FOR AGENDA

EBS/87/207
Supplement 1

CONFIDENTIAL

October 16, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Ghana - Request for Extended Arrangement and Request for Arrangements Under the Structural Adjustment Facility

Attached for consideration by the Executive Directors is a paper on Ghana's request for an extended arrangement equivalent to SDR 245.4 million and its request for arrangements under the structural adjustment facility which, together with the letter of intent from the Ghanaian authorities (EBS/87/207, 10/2/87) and the policy framework paper (EBD/87/247, 9/30/87), will be brought to the agenda for discussion on a date to be announced. Draft decisions appear on page 40.

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)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

GHANA

Requests for Extended Arrangement and for Arrangements Under the 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 H.B. Junz

October 16, 1987

I. Introduction

In a letter dated September 18, 1987, the Government of Ghana requested a three-year extended arrangement in an amount equivalent to SDR 245.4 million, representing 120 percent of Ghana's quota of SDR 204.5 million, or 40 percent of quota on an annual basis (EBS/87/207). In the same letter, the Government requested a three-year structural adjustment arrangement, and the first annual arrangement thereunder, under the structural adjustment facility (SAF). 1/ The total amount that will be available to Ghana under the SAF is currently estimated at SDR 129.9 million, and the first loan thereunder is for SDR 40.9 million. The extended arrangement and the arrangements under the SAF are to support the Government's adjustment program for the period July 1987-June 1990. It should be noted, however, that for planning purposes the program has been formulated on a calendar-year basis, and it thus effectively covers the period 1987-90. In developing

1/ The discussions that formed the basis of these requests were initiated in Accra during the period June 18-July 1, 1987 and were concluded in Washington during the period August 19-26, 1987. The Ghanaian representatives included Dr. Botchwey, Secretary for Finance and Economic Planning, Dr. Agama, Chairman of the Bank of Ghana, Dr. Abbey, Ghana's High Commissioner to the United Kingdom, and other senior officials concerned with economic and financial matters. The staff representatives were Mr. Calamitsis (head-AFR), Mr. Chand (FAD), Mr. van Til (AFR), Mr. Thomsen (ETR), Mr. Ames (EP-AFR), and Miss Cheng (secretary-AFR). Mr. Sharer, the Fund's resident representative in Accra, took part in the discussions; and his successor, Mr. Johnson, attended the meetings at headquarters. Mr. Choi (the World Bank's resident representative in Accra) and Ms. Jones (the Bank's desk officer for Ghana) participated in the joint discussions with the Ghanaian authorities on the policy framework paper.

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 1987-90 and the macroeconomic and structural adjustment policies designed to achieve these objectives (EBD/87/247). This paper, which was transmitted to the Managing Director of the Fund and to the President of the World Bank on September 17, 1987, was considered by the Bank's Executive Directors at a meeting of the Committee of the Whole on October 13, 1987.

In support of its program of adjustment, the Government of Ghana has already obtained from the World Bank a Development Credit of SDR 26.9 million and an African Facility Credit of SDR 64.0 million on standard IDA terms, as well as a Development Credit of SDR 8.6 million for a Structural Adjustment Institutional Support Project; of this total assistance of SDR 99.5 million, about 45 percent had been disbursed as of August 31, 1987. The Government has also requested and received assurances of continued financial support from its other major multilateral and bilateral creditors.

Ghana made all the purchases, totaling the equivalent of SDR 81.8 million, envisaged under the one-year stand-by arrangement which expired on October 14, 1987. As of September 30, 1987 the Fund's holdings of Ghana's currency, the cedi, subject to repurchase were equivalent to 279.0 percent of quota; excluding holdings resulting from purchases under the compensatory financing facility, they amounted to 221.1 percent of quota. If the full amount of the requested extended arrangement is drawn according to the proposed schedule of purchases (Table 1), and after taking into account scheduled repurchases, by September 30, 1990 the Fund's holdings of Ghana's currency subject to repurchase would amount to the equivalent of 190.6 percent of quota, all of which would be in respect of purchases under tranche policies (Table 2). A waiver of the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement will be required, and is proposed.

As the negotiations on the adjustment program were initiated in June 1987 and concluded in August, consideration by the Executive Board of Ghana's requests for use of Fund resources could not be scheduled before end-September 1987. Consequently, the proposed date of the first performance test, end-September 1987, would be earlier than the date on which the extended arrangement becomes effective. This is not the normal case envisaged by the operational guidelines on performance criteria set forth in Executive Board Decision No. 7925-(85/38). However, the proposed performance criteria constitute a continuation of those established under the previous program supported by use of Fund resources. In fact, they do not differ significantly from the indicative targets contained in the authorities' letter of intent regarding the review under the last stand-by arrangement. Moreover, the authorities have committed themselves to adhere to the performance criteria well ahead of the first test date, as indicated in their letter of intent of September 18, 1987.

Table 1. Ghana: Schedule of Purchases During Period of Extended Arrangement

Amount	Availability date	Conditions necessary for purchase 1/
SDR 5.00 million	November 13, 1987	Executive Board approval of the extended arrangement.
SDR 17.55 million	After December 14, 1987	Compliance with quantitative performance criteria as of September 30, 1987.
SDR 25.00 million	After February 14, 1988	Compliance with quantitative performance criteria as of December 31, 1987 and completion of the first review under the extended arrangement.
SDR 25.00 million	After May 14, 1988	Compliance with quantitative performance criteria as of March 31, 1988.
SDR 25.00 million	After August 14, 1988	Compliance with quantitative performance criteria as of June 30, 1988.
SDR 25.00 million	After November 14, 1988	Compliance with quantitative performance criteria as of September 30, 1988.
SDR 17.55 million	After February 14, 1989	Compliance with quantitative performance criteria as of December 31, 1988 and completion of the second review under the extended arrangment.
SDR 17.55 million	After May 14, 1989	Compliance with quantitative performance criteria as of March 31, 1989.
SDR 17.55 million	After August 14, 1989	Compliance with quantitative performance criteria as of June 30, 1989.
SDR 17.55 million	After November 14, 1989	Compliance with quantitative performance criteria as of September 30, 1989.
SDR 17.55 million	After February 14, 1990	Compliance with quantitative performance criteria as of December 31, 1989 and completion of the third review under the extended arrangement.
SDR 17.55 million	After May 14, 1990	Compliance with quantitative performance criteria as of March 31, 1990.
SDR 17.55 million	After August 14, 1990	Compliance with quantitative performance criteria as of June 30, 1990.

Source: IMF.

1/ Other than generally applicable conditions under the extended arrangement and non-quantitative performance criteria, including the performance clause on the exchange and trade system.

Table 2. Ghana: Fund Position During Period of Extended Arrangement

	Outstanding at	1987	1988				1989				1990		
	Sept. 30, 1987	Oct.-Dec.	Jan.-March	April-June	July-Sept.	Oct.-Dec.	Jan.-March	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-March	Apr.-June	July-Sept.
	(In millions of SDRs)												
Transactions under tranche policies (net)	—	-6.82	1.93	-8.12	-1.99	-13.85	-3.04	-21.40	2.92	-13.56	6.67	-15.78	10.42
Purchases	—	22.55	25.00	25.00	25.00	25.00	17.55	17.55	17.55	17.55	17.55	17.55	17.55
Ordinary resources	(—)	(7.52)	(8.33)	(8.33)	(8.33)	(8.33)	(5.85)	(5.85)	(5.85)	(5.85)	(5.85)	(5.85)	(5.85)
Enlarged access resources	(—)	(15.03)	(16.67)	(16.67)	(16.67)	(16.67)	(11.70)	(11.70)	(11.70)	(11.70)	(11.70)	(11.70)	(11.70)
Repurchases	—	-29.37	-23.07	-33.12	-26.82	-38.85	-20.59	-38.95	-14.63	-31.11	-10.88	-33.33	-7.13
Ordinary resources	(—)	(-17.00)	(-18.88)	(-18.88)	(-22.63)	(-20.86)	(-16.40)	(-16.40)	(-10.43)	(-8.56)	(-6.68)	(-6.68)	(-2.93)
Enlarged access resources	(—)	(-12.36)	(-4.20)	(-14.24)	(-4.20)	(-17.99)	(-4.20)	(-22.55)	(-4.20)	(-22.55)	(-4.20)	(-26.64)	(-4.20)
Transactions under special facilities (net) 1/	—	-15.06	-22.34	-22.34	-22.34	-7.28	-7.28	-7.28	-7.28	-7.28	—	—	—
Purchases	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)
Repurchases	(—)	(-15.06)	(-22.34)	(-22.34)	(-22.34)	(-7.28)	(-7.28)	(-7.28)	(-7.28)	(-7.28)	(—)	(—)	(—)
Structural adjustment facility loans	—	40.90	—	—	—	61.35	—	—	—	27.61	—	—	—
Total Fund credit outstanding (end of period)	570.71	589.63	569.22	538.76	514.60	554.83	544.51	515.83	511.48	518.25	524.92	509.14	519.57
Tranche policies	452.15	445.33	447.26	439.14	437.32	423.47	420.43	399.02	401.95	388.38	395.06	379.28	389.70
Special facilities 1/	118.46	103.40	81.06	58.72	36.38	29.11	21.83	14.56	7.28	—	—	—	—
Structural adjustment facility	—	40.90	40.90	40.90	40.90	102.25	102.25	102.25	102.25	129.86	129.86	129.86	129.86
	(In percent of quota)												
Total Fund credit outstanding (end of period)	279.03	288.33	278.35	263.45	251.64	271.31	266.26	252.24	250.11	253.42	256.69	248.97	254.07
Tranche policies	221.10	217.77	218.71	214.74	213.85	207.07	205.59	195.12	196.55	189.92	193.18	185.47	190.56
Special facilities 1/	57.93	50.56	39.64	28.72	17.79	14.23	10.68	7.12	3.56	—	—	—	—
Structural adjustment facility	—	20.00	20.00	20.00	20.00	50.00	50.00	50.00	50.00	63.50	63.50	63.50	63.50
Memorandum item:													
Trust Fund loans outstanding (end of period)													
In millions of SDRs	22.96	21.32	18.10	16.45	13.23	11.59	8.37	6.73	5.04	3.39	2.24	1.17	0.75
In percent of quota	11.23	10.42	8.85	8.05	6.47	5.67	4.09	3.29	2.46	1.66	1.09	0.57	0.37

Source: IMF, Treasurer's Department.

1/ Compensatory financing facility.

Ghana is on the standard 12-month cycle for Article IV consultations. The staff report for the 1986 Article IV consultation with Ghana, which was combined with the review under the last stand-by arrangement, was considered by the Executive Board on May 4, 1987. Ghana continues to avail itself of the transitional arrangements of Article XIV, Section 2.

For the purposes of this report, the following appendices are attached: the proposed extended arrangement (Appendix I); the proposed arrangements under the SAF (Appendix II); a summary of Ghana's relations with the Fund (Appendix III); a summary of Ghana's relations with the World Bank Group (Appendix IV); the public investment program for 1986-88 (Appendix V); a summary of the adjustment program for 1987-88 (Appendix VI); and selected social and demographic indicators (Appendix VII).

II. Background

Ghana is well-endowed with human and natural resources. The population, which has been growing at an annual rate of about 3 percent, was estimated at 12.6 million in 1985, while per capita gross domestic product (GDP) amounted to some US$550. The country has an abundant supply of fertile land, considerable forestry and fishing resources, substantial minerals such as gold, diamonds, bauxite, and manganese, and large hydroelectric power potential. Agriculture is by far the most important economic activity; together with the forestry and fishing sectors, it accounts for more than 50 percent of GDP. Although food and industrial crops constitute the major source of value added and employment in agriculture, cocoa production and exports account for over 60 percent of Ghana's export earnings, about one fourth of government tax revenue, and a sizable share of total employment. The services sector, consisting mainly of trade and related activities, represent approximately 35 percent of GDP. The manufacturing sector, with a contribution of about 9 percent of GDP, is well developed and diverse relative to that in most sub-Saharan African countries. However, as this sector developed in an environment of high import protection, many industrial enterprises are now uncompetitive under a liberalized exchange and trade system.

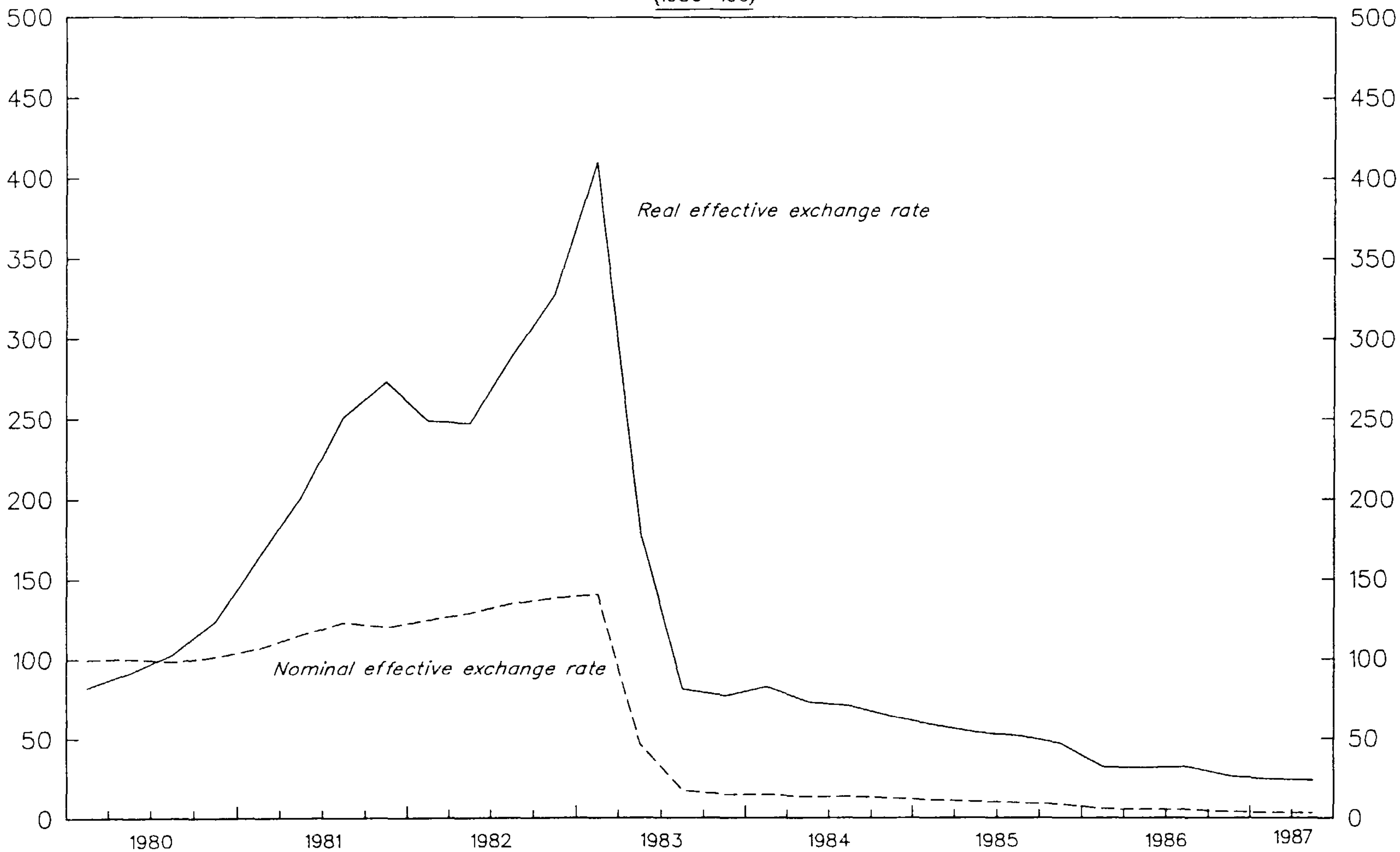
Despite its substantial resources and growth potential, Ghana experienced a period of protracted economic decline from around 1970 through 1982. Real per capita income fell by some 30 percent over this period, while domestic savings and investment decreased from 12 percent and 14 percent of GDP, respectively, in 1970 to less than 4 percent of GDP each in 1982. Inflation, as measured by the consumer price index, averaged 44 percent per annum. At the same time, the balance of payments registered large overall deficits, which not only depleted gross official foreign reserves but also involved an accumulation of external payments arrears amounting to the equivalent of US$577 million at end-December 1982, or more than 90 percent of export earnings in that year. These adverse developments were attributable partly to exogenous factors, notably a worsening in Ghana's terms of trade and two periods of severe drought (1974-77 and 1982-83). To a large extent, however, the deterioration was due to the inappropriate economic and financial policies pursued by the authorities, policies which led to an erosion of confidence in the currency and a weakening of incentives to produce, export, save, and invest.

Faced with this extremely serious situation, the Government of Ghana undertook in April 1983 an Economic Recovery Program (ERP) involving a fundamental reorientation of economic and financial policies, designed to lay a firm basis for the achievement over the medium term of a viable external payments position consonant with sustainable economic growth. The major objectives of the ERP, which was developed in close collaboration with the staffs of the Fund and the World Bank, were the following: (a) to revive domestic production and exports; (b) to rehabilitate the country's economic and social infrastructure; (c) to restore fiscal and monetary discipline with a view to reducing inflation; and (d) to encourage domestic savings and investment. This program was supported not only by substantial use of Fund resources under successive stand-by arrangements but also by considerable financial assistance from the World Bank and other donors.

A key element of the authorities' program was a progressive movement toward a realistic and flexible exchange rate system, coupled with the liberalization of the extensive system of price and distribution controls. Accordingly, the official exchange rate was adjusted, in stages, from ₵ 2.75 per U.S. dollar in April 1983 to ₵ 90 per U.S. dollar in January 1986, entailing a sharp real effective depreciation of the currency (Chart 1). The depreciation of the official exchange rate made it possible to increase the producer price for cocoa from ₵ 12,000 per ton in the 1982/83 crop year to ₵ 56,600 per ton in the 1985/86 crop year, thereby boosting production and exports. Moreover, with the concurrent liberalization of price controls, higher import costs were fully passed through to most domestic prices, including those of petroleum products.

These improvements in relative prices were accompanied by a tightening of fiscal and credit policies. As a result, the deficit on central government operations, excluding capital expenditure financed through external project aid, was reduced from the equivalent of 4.6 percent of GDP in 1982 to 2.0 percent of GDP in 1985. The reduction in the fiscal deficit and the corresponding decline in domestic bank financing of the government budget enabled the channeling of additional financial resources to the private sector. A flexible interest rate policy, which resulted in positive real rates by the end of 1985, also contributed substantially to the mobilization of domestic financial resources.

CHART 1
GHANA
NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, JANUARY 1980–JUNE 1987[1]
(1980=100)



Source: IMF, Information Notice System.
1 Based on the following trade weights (in percent): United Kingdom (19), United States (13), Germany (10), Cote d' Ivoire (8), Japan (6), Netherlands (6), Italy (4), Jamaica (4), and other countries (30).

Initially, the recovery effort was set back by the adverse impact of the severe drought in 1982-83 and by unexpected delays in disbursements of external financial assistance. Subsequently, however, there was a marked improvement in Ghana's overall economic situation. With the substantial expansion in agricultural, mining, and manufacturing output, real GDP rose by 8.7 percent in 1984 and 5.1 percent in 1985, following a decline of 4.7 percent in 1983 (Table 3). The domestic supply situation thus improved considerably, and imports also rose appreciably. In conjunction with the tightened demand-management policies, the overall increase in supply resulted in a rapid deceleration of inflation, from 123 percent in 1983 to just over 10 percent in 1985. At the same time, a much improved export performance was instrumental in reducing the overall balance of payments deficit from the equivalent of US$243 million in 1983 to US$115 million in 1985, with external payments arrears being brought down sharply to US$175 million by end-December 1985.

Although the initial objectives of the ERP were largely realized, there were some slippages in policy implementation toward the end of 1985 and in early 1986 which threatened to undermine the economic recovery. The rate of monetary expansion in 1985 was much higher than programmed. In addition, pressures for higher government wages and salaries (which are low relative to those of most developing countries) contributed to a significant weakening of the stance of fiscal policy in early 1986. The loosening of fiscal and monetary policies had a rapid impact on Ghana's overall economic performance. In the first half of 1986, inflation accelerated to an annual rate of 36 percent. Concurrently, the external position deteriorated markedly, with the net foreign assets of the Bank of Ghana declining by US$191 million, while additional external payments arrears of US$139 million were incurred.

To reverse these slippages in economic policy and consolidate the gains achieved during the first three years of the ERP, the authorities took corrective measures in the second half of 1986. In particular, the stance of fiscal policy was tightened considerably, partly through an appreciable rollback of wage increases granted to government employees and also through new revenue measures. The fiscal program aimed at reducing the deficit on central government operations, excluding capital expenditure financed through external project aid, to the equivalent of 0.2 percent of GDP for 1986 as a whole, or substantially below the deficit recorded in 1985. In the event, a fiscal surplus equivalent to 0.1 percent of GDP was realized in 1986. Meanwhile, the exchange system was further liberalized through the introduction on September 19, 1986, and for only a temporary period, of a dual exchange rate system consisting of a first-window exchange rate fixed at ₵ 90 per U.S. dollar and a second-window exchange rate determined in the context of a weekly auction. Moreover, with effect from October 4, 1986 the import licensing system was liberalized, as the authorities began issuing "A" licenses that allow importers to bid for foreign exchange in the auction; these licenses initially covered virtually all nonconsumer goods. Monetary policy was also tightened, although the program allowed for a further

Table 3. Ghana: Selected Economic and Financial Indicators, 1983-90

	1983	1984	1985	1986	1987 EBS/87/68	1987 Prog.	1988	1989	1990
							Projections		
	(Annual percentage change; unless otherwise specified)								
National income and prices									
Real GDP	-4.7	8.7	5.1	5.3	5.0	4.0	6.0	5.0	5.0
Real GDP per capita	-7.1	6.7	1.6	2.2	...	1.0	2.9	1.9	1.9
GDP deflator	123.3	35.3	31.2	30.2	18.0	31.0	15.0	10.0	8.0
Consumer price index (annual average)	123.1	39.7	10.3	24.6	18.0	35.0	15.0	10.0	8.0
Consumer price index (end of period)	142.4	6.0	19.5	33.3	...	13.2	15.0	10.0	8.0
External sector									
Exports, f.o.b.	-27.7	29.1	11.6	18.5	-1.2	5.1	10.6	11.1	10.3
Imports, f.o.b.	-15.1	23.3	8.6	9.7	12.7	14.7	11.2	9.7	10.3
Export volume	-27.9	2.0	21.1	9.3	7.8	8.0	8.5	8.9	7.7
Import volume	-9.6	26.9	10.9	15.3	8.1	9.9	6.0	4.6	5.1
Terms of trade	6.8	30.2	-5.9	13.9	-12.1	-6.8	-2.9	-2.7	-2.3
Nominal effective exchange rate	-58.3	-75.4	-27.0	-49.8	...	...	...	...	...
Real effective exchange rate	-32.8	-61.4	-27.3	-42.0	...	...	...	...	...
Government budget									
Revenue and grants	95.0	121.1	78.0	82.6	49.4	45.4	30.6	18.4	13.6
Total expenditure	64.6	81.1	74.2	53.1	48.5	44.1	28.9	16.8	13.2
Current expenditure	69.0	71.9	64.9	58.2	34.3	38.1	19.3	11.5	9.9
Capital expenditure 1/	35.3	158.0	126.7	32.5	117.8	73.3	66.2	31.5	20.9
Money and credit 2/									
Net domestic assets 3/	44.4	84.3	77.1	49.8	12.9	13.0	10.4	8.0	8.8
Credit to the Government 3/	17.3	15.2	8.5	4.4	-18.6	-7.1	-4.6	-3.6	-3.6
Credit to the rest of the economy 3/ 4/	8.4	63.1	63.1	35.7	28.4	18.3	14.1	11.0	11.8
Broad money	38.1	72.0	59.5	53.6	32.9	39.5	25.9	19.8	17.7
Velocity (GDP relative to broad money)	9.0	7.7	6.6	5.9	5.5	5.8	5.6	5.4	5.2
Interest rates (in percent; end of period)									
Minimum rate on savings deposits	11.0	14.5	16.5	18.5	21.5	21.5	...	...	...
Maximum rate on nonagricultural loans	19.0	22.5	23.0	23.0	26.0	...	...	...	...
	(In percent of GDP)								
Investment and savings									
Gross investment	3.8	7.2	7.4	11.9	17.4	13.0	16.0	17.2	17.9
Domestic savings	0.9	4.4	5.1	10.2	10.1	9.1	12.9	14.6	15.4
Government budget									
Surplus or deficit (-) 5/	-2.7	-1.8	-2.0	0.1	0.2	0.2	0.4	0.7	0.7
Overall surplus or deficit (-) 6/	...	...	-2.8	-2.4	...	-2.8	-3.2	-2.9	-2.6
Revenue and grants	5.6	8.4	10.8	14.4	17.4	15.4	16.5	16.9	16.9
Total expenditure 5/	8.2	10.2	12.8	14.3	17.2	15.2	16.0	16.2	16.2
External sector 7/									
Current account balance 8/	-0.3	-1.0	-2.3	-1.6	-3.9	-3.9	-3.1	-2.6	-2.5
External debt outstanding	26.7	37.8	32.5	68.7	73.3	71.1	65.4	61.5	56.4
Debt service	0.4	2.9	5.3	7.5	11.4	11.1	13.2	11.5	9.6
	(In percent of exports of goods and services)								
External debt service									
Including the Fund	46.6	36.2	54.1	47.1	53.8	53.8	60.6	52.2	44.2
Excluding the Fund	42.5	32.1	47.5	37.8	27.6	28.2	29.1	32.0	31.9
	(In millions of U.S. dollars)								
Current account balance 8/	-157.6	-75.3	-156.6	-84.5	-149.8	-166.1	-137.0	-122.2	-129.8
Overall balance of payments	-243.0	37.2	-115.4	-56.7	108.0	108.0	125.0	110.0	100.0
External payments arrears (end of period)	440.0	232.0	175.0	171.0	145.0	145.0	96.6	48.2	--
Gross international reserves (end of period)	...	131.8	145.2	148.7	164.4	174.6	167.7	182.6	195.2
(equivalent weeks of imports)	...	10.0	10.0	10.0	10.0	10.0	9.0	9.0	8.0

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

1/ Includes net lending and from 1987 onwards the special efficiency program.
2/ Before 1984, based on a narrow coverage of the banking system.
3/ In percent of broad money at the beginning of the period.
4/ Includes financing of Cocoa Board operations, but excludes other items (net).
5/ Excludes capital expenditure financed through external project aid.
6/ Includes capital expenditure financed through external project aid.
7/ The time series are affected by the substantial changes in the exchange rate in recent years.
8/ Includes official grants.

expansion in credit to the rest of the economy and for the seasonal financing needs of the Cocoa Board. However, a combination of higher-than-expected bank financing of the operations of the Cocoa Board and an unforeseen sharp rise in other items (net) of the banking system during the last quarter of the year led to an increase in net domestic assets of the banking system well in excess of the program target. Along with a relative improvement in the external position, this resulted in an expansion in broad money of 53 percent in 1986, compared with the program target of 19 percent.

Overall, however, the macroeconomic objectives of the program for 1986 were largely realized: the growth of real GDP amounted to 5.3 percent; the rate of inflation, while substantially higher than in 1985, was contained to under 25 percent; and the overall balance of payments deficit was brought down by more than one half to US$57 million, with external payments arrears being reduced somewhat below the end-December 1985 level, despite the sizable increase that had occurred in the first half of 1986.

III. Policies and Performance in the First Half of 1987

In the first half of 1987, the Ghanaian authorities pursued their adjustment efforts with a view to achieving the following objectives for the year as a whole: (a) a growth in real GDP of 5 percent, which would increase real per capita income by about 2 percent; (b) a reduction in the average annual rate of inflation to 18 percent; and (c) the generation of an overall balance of payments surplus equivalent to US$108 million. Accordingly, additional structural and financial measures were taken to promote the process of adjustment with economic growth. 1/

To improve the overall framework of incentives in the economy, the exchange and trade system was further liberalized. Effective February 21, 1987, the official exchange rates were unified at ¢ 150 per U.S. dollar. Since then, all external transactions through the official banking system are being settled at the exchange rate determined in the weekly auction. Furthermore, as part of the authorities' continuing efforts to widen access to the auction, with effect from March 13, 1987, bids for foreign exchange to cover service and transfer payments approved by the exchange control authorities became eligible for participation in the auction. Subsequently, as of March 20, 1987, goods representing about 40 percent of the value of all items previously excluded from the "A" licensing scheme and imported under Special Import Licenses (SILs) were moved onto the "A" list of goods eligible for

1/ For a detailed description of these measures, see EBS/87/68, Supplement 1.

funding through the auction. 1/ These policies were intended to ensure that manufacturing production would receive more uniform effective protection and that domestic prices would move closer to parity with international prices. As a means of further increasing agricultural incentives, the producer price for cocoa was raised from ₵ 85,500 (including a bonus of ₵ 500) per ton for the 1986/87 crop year to ₵ 150,000 (including a possible bonus of ₵ 10,000) per ton for the 1987/88 crop year. At the same time, steps were taken to improve the operations and financial performance of the Cocoa Board, as well as of other major state enterprises.

These measures were coupled with the implementation of prudent fiscal and monetary policies. In the area of fiscal policy, the Government introduced a number of tax measures, including the conversion of the windfall profit on petroleum products resulting from the lower import prices into an excise duty on the main items (other than kerosene). Structural reform of the tax system was also pursued, together with a strengthening of tax administration. As regards government outlays, wages, salaries, and allowances were raised, but the total number of government employees was concurrently reduced. The 1987 budget thus provides for a surplus on central government operations, excluding capital expenditure financed through external project aid, of ₵ 1.1 billion (0.2 percent of GDP). Including capital outlays that are financed entirely through external project aid, an overall deficit equivalent to 2.8 percent of GDP is envisaged. Nevertheless, as the financing flows are expected to permit a reduction in government debt to the banking system of ₵ 5.5 billion (0.9 percent of GDP), the fiscal program will help to slow substantially the growth of net domestic assets of the banking system. To promote financial savings, in March 1987 the Bank of Ghana raised minimum desposit rates by 3 percentage points to 21.5-23.0 percent. At the same time, maximum lending rates were raised by 3 percentage points to 23.5-26.0 percent, with the exception of those applicable to the agricultural sector which continued to receive preferential treatment.

With the implementation of these policies and measures, Ghana's program of adjustment remained broadly on track during the first half of 1987. Moreover, all the performance criteria for end-March 1987 and end-June 1987 were observed, except for the end-June ceiling on net domestic assets of the banking system which was exceeded only slightly and for which a waiver was granted by the Fund (EBS/87/191). In January-June 1987, the balance of payments registered an overall surplus equivalent to US$70 million, even larger than the programmed US$50 million. However, real GDP growth was lower and inflation was higher than envisaged in the program. Late and inadequate rainfall in the coastal belt seriously affected the maize crop, and, to a lesser extent,

---

1/ However, SILs, which require the importer to use his own foreign exchange resources, continued to be issued for all goods, except for those on the short negative list of imports.

the rice and yam crops. In the circumstances, real GDP growth has been revised downward to 4 percent for 1987, compared with the original target of 5 percent. Meanwhile, during the first half of the year, inflation accelerated to an annualized average rate of 40 percent, well above the initial target of 18 percent. This was due to a combination of three factors: the effect of the adverse weather conditions on food prices (which have a weight of 50 percent in the consumer price index); the higher-than-expected impact on prices of the large exchange rate adjustments in September 1986 and February 1987; and the rapid monetary expansion that occurred in late 1986. In view of the shortfall in food production, substantial grain imports were effected under the SIL scheme; these contributed to a temporary widening of the differential between the auction market and parallel market exchange rates. However, as the supply situation improved, food prices eased appreciably in June-July. Thus, in view of the continuing tight stance of fiscal and monetary policies, and the seasonal decline in prices during the second half of the year, a substantially lower year-end rate of inflation is now envisaged.

IV. Medium-Term Objectives and Policy Framework for 1987-90

Despite the substantial progress made during the past four years, Ghana still faces major structural and financial problems. First, while economic recovery has begun to take hold, the growth of real GDP is constrained by inadequate savings, insufficient incentives, and infrastructure bottlenecks, notably in the transport sector. Second, inflation is high, severely eroding the already low levels of real wages and salaries. Third, the external payments position is vulnerable to adverse developments in the international environment, particularly to fluctuations in world cocoa prices. Fourth, the external debt service burden is heavy, especially in 1988, although it is expected to decline significantly over the medium term. There are also a number of other factors which continue to slow the pace of adjustment in Ghana. For example, the present weaknesses of the financial system limit effective support of the productive sectors and constrain the rise in financial savings required to fund higher levels of investment. Furthermore, weaknesses in management and implementation capacity have emerged as serious obstacles to the full success of the authorities' economic and financial policies.

In view of the nature and magnitude of these problems, the Government has decided to pursue its adjustment efforts in the context of a medium-term policy framework, aimed at establishing a firm foundation for a buoyant economy and placing the balance of payments on a sound footing. As indicated in the policy framework paper (EBD/87/247), the basic objectives of the authorities' program for 1987-90 are the following: (a) to achieve an average annual rate of growth of real GDP of the order of 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 consumer price index) from 25 percent in 1986 to

8 percent in 1990, following a temporary acceleration in the rate 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. Thus, barring unforeseen adverse developments, it is expected that by the end of 1990 Ghana would attain a viable external payments position consonant with sustainable economic growth.

To attain these basic objectives, the Ghanaian authorities will continue to implement a combination of appropriate structural and financial policies. In particular, while pursuing prudent fiscal and credit policies, they have undertaken to carry out the following actions under the program: (a) further improve 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) increase investment for the rehabilitation and restructuring of productive capacity, infrastructure, and social services; (c) strengthen government revenue mobilization and expenditure control; (d) reform the state enterprise sector; (e) implement financial sector reforms that will encourage financial savings through market-determined interest rates and a broadening of the range of financial instruments; and (f) improve public sector management, with a view to 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 growth strategy

The economic growth strategy underlying the program is based on a substantial increase in both public and private investment. Total investment is programmed to rise from the equivalent of 12 percent of GDP in 1986 to 18 percent of GDP in 1990. To this end, the authorities will continue to implement the public investment program for 1986-88, which is described below, along the lines agreed with the World Bank. An appropriate "rolling" public investment program will also be carried out during the period 1988-90; the draft is expected to be prepared by the end of 1987, and the program is to be adopted by the end of March 1988. At the same time, a coherent policy of encouraging private investment in directly productive activities will be pursued and strengthened.

The financing of the projected investments will require an increase in domestic savings from the equivalent of 10 percent of GDP in 1986 to 15 percent of GDP in 1990, with public savings rising from 7 percent of GDP to 10 percent of GDP, respectively. For this reason, the Government's fiscal program aims at mobilizing additional revenues to finance productive investments, and state enterprise reform is also geared toward this purpose. Moreover, the expected growth in private disposable income, coupled with the financial sector reforms and a flexible interest rate policy, should help promote private savings. The remaining financing needs of the program are expected to be met through external assistance from both multilateral and bilateral sources. In this regard, the indications provided by donors at the meeting of the Consultative Group for Ghana in May 1987 were encouraging.

On the basis of this strategy, the expansion of the economy is expected to be broadly based. This assumes an effective implementation of the adjustment policies in agriculture, industry, mining, transport, energy, and the social sectors, as described in the PFP. However, the GDP growth target of the order of 5 percent per annum will require a particularly strong performance from both agriculture and industry. In the agricultural sector, cocoa production is expected to continue its recovery under the influence of favorable production incentives. It is assumed that production, relative to capacity, will gradually reach its potential during the program period. Moreover, the prospects for food and industrial crops are likely to improve as a result of increased price incentives and better extension services. Timber production is also expected to expand rapidly, as new forestry equipment is in place and transport bottlenecks are easing. In the industrial sector, manufacturing is projected to respond strongly to improved incentives and to the greater availability of spare parts and inputs. The rehabilitation and modernization of Ghana's mines will permit a steady expansion of output. Finally, the services sector is projected to grow in line with the rest of the economy. Transportation will benefit from the recent rehabilitation of the economic infrastructure; wholesale and retail trade will expand with higher domestic production; and financial services will grow as confidence in the banking system is restored. It should be noted, however, that the overall growth of the economy will depend crucially upon developments in world commodity prices, particularly for cocoa, and the availability of external concessional assistance to Ghana at the projected levels.

2. Pricing policies

The Government has already reduced substantially the number of goods and services subject to statutory price controls, and most subsidies have been eliminated. Although a few items still subject to controls are considered sensitive, the Government intends to re-examine the rationale for the remaining price controls with a view to eliminating most of them as soon as possible and, in any event, by the end of June 1990.

In general, the incentive framework has tended to favor industry relative to agriculture. The authorities have therefore resolved to provide adequate incentives to agriculture by applying efficiency considerations more systematically in setting producer prices. As indicated earlier, to encourage cocoa production and exports, the price paid to cocoa farmers was raised from ₵ 85,500 (including a bonus of ₵ 500) per ton for the 1986/87 crop year to ₵ 150,000 (including a possible bonus of ₵ 10,000) per ton for the 1987/88 crop year. As a result of this major price adjustment, the cocoa producer price as a proportion of the world market price is now projected to rise from 25 percent in the 1986/87 crop year to some 40 percent in the 1987/88 crop year. To help establish future producer prices of cocoa, a study is being carried out by the Cocoa Board with World Bank assistance. Subject to the results of this study, which is to be completed by the end of April 1988, the authorities intend to increase the cocoa producer price progressively to an indicative target of 55 percent of the long-run world market price for the 1989/90 crop year, thereby providing adequate incentives for replanting and new planting, while virtually eliminating the incentive to smuggle cocoa to neighboring countries.

The increase in the cocoa producer price will require a substantial reduction in the operating costs of the Cocoa Board, from the equivalent of about 30 percent of the f.o.b. price in the 1985/86 crop year to an indicative target of 15 percent of the currently projected f.o.b. price in the 1988/89 crop year. The Cocoa Board has thus been taking appropriate cost-reducing measures, involving mainly cutbacks in activities that are unrelated to its basic purchasing, marketing, and extension service functions. As part of the action program for the Cocoa Board's fiscal year ended September 30, 1987, the Board reduced its staff further by 21 percent to about 49,000 and divested itself of 52 plantations; at the same time, the Government took over from the Board responsibility for the construction and maintenance of cocoa feeder roads. Furthermore, a corporate plan will be implemented during the three-year period 1987/88-1989/90, comprising additional restructuring and cost-reducing measures. Finally, alternative ways of taxing cocoa production will be studied, with a view to eventually replacing the current export tax by an agricultural income tax.

3. Fiscal policy and the public investment program

A major element of the program is to complete the restructuring of public finances, which in the past has been a principal source of the imbalances in the economy. Accordingly, the authorities intend to implement a phased program of revenue measures, drawing on the recommendations of recent Fund technical assistance in the tax area; this is expected to boost the share of revenue and grants (excluding external project grants) from 14 percent of GDP in 1986 to 17 percent of GDP in 1990. They also intend to exercise appropriate restraint on the growth in total government expenditure and net lending. Thus, the surplus on central government operations, excluding capital expenditure financed through external project aid, is programmed to increase from 0.1 percent of GDP in 1986 to 0.7 percent of GDP in 1990 (Table 4). Taking account of capital outlays that are financed entirely through external project aid, the overall deficit would average 2.9 percent of GDP during 1987-90. However, the prospective financing flows would permit net repayments of government debt to the banking system of ₵ 5.5-₵ 6.5 billion per annum.

Table 4. Ghana: Central Government Operations and Financing, 1984-90

	1984	1985	1986 Prov.	1987 EBS/87/68	1987 Prog.	1988	1989	1990
						Projections		
				(In millions of cedis)				
Total revenue and grants	22,641	40,312	73,625	109,986	107,020	139,812	165,488	187,973
Revenue	21,727	38,692	69,757	102,103	99,137	130,647	153,393	175,583
Taxes on income and property	(4,061)	(7,462)	(14,121)	(17,230)	(20,242)	(25,947)	(31,557)	(38,654)
Taxes on international transactions	(8,242)	(15,824)	(28,465)	(49,251)	(42,647)	(53,334)	(58,047)	(56,749)
Taxes on goods and services	(5,628)	(9,233)	(19,620)	(26,502)	(24,600)	(37,167)	(47,389)	(61,582)
Nontax revenue	(3,797)	(6,173)	(7,550)	(9,120)	(11,648)	(14,199)	(16,400)	(18,597)
Foreign grants	914	1,620	3,868	7,883	7,883	9,165	12,095	12,390
Total expenditure and net lending	27,485	47,892	73,326	108,905	105,676	136,210	159,076	180,075
Current expenditure	23,326	38,462	60,833	81,691	84,022	100,224	111,752	122,844
Wages and salaries	(5,282)	(14,524)	(26,194)	(34,625)	(34,625)	(43,281)	(49,990)	(56,688)
Interest	(3,425)	(4,786)	(11,341)	(17,265)	(17,265)	(18,596)	(18,523)	(18,348)
Other	(14,619)	(18,852)	(23,298)	(29,801)	(32,132)	(38,347)	(43,239)	(47,808)
Capital expenditure and net lending 1/	4,159	9,430	12,493	23,014	18,169	29,742	37,091	44,795
Capital expenditure	(3,368)	(7,303)	(9,826)	(18,214)	(15,608)	(23,237)	(29,557)	(36,295)
Net lending	(791)	(2,127)	(2,667)	(4,800)	(2,561)	(6,505)	(7,534)	(8,500)
Special efficiency 2/	--	--	--	4,200	3,485	6,244	10,233	12,436
Surplus or deficit (-)	-4,844	-7,580	299	1,081	1,344	3,601	6,411	7,897
Financing	4,844	7,580	-299	-1,081	-1,344	-3,601	-6,411	-7,897
Foreign (net)	1,816	3,522	-5,614	2,419	963	156	-2,498	-2,620
Borrowing	(5,073)	(9,562)	(13,412)	(26,128)	(24,672)	(35,412)	(39,657)	(43,316)
Repayments	(-3,257)	(-6,040)	(-19,026)	(-23,709)	(-23,709)	(-35,256)	(-42,155)	(-45,936)
Domestic (net)	3,028	4,058	5,315	-3,500	-2,307	-3,758	-3,914	-5,277
Banking system	(3,106)	(3,011)	(3,000)	(-5,500)	(-5,500)	(-5,500)	(-5,500)	(-6,500)
Social security	(437)	(510)	(3,182)	(3,500)	(3,193)	(1,500)	(1,000)	(500)
Other	(-515)	(537)	(-338)	(-1,500)	(--)	(242)	(586)	(723)
				(In percent of GDP)				
Total revenue and grants	8.4	10.8	14.4	17.4	15.4	16.5	16.9	16.9
Total expenditure and net lending	10.2	12.8	14.3	17.2	15.2	16.1	16.2	16.2
Surplus or deficit (-)	-1.8	-2.0	0.1	0.2	0.2	0.4	0.7	0.7
Memorandum items:								
Total revenue and grants (including external project grants)	...	11.4	15.4	19.7	17.6	18.4	19.1	18.9
Total expenditure and net lending (including capital expenditure financed through external project aid)	...	14.1	17.8	22.9	20.4	21.7	21.9	21.5
Overall deficit (-) (broad coverage)	...	-2.8	-2.4	-3.2	-2.8	-3.3	-2.9	-2.6

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

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

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

In addition to raising revenue, the tax reforms planned by the authorities will be directed at removing the distortions that hamper economic efficiency and at improving equity. To promote work incentives and tax compliance, the reform of the personal income tax system will involve further reductions in marginal and average effective tax rates from their present high levels. At the same time, to protect revenue, the taxable base will be expanded both through the integration of different sources of income and the more effective taxation of cash and in-kind allowances. The authorities also plan to reduce the company income tax rate and to adjust depreciation and other allowances for past inflation so as to promote investment. The Investment Code will be modified to limit incentives to a relatively few but critical investments in order to contain losses in revenue. A major objective of the incentive-oriented tax reforms will be to raise the relative share in revenue of taxes on goods and services. The authorities therefore intend to rely more on the domestic sales tax and to raise excise duties progressively on alcoholic beverages, tobacco, and petroleum products, with the exception of kerosene which features heavily in the consumption pattern of low-income groups. Much of the projected revenue increase will be generated through a reform of the sales tax, which currently operates at a level far below its potential. The sales tax, which is presently levied only at the manufacturer's level, will be expanded to include wholesale trade, while current exemptions will be reduced. To further improve production incentives, the dependence of the revenue system on taxes on international transactions, particularly on the volatile cocoa export tax, will be reduced. As already mentioned, apart from progressively reducing the cocoa export tax burden by raising producer prices, the authorities intend to examine the feasibility of eventually replacing the cocoa export tax by an agricultural income tax.

Efforts initiated in 1985 and 1986 to improve tax administration have already borne fruit in a marked increase in income tax collections. While continuing these efforts in the area of income taxes, the authorities intend to emphasize the overhaul of the weak sales tax administration. Elements of the tax administration reform program include more comprehensive and efficient taxpayer registration, collection, and assessment procedures, as well as improvements in staffing, training, and work facilities.

The present pattern of government expenditure does not accord well with the objectives and priorities of the authorities, while budgeting and associated systems reveal a number of weaknesses. Reforms in this area will thus emphasize not only the reallocation of expenditure in favor of the requirements of structural adjustment but also the strengthening of expenditure control and monitoring. Drawing on the recommendations of recent Fund technical assistance in the area of budgeting, beginning in 1988 the budgetary coverage will be expanded to include capital expenditure financed through external project aid. The planning machinery will also be strengthened, while improvements will be effected in the monitoring and implementation capacities of the Ministry of Finance and Economic Planning.

The authorities plan to develop expenditure norms and apply appropriate guidelines for the allocation of recurrent expenditure in various sectors, especially agriculture, health, and education, so as to provide necessary services in a more cost-effective manner. At the same time, during 1987-89 steps will continue to be taken to reduce the size of the civil service, which remains overstaffed at the lower levels, by about 45,000, or 15 percent. Implementation of this redeployment policy will help provide some leeway to increase further average salaries in real terms in order to attract and retain well-qualified personnel, especially at the higher levels of the civil service, while keeping the wage bill in the range of 5-6 percent of GDP. The implementation of additional cost recovery measures is expected to further reduce subsidies and net lending to state enterprises and other public entities, thereby freeing resources for higher priority items.

In the past, the planning and implementation of public investments were subject to major weaknesses, with allocations made largely on an ad hoc basis leading both to waste and frequent stoppages. The situation has now been considerably improved with the formulation of the public investment program (PIP) for 1986-88, which was endorsed by donors at the meeting of the Consultative Group for Ghana in May 1987. The main thrust of the PIP, which covers some 80 percent of the capital outlays of the Government and the major parastatals, is to alleviate the basic structural weaknesses in the economy, especially in the areas of economic and social infrastructure. Thus, major emphasis is being placed on the rehabilitation of existing infrastructure, notably in the transport sector, which is critically needed to sustain the economic recovery. Of the total planned investment of ¢ 178.7 billion, about 42 percent is allocated to transport infrastructure, 20 percent to the power sector, 33 percent to agriculture, mining, and industry, and 5 percent to the social sectors, mostly health and education (Appendix V). To protect the public investment strategy against possible funding constraints, a core of about 20 projects, accounting for 40 percent of the Government's 1987 development budget, has been identified. The core investment program focuses on agricultural support services, transport rehabilitation, road maintenance, and the completion of health stations. Preparations are under way to roll over the PIP for 1986-88 to cover 1988-90. On the basis of current projections, public investment, which rose from the equivalent of 4 percent of GDP in 1984-85 to an estimated 6 percent in 1986, is expected to reach 10 percent in 1990.

4. State enterprise reform

State enterprises play a major role in virtually all sectors of the economy. However, their performance has been characterized, for the most part, by low productivity and large financial losses that have placed a heavy managerial and financial burden on the Government. In view of this, a two-year plan of corrective action has been prepared by the authorities, with World Bank and UNDP assistance, involving three key elements: an overall policy framework for dealing with the problems of the state enterprise sector; a divestiture program; and a strengthening of state enterprise management, as well as of the Government's monitoring of state enterprise performance.

In the context of the overall policy framework, guidelines are being established clearly defining conditions of state enterprise access to government resources with a view to reducing such access. Moreover, procedures will be introduced shortly to ensure that all investments by enterprises which receive budgetary support meet the financial criteria for inclusion in the public investment program, and that close surveillance is maintained on the conditions of borrowings for these investments. To restore financial discipline, cross debts and arrears within the public sector will be cleared as soon as feasible. To deal with the problem of overstaffing, the Government has imposed a freeze on new hiring by state enterprises, and a labor redeployment policy for the sector as a whole is under preparation.

As regards the divestiture program, 30 state enterprises have already been identified for outright sale, conversion to joint ventures, or liquidation. Additional enterprises will be identified as studies under way are completed.

To better monitor and evaluate the performance of state enterprises, the Government has restructured the State Enterprises Commission. Three-year corporate plans will be prepared by individual enterprises, and performance agreements will be concluded with the Government according to an agreed upon schedule.

5. Monetary policy and financial sector reforms

The attainment of the inflation and balance of payments objectives of the program requires a tight control on the overall expansion of domestic credit. The program thus provides for a substantial slowdown in the growth of net domestic assets of the banking system in relation to the broad money stock, from a high of 50 percent in 1986 to 9 percent in 1990 (Table 5). Nevertheless, in view of the Government's sizable net repayments to the banking system during 1987-90, the program allows 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 program also provides for additional measures to mobilize domestic savings and to foster financial deepening. In this regard, policy and institutional measures aimed at restoring full confidence in the banking system, strengthening financial institutions, and improving the efficiency of financial intermediation are expected to promote the holding of cedi-denominated financial assets. This would permit a continuation of the decline in the velocity of broad money observed since 1983, albeit at a much slower pace, averaging 3 percent annually during 1987-90.

Table 5. Ghana: Monetary Survey, 1984-88

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

	1984	1985	1986	1987				Revised	1987		1988	
				March		June		June 1987	Sept.	Dec.	March	June
				Prog.	Act.	Prog.	Act.	Base 2/	Prog.	Prog.	Prog.	Prog.
Net foreign assets 3/	-31.4	-48.7	-130.7	-127.1	-124.2	-121.9	-114.8	-132.9	-124.8	-126.8	-123.6	-117.1
Net domestic assets	39.9	67.1	95.1	96.0	95.3	92.2	92.4	91.9	87.0	106.3	107.6	102.3
Claims on Government (net)	24.2	27.2	29.6	30.1	29.5	27.1	27.1	26.5	25.5	23.5	23.9	21.3
Cocoa financing	3.6	13.6	16.9	14.7	14.7	6.2	6.2	6.2	—	21.7	20.0	7.3
Credit to the rest of the economy	13.7	26.0	42.7	44.3	44.1	52.0	51.2	51.8	54.1	53.7	55.3	65.4
Other items (net)	-1.6	0.4	5.8	6.8	7.0	6.8	8.0	7.4	7.4	7.4	8.4	8.4
Revaluation account	29.9	41.9	133.1	133.1	133.1	133.1	133.1	151.8	151.8	151.8	151.8	151.8
Broad money	35.3	56.3	86.4	90.9	93.1	92.3	99.7	99.7	102.9	120.5	124.7	125.9
Money	27.4	44.0	65.8	...	68.5	...	70.1	70.1	...	...	...	...
Quasi-money	7.9	12.3	20.6	...	24.6	...	29.5	29.5	...	...	...	...
Counterpart to SDR allocations	3.1	4.0	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	373.0	511.4	...	...	...	...	...	...	698.8	...	849.4
(Percentage change)	(47.0)	(37.9)	(37.1)	(...)	(...)	(...)	(...)	(...)	(...)	(36.2)	(...)	(21.9)
Velocity (GDP relative to M2)	7.7	6.6	5.9	...	...	...	...	...	...	5.8	...	5.6
Percentage change in net domestic assets 4/	...	68.2	49.7	...	...	...	...	...	...	13.0	...	10.4
Percentage change in credit to the rest of the economy 4/	...	89.4	29.8	...	...	...	...	...	...	12.7	...	11.0

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

1/ Totals may not match additions due to rounding.
2/ The revised base reflects adjustments of net foreign assets at the exchange rate prevailing at the end of June 1987 and minor reclassifications of items in the accounts of the monetary authorities.
3/ During the period December 1986-June 1987, measured at the exchange rate prevailing at the end of December 1986; thereafter, measured at the end of June 1987 exchange rate.
4/ In percent of broad money at the beginning of the period.

To encourage financial institutions to attract resources and channel them to the most productive sectors, the Government has liberalized virtually all interest rates, as described below. As a further means of fostering market-determined interest rates, an auction market for treasury bills will be introduced shortly. Moreover, in order to develop an active money market, a discount house will be established. A securities market to deal in equity and long-term debt instruments will also be activated.

The Bank of Ghana intends to loosen controls on sectoral credit allocation and to rely more on instruments of indirect credit control, including management of the monetary base, as soon as feasible. The Bank of Ghana will also develop instruments to monitor and supervise the banking system more effectively. The authorities are particularly concerned about the liquidity and capital inadequacy problems of the development banks, which stem largely from weaknesses in management, difficulties in loan recovery, and the large adjustments in the exchange rate. On the basis of a financial sector study undertaken with World Bank assistance, recommendations for appropriate corrective actions, including their full costing, will be worked out by the end of 1987. In view of the tight government budgetary position, the authorities expect that financing of the necessary reforms will be obtained mostly from external sources on concessional terms.

6. External sector policies and outlook

As indicated at the outset, a key element of the ERP was the progressive movement toward a realistic and flexible exchange rate, coupled with the liberalization of the exchange and trade system. After a period of managed adjustment of the official exchange rate, the authorities adopted the current system under which the rate is determined in the context of the weekly auction, and the experience with the auction has so far been satisfactory. At the same time, access to the auction has been gradually widened, while efforts have been continued to increase the surrender of foreign exchange to the official banking system.

Under the program for 1987-90, the authorities intend to pursue this process of exchange and trade liberalization, with a view to achieving complete liberalization of current account transactions by the end of June 1990. The auction market rate has depreciated significantly since June 1987 to ₵ 175 per U.S. dollar, the latest weekly rate. At the same time, the spread between the auction market and parallel market exchange rates has narrowed, but it is still of the order of 30 percent. As the liberalization process continues, a further narrowing of the spread is expected. While making efforts to ensure a smooth functioning of the auction system, the authorities intend to encourage a gradual increase in the role of commercial banks and other authorized dealers in the mobilization and sale of foreign exchange. The enhanced role of commercial banks and other authorized dealers should help promote greater efficiency and speed in foreign exchange transactions.

The authorities are committed to taking further measures to promote exports, including streamlining the procedures for waiving or reimbursing taxes on imports used in production for export, improving export firms' access to working capital, and strengthening the Export Promotion Council. Further efforts will be made under the program to identify additional promotion measures, especially for nontraditional exports.

Although Ghana's tariff structure provides a relatively uniform and moderate level of protection, with most rates being in the range of 20-30 percent, some distortions are caused by the incidence of other taxes on domestic production and imports. For this reason, a program of measures to reform domestic taxes has been initiated, the first stage of which was contained in the 1987 budget. In addition, the structure and level of the tariff system need to be examined in light of the exchange rate changes. Therefore, a comprehensive review of the tariff system is being undertaken to examine the levels of effective protection, and, if warranted, revisions in the tariff structure will be put in place during the program period.

With the effective implementation of the program, Ghana's external payments position is expected to continue to improve over the medium term. The improvement which now seems the most probable is depicted in the base-line scenario of the balance of payments underlying the policy framework paper and the program to be supported by the proposed extended arrangement and the SAF (Table 6). This suggests that Ghana could attain a viable external payments position by the end of 1990, while sustaining import levels consistent with the targeted growth of real GDP. It should be stressed, 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 base-line scenario of the balance of payments, export prices of cocoa beans are expected to recover only marginally during the program period, from US$2,208 per ton in 1987 to US$2,266 per ton in 1990, which is less than the assumed increase in import prices. As a result, following a 7 percent decline in Ghana's terms of trade that is projected for 1987 on account of the already observed drop in cocoa prices, a further cumulative deterioration in the terms of trade of about 8 percent is projected for 1988-90. In volume terms, cocoa exports are expected to increase by 5 percent annually, reaching the 1982 level of 239,000 tons, which is the recent peak, around 1990-91. Exports of most other commodities are projected to grow by about 10 percent annually, although exports of gold and timber are expected to increase more rapidly. The gold and timber sectors have benefited from considerable rehabilitation efforts with substantial external assistance, and recent performance lends support to the assumption that they can sustain the growth momentum. Consistent with growth targets for real GDP, imports are expected to increase by about 5 percent per annum in real terms. It is assumed that the ongoing liberalization of the exchange and trade system, supported by an appropriate tariff

Table 6. Ghana: Balance of Payments, 1984-91 1/

(In millions of U.S. dollars)

	1984	1985	1986	1987 EBS/87/68	1987 Prog.	1988	1989	1990	1991
						Projections 2/			
Exports, f.o.b.	566.7	632.5	749.3	764.0	787.3	870.6	967.4	1,067.5	1,166.8
Cocoa beans and products	381.7	412.0	503.3	469.8	493.5	520.7	551.1	586.2	623.5
Gold	103.3	90.6	106.4	131.6	132.2	162.1	197.8	222.7	257.0
Timber	21.2	27.8	44.1	49.9	62.7	82.3	105.8	137.7	156.6
Other	60.5	102.1	95.5	112.7	98.9	105.5	112.7	120.9	129.7
Imports, f.o.b.	-616.0	-668.7	-733.5	-803.3	-841.3	-935.6	-1,026.4	-1,131.7	-1,238.7
Oil	-161.0	-205.6	-122.6	-145.8	-161.9	-178.7	-196.8	-216.7	-238.7
Non-oil	-455.0	-463.1	-610.9	-657.5	-679.4	-756.9	-829.6	-915.0	-1,000.0
Trade balance	-49.3	-36.3	15.8	-39.3	-54.0	-65.0	-59.0	-64.2	-71.9
Services (net)	-229.2	-256.8	-290.6	-324.9	-284.3	-291.2	-309.6	-327.4	-341.3
Of which:									
Interest	(-103.0)	(-107.9)	(-105.3)	(-110.7)	(123.3)	(-111.6)	(-115.5)	(-117.2)	(-114.3)
Private unrequited transfers (net)	73.5	31.9	72.1	52.1	52.4	56.3	60.5	65.0	69.8
Current account balance, excluding official transfers	-205.0	-261.2	-202.7	-312.1	-285.9	-299.9	-308.1	-326.6	-343.4
Official unrequited transfers (net)	129.7	104.6	118.2	162.3	119.8	162.8	185.9	196.8	210.6
Current account balance, including official transfers	-75.3	-156.6	-84.5	-149.8	-166.1	-137.0	-122.2	-129.8	-132.8
Capital account	93.3	62.4	20.0	257.8	274.1	262.1	232.2	229.9	250.8
Official capital (net)	186.7	32.1	123.1	266.3	251.6	219.4	192.3	201.9	242.5
Long-term loans	83.6	109.8	226.5	219.5	230.0	215.5	219.8	235.7	254.4
Inflows	(133.4)	(134.8)	(256.7)	(260.0)	(267.1)	(251.1)	(257.0)	(277.0)	(296.3)
Amortization	(-49.8)	(-25.0)	(-30.2)	(-40.5)	(-37.1)	(-35.6)	(-37.2)	(-41.3)	(-41.9)
Medium-term loans	104.3	-70.3	-92.2	58.5	33.3	15.6	-17.2	-30.6	-11.5
Inflows	(169.5)	(152.5)	(128.2)	(171.9)	(156.8)	(177.8)	(193.1)	(209.8)	(227.9)
Amortization	(-65.2)	(-222.8)	(-220.4)	(-113.4)	(-123.5)	(-162.2)	(-210.3)	(-240.4)	(-239.4)
Trust Fund	-1.2	-7.4	-11.2	-11.7	-11.7	-11.7	-10.3	-3.2	-0.4
Private capital (net)	-8.7	5.8	7.0	8.3	8.9	42.7	39.9	28.0	8.3
Direct investment	2.0	5.6	4.3	4.7	4.7	4.7	4.7	4.7	4.7
Suppliers' credits	-10.7	0.2	2.7	3.6	4.2	38.0	35.2	23.3	3.6
Other	--	--	--	--	--	--	--	--	--
Short-term capital	-84.7	24.5	-110.1	-16.9	13.6	--	--	--	--
Errors and omissions	19.2	-23.3	7.7	--	--	--	--	--	--
Overall balance	37.2	-117.5	-56.7	108.0	108.0	125.0	110.0	100.0	118.0
Financing	-37.2	117.5	56.7	-108.0	-108.0	-125.0	-110.0	-100.0	-118.0
Net foreign assets	-26.9	109.7	66.1	-120.0	-120.0	-125.0	-110.0	-100.0	-118.0
Assets	--	1.0	-16.9	-16.9	-25.9	6.9	-14.9	-12.6	-43.3
IMF (net)	213.7	121.8	16.1	-18.6	-17.1	-44.5	-46.7	-39.0	-74.7
Purchases	217.9	121.8	37.6	90.0	91.5	127.8	89.7	67.3	--
Borrowing under the SAF	--	--	--	52.3	52.3	78.4	35.3	--	--
Repurchases	-4.2	--	-21.5	-160.9	-160.9	-250.7	-171.7	-106.3	-74.7
Payments arrears (reduction -)	-207.8	-56.7	-3.7	-26.0	-26.0	-48.4	-48.4	-48.4	--
Other liabilities	-32.8	43.6	70.6	-58.5	-51.0	-39.0	--	--	--
Bilateral payments agreements	-10.3	7.8	-9.4	12.0	12.0	--	--	--	--
Memorandum items:									
Current account deficit (-)									
In percent of GDP									
Including official grants	-1.0	-2.3	-1.6	-3.9	-3.9	-3.1	-2.6	-2.5	-2.3
Excluding official grants	-2.7	-3.8	-3.8	-8.1	-8.1	-6.8	-6.6	-6.3	-6.0
Debt service ratio									
Including IMF	36.2	54.1	47.7	53.8	54.3	60.6	52.2	44.2	41.4
Excluding IMF	32.1	47.5	38.3	27.6	28.2	29.1	32.0	31.9	29.2
Cocoa exports (beans)									
Volume (in thousands of tons)	149.6	171.8	195.2	210.0	205.0	215.3	226.0	237.3	249.2
Price (in US$ per ton)	2,351	2,189	2,406	2,087	2,208	2,219	2,237	2,266	2,296

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

1/ Totals may not match additions due to rounding.
2/ Base-line scenario.

structure, will ensure the most efficient utilization of available foreign exchange resources. Under these assumptions, after increasing appreciably to US$286 million in 1987, the current account deficit, excluding official grants, is projected to rise only moderately to US$327 million in 1990. In relation to GDP, the deficit would drop from 8.1 percent in 1987 to 6.3 percent in 1990.

As far as official grants and the capital account are concerned, the medium-term outlook hinges on two major assumptions. First, external assistance in the form of grants and concessional loans from official multilateral and bilateral development agencies is expected to grow by 2 percent in real terms, averaging US$436 million annually during 1987-90. This is based on the favorable commitments and indications about future aid which the authorities received during the meeting of the Consultative Group for Ghana in May 1987. In fact, taking into account the existing pipeline and anticipated new commitments, official grants and concessional loan disbursements could reach US$455 million per year. Second, it is expected that commercial lenders will not reduce their exposure in Ghana and will respond favorably to the ongoing normalization of the trade and payments regime. As the Bank of Ghana is scheduled to eliminate about US$150 million of arrears and other short-term liabilities of an exceptional nature owed to foreign commercial banks between 1987 and 1990, it is assumed that the banks will channel these funds back to the economy by making revolving trade facilities available through their domestic affiliates.

An important element of the Government's medium-term strategy is a gradual restructuring of the maturity profile of Ghana's external public debt. During the program period, the authorities will rely largely on official grants and concessional loans to finance the current account deficits and other obligations; recourse to commercial borrowing will be strictly limited. Thus, by the end of 1990, it is projected that long-term debt will represent 67 percent of the total external public debt, compared with 49 percent at the end of 1986 (Table 7). This restructuring of the maturity profile of the debt, combined with a sustained export recovery, is expected to reduce the debt sevice ratio from a high of 60.6 percent in 1988 to 44.2 percent in 1990 and further to 41.4 percent in 1991. Ghana has discharged its financial obligations to the Fund on schedule, and it is expected to continue to do so in the period ahead.

Although the base-line scenario of the balance of payments shows no financing gaps over the program period, this does not imply that Ghana neither needs nor has the capacity to efficiently absorb more external assistance. Indeed, should higher levels of external assistance become available, Ghana's growth potential could be enhanced further, while enabling an increase in gross reserves to a more satisfactory level. In contrast, should the evolution of the key exogenous variables turn out to be less favorable than foreseen in the base-line scenario, significant financing gaps would arise, unless further adjustment measures are taken by the authorities to deal with the situation.

Table 7. Ghana: External Public Debt and Debt Service, 1986-91 1/

	1986	1987	1988	1989	1990	1991
External public debt	(In millions of U.S. dollars; end of period)					
Medium-term debt	394.4	427.7	443.3	426.1	395.5	384.0
Previously rescheduled 2/	170.8	155.3	139.7	123.7	108.2	93.0
Other	223.6	272.4	303.6	302.4	287.3	291.0
Long-term debt	1,134.9	1,364.9	1,580.1	1,800.2	2,035.9	2,290.3
Bilateral loans	391.3	435.1	471.1	509.3	579.1	654.2
Multilateral loans	743.6	929.8	1,109.0	1,290.9	1,456.8	1,636.1
IMF	779.1	750.3	694.1	637.1	594.9	519.8
Tranche policies/CFF	747.6	678.2	555.3	473.3	434.3	359.6
Trust Fund/SAF	31.5	72.1	138.8	163.8	160.6	160.2
Arrears	171.4	145.4	97.0	48.4	--	--
Total	2,479.8	2,688.3	2,814.8	2,911.8	3,026.3	3,194.1
	(In percent of total; end of period) 3/					
Medium-term debt	17.1	16.8	16.3	15.0	13.1	12.0
Of which: previously rescheduled	(7.4)	(6.1)	(5.1)	(4.3)	(3.6)	(2.9)
Long-term debt	49.2	53.7	58.2	62.5	67.3	71.7
Of which: multilateral loans	(32.2)	(36.6)	(40.8)	(45.1)	(48.1)	(51.2)
IMF	33.8	29.5	25.5	22.5	19.7	16.3
External public debt service	(In millions of U.S. dollars)					
Principal	283.3	333.2	460.4	429.5	391.2	356.1
Long-term	30.2	37.1	35.6	37.2	41.3	41.9
Medium-term	220.4	123.5	162.2	210.3	240.4	239.4
IMF repurchases	32.7	172.6	262.4	182.0	109.5	74.8
Interest	105.3	123.3	111.6	115.5	117.2	114.3
Long-term	28.3	30.2	32.4	37.2	43.7	48.5
Medium-term	22.0	41.5	34.5	40.6	39.7	36.5
IMF charges	55.0	51.6	44.3	37.7	33.8	29.3
Total	388.6	456.5	572.0	545.0	508.4	470.4
Memorandum items:						
Debt service ratios 4/						
Including IMF	47.1	53.8	60.6	52.2	44.2	41.4
Excluding IMF	37.8	28.2	29.1	32.0	31.9	29.2

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

1/ Excluding short-term liabilities of the Bank of Ghana.
2/ Originally medium-term debt.
3/ Excluding external payments arrears.
4/ In percent of exports of goods and services.

In view of the sensitivity of the balance of payments to changes in the external environment and in domestic adjustment policies, three alternative scenarios have been prepared (Table 8) to illustrate the effects of lower cocoa export prices (Scenario A), higher oil import prices (Scenario B), and lower export volume growth due to a weakening of the adjustment effort or a slow down in the pace of rehabilitation in certain sectors (Scenario C). In Scenario A, it is assumed that cocoa export prices will be lower than in the base-line scenario by about US$300 per ton throughout the projection period. Under these conditions, there would be a cumulative financing gap of US$226 million during 1988-90. In Scenario B, oil import prices are some US$5 per barrel higher than in the base-line scenario, resulting in a cumulative financing gap of US$125 million over the same period. The projected debt service ratios in Scenarios A and B are 3-5 percentage points higher than in the base-line scenario, but would be significantly higher *if the financing gaps were to be covered through additional borrowing on* commercial terms. It may be recalled that the base-line scenario assumes that the strong export growth registered in recent years can be maintained, which is predicated on the vigorous implementation of the structural reform program. The growth in exports is expected to be led by a particularly strong expansion in the gold and timber sectors. To illustrate the sensitivity of the projections to lower export growth, Scenario C assumes that export volume will increase at an annual rate of only 4.7 percent, compared with 8.4 percent in the base-line scenario. This would entail a rapidly increasing and unsustainable financing gap. However, it should be noted that these scenarios are symmetrical. Therefore, to the extent that cocoa export prices turn out to be higher than assumed in the base-line scenario, or oil import prices lower, or export volume growth more pronounced, the balance of payments outturn would be more favorable than that depicted in Table 6.

V. The Adjustment Program for 1987-88

Consistent with the medium-term framework of the program, the basic objectives for the period immediately ahead are: (a) to achieve a real rate of economic growth of about 4 percent in 1987 and 6 percent in 1988; (b) to contain the average annual rate of inflation (as measured by the consumer price index) to 35 percent in 1987 and 15 percent in 1988; and (c) to generate an overall balance of payments surplus of US$108 million in 1987 and US$125 million in 1988. To these ends, as indicated in the letter of intent (EBS/87/207), the Government will continue 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 adjustment program for 1987-88 is provided in Appendix VI.

Table 8. Ghana: Medium-Term Outlook of the Balance of Payments, Alternative Scenarios, 1987-91

	1987	1988	1989	1990	1991
	Base-line scenario 1/				
Cocoa export price 2/	2,208	2,219	2,237	2,266	2,296
Export volume growth 3/	8.0	8.5	8.9	7.7	7.7
Petroleum import price 4/	19.0	20.0	20.9	22.0	23.1
Import volume growth 3/	9.9	6.0	4.6	5.1	5.1
Current account to GDP 3/	-3.9	-3.1	-2.6	-2.5	-2.3
Debt service ratio 5/	54.3	60.6	52.2	44.2	41.4
Financing gap 6/	--	--	--	--	--
	Scenario A (Lower cocoa export price)				
Cocoa export price 2/	2,208	1,919	1,935	1,960	1,985
Export volume growth 3/	8.0	8.5	8.9	7.7	7.7
Petroleum import price 4/	19.0	20.0	20.9	22.0	23.1
Import volume growth 3/	9.9	6.0	4.6	5.1	5.1
Current account to GDP 3/	-3.9	-4.8	-4.2	-4.0	-3.6
Debt service ratio 5/	54.3	65.5	56.2	47.5	44.4
Financing gap 6/	--	71.0	75.0	80.0	85.0
	Scenario B (Higher petroleum import price)				
Cocoa export price 2/	2,208	2,219	2,237	2,266	2,296
Export volume growth 3/	8.0	8.5	8.9	7.7	7.7
Petroleum import price 4/	25.0	26.2	27.5	28.9	30.3
Import volume growth 3/	9.9	6.0	4.6	5.1	5.1
Current account to GDP 3/	-3.9	-4.1	-3.7	-3.6	-3.2
Debt service ratio 5/	54.3	60.6	54.4	46.4	43.6
Financing gap 6/	--	23.0	48.3	53.2	58.9
	Scenario C (Lower export volume growth)				
Cocoa export price 2/	2,208	2,219	2,237	2,266	2,296
Export volume growth 3/	8.0	4.7	4.7	4.7	4.7
Petroleum import price 4/	19.0	20.0	20.9	22.0	23.1
Import volume growth 3/	9.9	6.0	4.6	5.1	5.1
Current account to GDP 3/	-3.9	-3.8	-4.1	-4.6	-4.4
Debt service ratio 5/	54.3	62.6	55.9	48.7	46.5
Financing gap 6/	--	30.7	70.8	106.0	136.2

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

1/ Based on the scenario described in the PFP and presented in more detail in Table 6.
2/ In U.S. dollars per ton of cocoa beans.
3/ In percent.
4/ In U.S. dollars per barrel.
5/ Including the IMF; in percent of exports of goods and services.
6/ In millions of U.S. dollars.

1. Exchange and trade liberalization

To improve the incentive framework, the authorities will pursue the process of exchange and trade liberalization that was initiated in September-October 1986 with the introduction of the foreign exchange auction and the "A" licensing scheme. In particular, access to the auction will continue to be widened progressively. Accordingly, with effect from September 14, 1987, about 50 percent in value terms of the goods imported under the SIL scheme were moved onto the "A" list. The remaining 50 percent will be moved no later than January 31, 1988, when only goods on the short negative list of imports will remain excluded from "A" licensing. As goods on the "A" list are eligible for funding through the auction, these measures will ensure that Ghana has virtually no quantitative restrictions on imports and that foreign exchange to cover most imports can be obtained from the official banking system. As noted above, the structure and level of the tariff system are being assessed in light of the changes in the exchange and trade system with a view to examining the levels of effective protection. If warranted, revisions in the tariff structure will be introduced during the program period.

In addition, the authorities intend to gradually lift restrictions on payments and transfers for other current international transactions. As a first significant step in this direction, all bona fide requests for payments related to business travel will be made eligible for funding through the official banking system no later than January 31, 1988. As a second step, to be implemented at a later stage, foreign exchange to cover transfers of profits and dividends will also become available through the official banking system. As specified in the letter of intent, understandings on the pace of liberalization of current account transactions will be reached with the Fund in the context of the annual reviews under the extended arrangement, with a view to achieving complete liberalization by the end of June 1990.

To increase the resources that are being channeled into the official banking system, the foreign exchange regulations have been modified so as to reduce the amount of foreign exchange being held in retention (and similar) accounts outside this system. Before these modifications, about US$137 million or 17 percent of total projected export earnings in 1987 were retained by exporters. As of September 14, 1987, the foreign exchange retention ratio of the timber sector was brought down from 20 percent to 5 percent. As of the same date, the authorities also initiated steps with a view to reducing the foreign exchange retention of the Ashanti Goldfields Corporation from 45 percent to 35 percent, and that of the Volta River Authority from 100 percent to 60 percent. Altogether, these initiatives could increase the foreign exchange accruing to the official banking system by US$31 million on an annual basis; this compares with earnings retained by exporters under various covenants of about US$137 million in 1987, or 17 percent of the total projected export earnings. With a view to further increasing foreign exchange inflows to the official banking system, the Government has decided to limit the volume of cocoa exports under bilateral payments agreements to about 15,000 tons in 1987 and to some 14,000 tons in 1988. Although the reduction relative to 1986 is small owing to the existence of long-term contracts, it is the authorities' intention to reduce such exports more significantly in the following years.

While making efforts to ensure a smooth functioning of the auction system, the authorities have decided to gradually increase the role of commercial banks and other authorized dealers in the mobilization of foreign exchange. Commercial banks and other authorized foreign exchange dealers are now acting solely as agents of the Bank of Ghana, and are required to surrender to the Bank all foreign exchange purchased from exporters. Under the new system, they will be allowed to buy from the public at a freely determined price foreign exchange arising from nontraditional exports and remittances, and to sell foreign exchange to importers or other customers who have bona fide requests. Foreign exchange receipts from traditional exports will continue to be surrendered directly to the Bank of Ghana, and channeled through the auction. As importers would be able to purchase foreign exchange from authorized dealers or to bid in the auction, and nontraditional exporters would have the choice of surrendering foreign exchange to the Bank of Ghana at the auction rate or selling it to the authorized dealers, the exchange rates prevailing in both markets should converge. The modalities of the modifications to the foreign exchange market are to be worked out in the coming months in consultation with the Fund staff with a view to implementation no later than January 1, 1988.

2. Fiscal policy

As the first half of the 1987/88 program period falls within the 1987 budget year, fiscal policy for the remainder of this year is determined by the 1987 budget. According to the latest available data, the 1987 budget remains broadly on track, although both total revenue and total expenditure and net lending are likely to be lower than originally estimated. Thus, the surplus on central government operations, excluding capital expenditure financed through external project aid, is currently programmed to amount to ¢ 1.3 billion (0.2 percent of GDP) in 1987, some ¢ 0.2 billion more than initially estimated (Table 4). The authorities plan to use this surplus, together with a net inflow of nearly ¢ 1 billion of external nonproject aid and some ¢ 3.2 billion of financing from the social security system, to retire ¢ 5.5 billion of government debt outstanding to the banking system; ¢ 2.5 billion of such debt was repaid during the first half of 1987. As indicated earlier, taking account of capital outlays that are financed entirely through external project aid, the overall deficit for 1987 is projected at 2.8 percent of GDP.

Budgetary revenues for 1987 are projected at ¢ 107.0 billion, implying a shortfall of 3 percent from the initial estimate of ¢ 110.0 billion. The revenue shortfall has been due to a number of unforeseen developments. Collections of duties on imports have fallen well below budgeted levels, owing to a lower-than-projected increase in dutiable imports, as well as a shift in their composition to food and other low duty items. Moreover, the improvement in sales tax collections has been substantially lower than envisaged as a result of administrative problems encountered following the consolidation of a large number of excise duties into the basic structure of the sales tax earlier in the year. Cocoa export revenue has also been lower than envisaged because of weaker cocoa export prices. However, income tax collections, which are benefiting from the overhaul of the income tax structure and its administration that was initiated in 1986, are sharply above budgeted levels. Nontax revenues are also exhibiting buoyant growth, primarily as a consequence of higher royalty payments on gold and diamonds, whose export prices have risen. The authorities are taking a number of corrective measures to contain the shortfall in revenue. The sales tax administrative machinery is being overhauled, partly through a reorganization of personnel and the provision of increased inputs. Nevertheless, it is expected that more time will be needed before the administrative reforms can bear fruit in markedly higher sales tax collections. Efforts are also being made to limit the shortfall in cocoa export revenue through cuts in the operating costs of the Cocoa Board.

Total expenditure and net lending for 1987 is projected to amount to ₵ 105.7 billion, or 3 percent less than the budgeted outlays of ₵ 108.9 billion. This reflects a significant shortfall in capital expenditure and net lending, mainly as a result of financing and implementation difficulties, although the projected outcome will still be about 45 percent higher than in the previous year. A shortfall is also expected in so-called special efficiency disbursements that involve termination benefits, retraining grants, and other payments that are related to the redeployment of civil servants; this is due largely to delays in implementation. In contrast, outlays for maintenance and other essential current operations have been increased as a consequence of the higher-than-anticipated inflation. Despite pressures to raise emoluments, the government wage and salary bill is expected to be kept within the budgeted amount of ₵ 34.6 billion (5.0 percent of GDP), representing an increase of 32 percent over 1986. Within this total, wages and salaries have been increased more rapidly for employees with higher levels of skills. While most details of the compensation package for 1987 have been finalized, some resistance has been encountered in taxing certain allowances granted to government employees. At the same time, the planned redeployment of civil servants has been proceeding on schedule; some 6,700 surplus staff have already been removed from the payroll this year, and an additional 8,300 will be identified and removed from the payroll by the end of October 1987. This would reduce the overall size of the civil service by 5 percent for the year as a whole to about 315,000 in keeping with program objectives.

The authorities are committed to using the budget as a principal instrument for mobilizing domestic resources. Given the assumptions for the key exogenous variables, it should be possible to increase revenue by about 31.0 percent in 1988, which would raise the ratio of revenue to GDP from 15.4 percent to 16.5 percent. Despite some planned downward adjustments in top marginal income tax rates, increases in personal allowances, a reduction in the company income tax rate, and more generous depreciation provisions, income tax collections are projected to grow appreciably. This assumes a continuation of policies successfully initiated in 1986 to reform income tax administration, as well as a positive response of taxpayers to the equity- and efficiency-oriented restructuring of the income tax. A substantial revenue gain is also expected from the planned aggregation of different sources of income and the introduction of taxation on various allowances. The bulk of the expansion in revenue in 1988 is projected to accrue from taxes on goods and services, as the authorities plan to increase excise duties on alcoholic beverages and tobacco and to complete the first stage in the overhaul of the sales tax administration. Furthermore, to avoid the emergence of an overall subsidy on petroleum products and to generate additional revenue, retail prices of these products will be adjusted in the light of developments in oil import prices and financing arrangements. Steps to broaden the sales tax base that include the conversion of the sales tax on imports to a duty-inclusive basis are also expected to contribute substantially to revenue growth.

Total expenditure and net lending are currently projected to increase by about 29 percent in 1988 to the equivalent of 16.1 percent of GDP, compared with 15.2 percent of GDP in 1987. The 1988 compensation package, which will need to take into account prospective income tax adjustments with respect to allowances and their taxation and the erosion of real incomes due to inflation, remains to be fully worked out. However, the authorities have indicated that they intend to keep the wage and salary bill in 1988 within the range of 5-6 percent of GDP. To this end, an additional 15,000 civil servants will be redeployed, which will allow for an incentive-oriented improvement in salaries, especially for the better qualified civil servants. An increase of 19 percent is projected for operating and maintenance outlays, which takes into account not only the large expansion programmed for 1987 but also a number of cost-effective adjustments to promote the Government's rehabilitation and other priorities, notably in the areas of agriculture, health, and education. The bulk of the expenditure growth in 1988 is projected to occur in the area of capital expenditure and net lending, which increases by 64 percent to ₵ 29.7 billion. A substantial increase is also projected in special efficiency disbursements as the redeployment exercise gathers momentum.

3. State enterprise reform

In accordance with the two-year plan of action prepared by the authorities, major steps will be taken to restructure and rationalize the state enterprise sector. Of the 30 state enterprises that have been identified for outright sale, conversion to joint ventures, or liquidation, by the end of 1987 the authorities plan to offer five of these enterprises for sale, 1/ while liquidation proceedings will be initiated for an additional five (mostly inactive) enterprises. 2/ In 1988 the divestiture program will be accelerated, with the remaining 20 enterprises being fully or partially sold or liquidated.

As regards the enterprises remaining in the Government's portfolio, intensified efforts will be made to improve their operations and financial position, with primary attention being given to 14 major enterprises 3/ that have a significant impact on the government budget. These enterprises are being required to prepare three-year corporate plans, on the basis of which performance agreements will be concluded with the Government. It is expected that by the end of 1987, 10 of the 14 enterprises will have completed corporate plans approved by their boards of directors and sectoral ministries; and performance agreements will be drafted for 4 of the 10 enterprises. As indicated earlier, to restore financial discipline, the Government has decided that cross debts and arrears within the public sector should be cleared as soon as feasible. Such debts and arrears for the 14 major enterprises have already been identified, and it is expected that a plan for their orderly liquidation within the existing financial objectives will be in place by the end of October 1987.

As overstaffing is a serious problem affecting most state enterprises, a redeployment policy for the sector as a whole is under preparation. Estimates of the costs involved, as well as a financing plan, are to be completed shortly. In the meantime, the authorities have imposed a freeze on new hiring, and a reduction of 5 percent per year in staffing is targeted for 1987-88.

4. Monetary and credit policies

Monetary and credit policies for 1987 and 1988 have been designed to reduce inflation and achieve the targeted improvement in 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 the high of 50 percent in 1986 to

---

1/ Those currently envisaged are: Neoplan (Ghana) Ltd., State Fishing Corporation, State Hotels, Tema Shipyard and Drydocks, and Willowbrook (Ghana) Ltd.

2/ Gava Farms, G.E.A. and Associates, Ghamot Enterprises, Ghamot Textiles, and Kwahu Dairy Farms.

3/ Electricity Corporation, Ghaip (refinery), Ghana Airways Corporation, Ghana National Petroleum Corporation, Ghana Oil Company, Ghana Ports Authority, Ghana Railways Corporation, Ghana Supply Commission, Ghana Water and Sewer Corporation, Posts and Telecommunications, State Gold Mining Corporation, State Shipping Corporation (Black Star Line), State Transport Corporation, and Volta River Authority.

13 percent in 1987 and further to 10 percent in 1988. In view of the Government's net repayments 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. However, private sector credit for the second half of 1987 would be temporarily constrained, in view of the need to slow the high rate of inflation that prevailed during the first half of the year. Bank financing of the operations of the Cocoa Board is programmed to rise by 28 percent in 1987 and 18 percent in 1988, consistent with the projected increases in the crop and in producer prices. The projections also take into account the cost-saving measures being implemented by the Cocoa Board.

The quarterly phasing of the programmed credit expansion is based on 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 of the banking system. Accordingly, as shown in Table 9 on the proposed quantitative performance criteria, net domestic assets of the banking system, which amounted to ₵ 91.9 billion at end-June 1987 (revised base), will not exceed ₵ 87.0 billion at end-September 1987 and ₵ 106.3 billion at end-December 1987; net claims on the Government, which amounted to ₵ 26.5 billion at end-June 1987 (revised base), will not exceed ₵ 25.5 billion at end-September 1987 and ₵ 23.5 billion at end-December 1987; and bank financing of the operations of the Cocoa Board, which amounted to ₵ 6.2 billion at end-June 1987, will be nil at end-September 1987 and will not exceed ₵ 21.7 billion at end-December 1987 (the latter is based on projected domestic purchases of 155,000 tons of cocoa beans). Furthermore, for each of these items, indicative targets have been established for end-March 1988 and end-June 1988, as specified in Table 9.

To promote the mobilization of financial savings and their allocation to the most productive sectors, with effect from September 17, 1987, maximum lending rates and minimum deposit rates were abolished, except for the minimum savings rate which has been temporarily maintained at 21.5 percent to establish an adequate floor to the overall structure of deposit rates. As a further means of achieving market-determined interest rates, a weekly auction for treasury bills will be introduced shortly. The auction will replace the existing mechanism for selling treasury bills to the commercial banks, which is based on allocations in relation to the stock held by each bank. The discount rate emerging from the auction will provide guidance to the Bank of Ghana in determining its rates for lending to the commercial banks.

In order to develop an active money market, the commercial banks, with participation of the Bank of Ghana, will start operation of a discount house by November 30, 1987. The discount house will deal in treasury bills, bankers' acceptances, cocoa bills, government bonds, and other financial instruments in the secondary market. Discount rates will be freely determined on the basis of money market conditions.

Table 9. Ghana: Quantitative Performance Criteria and Indicative Targets, March 1987–June 1988

	1987							1988	
	March		June		June	Sept. 2/	Dec. 2/	March 3/	June 3/
	Prog.	Act.	Prog.	Act.	Rev. Base 1/				
	(In billions of cedis; end of period)								
Net domestic assets of the banking system	96.0	95.9	92.2	92.4	91.9	87.0	106.3	107.6	102.3
Net claims on the Government by the banking system	30.1	30.1	27.1	27.1	26.5	25.5	23.5	23.9	22.1
Bank financing of the operations of the Cocoa Board 4/	14.7	14.7	6.2	6.2	6.2	--	21.7	20.0	13.3
	(In millions of U.S. dollars; end of period)								
Net foreign assets of the Bank of Ghana (excluding bilateral accounts) 5/	-861.8	-831.4	-820.5	-807.7	-807.7	-738.8	-757.4	-727.4	-697.4
External payments arrears	165.0	164.5	158.5	154.6	154.6	151.6	145.5	135.5	125.5
New nonconcessional external loans contracted or guaranteed by the Government (cumulative on a calendar year basis) 6/									
1. 1-12 years' maturity	85.0	22.5	85.0	22.5	22.5	85.0	85.0	85.0	85.0
2. 1-5 years' maturity	60.0	22.5	60.0	22.5	22.5	60.0	60.0	60.0	60.0

Sources: Letters of intent of the Ghanaian authorities of March 25, 1987 and September 18, 1987; and data provided by the Ghanaian authorities.

1/ The revised base reflects adjustments of net foreign assets at the exchange rate prevailing at the end of June 1987 and minor reclassifications of items in the accounts of the monetary authorities.
2/ Performance criteria.
3/ Indicative targets.
4/ Defined as gross financing of Cocoa Board 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), external payments arrears, and all other foreign liabilities of the Bank of Ghana, except those to official export credit agencies. SDRs will be converted into U.S. dollars at the accounting rate of US$1.20 per SDR in 1987.
6/ In 1987, 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 and of the Union Bank of Switzerland US$40 million credit to the Bank of Ghana that were outstanding by the beginning of 1987.

While credit policy is now largely based on direct controls and a detailed sectoral allocation of credits, the Bank of Ghana will develop a more active system of indirect credit controls through its lending policy to the commercial banks and intervention in the money market. For this purpose, a system of timely monitoring of cash and liquidity reserve developments is being put in place, which, ultimately, could obviate the need for imposing direct credit controls on the banking system. With respect to the sectoral credit guidelines, the Bank of Ghana intends to gradually reduce the number of subceilings so as to improve the efficiency of credit operations. Major steps in this direction will be taken in early 1988.

5. Balance of payments and external debt

With the implementation of the policies and measures described above, the balance of payments is expected to register a major turnaround in 1987, enabling a substantial reduction in the net foreign liabilities of the Bank of Ghana. In view of the estimated 8 percent decline in export prices of cocoa, export earnings from cocoa are projected to decrease by almost 2 percent. Nevertheless, as a result of the continued growth in gold and timber exports, total export earnings are projected to rise by 5 percent. Meanwhile, imports are expected to increase by about 15 percent, mainly because of an appreciable expansion of externally financed investments. Thus, despite a reduction in net service payments, the current account deficit, excluding official grants, is projected to widen from US$203 million in 1986 to US$286 million in 1987, or from the equivalent of 3.8 percent of GDP to 8.1 percent of GDP, respectively.

This shift in the current account, however, will be more than compensated by an improvement in the capital account of the order of US$254 million in 1987. A major factor behind this improvement is the decline in amortization payments on official medium-term debt by US$97 million, owing to an even larger drop in payments under the oil financing facility. Since Ghana's oil imports are financed under a one-year revolving credit facility with a foreign commercial bank, the full balance of payments impact of the decline in oil import prices in 1985-86 is being felt in 1987. Another important factor behind the improvement is a sharp turnaround in short-term capital movements, reflecting essentially a net reduction in the value of revolving suppliers' credits and shifts in a special deposit account of the Government with a foreign commercial bank. In 1986 an additional US$30 million from two World Bank program credits was deposited in this account to facilitate reimbursement of funds that had been sold in the auction to importers eligible for such financing. This deposit, which was recorded as a capital outflow in 1986, will not recur in 1987. Finally, official long-term loan disbursements are projected to rise further in 1987.

As already mentioned, during the first half of 1987, the balance of payments registered an overall surplus of US$70 million. For 1987 as a whole, the overall surplus is expected to reach US$108 million, which contrasts markedly with the overall deficit of US$57 million in 1986 and US$118 million in 1985. This surplus will permit reductions in certain liabilities to commercial banks of US$51 million, in external payments arrears of US$26 million, and in Fund credit of US$17 million. After accounting for the planned reduction in net claims under bilateral payments agreements of US$12 million, an increase in gross reserves of US$26 million is envisaged in 1987. Accordingly, as indicated in Table 9, the net foreign assets of the Bank of Ghana, which stood at minus US$807.7 million at end-June 1987, will not be less than minus US$738.8 million at end-September 1987 and minus US$757.4 million at end-December 1987. Furthermore, indicative targets for the Bank's net foreign assets for end-March 1988 and end-June 1988 have been established. In this context, external payments arrears will be reduced from US$154.6 million at end-June 1987 to US$151.6 million at end-September 1987 and US$145.5 million at end-December 1987. Indicative targets for such arrears for end-March 1988 and end-June 1988 have also been set.

Consistent with the medium-term objective of restructuring the maturity profile of the external public debt, recourse to commercial borrowing will be strictly limited in 1987 and beyond. In particular, as shown in Table 9, contracting of government and government-guaranteed external loans on nonconcessional terms in the 1-12 years' maturity range will be limited to US$85.0 million in 1987, with a subceiling on the 1-5 years' maturity range of US$60.0 million. On an indicative basis, the debt ceilings in 1988 will be the same as in 1987. The maturity structure of the debt will also improve as a result of the programmed reduction in the net foreign liabilities of the Bank of Ghana, which reflects a normalization of Ghana's relationship with its foreign creditors. At the same time, there will be a substantial reduction in Fund credit under the tranche policies, but this will be offset to a significant extent by borrowing under the SAF that will also improve the maturity structure of the debt. Finally, as the bulk of Ghana's debt is owed to multilateral institutions, and taking into account that commercial bank creditors are expected to maintain their exposure through voluntary lending and that official bilateral creditors are expected to continue to increase their net lending to Ghana, debt reschedulings with creditors under the auspices of the London and Paris Clubs are not being envisaged by the authorities.

6. Performance criteria and benchmarks

The proposed extended arrangement includes the following performance criteria: (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 cumulative reduction of existing external payments arrears, and no accumulation of new external payments arrears; and (f) limits on new nonconcessional external loans contracted or guaranteed by the Government. In addition, the extended arrangement includes the standard clauses regarding the exchange and payments system, which will also constitute performance criteria. As shown in Table 9, quantitative performance criteria have been established for end-September 1987 and end-December 1987, and indicative targets set for end-March 1988 and end-June 1988. The performance criteria for the remainder of the program period will be established in the context of the three reviews with the Fund under the extended arrangement which are to be completed by end-March 1988, end-March 1989, and end-March 1990, respectively. Completion of each of these reviews shall constitute a performance criterion under the extended arrangement.

For the purpose of monitoring progress in the implementation of the first annual arrangement under the SAF, all of the above quantitative performance criteria and indicative targets will serve as financial benchmarks. Moreover, the following will serve as structural benchmarks for the timetable of specific policy actions under the SAF: (a) further adjustments in the cocoa producer price, with a view to increasing its share of the world market price (target dates, May 1988 and May 1989); (b) offering for sale of five state enterprises, and initiation of liquidation proceedings for another five state enterprises (December 1987); and (c) adoption of a public investment program for 1988-90, consistent with Ghana's medium-term macroeconomic objectives (March 1988).

VI. Staff Appraisal

Since the adoption of the Economic Recovery Program in April 1983, which has been supported by successive stand-by arrangements, the Ghanaian authorities have made far-reaching adjustment efforts 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 a much-needed improvement in export performance. This process has been enhanced by the introduction of an auction market for foreign exchange which is functioning well. At the same time, the restoration of fiscal discipline and the corresponding reduction in domestic bank financing of the government budget have made it possible to channel increased financial resources to the private sector. As a result, in recent years there has been an appreciable revival of confidence in the economy, as evidenced by the upturn in production, exports, savings, and investment. However, there have also been periodic slippages in program implementation and monitoring, reflecting mainly weaknesses in public sector management.

In the first half of 1987, the authorities continued to implement a wide range of measures designed to sustain the economic recovery and promote financial adjustment. In particular, they unified the official exchange rates in the context of the auction market, widened access to this market, increased further producer prices of cocoa and other cash crops, raised retail prices of petroleum products in the light of the the exchange rate adjustment, and adopted complementary fiscal, credit, and interest rate policies. Consequently, Ghana's adjustment program remained broadly on track, and all the performance criteria for end-March 1987 and end-June 1987 were observed, except for the end-June ceiling on net domestic assets of the banking system which was exceeded only slightly and for which a waiver was granted by the Fund. For the first time in several years, the balance of payments registered a sizable overall surplus. However, inflation accelerated to an annualized average rate of 40 percent, well above the initial target of 18 percent, owing to temporary shortages in foodstuffs due to late and inadequate rainfall, the higher-than-expected impact on prices of the large exchange rate adjustments, and the rapid monetary expansion that occurred in late 1986. In view of the tightening of fiscal and monetary policies, the liberalization of interest rates, and the seasonal decline in prices during the second half of the year, a substantially lower year-end rate of inflation is now envisaged.

Despite the considerable progress made during the past four years, Ghana still faces major structural and financial problems. Although economic recovery has begun to take hold, the growth of real GDP is constrained by inadequate savings, insufficient incentives, and infrastructure bottlenecks, notably in the transportation sector. The high rate of inflation is a source of particular concern, especially as it severely erodes the already low levels of real wages and salaries, and contributes to social tensions. Moreover, the external payments position is vulnerable to adverse developments in the international environment, and the debt service burden is heavy. There are also a number of other structural impediments to economic growth and adjustment, including weaknesses in the financial system which limit effective support of the productive sectors and constrain the rise in financial savings required to fund higher levels of investment.

In view of the structural nature of these problems and the fact that they will require an extended period to be resolved, the authorities have rightly decided to pursue their adjustment efforts in the context of a medium-term program for 1987-90. The program, which has been developed in close collaboration with the staffs of the Fund and the World Bank, is focused on achieving an average annual growth of real GDP of the order of 5 percent, reducing the rate of inflation to 8 percent, and generating overall balance of payments surpluses averaging about US$110 million per annum; these surpluses would be consistent with the elimination of the remaining external payments arrears by the end of 1990, and hence with the full normalization of Ghana's relations with its creditors.

To attain these basic objectives, the authorities have undertaken to implement a combination of appropriate structural and financial measures. Thus, while pursuing prudent fiscal and credit policies, they intend to continue to improve the incentive framework for efficient production, export, and import substitution; increase investment for the rehabilitation and restructuring of productive capacity, infrastructure, and social services; strengthen government revenue mobilization and expenditure control; reform the state enterprise sector; encourage financial savings through market-determined interest rates and a broadening of the range of financial instruments; and improve public sector management, with a view to strengthening program implementation and monitoring. A key element of the authorities' strategy is to increase substantially the domestic savings ratio, from the equivalent of 10 percent of GDP in 1986 to 15 percent of GDP in 1990. Accordingly, it will be important for the Government to mobilize additional revenues to finance productive investments, and to carry out with determination the planned reforms in the state enterprise sector. If rigorously implemented, these policies and measures could go a long way toward resolving the macroeconomic and structural problems in the economy, thereby contributing to the achievement of a viable external payments position consonant with sustainable economic growth over the medium term.

Consistent with their medium-term strategy, the authorities have already taken a number of actions that augur well for the future. Access to the auction market for foreign exchange has been widened further, while steps are being taken to increase the resources flowing into the official banking system. Exchange and trade liberalization is to be continued, with additional measures planned for early 1988, including a gradual increase in the role of commercial banks and other authorized dealers in the mobilization and sale of foreign exchange. The 1987 budget has been kept on track, and preparations for additional tax and expenditure reforms are under way. State enterprise reform has also been initiated. Finally, there has been a major liberalization of interest rates with the lifting of maximum lending rates and most minimum deposit rates. This liberalization will be enhanced by the introduction of a weekly auction of treasury bills and the development of an active money market.

In pursuing their program of structural reform, the authorities will need to monitor developments and prospects closely, and, if necessary, take additional measures to achieve the basic objectives of the program. In this respect, it will be particularly important to ensure that inflation is brought under control through the maintenance of tight fiscal and monetary policies. This is indeed essential, as inflation can place great pressure on the smooth functioning of the foreign exchange auction and make it very difficult for the authorities to pursue a prudent incomes policy, let alone alleviate the structural imbalances in the economy. Moreover, it will be important that the timetable of the structural reforms already specified is strictly observed, and that further structural measures are delineated in the context of the annual reviews of the program. In this regard, the continuing close collaboration between the authorities and the Fund and World Bank staffs will be most useful not only in assessing the progress in structural reform but also in setting structural benchmarks for the outer years of the program. The authorities are keenly aware of these issues, and there is reason to believe that they will respond effectively to changing circumstances.

To be successful, however, Ghana's adjustment efforts will also need to be supported by substantial official external assistance, from both bilateral and multilateral creditors. In view of the maturity structure of Ghana's external debt and the resulting heavy debt service burden, it would be essential that external assistance take the form of grants and loans on highly concessional terms. Furthermore, as the authorities are settling substantial commercial arrears, it is to be expected that foreign commercial banks will make revolving trade-related credits available to Ghana on a voluntary basis.

After addressing the country's immediate economic problems, the authorities are now focusing their attention on structural issues in production, trade, and other areas, with a view to establishing a firmer foundation for a buoyant and balanced economy, while placing the balance of payments on a sound footing. Consistent with this basic shift in policy and the fact that the reform program will require sustained efforts and external assistance over several years, the Government of Ghana has requested continued Fund support under a three-year extended arrangement and arrangements under the structural adjustment facility. The staff believes that Ghana's program, setting forth the objectives and policies to be pursued over the medium term, is adequate for the solution of the major structural and financial problems. The staff also considers that the policies and measures for the first year of the program are substantial. Therefore, Ghana's requests are justified and access under the proposed extended arrangement is in conformity with the present access policy, given the strength of the adjustment program.

VI. Proposed Decisions

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

(i) Extended Arrangement

1. The Government of Ghana has requested an extended arrangement in an amount equivalent to SDR 245.4 million for a period of 36 months from 1987 to 1990.

2. The Fund approves the extended arrangement set forth in EBS/87/207, Supplement 1.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

(ii) Structural Adjustment Facility

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

2. The Fund notes the policy framework paper for Ghana (EBD/87/247).

3. The Fund approves the arrangements set forth in EBS/87/207, Supplement 1.

Ghana - Extended Arrangement

Attached hereto is a letter dated September 18, 1987 from the Secretary for Finance and Economic Planning of Ghana and the Chairman of the Bank of Ghana requesting an extended arrangement and setting forth:

(a) the objectives and policies that the authorities of Ghana intend to pursue for the period of this extended arrangement;

(b) the policies and measures that the authorities of Ghana intend to pursue for the first year of this extended arrangement; and

(c) understandings of Ghana with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Ghana will pursue for the second and third years of this extended arrangement.

To support these objectives and policies the International Monetary Fund grants this extended arrangement in accordance with the following provisions:

1. For a period of three years from 1987, Ghana will have the right to make purchases from the Fund in an amount equivalent to SDR 245.4 million, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.

2. (a) Until October 31, 1988, purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 97.55 million, provided that purchases shall not exceed the equivalent of SDR 5.00 million until December 15, 1987, the equivalent of SDR 22.55 million until February 15, 1988, the equivalent of SDR 47.55 million until May 15, 1988, and the equivalent of SDR 72.55 million until August 15, 1988.

(b) Until October 31, 1989, purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 175.2 million.

(c) The right of Ghana to make purchases during the second and third years shall be subject to such phasing as shall be determined.

3. Purchases under this extended arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 2, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Ghana will not make purchases under this extended arrangement:

(a) during any period in which the data at the end of the preceding period indicate that

(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 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 debt,

referred to in paragraph 35 of the attached letter and in the table annexed to that letter is not observed; or

(b) if Ghana accumulates any new external payments arrears; or

(c) after March 31, 1988, March 31, 1989, and March 31, 1990, respectively, until the reviews contemplated in paragraph 35 of the attached letter have been completed and suitable performance criteria have been established or after such performance criteria have been established, while they are not being observed; or

(d) throughout the duration of this extended arrangement, if Ghana

(i) imposes or intensifies restrictions on payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices, or

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

(iv) imposes or intensifies restrictions on imports for balance of payments reasons.

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

5. Ghana will not make purchases under this extended arrangement during any period in which the member has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action with respect to a noncomplying purchase.

6. Ghana's right to engage in the transactions covered by this extended arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Ghana. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 6, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Ghana and understandings have been reached regarding the circumstances in which such purchases can be resumed.

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

8. The value date for purchases under this extended arrangement involving borrowed resources will be determined in accordance with Rule G-4(b) of the Fund's rules and regulations. Ghana will consult the Fund on the timing of purchases involving borrowed resources in accordance with Rule G-4(d).

9. Ghana shall pay a charge for this extended arrangement in accordance with the decisions of the Fund.

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

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

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

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

12. In accordance with paragraph 38 of the attached letter Ghana will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultations because any of the performance criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Ghana has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Ghana's balance of payments policies.

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

Attached hereto is a letter dated September 18, 1987 from the Secretary for Finance and Economic Planning of Ghana and the Chairman of the Bank of Ghana requesting a three-year structural adjustment arrangement 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 International Monetary Fund grants the requested arrangements in accordance with the following provisions and subject to the Regulations for the administration of the Structural Adjustment Facility:

1. For a period of three years from 1987 Ghana will have the right to obtain three successive loans from the Fund under the Structural Adjustment Facility in a total amount equivalent to SDR 129,857,500.

2. The first loan, in an amount equivalent to SDR 40.9 million, is available for disbursement at the request of Ghana.

3. The second and third loans will be available upon approval by the Fund of the corresponding annual arrangements and will be disbursed at the request of Ghana. The amount of the second loan will be equivalent to SDR 61,350,000, and the amount of the third loan will be equivalent to SDR 27,607,500.

4. 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 described in paragraph 36 of the attached letter,

(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,

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

5. In accordance with paragraph 37 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 the first annual arrangement.

6. In accordance with paragraph 38 of the attached letter, Ghana will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because he considers that consultation on the program is desirable. These consultations may include correspondence and visits of officials of the Fund to Ghana or of representatives of Ghana to the Fund.

Ghana - Relations with the Fund
(As of September 30, 1987)

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 775.12 million, or 379.03 percent of quota

	Millions of SDRs	Percent of quota
(c) Use of Fund credit	570.63	279.03
Credit tranches	167.39	81.85
Enlarged access	284.77	139.25
CFF	118.47	57.93
(d) Repurchase obligations (September 1987-August 1988)	185.3	90.6

III. Stand-By Arrangements and Special Facilities

(a) On October 15, 1986 the Executive Board approved a one-year stand-by arrangement for SDR 81.80 million (40 percent of quota). Phased purchases under the arrangement are in five equal installments. The first purchase of SDR 16.36 million was made on October 31, 1986 after Executive Board approval; the second on December 15, 1986, upon satisfactory compliance with the end-September 1986 performance criteria; the third and fourth on May 29, 1987, upon completion of the review of the stand-by arrangement and satisfactory compliance with the end-March 1987 performance criteria; and the fifth on September 15, 1987, upon satisfactory compliance with the end-June 1987 performance criteria. A waiver of the nonobservance of the performance criterion on net domestic assets for end-June 1987 was approved by the Executive Board on September 8, 1987 (EBS/87/191).

(b) On August 27, 1984 the Executive Board approved a 16-month stand-by arrangement for SDR 180 million (88 percent of quota). The arrangement provided for six equal purchases. Ghana made all purchases upon meeting the relevant performance criteria and successfully completing two reviews. The last purchase was made in mid-December 1985.

Ghana - Relations with the Fund (continued)
(As of September 30, 1987)

(c) On August 3, 1983 the Executive Board approved a one-year stand-by arrangement for SDR 238.5 million (150 percent of Ghana's quota then in force). The arrangement provided for five equal purchases. Ghana made all purchases upon meeting the relevant performance criteria and successfully completing two reviews. The last purchase was made in mid-May 1984.

(d) There was only one other one-year stand-by arrangement in the past ten years. It was approved by the Executive Board on January 10, 1979 for SDR 53 million (50 percent of Ghana's quota at that time). Ghana made one purchase of SDR 32 million. A subsequent purchase was subject to successful completion of a review. A change of government took place in early June 1979 while a staff review mission was in Accra. The review could not be completed and the arrangement lapsed on January 9, 1980.

(e) On December 4, 1984 the Board also approved Ghana's request for a CFF purchase of SDR 58.2 million (28 percent of quota) on account of both a shortfall in merchandise exports and an excess in the cost of cereal imports for the 12-month period ended May 1984.

(f) On August 3, 1983 the Board approved Ghana's request for a CFF purchase of SDR 120.5 million (75.8 percent of the quota then in force) on account of a shortfall in exports during the calendar year 1982.

IV. Financial obligations due to the Fund

	Overdue Financial Obligations 8/31/87	Principal and interest due			
		Sept.-Dec. 1987	1988	1989	1990
Principal		48.8	205.9	143.0	85.8
Repurchases	--	47.2	196.2	134.4	83.1
Trust Fund repayments	--	1.6	9.7	8.6	2.7
Charges and interest including SDR and Trust Fund (provisional)	--	5.5	34.2	23.6	16.2
Total	--	54.3	240.1	166.6	102.0

Ghana - Relations with the Fund (continued)
(As of September 30, 1987)

V. SDR Department (as of August 31, 1987)

(a) Net cumulative allocation	SDR 62.98 million
(b) Holdings	SDR 1.17 million, or 1.85 percent of net cumulative allocation

VI. Administered Accounts (as of August 31, 1987)

Trust Fund loans	
(i) Disbursed	SDR 48.96 million
(ii) Outstanding	SDR 22.96 million

B. Nonfinancial Relations

VII. Exchange System

Ghana maintains a flexible exchange rate system, using the U.S. dollar as the intervention currency. In April 1983 Ghana depreciated the cedi through the introduction of a multiple exchange rate system. In October 1983 the exchange rate system was unified at the rate of ¢ 30 = US$1 compared with the exchange rate of ¢ 2.75 = US$1 that prevailed prior to April 1983. In March 1984, the cedi was depreciated to ¢ 35 = US$1; on August 23, 1984 to ¢ 38.5 = US$1; on December 3, 1984 to ¢ 50 = US$1, on April 19, 1985 to ¢ 53 = US$1, on August 12, 1985 to ¢ 57 = US$1, on October 7, 1985 to ¢ 60 = US$1, and on January 10, 1986 to ¢ 90 = US$1.

On September 19, 1986, Ghana introduced a second foreign exchange window where the 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. Ghana maintains restrictions on payments and transfers for current international transactions primarily in the form of external payments arrears.

Ghana - Relations with the Fund (continued)
(As of September 30, 1987)

VIII. Last Article IV Consultation and Stand-By Arrangement

(i) 1986 Consultation

November 8-26, 1986, January 14-30, 1987, February 24-March 2, 1987; Executive Board discussion, May 4, 1987. Decision 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 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 terminate the remaining bilateral payments agreements with Fund members as soon as possible.

(ii) Stand-By Arrangement

Executive Board discussion, October 15, 1986. Decision as follows:

1. Ghana has requested a stand-by arrangement in the amount equivalent to SDR 81.80 million for the period from October 15, 1986 to October 14, 1987.

2. The Fund approves the stand-by arrangement attached to EBS/86/224.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Ghana - Relations with the Fund (concluded)
(As of September 30, 1987)

IX. Technical Assistance

Panel Expert	Bank of Ghana (banking operations and accounts): 1981-82
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 and June 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 July 31, 1987

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 July 31, 1987, the World Bank Group had approved operations for Ghana totaling US$1,076.2 million, consisting of 10 loans, 43 credits (including African Facility), and two 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 July 31, 1987.

3. Energy has been a major focus of Bank Group lending to Ghana, particularly the development of the country's sizable hydro-power generation potential. Reflecting 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 transport (railway, highways, and port), energy (power distribution and petroleum refining), and water supply. Since April 1983, the Bank 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. Ongoing or planned operations are intended to increase production potential and efficiency in agriculture (including cocoa and forestry).

4. Over the next three years (FY 88-90), the Banks's lending program for Ghana, based on current plans, could amount to about US$500 million, all on IDA terms. The Bank committed US$199 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 July 31, 1987)

(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 and the social sectors, and is planning sessions on transportation and agriculture.

Ghana - Relations with the World Bank Group (concluded)

Lending Operations (As of July 31, 1987; 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 16 credits fully disbursed	380.8	(--)	--	(--)	380.8
Structural adjustment and program lending	359.4	(146.38)	--	(--)	359.4
Agriculture	71.5	(50.83)	--	(--)	71.5
Energy and industry	76.5	(61.71)	32.0	(22.9)	108.5
Transport and telecommunications	103.5	(71.13)	--	(--)	103.5
Urban development, education, and health	84.5	(62.91)	--	(--)	84.5
Total	1,076.2	(392.96)	32.0	(22.9)	1,108.4
Less repaid or sold					90.1
Total outstanding					1,018.3
Held by IBRD					(106.1)
IDA					(880.2)
IFC					(32.0)

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

Source: World Bank Group.

1/ Less cancellations.
2/ Including Special Fund and African Facility Credits totaling US$178.9 million.

Ghana - Public Investment Program, 1986-88

(In millions of cedis)

	1986-88		1987	
	Investment by sector	Percentage distribution	Investment by sector	Percentage distribution
Agriculture	19,560	11	7,102	13
Industry	5,827	3	3,229	6
Mining and timber	33,844	19	3,000	6
Transportation	27,372	15	9,517	18
Roads and highways	43,262	25	14,191	26
Communications	2,588	2	988	2
Energy	26,937	15	6,474	12
Water	9,630	5	3,825	7
Education	3,475	2	3,232	6
Health	6,249	3	2,213	4
Total	178,744	100	53,771	100

Source: World Bank.

Ghana - Summary of the Adjustment Program for 1987-88

	1986	1987 Prog.	1988 Prog.
Basic assumptions	(In percent, unless otherwise specified)		
Export volume growth			
Total	9.3	8.0	8.5
Cocoa (beans)	13.6	5.0	5.0
Export price change			
Total	8.4	-2.7	1.9
Cocoa (beans)	9.9	-8.2	0.4
Import price change			
Total	-4.9	4.4	4.9
Terms of trade change	13.9	-6.8	-2.9
Disbursements of official grants and long-term loans (in millions of U.S. dollars)	374.9	386.9	413.9
Velocity of broad money	5.9	5.8	5.6
Basic targets			
Real GDP growth	5.3	4.0	6.0
Change in consumer price index (annual average)	24.6	35.0	15.0
Balance of payments			
Current account deficit (-) 1/			
In millions of U.S. dollars	-202.7	-285.9	-299.9
In percent of GDP	-3.8	-8.1	-6.8
Overall surplus or deficit (-)			
In millions of U.S. dollars	-56.7	108.0	125.0

1/ Excluding official grants.

Ghana - Summary of the Adjustent Program for 1987-88

Principal policies and measures

a. Exchange and trade liberalization

The authorities will continue to pursue a flexible exchange rate policy and to liberalize the exchange and trade system, which will contribute to a substantial narrowing of the current spread between the auction market and parallel market exchange rates. Accordingly, with effect from September 14, 1987, about 50 percent in value terms of the goods being imported under the SIL scheme were moved onto the "A" list of goods eligible for funding through the auction, while steps were initiated to increase the surrender of foreign exchange to the official banking system; the remaining 50 percent will be moved onto the "A" list no later than Janaury 31, 1988. Similarly, restrictions on payments and transfers for other current international transactions will be gradually lifted, with a first significant step in this direction to be taken by January 31, 1988. Moreover, the role of commercial banks and other authorized dealers in the mobilization and sale of foreign exchange will be gradually expanded.

b. Pricing policies

To further increase incentives for agricultural production and exports, the price paid to cocoa farmers has been raised from ₵ 85,500 (including a bonus of ₵ 500) per ton for the 1986/87 crop year to ₵ 150,000 (including a possible bonus of ₵ 10,000) per ton for the 1987/88 crop year. Producer prices of other cash crops have also been raised substantially for the 1987/88 crop year. As an integral part of the Government's strategy in the cocoa sector, the Cocoa Board is implementing appropriate cost-reducing measures, involving mainly cutbacks in activities that are unrelated to its basic purchasing, marketing, and extension service functions.

c. Fiscal policy

Fiscal policy is designed to promote the objectives of structural and financial adjustment, particularly by mobilizing additional revenues in support of rehabilitation and other high-priority investments. Thus, the surplus on government operations, excluding capital expenditure financed through external project aid, is to be increased from ₵ 0.3 billion (0.1 percent of GDP) in 1986 to ₵ 1.3 billion (0.2 percent of GDP) in 1987 and further to ₵ 3.6 billion (0.4 percent of GDP) in 1988. Taking account of capital expenditure financed through external project aid, the overall deficit will be kept at about 3 percent of GDP during 1987-88. However, as 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 ₵ 5.5 billion in each of the two years. To mobilize the necessary resources, the authorities are implementing a phased program of revenue measures, including improvements in tax administration, drawing on the recommendations of recent Fund technical assistance in the tax area. This program is also directed at removing distortions that hamper economic efficiency and at improving equity. At the same time, the authorities are pursuing a prudent spending policy, geared inter alia to keeping the wage bill in the range of 5-6 percent of GDP.

d. Public investment program

The authorities are implementing the public investment program (PIP) for 1986-88, along the lines agreed upon with the World Bank and endorsed by donors at the meeting of the Consultative Group for Ghana in May 1987. Preparations are under way to roll over the PIP for 1986-88 to cover 1988-90; following a review of the draft with the World Bank staff, the new PIP is to be adopted by the end of March 1988.

e. State enterprise reform

In accordance with the two-year plan of action prepared by the authorities, major steps will be taken to restructure and rationalize the state enterprise sector. Of the 30 state enterprises that have been identified for outright sale, conversion to joint ventures, or liquidation, 5 of these enterprises will be offered for sale and liquidation proceedings will be initiated for an additional 5 (mostly inactive) enterprises by the end of 1987. In 1988 the divestiture program will be accelerated. To improve the operations of enterprises remaining in the Government's portfolio, corporate plans will be prepared for 10 of the 14 major enterprises by the end of 1987. Meanwhile, to deal with the problem of overstaffing in this sector, a reduction in personnel of 5 percent per year is targeted for 1987-88.

f. Monetary policy and financial sector reforms

Monetary and credit policies are geared toward reducing inflation and achieving the targeted improvement 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 is to be reduced from a high of 50 percent in 1986 to 13 percent in 1987 and further to 10 percent in 1988. In view of the Government's net repayments to the banking system, the program allows credit to the rest of the economy to increase broadly in line with the projected nominal GDP growth.

To promote the mobilization of financial savings and their allocation to the most productive sectors, with effect from September 17, 1987, maximum lending rates and minimum deposit rates were abolished, except for the minimum savings rate which has been temporarily maintained at 21.5 percent to establish an adequate floor to the overall structure of deposit rates. As a further means of achieving market-determined interest rates, a weekly auction for treasury bills will be introduced shortly. Moreover, in order to develop an active money market, a discount house will be established and will start operation by November 30, 1987.

In view of the serious problems facing development banks, the authorities have undertaken a financial sector study with World Bank assistance. Recommendations for appropriate corrective actions, including their full costing, are to be worked out by the end of 1987. Given the tight government budgetary position, the authorities expect that financing of the necessary reforms will be obtained mostly from external sources.

g. External debt management

Consistent with the medium-term objective of restructuring the maturity profile of the external public debt, recourse to commercial borrowing will be strictly limited in 1987 and 1988. In particular, contracting of government and government-guaranteed external loans on nonconcessional terms in the 1-12 years' maturity range will be limited to US$85.0 million in 1987, with a subceiling on the 1-5 years' maturity range of US$60.0 million. On an indicative basis, the debt ceilings in 1988 will be the same as in 1987.

Meanwhile, external payments arrears will be reduced by US$26.0 million in 1987 and further by US$48.4 million to US$96.6 million by the end of 1988.

h. Improving public sector management

To improve public sector management, the autorities have undertaken 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 - Selected Social and Demographic Indicators 1/

Area	
Total land area (sq. km.)	238,500
Agricultural land (in percent of total)	26.2
Population and vital statistics	
Total population (1986, in millions)	13.1
Population growth rate (1980-86 average, in percent)	2.7
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)	6.7
Per capita supply of	
Calories (per day)	1,785
Proteins (grams per day)	34
Labor force	
Total labor force (in millions)	5.1
Participation rate (in percent)	
Total	37
Male	44
Female	29
Education	
Enrollment rates (in percent)	
Primary	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.