

8. Ghana shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

9. a. Ghana shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement, in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Ghana's balance of payments and reserve position improves.

b. Any reductions in Ghana's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

c. The value date of a repurcchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that the repurchase will be completed not later than seven years from the date of purchase.

10. During the period of the stand-by arrangement, Ghana shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Ghana or of representatives of Ghana to the Fund. Ghana shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Ghana in achieving the objectives and policies set forth in the attached letter.

11. In accordance with paragraph 24 of the attached letter, Ghana will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the stand-by arrangement and while Ghana has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiatives of the Government or the request of the Managing Director, concerning Ghana's balance of payments policies.

Accra, July 7, 1983

Dear Mr. de Larosière:

1. Upon assuming power on December 31, 1981, the Provisional National Defence Council (PNDC) worked toward establishing a government representing and supported by a broad spectrum of the Ghanaian people and it embarked on a thorough review of the economy through a newly established National Economic Review Committee. The review aimed at developing a short-term and a medium-term program aimed at reestablishing viable relative prices and improving the country's financial and economic conditions so as to lay the foundation for rehabilitating the economy and rebuilding the nation. By July 1982, the work of the committee was sufficiently advanced to invite a Fund team for a brief initial contact. Subsequently, a short-term program was developed, which was discussed with the Fund staff in Washington in September 1982 and February 1983. On April 21, 1983, in the context of the 1983 Budget Statement, we announced a comprehensive and far-reaching adjustment program.

2. For more than a decade, Ghana has been faced with a very difficult financial and economic situation characterized by declining real GDP, high rates of inflation, and a critical shortage of foreign exchange, leading to severe structural imbalances that prevailed during most of the 1970s and intensified during 1980-82. As a result, real output, which had declined sharply in the mid- and late-1970s, stagnated in 1980 and 1981, is estimated to have declined by 5 per cent in 1982. The continuing depreciation of the cedi in the parallel exchange market, the broadening of the domestic parallel market activities, and the increased importance of smuggling severely limited the Government's ability to monitor and guide economic activity. The financial deterioration was especially acute during the eighteen months through December 1981, when the fiscal deficit worsened sharply, mainly as a result of a continued deep erosion of the tax base. Despite the shrinking size of the Government in relation to GDP, the fiscal deficit worsened from about 5 per cent of GDP in 1978/79 (July 1-June 30) to 10 per cent of GDP in 1980/81. The rate of inflation, as measured by the national consumer price index, accelerated from 50 per cent in 1980 to 116 per cent in 1981. It was against this background that the PNDC initiated corrective measures. While a comprehensive program was being developed, the Government took stop-gap measures, which included the suspension and revision of the 1981/82 budget and a series of measures aimed at reducing liquidity in the system and attacking corruption. These measures are now being rationalized in the context of our comprehensive program, which, we believe, is a first major step in a concerted effort to rehabilitate the Ghanaian economy and attract external assistance. Thus, on April 22, 1983, the Government implemented the main measures of a comprehensive financial and economic program. In support

of this short-term adjustment program, the Government of Ghana hereby requests from the International Monetary Fund a stand-by arrangement for a period of 12 months for an amount equivalent to SDR 238.5 million or 150 per cent of quota. The Government is also requesting a purchase under the compensatory financing facility. The Government intends to continue the adjustment and rehabilitation effort through the implementation of a medium-term economic and financial program which, we hope, will attract further support from the Fund.

3. The objectives of the 12-month adjustment program are to establish viable price relationships, improve the financial position of the public sector, and liberalize imports through an increase in import volume, which would promote an increase in economic activity throughout the economy. We expect that these measures will bring forth supplies in the marketplace and reabsorb parallel market activity into normal channels. The improved supply situation through increased domestic production and imports, together with a reduction in the injection of new liquidity, should lead to a cutback in the underlying inflationary pressures. The program is geared to contain that part of the budget deficit financed by bank credit at a low level. These measures are expected to lay the basis for a sustained growth of production and exports and, over time, to strengthen the balance of payments. We also intend to reduce external payments arrears, while attempting to effect a modest growth in our level of gross reserves. The policies aimed at achieving these objectives are described below.

4. The most far-reaching measure under the adjustment program is a major reform of the exchange system. During June 19-August 25, 1978, the exchange rate of the cedi was depreciated in several steps from ₵ 1.15 = US$1 to ₵ 2.75 = US$1. Since then, no further changes were made. On April 22, 1983, the Government introduced, as a transitional measure, a multiple exchange rate system based on surcharges on foreign exchange payments and bonuses on foreign exchange receipts. This transitional arrangement is necessary because the Government believes that the general public needs some time to understand and accept the implications of this large de facto exchange rate adjustment. The new exchange rate system was introduced with the objective of moving toward a realistic exchange rate to promote a rational allocation of resources, reduce price distortions, and expand the export base of the economy. On the payments side, transactions are classified under two broad groupings. Transactions falling under the first group, expected to comprise about 54 per cent of total payments transactions in 1983 (51 per cent in 1982), are subject to a surcharge at the rate of 750 per cent of the official exchange rate of ₵ 2.75 = US$1. This results in an effective exchange rate of ₵ 23.375 = US$1. Transactions to which this rate is applied are import payments for crude oil, essential raw materials,

capital goods, and basic foodstuffs, and transfers in respect of official commitments. All other payments are subject to a surcharge of 900 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.

7. Over the course of recent years, production in the timber and mining sectors has declined, while capacity utilization in industry has fallen to an average of 20 per cent. Prominent among the causes for these developments has been a critical shortage of imported spare parts which has idled machinery and equipment in all sectors, as well as an excessive reliance on imported raw materials. The deterioration in Ghana's transportation network has also become a serious production bottleneck. In view of the country's abundant natural and managerial resources, the Government believes that output in these productive sectors could be significantly improved over a relatively short time span by addressing these particular problems. Consequently, an allocation totaling US$50 million for the purchase of spare parts has been made in the 1983 import program. The recent introduction of surcharges on foreign exchange purchases has already begun to induce manufacturers to use domestic sources of raw materials supply. In order to address the country's transportation difficulties, the Government has secured technical and financial assistance from the World Bank and the African Development Bank. During 1983, implementation is to start on the second phase of the World Bank's Third Highway (Emergency Maintenance) Project as well as a Railway Rehabilitation Project. Rehabilitation programs will also proceed in the nation's glassworks, steelworks, and gold mines.

8. Pricing policy aims at promoting the efficient allocation of resources while seeking to discourage speculation and monopolistic practices which have contributed to high rates of inflation and inequitable distrubtion in the past. Consequently, domestic prices will fully reflect the higher cost of imported inputs resulting from the surcharge on foreign exchange, and the government budget will provide no consumer subsidies for products other than petroleum products. It is recognized, however, that the Ghanaian economy is currently in a period of emergency and transition and is subject to many market imperfections. The situation of supply shortages has been exacerbated by the influx of returnees mentioned above. As more goods will come onto the market only gradually, competitive forces will take time to develop. In these circumstances, neither considerations of efficiency nor equity would be served by subjecting consumers to whatever scarcity prices the market might bear. The Government has, therefore, reset prices for a small number of basic consumer goods, which have historically been under price control. The manufacturers and retailers of other products will be required, as in the past, to submit any changes in their selling prices for approval by the Government's Prices and Incomes Board. The agreed final price will allow for a full pass-through of all production costs plus a profit margin normally in the range of 10-20 per cent. Producers will be allowed to submit new prices for approval in response to changes in their cost structure, including the higher cost of imported

inputs associated with further increases in the foreign exchange surcharge. It is the intention of the Government to implement these price caps and guidelines with the necessary degree of flexibility so as to provide sufficient incentives and revive the spirit of competitiveness.

9. Over the years, Ghana has reduced the consumption of petroleum products for both economic and conservation reasons. Consumption of oil was reduced by 8 per cent between 1973 and 1980, and the Government intends to reduce it by a further 16 per cent during 1983. This reduction was achieved through an annual limit on importation of crude oil, a rationing system, and frequent adjustments to domestic prices. In the late 1970s and early 1980s, retail prices of all petroleum products were adjusted upward on several occasions so as to remove all budgetary subsidies, and domestic energy prices became aligned with those on the world markets. Nonetheless, retail prices continued to reflect an indirect subsidy through the official exchange rate. Given the importance of an improved transportation system to the economic recovery program, and in view of the serious deterioration of the public transportation system, the Government considers it necessary, after the recent major changes in the exchange system, to allow a consumer subsidy on a temporary basis. The subsidy, which is explicitly indicated in the 1983 budget, will be phased out as soon as possible, but in any case no later than June 30, 1984. Our initial action, announced on April 21, 1983, about doubled the retail prices of petroleum products. These prices in cedis 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. Crude petroleum is being imported at the new implicit exchange rate of ₵ 23.375=US$1 (see paragraph 4). However, the initial price adjustment brings retail prices to levels equivalent to only ₵ 15=US$1 for crude oil imports, requiring a subsidy for the difference. In order to reduce the subsidy, it is the Government's intention to raise these prices to the equivalent of crude being imported at ₵ 20=US$1 by October 1, 1983, and to the equivalent of the less depreciated rate by January 1, 1984, thereby eliminating the budgetary subsidy. Subsequent adjustment in prices will at first move with the less depreciated rate; after unification of the exchange rates, prices will fully reflect movements in the unified rate. The necessary subsidy during the eight months May-December 1983 has been budgeted not to exceed ₵ 1.0 billion. Any changes in the costs, including the cost of importation, refining, and distribution, from the levels currently estimated, which would otherwise lead to a subsidy payment in 1983 larger than ₵ 1.0 billion, will be fully and immediately reflected in increased retail prices.

10. The Incomes Policy Guidelines announced in the 1983 budget aim at ensuring equal remuneration for comparable work and qualifications, narrowing excessive wage differentials, as well as containing future wage increases to rates consistent with increases in productivity. The minimum daily wage was set at ₵ 12 in November 1980. Since then, employees of public and private enterprises have, through collective bargaining, been granted increases in excess of wage rates set in 1980. Civil servants and others whose employment is not governed by collective bargaining remained on the wage structure established in 1980. The Guidelines seek to address this disparity through an increase in the daily minimum wage of ₵ 25. This new minimum wage has resulted in an increase of about 60 per cent in the average civil service remuneration, reflecting the less-than-proportional increases in the higher wage and salary brackets. Public and private enterprises with a structure of basic remuneration superior to that of the civil service will be permitted to grant increases under their collective bargaining agreements only when justified by productivity gains and increased profitability. Taking into account the Government's projected 20 per cent rate of price inflation in 1983, these guidelines are expected to limit the average increase in basic remuneration under collective bargaining agreements to around 25 per cent, which, however, should in no case exceed ₵ 2,038 per annum. As for nonprofit organizations which require transfers from the budget, the granting of wage increases must not result in additional transfers.

11. The Government recognizes the importance of the budget as a crucial instrument for attaining the objectives of the adjustment program. In the past, a shrinking tax base, in the face of rapidly growing expenditure, was the main reason for the deterioration of Ghana's fiscal situation. With the expected improvement in economic activity and the reabsorption of parallel market activity into normal channels, we believe that the deeply eroded tax base will be rapidly broadened. During 1982, the Government moved quickly to strengthen tax administration and accelerate revenue collection. As a result, tax evasion was curtailed and revenue from direct taxes increased substantially. On the expenditure side, the Government reversed the trend of accelerating growth in public outlays by severely cutting back expenditure, and introduced measures to control spending. Procedures were introduced whereby selective items of expenditure are centrally scrutinized by the Ministry of Finance and monthly expenditure allocations for these items are contingent on submission of returns for the previous months. The Government has also removed "ghost workers" from its payroll and reduced overemployment in the civil service following a review of manpower needs. Restrictions have also been placed on new recruitment. Through these measures, the Government achieved its stated objective of reducing the budget deficit for 1981/82 from a level projected at ₵ 8.0 billion by the Fund staff in December 1981 to ₵ 4.8 billion.

12. The 1983 budget measures represent a continuation of this policy reinforced by the introduction of tax assessment on a current-year basis. However, the major impact on tax receipts will derive from the various effects of the exchange rate adjustment. The more favorable exchange rate will allow the Cocoa Marketing Board to make a ¢ 1.1 billion contribution to tax revenue this fiscal year, the first contribution since 1980. The rise in imports along with an increase in their landed value will improve revenues from custom duties. These imports should revive domestic production which will translate into higher yields from taxes on domestic goods and services. As a consequence, a strong recovery in tax revenues is projected which should raise total revenue and grants to ¢ 14.6 billion in 1983, compared with ¢ 4.6 billion in calendar year 1982. Total expenditure and net lending for 1983 is estimated at ¢ 18.2 billion compared with ¢9.2 billion in calendar year 1982. This higher level of expenditure, apart from allowing a 60 per cent average increase in civil service wages and salaries, represents no real increase. The raise in wages and salaries is required to partially restore parity with private sector pay and improve efficiency within the civil service by raising morale and promoting incentives. The projected outlays will limit capital expenditure to replenishing essential supplies and undertaking repairs. They will also provide a temporary subsidy to consumers of petroleum products up to a maximum of ¢ 1.0 billion (see paragraph 9). The Government is fully committed to maintaining and strengthening expenditure control procedures introduced in 1982 in order to contain the overall deficit for 1983 to ¢ 3.6 billion (3.5 per cent of GDP compared with 4.7 per cent of GDP in 1982). Of this deficit, no more than ¢ 2.3 billion will be financed from the banking system (see paragraph 13). The Government intends to limit the budget deficit in 1984 to 2.5 per cent of GDP and to reduce further its recourse to the banking system. During the period of the stand-by arrangement, the Government is prepared to adjust the level of expenditure or introduce additional revenue measures, if developments indicated that the budgetary objectives would not be achieved. The Government also undertakes to provide to the Fund staff periodically data related to the implementation of the budget.

13. The Government intends to pursue cautious monetary and credit policies. Monetary and credit developments will be closely monitored to ensure that credit needs in a reviving economy, consistent with the program's objectives, are met. Credit policy is geared to aid a projected increase in capacity utilization in the economy and to restore the financial balance of the Cocoa Marketing Board. It will be recalled that in 1981 the previous government had tripled the cocoa producer price without accompanying measures on the exchange system, resulting in a large-scale recourse to the banking system by the CMB. The Government has decided to assume CMB's debt amounting to about ¢ 7.4 billion as of end-April

1983 so that the CMB can be allowed to resume profitable self-financing operations. With June 1983 estimates as the base month, an expansion in net domestic assets of some ₵ 5 billion is envisaged for the 12-month period up to June 1984, or about 29 per cent of money stock at the beginning of the period. 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. 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 some reduction in payments arrears. 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 have been allowed to exceed the allowable maximum during the peak of the cocoa season on condition that the target of ₵ 5.0 billion increase by June 1984 is met. Expansion of domestic credit to the Government and to the economy as a whole is limited by periodic ceilings. Given the uncertainty of the impact of adjustment measures during the initial period, credit ceilings have been set, as performance criteria, for only the period through August 31, 1983, although the June 30, 1983 target is also a level the Government intends to adhere to. 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 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 ₵ 7.4 billion CMB debt), will not 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 (1.3 per cent of GDP). 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 as indicated in the table annexed to this letter. The credit limits and targets established are consistent with the budgetary objectives set out in paragraphs 11 and 12 above and with other objectives of the program. These targets are designed to accommodate the seasonal requirement for cocoa financing which is projected to rise to a seasonal peak of ₵ 3.0 billion during June 30, 1983-June 30, 1984. Claims on the rest of the economy are projected to rise by ₵ 3.0 billion during the period June 30, 1983 to June 30, 1984. Most of the increase, which would occur during June 30-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. Consistent with these credit targets, broad money is projected to increase by only 9.6 per cent during the program period June 30, 1983-June 30, 1984 compared with

47 per cent for the calendar year 1983 and 33 per cent for the period June 30, 1982 and June 30, 1983. During the first review (specified in paragraph 24), 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.

14. 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, including a reduction in banks' cash reserve ratios and the ratios on holdings of other liquid assets to deposits applied at the Bank of Ghana. The guidelines for sectoral allocation of credit have been 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.

15. As indicated, the Government intends to rationalize and regularize the stopgap measures introduced in 1982. The recall and demonetization of the ₵ 50 notes that took place in March 1982 collected ₵ 1.3 billion out of ₵ 1.5 billion then in circulation. The amount was applied to the budget. The Government has made arrangements to refund the owners of the ₵ 50 notes. Those with amounts between ₵ 50 and ₵ 500 are being refunded in cash; amounts between ₵ 550 and ₵ 1,000 are to receive a 6 per cent stock of five years' maturity, not redeemable before the fourth year; amounts of ₵ 1,050 and above are to receive a 6 per cent stock of 10 years' maturity, not redeemable before the sixth year. The total amount for cash refunds in 1983 will be ₵ 200 million, which has been taken into account in the 1983 government debt repayment appropriations. Deposits of ₵ 50,000 and above, as of December 31, 1981, which were frozen pending the vetting or determination of fraud and tax liability, are being unfrozen as soon as the tax liabilities, if any, are paid. The requirement that all payments of ₵ 1,000 and above must be made by cheque is not being enforced. The system of payment by cheque is being studied with the view to encouraging its widespread use. The order to banks to recall all personal loans for financing trade inventories lapsed a month later on February 19, 1982.

16. With the success in reducing inflation during 1982, interest rates are less negative than a year ago. Nonetheless, the Government intends to pursue a policy that will ensure that, in the medium term, interest rates will be positive in real terms. It will examine interest rate policy once prices stablize following the recent far-reaching exchange rate measures. During the two reviews referred to in paragraph 24, interest rate policy will be reviewed with the aim of reaching understandings with the Fund on a schedule for narrowing and later reversing the differential between the prevailing structure of interest rates and the rate of inflation.

17. In 1982, the current external account recorded a small deficit, and the overall balance of payments registered a modest surplus. These results are misleading, however, and do not reflect the present structural weaknesses of Ghana's balance of payments. For lack of foreign exchange, the Government had to reduce imports drastically, and the value of total imports in nominal terms (in U.S. dollars) was 33 per cent below the 1981 level. Export earnings in 1982 declined in nominal terms by 15 per cent. In 1983, the current account is projected to record a deficit of US$525 million, equivalent to 10 per cent of GDP, because imports (c and f) are programmed to increase by over 80 per cent, despite a decline in the projected level of exports. A large increase in imports is necessary to alleviate the acute shortages of essential goods and to revitalize the economy. Imports for 1983 are planned at US$1,064 million, of which crude oil imports are programmed at US$210 million. Crude oil imports will be financed entirely by 90-day and medium-term credits. A large part of non-oil imports will also be financed with government and private capital inflows. The overall balance of payments is projected to record a deficit of US$140 million.

18. Ghana has accumulated large external arrears on payments and transfers for current international transactions and on debt amortization. At the end of April 1983, such arrears amounted to US$619.7 million. Although the Government recognizes that the regularization of these obligations with external creditors is important to restore confidence in the Ghanaian economy and to attract foreign loans and investments, the short-term balance of payments outlook precludes their elimination during the period of the stand-by arrangement. During the period of the stand-by arrangement, the Government will avoid any further accumulation of arrears on current payments and transfers and on debt amortization, and will reduce the level of net payments arrears through cash payments by US$10 million by the end of August 1983, by a further US$25 million by the end of October 1983, by a further US$25 million by the end of December 1983, and by a further US$20 million each by end-March and end-June 1984, respectively. Payments arrears will be reduced in an orderly and nondiscriminatory manner.

19. At the end of 1982, medium- and long-term public external debt outstanding amounted to US$1,192.6 million. During 1982, service payments on these debts, which amounted to US$66.9 million, were equivalent to 10.7 per cent of merchandise export earnings. This relatively low ratio by international comparison is a reflection of the low levels of external loans obtained by Ghana in recent years. However, total debt service payments are expected to increase considerably in 1983 due to increases in projected service payments on short-term credits obtained in 1982 and 1983. On the other hand, a rescheduling agreement reached with Libya concerning the crude oil import credits obtained in 1982 and

originally due during the second half of 1983 has helped to reduce the debt service burden in 1983. The rescheduled credits total US$95.8 million. As disbursements of medium- and long-term external loans accelerate to rehabilitate our long-neglected infrastructure as well as manufacturing and agriculture, debt service payments on these loans will also increase in the future. The Government, therefore, recognizes the need to pursue a prudent external debt management policy so that the debt service burden will not contribute unduly to the pressure on the balance of payments. It is the intention of the Government to limit the contracting and guaranteeing of external loans on nonconcessional terms in the maturity range of 1-12 years to US$400 million, and in the maturity range of 1-5 years to US$250 million during the period of the stand-by arrangement. Disbursements of loans, on a net basis, with an original maturity of less than one year, other than trade-related credits and bridging loans, will be limited to US$100 million, and bridging loans to US$200 million during the period of the stand-by arrangement. Libyan oil credits, which take the form of commodity aid and are expected to be repaid interest-free one year after each shipment, will be excluded from the above limits.

20. Although our import programs have been formulated on an annual basis, uncertainty about the prospective availability of foreign exchange resources has made their actual implementation difficult in the past. The Government has therefore introduced a number of changes in the import licensing procedure to ensure an efficient functioning of the import system. For example, the number of eligible importers has been reduced so as to encourage bulk ordering. Import license applications are carefully examined, but licenses are issued promptly whenever the availability of foreign exchange resources is known, and import license holders are encouraged to utilize licenses without delay.

21. During the period of the stand-by arrangement, the Government does not intend to introduce any new multiple currency practice or modify the existing multiple currency practices, other than those arising from periodic adjustments of the exchange rates as described in paragraph 4. Furthermore, the Government does not intend to impose any new or intensify any existing restrictions on payments and transfers for current international transactions, including those arising from accumulation of new payments arrears, to conclude any bilateral payments agreements with Fund members, or to introduce any new or intensify any exisiting restriction on imports for balance of payments reasons.

22. The current account of the balance of payments is expected to improve in 1984, with the deficit declining to US$445 million, and a further decline in the deficit is expected in 1985. With the recovery in production and the strengthening in the external prices and demand

for some of Ghana's traditional exports, export earnings are expected to grow at an average nominal rate of about 30 per cent during 1984-85. During 1984-85, annual import growth (in nominal terms) of about 12 per cent is projected. This rate of import growth would be needed to maintain a volume of imports in real terms which would enable the economy to achieve a moderate growth rate. In 1984, the balance of payments is expected to show an overall deficit of about US$143 million, or the same magnitude as in 1983. The Government expects that a sustainable balance of payments position could be achieved after 1985, as the economic recovery gains greater momentum with anticipated inflows of private capital and official assistance.

23. To ensure effective and continuous monitoring of the economic stabilization program, the Government has decided to set up a Committee chaired by Dr. Abbey, and comprising representatives from the Ministry of Finance and Economic Planning, the Bank of Ghana, the Ministry of Trade, and the Central Bureau of Statistics. This committee will be responsible for the collection and interpretation of the data necessary for the follow-up of the program and for the monthly transmittal of the necessary data to the Fund staff.

24. The Government believes that the policies set forth in this letter are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate 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 envisaged changes in the exchange rate system, as well as the Government's interest rate policy, will be reviewed to reach understandings with the Fund by October 14, 1983 and by February 14, 1984. The completion of these reviews will constitute a performance criterion.

Sincerely yours,

Dr. Kwesi Botchwey
PNDC Secretary for Finance
and Economic Planning

J. S. Addo
Governor
Bank of Ghana

Credit Ceilings for August 1983 and Credit Targets for 1983-84

(In billions of cedis)

	Outstanding (End of Month)						
	March Actual	June 1983 Objective	August 1983 (Performance Criterion)	October 1983	December 1983	March 1984	June 1984
Net domestic assets	17.56	19.17	20.87 1/	23.47	25.37	25.87	24.17
Net claims on Government	11.74	20.08	20.38 1/	20.58	20.78	21.18	21.48
Cocoa financing	6.85	--	--	1.50	3.00	2.80	0.60
Credit to rest of the economy	2.24	3.28	4.68	5.58	5.78	6.08	6.28
Other items net	-3.27	-4.19	-4.19	-4.19	-4.19	-4.19	-4.19
			Cumulative Changes from end-June 1983				
Net domestic assets			1.7 1/	4.3	6.2	6.7	5.0
Net claims on Government			0.3 1/	0.5	0.7	1.1	1.4
Cocoa financing			--	1.5	3.0	-0.2	-2.4
Other items net			--	--	--	--	--

1/ Performance criterion.

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	72.5	36.5	55.9 1/	87.0 1/	12.0 2/
At 1975 prices	3.3	-8.4	9.6 1/	-1.8 1/	-7.2 2/
Selected price indices					
Consumer prices 1/	73.1	54.4	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	-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 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 June 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 0.339
Holdings of SDRs:	SDR 0.54 million, 0.86 per cent of net cumulative allocation
Fund holdings of Ghanaian cedis:	SDR 170.995 million, 107.54 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

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.

GHANA - Relations with World Bank Group
(As of June 30, 1982)

(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	12.5	1.1
Telecommunications	23.0	12.7	10.3
National Investment Bank	10.0	9.2	0.8
Ashanti cocoa project	14.0	12.8	1.2
Second Highway	18.0	15.8	2.2
Agricultural development	21.0	14.7	6.3
Second NIB	19.0	3.4	15.6
Agricultural development	29.5	2.7	26.8
Third Highway	25.0	14.8	10.2
Railway	29.0	--	29.0
Water supply project	13.0	--	13.0
Energy project (petroleum exploration)	11.0	--	11.0
Reconstruction import project	40.0	--	40.0
Total	460.5	293.0	167.5
Less amount paid	41.1	41.1	
Total outstanding	419.4	251.9	167.5

Source: World Bank.

1/ Less cancellations.