FOR
AGENDA

EBS/87/68
Supplement 1

CONFIDENTIAL

April 9, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Ghana - Staff Report for the 1986 Article IV Consultation and Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with Ghana and a review under its stand-by arrangement. Draft decisions appear on pages 36 and 37. The communication from the Ghanaian authorities was circulated as EBS/87/68 on March 30, 1987.

This subject will be brought to the agenda for discussion on a date to be announced.

Mr. Calamitsis (ext. 6966) or Mr. Kapur (ext. 8732) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

GHANA

Staff Report for the 1986 Article IV Consultation and Review Under Stand-By Arrangement

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 Eduard Brau

April 9, 1987

Contents | Page

Contents | Page

Text tables

Chart

Appendices

I. Introduction

The 1986 Article IV consultation discussions with Ghana, together with the discussions on the review under the current one-year stand-by arrangement, were initiated in Accra during November 8-26, 1986, continued in Accra during January 14-30, 1987, and concluded at the Fund's headquarters during February 24-March 2, 1987. The current stand-by arrangement in the amount equivalent to SDR 81.80 million (40 percent of quota), which was approved on October 15, 1986, is in support of the Government's adjustment program covering the period September 1986-August 1987. The Ghanaian representatives included Dr. Botchwey, Secretary for Finance and Economic Planning, Mr. Ahwoi, Secretary for Revenue, 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. Kapur (AFR), Mr. van Til (AFR), Mr. Lorie (AFR), Mr. Hemming (FAD), and Mr. Thomsen (ETR), with Miss Wood (AFR) as secretary. 1/ Mr. Sharer, the Fund's resident representative in Accra, took part in the discussions.

Ghana is on the standard 12-month consultation cycle. The last Article IV consultation was concluded on September 13, 1985; the 1986 consultation discussions were delayed owing to the ongoing negotiations regarding the use of Fund resources. Ghana continues to avail itself of the transitional arrangements of Article XIV.

In a letter to the Managing Director dated March 25, 1987 (EBS/87/68, March 30, 1987), concerning the mid-term review, the Secretary for Finance and Economic Planning and the Chairman of the Bank of Ghana describe the progress made in the implementation of the adjustment program in late 1986 and early 1987, set out the policies and measures to be applied during the remainder of the program period, and propose performance criteria for end-March and end-June 1987.

Ghana has so far made two of the five equal purchases of SDR 16.6 million under the current stand-by arrangement: an initial purchase upon Fund approval of the arrangement; and a second purchase upon observance of the end-September 1986 performance criteria. The third purchase is subject to observance of the end-December 1986 performance criteria and completion of the review of the program. However, as two of the performance criteria for end-December 1986 were not met and a waiver of the nonobservance is not proposed, the third and fourth purchases may be effected only after observance of the proposed performance criteria for end-March 1987. The fifth and last purchase is subject to observance of the proposed performance criteria for end-June 1987. As of February 28, 1987 the Fund's holdings of Ghana's currency, the cedi, subject to repurchase were equivalent to 287.2 percent of quota, of which 72.7 percent of quota was in respect of purchases under

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1/ The staff mission in November 1986 was headed by Mr. Kratz (AFR) and included Mr. Young (EP-AFR) and Mrs. Selassie (secretary-AFR).

the compensatory financing facility. If the balance available under the stand-by arrangement (SDR 49.08 million) is purchased, and after taking into account scheduled repurchases, by September 30, 1987 the Fund's holdings of Ghana's currency subject to repurchase would amount to 279.0 percent of quota, of which 57.9 percent of quota would be under the compensatory financing facility (Table 1).

The Fund staff has continued to collaborate closely with the World Bank staff, both at headquarters and in the field, on the various aspects of Ghana's adjustment efforts and financing requirements. In November 1986 and January 1987, the Fund staff missions overlapped with World Bank missions that were in Accra for negotiations on structural adjustment credits; these negotiations were concluded in Washington in early March. Thus, the World Bank's Executive Board is now scheduled to consider the structural adjustment credits, totaling SDR 99.5 million, on April 14, 1987, and the first tranche of about SDR 45.5 million is expected to be disbursed soon thereafter. Moreover, the Consultative Group for Ghana is scheduled to meet in Paris on May 6-7, 1987 to review Ghana's recent progress and prospects, as well as to consider the required levels of external assistance to support the adjustment process. Summary statements on Ghana's relations with the Fund and the World Bank Group are provided in Appendix I and Appendix II, respectively; statistical issues are discussed in Appendix III; and basic economic and financial data are presented in Appendix IV.

II. Background to the Discussions

After more than a decade of inappropriate domestic policies, compounded by unfavorable external developments, Ghana's overall economic and financial situation deteriorated to the point that the country faced a serious crisis in the early 1980s. On the domestic side, excessively expansionary fiscal and monetary policies had led to a marked acceleration in inflation. Since the official exchange rate had been kept virtually unchanged, the currency became highly overvalued, resulting in a shift in incentives away from production for export and efficient import substitution. Lower export volumes were accompanied by a deterioration in the terms of trade and a marked drop in external assistance, which exacerbated the tight foreign exchange constraint. This in turn led to growing scarcities of inputs needed to sustain capacity utilization. The difficult supply situation was further aggravated by an intensification of exchange and trade controls, as well as of price and distribution controls, and parallel market activities thus grew rapidly. Furthermore, the distortions resulting from inappropriate monetary and pricing policies, including interest rate policy, led to a weakening of confidence in the domestic banking system and increasing flight from cedi-denominated assets. The concomitant erosion of the tax base due to declining exports, imports, and domestic activity led to disorderly cutbacks in government outlays for essential

Table 1. Ghana: Fund Position During Period of Stand-By Arrangement

	Outstanding at September 30, 1986	1986 Oct.	1986 Nov.-Dec.	1987 Jan.-Mar.	1987 Apr.-June	1987 July-Sept.
	(In millions of SDRs)					
Transactions under tranche policies (net)	--	16.36	12.72	-11.49	17.15	-1.09
Purchases	--	16.36	16.36	--	32.72	16.36
Ordinary resources	(--)	(--)	(--)	(--)	(--)	(--)
Enlarged access resources	(--)	(16.36)	(16.36)	(--)	(32.72)	(16.36)
Repurchases	--	--	3.64	11.49	15.57	17.45
Ordinary resources	(--)	(--)	(3.64)	(9.17)	(9.17)	(15.13)
Enlarged access resources	(--)	(--)	(--)	(2.32)	(6.40)	(2.32)
Transactions under special facilities (net) 1/	--	--	-15.06	-15.06	-15.06	-15.06
Purchases	--	--	--	--	--	--
Repurchases	--	--	15.06	15.06	15.06	15.06
Structural adjustment facility loans	--	--	--	--	--	--
Total Fund credit outstanding (end of period)	597.20	613.56	611.22	584.67	586.76	570.61
Tranche policies	418.50	434.86	447.58	436.09	453.24	452.15
Special facilities 1/	178.70	178.70	163.64	148.58	133.52	118.46
Structural adjustment facility	--	--	--	--	--	--
	(As percent of quota)					
Total Fund credit outstanding (end of period)	292.03	300.03	298.89	285.90	286.92	279.03
Tranche policies	204.65	212.65	218.87	213.25	221.63	221.10
Special facilities 1/	87.38	87.38	80.02	72.65	65.29	57.93
Structural adjustment facility	--	--	--	--	--	--
Memorandum items:						
Trust Fund loans outstanding (end of period)						
In millions of SDRs	32.68	31.04	31.04	27.82	26.18	22.96
In percent of quota	15.98	15.18	15.18	13.60	12.80	11.23

Source: IMF, Treasurer's Department.

1/ Compensatory financing facility.

services, maintenance, and development projects. As both public and private savings and investment fell markedly, there was a progressive deterioration in the country's economic and social infrastructure.

As a consequence, in the period from 1970 through 1982 there was a large decline in real gross domestic product (GDP), an intensification of inflationary pressures, and a sharp deterioration in Ghana's external payments position. With the population growing at an annual rate of about 3 percent, real per capita income declined by more than 30 percent over the period; inflation, as measured by the consumer price index, averaged 44 percent per annum; and, as large overall balance of payments deficits were incurred, gross official foreign reserves were depleted and external payments arrears accumulated, amounting at end-December 1982 to the equivalent of US$577 million, or more than 90 percent of export earnings in that year.

Faced with this alarming situation, in April 1983 the Government of Ghana undertook an Economic Recovery Program (ERP) for 1983-85 involving a fundamental reorientation of economic and financial policies, and aimed at laying the foundations for sustained economic growth and the achievement of balance of payments viability over the medium term. The key elements of this program, which was developed in close consultation with the staffs of the Fund and the World Bank, were as follows: (a) the realignment of relative prices in favor of directly productive activities and exports, as well as the progressive liberalization of import and price controls; (b) the rehabilitation of economic and social infrastructure through increased public investment; (c) the restoration of fiscal and monetary discipline with a view to reducing inflation; and (d) the encouragement of private investment through appropriate incentives and increased financial intermediation. The program was supported not only by substantial use of Fund resources, through two successive stand-by arrangements in 1983-84 and 1984-85, but also considerable financial assistance from the World Bank.

To achieve its basic objectives, the ERP placed particular emphasis on a movement toward a realistic and flexible exchange rate system. Accordingly, the official exchange rate of the cedi was progressively adjusted from ₵ 2.75 per U.S. dollar in April 1983 to ₵ 90 per U.S. dollar in January 1986; this implied a cumulative real effective depreciation of the currency of 80 percent, and reduced the ratio between the official and parallel market exchange rates from about 15 to just over 2. The depreciation of the official exchange rate permitted critically needed increases in the producer price for cocoa, Ghana's major export, from ₵ 12,000 per ton in 1983 to ₵ 56,600 per ton in 1985, resulting in a significant boost to production and exports. At the same time, the extensive system of price controls was dismantled, allowing a full pass-through of higher import costs to most domestic prices, including those of petroleum products.

The improvements in relative prices were accompanied by a tightening of demand-management policies, notably through the government budget. During the three-year period 1983-85, total government revenue virtually doubled as a percentage of GDP to almost 11 percent in 1985, owing partly to discretionary revenue measures and a strengthening of tax administration, but also to the exchange rate depreciation and gradual recovery of external trade. This made it possible for the Government to raise somewhat real wages and salaries for civil servants, from their very low levels, and to accommodate moderate increases in maintenance and material outlays. Nevertheless, the overall fiscal deficit on central government operations, excluding capital expenditure financed through external project aid, was reduced by more than half from the equivalent of 4.5 percent of GDP in 1982 to 2.0 percent of GDP in 1985. Moreover, the declining domestic bank financing of the fiscal deficit allowed an increased channeling of domestic financial resources to the private sector. In an effort to buttress the mobilization and efficient allocation of domestic resources, flexible interest rate policies were applied, leading to positive real rates for the first time in several years by the end of 1985.

After a slow start, reflecting the adverse impact of a severe drought in 1982-83 and unexpected lags in the disbursements of external assistance, the economic recovery began to take hold in 1984 (Table 2). With the substantial expansion in agricultural, mining, and manufacturing output, real GDP rose by about 9 percent in 1984 and 5 percent in 1985, following several years of decline. The overall supply situation thus improved considerably, particularly in agriculture, and imports also rose sharply. In conjunction with tightened demand-management policies, this 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 practically halving both the trade and the overall balance of payments deficits between 1983 and 1985, while external payments arrears were reduced to US$175 million by the end of 1985.

III. Performance Under the 1986 Program

Although the basic objectives of the Economic Recovery Program for 1983-85 were largely realized, there was some slippage in policy implementation toward the end of 1985, which was attributable to a larger-than-expected increase in bank credit to the Cocoa Board. Consequently, the indicative target for the net domestic assets of the banking system was substantially exceeded at end-December 1985, and the rate of monetary expansion for 1985 as a whole reached 60 percent, compared with 32 percent envisaged in the Fund-supported program. The buildup of excess liquidity in the economy thus began to have an adverse impact on the balance of payments, and inflation accelerated to an annual rate of almost 20 percent by year-end.

Table 2. Ghana: Selected Economic and Financial Indicators, 1983-87

	1983	1984	1985	1986 Prog.	1986 Prov.	1987 Prog.
	(Annual percentage change, unless otherwise specified)					
National income and prices						
Real GDP	-4.7	8.7	5.1	5.5	5.3	5.0
GDP deflator	123.3	35.3	31.2	25.0	30.2	18.0
Consumer price index	123.1	39.7	10.3	25.0	24.6	18.0
Government budget						
Revenue and grants	95.0	121.1	78.0	110.7	82.6	49.4
Total expenditure	64.6	81.1	74.2	79.2	53.1	48.5
Current expenditure	69.0	71.9	64.9	66.5	58.2	34.3
Capital expenditure 1/	35.3	158.0	126.7	130.7	32.5	117.8
Money and credit 2/						
Net domestic assets	41.2	76.5	68.2	27.9	41.8	12.9
Credit to the Government	23.3	14.7	12.5	11.0	9.1	-18.6
Credit to the rest of the economy 3/	40.0	295.9	128.6	45.5	50.7	28.4
Broad money	38.1	72.0	59.5	18.8	53.6	32.9
Velocity (GDP relative to M2)	*9.0*	*7.7*	*6.6*	*6.6*	*5.9*	*5.5*
Interest rates (in percent; end of period)						
Minimum rate on savings deposits	11.0	14.5	16.5	18.5	18.5	21.5
Maximum rate on nonagricultural loans	19.0	22.5	23.0	23.0	23.0	26.0
External sector						
Exports, f.o.b.	-27.7	29.1	11.6	14.4	22.3	-1.2
Imports, f.o.b.	-15.1	23.3	8.6	17.6	6.6	12.7
Export volume	-27.9	2.0	21.1	7.0	14.9	7.8
Import volume	-9.6	26.9	10.9	27.7	12.0	8.1
Terms of trade	6.8	30.2	-5.9	33.4	11.9	-12.1
Nominal effective exchange rate (depreciation -)	-58.3	-75.4	-27.0	...	-49.8	...
Real effective exchange rate (depreciation -)	-32.8	-61.4	-27.3	...	-42.3	...
	(In percent of GDP)					
Investment and savings						
Gross investment	3.8	7.2	7.4	12.0	11.9	17.4
Domestic savings	0.6	3.5	4.2	8.0	7.6	10.1
Government budget						
Overall surplus or deficit (-) 4/	-2.7	-1.8	-2.0	-0.2	0.1	0.2
Revenue and grants	5.6	8.4	10.8	19.4	14.4	17.4
Total expenditure	8.2	10.2	12.8	19.5	14.3	17.2
External sector						
Current account balance 4/	-0.3	-1.0	-2.3	-5.1	-1.5	-3.9
External debt outstanding	26.7	37.8	32.5	69.6	68.7	73.3
Debt service	0.4	2.9	5.3	8.6	7.5	11.4
	(In percent of exports of goods and services)					
External debt service						
Including the Fund	46.6	36.2	54.1	52.5	47.1	53.8
Excluding the Fund	42.5	32.1	47.5	42.5	37.8	27.6
	(In millions of U.S. dollars)					
Current account balance 4/	-157.6	-75.3	-156.5	-224.0	-75.5	-149.8
Overall balance of payments	-243.0	37.2	-117.5	-81.0	-56.7	108.0
External payments arrears (end of period)	440.0	232.0	175.0	198.2	171.0	145.0
Gross international reserves (end of period)	...	131.8	145.2	137.0	171.8	164.4
(equivalent weeks of imports)	...	10.0	10.0	9.1	11.0	10.0

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

1/ Includes net lending and in 1987 the special efficiency program.
2/ Before 1984, based on the narrow coverage of the banking system.
3/ Includes financing of Cocoa Board operations, but excludes other items net.
4/ Including official grants.

In January 1986, in conjunction with the depreciation of the cedi from ₵ 60 per U.S. dollar to ₵ 90 per U.S. dollar, the authorities announced a 29 percent increase in the minimum wage, coupled with an adjustment of civil service pay and allowances, with a view to restoring the ratio between the top and bottom pay scales from about 2 to 1 to almost 6 to 1. Although the increase in the minimum wage had been foreseen in the ongoing negotiations on a new program that could be supported by Fund resources, the implications of the increases in salary-related allowances were not fully considered by the authorities. In the event, the resulting increase in the government wage bill was estimated at 147 percent over the 1985 level. However, as the consequences of this large increase became apparent, and the overall economic situation began to weaken, the authorities rolled back part of the wage and salary increases in June 1986. Subsequently, in September 1986, they limited the payments of allowances to civil servants, with the combined effect of containing the increase in the wage bill to 92 percent relative to the 1985 level.

As a result of the slippages that occurred toward the end of 1985 and early in the new year, during the first six months of 1986, net government borrowing from the banking system rose by 39 percent, and net domestic assets increased by 31 percent. At the same time, inflation accelerated to an annual rate of 36 percent. Moreover, Ghana's external position deteriorated sharply: the net foreign assets of the Bank of Ghana declined by US$191 million, and there was an accumulation of external arrears of US$139 million.

In view of this situation, in September 1986 the authorities took urgent corrective measures with a view to reversing the deterioration in Ghana's situation, and thereby consolidating the gains achieved during the previous three years. For 1986 as a whole, the authorities' adjustment program aimed at achieving a growth of real GDP of 5.5 percent, limiting inflation to 25 percent, and reducing the overall balance of payments deficit to US$81 million. The key policy measures that formed the basis of the program were far-reaching changes in the exchange and trade system, notably the introduction of a second foreign exchange window, where the exchange rate is market-determined in the context of a weekly auction; tight fiscal policies based largely on new revenue measures; and a restrictive credit stance, combined with higher interest rates. In this way, it was expected that in 1986 the overall fiscal deficit would be reduced to 0.2 percent of GDP, the expansion in net domestic assets of the banking system would be brought down to 28 percent, and the reduction in reserves would be reversed, as would the accumulation of external arrears. It is in support of this program that the Fund approved the current one-year stand-by arrangement.

1. Overall performance of the economy

According to provisional estimates, the basic macroeconomic objectives of the program for 1986 as a whole were realized: the growth of real GDP amounted to 5.3 percent; the rate of inflation was contained to 24.6 percent; and the overall balance of payments deficit was reduced by more than one half to US$57 million, with the stock of outstanding external arrears being brought down despite the substantial increase in the first half of the year. Gross investment and domestic savings were about 12 percent and 8 percent of GDP, respectively, levels substantially higher than in 1985 and previous years.

However, as in late 1985, a number of difficulties were encountered by the authorities in the implementation of the program toward the end of 1986. Thus, while all the performance criteria of the program for end-September 1986 were observed, the criteria regarding bank financing of the operations of the Cocoa Board and net domestic assets of the banking system for end-December 1986 were not met, as explained below.

2. Government finances

The authorities' fiscal program for 1986 aimed at reducing the overall deficit on central government operations, excluding capital expenditure financed through external project aid, to ¢ 0.9 billion, equivalent to 0.2 percent of GDP, compared with a deficit of 2 percent of GDP in 1985 (Table 3). Total revenue and grants were estimated at ¢ 84.9 billion (16.6 percent of GDP), about 111 percent higher than in the previous year, while total expenditure and net lending were programmed at ¢ 85.8 billion (16.8 percent of GDP), 79 percent above the 1985 level.

In the event, revenue performance turned out to be significantly weaker than had been envisaged, and there was a substantial shortfall in external grants accruing to the budget. Provisional results for 1986 indicate that revenue from taxes on international trade, which accounts for almost one half of tax receipts, was ¢ 8.0 billion, or 22 percent, below the estimated level. This was due primarily to a shortfall in revenue from import taxes of ¢ 4.5 billion, owing to lower-than-anticipated import levels, a decline in effective duty rates, and evasion of taxes on goods imported under the Special Import License (SIL) scheme; moreover, after less than three months of ineffective implementation, in September 1986 the Government abolished a 10 percent import surcharge which had been expected to yield ¢ 3.1 billion in revenue, mostly during the last quarter of the year as a result of the depreciation of the exchange rate. As regards export tax receipts, while earnings from cocoa exports in 1986 were considerably higher than in the previous year, there were smaller reductions in the operating costs of the Cocoa Board than had been expected, leading to a shortfall in revenue from cocoa of ¢ 3.1 billion. Although the Government did not enforce the tax on wage-related allowances that was introduced on August 1, 1986, actual revenue from taxes on income and property was close to the initial estimate. The principal source of additional revenue from taxes on goods and services in 1986 was the windfall gain resulting from the difference between the lower landed price of imported crude oil and the unchanged domestic prices of petroleum products; the size of the windfall gain to the Ghana National Petroleum Corporation

Table 3. Ghana: Central Government Operations and Financing, 1983-87

	1983	1984	1985	1986 Prog.	1986 Prov.	1987 Prog.
			(In millions of cedis)			
Total revenue and grants	10,241	22,641	40,312	84,924	73,625	109,986
Revenue	10,184	21,727	38,692	78,239	69,757	102,103
Taxes on income and property	(1,780)	(4,061)	(7,462)	(14,382)	(14,121)	(17,230)
Taxes on international transactions	(4,990)	(8,242)	(15,824)	(36,440)	(28,465)	(49,251)
Taxes on goods and services	(1,689)	(5,628)	(9,233)	(19,316)	(19,620)	(26,502)
Nontax revenue	(1,726)	(3,797)	(6,173)	(8,100)	(7,550)	(9,120)
Foreign grants	57	914	1,620	6,685	3,868	7,883
Total expenditure and net lending	15,178	27,485	47,892	85,797	73,326	108,905
Current expenditure	13,566	23,326	38,462	64,044	60,833	81,691
Wages and salaries	(3,743)	(5,282)	(14,524)	(26,272)	(26,194)	(34,625)
Interest	(2,204)	(3,425)	(4,786)	(9,647)	(11,341)	(17,265)
Other	(7,619)	(14,619)	(18,852)	(28,125)	(23,298)	(29,801)
Capital expenditure and net lending 1/	1,612	4,159	9,430	20,753	12,493	23,014
Capital expenditure	(1,192)	(3,368)	(7,303)	(14,352)	(9,826)	(18,214)
Net lending	(420)	(791)	(2,127)	(6,401)	(2,667)	(4,800)
Special efficiency 2/	--	--	--	1,000	--	4,200
Overall surplus or deficit (-)	-4,937 3/	-4,844	-7,580	-873	299	1,081
Financing	4,937	4,844	7,580	873	-299	-1,081
Foreign (net)	687	1,816	3,522	-3,627	-5,614	2,419
Borrowing	(1,973)	(5,073)	(9,562)	(13,776)	(13,412)	(26,128)
Repayments	(-1,286)	(-3,257)	(-6,040)	(-17,403)	(-19,026)	(-23,709)
Domestic (net)	4,250	3,028	4,058	4,500	5,315	-3,500
Banking system 4/	(2,572) 3/	(3,106)	(3,011)	(3,000)	(2,471)	(-5,500)
Social security	(230)	(437)	(510)	(1,000)	(3,182)	(3,500)
Other	(1,448)	(-515)	(537)	(500)	(-338)	(-1,500)
			(In percent of GDP)			
Total revenue and grants	5.6	8.4	10.8	16.6 5/	14.4	17.4
Total expenditure and net lending	8.2	10.2	12.8	16.8 5/	14.3	17.2
Overall surplus or deficit (-)	-2.7	-1.8	-2.0	-0.2 5/	0.1	0.2
Memorandum items:						
Total revenue and grants (including project grants)	...	...	11.4	...	15.4	19.7
Total expenditure and net lending (including capital expenditure financed through project aid)	...	...	14.1	...	17.8	22.9
Overall deficit (-) (broad coverage)	...	...	-2.8	...	-2.4	-3.2

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

1/ The budget coverage excludes capital expenditure financed through project aid, and the corresponding grants and loans.
2/ Provision for redeployment, retraining, and relocation, comprising both current and capital expenditure.
3/ For 1983 the overall deficit, including a one-time transfer to the Cocoa Board, would have been ₵ 12,359 million; net domestic financing from the banking system, including Cocoa Board transactions, would have been ₵ 9,994 million.
4/ Includes secondary banks from 1984 onwards.
5/ In percent of actual 1986 GDP.

was estimated at about ₵ 5 billion, and it was expected that part of the gain would be converted into a specific excise duty on petroleum by October 15, 1986, so as to protect this revenue source in the event of an increase in world oil prices. While this specific excise duty was not introduced during 1986, the windfall gain, which turned out to be ₵ 5.4 billion, was transferred to the budget. Nontax revenue and grants were below the budgeted levels, mainly as a consequence of a ₵ 2.8 billion shortfall in external grants accruing to the budget. Overall, revenue and grants amounted to ₵ 73.6 billion in 1986, equivalent to 14.4 percent of GDP, or 2.2 percentage points of GDP below the level foreseen in the program.

The Ghanaian authorities responded to the emerging revenue shortfalls by taking measures to contain both current and capital outlays. Cash limits were placed on purchases of goods and services, which, although partially offset by an unanticipated increase in domestic and external interest payments, resulted in a ₵ 3.2 billion reduction (5 percent) in current expenditure relative to the programmed level. In addition, capital expenditure fell below the programmed level by ₵ 4.5 billion (32 percent) and net lending by ₵ 3.7 billion (58 percent), reflecting not only discretionary cuts in outlays but also implementation difficulties. Moreover, the Government did not utilize the allocation of ₵ 1.0 billion that had been provided in the budget to finance a planned redeployment of civil servants which did not materialize. It is to be noted, however, that a number of "ghost" workers were identified and removed from the government payroll in 1986. As a result of these cutbacks, total expenditure and net lending was limited to ₵ 73.3 billion in 1986, equivalent to 14.3 percent of GDP, or 2.5 percentage points of GDP below the programmed level.

The revenue and expenditure developments described above made it possible to generate in 1986 an overall fiscal surplus of ₵ 0.3 billion, or 0.1 percent of GDP, compared with a programmed deficit of ₵ 0.9 billion. 1/ Foreign financing accruing to the budget was below the level that had been projected in terms of U.S. dollars, but the shortfall was largely compensated by the fact that about three fourths of the total inflows were transferred to the budget at the more depreciated exchange rate prevailing in the last quarter of the year. Although external debt repayments were higher than projected, increased domestic nonbank financing permitted net government borrowing from the banking system to be kept at ₵ 2.5 billion, significantly below the program ceiling of ₵ 3.0 billion. This implied that the Government, which had increased its net debtor position vis-à-vis the banking system by ₵ 10.7 billion in the first half of 1986, repaid ₵ 8.3 billion in the second half of the year.

1/ As shown in Table 3, if capital expenditure financed through project aid, and the corresponding external grants and loans, were included, central government operations in 1986 would have resulted in an overall deficit equivalent to 2.4 percent of GDP.

3. Money and credit

As noted earlier, monetary and credit policies were substantially tightened in the second half of 1986 with a view to reversing the adverse impact of the rapid credit expansion on Ghana's external payments position that had taken place in the first half of the year. The growth in net domestic assets of the banking system for the year as a whole was thus programmed at 28 percent, implying a decline of about 2 percentage points from the level attained in June, largely through net repayments by the Government to the banking system (Table 4). The program allowed for a further expansion in credit to the rest of the economy, although at a slower rate than in the first half of the year, as well as for the seasonal financing needs of the Cocoa Board. Consistent with the net foreign assets target, the growth of broad money was programmed at 19 percent for 1986.

During the third quarter of 1986, net domestic assets declined to a level within the programmed limit, reflecting the repayments by the Government to the banking system and the fact that there was no growth in credit to the rest of the economy. Moreover, the tighter credit policies, together with increased foreign capital inflows, resulted in an improvement in the net foreign assets position of the Bank of Ghana. Thus, all performance criteria for end-September 1986 were met.

During the last quarter of 1986, total credit expanded much more rapidly than had been foreseen under the program. Consequently, according to provisional data, for 1986 as a whole, net domestic assets increased by ¢ 28.0 billion, or 42 percent, exceeding the end-December 1986 ceiling of ¢ 85.8 billion by ¢ 9.3 billion. The net claims of the banking system on the Government declined further to ¢ 29.6 billion at end-December 1986, or well within the program subceiling of ¢ 30.2 billion. Credit to the rest of the economy, which grew by 64 percent during the year, also remained within the targeted amount by end-December 1986. However, the excessive increase in net domestic assets was the combined result of higher-than-expected bank financing of the operations of the Cocoa Board and an unforeseen sharp rise in other net domestic assets of the banking system.

The ceiling on bank financing of the operations of the Cocoa Board, a performance criterion, which had been set at ¢ 14.6 billion for end-December 1986, was exceeded by ¢ 2.3 billion. Of this amount, ¢ 2.0 billion in bank financing is attributable to the fact that purchases in respect of the 1986/87 cocoa crop were 22,000 tons larger than had been projected. Furthermore, delays in shipments resulted in lower-than-anticipated receipts from cocoa exports, which meant that operating costs of the Cocoa Board had to be financed by the banking system.

In programming for the increase in total credit during 1986, little change had been assumed in the stock of other net domestic assets of the banking system. Actually, there was a deterioration of about ¢ 10.0

Table 4. Ghana: Monetary Survey, 1983-87

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

	1983 2/	1984	1985	1986					1987 3/			
				June	Sept.		Dec.		March	June	Sept.	Dec.
					Prog.	Act.	Prog.	Prov.				
Net foreign assets 4/	-16.7	-31.4	-48.7	-91.6	-57.7	-118.6	-62.6	-130.7	-127.1	-121.9	-113.4	-114.7
Net domestic assets	22.6	39.9	67.1	87.1	75.5	74.2	85.8	95.1	96.0	92.2	89.1	107.4
Claims on Government (net)	21.1	24.2	27.2	37.9	36.2	36.0	30.2	29.6	30.1	27.6	26.6	24.1
Cocoa financing	0.5	3.6	13.6	11.4	--	--	14.6	16.9	14.7	6.2	--	21.7
Credit to the rest of the economy	3.9	13.7	26.0	34.7	40.3	38.7	43.0	42.7	44.3	51.5	55.6	54.8
Long-term foreign liabilities of banks	...	...	...	-0.7	-1.8	-0.9	-2.8	-1.6	-2.8	-2.8	-2.8	-2.8
Other items (net)	-2.8	-1.6	0.4	3.8	0.8	0.4	0.8	7.4	9.6	9.6	9.6	9.6
Revaluation account	16.2	29.9	41.9	77.2	50.0	118.5	49.9	133.1	133.1	133.1	133.1	133.1
Broad money	20.5	35.3	56.3	66.0	61.6	64.3	66.9	86.4	90.9	92.3	97.7	114.8
Money	16.4	27.4	44.0	50.0	...	46.9	...	65.8	...	...	...	...
Quasi-money	4.1	7.9	12.3	16.0	...	17.4	...	20.6	...	...	...	...
Counterpart to SDR allocations	1.6	3.1	4.0	6.7	6.2	9.9	6.2	11.1	11.1	11.1	11.1	11.1
Memorandum items:												
GDP at market prices	184.0	270.6	373.0	...	...	...	438.8	511.4	...	...	...	633.6
(Percentage change)	112.9	47.0	37.9	...	...	...	31.8	37.1	...	...	...	23.9
Velocity (GDP relative to M2)	9.0	7.7	6.6	...	...	...	6.6	5.9	...	...	...	5.5
Percentage change in net domestic assets	41.1	...	68.2	...	...	...	27.9	41.8	...	...	...	12.9
Percentage change in credit to the rest of the economy	73.8	...	89.4	...	...	...	65.4	64.4	...	...	...	28.1

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

1/ Totals may not match additions due to rounding.
2/ Based on narrow coverage of banking system; therefore, not comparable to 1984 and beyond.
3/ Program.
4/ During 1987 at the exchange rate prevailing at the end of 1986.

billion in the net position of the Bank of Ghana during the fourth quarter of 1986. This deterioration reflected foreign exchange losses of the order of ¢ 3.0 billion on the central bank's operating account, some ¢ 4.2 billion in obligations due to the Ghana Commercial Bank as a result of accumulated commissions and charges on foreign letters of credit, and an increase in miscellaneous unclassified assets including suspense accounts for the clearing of nongovernmental checks. The relatively fragile financial position of the Bank of Ghana left little room for absorbing unexpected liabilities. At the same time, there was an improvement of about ¢ 3.4 billion in the net position of commercial banks during the fourth quarter of 1986. As a result of these factors, the implicit ceiling on "other items net" of the banking system for end-December 1986, which had been set at ¢ 0.8 billion, was exceeded by ¢ 6.6 billion.

The substantial increase in net domestic assets of the banking system, combined with a relative improvement in the external position, led to an expansion of broad money of 54 percent in 1986, considerably in excess of the program target of 19 percent and an estimated increase in nominal GDP of 37 percent. The composition of broad money, however, shifted in favor of bank deposits as against currency in circulation, owing partly to the fact that interest rates on deposits were raised by between two and three percentage points in August 1986.

4. External sector

a. The exchange and trade system

As noted earlier, under the 1986 program, far-reaching changes were made in the exchange and trade system. A fundamental change was the introduction on September 19, 1986, 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. 1/ Under this system, the first-window exchange rate applied to earnings from exports of cocoa and residual oil, import payments for petroleum products and essential drugs, and service payments on government debt contracted before January 1, 1986. All other external transactions through the official banking system were settled at the auction rate. The auction market covered transactions amounting to about US$3 million weekly. Including transactions not channeled through the auction market but settled at the auction rate, the second-window exchange rate effectively applied to some two thirds of Ghana's external transactions.

1/ Following the first auction, the system used for the determination of the exchange rate was changed from one of marginal pricing to a dutch auction in which the successful bidder pays the bid price. Under the dutch auction system, a multiple currency practice could arise if the bid price differs from the exchange rate by more than 2 percent.

The experience with the auction market has so far been satisfactory. The volume of transactions has been in line with expectations. Moreover, under the new exchange system, the second-window exchange rate depreciated from ₵ 128 per U.S. dollar at the first auction to ₵ 154 per U.S. dollar at the auction held on January 30, 1987; since the third auction, the rate has been at least ₵ 145 per U.S. dollar. This has reduced the spread between the auction and parallel market exchange rates to 20-25 percent, compared with some 100 percent prior to the introduction of the new system. Finally, although starting from a low base, the repatriation and surrender of foreign exchange to the Bank of Ghana has responded positively to the depreciation of the exchange rate and to the guarantee implicit in the new trade arrangements whereby bona fide importers have unrestricted access to the foreign exchange market.

Following a review of the new exchange system, a number of modifications were made to the operation of the auction. Effective December 19, 1986, bidders are no longer required to support their bids with social security and tax clearance certificates. Furthermore, while initially the Bank of Ghana did not release the foreign exchange purchased to open letters of credit before the credit matured and allowed the bidder to defer payment of 80 percent of the cedi equivalent of the bid until that time, since December 19, 1986 the Bank has been requiring full payment of the cedi value of successful bids immediately after each auction; also, it is now transferring the foreign exchange to a blocked account in the name of the bidder's bank within three banking days following the auction. The rules setting out the conditions under which demand for foreign exchange to cover service and transfer payments can be met through bidding in the auction have also been clarified.

To complement the reform of the exchange system, with effect from October 4, 1986 the import licensing system was liberalized, as the authorities began issuing "A" licenses that allow importers to cover their foreign exchange needs by bidding in the auction. The "A" licensing scheme has resulted in two important improvements in the exchange and trade system. First, whereas the licenses that were previously issued under the annual import programs were limited in number and distributed on an ad hoc basis, "A" licenses are now being issued to all applicants for a nominal fee. This change has eliminated the monopoly rent that previously accrued to importers because of the limited availability of licenses. Second, while only a limited number of imports were covered by the licenses issued under the annual import programs, virtually all nonconsumer goods imports are now funded from the official foreign exchange market. Moreover, all goods, except for five items on a negative list, can still be imported with Special Import Licenses (SILs) as long as they are financed from the importers' own foreign exchange resources. Thus, there are virtually no restrictions on imports into Ghana.

b. Balance of payments

With the implementation of the 1986 program, pressures on Ghana's balance of payments eased substantially. A major factor behind this improvement was a particularly strong export performance in 1986 (Table 5). The value of total exports increased by US$141 million, or 22 percent, compared with 1985, mainly on account of a 26 percent rise in cocoa exports to US$519 million. Total exports thus reached US$773 million in 1986, even exceeding the level envisaged in the program by about US$50 million. Although world market prices for cocoa were declining throughout most of 1986, the crop had been contracted for sale at an early stage and fetched an average price that was about 11 percent higher than in 1985. Furthermore, given the increased production incentives, exports of cocoa beans rose to 198,000 metric tons, continuing the climb from the low level of 159,000 metric tons recorded in 1983, but still fell short of the 239,000 metric tons attained in 1982. The cocoa sector remained the dominant foreign exchange earner, accounting for two thirds of total exports and almost 80 percent of export earnings surrendered to the Bank of Ghana. The gold and timber sectors also showed signs of responsiveness to the revitalization programs being implemented by the authorities. Owing to a labor dispute at the beginning of the year, gold mining was marginally lower for 1986 as a whole in comparison with 1985. However, monthly production figures for the second half of 1986 show that the major gold field was producing at an annual rate that was about 13 percent higher than in 1985. With the increase in prices, gold exports amounted to US$106 million in 1986, 17 percent higher than in 1985. Timber exports increased from US$28 million in 1985 to US$48 million in 1986, and were thus higher than at any time during the decade.

In 1986 non-oil imports rose by 27 percent to an estimated US$589 million, reflecting a sharp increase in disbursements of development grants and long-term loans; however, they were still well below the programmed level of US$665 million. 1/ As oil imports dropped by 40 percent to US$123 million due to the fall in world market prices, the increase in the total import bill in 1986 was limited to 7 percent.

As a result, the trade balance showed a marked turnaround, from a deficit of US$36 million in 1985 to a surplus of US$61 million in 1986, contributing to a halving of the current account deficit, including official unrequited transfers, from US$157 million in 1985 (2.3 percent

1/ As customs-based import figures are not available, the estimate for imports is derived from information on foreign financing. A shortfall in foreign financing, therefore, triggers a revision in the estimate for imports. However, this exaggerates the impact on imports of a shortfall in foreign financing to the extent that importers may substitute alternative means of financing not recorded in the balance of payments. The negative entry for "errors and omissions" in 1986 provides some evidence that such substitution took place.

Table 5. Ghana: Balance of Payments, 1983-87 1/

(In millions of U.S. dollars)

	1983	1984	1985	1986 Prog.	1986 Prov.	1987 Prog.
Exports, f.o.b.	439.1	566.7	632.5	723.6	773.3	764.0
Cocoa beans and products	268.6	381.7	412.0	501.0	519.2	469.8
Gold	114.1	103.3	90.6	85.6	106.4	131.6
Timber	14.7	21.2	27.8	38.8	47.8	49.9
Other	41.7	60.5	102.1	98.2	99.9	112.7
Imports, f.o.b.	-499.7	-616.0	-668.7	-786.4	-712.5	-803.3
Oil	-161.1	-161.0	-205.6	-121.7	-123.1	-145.8
Non-oil	-338.6	-455.0	-463.1	-664.7	-589.4	-657.5
Trade balance	-60.6	-49.3	-36.3	-62.8	60.8	-39.3
Services (net)	-186.0	-229.2	-256.8	-344.8	-303.1	-324.9
Freight and insurance	-23.1	-31.6	-45.1	-50.3	-53.2	-59.8
Interest payments	-82.1	-103.0	-107.9	-114.1	-105.3	-110.7
Other	-80.8	-94.6	-103.8	-180.4	-144.6	-154.4
Unrequited transfers (net)	89.0	203.2	136.5	183.6	166.8	214.4
Official	72.4	129.7	104.6	125.9	118.2	162.3
Private	16.6	73.5	31.9	57.7	48.6	52.1
Current account balance	-157.6	-75.3	-156.6	-224.0	-75.5	-149.8
Capital account	102.0	93.3	62.4	143.0	54.2	257.8
Official capital (net)	27.7	186.7	32.1	117.6	98.5	266.3
Long-term loans	15.0	83.6	109.8	169.9	193.7	219.5
Inflows	84.4	133.4	134.8	207.8	223.9	260.0
Amortization	-69.4	-49.8	-25.0	-37.9	-30.2	-40.5
Medium-term loans	12.7	104.3	-70.3	-41.1	-84.0	58.5
Inflows	67.8	169.5	152.5	192.1	133.3	171.9
Of which: oil facility	(--)	(49.2)	(--)	(63.8)	(59.0)	(67.8)
Amortization	-55.1	-65.2	-222.8	-233.2	-217.3	-113.4
Of which: oil facility	(--)	(--)	(--)	(-116.3)	(-116.3)	(-59.0)
Trust Fund	--	-1.2	-7.4	-11.2	-11.2	-11.7
Private capital (net)	13.4	-8.7	5.8	25.4	3.8	8.3
Direct investment	1.6	2.0	5.6	9.8	4.3	4.7
Suppliers' credits	11.8	-10.7	0.2	15.6	-0.5	3.6
Other	--	--	--	--	--	--
Short-term capital	60.9	-84.7	24.5	--	-48.1	-16.9
Errors and omissions	-187.4	19.2	-23.3	--	-35.5	--
Overall balance	-243.0	37.2	-117.5	-81.0	-56.7	108.0
Financing	243.0	-37.2	117.5	81.0	56.7	-108.0
Net foreign assets	241.9	-26.9	109.7	81.0	66.1	-120.0
IMF (net)	258.7	213.7	121.8	16.1	16.1	-102.0
Purchases	275.1	217.9	121.8	37.6	37.6	58.9
Repurchases	-16.4	-4.2	--	-21.5	-21.5	-160.9
Payments arrears (reduction -)	-33.7	-207.8	-56.7	23.0	-3.7	-26.0
Other	16.9	-32.8	44.6	41.9	53.7	8.0
Bilateral payments agreements	1.1	-10.3	7.8	--	-9.4	12.0
Memorandum items:						
Current account deficit (-)						
In percent of GDP						
Including official transfers	-0.3	-1.0	-2.3	-5.1	-1.5	-3.9
Excluding official transfers 2/	-0.5	-2.8	-3.9	-8.1	-3.9	-8.3
Debt service ratio						
Including IMF	46.6	36.2	54.1	52.5	47.1	53.8
Excluding IMF	42.5	32.1	47.5	42.5	37.8	27.6
Cocoa exports (beans)						
Volume (in thousands of tons)	159.3	149.6	171.7	194.3	198.3	210.0
Price (in US$ per ton)	1,520	2,351	2,189	2,360	2,434	2,087

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

1/ Totals may not match additions due to rounding.
2/ Inward transfers only.

of GDP) to US$76 million in 1986 (1.5 percent of GDP), significantly below the programmed deficit for 1986 of US$224 million (5.1 percent of GDP).

While the increase in long-term development loans by US$89 million to US$224 million in 1986 was substantial, it was partly offset by a reduction in medium-term loans. Meanwhile, there was also a considerable unanticipated outflow of short-term capital. Thus, on balance, net capital inflows declined to US$54 million in 1986, compared with US$143 million envisaged in the program and US$62 million in 1985. However, with the substantial improvement in the current account, the balance of payments, including transactions under bilateral payments agreements, registered an overall deficit of US$57 million in 1986, as against US$81 million in the program and US$118 million in 1985; excluding transactions under bilateral payments agreements, the overall deficit amounted to US$66 million in 1986, as shown in Table 5. It is to be noted that the overall balance of payments position shifted markedly from the first to the second half of the year. The Bank of Ghana's net foreign assets position, excluding balances under bilateral payments agreements, which had deteriorated by US$191 million during the first half of 1986, improved by US$125 million during the second half of the year. Reflecting this improvement, external arrears, after increasing by US$139 million in the first six months of 1986, were reduced by US$143 million during the remainder of the year.

In 1986 Ghana's total outstanding external public debt rose further, reaching a high of US$2.5 billion (Table 6). However, in relation to exports of goods and services, the country's external indebtedness continued to decline, from 436 percent in 1983 to 303 percent in 1986, although use of Fund credit rose from 59 percent to 91 percent, respectively. Moreover, the structure of the debt slowly improved, as the share of long-term debt in the total increased from 41 percent in 1983 to 46 percent in 1986.

The nominal and real effective exchange rates of the currency continued to depreciate in 1986 (Chart 1). Thus, at end-December 1986, the real effective exchange rate was 21 percent lower than at end-August 1986, just before the auction market was instituted, and 43 percent below the level at end-December 1985, immediately prior to the last discretionary change in the official exchange rate from ₵ 60 per U.S. dollar to ₵ 90 per U.S. dollar. This brought the total cumulative depreciation in real terms since the Economic Recovery Program was adopted in April 1983 to 94 percent.

IV. Report on the Discussions and the Program for 1987

At the time of the last Article IV consultation with Ghana, Executive Directors had noted with considerable satisfaction the significant recovery of economic activity and the sharp deceleration of inflation, reflecting not only the impact of favorable weather

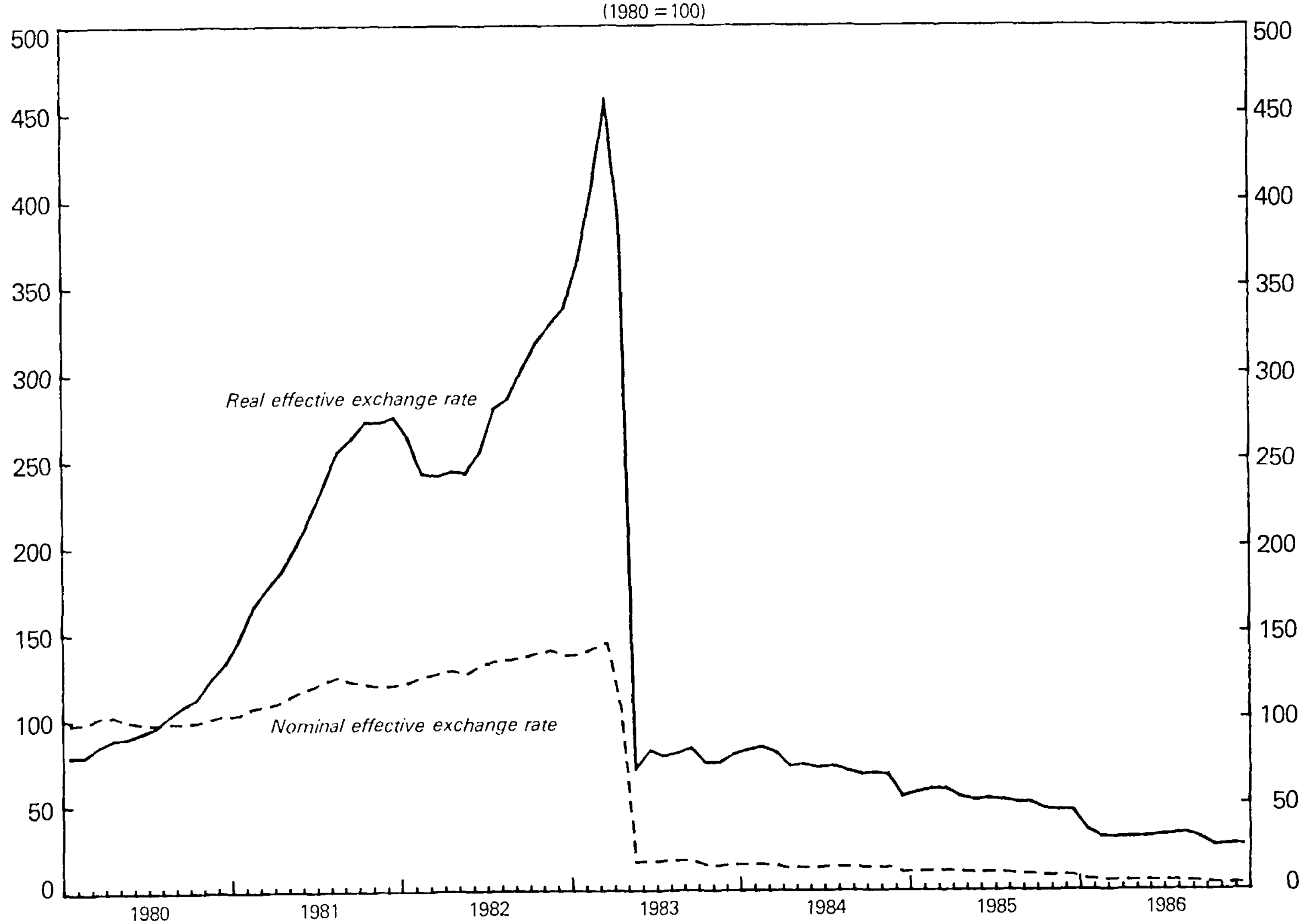
Table 6. Ghana: External Public Debt, 1983-86 1/

	1983			1984			1985			1986		
	In millions of US$	In percent of total debt	In percent of exports of goods and services	In millions of US$	In percent of total debt	In percent of exports of goods and services	In millions of US$	In percent of total debt	In percent of exports of goods and services	In millions of US$	In percent of total debt	In percent of exports of goods and services
Long-term	846	40.7	177.1	850	41.7	138.1	901	41.0	134.3	1,135	45.8	138.7
Bilateral	(399)	(19.2)	(83.5)	(378)	(18.6)	(61.4)	(345)	(15.7)	(51.4)	(391)	(15.8)	(47.8)
Multilateral	(447)	(21.5)	(93.6)	(472)	(23.2)	(76.7)	(556)	(25.3)	(82.9)	(744)	(30.0)	(90.9)
Medium-term	462	22.2	96.7	437	21.5	71.0	421	19.2	62.8	395	15.9	48.3
Oil credits	(88)	(4.2)	(18.4)	(230)	(11.3)	(37.4)	(183)	(8.3)	(27.3)	(118)	(4.8)	(14.4)
Other	(374)	(18.0)	(78.3)	(207)	(10.2)	(33.6)	(238)	(10.8)	(35.5)	(277)	(11.2)	(33.9)
Trust Fund	51	2.5	10.7	50	2.5	8.1	43	2.0	6.4	32	1.3	3.9
Subtotal	1,359	65.4	284.6	1,337	65.6	217.2	1,365	62.1	203.5	1,562	63.0	190.9
Use of Fund credit	281	13.5	58.8	468	23.0	76.0	657	29.9	97.9	748	30.2	91.4
Arrears	440	21.1	92.1	232	11.4	37.7	175	8.0	26.1	171	6.9	20.9
Total	2,080	100.0	435.5	2,037	100.0	330.8	2,197	100.0	327.5	2,481	100.0	303.2

Source: Data provided by the Ghanaian authorities.

1/ Totals may not match additions due to rounding.

CHART 1
GHANA
NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, 1980-86
(1980 = 100)



Source: IMF, Information Notice System.

conditions but also the economy's response to the supply and demand-management policies pursued by the Ghanaian authorities. Nevertheless, Directors had stressed the need for strengthening price incentives in the economy, particularly in the cocoa sector, through the pursuit of a flexible exchange rate policy. Although Ghana would face a difficult balance of payments situation during 1986-88, Directors felt that attainment of a viable external payments position remained possible before the end of the decade, provided that the thrust of the adjustment effort undertaken since 1983 could be maintained.

These issues were considered further during the discussions on the 1986 Article IV consultation and the review under the current stand-by arrangement. The authorities recognized that, despite the gains achieved since 1983, Ghana still faces major structural and financial problems. The rate of growth of the economy, though currently satisfactory, is constrained by insufficient incentives and inadequate economic and social infrastructure; inflation is high; the external payments position is fragile; and the external debt service burden is heavy. In view of these problems, the discussions focused on the appropriate mix of structural and financial policies required to maintain economic growth at a satisfactory pace, while moving toward a viable balance of payments position over the medium term.

1. Overall economic strategy and basic objectives for 1987

Conscious of the magnitude of the problems still facing Ghana, the Ghanaian representatives emphasized that the Government is determined to pursue the adjustment effort in the medium term so as to establish a firm foundation for a buoyant and increasingly integrated economy, and place the balance of payments on a sound footing. This would involve strengthening the incentive framework to promote savings and investment, and achieving greater efficiency in public resource management through improvements in the allocation and implementation of public investments, reform of state enterprises, and consolidation of the gains achieved in the area of the government budget.

Accordingly, as indicated in the letter of intent, the authorities have adopted a program for 1987, the basic objectives of which are (a) to achieve a growth of real GDP of 5 percent, which would increase real per capita income by about 2 percent; (b) to reduce the rate of inflation to 18 percent; and (c) to generate an overall balance of payments surplus equivalent to US$108 million. To these ends, a broad range of measures have already been implemented. Moreover, a special monitoring and policy analysis committee, headed by the Chairman of the Bank of Ghana, has been established to ensure appropriate monitoring of performance under the program based upon a timely collection and analysis of the relevant data.

The authorities have also indicated that they will undertake further structural and financial reforms in the period ahead, in close collaboration with the staffs of the Fund and the World Bank. On this basis, they have reiterated their intention to seek, before or upon expiration of the present stand-by arrangement, continued Fund support through use of the extended Fund facility and the structural adjustment facility.

2. Economic growth and development policies

To sustain economic growth at an annual rate of about 5 percent, the authorities are making further economy-wide improvements in the incentive framework, while undertaking rehabilitation programs in specific sectors with assistance from the World Bank and other donors. As regards the incentive framework, they have already taken steps to further liberalize the exchange and trade system, as described below, notably through the unification of the exchange rates effective February 21, 1987. In addition, they intend to continue to pursue a flexible exchange rate policy; widen access to the auction market; rationalize the official foreign exchange and the SIL markets with a view to their full integration by January 1988; and reform the tariff structure. These policies will ensure that domestic prices move in the direction of international equivalence, and that manufacturing production receives more uniform effective protection. Moreover, the few remaining domestic price and distribution controls are to be phased out. While improving the structure of incentives, the authorities are taking steps to increase domestic and foreign investment. As regards the public sector, they intend to channel public investment increasingly to the rehabilitation of infrastructure, and to revitalize and reform state enterprises. Private investment will be encouraged through the provision of adequate credit, as well as through the liberalization of outward transfers of dividends and royalties.

With the recent unification of the exchange rates, domestic price incentives will be improved further. In particular, with effect from May 1, 1987 the producer price for cocoa will be raised from ₵ 85,000 per metric ton to ₵ 140,000 per metric ton; in addition, farmers will receive a bonus of ₵ 10,000 per metric ton for the 1987/88 season, compared with only ₵ 500 per metric ton in 1986/87. As a consequence, and in view of the recent decline in world cocoa prices, the producer price for cocoa in Ghana as a proportion of the world price is estimated to rise from 25 percent in the 1986/87 crop year to 45 percent in the 1987/88 crop year. This should encourage cocoa farmers to increase replanting and new planting, while significantly reducing the incentive to smuggle cocoa to neighboring countries. To help establish future producer prices for cocoa, a study will be carried out by the Cocoa Board with World Bank assistance. Subject to the results of this study, which is expected to be completed by December 1987, it is the Government's intention to raise producer prices progressively to at least 55 percent of the world price by 1988/89. To this end, the operating costs of the Cocoa Board are to be reduced substantially, from the equivalent of 30 percent of the f.o.b. price for the 1986/87 crop year to 15 percent in 1988/89, mainly through cutbacks in activities of the Board that are unrelated to its basic purchasing, marketing, and extension service functions. Accordingly, the 1986/87 budget of the Cocoa Board envisages the divestiture of 52 of the Board's plantations and further sizable reductions in personnel, as well as the transfer to the Government of responsibility for the maintenance of cocoa feeder roads.

These policies and measures are expected to boost cocoa production and exports by about 4 percent in 1987. However, agricultural production as a whole is expected to increase by only 2 percent. By contrast, the industrial sector is projected to grow by 14 percent, owing largely to a sharp recovery in gold mining and a pickup in manufacturing activity, while all other sectors are forecast to show an increase of some 6 percent. Thus, with the expected rise in gross investment to over 17 percent of GDP, the envisaged growth of real GDP of 5 percent in 1987 now seems feasible. There is no doubt, however, that the attainment of this objective will also depend importantly on the stance of other policies, notably the mix of fiscal and credit policies.

3. Fiscal policy

The government budget for 1987 aims at generating an overall surplus, excluding capital expenditure financed through external project aid, of ₵ 1.1 billion, equivalent to 0.2 percent of the projected nominal GDP, or slightly more than the outcome for 1986 (Table 3). Total revenue and grants are estimated to increase by 49 percent to ₵ 110.0 billion (17.4 percent of GDP), while total expenditure and net lending have been budgeted at ₵ 108.9 billion (17.2 percent of GDP), which also represents an increase of 49 percent over the 1986 outturn. On the financing side, disbursements of foreign non-oil loans accruing to the budget have been conservatively estimated at US$89 million, equivalent to ₵ 14.6 billion, while oil import financing has been estimated at the equivalent of ₵ 11.5 billion. After allowing for repayments in respect of external debt equivalent to ₵ 23.7 billion and ₵ 2.0 billion in domestic nonbank borrowing, the Government will thus reduce its outstanding debt to the domestic banking system by ₵ 5.5 billion in 1987, equivalent to 0.9 percent of GDP.

On the revenue side, the sharp increase envisaged for 1987 results largely from the continued expansion of the tax base and the favorable impact of the exchange rate adjustment. The major new tax measure is the conversion of the windfall profit on petroleum into an excise duty on the main products, except kerosene; although this measure will not lead to any increase in receipts, it secures ₵ 5.0 billion in revenue from petroleum for the budget in the event of a rise in world oil prices. The introduction of the excise duty did not call for increases in the retail prices of petroleum products, but the full pass-through of the exchange rate unification required substantial upward adjustments in order to avoid any subsidy. Effective February 20, 1987, the ex-pump prices of premium gasoline were increased by ₵ 40 per imperial gallon (27 percent), regular gasoline and diesel fuel by ₵ 35 per gallon each, and kerosene by ¢ 20 per gallon. Moreover, building upon the progress made in 1986, the 1987 budget provides for further structural reform of the tax system and strengthening of tax administration. In particular, a number of measures have been introduced with a view to rationalizing the indirect tax system, a process that is to be completed in 1988; these measures are expected to be broadly revenue neutral.

On the expenditure side, a major increase in outlays relates to the wage bill, which rises by 32 percent over last year's outcome to ¢ 34.6 billion in 1987. Substantial adjustments were made to wages and salaries so as to raise the purchasing power of civil servants, which is extremely low by most standards. With effect from January 1, 1987, an across-the-board increase in wages of 25 percent was introduced. At the same time, allowances paid to civil servants were raised: the transport allowance was doubled to ¢ 800 (equivalent to about US$5.30) per month; the meal allowance was increased by 50 percent to ¢ 600 per month; and the leave allowance of ¢ 1,500 per year, which had been withdrawn during 1986, was reinstated. Since the higher levels of allowances resulted in a compression of wage differentials between the top and bottom grades of the civil service, additional wage increases were given in order to preserve the 1986 differentials. The projected increase in the wage bill is also based on the Government's objective to redeploy 15,000 civil service employees in the course of 1987, effectively reducing the overall size of the civil service to 315,000 by year-end. The 1987 budget provides for ¢ 4.2 billion in the form of a "special efficiency" program to finance separation costs, retraining, and relocation of personnel.

Expenditures on goods and services were reduced sharply from budgeted levels during 1986, as revenue shortfalls emerged, with adverse effects on the functioning of the administration. Apart from this factor, there is also a need to correct the imbalance between wages and salaries and other current expenditure on goods and services, especially in the areas of health and education, in order to improve efficiency. Therefore, the 1987 budget provides for a 30 percent increase in this expenditure category to ¢ 16.3 billion. Interest payments are projected to rise by 52 percent to ¢ 17.3 billion, owing mainly to the impact of the exchange rate depreciation.

Following a lower-than-programmed increase in capital expenditure and net lending in 1986, capital outlays through the budget are projected to rise by 84 percent to ¢ 23.0 billion in 1987. Although the increase is large, it should be noted that overall public investment is rising from extremely low levels and will only reach 8.5 percent of GDP in 1987 (based on secured foreign financing). The public investment program for 1986-88, prepared in collaboration with the World Bank, emphasizes the rehabilitation of existing infrastructure, notably in the transport sector (roads, railways, and ports), which is critically needed to sustain the economic recovery. Of the total investment, about 42 percent is allocated to transport infrastructure, 20 percent to the power sector, and 33 percent to agriculture, mining, and industry.

4. State enterprise reform

As part of its Economic Recovery Program, the Government recognized the need for reform of the state enterprise sector, which has been characterized by low rates of capacity utilization, low productivity, overstaffing, and sizable financial losses. With World Bank and UNDP assistance, the Government thus resolved to undertake a comprehensive reform program for this sector with a view to improving the efficiency and profitability of state enterprises, and reducing the financial and managerial burden they place on the Government. A detailed two-year plan of action was prepared in early 1987 which involves (a) an overall policy framework for dealing with the state enterprise sector; (b) a divestiture program; and (c) a strengthening of state enterprise management, with primary attention on 14 major enterprises that have a significant impact on the government budget.

In the context of the overall policy framework, guidelines will be established clearly defining the access that state enterprises may have to central government resources with a view to reducing such access progressively. Furthermore, procedures will be introduced to ensure that all investments by such enterprises that receive budgetary support meet the financial criteria for inclusion in the public investment program, and close surveillance is maintained on the conditions of borrowings for these investments. 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 state enterprises have already been identified, and a plan for their liquidation is expected to be in place by end-October 1987. To deal with the problem of overstaffing, the Government has imposed a freeze on new hiring by state enterprises, and a reduction of 5 percent per year in staffing is targeted for the next two years. A labor retrenchment policy for the sector as a whole is under preparation; and estimates of the cost of redeployment, as well as a financing plan, are to be completed by end-September 1987.

As regards the divestiture program, 30 state enterprises have been identified for sale, liquidation, or conversion to joint ventures. Under the program supported by the World Bank, at least 5 of these enterprises will be offered for sale, and liquidation proceedings will be initiated for an additional 5 enterprises before the end of 1987.

The Government has already restructured the State Enterprises Commission to monitor and evaluate the performance of state enterprises. Three-year corporate plans will be prepared by individual enterprises, and performance agreements will be concluded with the Government; before the end of 1987, 10 of the 14 major state enterprises will have prepared and begun to implement such corporate plans. On the financial side, and as an initial step toward improved monitoring of the use of domestic bank credit, basic data on the domestic and external indebtedness of the major enterprises will be compiled on a quarterly basis and communicated to the Fund staff beginning with the first quarter of 1987.

5. Monetary and credit policies

Monetary and credit policies for 1987 have been designed to reduce inflation and achieve a substantial turnaround in the overall balance of payments position. Thus, the growth of net domestic assets of the banking system will be limited to ¢ 12.3 billion, or 13 percent, for the year as a whole, compared with an increase of 42 percent in 1986 (Table 4). The credit program provides, however, for an expansion in credit to the nongovernment sector of ¢ 16.8 billion, or 28 percent, which is broadly in line with the projected growth in nominal GDP; this credit expansion is made possible by the programmed net repayments of ¢ 5.5 billion by the Government to the banking system. Bank financing of the operations of the Cocoa Board is programmed to rise by ¢ 4.8 billion, or 28 percent, owing largely to the expected increase in the 1987/88 crop and the significantly higher producer price that will become effective in May. Credit to the rest of the economy is projected to rise by ¢ 12.0 billion during 1987, also by 28 percent. The increase in other net domestic assets of the banking system and in long-term liabilities of the commercial banks is assumed to amount to no more than ¢ 1.0 billion.

The quarterly phasing of the credit expansion programmed for 1987 is based on the expected evolution of government receipts and expenditures, especially in light of the impact of the exchange rate depreciation and cocoa receipts; the seasonal financing requirements of the Cocoa Board, which are at their peak level in the last quarter of the year; and the movements in net foreign assets, reflecting sizable net cash inflows in the second and third quarters of the year. Accordingly, the program calls for limiting, as performance criteria, net domestic assets of the banking system to ¢ 96.0 billion at end-March 1987 and ¢ 92.2 billion at end-June 1987; net bank claims on the Government to ¢ 30.1 billion at end-March 1987 and ¢ 27.1 billion at end-June 1987; and bank financing of the operations of the Cocoa Board to ¢ 14.7 billion at end-March 1987 and ¢ 6.2 billion at end-June 1987. Furthermore, for each of these items, indicative limits for end-September 1987 and end-December 1987 have been established.

The slowdown in inflation and the achievement of an overall balance of payments surplus in 1987 are critically dependent on a significant decline in the velocity of broad money and an increase in domestic demand for cedi-denominated assets of the banking system. To these ends, the authorities have taken several steps to strengthen public confidence in the banking system, increase the incentives for holding domestic financial assets, and encourage the efficient allocation of credit to the most productive sectors of the economy. Specifically, they have announced that henceforth the holders of government securities exchanged for the ¢ 50 bank notes, which were demonetized in 1982, will be allowed to convert them into currency. This operation, which is intended to help restore the public's confidence in the banking system, will involve a total injection of liquidity estimated at ¢ 1.0 billion, which will be funded through the retirement of government nonbank debt. In addition, effective March 25, 1987, the minimum interest rates on short-term deposits, namely interest rates on savings deposits and six-month time deposits, were increased by 3 percentage points, bringing the former to 21.5 percent and the latter to 22 percent. Given the inflation target of the program of 18 percent, the present level of deposit rates will ensure that real rates would be positive during the year. Moreover, a key objective of the increase in short-term deposit rates is to bring about a shift in the composition of broad money in favor of term deposits as against demand deposits and currency; as of end-December 1986, demand deposits represented 62 percent of total deposits of commercial banks, with savings deposits accounting for most of the balance. An increase in the proportion of term deposits would improve the maturity structure of commercial bank portfolios and provide a much-needed incentive to financial intermediation. As of March 20, 1987, all maximum lending rates were also raised by 3 percentage points, with the exception of those applicable to the agricultural sector where the maximum rate has been set at 23.5 percent in order to give preferential treatment to this priority sector.

The liquidity position of commercial banks has also been reviewed, and in late March 1987 the Bank of Ghana issued instructions raising the cash and secondary minimum reserve ratios of banks. Moreover, in view of the problems experienced in late 1986, the financial situation of the Bank of Ghana is being examined by the authorities and will be reviewed with the Fund staff before the expiration of the current stand-by arrangement.

As part of the continuing effort to liberalize Ghana's financial markets, and further increase the mobilization of domestic savings, the Government has requested technical assistance from the Fund and the World Bank to study various key aspects of Ghana's financial sector. The aim would be to complete this work by mid-1987 with a view to implementing the necessary measures soon thereafter, notably the establishment of an auction market for treasury bills by end-September 1987.

6. External sector policies

a. Exchange and trade liberalization

The dual exchange rate system which was introduced on September 19, 1986 was intended only as a temporary arrangement. Accordingly, effective February 21, 1987, the official exchange rates were unified at ¢ 150 per U.S. dollar, and since then all external transactions through the official banking system are being settled at the exchange rate determined in the weekly auction. As indicated in the attached letter of intent, although the exchange rate unification had been planned to take place not later than the first full week of January 1987, a brief delay in the implementation of this action was required to take account of its implications for the 1987 budget and related measures.

Following the exchange rate unification, the scope of the auction market was broadened substantially. 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. In addition, as of March 20, 1987, goods amounting to about 40 percent of the value of all goods previously excluded from the "A" licensing scheme and imported under the SIL scheme were moved onto the "A" list of goods eligible for funding through the auction. Although the "A" licensing scheme earlier included essentially producer goods, the recent expansion of the list permits the import of a significant number of nonluxury consumer goods to be financed through the auction. The remaining goods being financed through the SIL scheme will be progressively made eligible for funding through the auction, following a review of the tariff structure in the coming months, and a complete integration of the official foreign exchange and SIL markets is to take place by January 1988.

To help meet the incremental demand for foreign exchange that will result from the broadening of access to the auction market, the foreign exchange regulations have been modified with the aim of reducing the amounts being channeled into retention accounts and other accounts held outside the official banking system. Thus, also as of March 20, 1987, the Cocoa Board's foreign exchange retention ratio has been reduced further, from 5 percent to 2 percent; the retention privileges of the Ashanti Goldfields Corporation, the State Gold Mining Corporation, and the Volta River Authority are under review. At the same time, it has been decided to limit the volume of cocoa exports under bilateral payments agreements to about 15,000 metric tons in 1987, or the same level as in 1986.

b. Balance of payments and debt management

With the implementation of the policies and measures described above, the balance of payments is expected to turn from an overall deficit of US$57 million in 1986 to an overall surplus of US$108 million in 1987, as the projected widening of the current account deficit will be more than offset by higher net capital inflows (Table 5). Following the sharp increase in 1986, the value of total exports is projected to decline marginally in 1987, from US$773 million to US$764 million, as the drop in world market prices for cocoa will outweigh the effects of the volume increases for all major commodities. Cocoa prices are assumed to be about 14 percent lower on average in 1987 than in 1986, after taking into account the fact that two thirds of the crop has already been sold forward. Based on actual data for the size of the main crop, cocoa export volume is expected to increase by 4 percent. Exports of gold are projected to grow by 20 percent in volume terms, in line with the production performance observed during the last half of 1986. Non-oil imports are estimated to rise by 12 percent in nominal terms, implying an increase of about 7 percent in real terms under current WEO assumptions, which is consistent with the targeted growth in real GDP. As a result of the relative stagnation in exports and the continued rise in imports, the current account deficit, including official unrequited transfers, is projected to widen from US$76 million (1.5 percent of GDP) in 1986 to US$150 million (3.9 percent of GDP) in 1987, or to about the same level as in 1985.

The capital account should improve markedly, from a net inflow of US$54 million in 1986 to US$258 million in 1987, partly because of reduced amortization payments on medium-term debt by US$104 million due largely to lower payments under the oil financing facility; the full impact of the decline in oil prices in 1985-86 on the foreign exchange cash flow position is being felt in 1987 as payment of 50 percent of the oil bill was deferred by one year under the financing arrangement with a foreign commercial bank, which remains in effect. Debt service payments under the oil facility, together with service payments on previously rescheduled debt and debt owed to the Fund and other multilateral institutions, amount to US$355 million of the total official debt service payments of US$427 million in 1987. Of the remaining US$72 million, US$22 million are payments to bilateral development agencies, which are projected to disburse about US$65 million in new money in 1987, while US$50 million are payments to various other creditors, which as a group are projected to disburse some US$100 million in 1987.

The disbursement of long-term development loans is projected to increase from US$224 million in 1986 to US$260 million in 1987. Nonconcessional borrowing (excluding borrowing under the oil facility) is expected to increase from US$74 million in 1986 to US$104 million in 1987, on account of higher disbursements from official export credit agencies. Taking into account Ghana's capacity to service its debt in the future, the contracting of government and government-guaranteed external loans on nonconcessional terms in the 1-12 years' maturity range will be limited to US$85 million in 1987, with a subceiling of US$60 million on such loans in the 1-5 years' maturity range; these will constitute performance criteria under the program.

Following several years during which the net external position of the Bank of Ghana deteriorated continuously, a marked turnaround to a surplus is programmed for 1987. Including an expected drawdown of balances under bilateral payments agreements of US$12 million, the net foreign assets position of the central bank will improve by US$108 million in 1987, while external payments arrears will be reduced by US$25.9 million. Consistent with these objectives, quarterly performance criteria have been set for the net foreign assets of the Bank of Ghana and for the reduction in external payments arrears at end-March 1987 and end-June 1987; indicative targets have also been established for the remainder of the year.

7. Performance criteria

As already indicated, all the performance criteria of the program for end-September 1986 were observed. However, the performance criteria regarding bank financing of the operations of the Cocoa Board and net domestic assets of the banking system for end-December 1986 were not met, for the reasons explained earlier, and no waiver of the nonobservance is proposed. Consistent with the basic objectives of the program, the authorities now propose, as shown in Table 7, appropriate performance criteria for end-March 1987 and end-June 1987; indicative targets for end-September 1987 and end-December 1987 have also been established.

V. Medium-Term Outlook of the Balance of Payments

Although the balance of payments position will remain fragile and Ghana will continue to need substantial external assistance over the next few years, the medium-term outlook suggests that a viable external payments position can be reached around the end of the decade provided that the structural reforms to revitalize the productive sectors are rigorously implemented and sufficiently tight demand-management and income policies are pursued. On the basis of the latest staff projections (Table 8), the external financing gap is expected to narrow from US$155 million in 1988 to about US$40 million in 1990, before being eliminated in 1991. The projections also suggest that external payments viability could be attained without unduly compressing imports and compromising the achievement of the growth targets; in fact, the projections allow for a cumulative increase in imports of 24 percent in real terms during the period 1987-90.

A critical assumption underlying the medium-term scenario relates to world market prices for cocoa. Cocoa prices are not expected to recover from their presently depressed levels within the next three years, which is reflected in a decline in the terms of trade by 15 percent in 1987-90. 1/ In volume terms, however, cocoa exports are assumed to increase by 5 percent annually, and thus reach the 1982 level by 1989-90. Exports of most other commodities are projected to register an annual real rate of increase of 10 percent. While the substantial efforts that have already been made at rehabilitating the gold and timber sectors provide a justification for the assumed buoyancy in noncocoa exports during the projection period, a sustained recovery on this scale will materialize only if the incentives to invest and produce are improved further, and if the Government's recourse to the domestic banking system is such that it avoids crowding out the productive sectors. After increasing by about 7 percent in real terms in 1987, imports are projected to grow at an annual rate of 5 percent thereafter. The liberalization of the exchange and trade system, together with the streamlining of the public investment program, should promote efficient import substitution, leaving sufficient foreign exchange to meet the import requirements of the most productive

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1/ The assumptions about developments in export and import prices, as well as in interest rates in the international capital markets, are based on the Fund's latest issue of the World Economic Outlook.

Table 7. Ghana: Quantitative Performance Criteria and Indicative Targets, 1986-87

	1986				1987			
	Sept. 1/ Prog.	Sept. Act.	Dec. 1/ Prog.	Dec. Est.	March 1/	June 1/	Sept. 2/	Dec. 2/
	(In billions of cedis; end of period)							
Net domestic assets of the banking system	75.5	74.2	85.8	95.1	96.0	92.2	89.1	107.4
Net claims on the Government by the banking system	36.2	36.1	30.2	29.6	30.1	27.1	26.1	24.1
Bank financing of the operations of the Cocoa Board 3/	--	--	14.6	16.9	14.7	6.2	--	21.7
	(In millions of U.S. dollars; end of period)							
Net foreign assets of the Bank of Ghana (excluding bilateral accounts) 4/	-855.0	-851.2	-854.0 5/	-823.7 5/	-861.8	-820.5	-749.0	-757.4
External payments arrears	222.0	217.6	198.0	171.4	165.0	158.5	152.0	145.5
New nonconcessional external loans contracted or guaranteed by the Government (cumulative) 6/								
1. 1-12 years' maturity	275.0	88.4	275.0	176.3	85.0	85.0	85.0	85.0
2. 1-5 years' maturity	250.0	88.4	250.0	176.3	60.0	60.0	60.0	60.0

Source: Letter of intent of the Secretary for Finance and Economic Planning, dated March 25, 1987.

1/ Performance criteria.
2/ Indicative targets.
3/ Defined as gross financing of the Cocoa Board by the banking system.
4/ Defined on the assets side as holdings of gold, SDRs, foreign currency and securities, disposable balances with correspondent banks, and cash collateral under the oil facility. Funds sold in the auction but not transferred to the successful bidder or his bank will be excluded. On the liabilities side, the definition will include 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. The medium- and long-term liabilities of the Bank of Ghana that are included under net domestic assets by the end of 1986 will be excluded from net foreign assets for the purpose of definition of this performance criterion. SDRs will be converted into U.S. dollars at the accounting rate of US$1.20 per SDR.
5/ For the purpose of monitoring the performance criterion at end-December 1986, SDR-denominated liabilities were converted into U.S. dollars using an accounting exchange rate of US$1.15 per SDR, and funds that had been sold in the auction but not yet delivered to the successful bidder or to his commercial bank were included under the definition of net foreign assets. Using this definition, the performance criterion for end-December 1986 was set at minus US$854.0 million, and, as net foreign assets actually stood at minus US$823.7 million at end-December 1986, the performance criterion was met. Under the program for 1987, the accounting rate will be US$1.20 per SDR, and funds sold in the auction but not yet delivered will be excluded from foreign assets; on this basis, net foreign assets stood at US$877.4 million at end-December 1986.
6/ In 1986, exclude any rescheduling. In 1987, include borrowing by the Bank of Ghana from official export credit agencies; but exclude any rescheduling, borrowing under the Standard Chartered oil financing facility, and refinancing of the Standard Chartered US$80 million credit, as well as of the Union Bank of Switzerland US$40 million credit to the Bank of Ghana.

Table 8. Ghana: Medium-Term Outlook of the Balance of Payments, 1986-91 1/

(In millions of U.S. dollars)

	1986 Prov.	1987 Prog.	1988 Projections	1989 Projections	1990 Projections	1991 Projections
Exports, f.o.b.	773.3	764.0	831.3	911.3	998.4	1,097.9
Cocoa beans and products	519.2	469.8	493.2	528.8	566.9	614.9
Gold	106.4	131.6	156.0	177.3	201.4	228.9
Timber	47.8	49.9	60.3	73.5	87.3	99.2
Other	99.9	112.7	121.8	131.8	142.7	154.9
Imports, f.o.b.	-712.5	-803.3	-871.2	-945.0	-1,024.9	-1,111.7
Oil	-123.1	-145.8	-158.0	-171.4	-185.9	-201.6
Non-oil	-589.4	-657.5	-713.2	-773.6	-839.0	-910.1
Trade balance	60.8	-39.3	-39.9	-33.7	-26.5	-13.8
Services (net)	-303.1	-324.9	-342.3	-360.3	-377.5	-391.0
Of which:						
Interest payments	(-105.3)	(-110.7)	(-111.4)	(-114.5)	(-115.6)	(-112.1)
Unrequited transfers (net)	166.8	214.4	226.1	238.4	251.4	265.2
Official	118.2	162.3	171.1	180.4	190.2	200.6
Private	48.6	52.1	55.0	58.0	61.2	64.6
Current account balance	-75.5	-149.8	-156.0	-155.5	-152.5	-139.6
Capital account	54.2	257.8	286.6	268.9	250.4	270.2
Official capital (net)	98.5	266.3	243.3	-225.6	224.6	-261.9
Long-term loans	193.7	219.5	238.4	251.5	262.8	278.6
Inflows	223.9	260.0	274.0	288.7	304.1	320.5
Amortization	-30.2	-40.5	-35.6	-37.2	-41.3	-41.9
Medium-term loans	-84.0	58.5	16.7	-15.6	-35.1	-16.2
Inflows	133.3	171.9	182.5	194.8	208.0	222.1
Amortization	-217.3	-113.4	-165.8	-210.4	-243.1	-238.3
Trust Fund	-11.2	-11.7	-11.7	-10.3	-3.2	-0.4
Private capital (net)	3.8	8.3	43.3	43.3	25.8	8.3
Direct investment	4.3	4.7	4.7	4.7	4.7	4.7
Suppliers' credits	-0.5	3.6	38.6	38.6	21.1	3.6
Other	--	--	--	--	--	--
Short-term capital	-48.1	-16.9	--	--	--	--
Errors and omissions	-35.5	--	-0.6	-3.4	2.2	-0.4
Overall balance	-56.7	108.0	130.0	110.0	100.0	130.0
Financing	56.7	-108.0	-130.0	-110.0	-100.0	-130.0
Net foreign assets	66.1	-120.0	-285.0	-211.0	-139.3	-130.0
IMF (net)	16.1	-102.0	-235.0	-161.0	-94.0	-116.4
Purchases	37.6	58.9	--	--	--	--
Repurchases	-21.5	-160.9	-235.0	-161.0	-94.0	-116.4
Payments arrears (reduction -)	-3.7	-26.0	-50.0	-50.0	-45.3	--
Other	53.7	8.0	--	--	--	-13.6
Bilateral payments agreements	-9.4	12.0	--	--	--	--
Financing gap	--	--	155.0	101.0	39.3	--
Memorandum items:						
Current account deficit (-)						
In percent of GDP						
Including official transfers	-1.5	-3.9	-3.9	-3.7	-3.2	-2.7
Excluding official transfers 2/	-3.9	-8.3	-8.3	-8.0	-7.4	-6.6
Debt service ratio						
Including IMF	47.1	53.8	63.4	55.3	47.2	44.8
Excluding IMF	37.8	27.6	31.8	34.8	35.1	31.5
Cocoa exports (beans)						
Volume (in thousands of tons)	198.3	210.0	220.5	231.5	243.1	255.3
Price (in US$ per ton)	2,434	2,087	2,087	2,131	2,176	2,248

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

1/ Totals may not match additions due to rounding.
2/ Inward transfers only.

sectors. The current account deficit during 1987-90 is projected to remain stable at about US$150 million, a level that appears sustainable over the medium term.

The balance of payments outlook is particularly sensitive to changes in the underlying assumptions about cocoa and petroleum prices. If cocoa export prices were to be 10 percent (or about US$200 per metric ton) lower than assumed throughout the projection period, the current account deficit would widen from about US$150 million to some US$200 million annually, with a corresponding increase in the financing gaps. An increase in the assumed import price of crude oil by one third (to about US$24 per barrel) would have the same impact on the balance of payments.

The balance of payments outlook is also heavily dependent on Ghana's ability to attract a sustained and large net inflow of capital. The projected net capital inflow of US$250-US$290 million annually during 1987-90 is predicated on two important assumptions. First, on the basis of continued implementation of a strong adjustment program, substantial external support on concessional terms could be forthcoming from bilateral sources and multilateral development agencies. Second, with the progressive normalization of the external payments situation, foreign commercial banks and suppliers could be expected to grant Ghanaian importers renewed access to suppliers' credits and normal trade financing. As it is assumed that Ghana will settle US$125 million of arrears on overdue trade credits between 1986 and 1989, foreign commercial banks could gradually make revolving trade-related credits available on a voluntary basis through their correspondent banks in Ghana.

Apart from a few instances of rescheduling of oil-related credits, Ghana has not sought recourse to debt rescheduling since 1974, and the medium-term scenario lends support to the conclusion that this should not be necessary in the future. However, an essential element of the debt management strategy will be the need to continue to improve the maturity structure of the debt through strict limits on short- and medium-term borrowing. It is to be noted that, while the service payments on long-term debt amount to less than US$75 million annually during the projection period, those on short- and medium-term debt (excluding the reduction in arrears) are equivalent to US$480 million in 1988 and US$448 million in 1989, owing partly to repurchases falling due to the Fund. Thus, following a surge in the ratio of debt service payments (including repurchases and charges to the Fund) to exports of goods and services from 47 percent in 1986 to 63 percent in 1988, the ratio will start to decline in 1989 with the gradual restructuring of the debt toward concessional financing.

While the cumulative overall balance of payments surplus during the three-year period 1988-90 is projected to amount to US$340 million, repurchases falling due to the Fund and the elimination of external arrears by the end of 1990 require a reduction in the liabilities of the

Bank of Ghana of US$635 million over the same period, leaving a cumulative financing gap of US$295 million. Assuming that an adequate adjustment effort is continued, additional resources could become available to close the gap.

To achieve the improvement in Ghana's external position depicted in the above scenario would require maintaining a tight lid on the permissible expansion in net domestic assets of the banking system over the projection period. In this context, and in order to allow for a sufficient flow of bank credit to the private sector, the present fiscal policy stance would need to be maintained. At the same time, to further reduce the velocity of broad money, it would be essential that nominal interest rates are sufficiently high so as to encourage the public to hold cedi-denominated financial assets. Therefore, a flexible interest rate policy and a reform of the financial system geared toward enhancing the public's confidence in the banking system are crucial for the attainment of balance of payments viability around the end of the decade without jeopardizing the achievement of the growth objective.

VI. Staff Appraisal

Since the adoption of the Economic Recovery Program in April 1983, Ghana has made major adjustment efforts with considerable success. The fundamental reorientation of economic and financial policies in favor of a flexible exchange rate and pricing system, coupled with the virtual elimination of trade and other controls, has fostered a recovery of production and exports from the very low levels of the early 1980s. If it were not for the inadequate economic and social infrastructure, the supply response to the improvement in incentives to invest, produce, and export could have been even more substantial. At the same time, the restoration of fiscal discipline has not only helped alleviate pressures on domestic and external resources but has also made it possible to channel increased bank credit to the nongovernment sectors for directly productive activities. As a result, with few exceptions, Ghana's overall economic performance in recent years has been impressive: starting from a low base, a substantial economic recovery has been realized; the rate of inflation has been reduced; and the underlying external payments position has been improved.

Following a brief period during which there were slippages in wage and credit policies, the intensification of adjustment efforts under the program supported by the current stand-by arrangement has enabled Ghana to make further progress in 1986. Thus, for 1986 as a whole, the growth of real GDP exceeded 5 percent; the rate of inflation was contained to under 25 percent; and the overall balance of payments deficit was reduced by more than one half to US$57 million, or about 1 percent of GDP. This favorable outcome was, however, accompanied by a large monetary expansion during the last quarter of the year, as the growth in the net domestic assets of the banking system exceeded the limit established under the program by a wide margin. As explained in the staff report, the excessive increase in net domestic assets was the combined result of higher-than-anticipated bank financing of the operations of the Cocoa Board and an unforeseen sharp rise in other net domestic assets of the banking system. While the excess over the ceiling on cocoa financing was relatively small and can be explained mostly by larger-than-expected purchases of cocoa, the excess in other credit was substantial, resulting in an increase in liquidity which will tend to put pressure on prices and the exchange rate in the early months of 1987. In the circumstances, no waiver is proposed of the nonobservance of the relevant performance criteria for end-December 1986.

For 1987 the Ghanaian authorities have adopted a comprehensive program of structural and financial policies aimed at sustaining a growth of real GDP of 5 percent, reducing the rate of inflation to 18 percent, and generating an overall balance of payments surplus equivalent to US$108 million. To realize these basic macroeconomic objectives, the authorities have taken measures to improve further the incentive framework, particularly through the unification of the exchange rates at a relatively realistic level, the widening of access to the auction market for foreign exchange, and the full pass-through of exchange rate movements into retail prices of petroleum products. Furthermore, with effect from May 1987, the producer price for cocoa is to be raised again, and by a large amount, thereby eliminating the implicit subsidy provided until recently by cocoa farmers to petroleum users. Improvements in the allocation and implementation of public investments are also continuing, especially with a view to rehabilitating essential infrastructure, while state enterprise reform has been initiated, involving the rehabilitation of major enterprises and the liquidation or privatization of others. Concurrently, fiscal and credit policies have been appropriately tightened. Thus, the 1987 budget envisages not only the generation of an overall surplus equivalent to 0.2 percent of GDP but also net repayments by the Government to the banking system equivalent to almost 1.0 percent of GDP. Despite the tight fiscal policy, capital expenditure is programmed to rise sharply in 1987 to ensure that the much-needed investments in infrastructure are carried out and that the impediments to economic growth are reduced progressively; but should capital outlays fall below the programmed level, use of any resources thereby released will be made after discussions with the Fund staff. At the same time, monetary policies have been geared toward curbing inflation and bringing about the targeted balance of payments surplus through an improvement in public confidence in the banking system, increased incentives to holders of domestic monetary assets, and a more efficient allocation of credit. In this regard, an early introduction of an auction market for treasury bills should also be considered.

The staff believes that the measures already implemented by the authorities, combined with the policy actions planned for the remainder of the year, should not only help achieve the objectives of the program for 1987 but also lay the foundation for a sustained medium-term recovery effort. Nevertheless, the staff also believes that, in view of the slippages in program implementation and monitoring that have occurred in the past, it will be important for the authorities to place particular emphasis on strengthening economic management if the adjustment efforts are to succeed. In this respect, it is to be hoped that the recently established special monitoring and policy analysis committee will ensure close follow-up of performance under the program, which should allow the authorities to adjust their monetary policy stance promptly to deal with any unforeseen pressures on prices and the external position.

Despite the impressive overall performance of the economy in recent years, Ghana still faces major structural and financial problems. The rate of growth of the economy, though currently satisfactory, is constrained by insufficient incentives and infrastructure bottlenecks; inflation is relatively high; the external payments position is fragile; and the external debt service burden is heavy. Moreover, the vulnerability of both the fiscal and external accounts to shifts in world market prices for cocoa leave the authorities with limited room for maneuver. There is thus a clear need for the authorities to persevere in their adjustment efforts, however difficult these may be at times, with a view to resolving the existing problems and moving the economy to a sustainable position. As the authorities have made considerable headway in implementing the current program, they are now poised to undertake further structural and financial reforms in a medium-term framework. Accordingly, they have reiterated their intention to seek, before or upon expiration of the present stand-by arrangement, continued Fund support through use of the extended Fund facility and the structural adjustment facility. Since the authorities' attention is now more focused on structural issues, the staff believes that they are better prepared to undertake a medium-term arrangement, and hence expects to initiate negotiations on such an arrangement in the coming few months. Moreover, the staff considers that, to be successful, Ghana's adjustment efforts will need to be supported by substantial official external assistance, from both bilateral and other multilateral creditors; in this context, the forthcoming meeting of the Consultative Group for Ghana is both timely and important. In view of the heavy external debt service burden, it would be essential that such assistance increasingly take the form of grants and loans on highly concessional terms. As Ghana is settling substantial arrears on overdue trade credits, it is also to be expected that foreign commercial banks will gradually make revolving trade-related credits available on a voluntary basis through their correspondent banks in Ghana.

Although Ghana has liberalized its exchange and trade system, and has eliminated the multiple currency practice arising from the temporary operation of a dual exchange rate system, a multiple currency practice and exchange restriction arise from the operation of the foreign exchange auction market, and there are still restrictions evidenced by external payments arrears and restrictions on transfers of balances under the bilateral payments agreements with Fund members, which are subject to approval under Article VIII, Sections 2(a) and 3. In view of the actions already taken by the authorities and their intent to eliminate the remaining multiple currency practice and restrictions as soon as possible, the staff recommends approval 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 with Ghana, whichever is earlier.

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

VII. Proposed Decisions

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

(a) 1986 Consultation

1. The Fund takes this decision relating to Ghana's exchange measures subject to Article VIII, Sections 2(a) and 3 in concluding the 1986 Article XIV consultation with Ghana and in the 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/ 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 with Ghana, whichever is earlier. The Fund urges Ghana to terminate the remaining bilateral payments agreements with Fund members as soon as possible.

(b) Review Under Stand-By Arrangement

1. Ghana has consulted with the Fund in accordance with paragraph 4 of the stand-by arrangement for Ghana (EBS/86/224, Supplement 2), as contemplated in paragraph 21 of the letter from the Secretary for Finance and Economic Planning and the Governor of the Bank of Ghana dated September 23, 1986 attached to the stand-by arrangement, in order to review policies, assess the progress made in the implementation of the 1986-87 program, and establish suitable performance criteria for the remaining period of the arrangement.

2. The letter from the Secretary for Finance and Economic Planning and the Chairman of the Bank of Ghana dated March 25, 1987 (EBS/87/68) shall be attached to the stand-by arrangement for Ghana, and the letter of September 23, 1986 shall be read as supplemented by the letter dated March 25, 1987. Accordingly, the references in paragraph 4(a) and 4(b) of the stand-by arrangement to paragraphs 9, 13, 16, and 17 of the letter of September 23, 1986 (relating to the performance criteria on net domestic assets of the banking system, net claims of the banking system on the Government, outstanding bank financing of the Cocoa Board, net foreign assets of the Bank of Ghana, external payments arrears, and nonconcessional external debt) shall comprehend references to paragraphs 19 and 22 of the letter dated March 25, 1987.

3. The Fund decides, pursuant to paragraph 4 of the stand-by arrangement, that the review contemplated in paragraph 21 of the letter dated September 23, 1986 is completed, and that no additional understandings are necessary.

Ghana - Relations with the Fund
(As of February 28, 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 791.9 million, or 387.2 percent of quota

		Millions of SDRs	Percent of quota
(c)	Use of Fund credit	587.4	287.2
	Credit tranches	194.4	95.0
	Enlarged access	244.4	119.5
	CFF	148.6	72.7
(d)	Repurchase obligations (March 1987-February 1988)	143.8	70.3

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 and the second on December 15, 1986, upon satisfactory compliance with the end-September 1986 performance criteria.

(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 February 28, 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 Executive Board 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 Executive 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. SDR Department

(a) Net cumulative allocation	SDR 62.98 million
(b) Holdings	SDR 1.71 million, or 2.7 percent of net cumulative allocation

V. Administered Accounts

Trust Fund loans	
(i) Disbursed	SDR 48.96 million
(ii) Outstanding	SDR 27.82 million

VI. Overdue Obligations to the Fund — None

Ghana - Relations with the Fund (continued)
(As of February 28, 1987)

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.

VIII. Last Article IV Consultation and Stand-By Arrangement

(i) 1985 Consultation

June 24-July 10, 1985; Executive Board discussion, September 13, 1985. Decision as follows:

1. The Fund takes this decision relating to Ghana's exchange measures subject to Article VIII, Section 2, in concluding the 1985 Article XIV consultation with Ghana and in the light of the 1985 Article IV consultation with Ghana conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

Ghana - Relations with the Fund (continued)
(As of February 28, 1987)

2. The restrictions on payments and transfers for current international transactions, as described in EBS/85/211 and in SM/85/252, are maintained by Ghana in accordance with Article XIV except that the exchange restrictions evidenced by external payments arrears and the restrictions on transfers of balances under the bilateral payments arrangements with Fund members are subject to approval under Article VIII, Section 2. The Fund notes the intention of the authorities to remove these exchange restrictions as soon as possible and grants approval for the retention of the exchange restrictions that are evidenced by external payments arrears, until August 31, 1986 or the completion of the 1986 Article IV consultation with Ghana, whichever is the earlier. The Fund urges Ghana to terminate the remaining bilateral payments arrangements with Fund members as soon as possible.

Ghana was placed on a 12-month Article IV consultation cycle.

(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).

IX. Technical Assistance

Panel Expert	Bank of Ghana (banking operations and accounts): 1981-82
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

Ghana - Relations with the Fund (concluded)
(As of February 28, 1987)

Exchange and Trade Relations Department	Ministry of Finance and Economic Planning, 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 posted in Accra since June 1985.

Ghana - Relations with the World Bank Group
(As of January 31, 1987)

(In millions of U.S. dollars)

Lending operations	IBRD and IDA			
	Credit number	Total commit- ments 1/	Dis- bursed 2/	Undis- bursed 3/
Loans and credits fully disbursed		355.94 4/	355.11	
Agricultural development (Volta region)	1009	29.50	12.46	17.04
Third highway	1029	25.00	24.89	0.11
Railways	1170	29.00	20.25	5.61
CIMAO	1327	9.30	--	10.90
Water supply	1342	13.00	8.92	4.23
Energy (petroleum exploration)	1373	11.00	3.71	8.48
Export rehabilitation - IDA	1435	40.10	30.01	14.39
Export rehabilitation - SF	009	35.90	20.26	20.29
Export rehabilitation - T.A.	1436	17.10	12.05	6.68
Petroleum refinery	1446	6.90	3.05	4.84
Oil palm II	1498	25.00	6.27	22.61
Accra district rehabilitation	1564	22.00	7.48	20.31
Second RIC - IDA	1573	60.00	58.29	13.64
Second RIC - AF	003	27.00	18.01	14.07
Road rehabilitation - IDA	1601	40.00	7.39	43.12
Road rehabilitation - AF	001	10.00	2.36	10.27
Power system rehabilitation	1628	28.00	4.39	29.55
Health and education	1653	15.00	3.21	14.05
Industrial sector - IDA	1672	28.50	12.83	19.00
Industrial sector - AF	013	25.00	14.03	13.65
Ports	1674	24.50	3.17	25.03
Education sector adjustment 5/	1744	34.50	--	36.13
Total		912.24	628.14	354.00
Less: amount repaid		83.14		
Total outstanding (incl. undisbursed) 6/		829.10		

Source: World Bank.

1/ U.S. dollar equivalent at time of Executive Board approval (credits denominated in SDRs).

2/ Converted into U.S. dollars at exchange rate applicable on transaction date.

3/ Converted into U.S. dollars at exchange rate applicable on January 31, 1987.

4/ Less cancellations.

5/ Not yet effective as at January 31, 1987.

6/ Due to exchange rate adjustments, disbursed and undisbursed amounts do not add up to total commitments.

Ghana - Statistical Issues

1. Outstanding statistical issues

a. Real sector

A Fund technical assistance mission in general economic statistics took place in August 1984, and its report was transmitted to the authorities on January 11, 1985. The mission's recommendations focused on improving the currentness of the data on prices, production, and external trade as a basis for policy decisions. Suggestions were made regarding a pending reorganization of the statistical service, personnel issues, and cooperation with other agencies. Recommendations of a technical nature were provided on the compilation of the consumer and wholesale price indices, and industrial production statistics, and on the processing of the external trade data. So far, no comments have been received on the report, and it is unclear to what extent the mission's recommendations are being implemented.

b. Monetary accounts

The monetary statistics in Ghana need improvement with respect to their institutional coverage and quality. A technical assistance mission to Ghana, during June 1985, recommended a broadening of the institutional coverage of monetary statistics and the establishment of procedures to improve the quality of the data obtained from the deposit money banks and other financial institutions. A broadening of the coverage of monetary data to include secondary banks was implemented at the beginning of 1986. A technical assistance mission is scheduled to visit Ghana in May 1987 to meet the authorities' request for further assistance in improving the recording and classification of monetary data.

c. Government finance

A technical assistance mission in the field of government finance statistics took place in July 1985 to review a number of statistical issues related to the coverage and classification of revenue, expenditure, and financing data. The mission's report was transmitted to the authorities in March 1986.

d. Balance of payments

In May 1985 a technical assistance mission in balance of payments statistics reviewed the sources and methods of compilation of balance of payments statistics, and identified certain problems regarding data coverage and the timing of recording of transactions. The mission's report was transmitted to the authorities on November 20, 1985.

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

The table below shows the currentness and coverage of data published in the country page for Ghana in the March 1987 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Bank of Ghana, which during the past year have been provided on a more timely basis than in previous years.

Status of IFS Data

		Latest Data in March 1987 IFS
Real Sector	- National Accounts	1984
	- Prices: CPI	Sept. 1986
	WPI	Q 4 1985
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1985
	- Financing	1985
	- Debt	1985
Monetary Accounts	- Monetary Authorities	Oct. 1986
	- Deposit Money Banks	Oct. 1986
	- Other Financial Institutions	n.a.
Interest Rates	- Discount Rate	Q 1 1986
	- Bank Lending/Deposit Rates	Q 1 1986
	- Bond Yields	n.a.
External Sector	- Merchandise Trade:	
	Values	Q 2 1986
	Unit value of cocoa exports	Q 2 1986
	- Balance of Payments	1985
	- International Reserves	Dec. 1986
	- Exchange Rates	Jan. 1987

Ghana - Basic Data

Area, population, and GDP per capita

Area	238,537 square kilometers
Population: Total (1985 estimate)	12.6 million
Growth rate	3.3 percent
GDP per capita (1985 estimate)	SDR 540

	1983	1984	1985	1986 Prov.	1987 Prog.
Gross domestic product					
Total (in millions of cedis)	184,038	270,561	372,982	511,360	633,576
At 1984 prices	249,003	270,561	284,285	299,470	314,403
	(In percent of GDP)				
Agriculture	60	49	41	41	...
Manufacturing	7	11	16	16	...
Services	33	40	43	43	...
	(Annual percentage change)				
Nominal GDP	112.9	47.0	37.9	37.1	23.9
Real GDP	-4.7	8.7	5.1	5.3	5.0
Exports (volume)	-27.9	2.0	21.1	14.9	7.8
Imports (volume)	-9.6	26.9	10.9	12.0	8.1
Prices					
GDP deflator	123.3	35.3	31.2	30.2	18.0
Consumer price index	123.1	39.7	10.3	24.6	18.0
Export prices	-0.4	26.5	-7.8	6.4	-8.3
Import prices	-6.1	-2.8	-2.1	-4.9	4.3
Terms of trade	6.8	30.2	-5.9	11.9	-12.1
Central government finance	(In millions of cedis)				
Revenue and grants	10,241	22,641	40,312	73,625	109,986
Expenditure and net lending	15,178	27,485	47,892	73,326	108,905
Of which: current expenditure	(13,566)	(23,326)	(38,462)	(60,833)	(81,691)
Overall surplus or deficit (-)	-4,937	-4,844	-7,580	299	1,081
Overall surplus or deficit (-) as percent of GDP	-2.7	-1.8	-2.0	0.1	0.2
Foreign financing (net)	687	1,816	3,522	-5,614	2,419
Domestic financing (net)	4,250	3,028	4,058	5,315	-3,500
Of which: banking system 1/	(2,572)	(3,106)	(3,011)	(2,471)	(-5,500)

Ghana - Basic Data (concluded)

	1983	1984	1985	1986 Prov.	1987 Prog.
Money and credit (end of period)		(Annual percentage change)			
Net domestic assets 1/	41.2	76.5	68.2	41.8	12.9
Net claims on Government	23.3	14.7	12.5	9.1	-18.6
Credit to rest of economy	40.0	295.9	128.6	50.7	28.4
Broad money	38.1	72.0	59.5	53.6	32.9
Velocity (ratio)	9.0	7.7	6.6	5.9	5.5
Balance of payments		(In millions of U.S. dollars)			
Exports, f.o.b.	439.1	566.7	632.5	773.3	764.0
Of which: cocoa beans and products	(268.6)	(381.7)	(412.0)	(519.2)	(469.8)
noncocoa products	(170.5)	(185.0)	(220.5)	(254.1)	(294.2)
Imports, f.o.b.	499.7	616.0	668.7	712.5	803.3
Of which: oil	(161.1)	(161.0)	(205.6)	(123.1)	145.8
Trade balance	-60.6	-49.3	-36.2	60.8	-39.3
Services and transfers (net)	-97.0	-26.0	-120.3	-136.3	-110.5
Current account balance	-157.6	-75.3	-156.5	-75.5	-149.8
Capital account (net)	102.0	93.3	62.4	54.2	257.8
Of which: official capital (net)	(27.7)	(186.7)	(32.1)	(98.5)	(266.3)
Errors and omissions	-187.4	19.2	-23.3	-35.5	--
Overall balance	-243.0	37.2	-117.4	-56.8	108.0
Current account balance as percent of GDP	-0.3	-1.0	-2.3	-1.5	-3.9
Gross official foreign reserves					
End of period 2/	...	131.8	145.2	171.8	164.4
In weeks of imports	...	10.4	10.4	11.5	9.7
External public debt					
Disbursed and outstanding (end of period; including Fund)	1,639.3	2,047.7	2,022.0	2,310.0	2,609.0
Debt service as percent of exports of goods and non-factor services					
Excluding the Fund	42.5	32.1	47.5	37.8	27.6
Including the Fund	46.6	36.2	54.1	47.1	53.8
Exchange rates					
End of period	30.0	50.0	59.9	152.0	...
Period average	34.5	35.3	54.0	98.9	...

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