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EBS/89/93

CONFIDENTIAL

May 12, 1989

To: Members of the Executive Board

From: The Secretary

Subject: Ghana - Staff Report for the Midterm Review of the First Annual Arrangement Under the Enhanced Structural Adjustment Facility

It is not proposed to bring the attached memorandum to the agenda of the Executive Board for discussion unless an Executive Director so requests by the close of business on Monday, May 22, 1989. In the absence of such a request, the draft decision that appears on page 28 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Mr. Calamitsis (ext. 6966) or Mr. van Til (ext. 8386) is available to answer technical or factual questions relating to this paper.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

GHANA

Staff Report for the Midterm Review of the First Annual Arrangement Under the Enhanced Structural Adjustment Facility

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

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

Approved by G.E. Gondwe and Thomas Leddy

May 11, 1989

I. Introduction

On November 9, 1988 the Fund approved Ghana's request for a three-year arrangement under the enhanced structural adjustment facility (ESAF) in an amount equivalent to SDR 368.1 million (180 percent of quota), and the first annual arrangement thereunder in an amount equivalent to SDR 137.1 million (67 percent of quota), in support of the Government's program of structural and financial adjustment for the period July 1988-June 1991. 1/ Under the first annual arrangement, the first loan, in an amount equivalent to SDR 86.3 million, was disbursed on November 30, 1988. The second loan, in an amount equivalent to SDR 50.8 million, will become available upon observance of the performance criteria for end-December 1988 and the completion of the midterm review under the first annual arrangement. All the quantitative performance criteria for end-December 1988 were met, and there was only a temporary and minor delay involved in the observance of the structural performance criterion on the abolition of the import licensing system.

The discussions that formed the basis of the midterm review were initiated in Accra during the period January 30-February 10, 1989 and were concluded at the Fund's headquarters during the period March 17-22, 1989. 2/ In the attached letter to the Managing Director dated

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1/ As the Government's fiscal year coincides with the calendar year, the program was formulated on a calendar-year basis, effectively covering the period 1988-91.

2/ The Ghanaian representatives in the discussions included Dr. Botchwey, Secretary for Finance and Economic Planning, Dr. Agama, Governor of the Bank of Ghana, Dr. Abbey, Ghana's High Commissioner to the United Kingdom, and other senior officials concerned with economic and financial matters. The staff representatives were Mr. Calamitsis (head-AFR), Mr. Chand (FAD), Mr. van Til (AFR), and Mr. Leeahtam (ETR), with Ms. Duane (AFR) as secretary. Mr. Johnson, the Fund's resident representative in Accra, also took part in the discussions. Mr. Hadjimichael (AFR) participated in the meetings that were held at the Fund.

March 29, 1989 (Appendix I), concerning this review, the Secretary for Finance and Economic Planning and the Governor of the Bank of Ghana describe the progress made in the implementation of Ghana's program in 1988, request a waiver for the nonobservance of the structural performance criterion by the due date, set out the objectives and policies to be pursued in 1989, and propose definitive quantitative benchmarks for end-March and end-June 1989. As of end-March 1989 Ghana's outstanding use of Fund credit amounted to SDR 526.9 million, or 257.7 percent of quota (Table 1 and Appendix II).

Ghana's program is also being supported by the World Bank and other creditors and donors. On April 18, 1989 the Bank approved a second structural adjustment credit for Ghana in an amount equivalent to SDR 89.2 million. As of end-March 1989 the Bank's cumulative loan commitments to Ghana, including project lending and sectoral adjustment credits, totaled US$1,480 million, of which US$997 million had been disbursed (Appendix III). The Fund and Bank staffs have continued to collaborate closely on the various aspects of Ghana's adjustment efforts and financing requirements. At the fifth meeting of the Consultative Group for Ghana, which was held in Paris on February 28-March 1, 1989, the participating creditors and donors broadly endorsed Ghana's program of structural and financial reforms and pledged further substantial financial assistance.

II. Background and Medium-Term Policy Framework

Since the adoption of the Economic Recovery Program in April 1983, the Ghanaian authorities have successfully implemented a number of far-reaching structural and financial reforms. The progressive liberalization of the exchange and trade system, coupled with the elimination of most price and distribution controls, has favored directly productive activities and exports. Moreover, the gradual rehabilitation of economic and social infrastructure has eased some of the constraints on economic growth. At the same time, prudent fiscal and monetary policies have contributed measurably to the reduction of internal and external imbalances. As a result, in recent years Ghana's overall economic and financial situation has improved markedly: real gross domestic product (GDP) and real per capita income have grown significantly; the rate of inflation has declined appreciably; and the balance of payments position has improved substantially (Table 2).

Despite the considerable progress made in recent years, however, Ghana still faces major structural and financial problems. Economic growth is limited by inadequate domestic savings and investment, as well as by transportation and other infrastructure bottlenecks. The rate of inflation is high, seriously eroding the already low levels of real wages and salaries, especially in the public sector. Furthermore, the external payments position is vulnerable to adverse developments in the international environment, such as the continued decline in world market prices for cocoa, and the external debt service burden is heavy.

Table 1. Ghana: Fund Position During Period of ESAF Arrangement

	Outstanding at March 31, 1989	1989 Apr.-June	1989 July-Sept.	1989 Oct.-Dec.	1990 Jan.-Mar.	1990 Apr.-June	1990 July-Sept.	1990 Oct.-Dec.	1991 Jan.-Mar.	1991 Apr.-June	1991 July-Sept.
					(In millions of SDRs)						
Transactions under tranche policies (net)	--	-38.95	-14.63	-31.11	-10.88	-33.33	-7.13	-29.75	-3.92	-26.21	-3.92
Purchases	--	--	--	--	--	--	--	--	--	--	--
Ordinary resources	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Enlarged access resources	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Repurchases	--	38.95	14.63	31.11	10.88	33.33	7.13	29.75	3.92	26.21	3.92
Ordinary resources	(--)	(16.40)	(10.43)	(8.56)	(6.68)	(6.68)	(2.93)	(1.06)	(--)	(--)	(--)
Enlarged access resources	(--)	(22.55)	(4.20)	(22.55)	(4.20)	(26.64)	(4.20)	(28.69)	(3.92)	(26.21)	(3.92)
Transactions under special facilities (net) 1/	--	-7.28	-7.28	-7.28	--	--	--	--	--	--	--
Purchases	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Repurchases	(--)	(7.28)	(7.28)	(7.28)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Structural adjustment facility loans	--	--	--	--	--	--	--	--	--	--	--
Enhanced structural adjustment facility loans	--	50.80	--	87.00	--	48.00	--	48.00	--	48.00	--
Total Fund credit outstanding (end of period) 2/	526.91	531.48	509.58	558.18	547.31	561.98	554.85	573.10	569.18	590.97	587.05
Tranche policies	377.88	338.92	324.30	293.18	282.31	248.98	241.85	212.10	208.18	181.97	178.05
Special facilities 1/	21.83	14.56	7.28	--	--	--	--	--	--	--	--
Structural adjustment facility	40.90	40.90	40.90	40.90	40.90	40.90	40.90	40.90	40.90	40.90	40.90
Enhanced structural adjustment facility	86.30	137.10	137.10	224.10	224.10	272.10	272.10	320.10	320.10	368.10	368.10
					(In percent of quota)						
Total Fund credit outstanding (end of period) 2/	257.66	259.89	249.18	272.95	267.63	274.81	271.32	280.25	278.33	288.98	287.07
Tranche policies	184.78	165.73	158.58	143.37	138.05	121.75	118.26	103.72	101.80	88.98	87.07
Special facilities 1/	10.68	7.12	3.56	--	--	--	--	--	--	--	--
Structural adjustment facility	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
Enhanced structural adjustment facility	42.20	67.04	67.04	109.58	109.58	133.06	133.06	156.53	156.53	180.00	180.00
Memorandum item:											
Trust Fund loans outstanding (end of period)											
In millions of SDRs	8.37	6.73	4.62	2.98	1.82	0.75	0.33	0.33	--	--	--
In percent of quota	4.09	3.29	2.26	1.46	0.89	0.37	0.16	0.16	--	--	--

Source: IMF, Treasurer's Department.

1/ Compensatory financing facility.
2/ Including ESAF Trust resources.

Table 2. Ghana: Selected Economic and Financial Indicators, 1984-91

	1984	1985	1986	1987	1988 Prog.	1988 Prov.	1989 Prog.	1990 Projections	1991 Projections
	(Annual percentage change, unless otherwise specified)								
National income and prices									
Real GDP	8.7	5.1	5.2	4.8	5.5	6.2	5.5	5.0	5.0
Real GDP per capita	6.7	1.7	1.8	1.5	2.1	2.8	2.1	1.6	1.6
Nominal GDP (in billions of cedis)	270.6	343.0	511.4	746.0	958.6	1,041.0	1,265.2	1,449.4	1,622.3
GDP deflator	35.3	20.6	41.7	39.2	21.8	31.4	15.2	9.1	6.6
Consumer price index (annual average)	39.7	10.4	24.6	39.8	21.8	31.4	15.2	9.1	6.6
Consumer price index (end of period)	6.0	19.5	33.3	34.2	20.0	26.6	10.0	8.0	5.0
External sector									
Exports, f.o.b.	29.1	11.6	18.5	10.0	-1.1	2.0	7.1	8.5	9.7
Imports, f.o.b.	23.3	9.0	9.3	27.3	6.2	6.7	6.0	10.7	9.8
Export volume	2.0	21.1	9.3	8.3	0.5	9.2	32.4	4.1	5.3
Import volume	26.9	11.3	14.8	14.4	2.2	3.7	1.2	6.7	5.9
Terms of trade	30.2	-5.9	13.9	-8.8	-5.2	-9.1	-22.8	0.6	0.5
Nominal effective exchange rate	-75.4	-27.0	-49.8	-40.4	...	-17.6	...	...	...
Real effective exchange rate	-61.4	-27.3	-42.4	-22.8	...	-4.5	...	...	...
Government budget									
Revenue and grants	121.1	78.0	82.6	50.8	28.5	38.5	34.0	18.0	12.8
Total expenditure	81.1	74.2	53.1	45.9	29.8	40.1	30.8	16.5	12.2
Current expenditure	71.9	64.9	58.2	32.5	29.0	37.8	26.1	17.0	11.2
Capital expenditure 1/	158.0	126.7	32.5	111.4	32.0	47.2	44.0	27.4	13.0
Money and credit									
Net domestic assets 2/	84.3	77.1	49.8	11.8	10.3	8.5	8.2	4.2	2.5
Credit to the Government 2/	15.2	8.5	4.4	-8.6	-4.5	-8.5	-4.2	-3.5	-3.0
Credit to the rest of the economy 2/ 3/	63.1	63.0	35.7	14.3	13.4	13.3	10.4	7.3	4.1
Broad money	72.1	59.5	53.7	53.0	27.4	43.0	21.6	14.6	12.0
Velocity (GDP relative to broad money)	7.7	6.1	5.9	5.6	5.7	5.5	5.5	5.5	5.5
Interest rates (in percent; end of period) 4/									
Minimum rate on savings deposits	14.5	16.5	18.5	21.5	...	17.5	...	...	...
Maximum rate on nonagricultural loans	22.5	23.0	23.0	26.0	...	30.3	...	...	...
	(In percent of GDP)								
Investment and savings									
Gross investment	6.9	9.6	9.7	10.8	13.2	13.2	14.7	16.1	17.3
Gross national savings	8.0	8.1	7.9	9.0	10.8	10.2	12.5	13.5	14.6
Government budget 5/									
Surplus or deficit (-) 6/	-1.8	-2.2	0.1	0.5	0.4	0.4	0.8	1.0	1.1
Overall surplus or deficit (-) 7/	-2.3	-3.0	-2.4	-3.3	-2.8	-2.7	-3.2	-3.3	-3.0
Revenue and grants	8.4	11.8	14.4	14.9	14.9	14.8	16.3	16.8	16.9
Total expenditure 6/	10.2	14.0	14.3	14.3	14.5	14.4	15.5	15.8	15.8
External sector 5/									
Current account balance 8/	-1.0	-2.5	-1.6	-2.3	-2.4	-3.0	-2.2	-2.6	-2.7
External debt outstanding	...	...	51.5	68.3	64.0	61.9	67.3	70.0	66.7
Debt service	...	...	7.4	11.6	13.0	12.8	10.8	8.1	6.4
	(In percent of exports of goods and services)								
External debt service									
Including the Fund	...	...	47.6	59.9	75.0	73.1	55.1	39.1	31.5
Excluding the Fund	36.0	46.8	36.7	32.7	38.9	36.6	30.9	24.5	22.3
	(In millions of U.S. dollars)								
Current account balance 8/	-75.3	-156.7	-84.8	-102.1	-121.0	-151.1	-104.7	-132.4	-149.2
Overall balance of payments	37.2	-115.5	-56.7	138.5	125.0	126.1	110.0	125.0	130.0
External payments arrears (end of period)	...	...	171.4	99.8	69.8	65.0	20.0	--	--
Gross international reserves									
(end of period)	131.8	145.2	148.7	193.6	203.2	199.7	214.3	329.0	447.1
(equivalent weeks of imports c.i.f.)	10.4	10.4	9.9	9.8	9.8	9.6	9.5	13.4	16.6

Sources: Data provided by the Ghanaian authorities; and staff estimates and projections.

1/ Includes net lending and, from 1987 onward, the special efficiency program.
2/ In percent of broad money at the beginning of the period.
3/ Includes financing of the Cocoa Board's operations, but excludes other items (net).
4/ Controls on the maximum lending rate and the minimum savings rate were lifted in September 1987 and February 1988, respectively.
5/ The time series are significantly affected by the exchange rate changes that took place in recent years and those assumed for the period ahead.
6/ Excludes capital expenditure financed through external project aid.
7/ Includes capital expenditure financed through external project aid.
8/ Includes official grants.

Finally, the pace of adjustment is restrained by a number of other factors, including weaknesses in the financial system and in the operations of state enterprises.

In view of the structural nature of these problems and the time required to resolve them, the authorities have been pursuing their reform efforts in the context of a medium-term program of action, covering the period 1988-91. As indicated in Ghana's most recent policy framework paper (PFP) (EBD/88/273), the basic macroeconomic objectives of the program for 1989-91 are to: (a) achieve an average annual rate of growth of real GDP of at least 5 percent; (b) reduce the rate of inflation, on an end-of-period basis, from 34 percent in 1987 to 5 percent in 1991; and (c) generate substantial overall balance of payments surpluses, averaging US$117.5 million per annum, which would be consistent with the scheduled reduction in the foreign liabilities of the Bank of Ghana, the elimination of the remaining external payments arrears, and a significant increase in gross official reserves, while ensuring an adequate level of imports. In addition, an important concern of the program is to address in a systematic manner the needs of the poorest and most vulnerable groups in Ghana, particularly small farmers, the urban unemployed and underemployed, and the retrenched public sector employees.

To attain these basic objectives, the program involves not only a reinforcement of the judicious macroeconomic policies pursued in recent years but also an acceleration of structural reforms, a strengthening of the institutional framework, and the implementation of a broadly based economic development strategy. Accordingly, the authorities are taking steps to (a) improve further the incentive framework in the economy through a continuation of a flexible exchange rate policy, exchange and trade liberalization, and higher agricultural producer prices; (b) increase investments for the rehabilitation and restructuring of productive capacity, infrastructure, and social services; (c) strengthen the efficiency and equity of the tax system, as well as the efficacy of government expenditure controls; (d) accelerate state enterprise reform; (e) promote financial sector reform, including a rehabilitation of the financially troubled commercial and development banks; and (f) improve public sector management, with a view to fostering efficiency and strengthening program implementation and monitoring. To underpin these policies, the authorities are also implementing appropriate sectoral strategies, notably in agriculture, industry, health, and education.

With the continued effective implementation of these structural and financial policies, supported by adequate external financial assistance, the basic macroeconomic objectives of the program remain attainable. Indeed, barring unforeseen developments, the average annual rate of growth of real GDP could well exceed the program target. At the same time, despite the persistence of pressures on prices, the inflation trend is clearly downward. The balance of payments outlook also remains broadly favorable. Although world market prices for cocoa have declined even more sharply that had been foreseen, the drop in the realized export price is now expected to be more than compensated by an increase in volume, reflecting a faster-than-anticipated expansion in domestic output and the virtual elimination of illicit exports. On the whole, present projections of both the current and capital accounts differ only slightly from the baseline scenario set out in the staff report for the 1988 Article IV consultation and request for arrangements under the ESAF (EBS/88/207). However, as demonstrated in that report, the balance of payments is highly sensitive to changes in the external environment and in domestic adjustment policies.

The expected further improvement in the external position over the medium term should help strengthen Ghana's capacity to service its debt, including financial obligations to the Fund. Although the current account deficit, excluding official transfers, would remain at about 6 percent of GDP during 1989-91, it is projected to be more than offset by sustainable net inflows of official transfers and concessional long-term loans, allowing a continuation of sizable overall balance of payments surpluses. The latter would not only cover the scheduled net repurchases from the Fund but also facilitate the elimination of external payments arrears in 1990, as well as an increase in gross official reserves to the equivalent of more than four months' imports by the end of 1991. The debt service ratio, including obligations to the Fund, is expected to decline from its peak of 73 percent in 1988 to 32 percent in 1991, while the ratio of external debt to GDP would begin to decrease in 1991. Ghana has been discharging its obligations to the Fund on schedule, and it is expected to continue to do so in the period ahead.

III. Performance Under the Program in 1988

In 1988 the Ghanaian authorities continued to implement a broad range of measures designed to improve the incentive framework, sustain the growth of the economy, and strengthen the external position (Table 3). In particular, early in the year the exchange and trade system was further liberalized by moving all remaining merchandise imports under the Special Import License scheme onto the "A" list of goods eligible for foreign exchange from the auction market, except the five items on the negative list of imports 1/ and those imports that are prohibited for nontrade reasons; all bona fide requests for foreign exchange required for business travel (up to a maximum of US$3,000 per trip) also became eligible for funding through the auction; and commercial banks and other authorized dealers were allowed to establish foreign exchange bureaus to buy and sell foreign exchange at freely determined prices. In addition, producer prices for cocoa and other cash crops were raised significantly. In view of the deteriorating outlook for cocoa, the producer price was raised by only 18 percent for the 1988/89 crop year, compared with 65 percent in 1987/88. However, a

1/ Beer and stout, cigarettes, cement pipes, roofing sheets, and asbestos and fiber.

Table 3. Ghana: Performance Under the Adjustment Program in 1988 1/

Objectives	Status or outcome
A. Real GDP growth: 5.5 percent	Estimated outcome: 6.2 percent
B. Inflation (CPI, end-of-period): 20.0 percent	Provisional outcome: 26.6 percent
C. Overall balance of payments surplus: US$125.0 million	Provisional outcome: US$126.1 million
Policies	
A. Exchange and trade system	
1. Widen access to the foreign exchange auction market by:	
- Moving the remaining 50 percent of the goods on the SIL list to the "A" list by January 31, 1988	Implemented February 5, 1988
- Making eligible for the auction market the funding of all bona fide requests for business travel (up to a maximum of US$3,000 per trip) by January 31, 1988	Implemented February 29, 1988
- Making eligible for the auction market the funding of all bona fide requests for transfers of profits and dividends by January 31, 1989 2/	Implemented February 1, 1989
2. Strengthen the mobilization of foreign exchange by introducing foreign exchange bureaus by January 1, 1988.	Implemented February 1, 1988
3. Abolish the system of import licensing by December 31, 1988 3/	Implemented January 14, 1989
4. Reduce the volume of cocoa exports under bilateral agreements to 10,000 tons in 1988	Implemented
B. Cocoa sector	
1. Raise the cocoa producer price for the 1988/89 crop year to 50 percent of the projected export price f.o.b.	Implemented June 1988
2. Reduce the operating costs of the Cocoa Board to an indicative target of 15 percent of the export price f.o.b. in 1988/89, through, inter alia, a staff reduction of 5,000 (12 percent) in 1988	In progress: staff reduction in 1988 amounted to about 2,500 (6 percent)
C. Fiscal policy and public investment program	
1. Achieve fiscal surplus (excluding capital expenditure financed through external project aid) equivalent to 0.4 percent of GDP	Provisional outcome: fiscal surplus of 0.4 percent of GDP
2. Revenue and grants: increase by 28.5 percent	Provisional outcome: 38.5 percent
3. Tax reform measures, including:	
- Substantial increases in the personal income tax brackets and allowances, resulting in a marked reduction in average tax rates	Implemented in the 1988 budget
- Reduction of the corporation tax rate for the manufacturing, farming, and export sectors from 55 percent to 45 percent	Implemented in the 1988 budget
- Restructuring of import tariffs, the sales tax on imports, and the sales tax on manufactures so as to shift the protective function of the tax system to the import tariff and the revenue function to the sales tax	Implemented in the 1988 budget
- Increase the basic rate of sales tax from 20 percent to 25 percent, with a 35 percent rate applying to luxury goods; also, upward adjustment in excises and other duties	Implemented in the 1988 budget
- Increase the excise duty on petroleum products and retail prices so as to avoid any subsidies to consumption	Implemented in the 1988 budget
4. Redeploy 12,000 civil servants	Almost 12,000 civil servants were redeployed during 1988, but in view of the need to recruit staff for higher-level positions the net reduction amounted to 3,100
5. Capital expenditure and net lending (excluding outlays financed through external project aid): increase by 35.6 percent	Provisional outcome: 53.2 percent
6. Total expenditure and net lending: increase by 29.8 percent	Provisional outcome: 40.1 percent
7. Adopt by March 30, 1989 public investment program for 1989-91, consistent with the medium-term macroeconomic objectives 2/	Implemented
D. State enterprise reform	
1. Sale of the Government's interests in six joint ventures by December 31, 1988 2/	Delayed; completion expected by June 30, 1989
2. Liquidation of ten state enterprises during 1988	Effectively implemented
3. Formulation of an action plan for divestment of 16 other state enterprises	Delayed
4. Preparation of corporate plans for the 14 major enterprises remaining in the Government's portfolio by end-1988	Implemented
5. Settlement of identified cross-debts and arrears between certain state enterprises and the Government by end-1988	Delayed
E. Monetary policy	
1. Limit the growth of net domestic assets during 1988 to 10 percent of the beginning of period money stock 4/	Outcome: 8.5 percent
2. Reduce net government debt outstanding to the banking system by ₵ 6.0 billion in 1988 4/	Outcome: reduction of ₵ 11.2 billion
3. Limit bank financing of Cocoa Board operations to ₵ 21.0 billion as of December 31, 1988 4/	Outcome: ₵ 21.0 billion
4. Limit net foreign liabilities of the Bank of Ghana to less than US$661.2 million as of December 31, 1988 4/	Outcome: US$652.8 million
5. Limit the financing of Cocoa Board operations by the Bank of Ghana to 75 percent of the outstanding Cocoa Board financing by the banking system at the end of each quarter in the year ending June 1989 2/	Outcome as of December 31, 1988: 79 percent of total bank financing
6. Promote appropriate levels of interest rates through changes in reserve requirements, and the discount and lending rates of the Bank of Ghana, as well as open market operations	Partly implemented
7. Abolish controls on minimum savings rate and on the sectoral distribution of credit, except for agriculture where a minimum lending requirement of 20 percent applies	Implemented February 29, 1988
8. Unify the treasury bill auction by December 31, 1988	Implemented
F. External debt management	
1. No new external arrears to be incurred, and outstanding arrears to be reduced to US$68.6 million by December 31, 1988 4/	No new arrears were incurred, and outstanding arrears were reduced to US$65.0 million
2. Limit new nonconcessional loans contracted or guaranteed by the Government during 1988 to US$85.0 million for maturities of 1-12 years and US$60.0 million for maturities of 1-5 years 4/	Outcome: no new loans were contracted

Sources: EBS/88/73; EBS/88/207; and information provided by the Ghanaian authorities.

1/ Including some measures implemented in early 1989.
2/ Structural benchmark under the ESAF arrangement.
3/ Structural performance criterion under the ESAF arrangement.
4/ Performance criterion under the ESAF arrangement.

revenue-sharing provision was made in case export prices in local currency terms were higher than anticipated, under which cocoa farmers would receive 60 percent and the Government 40 percent of any additional receipts. Meanwhile, steps continued to be taken to improve the efficiency of the Cocoa Board, including a retrenchment of its staff by 2,500 (6 percent), 1/ a reduction of subsidies on fertilizers and insecticides, and cutbacks in the Board's activities that are unrelated to its basic purchasing, marketing, research, and extension service functions. A number of institutional reforms were also carried out, although progress in some areas was slower than had been expected. Appropriately tight fiscal and credit policies were also pursued.

As a result, the program was kept broadly on track, and the basic macroeconomic objectives for 1988 were largely realized. Provisional data indicate that agricultural output, after having virtually stagnated in 1987, expanded by 3.6 percent in 1988, helped by a return to normal weather conditions, better price incentives, and improved input support. Industrial production continued to grow rapidly, increasing by more than 10 percent, owing to a further strong performance in the gold mining and manufacturing sectors. The services sector also registered substantial gains. Thus, real GDP is estimated to have grown by 6.2 percent in 1988, exceeding the target of 5.5 percent and the rate of 4.8 percent recorded in 1987. Progress was also made in lowering the rate of inflation, measured on an end-of-period basis, from 34 percent in 1987 to less than 27 percent in 1988; however, this fell short of the target of 20 percent, largely on account of a higher-than-anticipated increase in food prices. Moreover, the external position continued to improve, with the balance of payments showing an overall surplus of US$126 million in 1988, compared with a target of US$125 million.

As envisaged in the program, in 1988 the Government continued to pursue a growth-oriented fiscal strategy, with the budget serving as a major instrument for mobilizing resources in support of productive investment and other high-priority outlays. Total revenue and grants rose by 38.5 percent to an estimated ¢ 153.8 billion, well above the target of ¢ 142.7 billion (Table 4). Despite a sizable shortfall in receipts from excise and cocoa export duties, government revenue rose appreciably, largely because of an impressive growth in company tax collections that reflected not only the increased profitability of enterprises but also the continuing improvements in tax administration. Total expenditure and net lending, excluding capital outlays financed through external project aid, increased by 40 percent to an estimated ¢ 149.9 billion, as against the programmed ¢ 138.8 billion. The higher-than-programmed expenditures were due partly to an unexpectedly large depreciation of the exchange rate, which affected the

1/ The actual redeployment fell short of the original target of 5,000, owing mainly to a delay in the disbursement of approved credits related to the cocoa rehabilitation project, which set back plans for the purchase of capital equipment that would have facilitated additional savings in personnel.

Table 4. Ghana: Central Government Operations and Financing, 1984-91

	1984	1985	1986	1987	1988 Prog.	1988 Prov.	1989 Prog.	1990 Projections	1991 Projections
					(In millions of cedis) 1/				
Total revenue and grants	22,641	40,312	73,627	111,046	142,680	153,791	206,023	243,121	274,182
Revenue	21,727	38,692	69,759	105,009	131,204	142,238	188,863	226,011	257,072
Taxes on income and property	4,060	7,451	14,121	24,087	28,417	40,514	51,600	65,126	75,625
Taxes on international transactions	8,242	15,824	28,467	44,644	49,345	50,025	65,776	72,708	75,579
Taxes on domestic goods and services 2/	5,628	9,244	19,621	26,167	41,621	38,683	54,843	69,111	84,528
Nontax revenue	3,797	6,173	7,550	10,111	11,821	13,016	16,644	19,067	21,341
Foreign grants	914	1,620	3,868	6,037	11,476	11,553	17,160	17,110	17,110
Total expenditure and net lending	27,485	47,892	73,327	106,987	138,825	149,880	196,023	228,279	256,110
Current expenditure	23,326	38,462	60,834	80,583	103,970	111,004	140,023	163,801	182,112
Wages and salaries	5,282	14,524	26,194	35,920	49,588	49,464	62,800	73,379	83,776
Interest	3,425	5,086	11,341	10,587	11,515	11,961	14,763	15,974	16,235
Operations and maintenance	10,362	12,948	12,529	18,601	22,787	26,333	33,904	40,732	44,185
Other	4,257	5,904	10,770	15,475	20,079	23,246	28,556	33,716	37,917
Capital expenditure and net lending 3/	4,159	9,430	12,493	23,404	31,737	35,869	45,000	52,478	63,997
Capital expenditure	3,368	7,303	9,826	18,552	23,237	29,886	40,000	45,978	56,997
Net lending	791	2,127	2,667	4,852	8,500	5,983	5,000	6,500	7,000
Special efficiency 4/	--	--	...	3,000	3,118	3,007	11,000	12,000	10,000
Surplus or deficit (-)	-4,844	-7,580	300	4,059	3,855	3,911	10,000	14,842	18,073
Financing	4,844	7,580	-300	-4,059	-3,855	-3,911	-10,000	-14,842	-18,073
Foreign (net)	1,816	3,522	-5,614	-1,180	2,125	2,256	1,518	1,627	1,709
Borrowing	5,073	9,562	13,412	23,654	37,066	42,519	52,367	60,338	62,364
Repayments	-3,257	-6,040	-19,026	-24,834	-34,941	-40,264	-50,849	-58,711	-60,654
Domestic (net)	3,028	4,058	5,314	-2,879	-5,980	-6,167	-11,518	-16,469	-19,782
Banking system	3,106	3,011	2,471	-7,400	-5,980	-11,200	-8,000	-10,000	-12,000
Social security	437	510	3,182	2,531	--	7,250	--	--	--
Other	-515	537	-339	1,990	--	-2,217	-3,518	-6,469	-7,782
					(In percent of GDP) 5/				
Total revenue and grants	8.4	11.8	14.4	14.9	14.9	14.8	16.3	16.8	16.9
Total expenditure and net lending	10.2	14.0	14.3	14.3	14.5	14.4	15.5	15.8	15.8
Surplus or deficit (-)	-1.8	-2.2	0.1	0.5	0.4	0.4	0.8	1.0	1.1
Memorandum items:									
Total revenue and grants (including external project grants)									
In millions of cedis	23,721	42,398	78,473	119,013	157,880	170,191	225,757	270,926	303,730
In percent of GDP	8.8	12.4	15.3	16.0	16.5	16.3	17.8	18.7	18.7
Total expenditure and net lending (including capital expenditure financed through external project aid)									
In millions of cedis	30,041	52,715	90,803	143,832	185,184	198,088	266,363	318,591	352,091
In percent of GDP	11.1	15.4	17.8	19.3	19.3	19.0	21.1	22.0	21.7
Overall deficit (-) (broad coverage)									
In millions of cedis	-6,320	-10,346	-12,330	-24,819	-27,305	-27,897	-40,606	-47,665	-48,361
In percent of GDP	-2.3	-3.0	-2.4	-3.3	-2.8	-2.7	-3.2	-3.3	-3.0

Sources: Data provided by the Ghanaian authorities; and staff estimates and projections.

1/ Totals may not match additions because of rounding.
2/ Includes revenue from other minor taxes.
3/ The budget coverage excludes capital expenditure financed through external project aid, and the corresponding grants and loans.
4/ Provision for redeployment, retraining, and relocation, comprising both current and capital expenditure.
5/ The time series are significantly affected by the exchange rate changes that took place in recent years and those assumed for the period ahead.

interest payments on the external debt and the import components of both current and capital outlays; they also reflected certain overruns resulting from the implementation of the recently established norms for current spending designed to bring rehabilitation and other essential outlays to more adequate levels, especially in the priority sectors of agriculture, health, and education.

Nevertheless, in 1988 the budgetary surplus amounted to ¢ 3.9 billion, as foreseen in the program, equivalent to 0.4 percent of the revised GDP. Taking into account capital outlays financed through external project aid, the overall fiscal deficit is tentatively estimated at ¢ 27.9 billion, or 2.7 percent of GDP, about the same level envisaged in the program. Given the available foreign financing, the Government was able to retire on a net basis ¢ 6.2 billion of the domestic public debt: net government indebtedness to the banking system was reduced by ¢ 11.2 billion, or almost twice the programmed ¢ 6.0 billion, while debt to the nonbank sector rose by ¢ 5.0 billion as a result of the sale of government paper through the treasury bill auction.

In the area of monetary policy, the authorities made significant improvements by abolishing controls on the sectoral distribution of credit, except that for agriculture, and by eliminating the minimum savings rate, the last remaining control on interest rates. Furthermore, in order to strengthen reserve money management, the Bank of Ghana increased cash reserve requirements, raised its lending rate from 23.5 percent to 26.0 percent, and significantly reduced its share in bank financing of the operations of the Cocoa Board. To help achieve the objectives of the program, the growth of net domestic assets of the banking system in relation to the broad money stock at the beginning of the year was constrained, while the expansion of broad money was projected to decelerate markedly. However, the sizable net repayments of the Government to the banking system allowed credit to the rest of the economy to grow in line with the programmed increase in nominal GDP.

In the event, the 1988 outcome was broadly in line with the assumptions of the monetary program. All the performance criteria and benchmarks of the monetary program were observed, except the benchmark on the share of the Bank of Ghana in total bank financing of the Cocoa Board's operations, which was slightly exceeded. In 1988 net domestic assets relative to the stock of broad money increased by 8.5 percent, or less than the target of 10.3 percent, owing to the larger-than-programmed net repayments of the Government to the banking system (Table 5). However, the growth of broad money, at 43.0 percent, exceeded the projection of 27.4 percent, reflecting an unanticipated improvement in the net foreign assets position of the commercial banks. Bank financing of the Cocoa Board's operations was contained at the credit ceiling, with the additional requirements resulting from the higher-than-anticipated level of marketed output of cocoa being covered from nonbank sources. The Bank of Ghana reduced its financing of the operations of the Cocoa Board to 79 percent of the outstanding cocoa financing by the banking system

Table 5. Ghana: Monetary Survey, 1984-89

(In billions of cedis; end of period) 1/

	1984	1985	1986	1987	1988							1989		
					March	June	Sept.		Dec.			March	June	Dec.
							Prog.	Act.	Prog.	Act.	Revised Base 2/	Prog.	Prog.	
Net foreign assets 3/	-31.4	-48.7	-130.7	-141.7	-147.2	-128.1	-120.5	-124.1	-124.1	-101.1	-141.3	-136.0	-125.2	-116.0
Net domestic assets	39.9	67.1	95.1	105.3	110.0	104.7	95.8	93.0	118.9	116.6	116.6	119.0	110.7	132.2
Claims on the Government (net)	24.2	27.2	29.6	22.2	20.3	17.4	18.0	17.8	16.2	11.0	11.0	9.0	7.0	3.0
Cocoa financing	3.6	13.5	16.9	16.5	19.2	11.7	--	--	21.0	21.0	21.0	18.0	10.0	25.2
Credit to the rest of the economy	13.7	26.0	42.7	55.6	61.6	65.0	65.7	66.8	68.7	68.6	68.6	76.0	77.7	84.0
Other items (net)	-1.6	0.4	5.9	11.0	8.8	10.7	12.0	8.4	13.0	16.0	16.0	16.0	16.0	20.0
Revaluation account	29.9	41.9	133.1	179.8	185.7	184.8	184.8	184.8	184.8	184.8	225.0	225.0	225.0	225.0
Broad money	35.3	56.2	86.4	132.3	137.4	150.3	148.9	142.5	168.5	189.2	189.2	196.9	199.4	230.0
Money	27.4	44.0	65.8	95.0	101.6	110.8	...	101.1	...	139.0	139.0	...	...	...
Quasi-money	7.9	12.3	20.6	37.2	35.8	39.4	...	41.5	...	50.2	50.2	...	...	...
Counterpart to SDR allocation	3.1	4.0	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1
Memorandum items:														
GDP at market prices	270.6	343.0	511.4	746.0	...	...	...	...	958.6	1,041.0	...	...	...	1,265.2
(percentage change)	47.0	26.8	49.1	45.9	...	...	...	...	28.5	39.6	...	...	...	21.5
Velocity (GDP relative to M2)	7.7	6.1	5.9	5.6	...	...	...	...	5.7	5.5	...	...	...	5.5
Percentage change in net domestic assets 4/	...	77.1	49.8	11.8	...	...	...	...	10.3	8.5	...	...	...	8.2
Percentage change in credit to the rest of the economy 4/	...	34.9	29.7	14.9	...	...	...	...	10.7	9.9	...	...	...	8.1

Sources: Data provided by the Ghanaian authorities; and staff estimates and projections.

1/ Totals may not match additions because of rounding.
2/ The revised base reflects adjustments of net foreign assets at the exchange rate prevailing at end-December 1988.
3/ During the first half of 1988, measured at the exchange rate prevailing at end-December 1987; during the second half of 1988, measured at the end-June 1988 exchange rate; while data for 1989 are measured at the exchange rate prevailing at end-December 1988.
4/ In percent of broad money at the beginning of the period.

at end-December 1988, which compares with the structural benchmark of 75 percent; but if account is taken of cocoa financing from nonbank sources as well, the central bank's share amounted to less than 50 percent.

Following the full liberalization of interest rates at the beginning of the year, commercial banks widened their margins by lowering deposit rates to a range of 15-24 percent, as against the previously prevailing minimum savings rate of 21.5 percent, while maintaining lending rates in the range of 23-30 percent. Thus, deposit rates remained negative in real terms, constraining the mobilization of financial savings. Apart from the oligopolistic structure of the banking system that limits competition for savings, the conduct of reserve money management continued to be hampered by the existence of sizable excess reserves of commercial banks. Although the Bank of Ghana took measures to absorb part of the excess reserves through sales of treasury bills, increases in reserve requirements, and a tightening of its lending to the banking system, these measures have not yet influenced interest rates significantly.

As noted earlier, the balance of payments objective of the program for 1988 was realized, notwithstanding a deterioration in the terms of trade that was larger than anticipated. Reflecting developments in the world cocoa market, in 1988 the export price of cocoa beans was 8.6 percent lower than had been projected and 9.5 percent below the 1987 level, but this was virtually offset by a higher-than-expected export volume stemming from an early harvest of a bumper crop (Table 6). As the performance of other exports, particularly timber and nontraditional exports, more than offset the shortfalls in cocoa and gold exports, total export earnings rose by 2 percent in 1988, as against a projected decline of 1 percent. The value of imports is estimated to have increased by about 7 percent, to a level only marginally higher than programmed. However, with a moderate deterioration in the services balance and lower-than-programmed net inflows of private transfers, the current account deficit, excluding official transfers, widened to US$325 million, or 6.4 percent of GDP, compared with a target of 5.9 percent; including official transfers, the deficit amounted to 3.0 percent of GDP, as against a target of 2.4 percent. Nevertheless, as net capital inflows were also higher, the balance of payments registered an overall surplus of US$126 million, slightly exceeding the target of US$125 million. This surplus covered Ghana's net repurchases from the Fund, enabled a further reduction in external payments arrears, and allowed a modest accumulation of gross official reserves to nearly US$200 million, equivalent to more than two months of imports. Owing to a bunching of maturities, in 1988 the debt service ratio, including obligations to the Fund, rose steeply to 73 percent, while Ghana's external debt at year-end amounted to 62 percent of GDP (Table 7).

Exchange rate developments in 1988 resulted in an effective depreciation of the cedi of 17.6 percent in nominal terms and 4.5 percent in real terms, compared with 40.4 percent and 22.8 percent, respectively,

Table 6. Ghana: Balance of Payments, 1984-92 1/

(In millions of U.S. dollars)

	1984	1985	1986	1987	1988		1989	1990	1991	1992
					Prog.	Prov.	Prog.	Projections 2/		
Exports, f.o.b.	566.7	632.5	749.3	824.1	815.3	840.7	900.6	977.3	1,072.6	1,160.5
Cocoa beans and products	381.7	412.0	503.3	495.4	426.7	422.8	438.1	459.9	487.4	516.5
Gold	103.3	90.6	106.4	139.8	177.7	168.5	177.1	213.1	259.0	289.5
Timber	21.2	27.8	44.1	89.8	101.4	117.3	141.4	151.3	161.6	172.6
Other	60.5	102.1	95.5	99.0	109.5	132.0	144.0	153.1	164.6	181.9
Imports, f.o.b.	-616.0	-671.3	-733.5	-933.9	-991.3	-996.0	-1,056.2	-1,168.7	-1,283.1	-1,388.9
Oil	-161.0	-209.5	-122.6	-141.1	-144.9	-145.3	-150.1	-163.3	-178.0	-193.7
Non-oil	-455.0	-461.8	-610.9	-792.7	-846.4	-850.7	-906.1	-1,005.4	-1,105.2	-1,195.2
Trade balance	-49.3	-38.8	15.8	-109.8	-176.0	-155.4	-155.6	-191.4	-210.5	-228.5
Services (net)	-229.2	-254.4	-290.9	-316.0	-332.2	-341.9	-345.0	-354.3	-370.1	-386.7
Of which: interest	(-103.3)	(-107.9)	(-105.3)	(-121.6)	(-136.0)	(-126.6)	(-112.3)	(-102.7)	(-98.2)	(-95.0)
Private unrequited transfers (net)	73.5	31.9	72.1	201.6	212.4	172.4	202.1	211.7	221.9	230.9
Current account balance, excluding net official transfers	-205.0	-261.3	-203.0	-224.3	-295.8	-324.8	-298.5	-334.0	-358.8	-384.2
Official unrequited transfers (net)	129.7	104.6	118.2	122.2	174.8	173.7	193.8	201.6	209.6	218.1
Current account balance, including net official transfers	-75.3	-156.7	-84.8	-102.1	-121.0	-151.1	-104.7	-132.4	-149.2	-166.1
Capital account	93.3	62.4	20.0	255.0	246.0	274.8	214.7	257.4	279.1	286.1
Official capital (net)	186.7	32.1	123.1	217.9	222.2	187.1	224.9	236.6	245.4	255.1
Long-term loans	83.6	109.8	226.5	267.3	265.6	273.0	303.3	284.8	293.9	302.3
Inflows	133.4	134.8	256.7	303.7	300.1	307.5	339.0	349.2	359.7	370.5
Amortization	-49.8	-25.0	-30.2	-36.4	-34.5	-34.5	-35.7	-64.4	-65.8	-68.2
Medium-term loans	104.3	-70.3	-92.2	-36.9	-30.8	-72.8	-66.8	-44.5	-48.0	-47.1
Inflows	169.5	152.5	128.2	109.0	142.4	101.5	62.3	64.6	64.6	64.6
Amortization	-65.2	-222.8	-220.4	-145.9	-173.1	-174.3	-129.1	-109.1	-112.6	-111.7
Trust Fund	-1.2	-7.4	-11.2	-12.4	-12.6	-13.1	-11.6	-3.7	-0.5	--
Private capital (net)	-8.7	5.8	7.0	1.7	19.0	19.0	29.0	39.0	40.9	42.9
Direct investment	2.0	5.6	4.3	4.7	20.0	20.0	30.0	40.0	42.0	44.0
Suppliers' credits	-10.7	0.2	2.7	-3.0	-1.0	-1.0	-1.0	-1.0	-1.1	-1.1
Other	--	--	--	--	--	--	--	--	--	--
Short-term capital	-84.7	24.5	-110.1	35.4	4.8	68.7	-39.2	-18.3	-7.2	-11.9
Errors and omissions	19.2	-21.2	8.1	-14.5	--	2.4	--	--	--	--
Overall balance	37.2	-115.5	-56.7	138.5	125.0	126.1	110.0	125.0	130.0	120.0
Financing	-37.2	115.5	56.7	-138.5	-125.0	-126.1	-110.0	-125.0	-130.0	-120.0
Change in net foreign assets	-26.9	107.7	66.1	-132.0	-131.5	-124.7	-110.0	-125.0	-130.0	-120.0
IMF	213.7	122.0	16.1	-25.2	-45.3	-45.4	4.6	18.0	-11.9	-64.7
Purchases	217.9	122.0	37.6	93.7	97.5	101.0	--	--	--	--
Repurchases	-4.2	--	-21.5	-174.4	-255.0	-264.3	-181.4	-116.0	-79.7	-64.7
SAF and ESAF loans	--	--	--	55.5	112.2	117.9	186.0	133.9	67.8	--
Change in arrears (reduction -)	-207.8	-56.7	-3.7	-71.6	-30.0	-34.8	-45.0	-20.0	--	--
Other reserves (increase -)	*-32.8*	*42.4*	*53.7*	*-35.2*	*-56.2*	*-44.5*	*-69.6*	*-122.9*	*-118.1*	*-55.3*
Bilateral payments agreements	-10.3	7.8	-9.4	-6.5	6.5	-1.4	--	--	--	--
Memorandum items:										
Current account deficit (-)										
In percent of GDP 3/										
Including official transfers	-1.0	-2.5	-1.6	-2.3	-2.4	-3.0	-2.2	-2.6	-2.7	-2.7
Excluding official transfers	-2.7	-4.1	-3.9	-5.0	-5.9	-6.4	-6.1	-6.7	-6.4	-6.2
Debt service ratio										
Including IMF	...	...	47.6	59.9	75.0	73.1	55.1	39.1	31.5	27.8
Excluding IMF	36.0	46.8	36.7	32.7	38.9	36.6	30.9	24.5	22.3	20.9
Cocoa exports (beans)										
Volume (in thousands of tons)	149.6	171.7	195.2	198.0	160.3	192.8	280.0	282.8	288.5	294.2
Price (in US$ per ton)	2,351.3	2,189.1	2,406.5	2,278 0	2,254.1	2,060.6	1,485.0	1,544.4	1,606.2	1,670.4

Sources: Data provided by the Ghanaian authorities; and staff estimates and projections.

1/ Totals may not match additions because of rounding.
2/ Baseline scenario.
3/ The time series are significantly affected by the exchange rate changes that took place in recent years and those assumed for the period ahead.

Table 7. Ghana: External Public Debt and Debt Service, 1986-92 1/

	1986	1987	1988 Prov.	1989	1990 Projections	1991	1992
	(In millions of U.S. dollars; end of period) 2/						
External public debt							
Medium-term debt	482.3	543.8	448.2	326.3	273.6	225.6	178.5
Previously rescheduled 3/	170.8	184.2	156.8	123.7	108.2	93.0	77.0
Other	311.5	359.6	291.4	202.6	165.4	132.6	101.5
Long-term debt	1,231.1	1,611.4	1,854.9	2,158.2	2,443.0	2,736.9	3,039.2
Bilateral loans	488.6	557.2	744.3	930.8	1,116.9	1,302.9	1,486.9
Multilateral loans	742.5	1,054.2	1,110.6	1,227.4	1,326.1	1,434.0	1,552.3
IMF	779.1	834.2	775.7	768.7	783.8	771.4	706.7
Tranche policies/CFF	747.6	749.2	585.9	404.5	301.1	221.4	156.7
Trust Fund/SAF/ESAF	31.5	84.9	189.8	364.2	482.7	550.0	550.0
Arrears	171.4	99.8	65.0	20.0	--	--	--
Total	2,663.9	3,089.2	3,143.8	3,273.2	3,500.4	3,733.9	3,924.4
	(In percent of total; end of period)						
Medium-term debt	19.4	18.2	14.6	10.0	7.8	6.0	4.5
Of which: previously rescheduled	(6.9)	(6.2)	(5.1)	(3.8)	(3.1)	(2.5)	(2.0)
Long-term debt	49.4	53.9	60.2	66.3	69.8	73.3	77.4
Of which: multilateral loans	(29.8)	(35.3)	(36.1)	(37.7)	(37.9)	(38.4)	(39.6)
IMF	31.3	27.9	25.2	23.6	22.4	20.7	18.0
	(In millions of U.S. dollars)						
External public debt service							
Principal	283.3	404.1	524.6	412.9	301.4	258.6	244.6
Medium-term	220.4	180.9	212.7	184.1	117.3	112.6	111.7
Long-term	30.2	36.4	34.5	35.7	64.4	65.8	68.2
IMF repurchases	32.7	186.8	277.4	193.0	119.7	80.1	64.7
Interest	101.1	121.5	126.6	112.3	102.7	98.2	95.0
Medium-term	24.1	39.0	42.1	32.2	21.9	18.0	14.3
Long-term	22.0	30.2	36.4	42.5	49.6	55.5	61.5
IMF charges	55.0	52.3	48.1	37.6	31.2	24.7	19.2
Total	384.4	525.7	651.2	525.2	404.0	356.8	339.7
Memorandum items:	(In percent)						
Debt service ratios 4/							
Including IMF	47.6	59.9	73.1	55.1	39.1	31.5	27.8
Excluding IMF	36.7	32.7	36.6	30.9	24.5	22.3	20.9
External public debt/GDP	51.5	68.3	61.9	67.3	70.0	66.7	63.6

Sources: Data provided by the Ghanaian authorities; and staff estimates and projections.

1/ Totals may not match additions because of rounding.
2/ Including medium-term debt of the Bank of Ghana to foreign commercial banks.
3/ Originally medium-term debt.
4/ In percent of exports of goods and services.

in 1987 (Chart 1). The auction market for foreign exchange continued to function smoothly during the year; supply to the auction averaged US$5 million a week, as against US$3.8 million a week in 1987. The auction rate, which stood at ₵ 176 per U.S. dollar at the beginning of 1988, depreciated to ₵ 230 per U.S. dollar by year-end, following a significant weakening of the cedi in February-March and June-August that had been associated mainly with the widening of access to the auction market. When the foreign exchange bureaus started operations in April 1988, the differential between the auction and bureau rates amounted to about 40 percent. Subsequently, it narrowed to some 20 percent in August, but then widened again to about 40 percent by year-end, mainly because of the reduced supply of foreign exchange to the bureaus; the latter reflected the virtual elimination of cross-border cocoa sales by Ghanaian farmers and traders, owing to marketing difficulties in neighboring countries.

While taking measures to sustain overall economic growth, in 1988 the authorities began implementing a special program of actions to mitigate the social cost of adjustment (PAMSCAD), in support of which the donor community pledged substantial financial assistance. As described in EBS/88/207, PAMSCAD seeks to address in a systematic manner the immediate needs of the poorest and most vulnerable groups in Ghana by focusing on community initiative and employment-generating projects, training programs, and projects designed to enhance access by the poor to basic services in the areas of education, health, nutrition, and shelter. However, in the early stages, program implementation was slow, owing to delays experienced in translating donor pledges into commitments and actual disbursements, as well as to domestic managerial and other human resource constraints. Despite these difficulties, several projects have been undertaken. In particular, some 1,000 community-initiated self-help projects (in education, health, housing, and sanitation) are currently under construction; a program for facilitating the resettlement of 9,600 retrenched public sector employees and their families has been initiated, under which about 3,200 employees have already been given access to public farmland, while an additional 3,345 employees have been given credit for settling on family farms; institutional arrangements for a credit scheme for small-scale enterprises have been completed; a priority public works program generating 10,000 productive jobs over a two-year period has been started; and 59 centers of nonformal education under the adult literacy program by registered voluntary groups have been established.

IV. The Program for 1989

Consistent with the medium-term framework of the program, the basic macroeconomic objectives for 1989 are to: (a) achieve a growth of real GDP of 5.5 percent, and thereby continue to improve real per capita income; (b) reduce the rate of inflation, on an end-of-period basis, to 10.0 percent; and (c) generate an overall balance of payments surplus of US$110 million, with a view to further reducing external payments arrears and increasing gross official reserves. Accordingly, government policies will continue to place emphasis on removing the structural impediments to economic growth, while restraining aggregate demand to a level compatible with available resources.

Underlying the program for 1989 are certain assumptions regarding the likely evolution of key exogenous variables. First, the program assumes that, with normal weather conditions and effective implementation of the policies described in the PFP, agricultural output will increase significantly. Industrial production is forecast to continue to register strong growth, for both the domestic and export markets; the improved availability of raw materials and spare parts is expected to increase capacity utilization, while ongoing investments in the gold mining sector and various manufacturing enterprises should improve the growth prospects for the industrial sector as a whole. The services sector is projected to grow at about the same rate as real GDP. Second, a considerable worsening of the terms of trade, by as much as 23 percent, is projected, owing largely to the further substantial weakening of world cocoa prices. The average export price of cocoa beans is projected to decline by 28 percent, but cocoa export volume should increase by some 45 percent, reflecting the bumper crop and the virtual elimination of cross-border sales. Finally, net inflows of official transfers and long-term capital are projected to increase from US$447 million in 1988 to US$497 million in 1989. Ghana's use of Fund resources is programmed to decline from US$219 million in 1988 to US$186 million in 1989; but as repurchases are scheduled to drop more markedly, the net use of Fund resources is expected to be slightly positive in 1989, whereas it was negative in 1988. Overall, net official resource transfers to Ghana are projected to remain substantially positive in 1989.

1. Cocoa sector policy

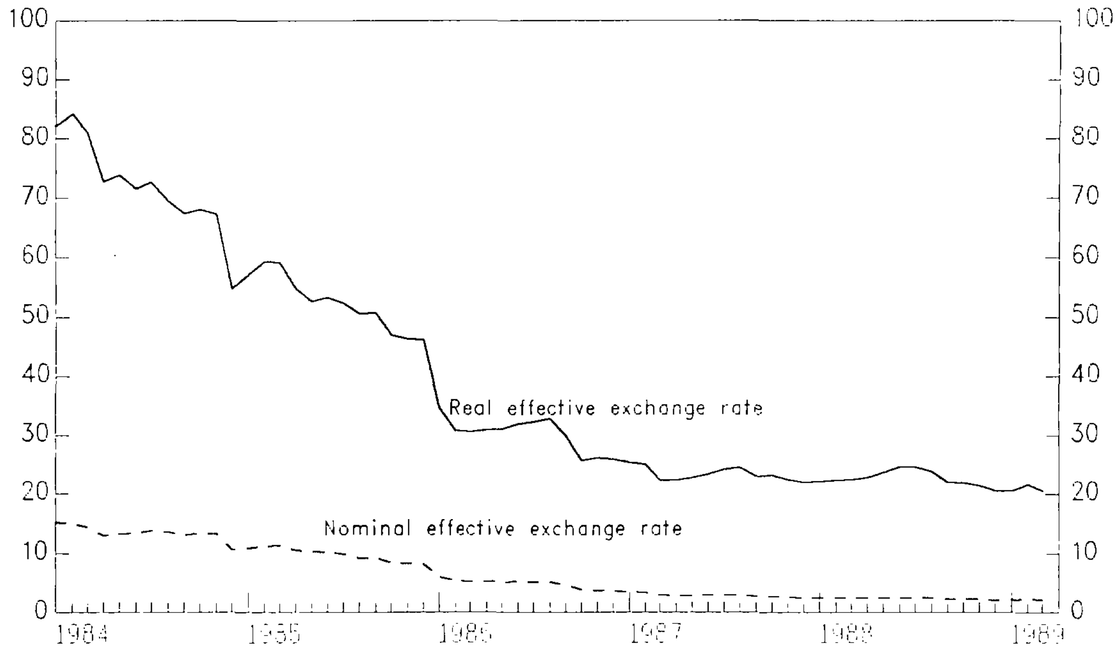
As an integral part of its economic development strategy, the Government remains committed to further improving price incentives in the economy, especially by raising agricultural producer prices. However, in view of the sharp decline in world cocoa prices and the uncertain market outlook, the authorities intend to proceed cautiously in setting the cocoa producer price for the forthcoming season. While recognizing the need to continue to provide cocoa farmers with adequate incentives, in the light of exchange rate and other price developments, the authorities are also mindful of the need to safeguard the financial soundness of the operations of the Cocoa Board. Therefore, as indicated in the attached letter (Appendix I), only a modest increase in the cocoa producer price is under consideration for the 1989/90 season. In any event, in determining the cocoa producer price, which is to be announced at the latest by end-June 1989, the authorities intend to consult closely with the Fund and World Bank staffs.

CHART 1

GHANA

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, 1984-89

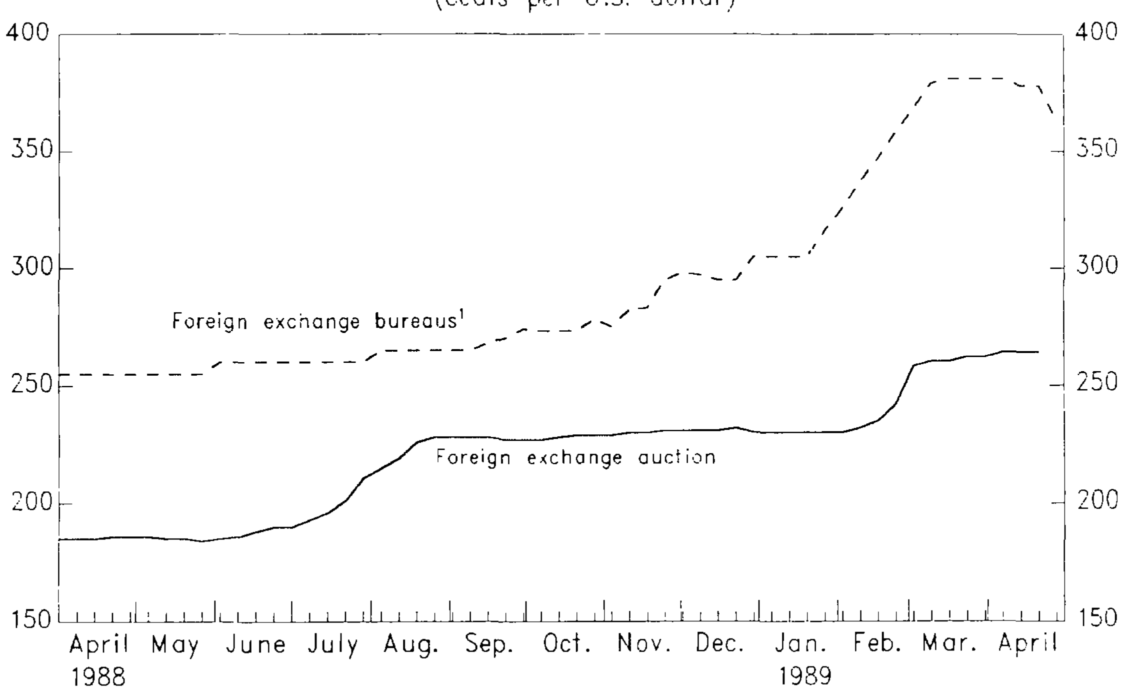
(1980=100)



Source: IMF, Information Notice System.

FOREIGN EXCHANGE RATES, APRIL 1988-APRIL 1989

(Cedis per U.S. dollar)



Source: Bank of Ghana.

[1] Average maximum buying and selling rates quoted by a selected sample of foreign exchange bureaus.

In accordance with its corporate plan for 1987/88-1990/91, the Cocoa Board is taking further steps to reduce its average operating costs as a proportion of the f.o.b. export price expressed in local currency terms. Specifically, additional economies in operating outlays are being made through reductions in staff, a phased elimination of subsidies on agricultural inputs, and cutbacks in the Board's activities that are unrelated to its basic purchasing, marketing, research, and extension service functions. After having curbed its staff size by 6 percent in 1988, the Board intends to effect a reduction of about the same magnitude in 1989. Thus, the Board's average operating costs, which were lowered from the equivalent of 26 percent of the f.o.b. export price in 1986/87 to 22 percent in 1987/88, are to be brought down to some 15 percent in 1988/89.

2. Incomes policy

The 1989 program calls for the implementation of a balanced incomes policy, designed to adequately reward labor productivity and achieve the targeted reduction in inflation. Under this policy, labor remuneration will be based on three key principles: the productivity gains in individual sectors; the programmed rate of inflation; and the employers' ability to pay. In the private sector, the detailed modalities for implementation of these principles are being established through the Tripartite Committee of Government, Labor, and Private Employers. As regards the government sector, the program envisages an increase in the wage bill of 27 percent, as noted below, which takes account of the programmed average rate of inflation of 15 percent and an estimated average rise in productivity of 3 percent, while allowing for a substantial widening of differentials between the highest- and lowest-paid employees in order to foster efficiency.

3. Fiscal policy

The 1989 government budget has been designed with a view to fostering adjustment with growth in the economy. As shown in Table 4, the budget aims at generating a surplus in government operations, excluding capital outlays financed through external project aid, of ₵ 10.0 billion, equivalent to 0.8 percent of the projected nominal GDP, compared with 0.4 percent of GDP in 1988; including such outlays, which are programmed to rise substantially, the overall fiscal deficit is estimated at ₵ 40.6 billion, or 3.2 percent of GDP, as against 2.7 percent in 1988. However, in view of the expected net foreign financing, there will be a further net reduction of ₵ 11.5 billion in the domestic government debt to only 2.5 percent of GDP. Of this amount, ₵ 8.0 billion will represent a retirement of debt to the bank-ing system, while the remainder will be repaid to the nonbank sector.

Total revenue and grants are estimated to increase by 34.0 percent to ₵ 206.0 billion, thereby raising their ratio to GDP from 14.8 percent in 1988 to 16.3 percent in 1989. As in the previous year, an important source of revenue growth in 1989 will be the company income tax, reflecting the steady improvements in tax administration and the favorable earnings prospects of major enterprises, especially in the mining sector. Significant increases are also envisaged from taxes on domestic goods and services, as well as from import duties, while foreign grants will provide additional substantial support. Although there have been some modest adjustments in excise duty rates, the main factor behind the sharp revenue increases is the expansion in tax bases, attributable to both buoyant demand and the effects of exchange rate adjustments on nominal values.

The tax policy measures included in the 1989 budget focus on promoting efficiency and equity, whereas improvements in tax administration are to serve as the primary instrument of additional revenue growth. In particular, following the reduction in 1988 of the corporate tax rate from 55 percent to 45 percent for the manufacturing, farming, and export sectors, in the 1989 budget the tax rate was cut from 55 percent to 50 percent for all other corporate bodies, except those in banking, insurance, commerce, and printing; the multiple taxation of dividends was eliminated by converting the withholding tax of 30 percent into a final tax; and in the area of personal income taxation, personal and family allowances were substantially increased, while tax brackets were widened. In addition, with a view to further rationalizing taxes on domestic goods and services, the following changes were introduced with the new budget: motor vehicles were subjected to the sales tax at rates varying from 10 percent to 35 percent, depending on cubic capacity; the structure of the excise duties levied on beverages and tobacco products was simplified; the basic sales tax rate was reduced from 25.0 percent to 22.5 percent; and the average effective duty on petroleum products was raised from ₵ 56 to ₵ 60 per imperial gallon. Retail prices of petroleum products were raised to prevent the emergence of any subsidy, and further adjustments will be made, if necessary, to pass through the effect of changes in the exchange rate and oil import prices. As a consequence of the abolition of import licensing, the tax on special unnumbered licenses was discontinued.

The 1989 budget promotes several objectives on the expenditure side. In line with the authorities' incomes policy, the budget provides for an increase of 27 percent in the wage bill to ₵ 62.8 billion, equivalent to about 5 percent of GDP. Civil service remuneration, especially at the senior levels, still lags well behind the private sector. The steps being taken to improve the efficiency of the civil service include further redeployment of 12,000 staff, mainly in the lower grades, where there is overstaffing. However, to improve the Government's ability to address the restructuring needs of the economy, vacancies in the existing establishment will need to be filled and some new positions created. The authorities thus aim at achieving a net reduction in the civil service in 1989 at least equal to that in 1988 (which amounted to 3,100).

In view of the sizable overruns in operating and maintenance outlays experienced last year, which in part reflected the application of more appropriate expenditure norms to the input-intensive sectors of agriculture, health, and education, the budget provides for an increase of such outlays by 29 percent to ¢ 33.9 billion in 1989. At the same time, a task force has been established to improve budgeting of current expenditure, and to introduce a commitments-based monitoring system by the end of 1989, drawing on technical assistance from the Fund and the World Bank. The policy on subventions is also being reviewed. The funding of those entities that are able to support themselves will be reduced further so as to provide adequate resources to dependent entities, such as the research institutes, to enable them to accomplish their tasks. The budget provides for a more than doubling of special efficiency outlays to ¢ 11 billion in 1989; these outlays, which cover the current and capital costs of the redeployment program, have been expanded by ¢ 5 billion to finance the redeployment program of the state enterprise sector.

Capital expenditure and net lending, excluding outlays financed through external project aid, are programmed to rise by 25.5 percent to ¢ 45.0 billion in 1989. This increase involves a significant shift in favor of capital expenditure, as the net lending requirements have been reduced following the improvements in the financial position of a number of state enterprises. Including capital outlays financed through external project aid, capital expenditure and net lending is projected to increase by 37 percent to ¢ 115.3 billion. This level is consistent with the public investment program for 1989-91, which the authorities have recently prepared in consultation with the World Bank (Table 8). While the major thrust of the program continues to be the rehabilitation of the transport and communications infrastructure, the Government's concern with the existing poor condition of the social infrastructure has resulted in significant shifts in the composition of total expenditure in favor of education, health, and housing.

4. State enterprise reform

Under the program, high priority will continue to be given to state enterprise reform. The reform effort in this key sector, which is being supported by a World Bank project loan and the recently approved second structural adjustment credit, aims at reducing the managerial and financial burden that state enterprises place on public resources, while promoting the efficiency of the economy. Accordingly, it involves the divestiture of a selected number of state enterprises, improvements in the performance of priority enterprises, and the restructuring of some enterprises that are presently neither in the divestiture program nor on the list of priority enterprises.

With the completion of much of the necessary preparatory work, the state enterprise reform program is being accelerated. Of the 32 state enterprises that were selected for divestiture, 10 were effectively

Table 8. Ghana: Public Investment Program, 1989-91

(In millions of cedis at 1989 prices) 1/

	1989-91		1989	
	Investment by sector	Percentage distribution	Investment by sector	Percentage distribution
Directly productive sectors	126,653	24.8	36,426	27.5
Agriculture	(50,279)	(9.8)	(16,035)	(12.1)
Industry	(47,189)	(9.2)	(11,824)	(8.9)
Mining and forestry	(29,185)	(5.7)	(8,567)	(6.5)
Economic infrastructure	335,183	65.7	77,235	58.4
Water	(32,669)	(6.4)	(7,637)	(5.8)
Transportation and communications	(83,065)	(16.3)	(16,188)	(12.2)
Energy	(108,216)	(21.2)	(22,855)	(17.3)
Roads and highways	(87,021)	(17.0)	(25,037)	(18.9)
Works and housing	(24,212)	(4.7)	(5,518)	(4.2)
Social and administrative sectors	48,701	9.5	18,700	14.1
Education	(12,963)	(2.5)	(7,526)	(5.7)
Health	(17,304)	(3.4)	(5,823)	(4.4)
Local government and community development	(4,751)	(0.9)	(1,711)	(1.3)
Other	(13,683)	(2.7)	(3,640)	(2.8)
Total	510,537	100.0	132,361	100.0

Source: Data provided by the Ghanaian authorities.

1/ Totals may not match additions because of rounding.

liquidated by end-1988; 1/ these enterprises ceased operations, government budgetary support was terminated, and liquidators were appointed. However, despite the considerable interest shown by domestic and foreign private investors, progress toward divesting the remaining enterprises has been slow, owing to delays in the preparation of updated and audited accounts, shortages of skilled personnel in the State Enterprise Commission (SEC), difficulties encountered by investors in mobilizing the necessary financial resources, and, in some instances, legal problems in the transfer of ownership. For these reasons, the sale of the Government's interest in six joint ventures to the private partners, 2/ a structural benchmark that was to be met by end-December 1988, has been delayed and is now expected to be realized by end-June 1989. In 1989 the authorities intend to step up their efforts to divest the Government's interest in ten additional state enterprises. In this context, several private sector proposals concerning the State Fishing Corporation are under consideration.

With regard to the state enterprises remaining in the Government's portfolio, corporate plans and performance agreements have been prepared for all the 14 priority enterprises, comprising the Cocoa Board, public utilities, and other enterprises considered of strategic national interest. The plans include statements of corporate objectives, as well as performance targets on costs and profitability, and they delineate the responsibilities of the Government and each individual enterprise regarding commercial and social objectives. The SEC will be monitoring the performance of the priority enterprises and assessing the achievement of the agreed targets. The settlement of the cross-debts and arrears among the Electricity Corporation of Ghana, the Ghana Water and Sewerage Corporation, the Volta River Authority, and the Government has been delayed, as the relevant accounts had to be updated; but agreement has been reached recently about the reciprocal claims involved, and settlement is expected shortly.

5. Monetary policy and financial sector reform

Monetary policy for 1989 has been formulated with a view to sustaining the growth of real GDP, reducing inflation, and strengthening the balance of payments position. The program calls for a further reduction in the growth of net domestic assets of the banking system in relation to the stock of broad money at the beginning of the period, from 8.5 percent in 1988 to 8.2 percent in 1989. However, in view of the sizable net repayments of the Government to the banking system, the program allows credit to the rest of the economy to increase broadly in

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1/ These enterprises are: Gava Farms Ltd; GEA and Associates; GEA Packaging Ltd; Kwahu Dairy Farms Ltd; NIC Knitting Factory Ltd; NIC Metals Fabrication Ltd; NIC Soap and Detergents Ltd; NIC Textile Factory Ltd; NIC Weaving Ltd; and Victory Industries Ltd.

2/ DL Steel (Ghana) Ltd; Famekkwa Trading Ltd; Metalico Ltd; Neoplan (Ghana) Ltd; Overseas Knitwear Fabric Ltd; and Two World Manufacturing Ltd.

line with the projected growth in nominal GDP. The growth of broad money is projected to decelerate from 43.0 percent in 1988 to 21.6 percent in 1988. For programming purposes, it is assumed that velocity remains constant. On this basis, and taking into account seasonal factors, definitive quantitative benchmarks for end-March and end-June 1989 are being proposed in the attached letter regarding net domestic assets of the banking system, net bank claims on the Government, and bank financing of the operations of the Cocoa Board. To ensure compliance, the Bank of Ghana has issued appropriate overall credit guidelines to banks; no sectoral credit guidelines apply, apart from the minimum lending requirement for agriculture.

Since the early part of this year, the authorities have been taking steps to strengthen reserve money management, with a view to achieving positive real deposit rates. Thus, effective March 10, 1989, the authorities tightened reserve requirements for commercial banks by excluding their deposits with the Discount House from cash reserves. This measure is now estimated to reduce excess reserves of commercial banks by about 40 percent. In addition, the Bank of Ghana's discount and lending facilities to banks will continue to be strictly limited. The unification, in late 1988, of the treasury bill auction for banks and nonbanks will also enable the Bank of Ghana to better intervene in the money market. Finally, the Bank of Ghana will seek to reduce progressively its share of the total outstanding cocoa financing by the banking system to at most 70 percent by end-March and 50 percent by end-June 1989; this represents a substantial tightening of the relevant structural benchmark of 75 percent envisaged in the original program. In order to enhance the effectiveness of existing instruments of monetary control and strengthen interest rate policy, the authorities have requested Fund technical assistance; such assistance is now scheduled to be provided in June 1989, with a view to assisting them in taking further appropriate steps in the context of the second annual arrangement under the ESAF.

The reform of the financial sector, which is supported by a financial sector adjustment credit from the World Bank, is an important element of the program. The reform aims at improving the functioning of banking institutions by strengthening their capital base, restructuring their lending portfolios, and upgrading their management. In addition, it involves improving the regulatory framework and bank supervision. On the basis of diagnostic studies of the financially troubled commercial and development banks, a team of consultants has recently started to develop guidelines for the restructuring of individual banks, which involve, inter alia, recapitalization and a reduction of the nonperforming loans in the banks' portfolios. While delays have occurred in the implementation of restructuring measures, it is expected that significant progress will be made in the period ahead. Revised banking regulations are also expected to be introduced and become fully operational in the course of 1989. In the meantime, provisional legislation was issued with effect from December 23, 1988, enabling the Bank of Ghana to issue revised guidelines on solvency requirements, the scope of audits, reporting requirements, and other regulations designed to ensure prudent banking practices.

6. External sector policies

a. Exchange and trade liberalization

To strengthen the incentive framework, the authorities intend to liberalize further the exchange and trade system, consistent with the objective of achieving by end-June 1990 a unified exchange rate system and full liberalization of payments and transfers for current international transactions. To this end, effective January 14, 1989, the import licensing system was abolished; importers are now only required to submit for statistical purposes an import declaration form, which is not subject to approval. As indicated in the attached letter, in view of the sensitive nature of this measure, the authorities considered it appropriate to introduce it in the context of the 1989 government budget; but as the budget itself had to be announced somewhat later than originally envisaged, the abolition of the import licensing system was delayed by two weeks relative to the target date of December 31, 1988, a structural performance criterion under the program. Given the temporary and minor delay involved, the authorities have requested a waiver for the nonobservance of the structural performance criterion by the specified date. As of February 1, 1989, all bona fide requests for transfers of profits and dividends have become eligible for funding through the auction. With this action, a structural benchmark under the program, there are only a few remaining controls on payments and transfers for current international transactions. 1/

After having been fairly stable for several months, the auction rate depreciated from ₵ 232 per U.S. dollar on January 27, 1989 to ₵ 264 per U.S. dollar on April 14, 1989. However, the spread between the auction and bureau rates, although much narrower than early in the year, still exceeded 30 percent. To further narrow the spread, the authorities

1/ Ghana maintains the exchange restrictions described in EBS/87/68, Supplement 1, in accordance with Article XIV, Section 2, except that the multiple currency practices arising from the operation of the foreign exchange auction market and from the difference between the exchange rates in the auction market and the foreign exchange bureaus, the restrictions evidenced by external payments arrears, and the restrictions on transfers of balances under the bilateral payments agreements with Fund members are subject to Fund approval under Article VIII, Sections 2(a) and 3. With the exception of the restrictions on the transfers of balances under the bilateral payments agreements with other Fund members, the Fund has granted approval of the retention by Ghana of the multiple currency practices and exchange restrictions subject to approval under Article VIII, Sections 2(a) and 3, until November 30, 1989 or the completion of the next Article IV consultation with Ghana, whichever is earlier.

will be regulating the funds available to the auction and supplying foreign exchange, when appropriate, to the foreign exchange bureaus. At a later stage, they intend to implement, after consultation with the Fund staff, a more fundamental reform to bring about a unified exchange market by end-June 1990. Benchmarks to monitor progress toward unification, as well as understandings on the abolition of the remaining controls on current account transactions, will be established in the context of the second annual arrangement under the ESAF.

b. Balance of payments and external debt

The structural and financial policies described above, together with increased foreign assistance on appropriate terms, are expected to sustain the improvement in Ghana's external position, despite the projected further substantial worsening in the terms of trade. As noted earlier, owing to the continuing weakness of the world cocoa market, the average price for Ghana's cocoa exports in 1989 is expected to decline by 28.0 percent to US$1,485 per ton (which compares with the peak of US$2,407 per ton in 1986). However, as a result of the bumper cocoa crop and the virtual elimination of cocoa smuggling to neighboring countries, the export volume of cocoa beans is expected to increase to some 280,000 tons in 1989, from 192,800 tons in 1988. Thus, the value of exports of cocoa beans and products is projected to rise by 3.6 percent to US$438 million, but still remain well below the 1986 level of US$503 million. Together with a further strong performance by timber, gold, and other exports, total exports are expected to increase by 7.1 percent to US$901 million in 1989. Imports are programmed to rise in 1989 by 6.0 percent to US$1,056 million, mainly on account of an increase in project-related imports financed with external assistance. As a result, the trade deficit is projected to amount to US$156 million in 1989, about the same as in 1988. With a recovery in private transfers and a reduction in interest payments due, reflecting the progress made in increasing the share of concessional debt in total external debt, the current account deficit, excluding official transfers, is programmed to decline from US$325 million in 1988 to US$299 million in 1989, or from 6.4 percent of GDP to 6.1 percent, respectively.

In view of the continued strong support of the donor community for Ghana's adjustment efforts, net inflows of official transfers and of long-term concessional loans are expected to rise by 11 percent to US$497 million in 1989. Therefore, despite some short-term capital outflows associated mainly with the repayment of oil import credits, the balance of payments is programmed to register an overall surplus of US$110 million in 1989, compared with US$126 million in 1988. This surplus should make it possible for Ghana in 1989 to reduce the outstanding external payments arrears by US$45 million and other central bank liabilities by US$55 million, while increasing its gross official reserves by US$14 million, to US$214 million. In this context, as indicated in the attached letter, the net foreign assets of the Bank of Ghana (excluding bilateral accounts), which stood at minus US$680.5 million at end-December 1988 (revised base), will not be less than minus US$657.5 million at end-March 1989 and minus US$610.5 million at end-June 1989. At the same time, external payments arrears will be reduced from US$65.0 million at end-December 1988 to at most US$53.7 million at end-March 1989 and US$42.5 million at end-June 1989. These quarterly targets for net foreign assets of the Bank of Ghana and external payments arrears are being proposed as definitive benchmarks.

The improvement in the maturity profile of Ghana's external debt over the past few years, involving an increase in the share of long-term debt in total debt, will contribute to a sharp reduction in the debt service ratio: including obligations to the Fund, this ratio is projected to amount to 55 percent in 1989, as against 73 percent in 1988; excluding obligations to the Fund, the ratio is estimated to decline from 37 percent in 1988 to 31 percent in 1989. Total external debt is projected to increase somewhat to about US$3.3 billion at end-1989, or 67 percent of GDP. In light of the still heavy debt service burden, the authorities will continue their prudent debt management policy by strictly limiting the contracting of nonconcessional government and government-guaranteed loans to US$85 million for maturities of 1-12 years and to US$60 million for maturities of 1-5 years.

V. Staff Appraisal

In 1988, the first year of the program supported by the enhanced structural adjustment facility (ESAF), the Ghanaian authorities continued to implement a broad range of structural and financial policies, with a view to sustaining the growth momentum of the economy and achieving a viable external position over the medium term. In particular, the authorities further liberalized the exchange and trade system by widening access to the auction market for foreign exchange and allowing commercial banks and other authorized dealers to buy and sell foreign exchange, at freely determined prices, through separately instituted foreign exchange bureaus; raised producer prices significantly for cocoa and other cash crops; abolished all controls on the sectoral distribution of bank credit, apart from the minimum requirement for agriculture; lifted the minimum savings rate, the only remaining control on interest rates; and pursued appropriately tight fiscal and credit policies.

As a result, the program was kept broadly on track, and the basic macroeconomic objectives for 1988 were largely realized: real GDP grew by an estimated 6.2 percent, exceeding the target of 5.5 percent; the rate of inflation, on an end-of-period basis, was reduced from 34 percent to less than 27 percent, although it fell short of the objective of 20 percent; and the balance of payments registered an overall surplus of US$126 million, slightly more than the programmed US$125 million. Structural and institutional reforms were also carried out, including the initiation of a special program of actions designed to address in a systematic manner the needs of the poorest and most vulnerable groups in Ghana. However, progress in these areas was slower than had been expected, as technical, financial, and human resource constraints proved to be more formidable than had been envisaged. Thus, the timetable for the divestiture of a number of state enterprises could not be fully adhered to; the redeployment program in the civil service resulted in fewer retrenchments on a net basis than originally foreseen; and the financial sector reform encountered unexpected delays. Nevertheless, the authorities remain fully committed to these reforms and intend to accelerate, wherever possible, the implementation of reform measures. All the quantitative performance criteria for end-December 1988 were met, but the abolition of the import licensing system, a structural performance criterion under the program, was delayed by two weeks. While timely observance of performance criteria is essential, the staff considers that the authorities' request for a waiver is justified in this case, given the relatively minor and temporary delay involved.

Consistent with their medium-term economic strategy, as described in the policy framework paper for 1988-91, the authorities have adopted a program for 1989 designed to achieve a growth of real GDP of 5.5 percent, reduce the rate of inflation to 10.0 percent, and generate an overall balance of payments surplus of US$110 million, with a view to virtually eliminating external payments arrears and further increasing gross official reserves. Accordingly, government policies are rightly placing particular emphasis on removing the structural impediments to economic growth, while restraining aggregate demand to a level compatible with available resources.

Under the 1989 program, the authorities have already taken a number of structural and financial measures that augur well for the future. The further liberalization of the exchange and trade system, including the abolition of the import licensing requirement and the widening of access to the foreign exchange auction to cover the funding of bona fide transfers of profits and dividends, should help reinforce the framework of incentives in the economy, thereby fostering private sector activity. The continued smooth functioning of the auction will also be important. Although the spread between the auction and bureau rates has narrowed since early in the year, it is still substantial and hence a source of concern. Therefore, the staff welcomes the authorities' intention to further narrow the spread in the period immediately ahead not only by strengthening monetary policy but also by regulating the funds available to the auction and by supplying foreign exchange, when appropriate, to the bureaus. At a later stage, it will be essential for the authorities to implement a more fundamental reform to bring about a unified exchange market at the latest by the end of June 1990.

The government budget will continue to serve as a major instrument for mobilizing savings in support of rehabilitation and other high-priority investments. Thus, the budget surplus is programmed to increase from the equivalent of 0.4 percent of GDP in 1988 to 0.8 percent in 1989, while the planned net repayments to the banking system of 0.6 percent of GDP will allow adequate growth of bank credit to the private sector. Consistent with the inflation and balance of payments targets, the monetary program calls for a further reduction in the growth of net domestic assets relative to the stock of broad money at the beginning of the period. This is indeed essential, especially in view of the persistence of inflationary pressures in the economy. While progress has been made in reducing inflation, the staff is still concerned about inflationary expectations feeding upon wage claims, which in turn contribute to rising prices and a depreciating exchange rate. For this reason, the staff considers that the planned enhancement of the effectiveness of reserve money management and the restoration of positive real deposit rates are particularly important. Furthermore, the staff welcomes the authorities' adoption of a balanced incomes policy, designed to adequately reward productivity gains, while taking into account the programmed rate of inflation and the employers' ability to pay. In this regard, the steps taken to widen differentials between the highest- and lowest-paid civil servants are appropriate, but the pace of additional reforms will need to be kept under review in the light of progress in combatting inflation and resource availability.

Ghana's external position has improved considerably since 1986, but remains vulnerable in light of the depressed outlook for the world cocoa market. Nevertheless, the assumptions underlying the program are still valid, and thus the targeted overall balance of payments surplus is attainable. This should allow Ghana not only to further reduce external payments arrears and other central bank liabilities but also to improve its reserve position somewhat. However, the situation will have to be watched closely and, if need be, appropriate adjustments will have to be made in the context of the program to be supported by the second annual arrangement under the ESAF.

Ghana's successful adjustment efforts have received the strong endorsement and support of the country's major creditors and donors. In the period ahead, this support will continue to be critically important and will need to be provided on highly concessional terms. In this respect, the indications given by creditors and donors at the recent meeting of the Consultative Group for Ghana have been encouraging.

The staff believes that the measures already implemented by the authorities, combined with the actions planned for the period ahead, are substantial and should help achieve the objectives of the program for 1989. As such, they deserve the continued support of the international community, including the Fund in the context of the current ESAF arrangement.

VI. Proposed Decision

In view of the foregoing, the following draft decision is proposed for adoption by the Executive Board:

1. The Fund determines that the midterm review contemplated in paragraph 2(c) of the first annual arrangement under the enhanced structural adjustment facility (ESAF) for Ghana (EBS/88/207, Supplement 1, 11/14/88) has been completed and that, notwithstanding the nonobservance of the structural performance criterion on the abolition of the import licensing system, Ghana may request the second loan specified in paragraph 1(c)(ii) of the arrangement.

2. The letter dated March 29, 1989 from the Secretary for Finance and Economic Planning of Ghana and the Governor of the Bank of Ghana shall be attached to the ESAF arrangements for Ghana (EBS/88/207, Supplement 1, 11/14/88), and the letter dated September 16, 1988 from the Secretary for Finance and Economic Planning of Ghana and the Governor of the Bank of Ghana, together with the attached Memorandum on the Economic and Financial Policies of Ghana, shall be read as supplemented and modified by the letter dated March 29, 1989.

3. Accordingly, the indicators referred to in paragraph 3(a) of the first annual arrangement under the ESAF for Ghana shall include the benchmarks for end-March and end-June 1989 set out in the table annexed to the letter dated March 29, 1989.

Accra, March 29, 1989

Dear Mr. Camdessus:

1. In connection with the first annual arrangement under the enhanced structural adjustment facility (ESAF) for Ghana, which was approved on November 9, 1988, we recently held discussions with a Fund staff team regarding the midterm review of Ghana's program of structural and financial adjustment for the year ending June 1989. Since this period stretches over two fiscal years, the discussions focused on the progress made under the program in 1988, as well as on the objectives and policies to be pursued in 1989. In this context, we formulated the definitive quantitative benchmarks for end-March and end-June 1989 proposed in the annexed table.

2. In 1988 the Government of Ghana continued to implement a broad range of structural and financial policies, with a view to sustaining the growth momentum of the economy and achieving a viable external payments position over the medium term. Thus, the exchange and trade system was further liberalized as the authorities widened access to the foreign exchange auction and allowed commercial banks and other dealers to buy and sell foreign exchange, at freely determined prices, through separately instituted foreign exchange bureaus; producer prices for cocoa and other cash crops were raised substantially; all controls on the sectoral distribution of bank credit were abolished, apart from a minimum requirement for agriculture; and the minimum savings rate, the only remaining control on interest rates, was lifted. A number of institutional reforms were also carried out, although progress in some areas was slower than had been expected. At the same time, appropriately tight fiscal and credit policies were pursued, while steps were taken to meet from nonbank sources part of the financing requirements of a much-larger-than-anticipated marketed output of cocoa.

3. With the effective implementation of these policies, Ghana's program has remained broadly on track, and the basic macroeconomic objectives for 1988 were largely realized. According to the latest available data, agricultural output, which had stagnated in 1987, expanded by more than 3 percent in 1988, as a result of improved weather conditions, better price incentives, and increased input support. Meanwhile, industrial production continued to grow markedly, by an estimated 10 percent, owing to a rapid increase in manufacturing output, as well as to a sharp rise in mining activity, reflecting the rehabilitation of old gold mines and the coming on stream of new ones. The services sector also registered substantial gains. Thus, real gross domestic product (GDP) is now estimated to have grown by 6.2 percent in 1988, exceeding the target of 5.5 percent and the rate of 4.8 percent

recorded in 1987. Both domestic savings and investment appear to have increased significantly relative to GDP. The rate of inflation (as measured by the national consumer price index), which had remained high through the first half of 1988, partly because of the adverse impact of the 1987 drought on food prices, eased appreciably during the second half of the year. On an end-of-period basis, the inflation rate declined from more than 34 percent in 1987 to less than 27 percent in 1988, but fell short of the target of 20 percent. Ghana's external payments position also improved, as export earnings were significantly larger than had been foreseen on account of a further expansion of timber and nontraditional exports; imports of goods and services were higher than programmed, and so were net capital inflows. Consequently, the balance of payments registered an overall surplus of US$126 million in 1988, which compares with the target of US$125 million and the overall surplus of US$139 million in 1987. All the quantitative performance criteria of the program for end-December 1988 were observed. However, there was a relatively minor and temporary delay involved in the observance of the structural performance criterion regarding the abolition of the import licensing system, and two structural benchmarks for end-December 1988 were not met for the reasons explained below.

4. As envisaged in the program, in 1988 the Government pursued a growth-oriented fiscal strategy, with the budget serving as a major instrument for mobilizing resources in support of investment and other high-priority requirements. Despite a sizable shortfall in excise and cocoa export duties, government revenue increased appreciably, owing largely to an impressive growth in company tax collections, reflecting not only the increased profitability of enterprises but also the continuing improvements in tax administration. Total revenue and grants rose by 38.5 percent to an estimated ¢ 153.8 billion, well above the target of ¢ 142.7 billion. Total expenditure and net lending, excluding capital outlays financed through external project aid, increased by 40 percent to an estimated ¢ 149.9 billion, as against the programmed ¢ 138.8 billion. This higher expenditure level was due partly to a larger-than-envisaged depreciation of the exchange rate, which affected interest on the external debt and the import components of both current and capital outlays. It was also due to certain overruns resulting from the implementation of the recently established norms designed to bring rehabilitation and other essential outlays to more adequate levels, especially in the priority sectors of agriculture, health, and education. Nevertheless, the budgetary surplus amounted to ¢ 3.9 billion, as foreseen in the program, equivalent to 0.4 percent of the revised GDP. Taking into account outlays financed through external project aid, the overall fiscal deficit is tentatively estimated at ¢ 27.9 billion, or 2.7 percent of GDP, about the same level envisaged in the program. Given the available foreign financing, the Government was able to retire on a net basis ¢ 6.2 billion of the domestic public debt. Net government indebtedness to banks was reduced by ¢ 11.2 billion in 1988, almost twice the programmed ¢ 6.0 billion; at the same

time, the Government sold an additional ₵ 5.0 billion of treasury bills to nonbank institutions through treasury bill auctions, the proceeds from which were sterilized.

5. Monetary and credit developments in 1988 were generally in line with the program. Although demand pressures were rather strong toward year-end, the growth of net domestic assets in relation to the broad money stock at the beginning of the period was reduced from 12 percent in 1987 to 8.5 percent in 1988, even more than the programmed 10 percent. This reduction was due entirely to the larger-than-programmed decrease in net government indebtedness to banks. To maintain a relatively tight lid on monetary expansion, gross bank financing of the operations of the Cocoa Board was limited to the programmed level of ₵ 21.0 billion at end-December 1988. However, as marketed output of cocoa reached about 219,000 tons during the last quarter of the year, compared with 127,000 tons envisaged earlier, the Cocoa Board was obliged to seek additional financing of ₵ 15.5 billion from nonbank sources. In accordance with the program, the Bank of Ghana began to phase out its financing of the operations of the Cocoa Board, with a view to limiting reserve money creation. As a result, by end-December 1988 such financing was brought down to 79 percent of the outstanding cocoa financing by the banking system, somewhat short of the structural benchmark of 75 percent; but if account is taken of cocoa financing from nonbank sources as well, the central bank's share amounted to less than 50 percent. The growth of broad money slowed from 53 percent in 1987 to 43 percent in 1988, but was well above the programmed expansion of 27 percent, reflecting an unexpectedly larger improvement in the net foreign assets of the banking system.

6. Despite the considerable progress made in recent years toward adjustment with growth in the economy, the Government of Ghana recognizes that major structural and financial problems have yet to be resolved. There is also great concern about the adverse trends in world commodity markets, especially the sharp decline in the price of cocoa, Ghana's principal source of foreign exchange. Therefore, the Government has decided to intensify its reform efforts, with a view to achieving by 1991 sustained economic growth combined with relative price stability and a sound balance of payments position. Consistent with the medium-term strategy set forth in our policy framework paper, dated September 15, 1988, the program for 1989 has three basic macroeconomic objectives: (a) realizing a growth of real GDP of 5.5 percent, thereby further improving real per capita income; (b) curbing the rate of inflation to 10 percent, on an end-of-period basis (about 15 percent on an annual-average basis); and (c) generating an overall balance of payments surplus of US$110 million, which would permit the scheduled reduction in external payments arrears and other liabilities of the Bank of Ghana, as well as a moderate increase in reserves, while allowing for an adequate level of imports. In addition, an important dimension of the program is to address the needs of the poorest and most vulnerable groups in Ghana. To these ends, while reinforcing the macroeconomic

policies pursued in recent years, the Government will accelerate the ongoing structural reforms, strengthen the institutional framework, and implement a broadly based economic development strategy. Accordingly, measures have already been taken and others are envisaged to strengthen price incentives in the economy; increase investment for the rehabilitation of productive capacity, infrastructure, and social services; reinforce the efficiency and equity of the tax system; rationalize government expenditure controls and the allocation of resources; accelerate state enterprise and financial sector reforms; encourage private sector activity; and improve public sector management.

7. Under the program, the Government has taken steps to further liberalize the exchange and trade system. As announced in the government budget, effective January 14, 1989, the import licensing system was abolished; importers are now required to submit only an import declaration form, which is readily available and not subject to approval. In view of the sensitive nature of this measure, it was considered appropriate to introduce it in the context of the new budget; however, as the budget itself had to be announced somewhat later than originally envisaged, the abolition of the import licensing system was delayed by about two weeks relative to the target date of December 31, 1988. Given the temporary and minor delay involved, we would like to request a waiver for the nonobservance of the relevant structural performance criterion by the specified date. As of February 1, 1989, all bona fide requests for transfers of profits and dividends have become eligible for funding through the foreign exchange auction. Understandings on the abolition of the remaining controls on current account transactions will be reached with the Fund in the context of the second annual arrangement under the ESAF, with a view to achieving full liberalization of payments and transfers for current international transactions by the end of June 1990.

8. The Government has also been seeking to improve the operation of the exchange system by authorizing the establishment of a large number of foreign exchange bureaus, while promoting a smooth functioning of the foreign exchange auction market. As a result, there are at present about 140 licensed bureaus operating in Ghana, with total recorded transactions amounting to some US$7 million per month, equivalent to about one-third of the transactions made through the auction. After remaining fairly stable for several months, the auction rate depreciated from ₵ 232 per U.S. dollar on January 27, 1989 to ₵ 262 per U.S. dollar on March 10, 1989. However, as the spread between the auction and bureau rates is still wide--currently of the order of 40 percent--the authorities will be taking appropriate actions to narrow the spread, with a view to achieving unification at the latest by the end of June 1990. At an initial stage, and while strengthening reserve money management and interest rate policy, the authorities will aim at narrowing the spread by regulating the funds available to the auction and by supplying foreign exchange, when appropriate, to the foreign exchange bureaus; at a later stage, and after consultation with the Fund

staff, a more fundamental reform will be implemented to bring about a unified exchange market. Benchmarks to monitor progress toward unification will be established in the context of the second annual arrangement under the ESAF.

9. The steady improvements in price incentives and extension services, coupled with favorable weather conditions, have boosted production of cocoa and other cash crops. Thus, with the virtual elimination of cross-border sales, purchases by the Cocoa Board are now estimated to amount to some 280,000 metric tons in 1988/89, compared with 180,000 metric tons in 1987/88. As part of its overall development strategy, the Government remains committed to further improving price incentives by raising agricultural producer prices. However, in view of the sharp decline in world market prices of cocoa and the uncertain outlook of the market, the Government intends to proceed cautiously in this area, balancing the need to strengthen price incentives with the need to safeguard the financial soundness of the operations of the Cocoa Board. At this juncture, therefore, only a modest increase in the cocoa producer price is under consideration for the 1989/90 season; the producer price, which will be announced at the latest by end-June 1989, will be determined in consultation with the Fund and World Bank staffs. In accordance with its corporate plan for 1987/88-1990/91, the Cocoa Board has been making further economies in operating costs through reductions in staff, a phased elimination of subsidies on agricultural inputs, and cutbacks in the Board's activities that are unrelated to its basic purchasing, marketing, research, and extension service functions. In 1988 the Board's staff was reduced by some 6 percent to about 42,100; an additional reduction of 6 percent is envisaged for 1989. As a result, the Board's average operating costs, which were lowered from the equivalent of 26 percent of the f.o.b. export price in 1986/87 to 22 percent in 1987/88, are to be brought down to an indicative target of 15 percent in 1988/89.

10. An important element of the program will be the implementation of a balanced incomes policy, designed to adequately reward labor productivity and achieve the targeted reduction in inflation. Under this policy, labor remuneration would be based on three key principles: the productivity gains in individual sectors; the programmed rate of inflation; and the employers' ability to pay. In the private sector, the detailed modalities for implementation of these principles are being established through the Tripartite Committee of Government, Labor, and Private Employers. As regards the government sector, the 1989 program provides for an increase in the wage bill of 27 percent, which takes account of the programmed rate of inflation of 15 percent and an estimated average rise in productivity of 3 percent, while allowing for a substantial widening of differentials between the highest- and lowest-paid employees in order to foster efficiency.

11. The government budget for 1989 aims at continuing the prudent fiscal management of recent years, while providing vitally needed support to the rest of the economy. The tax reform measures included in the budget have been designed not only to enhance revenue mobilization in the face of the weakening world cocoa prices but also to promote efficiency and equity. After the successful completion of the initial phase of rehabilitating basic economic infrastructure and services, government expenditure policy emphasizes improvements in social infrastructure and support for the most disadvantaged groups in Ghana. At the same time, the 1989 budget provides for a surplus on government operations, excluding capital outlays financed through external project aid, of ₵ 10.0 billion, equivalent to 0.8 percent of the projected nominal GDP; including such capital outlays, the overall deficit is to be limited to ₵ 40.6 billion, or 3.2 percent of GDP. However, in view of the expected net foreign financing, in 1989 the Government will retire on a net basis ₵ 8.0 billion of its debt to the banking system. The budget will thus continue to provide adequate room for banks to expand credit to the private sector, while facilitating an appropriately tight credit policy.

12. Total revenue and grants are estimated to increase by 34 percent in 1989 to ₵ 206.0 billion, or 16.3 percent of GDP. A major source of the continued revenue growth is expected to be the company income tax, owing to the increasing profits of enterprises and the marked improvements in tax enforcement. Taxes on domestic goods and services and import duties are also expected to contribute importantly to revenue growth, while foreign grants will provide additional substantial support. Buoyant growth in tax bases and the considerable improvements made in tax administration have enabled the Government to reduce marginal tax rates in several critical areas, thereby promoting economic efficiency and tax compliance. Following the major reduction in the corporate tax rate for key sectors in 1988, a 5 percentage point cut in the rate to 50 percent has been effected in 1989 for most of the remaining sectors, while the withholding tax on dividends of 30 percent has been converted into a final tax with the same rate. The Government plans, with technical assistance from the Fund and the World Bank, to undertake a comprehensive evaluation of these and other capital income taxes, with a view to eliminating the remaining disincentives to savings and investment. The Government has also restructured the personal income tax by substantially increasing personal and family allowances and widening brackets, effectively reducing the taxation of incomes earned by the majority of taxpayers. As part of the phased reform of taxes on domestic goods and services, a modest reduction in the basic sales tax rate, from its previously high level, has been introduced, together with a simplification of the complex structure of excise duties on beverages and tobacco products. The retail prices of petroleum products have been raised, permitting an increase in the effective excise duty on these products from about ₵ 56 to ₵ 60 per imperial gallon; further adjustments in petroleum prices will be made as necessary during 1989 to take account of any increases in import

prices. Furthermore, and partly with a view to restraining burgeoning sales of passenger motor vehicles, such vehicles have been made subject to the sales tax in addition to the existing import duty and the purchase tax. With the abolition of the import licensing system, the tax on special unnumbered licenses has been abolished. In the period ahead, the Government will be adjusting the tariff structure in order to rationalize the protective system, to the extent that this is justified by the industrial policy studies which are under way.

13. Total expenditure and net lending, excluding capital outlays financed through external project aid, are programmed to grow by no more than 31 percent in 1989 to ₵ 196.0 billion, or 15.5 percent of GDP. The government wage bill will be limited to ₵ 62.8 billion, consistent with the incomes policy described above. At the same time, the redeployment policy will be pursued, especially with a view to reducing overstaffing at the lower levels of the administration. In 1988 a total of nearly 12,000 government employees were redeployed, but in view of the need to recruit skilled staff for higher level positions, particularly in the field of education, the net reduction amounted to 3,100. In 1989 the Government intends to redeploy an additional 12,000 employees, and to effect a net reduction at least equal to that in 1988. Operating and maintenance outlays are budgeted to rise by 29 percent to ₵ 33.9 billion, reflecting the need to provide more adequate resources for priority sectors, notably agriculture, health, and education, based on the application of the expenditure norms that have been developed with the assistance of the World Bank. The Government is, however, aware of the persisting weaknesses in monitoring and controlling operating and maintenance outlays, where sizable overruns occurred in 1988. As a major step toward more effective expenditure management, the Government is thus planning to introduce, with Fund and World Bank technical assistance, a commitments based monitoring system by the end of 1989. The policy on budgetary subventions is being reviewed, and measures will be taken later in the year to eliminate funding of potentially self-supporting entities, while providing adequate resources to others, such as the research institutes that depend entirely on government budgetary support. Outlays under the special efficiency fund for promoting redeployment and a more efficient conduct of government operations will be expanded sharply to ₵ 11.0 billion in 1989; this amount includes an appropriation of ₵ 5.0 billion for the redeployment program of the state enterprise sector. In 1989 capital expenditure and net lending, narrowly defined, are programmed to rise by 25 percent to ₵ 45.0 billion; including capital outlays financed through external project aid, they are projected to reach ₵ 115.3 billion, in line with the public investment program for 1989-91 recently agreed with the World Bank. Although outlays on transportation and communications facilities will continue to account for a large part of the public investment program, significant shifts have been made in favor of housing, health, education, and the special program of actions to mitigate the social costs of adjustment.

14. The Government remains firmly committed to state enterprise reform, which aims at reducing the managerial and financial burden that state enterprises place on public resources, while promoting the efficiency of the economy. The program of state enterprise reform, which is being supported by a World Bank project loan and a second structural adjustment credit, involves the divestiture of a selected number of state enterprises, performance monitoring and evaluation of priority state enterprises, and the restructuring of some distressed enterprises that are presently neither in the divestiture program nor on the list of priority state enterprises.

15. As regards the divestiture program, it may be recalled that 32 state enterprises have already been advertised for divestiture. Of these enterprises, ten 1/ are in the process of liquidation; the enterprises concerned have actually ceased operations, government budgetary support has been terminated, and liquidators have been appointed. Although there has been considerable interest in acquisitions by domestic and foreign private investors, progress on divestiture has been relatively slow owing to several factors, including staffing constraints in the State Enterprise Commission (SEC), delays in the preparation of updated accounts, difficulties encountered by investors in mobilizing the necessary resources, and, in some instances, legal problems in the transfer of ownership. Nevertheless, the sale of the Government's interests in six joint ventures 2/ to the private partners, a structural benchmark under the program, which was to be met by end-December 1988, is now expected to be realized by end-June 1989. In 1989 best efforts will be made to divest the Government's interests in an additional 10 state enterprises. In this context, several proposals are under consideration regarding the State Fishing Corporation.

16. As to the state enterprises remaining in the Government's portfolio, corporate plans and performance agreements for the Cocoa Board and the 13 other priority enterprises have been prepared. The plans include statements of corporate objectives, as well as performance targets on costs and profitability, and they delineate the responsibilities of the Government and the enterprises regarding commercial and social objectives. These corporate plans and performance agreements will be finalized, signed, and put into operation shortly, and they are to be updated annually. The SEC will be monitoring the performance of state enterprises relative to the targets incorporated in the performance agreements. As to the cross-debts and arrears among the

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1/ Gava Farms Ltd; GEA and Associates; GEA Packaging Ltd; Kwahu Dairy Farms Ltd; NIC Knitting Factory Ltd; NIC Metals Fabrication Ltd; NIC Soap and Detergents Ltd; NIC Textile Factory Ltd; NIC Weaving Ltd; and Victory Industries Ltd.

2/ DL Steel (Gh) Ltd; Famekkwa Trading Ltd; Metalico Ltd; Neoplan (Ghana) Ltd; Overseas Knitwear Fabric Ltd; and Two World Manufacturing Ltd.

Electricity Corporation of Ghana, the Ghana Water and Sewerage Corporation, the Volta River Authority, and the Government, the relevant accounts had to be updated; but agreement has been reached recently about the reciprocal claims involved, and settlement is expected shortly.

17. Monetary and credit policies in 1989 will be geared toward sustaining the growth of the economy, reducing inflation, and strengthening the balance of payments. Accordingly, the growth of net domestic assets of the banking system in relation to the stock of broad money at the beginning of the year will be limited to 8 percent in 1989, compared with 8.5 percent in 1988. The expansion of money supply, broadly defined, will be reduced from 43 percent in 1988 to 22 percent in 1989. Given the targeted net retirement of government bank debt of ¢ 8.0 billion, the program will allow credit to the rest of the economy to increase in line with the projected growth in nominal GDP. On this basis, and taking into account seasonal factors, definitive quantitative benchmarks for end-March and end-June 1989 are proposed in the annexed table regarding net domestic assets of the banking system, net bank claims on the Government, and bank financing of the operations of the Cocoa Board. To ensure compliance, the Bank of Ghana will continue to issue appropriate overall credit guidelines to banks. However, no sectoral credit guidelines will apply, apart from the minimum lending requirement for agriculture.

18. Since the full liberalization of interest rates last year, commercial banks have apparently seized the opportunity to increase their margins by reducing deposit rates significantly to a range of 15-24 percent. At the same time, banks continue to be reluctant to play an active role in the mobilization of financial savings. While efforts by the Bank of Ghana to reduce excess reserves of banks and increase competition for financial savings through the auction market for treasury bills have partially succeeded, these measures have not yet influenced interest rates significantly. In the circumstances, the authorities are taking steps to strengthen reserve money management, with a view to achieving positive real deposit rates. To this end, effective March 10, 1989, the Bank of Ghana tightened cash reserve requirements by excluding commercial bank deposits with the Discount House from cash reserves. In addition, the central bank will reduce even further its financing of the Cocoa Board's operations, to 70 percent of the total outstanding cocoa financing by the banking system at end-March and to 50 percent at end-June 1989. In order to assist the Bank of Ghana in developing other instruments of reserve money management and an effective interest rate policy, we are requesting technical assistance from the Fund. In this context, consideration will be given to an enlarged role of the auction market for treasury bills in promoting more attractive interest rates, the introduction of new instruments for mobilizing longer-term savings, and a possible shift from ceilings on net domestic assets of the banking system to those of the Bank of Ghana alone.

19. The Government is fully aware that a well-functioning capital market is essential for structural reform of the economy and that the commercial and development banks will, for some time, remain the most important institutions in that market. It is in this light that the ongoing financial sector reform is placing particular emphasis on the improvement of the health of banking institutions by strengthening their capital base, restructuring their portfolios, and upgrading their management. Some delays have occurred in the implementation of the reform program, owing mainly to initial difficulties in putting together an appropriate team of consultants. The team, which began work in early February 1989, is expected to develop a framework that should guide the bank restructuring exercise, covering both capital losses and recapitalization where necessary. In the meantime, the financially troubled banks will be completing shortly their own action plans in response to some of the issues that were raised by the diagnostic studies completed in 1987. Although precise plans for reducing the nonperforming loans of these banks would have to await progress on restructuring, guidelines have already been issued to banks enabling them to classify their loans into four categories, namely, substandard, irrecoverable, doubtful, and current. Another important aspect of the financial sector reform program is the improvement of the regulatory framework in general and banking supervision in particular. In this regard, a legislative instrument was issued with effect from December 23, 1988, dealing with capital adequacy, the scope of audits, payment of dividends, and other issues designed to ensure prudent banking practices, as well as with reporting requirements for banks.

20. With the implementation of the policies and measures described above, Ghana's external payments position is expected to continue to improve. In 1989 exports of cocoa beans are projected to reach 280,000 metric tons, compared with 192,800 metric tons in 1988; but as this year's average export price is forecast to fall by more than one fourth to US$1,485 per metric ton, cocoa export earnings are projected to increase by only 4 percent from the 1988 level. Other exports, comprising gold, timber, and nontraditional exports, are expected to perform well. Consequently, total export earnings are projected to grow by 7 percent to some US$900 million in 1989. Imports are programmed to increase by 6 percent, mainly on account of the growth in imports financed by external assistance. As interest payments due on the official debt will decline somewhat, the current account deficit, excluding net official unrequited transfers, is programmed to be reduced from US$325 million in 1988 to US$299 million in 1989, or from the equivalent of 6.5 percent of GDP to 6.3 percent of GDP, respectively. Thus, although the combined net inflows of official unrequited transfers and of capital are expected to decline, the balance of payments is projected to register an overall surplus of US$110 million in 1989, as against US$126 million in 1988. In this context, the net foreign assets of the Bank of Ghana (excluding bilateral accounts), which stood at minus US$680.5 million at end-December 1988 (revised base), will not be less than minus US$657.5 million at end-March 1989 and minus

US$610.5 million at end-June 1989. At the same time, external payments arrears will be reduced from US$65.0 million at end-December 1988 to at most US$53.7 million at end-March 1989 and US$42.5 million at end-June 1989. As indicated in the annexed table, these quarterly targets for net foreign assets of the Bank of Ghana and external payments arrears are being proposed as definitive benchmarks.

21. The Government intends to pursue a prudent external debt-management policy by strictly limiting commercial borrowing by the public sector, while seeking official assistance on concessional terms. Accordingly, the contracting of government and government-guaranteed external loans on nonconcessional terms in the maturity range of 1-12 years will be limited to US$85 million in 1989; within this ceiling, a subceiling of US$60 million will apply for such loans in the maturity range of 1-5 years. The Bank of Ghana will continue to refrain from borrowing from commercial sources, except for the purpose of accelerating the settlement of external payment arrears. As a result of this debt-management policy, it is expected that Ghana's debt service burden will decline progressively, although it will remain sizable in 1989.

Sincerely yours,

Dr. Kwesi Botchwey
PNDC Secretary for Finance
and Economic Planning

Dr. G.K. Agama
Governor
Bank of Ghana

Annex

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Ghana: Quantitative Performance Criteria and Quantitative Benchmarks of the First Annual Arrangement Under the Enhanced Structural Adjustment Facility

	1988					1989	
	Sept. 1/		Dec. 2/			March 1/	June 1/
	Prog.	Act.	Prog.	Act.	Rev. Base	Prog.	Prog.
	(In billions of cedis; end of period)						
Net domestic assets of the banking system	95.8	93.0	118.9	116.6	116.6	119.0	110.7
Net claims on the Government by the banking system	18.0	17.8	16.2	11.0	11.0	9.0	7.0
Bank financing of the operations of the Cocoa Board 3/	--	--	21.0	21.0	21.0	18.0	10.0
	(In millions of U.S. dollars; end of period)						
Net foreign assets of the Bank of Ghana (excluding bilateral accounts) 4/	-669.7	-669.1	-661.2	-652.8	-680.5	-657.5	-610.5
External payments arrears	76.1	74.4	68.6	65.0	65.0	53.7	42.5
New nonconcessional external loans contracted or guaranteed by the Government (cumulative on a calendar-year basis) 5/							
1. 1-12 years' maturity	85.0	--	85.0	--	--	85.0	85.0
2. 1-5 years' maturity	60.0	--	60.0	--	--	60.0	60.0

1/ Quantitative benchmarks; those proposed for end-March and end-June 1989 replace the indicative benchmarks set out in the letter of request dated September 16, 1988.
2/ Performance criteria.
3/ Defined as gross financing of the Cocoa Board's operations by the banking system.
4/ Defined on the assets side as holdings of gold, SDRs, foreign currency and securities, disposable balances with correspondent banks, and cash collateral under the oil financing facility; funds sold in the auction but not transferred to the successful bidder or his bank will be excluded. On the liabilities side, they comprise use of Fund resources (including the SAF and the ESAF), external payments arrears, and all other foreign liabilities of the Bank of Ghana, except those to official export credit agencies. In the second half of 1988, SDRs were converted into U.S. dollars at the accounting rate of US$1.30 per SDR. As of January 1, 1989, SDRs will be converted into U.S. dollars at the accounting rate of US$1.35 per SDR. Gold will be valued at US$350 per ounce for the amount held at end-December 1988.
5/ Includes borrowing by the Bank of Ghana from official export credit agencies; but excludes any rescheduling, borrowing under the Standard Chartered oil financing facility, and refinancing of the Standard Chartered US$30 million credit that was outstanding at the beginning of 1989.

Ghana - Relations with the Fund
(As of March 31, 1989)

I. Membership Status

(a) Date of membership	September 20, 1957
(b) Status	Article XIV

A. Financial Relations

II. General Department

(a) Quota	SDR 204.50 million
(b) Fund holdings of local currency	SDR 604.21 million, or 295.45 percent of quota

	Millions of SDRs	Percent of quota
(c) Use of Fund credit 1/	526.91	257.65
General Resources Account	399.70	195.45
Credit tranches	(52.74)	(25.79)
Enlarged access	(259.28)	(126.78)
CFF	(21.83)	(10.67)
EFF	(65.85)	(32.20)
Structural adjustment facility	40.90	20.00
Enhanced structural adjustment facility	86.30	42.20

III. Current Arrangements, Previous Arrangements, and Special Facilities

	Date of approval	Duration (months)	Total amount	Utilization
			Millions of SDRs	
Current arrangement				
ESAF arrangement	Nov. 9, 1988	36	368.10	86.30
Previous arrangements				
Extended arrangement	Nov. 6, 1987	36	245.40	97.55
SAF arrangement	Nov. 6, 1987	36	129.90	40.90
Stand-by arrangement	Oct. 15, 1986	12	81.80	81.80
Stand-by arrangement	Aug. 27, 1984	16	180.00	180.00
Stand-by arrangement	Aug. 3, 1983	12	238.50	238.50
Stand-by arrangement	Jan. 10, 1979	12	53.00	32.00
Special facilities				
CFF (exports, cereals)	Dec. 4, 1984		58.20	58.20
CFF (exports)	Aug. 3, 1983		120.50	120.50

1/ Including ESAF Trust resources.

Ghana - Relations with the Fund (continued)
(As of March 31, 1989)

IV. Financial Obligations to the Fund (in millions of SDRs)

	Overdue financial obligations 3/31/89	4/1/89 to 12/31/89	1990	1991	1992	1993
Principal	--	111.9	85.8	56.7	45.3	47.5
Repurchases	--	106.5	83.1	56.4	45.3	39.3
Trust Fund repayments	--	5.4	2.6	0.3	--	--
SAF repayments	--	--	--	--	--	8.2
Charges and interest, including SDR, Trust Fund, and SAF (provisional)	--	22.2	29.0	23.2	18.7	14.8
Total	--	134.1	114.8	80.0	64.0	62.3

V. SDR Department (as of March 31, 1989)

(a)	Net cumulative allocation	SDR 62.98 million
(b)	Holdings	SDR 0.96 million, or 1.53 percent of net cumulative allocation

VI. Administered Accounts (as of March 31, 1989)

Trust Fund loans	
(i) Disbursed	SDR 48.96 million
(ii) Outstanding	SDR 8.37 million
ESAF Trust loans	
(i) Disbursed	SDR 55.63 million
(ii) Outstanding	SDR 55.63 million

Ghana - Relations with the Fund (continued)
(As of March 31, 1989)

B. Nonfinancial Relations

VII. Exchange System

Ghana maintains a flexible exchange rate system, using the U.S. dollar as the intervention currency. On September 19, 1986, Ghana introduced a second foreign exchange window where an auction rate was applied to all external transactions through the official banking system, apart from foreign exchange earnings from exports of cocoa and residual oil, as well as imports of petroleum products and essential drugs, and service payments on government debt contracted before January 1, 1986. The exchange rate applied to these exports and imports of goods and services through the first window remained at ₵ 90 per U.S. dollar. Effective February 21, 1987, all foreign exchange transactions through the official banking system have been settled in accordance with the exchange rate determined in the weekly auction. At the time of the unification, the exchange rate at the auction market was ₵ 150 per U.S. dollar. On February 1, 1988, Ghana introduced foreign exchange bureaus, which are allowed to buy and sell foreign exchange for certain transactions at freely determined rates. As of April 14, 1989, the maximum buying and selling rates quoted by these bureaus were ₵ 345 and ₵ 380 per U.S. dollar, respectively; the rate at the auction market was ₵ 264 per U.S. dollar.

Ghana maintains multiple currency practices and restrictions on payments and transfers for current international transactions, including restrictions in the form of external payments arrears.

VIII. Last Article IV Consultation

The consultation discussions were held during the periods June 20-July 1, 1988 and August 22-27, 1988. The Executive Board considered the staff report on November 9, 1988. The decision was as follows:

(a) 1988 Consultation

1. The Fund takes this decision relating to Ghana's exchange measures subject to Article VIII, Sections 2(a) and 3, and in concluding the 1988 Article XIV consultation with Ghana, in the light of the 1988 Article IV consultation with Ghana conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

Ghana - Relations with the Fund (continued)
(As of March 31, 1989)

2. Ghana maintains the exchange restrictions described in EBS/87/68, Supplement 1, in accordance with Article XIV, Section 2, except that the multiple currency practices arising from the operation of the foreign exchange auction market and from the difference between the exchange rates in the auction market and the foreign exchange bureaus, the restrictions evidenced by external payments arrears, and the restrictions on transfers of balances under the bilateral payments agreements with Fund members are subject to Fund approval under Article VIII, Sections 2(a) and 3. The Fund welcomes the intention of the authorities to eliminate these multiple currency practices and restrictions, and encourages the authorities to remove them as soon as possible. In the meantime, and with the exception of the restrictions on the transfers of balances under the bilateral payments agreements with other Fund members, the Fund grants approval of the retention by Ghana of the multiple currency practices and exchange restrictions subject to approval under Article VIII, Sections 2(a) and 3, until November 30, 1989 or the completion of the next Article IV consultation with Ghana, whichever is earlier. The Fund urges Ghana to terminate the remaining bilateral payments agreements with Fund members as soon as possible.

IX. Technical Assistance

African Department and Bureau of Statistics	Bank of Ghana (monetary accounts): May 1987
Bureau of Computing Services	Bank of Ghana (systems analysis): June 1985
Bureau of Statistics	Bank of Ghana (institutional coverage and classification of financial institutions' accounts relating to the derivation of monetary aggregates): December 1984, June 1985, and December 1985
	Bank of Ghana and Ministry of Finance and Economic Planning (external debt statistics): October 1988
Exchange and Trade Relations Department	Ministry of Finance and Economic Planning and Bank of Ghana (exchange rate study): August 1985 (auction market): August and September 1986

Ghana - Relations with the Fund (concluded)
(As of March 31, 1989)

Fiscal Affairs Department	Ministry of Finance and Economic Planning (reform of the tax system): September 1985 (expenditure control): July 1986
X. Resident Representative	A Fund resident representative has been stationed in Accra since June 1985.

Ghana - Relations with the World Bank Group
(As of March 31, 1989)

Commentary on Lending Operations

1. The World Bank's strategy in Ghana is designed to support a far-reaching structural adjustment program. It has the following major objectives: (a) to assist the Government through the Bank's economic work, technical assistance, and program lending to increase the efficiency of economic management and restore a sound basis for growth; (b) to promote the development of the economy by underpinning structural adjustment lending with infrastructure rehabilitation and sector adjustment operations (industry, agriculture, education, public enterprises, and finance) within a framework of appropriate policies; and (c) to act as the focal point for aid coordination between donors and Ghana as the Government strengthens its own planning ability.

2. As of March 31, 1989, the World Bank Group had approved operations for Ghana totaling US$1,479.9 million, consisting of ten loans, 52 credits (including African Facility), and three IFC operations. In addition, Ghana participated in a Bank-financed regional clinker project. The country's past economic difficulties adversely affected many Bank Group-financed projects. However, in recent years project execution and disbursement performance have improved. The attached table contains the disbursement status of World Bank and IFC operations in Ghana as of March 31, 1989.

3. In view of the deterioration of economic and social infrastructure during the prolonged period of economic decline, recent and proposed Bank Group projects emphasize rehabilitation, maintenance, and institutional strengthening. These cover the transport (railway, highways, and port), telecommunications, energy (power distribution and petroleum refining), water, and urban sectors. Since April 1983, the Bank Group has approved a series of program credits designed to provide critically needed imports. These also laid the base for policy reforms in areas such as cocoa producer prices, price and distribution controls, and public expenditures. In addition, the Bank Group is supporting reforms in the industrial, education, and public enterprise sectors. A recently approved credit will support measures to improve the efficiency of the financial sector. Ongoing or planned operations are intended to increase production potential and efficiency in agriculture (including cocoa and forestry) and mining.

4. Over the three-year period FY 89-91, the Bank's lending program for Ghana, based on current plans, could amount to about US$577 million, all on IDA terms. The Bank committed US$198.6 million in FY 87 and US$276.1 million in FY 88, including African Facility Credits. On April 14, 1987, the Bank's Board approved a structural adjustment credit of SDR 90.9 million covering the period 1987-88. It concentrated on: (a) trade policies; (b) cocoa sector policies; (c) public expenditure policies; (d) state-owned enterprise reforms; and (e) measures to

Ghana - Relations with the World Bank Group (continued)
(As of March 31, 1989)

improve public sector management. In addition, on May 9, 1988 the Bank's Board approved a financial sector adjustment credit of SDR 72.1 million aimed at enhancing the soundness of banking institutions, improving deposit mobilization and the efficiency of credit allocation, and aiding the development of money and security markets. Furthermore, a second structural adjustment credit of SDR 89.2 million covering the period 1989-90 was approved by the Executive Board of the Bank on April 18, 1989. This credit aims at further improving the incentive structure and increasing the efficiency of resource use by the public sector. The structural adjustment credits are supported by technical assistance credits designed to strengthen key economic management functions, assist the Government to reform the civil service, and provide policy makers with timely information on the impact of reforms on the welfare of different population groups.

5. Given the need to focus Ghana's public expenditures on high-priority rehabilitation and maintenance and on adequate provision for nonsalary recurrent costs, improved aid coordination is increasingly important. The Bank pursues its policy dialogue with Ghana in close collaboration with the IMF and bilateral and multilateral donors. The Bank chaired annual meetings of the Ghana Consultative Group during 1983-85. At the November 1985 meeting, the Government and donors reached a consensus on the main elements of the structural adjustment program. The most recent meeting, held in February 1989, mobilized resources to support the second phase of that program. In addition, the Bank has organized or co-sponsored special aid coordination meetings on industry, the social sectors, and mining.

In February 1988, the Government, assisted by the Bank, organized a meeting of donors to coordinate support for the Government's special program of actions to mitigate the social costs of adjustment. In support of this program, the Bank has approved a priority public works project.

Ghana - Relations with the World Bank Group (concluded)

Lending Operations

(As of March 31, 1989; in millions of U.S. dollars)

	IBRD and IDA 1/		IFC loans and equity participations		
	Total commitments 2/	Of which: undisbursed	Total commitments 2/	Of which: undisbursed	Grand total Commitments
Ten loans and 18 credits fully disbursed	419.1	(--)	--	(--)	419.1
Structural adjustment and program lending 3/	481.0	(106.0)	--	(--)	481.0
Agriculture	150.9	(111.8)	--	(--)	150.9
Energy and industry	147.7	(105.7)	32.6	(10.4)	180.3
Transport and telecommunications	153.5	(99.4)	--	(--)	153.5
Urban development, water, education, and health	95.1	(49.3)	--	(--)	95.1
Total	1,447.3	(472.2)	32.6	(10.4)	1,479.9
Less repaid or sold					103.6
Total outstanding					1,376.3
Held by IBRD					(94.5)
IDA					(1,249.2)
IFC					(32.6)

Memorandum items:

IBRD/IDA operations on a fiscal year basis	Commitments	Disbursements	Repayments
1980	54.5	31.7	3.5
1981	29.0	28.3	5.6
1982	--	30.5	5.7
1983	73.3	18.8	7.4
1984	125.0	39.8	9.0
1985	159.0	52.0	10.1
1986	121.0	109.4	9.8
1987	198.6	234.6	13.0
1988	276.1	126.1	12.7
1989 (first three quarters)	95.0	199.4	5.6

Source: World Bank Group.
1/ Excluding cancellations.
2/ Including Special Fund and African Facility Credits totaling US$193.9 million.
3/ Including Technical Assistance Credits.

Ghana - Selected Social and Demographic Indicators 1/

Area	
Total land area (square kilometers)	238,500
Agricultural land (in percent of total)	26
Population and vital statistics	
Total population (mid-1987, in millions)	13.7
Population growth rate (1980-87 average, in percent)	3.3
Urban population (percent of total)	32
Population density (per sq. km. of agricultural land)	197
Population age structure (in percent)	
0-14 years	49
15-64 years	49
65 and above	2
Crude birth rate (per thousand)	45
Crude death rate (per thousand)	13
Infant mortality rate (per thousand)	90
Life expectancy at birth (years)	54
Health and nutrition	
Access to safe water (in percent of population)	
Total	49
Urban	72
Rural	39
Population per physician (in thousands)	7
Per capita supply of	
Calories (per day)	1,785
Proteins (grams per day)	34
Labor force	
Total labor force (in millions)	5.1
Participation rate (in percent)	
Total	37
Male	44
Female	29
Education	
Enrollment rates (in percent)	
Primary	66
Secondary	39
Pupil-teacher ratio	
Primary	22
Secondary	20

Ghana - Selected Social and Demographic Indicators 1/ (concluded)

Summary of results of the Ghana Living Standards Survey (in percent of total people surveyed) 2/ 3/	
Employer of head of household	
Private	6.9
Government	12.1
Parastatal	2.5
None	3.9
Self-employment	74.7
Occupation of head of household	
White collar worker	9.1
Sales/services	10.9
Production/crafts	13.3
Unemployed	2.2
Cocoa farmer	18.4
Other farmer	44.5
Retired	1.6
Education of head of household	
University	1.2
Post-secondary/non-university	0.4
Secondary school, A level	0.3
Secondary school, O level	3.0
Middle school	31.3
Primary	18.1
Teacher training	1.8
None	53.9

Sources: IMF, International Financial Statistics; World Bank, Ghana: Structural Adjustment for Growth, January 23, 1989; and data provided by the World Bank.

1/ Unless otherwise mentioned, estimates refer to the latest available year between 1980 and 1987.

2/ The survey was based on the World Bank's Living Standards Measurement Study methodology and was carried out by the Ghana Statistical Service during the period from September 1987 to August 1988, covering 3,200 households.

3/ The figures refer to the total number of people surveyed and not the total number of households surveyed. For example, 6.9 percent of the people surveyed live in households headed by a person working in the private sector.