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EBS/88/207

CONFIDENTIAL

October 13, 1988

To: Members of the Executive Board

From: The Secretary

Subject: Ghana - Staff Report for the 1988 Article IV Consultation and Request for Arrangements Under the Enhanced Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1988 Article IV consultation with Ghana and its request for arrangements under the enhanced structural adjustment facility. Draft decisions appear on pages 44 and 45.

This subject, together with the policy framework paper for Ghana (EBD/88/273, 9/29/88), will be brought to the agenda for discussion on a date to be announced.

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

Att: (1)

INTERNATIONAL MONETARY FUND

GHANA

Staff Report for the 1988 Article IV Consultation and Request for Arrangements 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 A.D. Ouattara and J.T. Boorman

October 12, 1988

I. Introduction

The 1988 Article IV consultation discussions with Ghana, together with negotiations on a three-year arrangement under the enhanced structural adjustment facility (ESAF) and the first annual arrangement thereunder, were initiated in Accra during the period June 20-July 1, 1988 and were concluded at the Fund's headquarters during the period August 22-27, 1988. The Ghanaian representatives included Dr. Botchwey, Secretary for Finance and Economic Planning; Mr. Ahwoi, Secretary for Fuel and Power; Dr. Agama, Governor of the Bank of Ghana; Dr. Abbey, Ghana's High Commissioner to the United Kingdom; Mr. Tsikata, member of the Economic Management Committee; and other senior officials concerned with economic and financial matters. The staff team consisted of Mr. Calamitsis (head-AFR), Mr. Chand (FAD), Mr. van Til (AFR), Mr. Ames (AFR), and Mr. Leeahtam (ETR), with Ms. Coker (AFR) as secretary. Mr. Johnson, the Fund's resident representative in Accra, took part in the discussions. Ms. Jones, from the World Bank's Western Africa Department, participated in all the joint discussions with the Ghanaian representatives on a medium-term policy framework; in the concluding meetings, the Bank staff was also represented by Mr. Adams, Mr. Squire, and Mr. Nehru. Mr. Salehkhou, Executive Director for Ghana, attended the policy meetings in Accra.

Ghana is on the standard 12-month cycle for Article IV consultations, and the last consultation was concluded on May 4, 1987. At that time, Executive Directors noted with satisfaction that Ghana continued to make major adjustment efforts with commendable results. Since April 1983 there was a substantial liberalization of the exchange and trade system, which allowed a realignment of relative prices in favor of directly productive activities and exports; there was a gradual rehabilitation of the economic and social infrastructure; and there was steady progress in domestic and external resource management. Nevertheless, Directors observed that the country still faced major structural and financial problems, including a number of constraints on economic growth. In this context, Directors expressed broad support for Ghana's adjustment program, which aimed at further improving the incentive framework, notably through a flexible exchange rate policy, an increase in producer prices for cocoa and other cash crops, and the achievement of positive real interest rates. Directors considered that high priority should also be attached to tax reform, an improvement of tax administration, and a restructuring of the civil service, as well as the initiation of state enterprise reform. Directors were of the view that, if rigorously implemented, these policies should lay the foundation for a sustained medium-term recovery effort. A notification of the expected delay in concluding the 1988 Article IV consultation was circulated to the Executive Board on July 12, 1988 (EBD/88/193). Ghana continues to avail itself of the transitional arrangements of Article XIV, Section 2.

In a letter to the Managing Director, dated September 16, 1988, the Government of Ghana requested a three-year arrangement under the ESAF in an amount equivalent to SDR 368.1 million, representing 180 percent of Ghana's quota of SDR 204.5 million, and the first annual arrangement thereunder in an amount equivalent to SDR 137.1 million, or 67 percent of quota (Appendix I). In the same letter, the Government requested the cancellation of the current three-year extended arrangement for Ghana, which had been approved on November 6, 1987, in conjunction with a three-year arrangement under the structural adjustment facility (SAF) and the first annual arrangement thereunder. A major reason for replacing the extended arrangement by an ESAF arrangement is Ghana's need for continued balance of payments assistance on more appropriate terms and conditions, given the country's heavy debt service burden. The three-year ESAF arrangement is being sought to support the Government's program of structural and financial reforms for the period July 1988-June 1991. It should be noted, however, that for planning purposes the program has been formulated on a calendar-year basis, and thus effectively covers the period 1988-91.

In developing their medium-term strategy, the Ghanaian authorities have prepared, in close collaboration with the staffs of the Fund and the World Bank, a policy framework paper (PFP) setting forth the Government's basic economic objectives for 1988-91 and the macroeconomic and structural adjustment policies designed to achieve these objectives (EBD/88/273). 1/ The document, which was transmitted to the Managing Director of the Fund and to the President of the World Bank on September 15, 1988, is expected to be considered by the Bank's Executive Directors at a meeting of the Committee of the Whole on October 20, 1988.

1/ This paper updates and extends the PFP for July 1987-June 1990 of September 17, 1987 (EBD/87/247).

Ghana has made five purchases under the extended arrangement, totaling SDR 97.55 million, leaving an undrawn balance of SDR 147.85 million from the approved amount of SDR 245.4 million. In addition, Ghana has received the first loan of SDR 40.9 million under the SAF. As of September 30, 1988, Ghana's outstanding use of Fund credit was equivalent to 252 percent of quota, of which 20 percent of quota was in respect of the above-mentioned loan under the SAF (Table 1).

According to the proposed phasing of disbursements under the ESAF, the first semiannual disbursement would amount to SDR 86.3 million and the second to SDR 50.8 million (Table 2). The first semiannual disbursement is relatively large because of the need to assure Ghana of the same level of Fund support in late 1988 as had been envisaged under the extended and SAF arrangements. All together, the disbursements under the ESAF would amount to 37 percent of the total in the first year of the arrangement, 37 percent in the second year, and 26 percent in the third year. This phasing, which is consistent with the operational guidelines, is designed to coincide with the pace of Ghana's reform program and its sizable balance of payments needs in 1988 and 1989. If the full amount of the requested ESAF arrangement is drawn, and after taking into account scheduled repurchases, by September 30, 1991 Ghana's outstanding use of Fund credit would be equivalent to 287 percent of quota, of which 200 percent of quota would be in respect of loans under the SAF and ESAF.

Ghana's program of structural and financial reforms is also being supported by the World Bank and other creditors and donors. The Bank's program credits have thus far been devoted largely to supporting reforms in the agricultural, industrial, education, and public enterprise sectors, while fostering improvements in public sector management and the public investment program. Apart from project-lending operations, in 1988 the Bank approved a Financial Sector Adjustment Credit for Ghana of SDR 72.1 million, and negotiations on a second structural adjustment credit are expected to be completed shortly. The next meeting of the Consultative Group for Ghana is tentatively scheduled to be held in early 1989 to review Ghana's recent progress and prospects, as well as to consider the required levels of further external financial assistance to support the reform process. The Fund and Bank staffs have continued to collaborate closely on the various aspects of Ghana's adjustment efforts and financing requirements.

For the purposes of this report, the following appendices are attached: the proposed ESAF arrangement, with the annexed letter of request (Appendix I); a summary of the program for 1988-89 (Appendix II); Ghana's relations with the Fund (Appendix III); Ghana's relations with the World Bank Group (Appendix IV); a discussion of statistical issues (Appendix V); basic economic data (Appendix VI); and selected social and demographic indicators (Appendix VII).

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

	Outstanding at Sept. 30, 1988	1988	1989				1990				1991		
		Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.
							(In millions of SDRs)						
Transactions under tranche policies (net)	--	-38.85	-20.59	-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	--	38.85	20.59	38.95	14.63	31.11	10.88	33.33	7.13	29.75	3.92	26.21	3.92
Ordinary resources	(--)	(20.86)	(16.40)	(16.40)	(10.43)	(8.56)	(6.68)	(6.68)	(2.93)	(1.06)	(--)	(--)	(--)
Enlarged access resources	(--)	(17.99)	(4.20)	(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	-7.28	-7.28	--	--	--	--	--	--	--
Purchases	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Repurchases	(--)	(7.28)	(7.28)	(7.28)	(7.28)	(7.28)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Structural adjustment facility loans	--	--	--	--	--	--	--	--	--	--	--	--	--
Enhanced structural adjustment facility loans	--	86.30	--	50.80	--	87.00	--	48.00	--	48.00	--	48.00	--
Total Fund credit outstanding (end of period)	514.60	554.78	526.91	531.48	509.58	558.18	547.31	561.98	554.85	573.10	569.18	590.97	587.05
Tranche policies	437.32	398.47	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/	36.38	29.11	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	40.90	40.90
Enhanced structural adjustment facility	--	86.30	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)	251.64	271.28	257.66	259.89	249.18	272.95	267.63	274.81	271.32	280.25	278.33	288.98	287.07
Tranche policies	213.85	194.85	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/	17.79	14.23	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	20.00	20.00
Enhanced structural adjustment facility	--	42.20	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	13.23	11.59	8.37	6.73	4.62	2.98	1.82	0.75	0.33	0.33	--	--	--
In percent of quota	6.47	5.67	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.

Table 2. Ghana: Proposed Schedule of Disbursements
Under ESAF Arrangement

Amount	Availability date	Conditions necessary for disbursement 1/
SDR 86.30 million	November 30, 1988	Executive Board approval of the ESAF arrangement and the first annual arrangement thereunder.
SDR 50.80 million	After May 14, 1989	Observance of the performance criteria for December 31, 1988, and completion of the semiannual review under the arrangement.
SDR 87.00 million	After November 14, 1989	Executive Board approval of the second annual arrangement.
SDR 48.00 million	After May 14, 1990	Observance of the performance criteria for December 31, 1989, and completion of the semiannual review under the arrangement.
SDR 48.00 million	After November 14, 1990	Executive Board approval of the third annual arrangement.
SDR 48.00 million	After May 14, 1991	Observance of the performance criteria for December 31, 1990, and completion of the semiannual review under the arrangement.

Source: IMF.

1/ Other than the generally applicable conditions under the ESAF arrangement, including the performance clause on the exchange and trade system.

II. Background

Since the adoption of the Economic Recovery Program in April 1983, the Ghanaian authorities have implemented far-reaching structural and financial reforms with considerable success. The progressive liberalization of the exchange and trade system, coupled with the elimination of most price and distribution controls, has led to a reorientation of incentives in favor of directly productive activities and exports. A particularly important step in the area of exchange rate policy was the introduction in September 1986 of an auction market for foreign exchange. 1/ At the same time, the gradual rehabilitation of economic and social infrastructure has helped to ease some of the more serious impediments to economic growth. Moreover, the steady improvements made in public resource management, notably the restoration of fiscal discipline at an early stage of the reform process, have contributed measurably to the reduction of the internal and external imbalances. As a result, since 1983 there has been a marked turnaround in Ghana's overall economic and financial situation: both 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.

Despite the considerable progress made in recent years, however, Ghana still faces major structural and financial problems. First, although the recovery of the economy has begun to take hold, economic growth is constrained by inadequate domestic savings and investment, as well as by transportation and other infrastructure bottlenecks. Second, the rate of inflation is high, seriously eroding the already low levels of real wages and salaries, especially in the public sector. Third, the external payments position is vulnerable to adverse developments in the international environment, such as the recent sharp drop in world market prices for cocoa. Fourth, the external debt service burden is heavy, particularly in 1988-89. Finally, a number of other factors are also constraining the pace of adjustment with growth in the economy, including weaknesses in the financial system and in the operations of state enterprises.

For these reasons, the authorities decided to pursue their reform efforts in the context of a medium-term program of structural and financial adjustment, covering the period 1987-90, in support of which the Fund approved the extended and SAF arrangements. As indicated in the previous PFP, the program aimed at establishing a firm foundation for a buoyant and increasingly integrated economy, while seeking to attain a viable external payments position over the medium term. In

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1/ Following the first auction, the system used for the determination of the exchange rate was changed from one of marginal pricing to a Dutch auction in which the successful bidder pays the bid price. Under the Dutch auction system, a multiple currency practice arises if the difference between the accepted bid prices exceeds 2 percent.

particular, the program for 1987-90 had the following macroeconomic objectives: (a) to achieve an average annual rate of growth of real GDP of some 5 percent, which would improve real per capita income by about 2 percent per annum; (b) to reduce the average annual rate of inflation (as measured by the national consumer price index) from 25 percent in 1986 to 8 percent in 1990, following an expected temporary acceleration of inflation in 1987; and (c) to generate significant overall balance of payments surpluses, averaging about US$110 million per annum, which would be consistent with the elimination of the remaining external payments arrears by the end of 1990.

III. Economic Performance in 1987

In 1987, the first year of the program, the Ghanaian authorities rigorously implemented a broad range of structural and financial policies, especially with a view to strengthening the framework of incentives in the economy. A flexible exchange rate policy was pursued through the auction market for foreign exchange, and the process of exchange and trade liberalization was continued. Thus, in February 1987 the official exchange rates were unified in the context of the auction market, and in March and September additional categories of imports were made eligible for funding through the auction. Furthermore, producer prices for cocoa and other cash crops were raised substantially, retail prices of petroleum products were increased appreciably, and interest rate controls (except the minimum savings rate) were lifted. At the same time, complementary fiscal, credit, and external debt management policies were carried out effectively. State enterprise reform and the public sector redeployment (i.e., retrenchment) program, which were initiated in early 1987, encountered considerable start-up problems, as the tasks involved proved much more difficult than had been foreseen and the technical and institutional constraints more formidable. Nevertheless, as indicated below, progress was also made in these areas. All the performance criteria of the program were observed; all the structural benchmarks were also met, although with some delays (Table 3).

With the implementation of these policies, the basic macroeconomic objectives of the program for 1987 were largely realized. According to the latest available data, in 1987 real GDP grew by 4.8 percent, compared with the program target of 4.0 percent (Table 4). Late and inadequate rainfall during the early part of the year severely affected agricultural output; food crop production stagnated, while cocoa production increased by only 3 percent. Industrial output, however, rose by 16 percent, owing mainly to the increased availability of raw materials and spare parts. Production of minerals, notably gold, also rose markedly as a result of favorable prices and substantial new investments. In response to the higher output of the industrial sector and the increased availability of imports, the services sector continued to grow strongly, led by the buoyant wholesale and retail trade.

Table 3. Ghana: Performance Under the Program Supported by the Extended and SAF Arrangements, July 1987-June 1988

	1987				1988			
	Sept.		Dec.		March		June	
	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.
	(In billions of cedis; end of period)							
Performance criteria								
Net domestic assets of the banking system	87.0	85.9	106.3	105.3	111.2	110.0	106.6	104.7
Net claims on the Government by the banking system	25.5	23.6	23.5	22.2	21.5	20.3	19.5	17.4
Bank financing of the operations of the Cocoa Board 1/	--	--	21.7	16.5	20.0	19.2	13.3	11.7
	(In millions of U.S. dollars; end of period)							
Net foreign assets of the Bank of Ghana (excluding bilateral accounts) 2/	-738.8	-730.3	-757.4	-725.8	-693.2	-690.3	-655.7	-654.2
External payments arrears	151.6	141.6	145.5	99.8 3/	91.1	90.4	83.6	82.8
New nonconcessional external loans contracted or guaranteed by the Government (cumulative on a calendar-year basis) 4/								
1-12 years' maturity	85.0	40.5	85.0	40.5	85.0	--	85.0	--
1-5 years' maturity	60.0	40.5	60.0	40.5	60.0	--	60.0	--

Benchmarks	Status
Offer for sale the Government's shares in five state enterprises by end-December 1987.	Implemented on schedule.
Initiate liquidation proceedings for five state enterprises by end-December 1987.	Implemented in March 1988.
Adopt public investment program for 1988-90, consistent with the medium-term macroeconomic objectives, by end-March 1988.	Implemented in April 1988.
Adjust the cocoa producer price for the 1988/89 season, with a view to increasing its share of the world market price, by end-May 1988.	Implemented in June 1988.

Sources: Letters of intent of the Ghanaian authorities of September 18, 1987 and March 11, 1988; and data provided by the Ghanaian authorities.

1/ Defined as gross financing of Cocoa Board operations by the banking system.
2/ 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), external payments arrears, and all other foreign liabilities of the Bank of Ghana, except those to official export credit agencies. SDRs are converted into U.S. dollars at the accounting rate of US$1.20 per SDR.
3/ After accounting for a liquidation through rescheduling of US$41.7 million of arrears on letters of credit.
4/ 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$75 million credit that was outstanding at the beginning of 1988.

Table 4. Ghana: Selected Economic and Financial Indicators, 1984-91

	1984	1985	1986	1987 Prog.	1987 Prov.	1988 Prog.	1989	1990	1991
							Projections		
	(Annual percentage change, unless otherwise specified)								
National income and prices									
Real GDP	8.6	5.1	5.2	4.0	4.8	5.5	5.0	5.0	5.0
Real GDP per capita	6.7	1.7	1.8	1.0	1.5	2.1	1.6	1.6	1.6
GDP deflator	35.3	20.6	41.7	31.0	39.2	21.8	15.2	9.1	6.6
Consumer price index (annual average)	39.7	10.4	24.6	35.0	39.8	21.8	15.2	9.1	6.6
Consumer price index (end of period)	6.0	19.5	33.3	...	34.2	20.0	10.0	8.0	5.0
External sector									
Exports, f.o.b.	29.1	11.6	18.5	5.1	10.0	-1.1	3.1	11.3	9.9
Imports, f.o.b.	23.3	9.0	9.3	14.7	27.3	6.2	8.3	8.9	9.3
Export volume	2.0	21.1	9.3	8.0	8.3	0.5	21.6	9.4	8.0
Import volume	26.9	11.3	14.8	9.9	14.4	2.2	3.7	5.2	5.4
Terms of trade	30.2	-5.9	13.9	-6.8	-8.8	-5.2	-18.8	-1.8	-1.8
Nominal effective exchange rate	-75.4	-27.0	-49.8	...	-40.5	...	...	...	...
Real effective exchange rate	-61.4	-27.3	-42.4	...	-22.9	...	...	...	...
Government budget									
Revenue and grants	121.1	78.0	82.6	45.4	50.8	28.5	27.6	20.2	16.3
Total expenditure	81.1	74.2	53.1	44.1	45.9	29.8	26.5	18.8	15.3
Current expenditure	71.9	64.9	58.2	38.1	32.5	29.0	19.3	14.8	11.4
Capital expenditure 1/	158.0	126.7	32.5	73.1	111.4	32.0	23.8	25.0	27.6
Money and credit									
Net domestic assets 2/	84.3	77.1	49.8	13.0	11.8	10.3	9.3	6.3	4.0
Credit to the Government 2/	15.2	8.5	4.4	-7.1	-8.6	-4.5	-4.7	-3.9	-3.4
Credit to the rest of the economy 2/ 3/	63.1	63.0	35.7	18.3	14.3	13.4	11.6	8.3	5.6
Broad money	72.1	59.5	53.7	39.5	53.0	27.4	20.7	16.6	14.0
Velocity (GDP relative to broad money)	7.7	6.1	5.9	5.8	5.6	5.7	5.7	5.6	5.5
Interest rates (in percent; end of period)									
Minimum rate on savings deposits	14.5	16.5	18.5	21.5	21.5	...	...	...	...
Maximum rate on nonagricultural loans	22.5	23.0	23.0	26.0	...	...	...	...	...
	(In percent of GDP)								
Investment and savings									
Gross investment	6.9	9.6	9.7	13.0	10.8	13.2	14.7	16.1	17.3
Domestic savings	8.0	8.1	7.9	9.1	9.0	10.8	11.3	13.1	14.3
Government budget									
Surplus or deficit (-) 4/	-1.8	-2.2	0.1	0.2	0.5	0.4	0.6	0.8	0.9
Overall surplus or deficit (-) 5/	-2.3	-3.0	-2.4	-2.8	-3.3	-2.8	-3.7	-3.6	-3.4
Revenue and grants	8.4	11.8	14.4	15.4	14.9	14.9	15.7	16.5	17.1
Total expenditure 4/	10.2	14.0	14.3	15.2	14.3	14.5	15.1	15.7	16.2
External sector 6/									
Current account balance 7/	-1.0	-2.5	-1.6	-4.3	-2.3	-2.4	-3.4	-3.0	-3.0
External debt outstanding	26.0	33.9	51.5	71.1	68.3	64.0	70.1	73.9	71.2
Debt service	3.2	5.8	7.5	11.1	11.6	13.0	11.7	9.4	7.3
	(In percent of exports of goods and services)								
External debt service									
Including the Fund	40.3	54.5	47.7	53.8	59.9	75.0	63.9	46.5	39.2
Excluding the Fund	36.0	46.8	36.7	28.2	32.7	38.9	38.1	32.0	30.1
	(In millions of U.S. dollars)								
Current account balance 7/	-75.3	-156.7	-84.8	-166.1	-102.1	-121.0	-161.9	-145.4	-164.5
Overall balance of payments	37.2	-115.5	-56.7	108.0	138.5	125.0	110.0	110.0	125.0
External payments arrears (end of period)	231.7	175.0	171.4	145.0	99.8	69.8	24.8	--	--
Gross international reserves									
(end of period)	131.8	145.2	148.7	174.6	193.6	203.2	225.9	319.6	441.2
(equivalent weeks of imports c.i.f.)	10.4	10.4	9.9	...	9.8	9.8	10.0	13.0	16.4

Sources: Data provided by the Ghanaian authorities; and Fund and World Bank 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 Cocoa Board operations, but excludes other items (net).
4/ Excludes capital expenditure financed through external project aid.
5/ Includes capital expenditure financed through external project aid.
6/ The time series are affected by the substantial changes in the exchange rate in recent years.
7/ Includes official grants.

As expected, during the first half of 1987 inflation accelerated, not only because of a significant increase in domestic demand but also on account of the impact of the adverse weather conditions on food supply and prices (which have a weight of 50 percent in the national consumer price index). Thus, although inflation was reduced significantly during the second half of the year, the average annual rate reached 40 percent in 1987, somewhat above the targeted rate of 35 percent and considerably more than the rate of 25 percent registered in 1986.

In 1987 the Government pursued a growth-oriented fiscal strategy, with the budget serving as a major instrument for mobilizing savings in support of infrastructure rehabilitation and other priority investments. In this respect, the results were generally impressive, and in certain key areas the targets were even surpassed. Excluding capital outlays for imports financed through external project aid, government operations in 1987 registered a surplus of ₵ 4.1 billion, equivalent to 0.5 percent of GDP, representing a major improvement over the programmed 0.2 percent, and the surplus of 0.1 percent recorded in 1986 (Table 5). This outcome, together with higher domestic nonbank borrowing, enabled the Government to retire ₵ 7.4 billion of its debt to the banking system, substantially more than the programmed ₵ 5.5 billion. In view of the higher level of capital outlays financed through external project aid, the overall deficit amounted to ₵ 24.8 billion, or 3.3 percent of GDP, compared with 2.8 percent envisaged in the program. It should be noted, however, that the increase in the overall deficit was attributable mostly to a shift in the means of financing from external grants to highly concessional loans; capital outlays financed through external project aid were only slightly above the programmed level. The net foreign financing of overall government operations, including external project aid, rose from ₵ 15.7 billion in 1986 to ₵ 41.7 billion in 1987, reflecting essentially the depreciation of the currency.

Total revenue and grants increased by 51 percent in 1987 to ₵ 111.0 billion, exceeding the target of ₵ 107.0 billion. The Government's revenue strategy emphasized improvements in tax administration, particularly with respect to taxes on income and property, and those improvements yielded considerable gains. In addition, the first stage of the sales tax reform, involving the consolidation of a large number of small excise duties into the basic structure of the sales tax, was successfully undertaken. An excise duty on petroleum products was also introduced.

Total expenditure and net lending rose by 46 percent in 1987 to ₵ 107.0 billion, slightly above the programmed level of ₵ 105.7 billion, but there were some major shifts in the composition of outlays relative to the programmed amounts. Interest payments on the external debt were much smaller than had been budgeted, as state enterprises were better able to meet their debt service charges from their own resources. The bulk of the savings was used to increase capital expenditure and net

Table 5. Ghana: Central Government Operations and Financing, 1984-91

	1984	1985	1986	1987 Prog.	1987 Prov.	1988 Prog.	1989 Projections	1990 Projections	1991 Projections
				(In millions of cedis)					
Total revenue and grants	22,641	40,312	73,627	107,020	111,046	142,680	182,099	218,821	254,510
Revenue	21,727	38,692	69,759	99,137	105,009	131,204	167,585	202,891	237,754
Taxes on income and property	4,060	7,451	14,121	18,194	24,087	28,417	36,072	44,342	51,002
Taxes on international transactions	8,242	15,824	28,467	42,647	44,644	49,345	57,397	63,832	69,264
Taxes on domestic goods and services 1/	5,628	9,244	19,621	26,648	26,167	41,621	59,817	78,338	99,154
Nontax revenue	3,797	6,173	7,550	11,648	10,111	11,821	14,299	16,380	18,334
Foreign grants	914	1,620	3,868	7,883	6,037	11,476	14,514	15,930	16,756
Total expenditure and net lending	27,485	47,892	73,328	105,676	106,987	138,824	175,576	208,573	240,419
Current expenditure	23,326	38,462	60,835	84,022	80,583	103,969	124,016	142,370	158,656
Wages and salaries	5,282	14,524	26,194	34,625	35,920	49,588	57,976	66,414	74,337
Interest	3,425	5,086	11,341	17,265	10,587	11,515	13,754	15,138	16,204
Operations and maintenance	10,362	12,948	12,529	17,510	18,601	22,787	29,034	34,408	38,837
Other	4,257	5,904	10,771	14,622	15,475	20,079	23,252	26,410	29,277
Capital expenditure and net lending 2/	4,159	9,430	12,493	18,169	23,404	31,737	47,059	60,704	75,763
Capital expenditure	3,368	7,303	9,826	15,608	18,552	23,237	38,559	52,204	63,763
Net lending	791	2,127	2,667	2,561	4,852	8,500	8,500	8,500	12,000
Special efficiency 3/	--	--	--	3,485	3,000	3,118	4,500	5,500	6,000
Surplus or deficit (-)	-4,844	-7,580	299	1,344	4,059	3,855	6,523	10,248	14,091
Financing	4,844	7,580	-299	-1,344	-4,059	-3,855	-6,523	-10,248	-14,091
Foreign (net)	1,816	3,522	-5,614	963	-1,180	2,125	1,437	1,515	1,674
Borrowing	5,073	9,562	13,412	24,672	23,654	37,066	49,547	56,177	61,074
Repayments	-3,257	-6,040	-19,026	-23,709	-24,834	-34,941	-48,111	-54,662	-59,400
Domestic (net)	3,028	4,058	5,315	-2,307	-2,879	-5,980	-7,960	-11,763	-15,765
Banking system	3,106	3,011	2,471	-5,500	-7,400	-5,980	-8,000	-8,000	-8,000
Social security	437	510	3,182	3,193	2,531	--	--	--	--
Other	-515	537	-338	--	1,990	--	40	-3,763	-7,765
				(In percent of GDP)					
Total revenue and grants	8.4	11.8	14.4	15.4	14.9	14.9	15.7	16.5	17.1
Total expenditure and net lending	10.2	14.0	14.3	15.2	14.3	14.5	15.1	15.7	16.2
Surplus or deficit (-)	-1.8	-2.2	0.1	0.2	0.5	0.4	0.6	0.8	0.9
Memorandum items:									
Total revenue and grants (including external project grants)									
In millions of cedis	23,721	42,398	78,473	122,200	119,013	157,880	200,770	240,605	278,860
In percent of GDP	8.8	12.4	15.3	17.5	16.0	16.5	17.3	18.1	18.8
Total expenditure and net lending (including capital expenditure financed through external project aid)									
In millions of cedis	30,041	52,715	90,803	141,976	143,832	185,184	244,135	288,552	329,828
In percent of GDP	11.1	15.4	17.8	20.4	19.3	19.3	21.1	21.7	22.2
Overall deficit (-) (broad coverage)									
In millions of cedis	-6,320	-10,346	-12,330	-19,776	-24,819	-27,305	-43,365	-47,948	-50,968
In percent of GDP	-2.3	-3.0	-2.4	-2.8	-3.3	-2.8	-3.7	-3.6	-3.4

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

1/ Includes revenue from other minor taxes.

2/ The budget coverage excludes capital expenditure financed through external project aid, and the corresponding grants and loans.

3/ Provision for redeployment, retraining, and relocation, comprising both current and capital expenditure.

lending to ₵ 23.4 billion, as against ₵ 18.2 billion foreseen in the budget. As in previous years, such outlays were devoted essentially to rehabilitating the country's infrastructure, notably in the areas of transportation and communications. The wage bill amounted to ₵ 35.9 billion, exceeding the budgeted amount by ₵ 1.3 billion; the excess was attributable largely to delays experienced in the implementation of the civil service redeployment program. Nevertheless, in 1987 some 12,000 civil servants were removed from the government payroll, compared with the target of 15,000. Capital expenditure financed through external project aid more than doubled, from ₵ 17.5 billion in 1986 to ₵ 36.8 billion in 1987; apart from the effect of the depreciation of the currency, this sharp increase reflected improvements in absorptive capacity.

Despite the considerable start-up problems encountered by the state enterprise reform program, progress was made in several areas. In particular, by end-December 1987 the authorities completed audits that allowed them to offer for sale the Government's shares in five enterprises, of which four are joint ventures 1/ and the fifth, fully state owned; 2/ thus, the relevant structural benchmark of the program was observed. The authorities also completed audits for the liquidation of five enterprises, but the dossiers of these enterprises and the proposals for the assignment of liquidators were not approved by the Government until March 1988; this entailed a small delay in relation to the target date of end-December 1987 established as a structural benchmark of the program. As regards the enterprises remaining in the Government's portfolio, by end-December 1987 corporate plans were finalized for 6 of the 14 major enterprises, 3/ and these plans were approved by their boards of directors and/or sectoral ministries. Meanwhile, a study of cross-debts and arrears among a larger group of 18 state enterprises and the Government was completed, which indicated that these debts and arrears were owed largely to the Government. A committee has now been established to prepare appropriate settlement plans.

Monetary and credit developments in 1987 were strongly influenced by the improvements in the fiscal position and the balance of payments. As a result of the tight stance of credit policy, particularly during the second half of 1987, the growth of net domestic assets of the banking system relative to the broad money stock at the beginning of the period was reduced from 50 percent in 1986 to 12 percent in 1987 (Table 6), as against 13 percent foreseen in the program. However, broad money rose by 53 percent in 1987, compared with a programmed

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1/ D.L. Steel Ltd.; Neoplan (Ghana) Ltd.; Two Worlds Manufacturing Ltd.; and Willowbrook (Ghana) Ltd.

2/ State Fishing Corporation.

3/ Electricity Corporation of Ghana; Ghaip (refinery); Ghana Oil Company; Ghana Railways Corporation; Ghana Water and Sewerage Corporation; and Volta River Authority.

Table 6. 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
					Prog.	*Act.*	*Prog.*	*Act.*	*Revised Base 2/*	*Prog.*	*Prog.*	*Prog.*	*Prog.*
Net foreign assets 3/	-31.4	-48.7	-130.7	-141.7	-137.1	-141.2	-126.9	-123.0	-128.0	-120.5	-124.1	-118.2	-112.4
Net domestic assets	39.9	67.1	95.1	105.3	111.2	110.0	106.6	104.7	104.7	95.8	118.9	120.8	116.7
Claims on Government (net)	24.2	27.2	29.6	22.2	21.5	20.3	19.5	17.4	17.4	18.0	16.2	14.3	12.5
Cocoa financing	3.6	13.5	16.9	16.5	20.0	19.2	13.3	11.7	11.7	--	21.0	18.0	10.0
Credit to the rest of the economy	13.7	26.0	42.7	55.6	59.7	61.6	62.8	65.0	65.0	65.7	68.7	74.4	79.2
Other items (net)	-1.6	0.4	5.9	11.0	10.0	8.8	11.0	10.7	10.7	12.0	13.0	14.0	15.0
Revaluation account	29.9	41.9	133.1	179.8	179.8	179.8	179.8	179.8	184.8	184.8	184.8	184.8	184.8
Broad money	35.3	56.2	86.4	132.3	142.8	137.4	148.3	150.3	150.3	148.9	168.5	176.2	177.9
Money	21.3	30.2	50.3	95.0	...	101.6	...	110.8	110.8	...	...	...	...
Quasi-money	7.9	12.3	20.6	...	...	35.8	...	39.4	39.4	...	...	...	...
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
Memorandum items:													
GDP at market prices	270.6	343.0	511.4	746.0	...	...	...	...	...	...	958.6	...	...
(percentage change)	47.0	26.8	49.1	45.9	...	...	...	...	...	...	28.5	...	...
Velocity (GDP relative to M2)	7.7	6.1	5.9	5.6	...	...	...	...	...	...	5.7	...	...
Percentage change in net domestic assets 4/	...	77.1	49.8	11.8	...	...	...	...	...	...	10.3	...	...
Percentage change in credit to the rest of the economy 4/	...	34.9	29.7	14.9	...	...	...	...	...	...	10.7	...	...

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

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-June 1988.
3/ During the first half of 1988, measured at the exchange rate prevailing at end-December 1987; thereafter, measured at the end-June 1988 exchange rate.
4/ In percent of broad money at the beginning of the period.

increase of 39.5 percent, owing to a larger-than-anticipated improvement in the net foreign assets position of the banking system. The Bank of Ghana continued to use variable reserve requirements in an effort to mitigate the seasonal fluctuations in cash reserves of the commercial banks. Nonetheless, excess reserves remained high during most of the year, affecting both interest rates and financial intermediation. The liberalization of interest rates, which took effect in September 1987, had no immediate impact on the overall level and structure of interest rates, reflecting not only institutional rigidities and the oligopolistic banking structure but also the excess reserves of the banking system.

Ghana's external payments position registered a major turnaround in 1987. Despite a lower-than-anticipated export volume, cocoa export earnings were slightly higher than had been projected because of an unexpectedly better average export price; it should be noted, however, that world market prices for cocoa beans declined significantly in the course of the year (Table 7). Gold, timber, and nontraditional exports showed substantial increases resulting from favorable price developments and, in the case of timber, a strong expansion in export volume. Thus, total export earnings increased by 10 percent to the equivalent of US$824 million in 1987, with the composition of exports changing appreciably; the share of cocoa in total export earnings declined from 67 percent in 1986 to 60 percent in 1987, whereas that of gold, timber, and nontraditional exports combined rose from 21 percent in 1986 to 29 percent in 1987. At the same time, imports rose markedly, partly because of increased imports financed by traders' own foreign exchange resources, the counterpart of which is recorded under private unrequited transfers. 1/ Although net service payments were higher than had been projected, owing to larger transportation costs and interest payments, the current account deficit, excluding net official transfers, increased from US$203 million in 1986 to only US$224 million in 1987, as against US$286 million envisaged in the program. In relation to GDP, the deficit widened from 3.9 percent in 1986 to 5.0 percent in 1987, but was much lower than the programmed 7.6 percent.

The current account deficit, however, was more than covered by net inflows of official unrequited transfers and capital. Net official unrequited transfers rose from US$118 million in 1986 to US$122 million in 1987, slightly above the projected level. While net capital inflows were smaller than had been envisaged, they still showed a sharp increase, from a low of US$20 million in 1986 to US$255 million in 1987, reflecting a sizable turnaround in short-term capital movements and larger disbursements of official long-term loans. Consequently, the balance of payments registered an overall surplus of US$139 million in 1987, even larger than

1/ The authorities have made substantial revisions in the balance of payments statistics for 1987, reflecting mainly improvements in the trade data, including the coverage of imports.

Table 7. Ghana: Balance of Payments, 1984-92 1/

(In millions of U.S. dollars)

	1984	1985	1986	1987 Prog.	1987 Prov.	1988 Prog.	1989	1990	1991	1992
								Projections 2/		
Exports, f.o.b.	566.7	632.5	749.3	787.3	824.1	815.3	840.7	935.3	1,028.1	1,131.9
Cocoa beans and products	381.7	412.0	503.3	493.5	495.4	426.7	391.0	425.0	442.9	461.4
Gold	103.3	90.6	106.4	132.2	139.8	177.7	216.7	261.9	305.3	341.5
Timber	21.2	27.8	44.1	62.7	89.8	101.4	114.3	120.7	130.1	140.3
Other	60.5	102.1	95.5	98.9	99.0	109.5	118.7	127.7	149.8	188.7
Imports, f.o.b.	-616.0	-671.3	-733.5	-841.3	-933.9	-991.3	-1,073.4	-1,169.3	-1,278.0	-1,396.9
Oil	-161.0	-209.5	-122.6	-161.9	-141.1	-144.9	-160.6	-174.5	-189.6	-206.1
Non-oil	-455.0	-461.8	-610.9	-679.4	-792.7	-846.4	-912.8	-994.8	-1,088.4	-1,190.8
Trade balance	-49.3	-38.8	15.8	-54.0	-109.8	-176.0	-232.7	-234.0	-250.0	-265.0
Services (net)	-229.2	-254.4	-290.9	-284.3	-316.0	-332.2	-337.8	-343.7	-359.3	-378.1
Of which: interest	(-103.3)	(-107.9)	(-105.3)	(-117.8)	(-121.6)	(-136.0)	(-123.9)	(-114.0)	(-111.7)	(-111.0)
Private unrequited transfers (net)	73.5	31.9	72.1	52.4	201.6	212.4	224.3	230.4	230.2	229.9
Current account balance, excluding net official transfers	-205.0	-261.3	-203.0	-285.9	-224.3	-295.8	-346.2	-347.3	-379.1	-413.1
Official unrequited transfers (net)	129.7	104.6	118.2	119.8	122.2	174.8	184.3	201.9	214.6	228.1
Current account balance, including net official transfers	-75.3	-156.7	-84.8	-166.1	-102.1	-121.0	-161.9	-145.4	-164.5	-185.0
Capital account	93.3	62.4	20.0	274.1	255.0	246.0	271.8	255.4	289.5	320.0
Official capital (net)	186.7	32.1	123.1	251.6	217.9	222.2	249.5	261.4	290.5	308.1
Long-term loans	83.6	109.8	226.5	230.0	267.3	265.6	285.8	302.0	323.0	344.6
Inflows	133.4	134.8	256.7	267.1	303.7	300.1	323.0	343.3	364.9	387.8
Amortization	-49.8	-25.0	-30.2	-37.1	-36.4	-34.5	-37.2	-41.3	-41.9	-43.2
Medium-term loans	104.3	-70.3	-92.2	33.3	-36.9	-30.7	-25.1	-37.2	-31.8	-36.5
Inflows	169.5	152.5	128.2	156.8	109.0	142.4	147.1	151.2	151.2	151.2
Amortization	-65.2	-222.8	-220.4	-123.5	-145.9	-173.1	-172.2	-188.4	-183.1	-187.7
Trust Fund	-1.2	-7.4	-11.2	-11.7	-12.4	-12.6	-11.2	-3.4	-0.7	--
Private capital (net)	-8.7	5.8	7.0	8.9	1.7	19.0	33.0	43.0	45.2	47.3
Direct investment	2.0	5.6	4.3	4.7	4.7	20.0	30.0	40.0	42.0	44.0
Suppliers' credits	-10.7	0.2	2.7	4.2	-3.0	-1.0	3.0	3.0	3.2	3.3
Other	--	--	--	--	--	--	--	--	--	--
Short-term capital	-84.7	24.5	-110.1	13.6	35.4	4.8	-10.6	-49.1	-46.2	-35.4
Errors and omissions	19.2	-21.2	8.1	--	-14.5	0.0	0.0	0.0	0.0	-0.0
Overall balance	37.2	-115.5	-56.7	108.0	138.5	125.0	110.0	110.0	125.0	135.0
Financing	-37.2	115.5	56.7	-108.0	-138.5	-125.0	-110.0	-110.0	-125.0	-135.0
Change in net foreign assets	-26.9	107.7	66.1	-120.0	-132.0	-131.5	-110.0	-110.0	-125.0	-135.0
IMF	213.7	122.0	16.1	-17.1	-25.2	-45.3	4.4	16.7	-3.3	-43.3
Purchases	217.9	122.0	37.6	91.5	93.7	97.5	--	--	--	--
Repurchases	-4.2	--	-21.5	-160.9	-174.4	-255.0	-174.7	-108.1	-65.7	-43.3
SAF and ESAF loans	--	--	--	52.3	55.5	112.2	179.1	124.8	62.4	--
Change in arrears (reduction -)	-207.8	-56.7	-3.7	-26.0	-71.6	-30.0	-45.0	-24.8	--	--
Other reserves (increase -)	-32.8	42.4	53.7	-76.9	-35.2	-56.2	-69.4	-102.0	-121.7	-91.7
Bilateral payments agreements	-10.3	7.8	-9.4	12.0	-6.5	6.5	--	--	--	--
Memorandum items:										
Current account deficit (-)										
In percent of GDP										
Including official transfers	-1.0	-2.5	-1.6	-4.3	-2.3	-2.4	-3.4	-3.0	-3.0	-3.0
Excluding official transfers	-2.7	-4.1	-3.9	-7.6	-5.0	-5.9	-7.2	-7.1	-6.9	-6.8
Debt service ratio										
Including IMF	40.3	54.5	47.7	53.8	59.9	75.0	63.9	46.5	39.2	34.0
Excluding IMF	36.0	46.8	36.7	28.2	32.7	38.9	38.1	32.0	30.1	28.2
Cocoa exports (beans)										
Volume (in thousands of tons)	149.6	171.7	195.2	205.2	198.0	160.3	200.0	220.0	230.5	241.4
Price (in US$ per ton)	2,351.3	2,189.1	2,406.5	2,208.4	2,278.0	2,254.1	1,700.0	1,700.0	1,700.0	1,700.0

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

1/ Totals may not match additions due to rounding.
2/ Baseline scenario.

the programmed US$108 million. This outturn, together with a rescheduling by a foreign commercial bank of US$42 million of arrears on letters of credit, enabled the Bank of Ghana to reduce total external payments arrears by US$72 million to US$100 million, compared with a programmed reduction of US$26 million, and to increase its gross international reserves from US$149 million at end-1986 to US$194 million at end-1987.

In 1987 the auction market for foreign exchange continued to function smoothly, with the average supply to the auction amounting to US$3.7 million per week. The cedi depreciated from its pre-auction level of ₵ 90 per U.S. dollar to ₵ 150 per U.S. dollar in February 1987, when the official exchange rates were unified; it depreciated further in terms of the U.S. dollar to ₵ 159 in June and to ₵ 176 in September, and then remained relatively stable through the end of the year. Ghana's nominal and real effective exchange rate indices registered a drop in 1987 of 40.5 percent and 22.9 percent, respectively, compared with a decline of 49.8 percent and 42.4 percent in 1986 (Chart 1).

IV. The Objectives and Policy Framework for 1988-91

In view of the encouraging results achieved during the past four years, and especially in 1987 under the program supported by the extended and SAF arrangements, the Ghanaian authorities have resolved to pursue their reform efforts, with a view to sustaining the growth momentum of the economy and achieving a viable external payments position over the medium term. Accordingly, they have updated and extended Ghana's program of structural and financial adjustment to cover the period 1988-91. As indicated in the PFP, the basic macroeconomic objectives of the program for 1988-91 are the following: (a) to achieve an average annual rate of growth of real GDP of at least 5 percent; (b) to reduce the rate of inflation, on an end-of-period basis, from 34 percent in 1987 to 5 percent in 1991; and (c) to generate substantial overall balance of payments surpluses, averaging US$117.5 million per annum, consistent with the scheduled reduction in the foreign liabilities of the Bank of Ghana, the elimination of the remaining external payments arrears by the end of 1990, and a significant increase in gross international reserves by the end of 1991. In addition, an important dimension of the program that stems from the experience of recent years 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 the retrenched public sector employees.

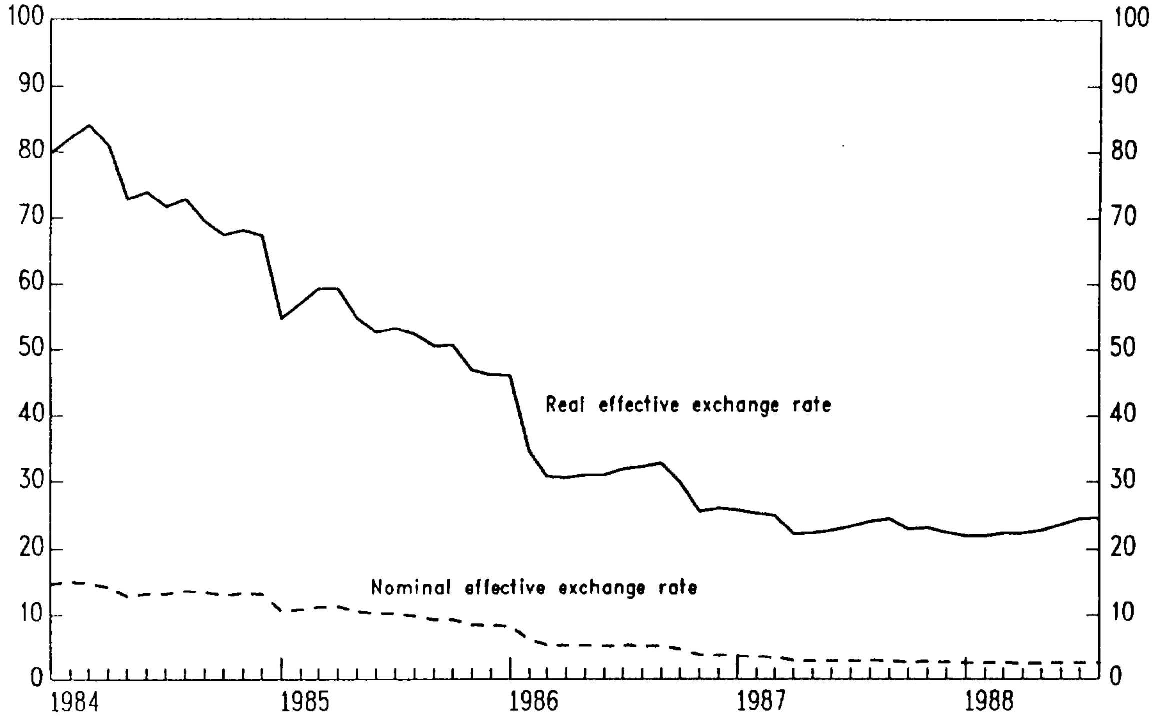
To attain these basic objectives, the authorities have placed high priority on alleviating, if not resolving, the major structural and financial problems still facing the economy. Thus, the program involves not only a reinforcement of the judicious macroeconomic policies pursued in recent years but also an acceleration of structural reforms, a strengthening of the institutional framework, and the implementation of a broadly based economic development strategy. In particular, the program comprises: (a) further improvements in incentives for efficient

CHART 1

GHANA

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, 1984-88

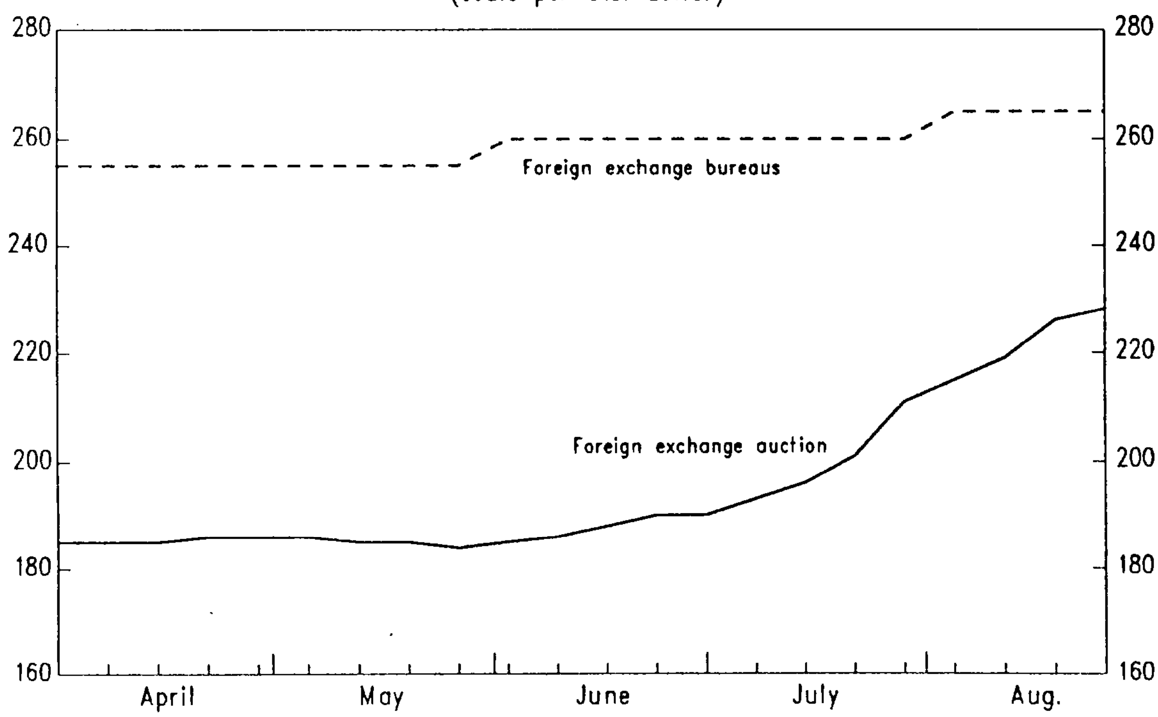
(1980=100)



Source: IMF, Information Notice System.

FOREIGN EXCHANGE RATES, APRIL-AUGUST 1988

(Cedis per U.S. dollar)



Source: Bank of Ghana.

production, export, and import substitution through a continuation of a flexible exchange rate policy, exchange and trade liberalization, and higher agricultural producer prices; (b) increased investment for the rehabilitation and restructuring of productive capacity, infrastructure, and social services; (c) measures to strengthen the efficiency and equity of the tax system, as well as to improve government expenditure controls and the allocation of resources; (d) an acceleration of state enterprise reform; (e) a comprehensive financial sector reform, including a restructuring and rehabilitation of the financially troubled commercial and development banks; and (f) improvements in public sector management, geared toward promoting efficiency and strengthening program implementation and monitoring. A summary and time frame of the authorities' macroeconomic and structural adjustment policies for the entire program period are provided in Table 2 attached to the PFP.

1. The economic development strategy and the sources of growth

The economic development strategy underlying the program envisages a substantial increase in investment, as well as further improvements in the allocation of resources. Thus, gross investment is programmed to grow from the equivalent of 10.8 percent of GDP in 1987 to 17.3 percent in 1991 (Table 4). Public investment through the government budget, which amounted to 8.1 percent of GDP in 1987, is programmed to increase to 11.1 percent in 1991, while private investment is projected to rise from 2.7 percent of GDP to 6.2 percent. Consistent with this strategy, the authorities are implementing the public investment program for 1988-90 along the lines described below; adoption of this program, in early 1988, was a structural benchmark under the SAF arrangement. The authorities are also taking steps to promote private investment in directly productive activities.

To finance these higher levels of investment, domestic savings are programmed to rise from the equivalent of 9.0 percent of GDP in 1987 to 14.3 percent in 1991. Accordingly, the Government's fiscal strategy aims at generating an increasing surplus on current operations, and state enterprise reform is geared toward mobilizing additional resources to finance rehabilitation and other priority investments. Moreover, the growth in private disposable income, together with the comprehensive financial sector reform and the movement toward positive real interest rates, is expected to promote private savings. The remaining financing needs of the projected investments are expected to be met through external assistance from both bilateral and multilateral sources. In this respect, the external aid commitments already made by Ghana's major creditors and donors have been encouraging. Furthermore, as noted earlier, the next meeting of the Consultative Group for Ghana in early 1989 is expected to consider the additional external assistance required to support Ghana's program of structural and financial reforms.

This strategy will be coupled with the implementation of appropriate sectoral adjustment policies in agriculture, industry, health, and education, as well as transportation and communications, as described in the PFP. Thus, it is envisaged that the achievement of the targeted average annual rate of real GDP growth of at least 5 percent will be broadly based, involving a strong performance from most sectors of the economy.

The agricultural sector, which accounts for about one half of GDP, will continue to play a dominant role. With the return of normal weather conditions, this sector is expected to rebound during the second half of 1988 and to grow on the average by more than 3 percent per annum during 1989-91. Output of food crops is projected to increase significantly as a result of productivity gains to be realized through improvements in the supply of inputs, the introduction of proven technological packages, and the strengthening of support services. Production of cocoa, which suffered from the recent drought, is also projected to grow appreciably in response to the better domestic price incentives and cultivation practices, as well as to the use of high-yield and disease-resistant plant varieties. The authorities have indicated that cocoa production policy in the period ahead will be guided by the need to maintain Ghana's share in the world cocoa market and to ensure an adequate level of foreign exchange earnings. At the same time, timber production, which has responded strongly to rehabilitation programs, will continue to expand, though at a relatively moderate pace, consistent with sustained yield management of the country's forestry resources.

The industrial sector, which represents some 16 percent of GDP, is projected to grow at an average annual rate of 11 percent during 1988-91, with the increases in mining and manufacturing output averaging 17 percent and 10 percent, respectively. A sharp expansion in mining production is expected to result from the recent rehabilitation and modernization of Ghana's gold mines, along with the opening of new ventures by private investors. Meanwhile, measures aimed at facilitating the purchase and sale of gold through licensed dealers should encourage small-scale miners to reorient their activities increasingly toward official channels. Manufacturing output is also expected to register substantial increases, based on an improved availability of raw materials and spare parts. The best prospects in the manufacturing sector appear to lie with domestic resource-based activities, which can replace other activities that have ceased to be profitable under the liberalized exchange and trade system.

The services sector, which accounts for about one third of GDP, is projected to increase at an average annual rate of 7 percent during the program period. Within this sector, transportation is expected to benefit from the rehabilitation of infrastructure facilities. With the expansion in domestic production and imports, wholesale and retail trade should also grow appreciably. Similarly, the financial services sector should benefit from the planned improvements in the efficiency and operating standards of the banking system.

2. Pricing policies and tariff reform

To improve the incentive framework in the economy, the Government has reduced markedly the number of goods and services subject to statutory price controls, and most subsidies have been eliminated. Although some items still subject to controls are considered sensitive, the Government intends to re-examine the rationale for the remaining statutory price controls with a view to eliminating most of them by the end of June 1990. 1/

The Government also intends to pursue a policy aimed at strengthening agricultural production incentives, consistent with world market trends and the fiscal targets of the program. To this end, the producer price for cocoa (excluding any bonus) was raised from ¢ 85,000 per metric ton for the 1986/87 crop year to ¢ 140,000 per metric ton for the 1987/88 crop year; thus, the share of the cocoa producer price in the export price f.o.b. increased from 25 percent to an estimated 40 percent, respectively. At the same time, producer prices of other cash crops were raised substantially. In determining the cocoa producer price for the next crop year, the authorities faced a serious dilemma because of the steady and pronounced decline in world cocoa prices, as well as the uncertain outlook of the market. Nevertheless, the producer price for cocoa was raised for the 1988/89 crop year to ¢ 165,000 per metric ton, representing a 50 percent share of the projected export price f.o.b. In the event that export prices in local currency terms are higher than anticipated, 60 percent of the additional receipts will accrue to the cocoa farmers and the remaining 40 percent to the government budget. In line with the results of a study on cocoa incentives prepared by the Cocoa Board with World Bank assistance, the authorities plan to increase the cocoa producer price further for the 1989/90 crop year to an indicative target of 55 percent of the long-run world market price. Barring adverse weather conditions, these increases in cocoa producer prices, coupled with adequate extension services, should contribute to the attainment of the targeted expansion in marketed output of cocoa beans from 183,000 metric tons in 1987/88 to some 260,000 metric tons in 1990/91.

In support of the policy of progressively raising producer prices, the Cocoa Board has been taking steps to improve the efficiency of its operations. Under its corporate plan for 1987/88-1990/91, on the basis of which a performance agreement was signed with the Government in February 1988, the Cocoa Board is expected to reduce its operating costs to an indicative target of 15 percent of the export price f.o.b. in 1988/89, compared with 22 percent in 1986/87. To this end, additional economies are to be made through reductions in staff, a phased elimination of subsidies on agricultural inputs, and cutbacks in the Board's

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1/ Apart from the tariffs set for public utilities, statutory price controls now apply to cement, imported rice, matches, matchetes, pharmaceuticals, soap, sugar, and textiles.

activities that are unrelated to its basic purchasing, marketing, research, and extension service functions. After reducing its staff size by 11,960 in 1987, the Board intends to effect an additional cutback of 5,000 (or 12 percent) in 1988. Moreover, in June 1988 the Cocoa Board raised its prices for key agricultural inputs, notably fertilizers and insecticides. The objectives and measures followed in the cocoa sector are being supported by a rehabilitation project financed by the World Bank, the African Development Bank, the Arab Bank for Economic Development in Africa, and the United Kingdom.

Although Ghana's tariff structure provides for a relatively uniform and moderate level of protection, distortions are caused by the incidence of other taxes, particularly excise duties, on domestic production and imports. For this reason, several reform measures were introduced in the context of the 1988 government budget. In the period ahead, the Government intends to continue to improve incentives for efficient export and import substitution by introducing a lower and more uniform pattern of protection. This goal is to be achieved by equalizing the sales tax rate on domestically produced and imported excisable products, reviewing the costs and benefits of selective duty concessions on imported inputs with a view to eliminating them, further reducing the highest import duties, and simplifying the rate structure.

3. Fiscal policy

The Government's fiscal strategy under the program will be geared toward mobilizing a large part of the domestic resources needed to finance structural reform and rehabilitation in the social and economic sectors. Thus, the surplus on government operations, excluding capital expenditure financed through external project aid, which is expected to amount to ₵ 3.9 billion (0.4 percent of GDP) in 1988, is programmed to rise steadily to ₵ 6.5 billion (0.6 percent of GDP) in 1989, ₵ 10.2 billion (0.8 percent of GDP) in 1990, and ₵ 14.1 billion (0.9 percent of GDP) in 1991 (Table 5). Taking account of capital expenditure financed through external project aid, the overall deficit, which is estimated to amount to 2.8 percent of GDP in 1988, is projected to rise to 3.7 percent in 1989, before declining to 3.4 percent in 1991; the moderate widening of the overall deficit during the program period reflects the change in the pattern of financing from foreign grants to highly concessional loans. Nevertheless, as a result of the resources generated in the budget, the Government would be in a position to retire some ₵ 8.0 billion of its debt to the banking system each year during 1989-91, as well as additional amounts of debt to domestic nonbank institutions. Therefore, the budget would be performing an important intermediation function, enabling banks and other institutions to provide adequate loanable funds for productive use by the rest of the economy.

The reform of the tax system will be continued with a view not only to mobilizing additional domestic resources but also to promoting efficiency and equity. Unlike the early phase of Ghana's adjustment program, in which primary emphasis needed to be placed on raising the tax to GDP ratio from the prevailing very low levels, an important additional objective of the reform to be implemented during 1988-91 will be to reduce distortions by altering the structure of tax revenue in favor of domestic taxes. In the area of income and company taxes, a major goal will be to spread the burden of taxation more widely and equitably. The tax burden on the employed and self-employed is to be further lowered, mostly by increasing the standard exemptions and by sharply reducing marginal tax rates. Disparities in the taxation of interest, dividends, and capital gains are also to be reduced with a view to rationalizing the allocation of savings and investment, while promoting equity. On the basis of a study to be undertaken shortly, the authorities plan to lower capital income taxes to promote savings and investment in the private sector. At the same time, in order to protect revenue, the base for the personal income tax will be progressively expanded to include cash and realistically valued in-kind benefits. A key element of the reform strategy is to transform the sales tax into a major source of revenue through changes in the rate structure and a broadening of its base. As a means of encouraging greater compliance and facilitating the broadening of the base, the authorities are examining the introduction of a "credit" system to replace the current "ring" system, which exempts the tax on purchases by registered firms. To enhance revenue mobilization, excise and other duties on alcoholic beverages, cigarettes, and petroleum products will be increased substantially. Meanwhile, steps are being taken to strengthen tax administration and management, notably in the areas of registration, collection and assessment procedures, staffing, and training. Taxpayer master files are being updated and plans are under way for introducing unique taxpayer identification numbers that will facilitate cross-checking between the different revenue departments and other agencies. Adequate computer-based information, management, and processing systems, which are essential to an improved and modernized tax administration, will also be put in place, while the operations, planning, and management of the revenue departments are to be reinforced.

As indicated above, government expenditure policy will be designed to meet the requirements of structural reform and adjustment, consistent with the availability of domestic and foreign resources. In this regard, considerable progress has already been made in rationalizing public spending. For 1988-91, the objectives of government expenditure policy will be (a) to raise average salaries in the civil service in order to reduce the wide disparities with the private sector, especially for the more highly skilled employees, while ensuring that the wage bill does not exceed 5.5 percent of the projected nominal GDP in 1988-89 and 6.0 percent in 1990-91; (b) to make adequate appropriations for operating and maintenance outlays, particularly in the priority areas of agriculture, health, and education; and (c) to increase capital expenditure and net lending in accordance with the public investment program and consistent with the availability of resources on highly concessional terms. The authorities will ensure a timely and comprehensive preparation of the government budget, and will continue to improve the monitoring of its implementation. As regards the appropriations for operations and maintenance, the preliminary budgetary guidelines that are now being issued will be further developed to include norms for more effective budgeting and monitoring. In addition, midyear reviews will be conducted to examine recurrent expenditure trends and to update information on the implementation of the budget; on the basis of these reviews, timely corrective actions will be initiated when required.

4. Public investment program

The public investment program (PIP) for 1988-90, which was prepared with World Bank assistance, focuses on rehabilitating Ghana's economic and social infrastructure, with a view to alleviating bottlenecks that impede growth and to supporting private sector activities. Of the total projected expenditure of ₵ 363.0 billion (in constant 1988 prices) foreseen in the PIP, 59 percent is allocated for the rehabilitation and development of economic infrastructure, mainly roads, highways, and other transportation and communications facilities; 31 percent for the strengthening of the directly productive sectors, especially the cocoa and gold sectors; and 10 percent for improving basic health and education facilities, as well as for promoting local government and community development (Table 8). In 1988 public investment is programmed to amount to ₵ 100.3 billion (10.5 percent of GDP), with ₵ 63.0 billion allocated for economic infrastructure, ₵ 25.8 billion for the directly productive sectors, and ₵ 11.5 billion for the social and administrative sectors. Some 60 percent of these outlays is to be financed from external loans and grants, and the balance from domestic resources. Public investment is expected to rise to about ₵ 134.4 billion in 1989.

To consolidate the improvements made in investment planning, the Ministry of Finance and Economic Planning will continue to prepare rolling three-year PIPs in close collaboration with the sectoral ministries. Accordingly, procedures have been established for selecting new projects for inclusion in the PIPs, covering the respective roles of the Ministry of Finance and Economic Planning, the sectoral ministries, and other agencies. The PIP for 1989-91 should be ready for implementation no later than the end of March 1989.

5. State enterprise reform

The reform of the state enterprise sector, which encountered considerable start-up problems in 1987, will be substantially accelerated under the program. To improve the efficiency of this sector and reduce the managerial and financial burden that state enterprises place on public resources, the reform involves two key elements: (a) a divestiture program for the liquidation, sale, or conversion to joint ventures of selected enterprises; and (b) the improvement of the operations and financial position of a number of other enterprises, such as public utilities, which are considered of strategic national interest and will remain in the Government's portfolio. To date, the authorities

Table 8. Ghana: Public Investment Program, 1988-90

(In millions of cedis at 1988 prices)

	1988-90		1988	
	Investment by sector	Percentage distribution	Investment by sector	Percentage distribution
Directly productive sectors	112,593	31.0	25,755	25.7
Agriculture	(42,212)	(11.6)	(11,722)	(11.7)
Industry	(25,943)	(7.1)	(4,413)	(4.4)
Mining and forestry	(44,438)	(12.2)	(9,620)	(9.6)
Economic infrastructure	214,460	59.1	63,020	62.9
Water	(21,664)	(6.0)	(2,705)	(2.7)
Transportation and communications	(62,467)	(17.2)	(23,913)	(23.9)
Energy	(44,051)	(12.1)	(12,850)	(12.8)
Roads and highways	(66,092)	(18.2)	(19,025)	(19.0)
Works and housing	(20,186)	(5.6)	(4,527)	(4.5)
Social and administrative sectors	35,935	9.9	11,473	11.4
Education	(9,655)	(2.7)	(4,701)	(4.7)
Health	(14,048)	(3.9)	(2,537)	(2.5)
Local government and community development	(5,183)	(1.4)	(1,914)	(1.9)
Other	(7,049)	(1.9)	(2,321)	(2.3)
Total	362,988	100.0	100,248	100.0

Source: Data provided by the Ghanaian authorities.

have advertised 32 enterprises for divestiture, and they have initiated measures to improve the operations of 14 major enterprises to be kept in the Government's portfolio; together, these enterprises account for a large share of the total assets of the state enterprise sector, as well as of its contribution to GDP. In order to accelerate the state enterprise reform, steps have been taken to strengthen the State Enterprise Commission (SEC) as the coordinating and monitoring agency of the reform process, and a Divestiture Implementation Committee (DIC) has been established. These entities are being supported by a public enterprise project, financed by the World Bank, which covers the costs of technical assistance, training, and equipment.

As regards the divestiture program, the preparatory work involved in auditing the selected enterprises and valuing their assets proved much more difficult and time-consuming than had been anticipated. With the completion of much of this preparatory work, the divestiture program is now expected to gain momentum. Moreover, to make the enterprises that are to be divested more attractive to potential investors, the Government has decided to bear the cost of the unfunded liabilities related to the redeployment of their excess staff. Apart from these steps, the Government has taken several divestiture measures in the context of its sectoral reform programs. Thus, the Cocoa Board has divested majority ownership of its insecticide plant, and is selling 52 of its 92 plantations through the DIC. In addition, the heretofore fully state-owned Ghana Cotton Company has been transformed into a joint venture with six private companies. Finally, the Government plans to divest some of its interests in a number of profit-making enterprises in the mining sector.

As to the enterprises remaining in the Government's portfolio, further progress is to be made in improving their operations and financial position. Corporate plans and performance agreements will continue to serve as the principal means by which the management and financial performance of these enterprises will be monitored and strengthened. Under the program, updated corporate plans will be prepared and performance agreements signed by the end of each year. These will provide, inter alia, for the settlement of cross-debts and arrears between state enterprises and the Government, which are predominantly in favor of the latter. In the policy area, criteria and procedures have been established regarding government budgetary transfers to cover state enterprise losses; such transfers are to be largely eliminated by the end of the program period. In addition, the authorities are reviewing the existing laws, regulations, and procedures governing state enterprises, with the objective of introducing changes that would increase their managerial autonomy and accountability, especially in wage, staffing, and procurement decisions.

6. Civil service reform and public sector management

The achievement of the authorities' basic objectives will depend importantly on the ongoing civil service reform and, more generally, on the strengthening of public sector management. To improve efficiency, the reform of the civil service aims at gradually eliminating overstaffing and at improving incentives, especially with a view to attracting and retaining highly skilled staff. On the basis of the preliminary results of a staffing and functional review, the Government intends to discharge or retire at least 12,000 employees each year in 1988 and 1989, but the net reduction of the civil service is expected to be slightly lower, owing to the need to recruit skilled personnel for higher-level positions. As regards salary policy, while providing appropriate general increases each year, the Government plans to further widen the differential between the highest and lowest paid employees. In this regard, externally financed consultants have recommended increasing the differential to 13:1 by 1991, compared with 5.7:1 in 1986. However, the magnitude of any general and selective salary increases will need to be fully consistent with the macroeconomic framework of the program.

To strengthen public sector management, emphasis is being placed on improving the organizational structure and operations of the Ministry of Finance and Economic Planning, as well as of other ministries and agencies concerned with economic and financial matters. To promote a more effective budgetary process, the various task forces in the Finance Ministry will be better integrated with the regular departments, and any duplication of functions will be eliminated. Furthermore, the responsibilities of other agencies involved in the budgetary process will be re-examined.

7. Monetary policy and financial sector reform

Monetary and credit policies under the program 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 broad money stock at the beginning of the period is to be reduced from 12 percent in 1987 to 4 percent in 1991 (Table 4). Nevertheless, in view of the sizable net repayments of the Government to the banking system, the program would allow credit to the rest of the economy (excluding financing of the operations of the Cocoa Board and other items (net)) to increase broadly in line with the projected growth in nominal GDP. The rate of monetary expansion is expected to decelerate sharply, from 53 percent in 1987 to 14 percent in 1991, which should help bring inflation under control; this assumes a modest decline in velocity in response to a movement toward significantly positive real interest rates. However, the authorities recognize that, should difficulties emerge in reaching the inflation target, additional measures will need to be taken, including a further tightening of monetary policy.

Although the Bank of Ghana continues to rely largely on direct credit controls, during the program period it will seek to put in place a system of indirect controls to regulate the overall expansion of liquidity. In the meantime, to influence money market conditions and reduce excess reserves of commercial banks, the Bank will use its discount and lending rates more actively. The Bank will also gradually phase out its financing of the operations of the Cocoa Board. Guidelines are being developed to enhance the role of the Discount House, and steps will be taken to operate the treasury bill auction as a unified market.

In view of the serious problems facing a number of banking institutions, notably the substantial volume of nonperforming loans in their portfolios, a major component of the program will be the implementation of a comprehensive financial sector reform. As a first step in this process, diagnostic studies have been completed for the three development banks and six major commercial banks to determine the magnitude of their operational and financial problems and to formulate the requisite remedial measures. On the basis of these studies, restructuring plans will be prepared for the financially troubled banks, covering both capital losses and recapitalization where necessary; and the nonperforming loans of the banks will be progressively reduced. The financial requirements for restructuring the banks are estimated to amount to some US$280 million over the next three years. Of this amount, the World Bank is expected to provide US$95 million from the recently approved Financial Sector Adjustment Credit; cofinancing of US$125 million is *being secured from the African Development Bank, Japan, and Switzerland*; and the Government of Ghana is to provide the equivalent of US$60 million, principally through the conversion of loans into equity and the repayment of government-guaranteed loans to state enterprises. Private capital will also be mobilized for the recapitalization needs of selected banks.

8. External sector policies and balance of payments outlook

As indicated at the outset, a key element of Ghana's structural and financial reforms since April 1983 has been the implementation of a flexible exchange rate policy, coupled with a progressive liberalization of the exchange and trade system. Under the program for 1988-91, the authorities intend to continue this process, with a view to achieving a realistic and unified exchange rate system, as well as a full liberalization of payments and transfers for current international transactions.

To improve the operation of the exchange system, with effect from February 1, 1988, commercial banks and other dealers have been authorized to engage in the purchase and sale of foreign exchange, at freely determined prices, through separately instituted foreign exchange bureaus. Initially, there was a substantial differential between the exchange rate of the auction market and the rates quoted by the foreign exchange bureaus. However, as indicated below, the differential has narrowed markedly in recent months. In this regard, it should be noted that the operations of the auction market and the foreign exchange bureaus give rise to multiple currency practices that are subject to Fund approval under Article VIII, Sections 2(a) and 3. The authorities' objective is to achieve a rapid convergence of the exchange rates in both markets by further widening access to the auction market and by increasing the number of foreign exchange bureaus to promote competition.

The authorities have continued to take steps to liberalize the exchange and trade system. With effect from February 5, 1988, all remaining imports under the Special Import License scheme were moved 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. This has made the existing administrative arrangements for import licensing largely superfluous, and hence such licensing is to be abolished shortly. Furthermore, with effect from February 29, 1988, all bona fide requests for foreign exchange required for business travel (up to a maximum of US$3,000 per trip) became eligible for funding through the auction. Under the program, full liberalization of payments and transfers for current international transactions is to be achieved by the end of June 1990.

With the effective implementation of the structural and financial policies described above, supported by adequate external financial assistance, Ghana's external payments position is expected to continue to improve over the medium term. Thus, according to the baseline scenario underlying the program, Ghana could attain a viable balance of payments position by the end of 1990, while ensuring increases in imports consonant with the targeted growth of real GDP. It should be emphasized, however, that the balance of payments outlook is sensitive to changes in the external environment and in domestic adjustment policies. For this reason, alternative scenarios for the balance of payments are also discussed below.

Under the baseline scenario, which is set out in Table 7, the average export price of cocoa beans is expected to decline only slightly in 1988 to US$2,254 per metric ton. Although world market prices for cocoa have continued to drop sharply in 1988, Ghana's cocoa export earnings thus far have been relatively protected by a judicious policy of forward sales in pounds sterling; Ghana's cocoa also continues to enjoy a substantial premium in the world market. However, in view of the depressed world market conditions, the average export price is projected to plummet to US$1,700 per ton in 1989 and to remain at that level throughout the program period. Consequently, while cocoa export volume is expected to recover in 1989 from the adverse impact of the recent drought and to grow thereafter at an annual rate of about 5 percent, cocoa export earnings in 1991 will still be well below the 1987

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

level. By contrast, earnings from other exports, notably minerals and nontraditional exports, are projected to increase rapidly, more than compensating for the unfavorable cocoa outlook. Export earnings from gold, the second most important export, are expected to more than double during 1988-91, owing to the successful rehabilitation of two mines and the opening up of new mining ventures, as well as to a projected substantial increase in prices. Timber export earnings, which tripled during 1986-87, will also continue to grow, albeit at a moderate average rate of 11 percent per annum. The baseline scenario assumes that the volume of non-oil imports will increase by only 1 percent in 1988, as a significant rise in imports of capital and intermediate goods will be largely offset by an expected decline in food imports; thereafter, non-oil imports are programmed to grow by 5 percent annually, consistent with the targeted increase in real GDP. It is also assumed that non-oil import prices will increase by 4 percent annually. The crude oil import price, estimated at US$17 per barrel for 1988, is projected to increase on the average by somewhat more than 3 percent a year during 1989-91. On the basis of these export and import projections, the trade deficit is expected to average US$223 million per annum during 1988-91, compared with US$110 million in 1987. At the same time, the deficit on the services and private transfers accounts taken as a whole is projected to widen somewhat, despite the increase in private transfers that should result from a more liberal exchange system. Therefore, the current account deficit, excluding net official transfers, is expected to increase from US$224 million in 1987 to US$379 million in 1991; in relation to GDP, the deficit would rise from 5.0 percent in 1987 to 6.9 percent in 1991.

The prospective current account deficits, however, are projected to be amply covered by net inflows of official transfers and capital averaging about US$460 million per year during 1988-91. In view of the existing pipeline of concessional assistance and anticipated new commitments, official grants and long-term loan disbursements are expected to average US$530 million annually, inclusive of resources to be mobilized through the Special Program of Assistance. Of this amount, World Bank disbursements would account for an average of US$182 million per year. Meanwhile, private capital inflows are projected to increase significantly, in view of the recent granting of mining concessions to several foreign investors. As a result, the balance of payments would continue to register substantial surpluses over the program period, amounting on the average to US$117.5 million per year. These surpluses, coupled with the projected disbursements under the proposed ESAF arrangement, would permit the Bank of Ghana to discharge all its financial obligations on schedule, to eliminate all the remaining external payments arrears by the end of 1990, and to build up its gross international reserves from the equivalent of about 10 weeks of imports at the end of 1987 to 16 weeks of imports at the end of 1991.

Although Ghana's total external public debt will increase significantly over the program period, the maturity profile of the debt will be greatly improved (Table 9). As the authorities intend to rely largely

Table 9. Ghana: External Public Debt and Debt Service, 1986-92 1/

	1986	1987 Prov.	1988	1989	1990 Projections	1991	1992
	(In millions of U.S. dollars; end of period)						
External public debt							
Medium-term debt	482.3	543.8	503.5	431.7	386.2	354.3	317.8
Previously rescheduled 2/	170.8	184.2	139.7	123.7	108.2	93.0	77.0
Other	311.5	359.6	363.8	308.0	278.0	261.3	240.8
Long-term debt	1,231.1	1,611.4	1,877.0	2,162.8	2,464.9	2,787.9	3,132.4
Bilateral loans	488.6	557.2	739.5	922.1	1,102.4	1,282.6	1,461.8
Multilateral loans	742.5	1,054.2	1,137.5	1,240.7	1,362.5	1,505.3	1,670.7
IMF	779.1	834.2	776.2	769.5	782.8	778.8	735.5
Tranche policies/CFF	747.6	749.2	591.7	417.0	309.0	243.2	199.9
Trust Fund/SAF/ESAF	31.5	84.9	184.5	352.4	473.8	535.5	535.5
Arrears	171.4	99.8	69.8	24.8	--	--	--
Total	2,663.9	3,089.2	3,226.5	3,388.8	3,633.8	3,921.0	4,185.7
	(In percent of total; end of period)						
Medium-term debt	19.4	18.2	16.0	12.8	10.6	9.0	7.6
Of which: previously rescheduled	(6.9)	(6.2)	(4.4)	(3.7)	(3.0)	(2.4)	(1.8)
Long-term debt	49.4	53.9	59.5	64.3	67.8	71.1	74.8
Of which: multilateral loans	(29.8)	(35.3)	(36.0)	(36.9)	(37.5)	(38.4)	(39.9)
IMF	31.3	27.9	24.6	22.9	21.5	19.9	17.6
	(In millions of U.S. dollars)						
External public debt service							
Principal	283.3	404.1	521.9	442.0	349.5	291.3	274.3
Medium-term	220.4	180.9	219.8	218.9	196.7	183.1	187.7
Long-term	30.2	36.4	34.5	37.2	41.3	41.9	43.2
IMF repurchases	32.7	186.8	267.6	185.9	111.5	66.4	43.3
Interest	101.1	121.5	136.0	123.9	114.0	111.7	111.0
Medium-term	24.1	39.0	50.4	38.1	30.9	28.3	25.4
Long-term	22.0	30.2	36.4	43.3	49.3	55.8	62.6
IMF charges	55.0	52.3	49.2	42.5	33.7	27.6	22.9
Total	384.4	525.7	657.9	565.9	463.5	403.0	385.3
Memorandum items:							
Debt service ratios 3/							
Including IMF	47.7	59.9	75.0	63.9	46.5	39.2	34.0
Excluding IMF	36.7	32.7	38.9	38.1	32.0	30.1	28.2

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

1/ Including medium-term debt of the Bank of Ghana to foreign commercial banks.
2/ Originally medium-term debt.
3/ In percent of exports of goods and services.

on grants and highly concessional loans to finance the current account deficits, while settling short- and medium-term obligations, the share of such obligations in the total debt will decline appreciably. Thus, it is projected that long-term debt will represent 71 percent of the total debt at the end of 1991, compared with 54 percent at the end of 1987. The improvement in the debt profile, together with the projected increase in exports of goods and services, is expected to reduce the debt service ratio, including financial obligations to the Fund, from a high of 75 percent in 1988 to 39 percent in 1991; excluding financial obligations to the Fund, the debt service ratio is expected to decline from 39 percent in 1988 to 30 percent 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.

In view of the sensitivity of the balance of payments to changes in the external environment and in domestic adjustment policies, three alternative scenarios are presented in Table 10 to illustrate the effects of lower cocoa export prices (Scenario A), higher export volume growth (Scenario B), and higher import volume growth (Scenario C). A decline of the cocoa export price by 12 percent from the level assumed in the baseline scenario to US$1,500 per metric ton as of 1989 will reduce export receipts by some US$50 million each year. In that event, the current account deficit in relation to GDP would deteriorate by 0.9-1.0 percentage point per annum, and financing gaps totaling US$148 million would emerge in 1989-91; these gaps could be closed through a combination of additional domestic adjustment measures and external financing, including possible cancellations of official bilateral debt. Scenario B indicates that if export volume growth were to be somewhat higher than the rate envisaged for 1990-91, amounting to 10-11 percent, the current account deficit would improve by 0.6 percentage point of GDP in 1991. This highlights the importance of a sustained export promotion policy as a necessary condition for achieving a strong balance of payments position over the longer term. Scenario C suggests that if the volume of imports were to grow at twice the rate foreseen in the baseline scenario, possibly as a result of a relaxation of the authorities' reform efforts, there would be financing gaps totaling US$360 million in 1989-91; such gaps would be clearly unsustainable.

9. Social dimension of the program

Since the inception of Ghana's reform program in April 1983, large segments of the population have benefited from the substantial increase in domestic production and imports, the apparent redistribution of income in favor of the rural areas, the reduction of distortions, and the moderation of inflation. Moreover, the allocations of increased government resources to investment for the rehabilitation of essential infrastructure, as well as to operations and maintenance in the priority sectors of agriculture, health, and education, have favored the bulk of the population. The groups that have been adversely affected by the program have been mainly those that relied on windfall profits and rents under the previously restrictive economic environment. Although some of

Table 10. Ghana: Medium-Term Outlook of the Balance of Payments, Alternative Scenarios, 1988-92

(In percent, unless otherwise specified)

	1988	1989	1990	1991	1992
			Baseline scenario 1/		
Cocoa export price 2/	2,254	1,700	1,700	1,700	1,700
Export volume growth	0.9	21.2	9.8	6.9	5.6
Import volume growth	1.5	4.0	5.5	5.0	5.0
Current account to GDP ratio	-2.4	-3.4	-3.0	-3.0	-3.0
Debt service ratio 3/	75.0	63.9	46.5	39.2	34.0
Financing gap 4/	--	--	--	--	--
			Scenario A (Lower cocoa export price)		
Cocoa export price 2/	2,254	1,500	1,500	1,500	1,500
Export volume growth	0.9	21.2	9.8	6.9	5.6
Import volume growth	1.5	4.0	5.5	5.0	5.0
Current account to GDP ratio	-2.4	-4.3	-4.0	-3.9	-3.9
Debt service ratio 3/	75.0	67.4	49.0	41.3	35.8
Financing gap 4/	--	46.0	50.0	52.1	54.3
			Scenario B (Higher export volume growth)		
Cocoa export price 2/	2,254	1,700	1,700	1,700	1,700
Export volume growth	0.9	21.2	10.2	10.5	10.9
Import volume growth	1.5	4.0	5.5	5.0	5.0
Current account to GDP ratio	-2.4	-3.4	-2.9	-2.4	-1.2
Debt service ratio 3/	75.0	63.9	46.4	37.2	31.0
Financing gap 4/	--	--	-3.2	-33.9	-114.6
			Scenario C (Higher import volume growth)		
Cocoa export price 2/	2,254	1,700	1,700	1,700	1,700
Export volume growth	0.9	21.2	9.8	6.9	5.6
Import volume growth	1.5	10.0	10.0	10.0	10.0
Current account to GDP ratio	-2.4	-4.6	-5.3	-6.4	-7.6
Debt service ratio 3/	75.0	63.9	46.5	39.2	34.0
Financing gap 4/	--	58.5	113.7	187.8	278.3

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

1/ Based on the scenario presented in Table 7.
2/ In U.S. dollars per metric ton of cocoa beans.
3/ Including the IMF; in percent of exports of goods and services.
4/ In millions of U.S. dollars.

the labor force has also been adversely affected by retrenchment in the public sector, the Government's redeployment program is helping to ease the necessary transition.

Nevertheless, the authorities recognize that in the short term, economic growth and the developmental focus of their public investment program cannot dramatically alter the conditions of the poorest and most vulnerable groups in Ghana. Rather, it is only in the longer term that sufficient employment and increased incomes can be generated for this purpose. In the circumstances, the authorities have recently developed and begun implementing a special program of actions to mitigate the social costs of adjustment (PAMSCAD). This program seeks to address in a systematic manner the more immediate needs of the poorest and most vulnerable groups, particularly small farmers, the urban unemployed, and the retrenched public sector employees. PAMSCAD comprises community initiative projects, training and employment generation programs, and projects to enhance access by the poor to basic services in the areas of health, education, nutrition, and shelter. The projects, which were selected with assistance from a number of multilateral and bilateral agencies, are intended to have a strong poverty alleviation focus, high social rates of return, modest institutional requirements for speedy implementation, and high visibility designed to enhance the sustainability of the entire reform effort. To meet the financial requirements of PAMSCAD, estimated at US$85 million, the Government convened a donors' conference in Geneva in February 1988. The donors fully endorsed the proposals contained in PAMSCAD, and made substantial pledges of financial support for the implementation of the program over the next two to three years.

V. The Program for 1988-89

Consistent with the medium-term framework of the program, the basic macroeconomic objectives for the period immediately ahead are the following: (a) to achieve a growth rate of real GDP of 5.5 percent in 1988 and at least 5 percent in 1989; (b) to reduce the rate of inflation, on an end-of-period basis, to 20 percent in 1988 and 10 percent in 1989; and (c) to generate an overall balance of payments surplus of US$125 million in 1988 and US$110 million in 1989. To these ends, as indicated in the memorandum attached to the letter of request (Appendix I), the Government is continuing to place emphasis on removing the structural impediments to economic growth, while restraining aggregate demand to a level compatible with available resources. A summary of the basic assumptions, targets, and policy content of the program for 1988-89 is provided in Appendix II.

1. Exchange rate policy and the liberalization process

As indicated above, in early 1988 the authorities took further steps to improve the operation of the exchange system by authorizing the establishment of separately instituted foreign exchange bureaus, while ensuring a smooth functioning of the auction market for foreign exchange. At present, there are some 70 bureaus in operation, and more are expected to be licensed in the near future with a view to fostering competition. When the first foreign exchange bureaus began operations in April 1988, there was a spread of the order of 40 percent between the exchange rate of the auction market and the rates quoted by the bureaus. However, the spread has narrowed markedly in recent months, and as of end-August 1988 amounted to about 20 percent (Chart 1). To achieve a rapid convergence of the exchange rates in both markets, the authorities intend to further widen access to the auction market and to increase the number of foreign exchange bureaus. A smooth functioning of the auction market will remain a high priority, and the funding of the auction will be kept at a sustainable level.

In view of the recent, virtually full liberalization of imports, the existing administrative arrangements for import licensing have become largely superfluous. However, the authorities have noted that the import licensing system is also used for tax and statistical purposes. For this reason, they have undertaken a review to develop alternative means to serve these purposes. The review is expected to be completed shortly, and the import licensing system is to be abolished no later than the end of 1988.

In addition, the authorities intend to continue to liberalize payments and transfers for other current international transactions. As a further step in this process, all bona fide requests for transfers of profits and dividends will be made eligible for funding through the auction market by the end of January 1989. As specified in the memorandum attached to the letter of request, understandings on the pace of liberalization of the remaining current account transactions will be reached with the Fund in the context of the semiannual reviews of the program to be supported by the proposed ESAF arrangement, with the objective of achieving full liberalization by the end of June 1990.

While progressively widening access to the auction market, the Government has been seeking to augment the foreign exchange resources accruing to the auction. Thus, on the basis of understandings reached with foreign partners, the Ashanti Goldfields Corporation has started paying dividends to the Government in foreign exchange out of the Corporation's retention account, thereby effectively increasing its surrender of foreign exchange to the Bank of Ghana. Comparable arrangements have been made with the Volta River Authority, and payments out of its retention account are expected to commence shortly. Finally, the Government has decided to reduce the volume of cocoa exports under bilateral payments agreements from about 14,000 metric tons in 1987 to some 10,000 metric tons in 1988, and to ensure that this lower annual level is not exceeded during the remainder of the program period. At the same time, selected development projects from the public investment program will utilize Ghana's outstanding credit balances under bilateral payments agreements. Ghana maintains bilateral payments agreements with three Fund members (the People's Republic of China, Romania, and Yugoslavia).

2. Fiscal policy

Under the budget for 1988, the authorities are continuing to pursue a growth-oriented fiscal strategy. Excluding capital expenditure financed through external project aid, the surplus on government operations is expected to amount to ₵ 3.9 billion, equivalent to 0.4 percent of GDP, which is slightly below last year's level of 0.5 percent (Table 5). Including such capital expenditure, the overall deficit is estimated at ₵ 27.3 billion, or 2.8 percent of GDP, compared with 3.3 percent in 1987. Although the 1988 budget remains broadly on track, expenditure on wages and salaries has been revised upward by about 2 percent because of the Government's decision to grant a special incentive bonus to civil servants during the second half of this year. The bonus, amounting to ₵ 2.9 billion, will raise the wage bill to ₵ 49.6 billion for the year as a whole, representing 5.2 percent of GDP. The decision to grant the bonus was taken in an effort to increase civil service remuneration and thereby help alleviate the existing problems of maintaining motivation and efficiency. Even so, the average remuneration of government employees, including allowances, is estimated at only ₵ 13,800 (equivalent to some US$70) per month in 1988. The additional expenditure involved will be financed entirely from an increase in the effective taxation of petroleum products. Collections during the first half of 1988 indicate that several revenue sources, notably income taxes, have been performing well; it is thus expected that they will fully offset possible shortfalls in sales tax and nontax revenue. The improvement in income tax collections reflects the substantial progress made in overhauling the Central Revenue Department and its administrative procedures. By contrast, sales tax collections continue to be hampered by weaknesses in tax administration. For this reason, corrective measures are being taken by the Customs and Excise Department. In the first half of the year, the Government encountered some cash-flow problems, owing to delays in foreign-aid disbursements, which gave rise to temporary recourse to domestic nonbank financing. In the circumstances, the authorities are not only urging donors to expedite disbursement procedures but are also taking steps to improve their own administrative arrangements for collecting and processing the required documents. Therefore, it is expected that foreign-aid disbursements and the generation of counterpart funds will pick up significantly. In the event of a shortfall of foreign-aid disbursements, government expenditure will be adjusted accordingly.

With the budget for 1989, the authorities intend to take further steps to support the restructuring of the economy. The new budget will aim at increasing the surplus on government operations, excluding capital expenditure financed through external project aid, to ₵ 6.5 billion, or 0.6 percent of GDP. Taking account of the prospective large expansion of capital outlays to be financed through concessional loans, the overall deficit will amount to some ¢ 43.4 billion, or 3.7 percent of GDP. Within these broad aggregates, it is envisaged that in 1989 the Government will retire ¢ 8.0 billion of its debt to the banking system, significantly more than the ¢ 6.0 billion foreseen for 1988.

To strengthen the revenue mobilization effort, while fostering efficiency and equity, the authorities intend to introduce several tax measures with the 1989 budget. Among the most important of these measures are the following: (a) widening the brackets applicable under the personal income tax, lowering marginal tax rates, and increasing personal allowances, while making allowances that are not currently taxed subject to the income tax; (b) reducing the company income tax rate from 50 percent to 45 percent for most sectors; (c) restructuring the import tariff to provide a lower and more uniform pattern of protection, while eliminating concessions granted on an institutional basis; (d) increasing sales tax collections by abolishing some of the exemptions and shifting items from the concessional rate to the standard rate category (at the same time, a study will be completed with World Bank assistance on the feasibility of replacing the current "ring" system, which exempts the tax on purchases by registered firms, by a "credit" system that will, inter alia, promote compliance); (e) restructuring excise duties on alcoholic beverages, cigarettes, textiles, and petroleum products, with a view to simplifying the system, removing anomalies with respect to imported equivalents, and raising revenue; (f) increasing the purchase tax on motor vehicles; and (g) strengthening tax administration, particularly with regard to registration, collection, and assessment procedures and audits, while introducing unique taxpayer identification numbers to facilitate compliance. On balance, it is expected that these measures will lead to an increase in revenue of the order of ¢ 7.0 billion, equivalent to 0.7 percent of GDP.

Government expenditure policy in 1989 will be directed toward four major goals: (a) raising salaries in the civil service, in order to narrow the wide disparities between public- and private-sector wage levels, especially for the more highly skilled employees, while limiting the wage bill to within 5.5 percent of GDP; (b) making appropriate arrangements for the payment of termination benefits and for retraining facilities associated with the redeployment of at least 12,000 government employees; (c) increasing the shares of agriculture, health, and education in operating and maintenance outlays, consistent with the absorptive capacity of these sectors; and (d) raising capital expenditure in accordance with the public investment program and consistent with the availability of resources on highly concessional terms. In addition, budgetary procedures will be further improved through indicative appropriations in the annual budget circular, the establishment of norms for allocating recurrent expenditure, and the implementation of a comprehensive system of monthly returns to facilitate expenditure monitoring and cash-flow management. Finally, beginning in 1989, the budget coverage will be expanded to include all central government outlays, including those financed through external project aid.

3. State enterprise reform

With the completion of much of the necessary preparatory work, state enterprise reform is being substantially accelerated. As indicated above, 32 state enterprises have already been advertised for divestiture. Of these enterprises, the liquidation of ten, including the five mentioned earlier, is now in its final stage. Moreover, the Government's interests in six joint ventures will be sold by the end of 1988. With external assistance, the authorities are formulating an action plan for the divestiture of the 16 remaining enterprises; a decision on the phasing and modalities for the divestment of these enterprises will be made by the end of January 1989. The authorities are also developing criteria to select future candidates for divestiture.

Apart from these actions, the Government intends to use the divestiture program as a means of mobilizing additional domestic and external financial resources, without compromising strategic national interests. Thus, a number of profit-making enterprises in the mining sector, which were not included in the divestiture list, are under consideration for divestiture. For example, the State Gold Mining Corporation and the Ghana National Manganese Corporation could raise substantial resources for the Government through a carefully worked out divestiture program. Work on the prospective structure of public and foreign shareholdings in these and other corporations has begun with technical assistance from the Commonwealth Secretariat and the United Nations Center for Transnational Corporations. In the case of the Ghana National Petroleum Corporation, the authorities have taken a major step toward involving private international firms in oil exploration and petroleum import financing.

Of the 14 major enterprises that will be kept in the Government's portfolio, 6 corporate plans and the associated performance agreements were finalized by the end of September 1988; the remaining 8 corporate plans and performance agreements will be finalized by the end of 1988. On the basis of these arrangements, to be updated annually, the State Enterprise Commission will be assessing the performance of state enterprises. The identified cross-debts and arrears among the Electricity Corporation of Ghana, the Ghana Water and Sewerage Corporation, the Volta River Authority, and the Government will be settled by the end of 1988; those of the remaining 15 state enterprises (covered by the study mentioned earlier) and the Government will be settled by the end of 1989.

4. Monetary and credit policies

Monetary and credit policies for 1988 and 1989 have been designed to sustain the growth of real GDP, reduce inflation, and improve the balance of payments position. Accordingly, the growth of net domestic assets of the banking system in relation to the broad money stock at the beginning of the period will be reduced from 12 percent in 1987 to 10 percent in 1988 and 9 percent in 1989. In this regard, it is to be noted that the credit program for the second half of 1988 has been tightened in order to ensure the achievement of the targeted deceleration in the rate of inflation. However, in view of the sizable net repayments of the Government to the banking system, the programmed expansion of net domestic assets will allow credit to the rest of the economy to grow broadly in line with the projected increase in nominal GDP. On this basis, broad money growth is projected to decline from 53 percent in 1987 to 27 percent in 1988 and 21 percent in 1989.

The quarterly phasing of the programmed credit expansion in the second half of 1988 and the first half of 1989 takes into account the expected evolution of government receipts and expenditures, the seasonal financing needs of the Cocoa Board (which are at their peak level in the last quarter of the year), and the projected movements in the net foreign assets position of the banking system. Thus, as shown in Table 11 on the proposed performance criteria and benchmarks, net domestic assets of the banking system, which amounted to ₵ 104.7 billion at end-June 1988, will not exceed ₵ 118.9 billion at end-December 1988; net bank claims on the Government, which amounted to ₵ 17.4 billion at end-June 1988, will not exceed ₵ 16.2 billion at end-December 1988; and bank financing of the operations of the Cocoa Board, which amounted to ₵ 11.7 billion at end-June 1988, will not exceed ₵ 21.0 billion at end-December 1988. Furthermore, for each of these items, indicative ceilings have been established for end-June 1989.

In order to strengthen credit policies and the control of reserve money, in the year ending June 1989 the Bank of Ghana will limit its financing of the operations of the Cocoa Board to a maximum of 75 percent of the outstanding cocoa financing at the end of each quarter. Although interest rates have been fully liberalized, most rates are still negative in real terms, based on the current rate of inflation. To promote appropriate levels of interest rates, the Bank of Ghana will continue to use its discount and lending rates, open market operations, and reserve requirements to influence money market conditions. In the operation of the auction for treasury bills, the market has been segmented for banks and nonbanks, mainly with a view to supporting interest rates for nonbank investors. The authorities will take appropriate steps to operate the treasury bill auction as a unified market by the end of 1988.

The reform of the financial sector will be given high priority under the program. As indicated in the memorandum attached to the letter of request, by the end of February 1989 the nonperforming loans of banks will be reduced by at least 50 percent through improved loan recovery and write-offs, coupled with capital injections, while restructuring plans covering at least 50 percent of the total assets of the financially troubled commercial and development banks will be prepared. To improve the regulatory framework and banking supervision, revised banking regulations will be enacted by the end of February 1989, and they will be fully operational by the end of 1989.

Table 11. Ghana: Proposed Performance Criteria and Benchmarks of the First Annual Arrangement Under the Enhanced Structural Adjustment Facility

	1988			1989	
	June Rev. Base	Sept. 1/	Dec. 2/	March 1/	June 1/
	(In billions of cedis; end of period)				
Quantitative performance criteria and benchmarks					
Net domestic assets of the banking system	104.7	95.8	118.9	120.8	116.7
Net claims on the Government by the banking system	17.4	18.0	16.2	14.3	12.5
Bank financing of the operations of the Cocoa Board 3/	11.7	—	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/	-708.0	-669.7	-661.2	-628.2	-595.2
External payments arrears	82.8	76.1	68.6	57.4	46.1
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

Structural performance criterion	Target date
Abolition of import licensing system.	End-December 1988.
Structural benchmarks	
Sale of the Government's interests in six joint ventures.	End-December 1988.
Widening of access to the auction market for foreign exchange to include the funding of bona fide requests for transfers of profits and dividends.	End-January 1989.
Adoption of public investment program for 1989-91, consistent with the medium-term macroeconomic objectives.	End-March 1989.
Adjustment of the cocoa producer price, with a view to raising its share of the world market price.	End-June 1989.
Containment of the Bank of Ghana's financing of the operations of the Cocoa Board to 75 percent of the outstanding cocoa financing by the banking system at the end of each quarter.	End-September 1988, end-December 1988, end-March 1989, and end-June 1989.

Source: Memorandum attached to the letter of request of the Ghanaian authorities of September 16, 1988.

1/ Quantitative benchmarks; those for end-March 1989 and end-June 1989 are indicative.
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. As of July 1, 1988, SDRs will be converted into U.S. dollars at the accounting rate of US$1.30 per SDR, compared with the previous rate of US$1.20 per SDR.
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$75 million credit that was outstanding at the beginning of 1988.

5. Balance of payments and external debt

With the implementation of the policies and measures described above, Ghana's external payments position is expected to continue to improve, despite the major weakening of world market prices for cocoa. On the basis of the latest available information, in 1988 total export earnings are projected to decline by 1 percent, while imports are expected to grow by 6 percent. Thus, the current account deficit, excluding net official transfers, is expected to widen from US$224 million in 1987 to US$296 million in 1988, or from the equivalent of 5.0 percent of GDP to 5.9 percent, respectively (Table 7). However, as net inflows of official transfers and capital are projected to increase by 12 percent this year to US$421 million, the balance of payments is programmed to register an overall surplus of US$125 million in 1988, compared with the record surplus of US$139 million in 1987. Ghana will thus be in a position in 1988 to reduce external payments arrears by US$30 million, liabilities to foreign commercial banks by US$47 million, and outstanding Fund credit by US$45 million. At the same time, gross official international reserves are programmed to increase somewhat further, from US$194 million at end-1987 to US$203 million at end-1988. As a result, as indicated in Table 11, the net foreign assets of the Bank of Ghana (excluding bilateral accounts), which stood at minus US$708.0 million at end-June 1988 (revised base), will not be less than minus US$661.2 million at end-December 1988.

The objectives of the authorities' external debt management policy are to improve the maturity profile of Ghana's external debt and to reduce the debt service burden by securing official assistance in the form of grants or highly concessional loans, by strictly limiting borrowing from nonconcessional sources, and by reducing the foreign liabilities of the Bank of Ghana. Accordingly, as shown in Table 11, 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 1988; within this ceiling, a subceiling of US$60 million will apply for such loans in the maturity range of 1-5 years. Moreover, the Bank of Ghana will avoid commercial borrowing, apart from new credits designed to accelerate the settlement of external payments arrears. Although the external debt service ratio is projected to decline appreciably after 1988, the debt burden will remain sizable. In the circumstances, and in light of the initiatives recently announced by some donors, the Government hopes to obtain relief through partial or complete cancellations of official bilateral debt.

6. Performance criteria and benchmarks

The proposed ESAF arrangement includes a number of quantitative performance criteria and a structural performance criterion for end-December 1988, as well as benchmarks throughout the period covered by the first annual arrangement, as set out in Table 11. It should be noted that the quantitative benchmarks for end-March 1989 and end-June 1989 are indicative; definitive benchmarks will be established at the time of the midterm review of the program with the Fund, to be completed by end-March 1989. The disbursement of the second loan under the first-year ESAF arrangement will also be subject to the midterm review. In addition, the standard clauses regarding the exchange and payments system will constitute performance criteria.

VI. Staff Appraisal

Since the adoption of the Economic Recovery Program in April 1983, the Ghanaian authorities have implemented far-reaching structural and financial reforms with considerable success. The progressive liberalization of the economy has led to a substantial strengthening of incentives in favor of production, export, saving, and investment. At the same time, judicious macroeconomic policies have contributed measurably to the reduction of the internal and external financial imbalances. Under the program supported by the extended and SAF arrangements, the reform process was given even greater impetus. Thus, to further improve the operation of the exchange system, the authorities authorized the establishment of separately instituted foreign exchange bureaus, while ensuring a continued smooth functioning of the auction market for foreign exchange. Furthermore, producer prices for cocoa and other cash crops were raised substantially, retail prices of petroleum products were increased appreciably, interest rate controls were lifted, and complementary fiscal and credit policies were carried out effectively. Despite considerable start-up problems, progress was also made in the areas of state enterprise reform and the public sector redeployment program.

With the implementation of these policies, the basic macroeconomic objectives of the program for 1987 were largely realized. Although agriculture was adversely affected by late and inadequate rainfall during the early part of the year, overall economic activity remained fairly brisk as the industrial and services sectors expanded even more rapidly than had been envisaged. Consequently, real GDP grew by an estimated 4.8 percent, compared with the target of 4.0 percent, involving an increase in real per capita income of about 1.5 percent. Inflation was reduced significantly during the second half of the year, but the average annual rate of increase of the national consumer price index reached 40 percent, somewhat above the programmed 35 percent. Meanwhile, the balance of payments registered a major turnaround, from an overall deficit equivalent to US$57 million in 1986 to an overall surplus of US$139 million in 1987, even larger than the surplus of US$108 million envisaged in the program. On the whole, therefore, the process of adjustment with growth in Ghana remained firmly on track in 1987, the fourth consecutive year since the adoption of the reform program. All the performance criteria of the program were observed; all the structural benchmarks were also met, although with some relatively minor delays.

Despite the considerable progress made in recent years, however, Ghana still faces major structural and financial problems that can only be resolved through further determined actions over the medium term. Accordingly, the authorities have rightly decided to pursue and intensify their reform efforts, with a view to sustaining the growth momentum of the economy and achieving a viable external payments position by the end of this decade. The program for 1988-91, which has been developed in close collaboration with the staffs of the Fund and the World Bank, thus focuses on three basic macroeconomic objectives: achieving an average annual growth of real GDP of at least 5 percent; progressively reducing the rate of inflation to 5 percent by the end of 1991; and generating overall balance of payments surpluses averaging US$117.5 million per annum, consistent with the scheduled reduction in the foreign liabilities of the Bank of Ghana, the elimination of the remaining external payments arrears by the end of 1990, and a significant increase in gross international reserves by the end of 1991. Apart from its emphasis on overall economic growth, which will sustain the improvement in real per capita income, the program seeks to address in a systematic manner the needs of the poorest and most vulnerable groups in Ghana, particularly the small farmers, the urban unemployed, and the retrenched public sector employees.

To attain these basic objectives, the authorities' program involves not only a reinforcement of the judicious macroeconomic policies pursued since 1983 but also an acceleration of structural reforms, a strengthening of the institutional framework, and the implementation of a broadly based economic development strategy. Thus, while implementing appropriate fiscal and credit policies, the authorities are taking decisive steps aimed at further improving the framework of incentives in the economy through a more flexible exchange rate policy, exchange and trade liberalization, and higher agricultural producer prices; increasing investment for the rehabilitation of productive capacity, infrastructure, and social services; strengthening the efficiency and equity of the tax system; rationalizing government expenditure controls and the allocation of resources; accelerating state enterprise reform; and initiating a comprehensive financial sector reform, focused on the restructuring and rehabilitation of the financially troubled commercial and development banks. Equally important, the authorities are taking measures to improve public sector management, with a view to promoting efficiency and strengthening program implementation and monitoring. Within this framework, the measures already implemented augur well for the future. However, they will have to be pursued with determination to achieve the program targets. In this regard, particular attention will have to be given to the full and timely observance of the proposed performance criteria and benchmarks of the program, which include the abolition of the import licensing system, as well as the widening of access to the auction market for foreign exchange to cover the funding of all bona fide requests for transfers of profits and dividends.

In pursuing their program of structural and financial reforms, the authorities will need to closely monitor developments and prospects in a number of key areas. First, although the recovery of the economy has begun to take hold, the growth of real GDP is still constrained by inadequate domestic savings to finance rehabilitation and other high-priority investments. Thus, in the period ahead, it will be essential to strengthen the savings effort by increasing revenue mobilization through the government budget, improving the operations of the major state-owned enterprises, accelerating the divestiture program, and rigorously implementing the planned reform of the financial sector. Second, while the rate of inflation has been recently reduced significantly, determined efforts will be needed to bring inflation under control, including the implementation of an appropriately tight monetary policy. Third, the continued softening of world market prices for cocoa so far in 1988 has underscored the vulnerability of Ghana's external payments position to such adverse developments in the international environment. As indicated in the sensitivity analysis of the balance of payments, a decline of the cocoa export price to an even lower level than that assumed in the baseline scenario would lead to the emergence of financing gaps in 1989 and beyond. To an extent, these adverse factors will be compensated by other unforeseen developments, such as the recent drop in oil import prices and possible cancellations of official bilateral debt. In any event, the situation will have to be closely watched and, if need be, appropriate changes will have to be made in the program, consisting of a combination of additional domestic adjustment measures and external financing. Finally, to be successful, the authorities' reform efforts will need to be supported by substantial official external assistance on highly concessional terms, especially in view of the exceptionally heavy external debt service burden in 1988-89. As the authorities are settling substantial commercial arrears, it is also to be expected that foreign commercial banks will make revolving trade-related credits available to Ghana on a voluntary basis.

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 bilateral payments agreements with Fund members are subject to Fund approval under Article VIII, Sections 2(a) and 3. The staff welcomes the actions already taken by the authorities to liberalize progressively the exchange system, and in view of this and further actions envisaged under the program, recommends extension of approval of the retention by Ghana of the multiple currency practices and exchange restrictions that are subject to Article VIII, Sections 2(a) and 3, other than the restrictions on the transfers of balances under the bilateral payments agreements with other Fund members, until November 30, 1989 or the completion of the next Article IV consultation with Ghana, whichever is earlier. At the same time, the staff urges the authorities to terminate the remaining bilateral payments agreements with Fund members as soon as possible.

After successfully implementing some of the most wide-ranging reforms in Africa in recent years, the Government of Ghana is undertaking its new medium-term program with continued political commitment and social sensitivity. In support of this program, the Government is requesting a three-year arrangement under the ESAF and the first annual arrangement thereunder, while canceling the existing three-year extended arrangement. The staff believes that the actions already taken by the authorities, combined with the measures planned for the remainder of the program period, are substantial and should help achieve the objectives of the program. The staff also considers that the shift from an extended arrangement to an ESAF arrangement is appropriate in Ghana's circumstances. Therefore, Ghana's program is deserving of Fund support under the ESAF, as well as of the support of other creditors and donors.

It is recommended that the next Article IV consultation with Ghana be held on the standard 12-month cycle.

VII. Proposed Decisions

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

(a) 1988 Consultation

1. The Fund takes this decision relating to Ghana's exchange measures subject to Article VIII, Sections 2(a) and 3 in concluding the 1988 Article XIV consultation with Ghana and 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).

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.

(b) ESAF Arrangement

1. The Government of Ghana has requested a three-year structural adjustment arrangement under the enhanced structural adjustment facility, and the first annual arrangement thereunder.

2. The Fund notes the updated policy framework paper for Ghana set forth in EBD/88/273.

3. The Fund approves the arrangements set forth in EBS/88/207.

Three-Year and First Annual Arrangements Under the Enhanced Structural Adjustment Facility

Attached hereto is a letter dated September 16, 1988, with an attached Memorandum on the Economic and Financial Policies of Ghana, from the Secretary for Finance and Economic Planning of Ghana and the Governor of the Bank of Ghana, requesting from the International Monetary Fund a three-year arrangement under the enhanced structural adjustment facility, and the first annual arrangement thereunder, and setting forth

(i) the objectives and policies of the program to be supported by the three-year arrangement;

and

(ii) the objectives and policies of the program to be supported by the first annual arrangement.

To support these objectives and policies, the Fund grants the requested arrangements in accordance with the following provisions, and subject to the Regulations for the administration of the structural adjustment facility and the Instrument to Establish the Enhanced Structural Adjustment Facility Trust:

1. (a) For a period of three years from November --, 1988, Ghana will have the right to obtain loans from the Fund under the enhanced structural adjustment facility, in a total amount equivalent to SDR 368.1 million. Of this amount, the equivalent of SDR 88,957,500 shall be provided from the structural adjustment facility within the Special Disbursement Account, and the equivalent of SDR 279,142,500 shall be provided from the Enhanced Structural Adjustment Facility Trust, subject to any changes in the amount of access to the structural adjustment facility.

(b) The amount of each annual arrangement will be the equivalent of SDR 137.1 million for the first annual arrangement; the equivalent of SDR 135.0 million for the second annual arrangement; and the equivalent of SDR 96.0 million for the third annual arrangement.

(c) Under the first annual arrangement:

(i) the first loan, in an amount equivalent to SDR 86.3 million, will be available on November --, 1988 at the request of Ghana; and

(ii) the second loan, in an amount equivalent to SDR 50.8 million, will be available on May --, 1989 at the request of Ghana subject to paragraph 2 below.

2. Ghana will not request disbursement of the second loan specified in paragraph 1(c)(ii) above

(a) if the Managing Director finds that at the end of December 1988

(i) the limit on net domestic assets of the banking system, or

(ii) the limit on net claims on the Government by the banking system, or

(iii) the limit on financing of the operations of the Cocoa Board by the banking system, or

(iv) the target for net foreign assets of the Bank of Ghana, or

(v) the target for the reduction of existing external payments arrears, or

(vi) the limit on the contracting or guaranteeing by the Government of nonconcessional external loans, or

(vii) the structural performance criterion on the abolition of the import licensing system,

referred to in paragraphs 28 and 29 of the attached memorandum and specified in the table annexed to the memorandum is not observed; or

(b) if Ghana

(i) imposed or intensified restrictions on payments and transfers for current international transactions, or

(ii) introduced or modified multiple currency practices, or

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

(iv) imposed or intensified import restrictions for balance of payments reasons; or

(c) until the Fund has determined that the midterm review of Ghana's program referred to in paragraph 28 of the attached memorandum has been completed.

If the Managing Director finds that any of the performance clauses that have been established in or under this paragraph 2 have not been met, the second loan specified in paragraph 1(c)(ii) above may be made available only after consultation has taken place between the Fund and Ghana, and understandings have been reached regarding the circumstances in which Ghana may request that second loan.

3. Before approving the second annual arrangement, the Fund will appraise the progress of Ghana in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, taking into account primarily:

(a) the indicators referred to in paragraphs 28 and 29 of the attached memorandum;

(b) imposition or intensification of restrictions on payments and transfers for current international transactions;

(c) introduction or modification of multiple currency practices;

(d) conclusion of bilateral payments agreements which are inconsistent with Article VIII; and

(e) imposition or intensification of import restrictions for balance of payments reasons.

4. In accordance with paragraph 3 of the attached letter, Ghana will provide the Fund with such information as the Fund requests in connection with the progress of Ghana in implementing the policies and reaching the objectives supported by these arrangements.

5. In accordance with paragraph 4 of the attached letter, during the period of the first annual arrangement, Ghana will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests such a consultation. Moreover, after the period of the first annual arrangement and while Ghana has outstanding financial obligations to the Fund arising from loans under that arrangement, Ghana will consult with the Fund from time to time, at the initiative of the Government or whenever the Managing Director requests consultation on Ghana's economic and financial policies. These consultations may include correspondence and visits of officials of the Fund to Ghana or of representatives of Ghana to the Fund.

September 16, 1988

Dear Mr. Camdessus:

1. The objectives of Ghana's new three-year program of economic and financial adjustment are set out in the policy framework paper for the period July 1988-June 1991, prepared in close collaboration with the staffs of the Fund and the World Bank, which was transmitted to you on September 15, 1988.

2. The attached Memorandum on the Economic and Financial Policies of Ghana, based on the policy framework paper referred to above, sets out the objectives and policies that the Government of Ghana intends to pursue in the three-year period starting from July 1988, as well as the objectives and policies for the first annual program. In support of these objectives and policies, the Government hereby requests a three-year arrangement under the enhanced structural adjustment facility in an amount equivalent to SDR 368.1 million and the first annual arrangement thereunder in an amount equivalent to SDR 137.1 million. At the same time, the Government requests the cancellation of the current extended arrangement.

3. The Government of Ghana will provide the Fund with such information as the Fund requests in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

4. The Government of Ghana believes that the policies and measures set forth in the attached memorandum are adequate to achieve the objectives of its program, but will take any further measures that may become appropriate for this purpose. During the period of the first annual arrangement, the Government will consult with the Managing Director on the adoption of any measures that may be appropriate, at the initiative of the Government or whenever the Managing Director requests such a consultation. Moreover, after the period of the first annual arrangement and while Ghana has outstanding financial obligations to the Fund arising from loans under that arrangement, the Government will consult with the Fund from time to time, at the initiative of the Government or whenever the Managing Director requests consultation on Ghana's economic and financial policies.

5. In addition, the Government of Ghana will conduct with the Fund a midterm review of its first annual program, to be completed not later than March 31, 1989.

Sincerely yours,

Dr. Kwesi Botchwey
PNDC Secretary for Finance
and Economic Planning

Dr. G.K. Agama
Governor
Bank of Ghana

Attachment

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

Memorandum on the Economic and Financial Policies of Ghana

1. Since the adoption of the Economic Recovery Program in April 1983, which has been supported by successive stand-by arrangements and, from November 1987, by extended and structural adjustment arrangements from the Fund, Ghana has made considerable progress toward achieving both sustainable economic growth and a viable internal and external financial position. With the implementation of a wide range of structural and financial measures, during the period 1984-87 the growth of real gross domestic product (GDP) averaged 6 percent per annum; the average annual rate of inflation, which had reached 123 percent in 1983, was reduced appreciably; and the balance of payments improved substantially.

2. In the first half of 1988, the Government of Ghana took additional measures in line with its medium-term economic strategy. In particular, the exchange and trade system was further liberalized by widening access to the foreign exchange auction and by allowing commercial banks and other dealers to buy and sell foreign exchange, at freely determined prices, through separately instituted foreign exchange bureaus; the cocoa producer price (excluding any bonus) was raised from ₵ 140,000 per metric ton to ₵ 165,000 per metric ton for the 1988/89 crop year; all controls on the sectoral distribution of credit were abolished, except for agriculture; and the minimum savings rate, the only remaining control on interest rates, was lifted. Furthermore, an appropriate government budget was adopted, and steps were taken to strengthen reserve money management. As a result, the Government's program of reform and adjustment has remained broadly on track. All the performance criteria under the extended arrangement have so far been observed; all the structural benchmarks of the first annual arrangement under the structural adjustment facility have also been met, although with some delays. However, while showing some decline, inflation has remained high. The Government is concerned about the persistence of inflation, and has therefore taken further steps to reduce liquidity in the economy in order to ensure that the 1988 program target for inflation is realized.

3. Despite the substantial improvements registered since 1983, Ghana still faces major structural and financial problems. The rate of growth of the economy is constrained by inadequate domestic savings and investment, insufficient incentives, and infrastructure bottlenecks; inflation remains high, as noted above; the external position is fragile and vulnerable to adverse developments in the international environment; and the external debt service burden is heavy, although it is expected to decline significantly over the medium term. A number of other factors are also constraining the pace of adjustment with growth in the economy, including weaknesses in the financial system and in the operations of state enterprises. For these reasons, the Government has decided to pursue its reform efforts in the context of an updated economic and financial policy framework, covering the three-year period

July 1988-June 1991, that has been prepared in close collaboration with the staffs of the International Monetary Fund and the World Bank. However, for planning purposes, the medium-term program has been formulated on a calendar-year basis, and its basic objectives and policy content effectively cover the period 1988-91.

4. As indicated in the updated policy framework paper which was transmitted to the Fund on September 15, 1988, the basic macroeconomic objectives of the 1988-91 program are: (a) to achieve an average annual rate of growth of real GDP of at least 5 percent; (b) to reduce the rate of inflation (as measured by the national consumer price index, on an end-of-period basis) from 34 percent in 1987 to 5 percent in 1991; and (c) to 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 an increase in gross reserves from the equivalent of about 10 weeks of imports at the end of 1987 to 16 weeks of imports at the end of 1991. In addition, an important dimension of the program is to address in a systematic manner the needs of the poorest and most vulnerable groups in Ghana, particularly the small farmers, the urban unemployed and underemployed, and the retrenched public sector employees.

5. The major assumptions underlying the program are as follows: (a) the export volume of cocoa and cocoa products, which amounted to 218,900 metric tons in 1987, is projected to decline by 14 percent in 1988 (due to the adverse weather conditions last year), but to rebound in 1989 and to grow thereafter by about 6 percent per annum through 1991; (b) the export unit price of cocoa beans, which averaged US$2,278 per metric ton in 1987, is projected to decline to US$2,254 in 1988 and much further to some US$1,700 each year during 1989-91; (c) the increase in import prices in U.S. dollar terms is projected to amount to 4 percent per annum; and (d) disbursements of official grants and long-term loans are projected to average US$530 million annually.

6. To attain the basic objectives of the medium-term program, the Ghanaian authorities will continue to implement strong growth-oriented structural policies, combined with appropriate fiscal, monetary, and external debt management policies. In particular, the program will comprise the following policies: (a) further improvements in incentives for efficient production, export, and import substitution through a continuation of a flexible exchange rate policy, exchange and trade liberalization, and higher agricultural producer prices; (b) increased investment for the rehabilitation and restructuring of productive capacity, infrastructure, and social services; (c) measures to strengthen the efficiency and equity of the tax system, as well as to improve government expenditure control; (d) an acceleration of state enterprise reform; (e) a comprehensive financial sector reform, including a restructuring and rehabilitation of the financially troubled commercial and development banks; and (f) improvements in public sector management, geared toward promoting efficiency and strengthening program

implementation and monitoring. To underpin these policies, appropriate sectoral strategies will also be implemented, notably in agriculture, industry, health, and education, as described in the updated policy framework paper.

7. The targeted growth rate will require a substantial increase in gross investment relative to GDP, from 10.8 percent in 1987 to 17.3 percent in 1991. Public investment through the government budget, which amounted to 8.1 percent of GDP in 1987, is programmed to grow to 11.1 percent in 1991, while private investment is projected to rise from 2.7 percent of GDP to 6.2 percent over the same period. The financing of the projected investments will require an increase in the domestic savings ratio from 9.0 percent of GDP in 1987 to 14.3 percent of GDP in 1991, with public savings rising from 4.3 percent to 8.3 percent of GDP, respectively. Accordingly, the Government's fiscal program will aim at generating a larger surplus on current operations. Moreover, the expected growth in private disposable income, coupled with the financial sector reform and a movement toward positive real interest rates, should help promote private savings. The remaining financing needs of the investment program are expected to be met through increased external assistance from both multilateral and bilateral sources.

8. In support of these objectives and policies to be pursued over the medium term, the Government is requesting from the Fund a three-year arrangement under the enhanced structural adjustment facility (ESAF) in an amount equivalent to SDR 368.1 million and the first annual arrangement thereunder in an amount equivalent to SDR 137.1 million. To help finance its medium-term program, the Government has recently obtained from the World Bank a Financial Sector Adjustment Credit of SDR 72.1 million, and negotiations with the Bank on a second structural adjustment credit are expected to be completed shortly.

9. Consistent with the medium-term policy framework described above, the basic macroeconomic objectives for the period immediately ahead are: (a) to achieve a real rate of economic growth of 5.5 percent in 1988 and at least 5 percent in 1989; (b) to reduce the rate of inflation, on an end-of-period basis, to 20 percent in 1988 and 10 percent in 1989; and (c) to generate an overall balance of payments surplus of US$125 million in 1988 and US$110 million in 1989. To these ends, 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.

10. Under the program, the authorities will continue to pursue a flexible exchange rate policy and to further liberalize the exchange and trade system. Accordingly, a smooth functioning of the auction market for foreign exchange will remain a high priority and the funding of the auction will be kept at a sustainable level, consistent with the balance of payments target. To improve the operation of the exchange system, commercial banks and other dealers have been authorized to engage in the purchase and sale of foreign exchange through separately instituted

foreign exchange bureaus, subject to certain rules and regulations announced by the Bank of Ghana. At present, there are some 70 bureaus in operation, and more are to be licensed in the near future to foster competition and sharply reduce foreign exchange transactions in the parallel market. Initially, there was a significant differential between the exchange rate of the auction market and the rates quoted by the foreign exchange bureaus, reflecting the segmentation of the two markets and the existing capital controls. However, the differential has narrowed markedly in recent months to about 20 percent as of mid-August 1988. The authorities aim at a rapid convergence of the exchange rates in both markets by increasing the number of foreign exchange bureaus and their access to foreign exchange, as well as by further widening access to the auction market. In view of the recent full liberalization of merchandise trade, except for the five items on the negative list of imports (beer and stout, cigarettes, cement pipes, roofing sheets, and asbestos and fiber) and those imports that are prohibited for nontrade reasons, the existing administrative arrangements for import licensing have become largely superfluous. However, as the import licensing system has so far also been used for tax and statistical purposes, alternative arrangements will need to be developed for these purposes. Therefore, after a review of the matter, we plan to put in place appropriate alternative arrangements and to abolish the import licensing system no later than the end of 1988.

11. The restrictions on payments and transfers for other current international transactions will be gradually lifted so as to attain full liberalization by the end of June 1990. As a major step in this process, all bona fide requests for transfers of profits and dividends will be made eligible for funding through the auction by the end of January 1989. Understandings on the pace of liberalization of the remaining current account transactions will be reached with the Fund in the context of the semiannual reviews of the program supported by the enhanced structural adjustment arrangement.

12. To increase the surrender of foreign exchange to the auction, the Government has substantially reduced the foreign exchange retention privileges of log exporters. In addition, on the basis of understandings reached with foreign partners, the Ashanti Goldfields Corporation has started paying dividends to the Government in foreign exchange out of the Corporation's retention account, thereby effectively increasing its surrender of foreign exchange to the Bank of Ghana. Comparable arrangements have also been reached with the Volta River Authority, and payments out of its retention account are expected to commence shortly. In the future, the Government will avoid granting new retention privileges, except as provided under existing law. The Government will also continue to curb the volume of cocoa exports under bilateral payments agreements to 10,000 metric tons in 1988; this annual level will not be exceeded during the period 1989-91. At the same time,

selected development projects, consistent with the public investment program, will utilize Ghana's outstanding credit balances under bilateral payments agreements.

13. As part of its general strategy to improve price incentives in the economy, the Government is pursuing a policy of raising producer prices for cocoa and other cash crops. Thus, the cocoa producer price as a share of the f.o.b. export price increased from 25 percent in the 1986/87 crop year to an estimated 40 percent in the 1987/88 crop year. In view of the recent substantial weakening of world market prices for cocoa, the Government announced a relatively modest increase in the cocoa producer price for next year's crop. As noted above, for the 1988/89 crop year the producer price was raised by 18 percent to ₵ 165,000 per metric ton, representing a projected 50 percent share of the world market price. However, in the event that export prices in local currency terms are higher than anticipated, 60 percent of the additional proceeds will accrue to the farmers and the balance to the Government. In line with the results of a study by the Cocoa Board conducted with World Bank assistance, the Government intends to further increase the cocoa producer price for the 1989/90 crop year to an indicative target of 55 percent of the long-run world market price. Barring adverse weather conditions, the progressive increase of cocoa producer prices should contribute to the attainment of the targeted expansion in marketed output from 183,000 metric tons in 1987/88 to some 260,000 tons in 1990/91.

14. In support of the policy of progressively raising producer prices, the Cocoa Board has been reducing its operating costs as a proportion of the cocoa export price. In the framework of its corporate plan for the period 1987/88-1990/91, the Cocoa Board intends to achieve further economies 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 this regard, it should be recalled that the performance agreement signed between the Cocoa Board and the Government in February 1988 provides for the reduction in operating costs from an estimated 22 percent of the f.o.b. export price in 1986/87 to an indicative target of 15 percent in 1988/89. Apart from discontinuing production in 1987 on 52 of its 92 plantations and reducing road haulage costs, in June 1988 the Cocoa Board increased prices for key inputs, notably fertilizers, spraying materials, and insecticides. Furthermore, after reducing its staff by 11,960 in 1987, the Board intends to redeploy an additional 5,000 employees in 1988. The objectives and measures pursued in this sector are being supported by a cocoa rehabilitation project financed by the World Bank, the African Development Bank, the Arab Bank for Economic Development in Africa, and the United Kingdom.

15. Although progress has been made in recent years toward improving civil service performance, the efficiency of the civil service continues to be severely constrained by overstaffing at the lower levels, understaffing at the higher levels, and the very low salaries

relative to those in the private sector. For these reasons, intensified efforts are being made to accelerate civil service reforms. Under the redeployment program, about 4,000 government employees were removed from the payroll in the first half of 1988. Based on the preliminary results of an ongoing civil service staffing and functional review, which is to be completed by the end of this year, the Government intends to redeploy at least 12,000 employees each year in 1988 and 1989. However, because of the need to recruit skilled staff for higher-level positions, the net reduction of the civil service will be slightly lower. While providing appropriate general increases in salaries, the Government intends to further widen differentials between the highest and lowest paid employees, with a view to attracting and retaining highly skilled staff. The magnitude of any general or selective salary increases will need to be fully consistent with the macroeconomic framework of the program and, in particular, with its fiscal objectives. In any event, the Government's annual wage bill will not exceed 5.5 percent of the projected nominal GDP in 1988-89 and 6.0 percent in 1990-91.

16. During the program period, the Government's fiscal strategy will be geared toward mobilizing a large part of the domestic resources needed to finance rehabilitation and structural adjustment. Further reforms of the tax structure are planned to bring about a more revenue-productive and equitable tax system, and continued improvements in tax administration will be made to enhance revenue collection. At the same time, government outlays will be restructured to accord better with key economic and social objectives. Budgetary procedures will also be reformed in order to eliminate waste and to allow for more effective management of public resources. The surplus on government operations, excluding capital expenditure financed through external project aid, is programmed to amount to ₵ 3.9 billion (0.4 percent of GDP) in 1988 and to rise steadily to ₵ 6.5 billion (0.6 percent of GDP) in 1989, ₵ 10.2 billion (0.8 percent of GDP) in 1990, and ₵ 14.1 billion (0.9 percent of GDP) in 1991. However, taking account of capital expenditure financed through external project aid, the overall deficit is projected to increase from the equivalent of 2.8 percent of GDP in 1988 to an annual average of 3.6 percent in 1989-91, owing largely to an expected shift in the pattern of financing from foreign grants to highly concessional loans. The resources generated in the budget will permit the retirement of government debt outstanding to the banking system of ₵ 6.0 billion in 1988 and of ₵ 8.0 billion each year during 1989-91. This will enable banks to provide adequate loanable funds to the rest of the economy within the context of an appropriate monetary policy. The Government also intends to abstain from financing its outlays through borrowing from the social security system and other domestic nonbank sources, with a view to releasing additional financial resources for use by the rest of the economy.

17. The 1988 budget is broadly on track, although expenditures will be higher than originally estimated due to the Government's decision to grant a special incentive bonus to the civil service during the second half of the year. The bonus amounts to ₵ 2.9 billion, or

6 percent of the annual wage bill; thus, the total wage bill will rise in 1988 to ¢ 49.6 billion, equivalent to 5.2 percent of GDP. The Government believes that the bonus was justified, given the very low levels of remuneration relative to those in the private sector and the associated problems of maintaining a motivated civil service. It should also be noted that the additional expenditures involved will be financed entirely from an increase in the effective taxation of petroleum products. Several other revenue sources, especially income taxes, have been performing satisfactorily, and are expected to fully offset possible shortfalls in nontax revenue and sales taxes. In addition, corrective measures of an administrative nature have been taken to accelerate the collection of sales taxes. As a result, the surplus on government operations is still estimated to reach the programmed amount. In the area of budgetary financing, the Government has encountered some cash-flow problems owing to delays in foreign aid disbursements. Approaches have been made to donors to expedite such disbursements, while domestic procedures for collecting and processing the required documents are being improved. The authorities have also requested the Fund, in its catalytic role, to assist Ghana by encouraging donors to expedite their disbursement of committed foreign aid.

18. The budget for 1989 will aim at a significant increase in the surplus, excluding capital expenditure financed through external project aid, while playing a key role in the restructuring of the economy. Accordingly, several important tax measures will be introduced: (a) personal income tax brackets will be widened, marginal tax rates lowered, and personal allowances increased, while allowances that are not currently taxed will be made subject to the income tax; (b) the company income tax rate will be reduced from 50 percent to 45 percent for most sectors; (c) the import tariff will be restructured to provide a lower and more uniform pattern of protection, and concessions granted on an institutional basis will be removed; (d) sales tax collections will be increased by eliminating some of the exemptions, and shifting items from the concessional rate to the standard rate category, while a study will be undertaken of the feasibility of replacing the current "ring" system, which exempts the tax on purchases by registered firms, by a "credit" system that will, inter alia, promote compliance; (e) excise duties on alcoholic beverages, cigarettes, textiles, and petroleum products will be restructured in order to simplify the system, remove anomalies with respect to imported equivalents, and increase revenue; (f) the purchase tax on motor vehicles will be increased; and (g) tax administration will be strengthened, particularly with regard to registration, collection, and assessment procedures and audits, while unique taxpayer identification numbers will be introduced to facilitate compliance. Overall, these measures are expected to contribute to an increase in tax revenue of the order of ¢ 7.0 billion, equivalent to 0.7 percent of GDP.

19. Government expenditures in 1989 will be directed toward four major goals: (a) raising salaries in the civil service in order to reduce the wide disparities with the private sector, especially for the

highly skilled employees, while limiting the wage bill to within 5.5 percent of GDP; (b) making appropriate arrangements for the payment of termination benefits and for retraining facilities associated with the redeployment of at least 12,000 government employees; (c) increasing the shares of agriculture, health, and education in the Government's operating and maintenance outlays, consistent with the absorptive capacity of these sectors; and (d) raising capital expenditure in accordance with the public investment program and the availability of concessional foreign financing. In 1989 the budget will be expanded to cover all central government outlays, including those financed through external project aid. In addition, budgetary procedures will be further improved through indicative appropriations in the annual budget circular, the establishment of norms for allocating recurrent expenditure, and the implementation of a comprehensive system of monthly returns to facilitate expenditure monitoring and cash flow management.

20. The Government is intensifying its efforts to increase the level and efficiency of total investment, especially by improving the climate for productive private investment. To this end, the public investment program (PIP) for 1988-90 focuses on the rehabilitation of the country's economic and social infrastructure. Of the total investment outlays of ₵ 363 billion (in constant 1988 prices) envisaged in the PIP, 59 percent is allocated for the rehabilitation and development of economic infrastructure, mainly roads, highways, and other transportation facilities. The directly productive sectors account for an additional 31 percent of the PIP, and will benefit from the planned strengthening of agricultural services and rehabilitation of the cocoa and gold sectors. The remaining 10 percent of the PIP is directed toward the social sectors, with the emphasis being on basic health and education facilities, particularly in the rural areas. For 1988, total public investment is projected at ₵ 100.3 billion (10.5 percent of GDP), with ₵ 63.0 billion allocated for infrastructure and a further ₵ 25.8 billion for the directly productive sectors. Of the total projected investment, ₵ 60.7 billion is to be financed from external loans and grants, and ₵ 39.6 billion from domestic resources. The level of public investment is expected to rise further to some ₵ 134.4 billion (11.6 percent of GDP) in 1989. The Government will continue to prepare rolling three-year PIPs; the PIP for 1989-91, which will be consistent with the medium-term macroeconomic objectives, will be ready for implementation no later than the end of March 1989.

21. Despite considerable start-up problems, 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. To accelerate the pace of the reform, the State Enterprise Commission (SEC) is being strengthened, and a Divestiture Implementation Committee has been established to closely monitor the divestiture program. These actions are being supported by a public enterprise project, financed by the World Bank, covering the cost of technical assistance, training, and equipment.

22. As regards the divestiture program, it is to be noted that the liquidation of ten state enterprises is now in its final stage. Altogether, 32 state enterprises have been advertised for divestiture. Of these enterprises, the Government's interests in six joint ventures will be sold by the end of 1988. Assisted by a team of consultants, the Government is formulating an action plan for further measures in this area, including divestiture of the 16 remaining enterprises already advertised; a decision on the phasing and modalities for the divestment of these enterprises will be made by January 1989. The Government has decided to bear the cost of the unfunded liabilities related to the redeployment of excess staff in the state enterprises; an appropriate amount will be provided in the 1989 budget for this purpose, subject to resource availability. In addition to these steps, the Government has taken several measures in the context of the sectoral reform programs. For example, the Cocoa Board has divested majority ownership of its insecticide plant, and the sale of 52 of its 92 plantations is in progress. In the case of the previously fully state-owned Ghana Cotton Company, a joint venture with six private companies has been formed. Finally, the Government plans to divest some of its interests in a number of profit-making firms in the mining sector.

23. As to the enterprises remaining in the Government's portfolio, progress continues to be made in improving their operations and financial position, with emphasis being placed on the Cocoa Board and 14 other major enterprises that have a significant impact on the government budget. To address the problems of these enterprises, six corporate plans and the associated performance agreements with the Government will be finalized by the end of September 1988. The remaining eight corporate plans and performance agreements with the Government will be finalized by the end of 1988. Under the program, updated corporate plans will be prepared and performance agreements signed by the end of each subsequent year. The SEC is setting up a monitoring and evaluation system to assess the performance of state enterprises relative to the targets incorporated in the performance agreements. With respect to the identified cross-debts and arrears among a larger group of 18 state enterprises and the Government, which involve a substantial net credit position in favor of the Government, a committee has been established to prepare appropriate settlement plans. On this basis, the cross-debts and arrears of the Electricity Corporation of Ghana, the Ghana Water and Sewerage Corporation, the Volta River Authority, and the Government will be settled by the end of 1988, while those for the remaining enterprises will be settled by the end of 1989. To provide more autonomy to state enterprises in wage, staffing, and procurement decisions, the Government is reviewing the existing laws, regulations, and procedures; the review is expected to be completed by the end of January 1989.

24. Monetary and credit policies for the remainder of 1988 and for 1989 are designed to sustain the economic recovery and achieve the targeted reduction in the rate of inflation and the surplus in the balance of payments. Accordingly, the growth of net domestic assets of the banking system in relation to the broad money stock at the beginning

of the period will be limited to 10.3 percent in 1988 and 9.3 percent in 1989; the 1988 credit program has been tightened since early this year in order to ensure the desired further deceleration in the rate of inflation. In view of the sizable net repayments of the Government to the banking system, the program would allow credit to the rest of the economy (excluding financing of the operations of the Cocoa Board and other items (net)) to increase broadly in line with the projected growth in nominal GDP. To regulate the overall expansion of liquidity, the Bank of Ghana will combine direct controls on credit expansion with a more active policy aimed at limiting the creation of reserve money. To this end, the Bank of Ghana will gradually phase out its financing of the operations of the Cocoa Board. As a first step, in the year ending June 1989, central bank financing of the Cocoa Board's operations will not exceed 75 percent of the outstanding cocoa financing by the banking system at the end of each quarter. The proposed quantitative performance criteria and quantitative benchmarks regarding the credit program for the year ending June 1989 are set out in the attached table. Although interest rates have been fully liberalized, most rates are still negative in real terms (based on the current rate of inflation). To promote appropriate levels of interest rates, the Bank of Ghana will continue to use its discount and lending rates, open market operations, and reserve requirements to influence money market conditions. In the operation of the auction for treasury bills, the market has been segmented for banks and nonbanks, mainly with a view to supporting interest rates for nonbank investors. The authorities will take appropriate steps to operate the treasury bill auction as a unified market by the end of 1988.

25. The reform of the financial sector will be given high priority in the structural adjustment process. At present, the banking system is characterized by several weaknesses, including a substantial volume of nonperforming loans; insufficient provisions for losses; high operating costs; and inadequate accounting, management information, and internal control systems. Moreover, banking supervision is deficient. Therefore, the Government has formulated an action plan comprising measures to improve banking supervision with respect to capital adequacy, exposure limits, reporting standards, and auditing; to resolve the liquidity and solvency problems of a number of banks, particularly the development banks; and to strengthen the mobilization and allocation of financial resources, including rural financing. Among the most important measures to be implemented in the period ahead will be the following: (a) the nonperforming loans of banks will be reduced by at least 50 percent by the end of February 1989 through improved loan collection and write-offs, coupled with capital injections to cover immediate needs; (b) restructuring plans for commercial and development banks covering at least 50 percent of their respective total assets will be prepared by the end of February 1989; and (c) similar plans for the remaining assets will be prepared by the end of 1989. The financial requirements for restructuring the banks are estimated to amount to some US$280 million over the next three years. Of this amount, the World Bank is expected to provide US$95 million from the recently approved

Financial Sector Adjustment Credit; cofinancing of US$125 million is being secured from the African Development Bank, Japan, and Switzerland; and the Government is to provide the equivalent of US$60 million, principally through the conversion of loans into equity and the repayment of government-guaranteed loans to state enterprises. Private capital will also be mobilized for the recapitalization needs of selected banks. To improve the regulatory framework and banking supervision, revised banking regulations will be enacted by the end of February 1989, and they will be fully operational by the end of 1989.

26. With the implementation of the policies and measures described above, Ghana's external payments position is expected to continue to improve, despite the major weakening of world market prices for cocoa. The current account deficit, including net official transfers, is projected to widen to US$121 million (2.4 percent of GDP) in 1988, compared with US$102 million (2.3 percent of GDP) in 1987, as export earnings are expected to decline by 1 percent and imports to increase by 6 percent. However, although somewhat lower than in 1987, net capital inflows are projected to amount to US$246 million in 1988. Consequently, the balance of payments is programmed to register an overall surplus of US$125 million in 1988, as against US$139 million in 1987. As indicated in the attached table on the proposed quantitative performance criteria and quantitative benchmarks, the net foreign assets of the Bank of Ghana (excluding bilateral accounts), which stood at minus US$708.0 million at end-June 1988, will not be less than minus US$661.2 million at end-December 1988. In this context, external payments arrears will be reduced further, from US$82.8 million at end-June 1988 to at most US$68.6 million at end-December 1988.

27. The objectives of external debt management policy are to improve the maturity profile of Ghana's external debt and to reduce the debt service burden by securing official assistance in the form of grants or highly concessional loans, by strictly limiting borrowing from nonconcessional sources, and by reducing the foreign liabilities of the Bank of Ghana. Accordingly, as shown in the attached table, 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 1988; within this ceiling, a subceiling of US$60 million will apply for such loans in the maturity range of 1-5 years. Moreover, the Bank of Ghana will avoid commercial borrowing, except for new credits designed to accelerate the settlement of external payments arrears. Although the external debt service ratio is projected to decline appreciably after 1988, the debt burden will remain sizable. In the circumstances, and in light of the initiatives announced by some donors, the Government hopes to obtain relief through partial or complete cancellations of official bilateral debt.

28. To monitor progress under the program, a number of performance criteria and benchmarks have been established and are proposed for the first annual arrangement under the ESAF. As indicated in the attached table, the quantitative performance criteria for end-December

1988 will comprise: (a) limits on net domestic assets of the banking system; (b) limits on net claims on the Government by the banking system; (c) limits on bank financing of the operations of the Cocoa Board; (d) limits on net foreign assets of the Bank of Ghana (excluding bilateral accounts); (e) a reduction of existing external payments arrears, with no accumulation of new external payments arrears; and (f) limits on new nonconcessional external loans contracted or guaranteed by the Government. Limits have also been set for these items for end-September 1988, end-March 1989, and end-June 1989, which are to serve as quantitative benchmarks. The quantitative benchmarks for end-March 1989 and end-June 1989 are indicative; definitive benchmarks will be established at the time of the midterm review of the program with the Fund, to be completed by end-March 1989. The disbursement of the second loan under the first-year ESAF arrangement will also be subject to the midterm review. In addition, the standard clauses regarding the exchange and payments system will constitute performance criteria.

29. The abolition of the import licensing system will be a structural performance criterion for end-December 1988. Moreover, the following will constitute structural benchmarks: (a) the sale of the Government's interests in six joint ventures (target date, end-December 1988); (b) the widening of access to the auction market for foreign exchange to include the funding of bone fide requests for transfers of profits and dividends (end-January 1989); (c) the adoption of a public investment program for 1989-91, consistent with Ghana's medium-term macroeconomic objectives (March 1989); (d) a further adjustment of the cocoa producer price, with a view to raising its share of the world market price (June 1989); and (e) the containment of the Bank of Ghana's financing of the operations of the Cocoa Board to 75 percent of the outstanding cocoa financing by the banking system at the end of each quarter.

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

	1988					1989	
	March 1/	June 1/	June Rev. Base	Sept. 2/	Dec. 3/	March 2/	June 2/
	(In billions of cedis; end of period)						
Net domestic assets of the banking system	110.0	104.7	104.7	95.8	118.9	120.8	116.7
Net claims on the Government by the banking system	20.3	17.4	17.4	18.0	16.2	14.3	12.5
Bank financing of the operations of the Cocoa Board 4/	19.2	11.7	11.7	—	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) 5/	-690.3	-654.2	-708.0	-669.7	-661.2	-628.2	-595.2
External payments arrears	90.4	82.8	82.8	76.1	68.6	57.4	46.1
New nonconcessional external loans contracted or guaranteed by the Government (cumulative on a calendar-year basis) 6/							
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/ Actuals.
2/ Quantitative benchmarks; those for end-March 1989 and end-June 1989 are indicative.
3/ Performance criteria.
4/ Defined as gross financing of the Cocoa Board's operations by the banking system.
5/ 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. As of July 1, 1988, SDRs will be converted into U.S. dollars at the accounting rate of US$1.30 per SDR, compared with the previous rate of US$1.20 per SDR.
6/ 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$75 million credit that was outstanding at the beginning of 1988.

Ghana - Summary of the Program for 1988-89

	1987 Prov.	1988 Prog.	1989 Prog.
Basic assumptions	(In percent, unless otherwise specified)		
Export volume growth			
Total	8.3	0.5	21.6
Cocoa (beans)	1.4	-19.0	24.8
Export price change			
Total	1.6	-1.6	-15.2
Cocoa (beans)	-5.3	-1.0	-24.6
Import price change			
Total	11.3	3.8	4.4
Terms of trade change	-8.8	-5.2	-18.8
Disbursements of official grants and long-term loans (in millions of U.S. dollars)	389.5	440.4	470.1
Velocity of broad money	5.6	5.7	5.7
Basic targets			
Real GDDP growth	4.8	5.5	5.0
Change in national consumer price index (end of period)	34.2	20.0	10.0
Balance of payments			
Current account deficit (-) 1/			
In millions of U.S. dollars	-224.3	-295.8	-346.2
In percent of GDP	-5.0	-5.9	-7.2
Overall surplus or deficit (-)			
In millions of U.S. dollars	138.5	125.0	110.0

1/ Excluding net official unrequited transfers.

Ghana - Summary of the Program for 1988-89

Principal policies and measures

a. Exchange and trade liberalization

The authorities will pursue a flexible exchange rate policy and further liberalize the exchange and trade system. Accordingly, with effect from February 1, 1988, they authorized commercial banks and other dealers to engage in the purchase and sale of foreign exchange through separately instituted foreign exchange bureaus. The differential between the rates established in the weekly auction and those quoted by the foreign exchange bureaus has narrowed markedly in recent months to about 20 percent as of end-August 1988. The authorities aim at a rapid convergence of the rates in both markets through a widening of access to the auction market and an increase in the number of foreign exchange bureaus. Following the recent full liberalization of merchandise trade, except for the five items on the negative list of imports and those imports that are prohibited for nontrade reasons, the authorities plan to abolish the import licensing system by no later than the end of 1988. Restrictions on payments and transfers for other current international transactions will be gradually lifted, with another significant step in this direction to be taken by the end of January 1989, when all bona fide requests for transfers of profits and dividends will become eligible for funding through the auction. In order to increase the supply of foreign exchange to the auction, the Government will avoid granting new foreign exchange retention privileges, except as provided under existing law, and will continue to ensure that the volume of cocoa exports under bilateral payments agreements does not exceed 10,000 metric tons per annum.

b. Pricing policies

To strengthen price incentives in the economy, the Government will pursue its policy of raising producer prices for cocoa and other cash crops. The cocoa producer price was increased by 18 percent to ₵ 165,000 per metric ton for the 1988/89 crop year, representing a projected 50 percent share of the world market price. The Government intends to further increase the cocoa producer price for the 1989/90 crop year to an indicative target of 55 percent of the long-run world market price. In support of this policy, the Cocoa Board is curbing its operating costs as a proportion of the cocoa export price through reductions in staff, a phased elimination of subsidies on agricultural inputs, and cutbacks in the Board's activites that are unrelated to its basic purchasing, marketing, research, and extension services functions.

c. Fiscal policy

The Government's fiscal policy will be geared toward the mobilization of a large part of the domestic resources needed to finance rehabilitation and structural adjustment. Thus, the surplus on government operations, excluding capital expenditure financed through external project aid, is programmed to amount to ¢ 3.9 billion (0.4 percent of GDP) in 1988 and to ¢ 6.5 billion (0.6 percent of GDP) in 1989. Taking account of capital expenditure financed through external project aid, the overall deficit is expected to be equivalent to 2.8 percent of GDP in 1988 and 3.7 percent of GDP in 1989. However, since the increased capital outlays are expected to be matched by higher external assistance, the Government will be making net repayments to the banking system of ¢ 6.0 billion in 1988 and ¢ 8.0 billion in 1989. Under the program, further reforms of the tax system are planned to bring about a more revenue productive and equitable system, while continued improvements in tax administration will be made to enhance revenue collection. At the same time, the authorities will be pursuing a prudent spending policy, including keeping the wage bill to within 5.5 percent of GDP.

d. Public investment program

The public investment program (PIP) for 1988-90 focuses on the rehabilitation of the country's economic and social infrastructure; 59 percent of the total projected outlays of ¢ 363.0 billion (in constant 1988 prices) is allocated for the rehabilitation and development of economic infrastructure, 31 percent for the strengthening of the directly productive sectors, and 10 percent for improving basic health and education services. The Government will continue to prepare rolling three-year PIPs, with the PIP for 1989-91 to be ready for implementation by no later than the end of March 1989.

e. State enterprise reform

The Government remains firmly committed to state enterprise reform, despite the considerable start-up problems experienced in 1987. Of the 32 state enterprises advertised for divestiture, 10 are in the final stage of liquidation, and the Government's interests in 6 joint ventures are to be sold by the end of 1988. A decision on the phasing and modalities for the divestment of the 16 remaining enterprises is to be made by the end of January 1989. Apart from the enterprises already advertised, the Government plans to divest some of its interests in a number of profit-making firms in the mining sector. On the basis of corporate plans and performance agreements, to be updated annually, the State Enterprise Commission will be assessing the performance of those enterprises remaining in the Government's portfolio. Cross-debts and arrears between the Government and 3 of 18 major state enterprises are to be settled by the end of 1988, with those for the remaining enterprises to be settled by the end of 1989.

f. Monetary policy and financial sector reform

Monetary policy during the program period will be geared toward sustaining the economic recovery, reducing inflation, and improving the balance of payments position. Accordingly, the growth of net domestic assets of the banking system in relation to the broad money stock at the beginning of the period will be limited to 10.3 percent in 1988 and 9.3 percent in 1989. However, in view of the sizable net repayments of the Government to the banking system, the program will allow credit to the rest of the economy to increase broadly in line with the projected growth in nominal GDP.

The Bank of Ghana will develop a system of indirect controls to regulate the overall expansion of liquidity. In the meantime, the Bank will use its discount and lending rates more actively to influence money market conditions. The Bank will also gradually phase out its financing of the operations of the Cocoa Board; as a first step, such financing is not to exceed 75 percent of the total cocoa financing outstanding at the end of each quarter during the year ending June 1989. The authorities will take appropriate steps to operate the treasury bill auction as a unified market by the end of 1988.

In view of the serious problems facing a number of banking institutions, the authorities will place high priority on the reform of the financial sector during the program period. The Government has formulated an action plan comprising measures to improve banking supervision, resolve the liquidity and solvency problems of the development banks, and strengthen the mobilization and allocation of financial resources, including rural financing. In this context, the nonperforming loans of banks will be reduced by at least 50 percent by the end of February 1989 through, inter alia, improved loan collection and write-offs; restructuring plans for commercial and development banks covering at least 50 percent of their respective total assets will be prepared by the end of February 1989; and similar plans for the remaining assets will be prepared by the end of 1989.

g. External debt management

The objectives of external debt management during the program period are to improve the maturity profile of Ghana's external debt and to reduce the debt service burden by securing official assistance in the form of grants or highly concessional loans, by strictly limiting borrowing from nonconcessional sources, and by reducing the foreign liabilities of the Bank of Ghana. Accordingly, the contracting of government and government-guaranteed external loans on nonconcessional terms in the 1-12 years' maturity range will be limited to US$85 million in 1988, with a subceiling on the 1-5 years' maturity range of US$60 million. Moreover, the Bank of Ghana will avoid commercial borrowing, except for new credits designed to accelerate the settlement of external payments arrears. In order to achieve full normalization of relations with creditors, external payments arrears will be progressively reduced to US$69.8 million by end-1988 and to US$24.8 million by end-1989.

h. Improving public sector management

The ongoing civil service reform aims at gradually eliminating overstaffing, raising remuneration levels, and increasing salary differentials. A civil service staffing and functional review will be completed by the end of 1988. Based on the preliminary results of this review, the authorities intend to redeploy at least 12,000 employees each year in 1988 and 1989. Provisions have been made in the 1988 budget to cover compensation payments and retraining costs for the retrenched workers; similar provisions will be made in the 1989 budget.

To improve public sector management, the authorities are carrying out a reform program supported by a technical assistance project financed by the World Bank. The project provides training, equipment, and materials to: (a) strengthen the analytical and management capabilities of the Ministry of Finance and Economic Planning, the National Revenue Secretariat, and the Accountant General's Department, as well as the economic coordination functions of the PNDC; (b) attract and retain skilled Ghanaians in the public service; (c) promote civil service reform through the Office of the Head of the Civil Service, including strengthening personnel management; and (d) assist in the implementation of labor rationalization.

Ghana - Relations with the Fund
(As of September 30, 1988)

I. Membership Status

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

A. Financial Relations

II. General Department

(a) Quota	SDR 204.5 million
(b) Fund holdings of local currency	SDR 678.20 million, or 331.61 percent of quota

	Millions of SDRs	Percent of quota
(c) Use of Fund credit	514.60	251.64
General Resources Account	473.70	231.64
Credit tranches	(90.00)	(44.01)
Enlarged access	(281.47)	(137.64)
CFF	(36.38)	(17.79)
EFF	(65.85)	(32.20)
Structural adjustment facility	40.90	20.00
(d) Repurchase obligations (January-December 1988)	196.15	95.92

III. Current Arrangements, Previous Arrangements, and Special Facilities

	Date of approval	Duration (months)	Total amount	Utilization
			Millions of SDRs	
Current arrangements				
Extended arrangement	Nov. 6, 1987	36	245.4	97.55
SAF arrangement	Nov. 6, 1987	36	129.9	40.90
Previous arrangements				
Stand-by	Oct. 15, 1986	12	81.80	81.80
Stand-by	Aug. 27, 1984	16	180.00	180.00
Stand-by	Aug. 3, 1983	12	238.50	238.50
Stand-by	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

Ghana - Relations with the Fund (continued)
(As of September 30, 1988)

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

	Overdue financial obligations 9/30/88	1988 1/	1989	1990	1991
Principal	--	40.5	143.0	85.8	56.7
Repurchases	--	38.9	134.4	83.1	56.4
Trust Fund repayments	--	1.6	8.6	2.7	0.3
SAF repayments	--	--	--	--	--
Charges and interest, including SDR, Trust Fund, and SAF (provisional)	--	4.1	31.7	23.9	18.6
Total	--	44.6	174.7	109.7	75.3

1/ October-December 1988.

V. SDR Department (as of September 30, 1988)

(a)	Net cumulative allocation	SDR 62.98 million
(b)	Holdings	SDR 0.97 million, or 1.54 percent of net cumulative allocation

VI. Administered Accounts (as of September 30, 1988)

Trust Fund loans

(i)	Disbursed	SDR 48.96 million
(ii)	Outstanding	SDR 13.23 million

Ghana - Relations with the Fund (continued)
(As of September 30, 1988)

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, except for foreign exchange earnings from exports of cocoa and residual oil, as well as for 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 the end of August 1988, the buying and selling rates quoted by these bureaus were ¢ 250 and ¢ 270 per U.S. dollar, respectively; the rate at the auction market was ¢ 226 per U.S. dollar.

Ghana maintains restrictions on payments and transfers for current international transactions primarily in the form of external payments arrears.

VIII. Last Article IV Consultation

The consultation discussions were held during the periods November 8-26, 1986, January 14-30, 1987, and February 24-March 2, 1987. The Executive Board considered the staff report on May 4, 1987. The decision was as follows:

1. The Fund takes this decision relating to Ghana's exchange measures subject to Article VIII, Sections 2(a) and 3, in concluding the 1986 Article XIV consultation with Ghana and in light of the 1986 Article IV consultation with Ghana conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Ghana maintains the exchange restrictions described in EBS/87/68, Supplement 1 and SM/87/92 in accordance with Article XIV, Section 2, except that the multiple currency practice and exchange restriction arising from the operation

Ghana - Relations with the Fund (concluded)
(As of September 30, 1988)

of the foreign exchange auction market, 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 approval under Article VIII, Sections 2(a) and 3. The Fund welcomes the intention of the authorities to eliminate the multiple currency practice and restrictions as soon as possible. In the meantime, the Fund grants approval of the retention by Ghana of the multiple currency practice and exchange restrictions that are subject to Article VIII until May 15, 1988 or the completion of the next Article IV consultation, whichever is the 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
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
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 June 30, 1988)

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 June 30, 1988, the World Bank Group had approved operations for Ghana totaling US$1,384.9 million, consisting of 10 loans, 49 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 June 30, 1988.

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), 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 next three years (FY 89-91), the Bank's lending program for Ghana, based on current plans, could amount to about US$622 million, all on IDA terms. The Bank committed US$198.6 million in FY 87, including African Facility Credits. On April 14, 1987, the Bank's Board approved a structural adjustment credit. It concentrates on: (a) trade policies; (b) cocoa sector policies; (c) public expenditure policies; (d) state-owned enterprise reforms; and

Ghana - Relations with the World Bank Group (continued)
(As of June 30, 1988)

(e) measures to improve public sector management. It is supported by a technical assistance credit 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 May 1987, mobilized resources to support 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 June 30, 1988; in millions of U.S. dollars)

	IBRD and IDA 1/		IFC loans and equity participations		Grand total
	Total commitments 2/	Of which: undisbursed	Total commitments	Of which: undisbursed	
Ten loans and 17 credits fully disbursed	390.1	(--)	--	(--)	390.1
Structural adjustment and program lending 3/	474.4	(229.5)	--	(--)	474.4
Agriculture	111.5	(79.4)	--	(--)	111.5
Energy and industry	117.7	(79.6)	32.6	(10.4)	150.3
Transport and tele-communications	163.5	(109.6)	--	(--)	163.5
Urban development, water, education, and health	95.1	(65.4)	--	(--)	95.1
Total	1,352.3	(563.5)	32.6	(10.4)	1,384.9
Less repaid or sold					98.0
Total outstanding					1,286.9
Held by IBRD					(99.1)
IDA					(1,155.2)
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

Source: World Bank Group.

1/ Less cancellations.
2/ Including Special Fund and African Facility Credits totaling US$193.9 million.
3/ Including Technical Assistance Credits.

Ghana - Statistical Issues

1. Outstanding statistical issues

a. Real sector

The currentness and coverage of data as reported to the Fund's Bureau of Statistics remain weak. Data on production and labor are not reported, and price and external trade statistics are uncurrent. The reliability of the national accounts data appears to be uncertain. The recommendations of a Fund technical assistance mission in 1984 do not seem to have been followed through.

b. Government finance

Government finance annual data in IFS are updated through 1986 and correspond to the data provided for the Government Finance Statistics Yearbook (GFSY).

Data contained in the 1987 GFSY covering the budgetary operations of the Central Government are updated through 1986. The forthcoming 1988 GFSY will publish data through 1987. Data reported by the correspondent in 1987 and 1988 did not include the derivation table. The latest data published in this table relate only to 1974.

c. Monetary accounts

The coverage of monetary data to include secondary banks was broadened at the beginning of 1986, following the 1985 technical assistance mission to Ghana. A follow-up visit was undertaken in May 1987 to meet the authorities' request for further assistance in improving the recording and classification of monetary data.

Efforts to reconcile discrepancies between the data reported by the Bank of Ghana to AFR and to STA are continuing.

d. International banking statistics and external debt

A technical assistance mission in external debt statistics has been agreed with the authorities for October 1988. The mission will review accounting practices and procedures for external debt and debt-related statistics.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the coverage and currentness of data published for Ghana in the September 1988 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Bank of Ghana, which during the past year have been provided on an irregular and infrequent basis.

Status of IFS Data

		Latest Data in September 1988 IFS
Real Sector	- National Accounts	1985
	- Prices: CPI	Dec. 1987
	WPI	1986
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1986
	- Financing	1985
	- Debt	1985
Monetary Accounts	- Monetary Authorities	March 1988
	- Deposit Money Banks	March 1988
	- Other Financial Institutions	n.a.
Interest Rates	- Discount Rate	Q2 1987
	- Bank Lending/ Deposit Rate	Q2 1987
	- Government Bond Yield	n.a.
External Sector	- Merchandise Trade:	
	Values:	1986
	Prices:	n.a. 1/
	- Balance of Payments	1987
	- International Reserves	March 1988
	- Exchange Rates	June 1988

1/ Cocoa beans: May 1988.

Ghana - Basic Data

Area, population, and GDP per capita

Area	238,500 square kilometers
Population: Total (1986 estimate)	14.0 million
Growth rate	3.3 percent
GDP per capita (1986 estimate)	SDR 340

	1982	1983	1984	1985	1986	1987 Prov.
Gross domestic product						
Total (in millions of cedis)	86,450	184,038	270,561	343,048	511,373	746,000
At 1979 prices	261,228	249,003	270,561	284,451	299,241	313,605
	(In percent of GDP)					
Agriculture	57	60	49	45	48	51
Industry	6	7	11	17	17	16
Services	37	33	40	38	35	33
	(Annual percentage change)					
Nominal GDP	19.0	112.9	47.0	26.8	49.1	45.9
Real GDP	-6.9	-4.6	8.6	5.1	5.2	4.8
Exports (volume)	13.0	-27.9	2.0	21.1	9.3	8.3
Imports (volume)	-42.9	-9.6	26.9	11.3	14.8	14.4
Prices						
GDP deflator	27.9	123.0	35.3	20.6	41.7	39.2
National consumer price index	22.1	123.1	39.7	10.4	24.6	39.8
Export prices	-23.9	0.3	26.6	-7.9	8.4	1.6
Import prices	-2.8	-6.1	-2.8	-2.1	-4.9	11.3
Terms of trade	-21.7	6.8	30.2	-5.9	13.9	-8.8
Central government finance	(In millions of cedis)					
Revenue and grants	5,254	10,241	22,641	40,312	73,627	111,046
Expenditure and net lending	9,220	15,178	27,485	47,892	73,328	106,987
Of which: current expenditure	(8,029)	(13,566)	(23,326)	(38,462)	(60,835)	(80,583)
Surplus or deficit (-)	-3,966	-4,937	-4,844	-7,580	299	4,059
As percent of GDP	-4.6	-2.7	-1.8	-2.2	0.1	0.5
Foreign financing (net)	214	687	1,816	3,522	-5,614	-1,180
Domestic financing (net)	3,752	4,250	3,028	4,058	5,315	-2,879
Of which: banking system 1/	(409)	(2,572)	(3,106)	(3,011)	(2,471)	(-7,400)

1/ Broad coverage, beginning in 1984.

Ghana - Basic Data (concluded)

	1982	1983	1984	1985	1986	1987 Prov.
Money and credit (end of period)	(Annual percentage change)					
Net domestic assets 1/	20.0	41.2	76.5	68.2	41.8	10.8
Net claims on the Government	3.8	90.3	14.7	12.5	9.1	-25.0
Credit to rest of the economy	60.7	-43.7	295.8	128.3	50.8	20.8
Broad money	23.3	38.1	72.1	59.5	53.7	53.0
Velocity (ratio)	5.8	9.0	7.7	6.1	5.9	5.6
Balance of payments	(In millions of U.S. dollars)					
Exports, f.o.b.	607.0	439.1	566.7	632.5	749.3	824.1
Of which: cocoa beans and products	(406.5)	(268.6)	(381.7)	(412.0)	(503.3)	(495.4)
noncocoa products	(200.5)	(170.5)	(185.0)	(220.5)	(246.0)	(328.7)
Imports, f.o.b.	-588.7	-499.7	-616.0	-671.3	-733.5	-933.9
Of which: oil	(-306.9)	(-161.1)	(-161.0)	(-209.5)	(-122.6)	(-141.1)
Trade balance	18.3	-60.6	-49.3	-38.8	15.8	-109.8
Services and transfers (net)	-126.9	-97.0	-26.0	-117.9	-100.6	7.8
Current account balance	-108.6	-157.6	-75.3	-156.7	-84.8	-102.1
Capital account (net)	137.7	102.0	93.3	62.4	20.0	255.1
Of which: official capital (net)	(112.8)	(27.7)	(186.7)	(32.1)	(123.1)	(218.0)
Errors and omissions	-1.7	-187.4	19.2	-21.2	8.1	-14.5
Overall balance	27.4	-243.0	37.2	-115.5	-56.7	138.5
Current account balance as a percent of GDP	-0.3	-0.3	-1.0	-2.5	-1.6	-2.3
Gross official international reserves						
End of period 2/	223.9	184.6	131.8	145.2	148.7	193.6
In weeks of imports, c.i.f.	19.8	18.1	10.4	10.4	9.9	9.8
External public debt						
Disbursed and outstanding (end of period; including the Fund)	1,830.4	2,028.3	1,986.9	2,154.6	2,663.9	3,089.2
Debt service as a percent of exports of goods and services						
Including the Fund	...	31.8	40.3	54.5	47.7	59.9
Excluding the Fund	...	27.7	36.0	46.8	36.7	32.7
Exchange rates	(Cedis per U.S. dollar)					
End of period	2.8	30.0	50.0	59.9	152.0	185.0
Period average	2.8	3.4	35.3	54.1	98.9	165.0

1/ Broad coverage, beginning in 1984.
2/ From 1984, gross reserves are on a disposable basis.

Ghana - Selected Social and Demographic Indicators 1/

Area	
Total land area (sq. km.)	238,500
Agricultural land (in percent of total)	26
Population and vital statistics	
Total population (1986, in millions)	14.0
Population growth rate (1980-86 average, in percent)	3.3
Urban population (percent of total)	32
Population density (per sq. km. of agricultural land)	192
Population age structure (in percent)	
0-14 years	49
15-64 years	49
65 and above	2
Crude birth rate (per thousand)	46
Crude death rate (per thousand)	14
Infant mortality rate (per thousand)	94
Life expectancy at birth (years)	53
Health and nutrition	
Access to safe water (in percent of population)	
Total	49
Urban	72
Rural	39
Population per physician (in thousands)	7
Per capital 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	67
Secondary	36
Pupil-teacher ratio	
Primary	32
Secondary	22

Source: World Bank.

1/ Unless otherwise mentioned, estimates refer to the latest available year between 1980 and 1986.