

EBS/85/110

CONFIDENTIAL

May 1, 1985

To: Members of the Executive Board
From: The Secretary
Subject: Ghana - First Review Under the Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report on the first review under the stand-by arrangement for Ghana. A draft decision appears on page 29.

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

Mr. Kratz (ext. 6968) or Mr. Lorie (ext. 8385) are available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

GHANA

First Review Under the 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 H. Brau

April 30, 1985

I. Introduction

On August 27, 1984, the Executive Board approved a 16-month stand-by arrangement for Ghana for SDR 180 million (88 percent of quota) in support of a comprehensive adjustment program covering the period July 1984-December 1985. The arrangement provided for six equally-phased equal purchases of SDR 30 million. Ghana has so far made two purchases, the first, upon the Executive Board's approval of the program, and the second, on November 30, 1984, upon meeting the end-September 1984 performance criteria. The third and fifth purchases are subject to the satisfactory completion of a review with the Fund and observance of, respectively, end-December 1984 and end-June 1985 performance criteria. The fourth and sixth purchases are subject to meeting, respectively, end-March 1985 and end-September 1985 performance criteria. On December 3, 1984, the Executive Board approved the Ghanaian authorities' request for a modification of end-December 1984 1984 credit ceilings to accommodate additional financing needs associated mostly with a larger-than-expected 1984-85 cocoa crop, bumper foodcrops, and the advancement of some adjustment measures. 1/ At the same time, the Executive Board also approved the Ghanaian authorities' request for a purchase of SDR 58.2 million under the Compensatory Financing Facility - Fluctuations in the Cost of Cereal Imports for shortfalls in exports and excesses in cereal imports during the period centered around the year ending May 1984. 2/ The phased purchases and the scheduled repurchases during the program period are summarized in Table 1 which also reflects the delay for the third purchase under the stand-by arrangement (pending satisfactory completion of the first review), now scheduled to take place only in the second quarter of 1985.

The first review was initiated in the context of a staff mission to Accra during October 20-November 7, 1984, and follow-up missions during

1/ EBS/84/243.

2/ EBS/84/219.

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

	Outstanding at beginning of arrangement August 27, 1984	Aug.	Nov.	Dec.	Feb.-April	May-July	Aug.-Oct.	Nov.-Dec.
		1984			1985			
<u>(In millions of SDRs)</u>								
Transactions under tranche policies (net) <u>1/</u>	--	<u>30.0</u>	<u>30.0</u>	--	--	<u>60.0</u>	<u>30.0</u>	<u>30.0</u>
Purchases	--	<u>30.0</u>	<u>30.0</u>	--	--	<u>60.0</u>	<u>30.0</u>	<u>30.0</u>
Ordinary resources	(--)	(15.0)	(15.0)	(--)	(--)	(30.0)	(15.0)	(8.5)
Enlarged access resources	(--)	(15.0)	(15.0)	(--)	(--)	(30.0)	(15.0)	(21.5)
Repurchases	--	--	--	--	--	--	--	--
Ordinary resources	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Enlarged access resources	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Transactions under special facilities (net) <u>2/</u>	--	--	--	<u>58.2</u>	--	--	--	--
Purchases	--	--	--	<u>58.2</u>	--	--	--	--
Repurchases	--	--	--	--	--	--	--	--
Total Fund credit outstanding (end-of-period)	<u>359.0</u>	<u>389.0</u>	<u>419.0</u>	<u>477.2</u>	<u>477.2</u>	<u>537.2</u>	<u>567.2</u>	<u>597.2</u>
Under tranche policies <u>1/</u>	238.5	268.5	298.5	298.5	298.5	358.5	388.5	418.5
Special facilities <u>2/</u>	120.5	120.5	120.5	178.7	178.7	178.7	178.7	178.7
<u>(As percent of quota)</u>								
Total Fund credit outstanding (end-of-period)	<u>175.5</u>	<u>190.2</u>	<u>204.9</u>	<u>233.3</u>	<u>233.3</u>	<u>262.7</u>	<u>277.4</u>	<u>292.0</u>
Under tranche policies <u>1/</u>	116.6	131.3	146.0	146.0	146.0	175.3	190.0	204.6
Special facilities <u>2/</u>	58.9	58.9	58.9	87.4	87.4	87.4	87.4	87.4

Sources: IMF, Treasurer's Department; and the stand-by arrangement.

1/ Ordinary and enlarged access resources.2/ Compensatory financing facility.

January 12-30, 1985, and March 16-27, 1985. ^{1/} The purposes of the missions were first to review the program implementation during 1984 and assess fiscal, monetary, and balance of payments outcomes for that year; and second, to assist the authorities in preparing an economic and financial program for 1985. This involved the formulation of the 1985 budget, including measures to enhance domestic resource mobilization, and of exchange rate and other external policies to be pursued in the course of the year. It also included a review of the pricing, incomes, and interest rate policies for 1985, and the setting of quarterly credit ceilings, as performance criteria, for the whole year. In the attached letter to the Managing Director, dated April 26, 1985 (Appendix II), the Secretary for Finance and Economic Planning and the Governor of the Bank of Ghana review Ghana's performance under the 1984/85 program and outline the fiscal, external, monetary and other economic policies they intend to pursue in 1985. The letter also indicates the phased performance criteria with regard to domestic credit expansion and net credit to the Government for the whole of 1985. Limits on external borrowing and reduction of external payments arrears through net cash payments had already been set for the entire program period at the outset of the 1984/85 program.

Close collaboration with the World Bank was maintained throughout the formulation of the 1985 program which benefitted from the detailed sectoral work undertaken by Bank staff, particularly with regard to the development budget and the import program. World Bank support for Ghana's economic recovery program since April 1983 has consisted of a first Reconstruction Import Credit (RIC I) of US\$40 million, and two Export Rehabilitation Projects (ERPs) amounting to US\$93 million. On March 28, 1985, the Bank's Executive Board also approved a second Reconstruction Import Credit (RIC II) of US\$60 million, of which some US\$10 million are expected to be disbursed in the course of 1985, and the remainder in 1986; the loan will finance maintenance and development expenditure mostly for private and semi-private enterprises involved in the agricultural export, mining, and transport sectors. Drawings under Bank project loans should almost double in 1985 to reach US\$44 million. Total Bank disbursements, which amounted to US\$54 million in 1984, are expected to reach US\$96 million in 1985. The Bank Group also convened in Paris a second meeting of the Consultative Group for Ghana on December 11 and 12, 1984. Donor countries re-endorsed Ghana's economic recovery program, and expressed confidence that the adjustment policies pursued by the authorities will lead to sustainable growth and balance of payments viability in the medium term.

^{1/} The January and March missions consisted of Messrs. Kratz (head), Ballali, Lorie (all AFR), Chand (FAD), Huh (ETR), and of Mrs. Campbell (secretary-ETR, first mission only) and Miss Nepomuceno (secretary-AFR, second mission only). Mr. Ballali headed the October-November mission (EBS/84/243) during which Mr. Kratz and Mr. Salehkhoulou, Executive Director, participated in policy discussions with the authorities. Mr. Sharer, the designated Fund resident representative in Accra also participated in the January mission.

Although the meeting was not a formal pledging session, informal estimates by the World Bank put intentions with regard to commitments of grants and loans for 1985 by bilateral and multilateral donors at US\$415 million.

A summary of Ghana's relations with the Fund and the World Bank Group are provided in Appendices III and IV, and a table of economic and financial indicators reflecting the execution of the financial program, in Appendix V.

II. An Overview of the 1984/85 Program: Objectives and Policies

Ghana's economic and financial program for 1984/85 aims at pursuing the process of economic stabilization and rehabilitation successfully initiated under the 1983/84 stand-by arrangement. The overall objective is to restore economic growth in the context of medium-term balance of payments viability. Accordingly, the program intends to enhance the process of restructuring relative prices to shift incentives and resources to the most productive export sectors of the Ghanaian economy (such as cocoa, timber and gold), away from less competitive import substitution and trading activities. It also places emphasis on the rebuilding of the productive infrastructure (particularly roads, ports, and railways) to eliminate supply bottlenecks and impediments to the evacuation of exports. To reach the first of those objectives, the program stresses the continuation of the flexible exchange rate policy which followed the large depreciation of the cedi in 1983, with periodic adjustments of the nominal rate during 1984 to avoid loss of competitiveness, and a further real adjustment in 1985. Further progress towards elimination of price controls is to be accomplished, and a further adjustment in the cocoa producer price is due to take place before the mid-1985 small crop. The second objective, that of economic rehabilitation, necessitates the continued and enhanced mobilization of external financing on concessional terms and the pursuit of fiscal and monetary policies which foster the mobilization of public and private savings. Accordingly, under the program, 1984 budget targets on revenue and current expenditure were to be strictly adhered to, with additional adjustments expected to take place in 1985. Cautious credit policies were also to be continued to further constrain inflation, and interest rates were to be progressively adjusted to become positive in real terms by the end of the 1984/85 program, or June 1986 at the latest.

From the outset of Ghana's recovery program it was understood that the external current account deficit would have to increase temporarily, reflecting the rise in rehabilitation and development imports. The 1984/85 program envisages a widening of that deficit to between 4 and 6 percent of GDP for both 1984 and 1985 in line with the expected doubling of net official capital inflows. Strict limits have, however, been placed on the contracting of government and government-guaranteed external loans on nonconcessional terms. Finally, a further phased reduction in external arrears through net cash payments by US\$90 million during the program period was viewed as another necessary step to the re-establishing of

Ghana's international creditworthiness. A summary of the objectives and policy measures under the initial 1984/85 program is presented in Table 2 which also indicates the outcome for 1984 and the specific targets and policies under the program for 1985.

III. Program Implementation in 1984 - Targets and Policies for 1985

1. Production and prices

After 5 years of continuous decline, economic activity picked up significantly during 1984, when real GDP growth is estimated to have reached 7.6 percent. Agricultural output in particular rose sharply, by some 15 percent, as favorable weather conditions led to bumper foodcrops, especially maize. Reflecting the greater availability of imported inputs, capacity utilization in the manufacturing sector also improved and production is estimated to have risen by about 7 percent. With regard to the export sector, cocoa production recovered from its low level of 158,593 tons recorded for the 1983-84 crop year (October to September) and the 1984-85 crop should reach at least 200,000 tons. Although this large increase would mostly reflect the end of the severe drought of 1983, there is evidence that improved producer prices have led to better farm maintenance and more complete harvesting. On this account, the Cocoa Marketing Board (CMB) is now projecting a 1985/86 crop of 250,000 tons. In the mining sector, mainly gold, progress has been slower than expected, in spite of the large shift in relative prices, and gold production increased by only some 2 percent in 1984, to a total of about 285,000 fine ounces. There is still a shortage of both capital and skilled manpower. The recovery of the gold sector is expected to accelerate when the US\$158 million rehabilitation project of the Ashanti Goldfields Corporation, supported in part by an IFC investment of US\$55 million, gains momentum. Growth in the timber sector was only relatively modest in 1984, as this industry, which is potentially a highly profitable export industry under present exchange rate policy, has yet to recover from its near collapse in the late 1970s and early 1980s. The progressive rehabilitation of roads, railways and ports is expected to encourage a resumption of much needed capital investments in the timber sector. Already, some firms have responded to more attractive export prices at adjusted exchange rates, and timber exports grew by 20 percent during 1984. With these, and other favorable developments, the original program projection of a 5 percent real GDP growth for 1985 appears realistic.

Inflation was significantly reduced in 1984, with the CPI increasing on average by less than 40 percent, against 123 percent in 1983. This marked improvement reflects the cautious fiscal and monetary policies pursued in the course of the year, the bumper food crops, and the greater availability of imports. Food prices, which account for almost 50 percent of the index, rose by only 11 percent. The prices of other consumption goods, with a high import content, rose on average by less than 80 percent, as against a depreciation of the cedi of 90 percent between 1983 and

Table 2. Ghana: Summary of the 1984/85 Economic and Financial Program.
Implementation in 1984, Objectives and Targets for 1985

	1984		1985	
	Prog.	Actual	Prog.	Rev. Prog.
<u>Macroeconomic variables</u> (percent changes)				
Real GDP growth	5.4	7.6	5.0	5.3
Terms of trade	31.0	33.0	-3.0	-10.1
National consumer price index	35.0	39.7	...	20.0
Real exchange rate depreciation	--	35.1	...	20.0
<u>Targets</u> (as percent of GDP)				
Current account deficit (-)	-4.2	-1.6	-6.3	-4.7
Overall budget deficit (-)	-2.2	-1.5	...	-2.0
(percent changes)				
Net domestic assets of the banking system	34.5	32.1	...	42.2
Of which: net claims on government	8.5	8.4	...	8.8

Principal elements of the program

1. Exchange rate and other external policies

Through a series of adjustments during 1984, the exchange rate of the cedi had been brought to ₵ 50 = US\$1 by December 1984, effecting a real depreciation of 35 percent in the course of 1984. The exchange rate policy for 1985 will implement a phased real depreciation of 20 percent on a trade-weighted basis. In line with this policy, the exchange rate was depreciated further to ₵ 53 = US\$1 on April 19, 1985. Commitments to limit contracting of government and government-guaranteed external loans on nonconcessional terms, and to reduce external payments arrears through phased net cash payments by US\$90 million during the program period, had been set at the outset of the program, and to date all have been met.

2. Pricing and incomes policies

Emphasizing competitiveness and the role of market forces, the process of price liberalization which was successfully initiated in 1983 and 1984, will be continued and virtually completed during 1985. Cocoa producer price will be raised to ₵ 56,600 per ton before end-May 1985. Following the 89 percent increase of December 1984, the Ghanaian Government does not plan any further across-the-board increase in wages and salaries. The Cocoa Marketing Board will redeploy 19,000 of its employees in the course of 1985.

3. Fiscal policies

Fiscal revenue targets for 1984 conformed to program projections, expenditures were lower than expected due to a shortfall in foreign financing. Tight lid was kept on current expenditure, and domestic bank financing of the overall budget deficit remained below the sub-ceiling. For 1985, the targeted increase in the overall budget deficit reflects the much larger foreign financing inflows. The doubling of development expenditure will in part be supported by revenue measures amounting to 1.1 percent of GDP.

4. Monetary policies

Credit targets were all met in 1984. The targetted credit expansion of ₵ 12.6 billion for 1985 is consistent with overall balance of payments objective, and with the objective of reducing inflation to about 20 percent. Deposit rates have been increased by 1 percentage point on April 18, 1985, and the flexible interest rate policy aiming at positive real interest rates by the end of 1985, or June 1986 at the latest, will be continued, in accordance with the formula agreed upon in July 1984.

1984. The inflation objective for 1985 is to further lower the rate of inflation to an annual average of about 20 percent, in the context of a consistent set of budgetary, credit, and exchange rate policies.

2. Exchange rate policy

Under the stand-by arrangement, the authorities have undertaken to continue to pursue the flexible exchange rate policy introduced under the 1983/84 program. After the large initial depreciation in April 1983, the exchange rate policy in 1983 and 1984 envisaged maintaining the rate constant in real terms in accordance with a formula which measured the inflation differential between Ghana and its major trading partners. Thus, on August 23, 1984, the exchange rate was depreciated by 10 percent (in local currency terms) from $\text{¢ } 35 = \text{US\$1}$ to $\text{¢ } 38.5 = \text{US\$1}$. However, on December 3, 1984, the exchange rate was further depreciated by 30 percent to $\text{¢ } 50 = \text{US\$1}$, substantially more than the magnitude indicated by the formula. This advancement of the exchange rate adjustment planned for 1985 was intended to facilitate the launching of the 1985 economic and financial program and was accompanied by an 89 percent average increase in wages and salaries (discussed in Section 3 below). These two exchange rate adjustments, in addition to a 17 percent depreciation in March 1984 under the previous program, brought about a real effective depreciation of 35 percent during 1984 (Chart 1).

In the course of 1985, the authorities intend to adjust the exchange rate periodically on the basis of a revised formula and phased quarterly benchmarks so as to effect a real adjustment of 20 percent on a trade-weighted basis, taking into account the inflation differential between Ghana and its major trading partners. In accordance with this objective, the authorities adjusted the exchange rate from $\text{¢ } 50 = \text{US\$1}$ to $\text{¢ } 53 = \text{US\$1}$ on April 19, 1985.

3. Pricing and incomes policies

An important measure of the 1983/84 economic program involved raising the cocoa producer price from $\text{¢ } 12,000$ to $\text{¢ } 20,000$ per ton for the 1983/84 crop. In May of 1984, the price was further increased to $\text{¢ } 30,000$ per ton. The new producer price of $\text{¢ } 56,600$ to be announced before the end of May 1985 has been agreed after consultation with the World Bank and will restore farmers' real incomes and incentives for cocoa production to their level of the mid-1970s. This increase in the producer price, made possible by the exchange rate policy, remains consistent with a further increase in cocoa revenues for the Government.

The Ghanaian authorities have renewed their commitment to increasingly let market forces determine prices. Domestically produced food items remained totally free of price controls or guidelines, and prices of petroleum products fully reflect the import costs at current exchange rates. For other locally produced or imported goods, manufacturers and retailers are now generally free to set their own prices without reference to the Prices and Incomes Board (PIB). During 1984, some form of price

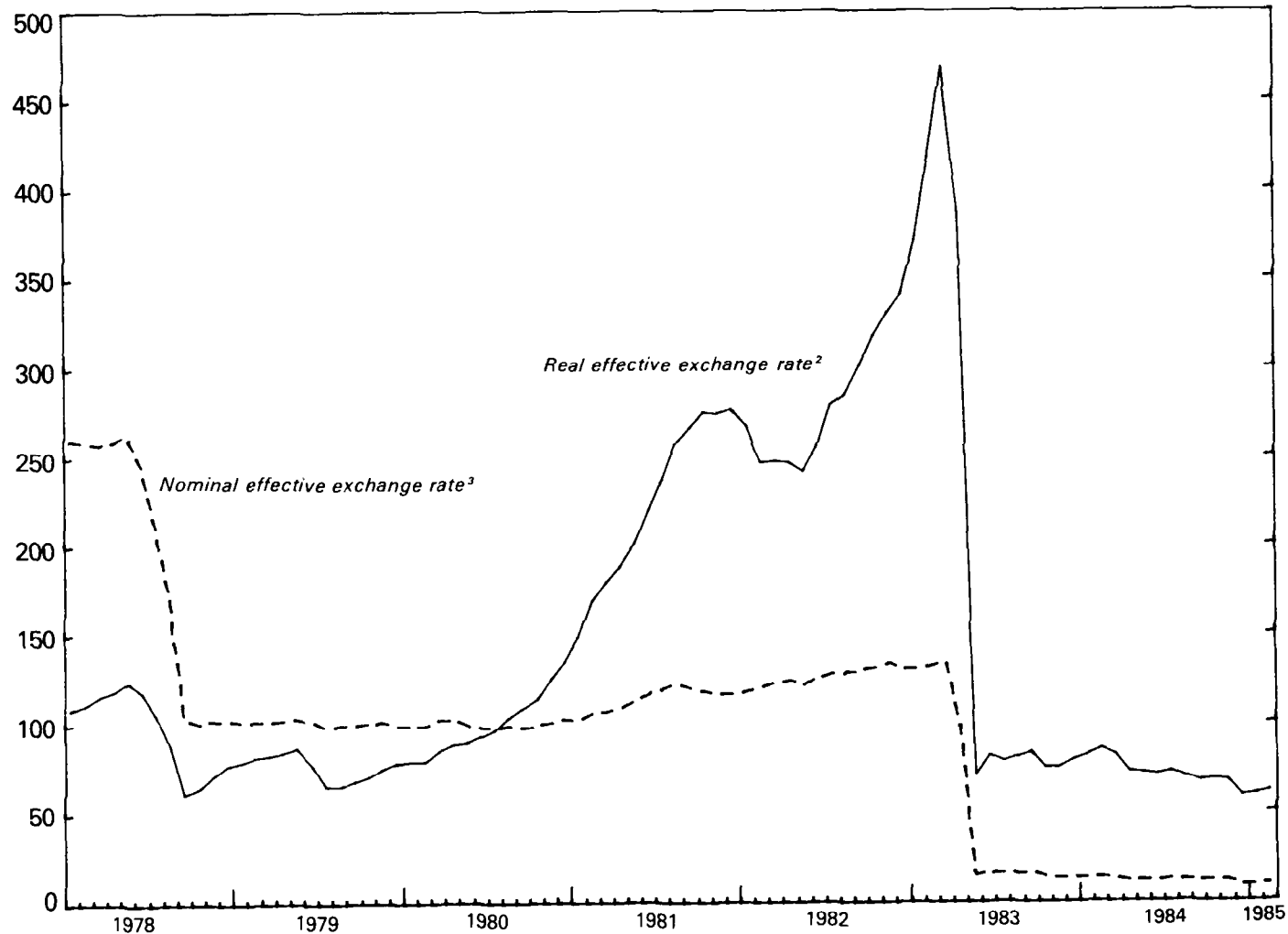
controls or guidelines remained in effect for a list of 23 essential goods, more than half of them imported. The list was reduced to 17 in early December 1984, and will be further limited to 8 (imported rice, sugar, baby food, cement, textiles, drugs, matches and soap) in the course of 1985. For goods remaining on the list, controls now take the form of flexible price caps allowing full pass-through of costs and a profit margin. Hence, even for imported items on the list, there is no subsidy to the consumers, as exchange rate adjustments are reflected in prices. These prices are jointly determined by the producers or traders and the PIB, and subsequently formally approved by a Tripartite Committee of employers, labor, and government representatives. In practice, price increases provisionally agreed with the PIB can already be implemented before formal approval is obtained from the Committee, and there has been so far no case of the Committee rejecting proposed increases.

While lower real wages in the public sector may be viewed as part of the economic adjustment process itself, and reflect the low level of productivity in that sector, they have continued to hamper the efficient running of government. In time, the restructuring of relative prices induced by the exchange rate adjustments should help in the redeployment of labor to export and efficient import substitution industries. While it is important not to hamper this transfer, it has also been necessary to cushion the impact of massive policy shifts on segments of the workforce for whom mobility opportunities are very limited in the short-run. It is in this context that the authorities granted in December 1984 an increase in wages and salaries of 89 percent on average. They were successful in limiting the increase to a level which could be absorbed by the 1985 budget (given the accompanying exchange rate measure). The Ghanaian Government does not intend to grant further across-the-board wage and salary increases in the course of 1985.

Although the Ghanaian Government recognizes that there may be too many people on the payroll before its medium-term redeployment policy takes hold, it is anxious to retain individuals with specific professional skills (such as doctors, nurses and engineers). Some further salary adjustments may be given to such selected groups of civil servants depending on the availability of resources, and a contingency fund for this purpose has been built into the 1985 budget.

The Cocoa Marketing Board (CMB) has started in 1985 to implement its own redeployment policy of redundant labor by initiating the layoff of some 19,000 employees (mostly in the administrative and marketing areas), or about one-third of its establishment. Financial commitments to laid-off employees will span over a period of 4 years, and substantial savings from the redeployment policy are therefore not expected before the end of the 1980s.

CHART 1
GHANA
NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, 1978-85¹
(1980 = 100)



Source: IMF Data Fund.

¹Decline (rise) indicates depreciation (appreciation).

²Nominal effective exchange rate adjusted for relative movements in consumer prices.

³Trade weighted.

4. Fiscal Policy

a. Fiscal Developments in 1984

The provisional budgetary outturn for 1984 shows that total revenue and grants amounted to £ 22.6 billion, which closely matched the budget estimate. Total expenditure and net lending of £ 27.5 billion was, however, £ 1 billion less than budgeted, as was also the case with the overall deficit, which amounted to £ 4.8 billion or 1.5 percent of GDP (Table 3).

Performance on the receipts side was mixed. There was a shortfall of about 8.7 percent in tax revenue that was fully offset by the receipt of much larger foreign grants of about £ 0.9 billion, as against a budgeted amount of less than £ 0.1 billion. A principal reason for the decline in tax revenue was a slump in both import duty collections (to just over one half of the budgeted level) and in excise duties. Shortfalls in import duties are attributable partly to imports being less than projected and partly to a shift in the composition of imports to non-dutiable items such as food. The shortfall in collections of excise duties, other than from beer and cigarettes, was largely the result of continued bottlenecks in production, which adversely affected the supply of excisables. In the face of the deteriorating revenue position, the authorities took a number of actions to increase other revenue sources and the shortfalls were substantially offset by major improvements in income tax collections, increased transfers of profits from publicly-owned banks, and higher cocoa export duty receipts. The last reflected somewhat more favourable cocoa export prices than had earlier been assumed. New discretionary measures were also introduced that included higher excise duties on cigarettes, and some implicit taxation of petroleum and other commodities through the use of temporary price-differentials.

The main factor that led to the reduction in expenditure from the budgeted level was the shortfall in net foreign financing of about £ 0.9 billion. In order to comply with the credit ceilings, the authorities reduced capital expenditures by £ 0.6 billion and net lending, primarily to public enterprises, by £ 0.5 billion. Facing a tight budgetary situation, partly because of difficulties in collecting food aid related receipts, that would have increased budget resources further, an extremely tight lid was maintained on recurrent expenditures. As part of their strategy to restrain expenditures, the authorities advanced actions to eliminate the petroleum subsidy, which had been budgeted at £ 0.5 billion. In the event, a surplus of £ 0.3 billion was realized on the operations of the petroleum department, through the operation of a price differential scheme. A number of other economies were also introduced, that included a freeze on hiring and savings on supplies. This enabled overall expenditures to be restrained, while ensuring that essential activities could be undertaken despite the pressure on costs of the exchange rate adjustments during the year.

Table 3. Ghana: Summary of Central Government Operations, 1983-85.

(in millions of cedis)

	1983		1984		1985
	Provisional <u>1/</u>	Budget	Provisional		Projected
<u>Total revenue and grants</u>	<u>10,241</u>	<u>22,584</u>	<u>22,641</u>		<u>39,899</u>
Revenue	10,184	22,534	21,727 2/		38,109
Taxes on income and property	(1,780)	(2,526)	(4,125)		(6,016)
Taxes on international transactions	(4,990)	(9,731)	(8,133)		(14,631)
Taxes on goods and services	(1,689)	(7,270)	(5,562)		(10,190)
Non-tax revenues	(1,726)	(3,007)	(2,884)		(7,272)
Foreign grants	57	50	914		1,790
<u>Total expenditure and net lending</u>	<u>15,178</u>	<u>28,463</u>	<u>27,485</u>		<u>48,510</u>
Current expenditure	13,404	22,598	22,700		36,535
Of which:					
Interest	(3,028)	(3,740)	(3,425)		(4,786)
Operating deficit of the Petroleum Department	(1,095)	(500)	(--)	3/	(--)
Other current expenditure	(9,281)	(18,358)	(19,275)		(31,749)
Capital expenditure <u>4/</u>	1,354	4,574	3,994		8,025
Net lending	420	1,291	791		3,950
<u>Overall deficit</u>	<u>-4,937</u>	<u>-5,879</u>	<u>-4,844</u>		<u>-8,610</u>
<u>Financing (net)</u>	<u>4,937</u>	<u>5,879</u>	<u>4,844</u>		<u>8,610</u>
Foreign (net) <u>4/</u>	687	2,729	1,820		5,360
Borrowing	(1,973)	(7,158)	(5,077)		(11,556)
Repayments	(-1,286)	(-4,429)	(-3,257)		(-6,196)
Domestic (net)	4,298	3,150	3,028		3,250
Banking system	(2,572)	(1,800)	(1,760)		(2,000)
Social Security	(230)	(350)	(591)		(500)
Other	(1,496)	(1,000)	(677)		(750)
Unidentified	-48	--	-4		--
<u>Memorandum items: selected fiscal ratios (percent of GDP)</u>					
Total Revenue and grants	4.8	6.9	6.9		9.3
Total expenditure	7.1	8.8	8.4		11.3
Overall deficit	-2.3	-1.8	-1.5		-2.0
Banking system finance	(1.2)	(0.6)	(0.6)		(0.5)

Sources: Ministry of Finance and Economic Planning and staff estimates.

1/ Transactions exclude the C 7.4 billion involved in assuming the debt of the Cocoa Marketing Board.

2/ Includes C 109 million of revenue that is as yet unclassified.

3/ A surplus of C 311 million was achieved in the form of a realized stock valuation gain, which has been included in nontax revenue.

4/ Does not include foreign assistance tied to projects or its counterpart expenditures, estimated at 1.5 percent of GDP.

In financing the overall deficit of ₦ 4.8 billion, the authorities kept within the ceiling of ₦ 1.8 billion on domestic bank financing of the budget which was a performance criterion. Net foreign financing amounted to ₦ 1.8 billion as against ₦ 2.7 billion that had been budgeted. The foreign financing shown in the budget involves essentially counterpart funds generated from the sale of commodities, part of which are provided on concessional terms. Sources of foreign financing that are tied to projects are not included in the budget. During 1984, a number of delays were experienced at various stages of the aid disbursement process including a slowdown in domestic sales of some of the aid items, which accounted for the shortfall in foreign financing. Financing from the domestic non-banking sector amounted to ₦ 1.3 billion or a little below the budgeted amount. The mix of such financing is heavily oriented towards the social security system and the secondary banks.

b. The 1985 budget

Total revenue and grants for 1985 are projected at ₦ 39.9 billion, representing an increase of 76 percent over the 1984 outcome. A similar percentage increase in total expenditure, including net lending, is projected that will raise expenditure to ₦ 48.5 billion. This will result in an overall fiscal deficit for 1985 of ₦ 8.6 billion or 2 percent of GDP, compared with 1.5 percent of GDP in 1984. As this outcome reflects a higher level of net foreign financing, mostly in the form of concessional commodity assistance, the increase in the overall deficit does not indicate that the budget has become more inflationary: the more expansionary demand effect would tend to be absorbed by the higher commodity flow associated with the aid. Moreover, assessing the budget in terms of its liquidity impact suggests that the budget would be somewhat less expansionary than in 1984, since bank financing of the deficit will decline to 0.5 percent of GDP from 0.6 percent in the previous year.

Owing to the improved prospects for both domestic resource mobilization and foreign financing, the authorities plan to address a number of important structural issues in 1985. A doubling in development outlays is provided, from ₦ 4 billion to ₦ 8 billion (although the real increase will be less than 30 percent), with the emphasis on eliminating transportation and other bottlenecks that have hampered the evacuation of exports. A substantial, average increase of 89 percent in public sector emoluments is also provided for in order to partially reverse the severe erosion in real terms over recent years. The announcement of the increase in public sector wages and salaries was made toward the end of 1984. The authorities plan to grant further salary adjustments during the year only to special groups of professionals in the civil service in order to promote their active recruitment and retention, and have appropriated a contingency fund of ₦ 1.9 billion in the budget for this purpose. The budget also provides for a substantial increase in net lending from ₦ 0.8 billion in 1984 to ₦ 4 billion in 1985, in large part the result of an equity injection into a World Bank-sponsored three-country cement project. Although that project has now been suspended, the debt service has to be continued, which is the reason for the equity injection.

Several measures have been put in place in order to restrain the growth in recurrent expenditures. A lid on the overall size of the civil service is being maintained, while some redeployment of vacancies arising from attrition is being effected. At the same time, economies are being effected in the use of fuel and other supplies. In order to limit the increase in subventions to public agencies, decentralized revenue-earning government entities are being required to cover an increasing portion of their costs through mandatory improvements in performance and adjustments in tariffs and other charges.

In order to finance these outlays in a noninflationary manner, the budget incorporates several major domestic resource mobilization measures to yield on balance ₦ 4.9 billion in additional revenue, amounting to 1.1 percent of GDP, or 22 percent of the previous year's revenue outturn. The revenue raising measures include substantial increases in the excise duties on beer and cigarettes that are projected to raise an additional ₦ 2.8 billion; a special tax on consumer goods imports, intended as a presumptive income tax and expected to raise ₦ 2.1 billion; major increases in a wide variety of registration and licensing fees that are expected to yield an additional ₦ 0.6 billion; and sharp hikes in various service taxes, such as the airport tax and casino tax to yield an additional ₦ 0.1 billion. While such measures are directed towards the more intensive taxation of sumptuary consumption and/or profits of scarcity from sales of goods in short supply in the domestic market, the authorities have sought to provide some relief from inflation induced increases in the effective income tax burden. The adjustment in income tax brackets and rates is expected to cost ₦ 0.7 billion in revenue. The authorities are also taking steps to significantly strengthen the tax administration. Additional inputs in the form of vehicles and other supplies are being provided to the tax departments and a number of new tax offices are being opened in the rural areas that will help support the policy measures to raise additional revenue.

In order to ensure an adequate return to the budget from cocoa export earnings, economies are being effected in the expenses of the Cocoa Marketing Board, through rationalization of various marketing and development outlays. The Cocoa Marketing Board costs will be kept below ₦ 35,000 per ton of cocoa shipped, thereby reducing the cost of marketing to about 30 percent of the export price. As a consequence both of the projected exchange rate adjustments and the increase in export shipments to 200,000 tons in 1985, cocoa export duties are estimated to increase from ₦ 4.5 billion in 1984 to ₦ 7.9 billion, or almost 20 percent of total revenue, just as in the previous year. Exchange rate adjustments, together with a rise in imports account for the increase in customs duties, while the higher production of beer and cigarettes and the upward revision in duty rates explain the rise in excise duties.

The financing of the overall deficit of ₦ 8.6 billion relies on foreign sources for about ₦ 5.4 billion, or nearly two-thirds of the

total. The sizable increase in net foreign financing from C 1.8 billion in 1984 reflects, aside from the effects of exchange rate adjustments, a substantially higher rate of disbursement of counterpart funds, generated through the domestic sales of commodities that are currently being received from sources such as IDA's Reconstruction Import Credit and associated cofinancing by other donors, concessional loans from bilateral sources, and oil credits. With regard to the repayments, a large part represents the settlement of oil credits received in the past. Of the remaining one third of the deficit that is to be financed from domestic sources, bank financing, which is a performance criterion, will be limited to C 2 billion. Domestic nonbank sources of finance are projected to contribute C 1.3 billion, or about the same as in 1984. In formulating the domestic financing strategy, the authorities intend to ensure that the private sector, which has less access to foreign sources of finance, is adequately catered for. Accordingly, it is planned that any increased disbursements of net foreign finance beyond C 5.4 billion will be used to reduce central government recourse to the banking system by the same amount. In the event of any shortfall in foreign financing to the budget, the authorities, as with the previous program, plan to take compensating measures so as to avoid increased recourse to the banking system.

5. Monetary and credit policy

At the outset of the 1984/85 program, credit ceilings were set for end-September and end-December 1984 only. The program envisaged no increase in the banking system's net claims on the Government in the second half of 1984, and an expansion of credit to the rest of the economy (excluding cocoa financing) by 19.5 percent (Table 4). Outstanding cocoa financing at end-December 1984 was projected at C 3.3 billion, which would have enabled the financing of about 110,000 tons. Although in the third quarter of 1984 monetary and credit developments conformed to the program's targets and ceilings, the latter proved extremely tight during the fourth quarter. While the authorities took additional measures to meet the ceiling on domestic bank financing of the Government deficit, they requested the aforementioned modification of the end-December performance criterion on overall net domestic assets. The modification provided for an additional C 1.3 billion bank credit (5.9 percent of broad money at the beginning of 1984), of which C 0.4 billion was needed to help finance the larger and earlier-than-anticipated cocoa crop, C 0.5 billion to support a Government-sponsored scheme to stabilize the price of maize, and C 0.4 billion to provide additional local financing for imports in view of the advancement of the exchange rate adjustment to C 50 = US\$1. The modified credit ceilings were all met.

Monetary targets and credit ceilings set for 1985 conform with the twin objective of further reducing inflation to about 20 percent, and of limiting the overall balance of payments deficit to US\$60 million or about C 3.6 billion. The latter projections take into account the higher level of foreign financing, the projected increase of essential imports by 33 percent in U.S. dollar terms, and the projected further average depreciation of the cedi by some 59 percent in local currency terms.

Table 4. Ghana: Monetary Survey, 1983-85

	1983	1984						1985 Program			
	Dec.	June		September		December		March	June	Sept.	Dec.
		Prog.	Actual	Prog.	Actual	Modified	Actual				
		(EBS/84/172)				Prog.					
		(In billions of cedis)									
Net foreign assets	-8.80	-12.46	-13.07	-13.23	-24.39	-20.19	-22.92	-28.30	-27.32	-24.50	-26.48
Net domestic assets	22.60	27.00	26.56	26.50	24.58	29.90 <u>1/</u>	29.72 <u>1/</u>	35.80 <u>2/</u>	36.85 <u>2/</u>	34.35 <u>2/</u>	42.45 <u>2/</u>
Claims on government (net)	21.06	22.86	22.75	22.66	22.63	22.86	22.82	23.82	24.22	24.52	24.82
Cocoa financing	0.52	1.60	2.42	--	--	3.70	3.48	5.60	4.80	--	5.66
Claims on rest of economy	3.85	6.15	5.49	6.55	6.61	7.75	7.68	10.64	12.09	14.09	16.23
Other items (net)	-2.83	-3.61	-4.10	-2.71	-4.66	-4.41	-4.26	-4.26	-4.26	-4.26	-4.26
Maize financing	--	--	--	--	--	0.50	0.13	...	...	...	...
Revaluation account	8.43	10.21	9.61	10.99	25.99	16.28	24.73	24.73 <u>3/</u>	24.73 <u>3/</u>	24.73 <u>3/</u>	24.73 <u>3/</u>
Broad money	22.08	24.60	22.95	24.11	23.71	26.34	28.55	29.12	31.16	31.47	37.59
Counterpart of SDR allocations	0.15	0.15	0.15	0.15	2.47	0.15	3.11	3.11	3.11	3.11	3.11
		(In annual percentage change)									
Net domestic assets	41.2	30.6	28.5	24.8	19.5	34.5 <u>2/</u>	32.1 <u>2/</u>	42.6 <u>2/</u>	38.7 <u>2/</u>	39.7 <u>2/</u>	42.2 <u>2/</u>
Broad money	48.8	27.7	19.2	15.0	16.2	19.3	29.3	31.3	35.8	32.7	31.7

Sources: Bank of Ghana; and staff projections.

1/ Excluding maize financing.

2/ Including maize financing.

3/ Exchange rate adjustments during 1985 will require compensating changes in the cedi value of net foreign assets, counterpart of SDR allocations, and in the revaluation account.

On the basis of an empirically estimated elasticity of the demand for real money balances to real income of close to 1 (the CPI being used as deflator), broad money is projected to increase by some 31.7 percent, slightly lower than the expected nominal GDP growth. Consistent with the reduction in net foreign assets of about ₵ 3.6 billion projected above, overall net domestic assets are targeted to increase by ₵ 12.6 billion in 1985, which amounts to a 42.2 percent annual growth, compared to 32.1 percent in 1984.

While net claims on government by the banking system will be limited to ₵ 2.0 billion, growing by 8.8 percent on an annual basis, claims on the rest of the economy, which includes agriculture and industry, will increase by ₵ 8.4 billion. Of this amount, however, the Ghanaian authorities intended to earmark ₵ 1.9 billion for three development banks whose debt/equity ratio has been severely eroded by the recent sharp exchange rate adjustments. The credit will enable those banks to maintain their present level of credit and to absorb external resources, including those from the World Bank and other foreign donors. The credit will take the form of a 20-year long-term loan by the Bank of Ghana and will qualify as capital increase. Over the years, the bank of Ghana will be repaid through increasing its participation in those development banks for the amount of the loan. Taking into account the projected larger 1985/86 cocoa crop and the near doubling of the producer price, the end-December position of self-liquidating cocoa financing is expected to be some ₵ 2.2 billion higher in 1985 than 1984. This projection assumes that 40 percent of the 1985/86 cocoa crop will be purchased by the end of 1985. It should be noted that any increase in the also self-liquidating maize financing scheme, which was the subject of a separate credit ceiling for end-December 1984, will be included in the above overall target for expansion of credit to the rest of the economy in 1985. Although barely a fourth of the projected maize financing had actually been put in place by end-December 1984, the scheme helped to stabilize maize prices in late 1984 and early 1985, and planting for the forthcoming crop appears to have been adequate. The offloading of stocks from the 1984 harvest and associated repayments should be completed in the third quarter of 1985. With the programed upgrading of storage facilities, outstanding maize financing for the 1985 crop could peak at ₵ 0.4 to 0.5 billion by December.

In addition to the seasonality of cocoa and maize financing, the programed quarterly phasing of outstanding net domestic assets in 1985 reflects the seasonality and timing of credit needs by both the Government and the rest of the economy. For domestic financing needs of the latter in particular, the cedi financing of imports will tend to be larger in nominal terms later in the year as the further depreciation of the cedi is effected. Account was, however, also taken of the fact that almost 75 percent of the proposed credit to development banks will have been put in place before the end of March 1985. Accordingly, net domestic assets of the banking system, which amounted to ₵ 29.85 billion (including maize financing) at the end of December 1984, will not exceed ₵ 35.80 billion on March 31, 1985, ₵ 36.85 billion on June 30, 1985,

¢ 34.35 billion on September 30, 1985, and ¢ 42.45 billion on December 31, 1985. Net claims on the government by the banking system, which amounted to ¢ 22.82 billion at the end of December 1984, will not exceed ¢ 23.82 billion on March 31, 1985, ¢ 24.22 billion on June 30, 1985, ¢ 24.52 billion on September 30, 1985 and ¢ 24.82 billion on December 31, 1985.

Since the beginning of their economic recovery program, the Ghanaian authorities have endorsed the view that the mobilization of private domestic savings and the optimal allocation of financial resources will be critical to reaching medium-term growth and balance of payments objectives. In this regard, they have acknowledged the important role played by a more flexible and competitive interest rate policy. Hence, before Board discussion of the 1984-85 program, they announced a further across-the-board increase of interest rates by 2 percentage points. As part of the program, the authorities also decided to adopt a formula and timetable for interest rate adjustments aimed at reaching positive real rates by June 1986, at the latest. In accordance with the formula, interest rates were further adjusted upward by 1.5 percentage points on November 30, 1984. Because domestic inflation turned out to be negative in the last quarter of 1984, reflecting mostly the behavior of food prices, the working of the formula did not imply an adjustment of interest rates at the end of the first quarter of 1985. In anticipation of adjustments likely to be required later in the year, and to speed up the process of savings mobilization, the authorities have, however, announced on April 18, 1985 a further increase for deposit rates by 1 percentage point, bringing the rate on 12-month deposits to 17 percent. To promote a more efficient process of financial intermediation and strengthen medium-term lending by the commercial banks, the authorities are also exploring the possibility of banks offering to the public 24-month deposits carrying an interest rate of 18 percent. Lending rates will stay for the time being at their present level with a maximum of 22.5 percent; the authorities believe that the narrower profit margin remains quite adequate.

6. Balance of payments and other external policies

a. Balance of payments developments in 1984

The balance of payments outcome for 1984 turned out to be significantly different from earlier program projections. While the current account deficit was expected to increase to some US\$320 million in 1984, it actually fell to only US\$145 million (1.6 percent of GDP) from its level of US\$300 million in 1983 (Table 5). This development reflects almost entirely the behavior of imports which were targeted to rise significantly during 1984 to meet the productive sectors' needs under the economic recovery program. In fact, imports turned out to be some US\$134 million lower than expected, mostly as a result of a US\$116 million shortfall in official long-term and medium-term capital inflows, with private capital inflows also falling short of expectations. The shortfall in official disbursements was partly due to slower-than-expected utilization of World Bank loans and some lower-than-anticipated utilization of oil import credits.

Table 5. Ghana: Balance of Payments, 1983-85

(In millions of U.S. dollars)

	1983	1984		1985	
		Program Projections (EBS/84/172)	Revised Estimates	Program Projections (EBS/84/172)	Revised Projections
Exports (f.o.b.)	439.6	564.0	565.9	662.0	654.0
Cocoa	(275.7)	(372.0)	(381.7)	(399.0)	(422.0)
Noncocoa	(163.9)	(192.0)	(184.2)	(263.0)	(232.0)
Imports (f.o.b.)	-570.2	-760.0	-626.5	-968.0	-835.0
Oil	(-161.1)	(-210.0)	(-161.0)	(-253.0)	(-227.0)
Non-oil	(-409.1)	(-550.0)	(-465.5)	(-715.0)	(-608.0)
Trade balance	<u>-130.6</u>	<u>-196.0</u>	<u>-60.6</u>	<u>-306.0</u>	<u>-181.0</u>
Services (net)	-279.5	-274.0	-227.4	-276.0	-314.0
Freight and insurance	(-30.2)	(-43.0)	(-41.4)	(-53.0)	(-57.0)
Investment income	(-82.0)	(-96.0)	(-80.3)	1/ (-119.0)	(-121.0)
Other services	(-167.3)	(-135.0)	(-105.7)	(-104.0)	(-136.0)
Unrequited transfers (net)	110.0	150.0	142.7	55.0	132.0
Government	(113.9)	(146.0)	(141.0)	(51.0)	(128.0)
Private	(-3.9)	(4.0)	(1.7)	(4.0)	(4.0)
Current account balance	<u>-300.1</u>	<u>-320.0</u>	<u>-145.3</u>	<u>-527.0</u>	<u>-363.0</u>
Capital account balance	<u>173.0</u>	<u>231.0</u>	<u>62.4</u>	<u>260.0</u>	<u>303.0</u>
Government capital (net)	67.4	171.0	87.8	135.0	215.0
Long-term loans (net)	37.1	149.0	131.0	169.0	223.0
Gross inflows	(84.4)	(199.0)	(156.7)	(222.0)	(256.0)
Of which: World Bank	[23.1]	[80.0]	[53.8]	[110.0]	[96.0]
Amortization	(-47.3)	(-50.0)	(-25.7)	1/ (-53.0)	(-33.0)
Medium-term loans	30.3	23.0	-42.0	-27.0	-1.0
Gross inflows	(67.8)	(128.0)	(54.5)	(224.0)	(192.0)
Amortization	(-37.5)	(-105.0)	(-96.5)	1/ (-251.0)	(-193.0)
Trust Fund	--	-1.0	-1.2	-7.0	-7.0
Private capital (net)	44.7	115.0	59.3	125.0	98.0
Direct investment	(14.5)	(9.0)	(2.0)	(12.0)	(5.0)
Suppliers' credits	(11.8)	(53.0)	(-13.7)	(60.0)	(18.0)
Other	(18.4)	(53.0)	(71.0)	(53.0)	(75.0)
Nonmonetary short-term capital	55.0	-55.0	-25.8	--	-10.0
Monetary short-term capital	5.9	--	-58.9	--	--
Errors and omissions	-115.9	--	-38.1	--	--
Overall balance	<u>-243.0</u>	<u>-89.0</u>	<u>-121.0</u>	<u>-267.0</u>	<u>-60.0</u>
Financing	243.0	89.0	121.0	66.0	60.0
IMF (net)	258.7	159.0	213.7	126.0	120.0
Payments arrears	-33.7	-70.0	-70.0	-60.0	-60.0
Other	18.0	--	-22.7	--	--
Financing gap	--	--	--	<u>201.0</u>	--

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

1/ The interest and amortization figures with respect to both long-term and medium-term official capital for 1984 were revised from earlier reports because earlier estimates of non-U.S. dollar denominated obligations were based on incorrect exchange rates.

Total exports grew as projected, and were 29 percent higher than in 1983. Receipts from cocoa were 38 percent larger than in 1983 and exceeded the 1984 program target by 3 percent. In comparison to 1983, noncocoa exports performed considerably better, and earnings were 12 percent higher. The growth of earnings from cocoa exports was due to favorable world market prices; the unit export value was nearly 50 percent higher than in 1983, whereas the volume declined by 6 percent, reflecting the impact of the 1983 drought on the 1983/84 cocoa crop. Exports of timber and manganese rose modestly with the recovery of production and the improvement of transportation. Although the production of gold expanded slightly, earnings remained unchanged at US\$103 million due to lower export prices.

The financing need as well as net use of Fund resources (US\$214 million) exceeded the overall deficit of US\$121 million, since Ghana reduced arrears by US\$70 million and there was some build-up in net foreign exchange reserves of the Bank of Ghana.

b. Balance of payments projections for 1985

With the anticipated substantial improvement in the disbursement of external assistance by donor countries and multilateral institutions, a significant increase in imports, mostly intermediate goods and capital equipment, is programmed for 1985. Although a larger than earlier anticipated part of the external assistance will be in the form of grants, the external current account deficit is expected to widen to some US\$363 million, or 4.7 percent of GDP, which is still smaller than had initially been envisaged.

Total exports are projected to rise by 16 percent in 1985 to US\$654 million, with both earnings from cocoa and noncocoa exports expected to contribute to this growth. In spite of a projected slight fall in the export price, cocoa export earnings are expected to increase by 11 percent in 1985. Although gold output is projected to expand by 14 percent owing to improvements in the supply of inputs, earnings are unlikely to exceed the 1984 level of US\$103 million because of depressed world prices. Earnings from all other noncocoa exports are projected to increase substantially in 1985 as imports of capital goods and spare parts expand production and as the infrastructural problems continue to recede. Total earnings from noncocoa exports, other than gold, are projected to amount to US\$132 million in 1985, compared with the provisional outturn of US\$79 million in 1984.

Total imports are projected to increase by 33 percent to US\$835 million (f.o.b.). Nearly one-half of non-oil imports (US\$608 million) are programmed to be financed with official transfers and long-term capital inflows. Disbursements of World Bank loans are expected to accelerate, and are projected to amount to US\$96 million, compared with US\$54 million in 1984. Total inflows of official medium-term capital are projected at US\$192 million, of which US\$129 million represents oil import credits.

However, owing to large repayments of past oil credits (totaling US\$162 million), the official medium-term capital account is expected to show a net outflow of US\$1 million. Net private capital inflows are projected to increase by US\$39 million to US\$98 million due to anticipated increases in suppliers' credits. The 1985 import program provides for an initial licensing base of US\$830 million (c.i.f.) with possible additional allocation of US\$120 million. Imports to be financed with Ghana's own foreign exchange resources are programed at US\$290 million. The largest allocation is for the energy sector including crude oil (30 percent), followed by the export sector (20 percent).

The 1985 overall balance of payments deficit is now revised downward to US\$60 million. This is substantially lower than the authorities' projection of US\$267 million for 1985 made in mid-1984, which actually included the financing gap before the Consultative Group meeting in December 1984. As in 1984, the financing need as well as the net use of Fund resources will exceed the overall deficit, since the Ghanaian authorities plan to continue the reduction of external payments arrears toward their complete elimination by the end of 1988. Both gross and net international reserves of the Bank of Ghana, after a build-up in 1984, are projected to remain unchanged. Gross reserves at the end of 1984 stood at US\$379.5 million, equivalent to almost 24 weeks of projected 1985 imports. However, part of these gross reserves, especially some of the gold, are pledged and therefore not freely usable.

c. External debt and payments arrears

Under the program, the authorities have undertaken to limit the contracting and guaranteeing by the Government of external loans on nonconcessional terms so as not to aggravate unduly Ghana's future debt service burden. The limits, which cover the period of the stand-by arrangement, are US\$400 million with respect to loans on nonconcessional terms in the maturity range of 1-12 years, with a sub-ceiling of US\$250 million with respect to loans in the maturity range of 1-5 years. Oil import credits are included in the latter limit. The limits on short-term loans with an original maturity of less than one year applied on a net disbursement basis are US\$100 million with respect to loans other than trade credits and bridging loans and US\$75 million with respect to bridging loans. During the period through February 1985, the Government contracted nonconcessional loans amounting to US\$178.7 million, all of which under the 1-5 year maturity sub-ceiling. Of this amount, US\$150 million represented oil import credits which are repayable one year after each drawing. To date, the Government has not guaranteed any loans (either on nonconcessional or concessional terms), and no disbursements of short-term loans with an original maturity of less than one year, other than trade credits and bridging loans, have been made. The authorities contracted a bridging loan in the amount of US\$40 million, and drew the full amount in January 1985. They are planning to repay the loan fully by October 1985.

Considerable progress has been made in reducing payments arrears under the 1983/84 and the current stand-by arrangements. During the period of the stand-by arrangement, the authorities have undertaken to reduce external arrears on payments and transfers for current international transactions and on debt amortization, which amounted to US\$266.6 million at end-June 1984, through quarterly net cash payments totaling US\$90 million. By the end of December 1984, external payments arrears were reduced by US\$34.8 million, or US\$4.8 million more than the targeted reduction of US\$30 million. During January-February 1985, they were further reduced by US\$11.2 million. The authorities reduced payments arrears in an orderly and nondiscriminatory manner, and intend to continue to do so in 1985 as scheduled.

d. Import procedures

Uncertainty about the timing of foreign exchange availability, including disbursements of external aid, adversely affected the implementation of the annual import programs in the past. As a result, importers often experienced considerable delays in establishing letters of credit after obtaining licenses. In June 1984, a new licensing system was introduced, under which import licenses were differentiated into three categories on the basis of the degree of priority accorded to them. The objective of the system was to ensure that foreign exchange allocations for "core" imports (i.e., imports under Category I which include essential raw materials, capital equipment and spare parts) would receive high priority and would not be reduced even in the event of shortfalls in foreign exchange receipts. Under the 1985 import program, the authorities have introduced a number of further improvements to facilitate the utilization of import licenses. The system has been improved by defining products more clearly and by aligning more closely the issuance of licenses for these imports to inflows of foreign exchange resources. Guidelines have been issued to importers to provide detailed information on the type of products they intend to import at the time of license application so that applications need not be returned for rectification. The machinery for coordination between the Ministry of Trade (license-issuing authority), the Ministry of Finance and Economic Planning, and the Bank of Ghana has been strengthened with a view to identifying bottlenecks in the utilization of import licenses and to monitoring the establishment of letters of credit, their drawings, arrival of goods and payments for imports. To expedite the timing of opening of letters of credit by the commercial banks, import licenses of up to 60 percent of the total value of imports planned to be financed with Ghana's own foreign exchange resources will be issued during the first half of the year, and the remainder in the second half of the year.

The Ghanaian authorities will continue to issue to importers not requiring foreign exchange special licenses for the importation of a selected group of products. While the authorities do not intend to increase the level of imports under special licenses, they intend to streamline the system.

e. Exchange and trade restrictions

The authorities have observed the intentions contained in the letter of intent of July 30, 1984 with respect to exchange and import restrictions and multiple currency practices, and have expressed the intention to continue to do so.

f. Medium-term prospects

Ghana's medium-term balance of payments and debt prospects for the period 1986-90 have been reviewed, with the 1984 outcome and revised 1985 projections serving as a new basis (Tables 6 and 7). The methodology adopted differs slightly from the one previously used (EBS/84/172) to the extent that servicing of the residual financing requirement has been taken into account in debt flows of the balance of payments. This provides a more comprehensive and realistic view of the balance of payments outlook. The assumptions with regard to the international economic environment that underlies the exercise are those of the latest WEO exercise. Domestically, the more normal climatic conditions of the past year are assumed to prevail for the remainder of the decade and the Ghanaian authorities continue their flexible pricing policy to provide adequate incentives to producers. It is also assumed that they implement fiscal and monetary policies which are consistent with a progressive reduction in domestic inflation to 7.5 percent by 1990, the rate projected under the WEO exercise for the world price of manufactures in U.S. dollars. It is further assumed that the authorities will continue their flexible exchange rate policy with some further real adjustments during the remainder of the period. In the above environment, real GDP growth in Ghana can reasonably be projected at a sustainable 4 percent per annum during the 1986-90 period, which implicitly assumes, however, that sizeable amounts of concessional foreign financing remain available to finance productive imports.

Exports of cocoa beans and products are assumed in line with the CMB's projections to rise from some 200,000 tons in 1985 to 250,000 tons in 1986, and thereafter by 25,000 tons annually, as production starts to respond to much improved real producer prices and new investments in the sector. Reflecting the implementation of the rehabilitation program supported by the World Bank, gold exports are expected to reach 385,000 ounces in 1986 and increase to 675,000 ounces in 1990, about double their level of 1985. As to timber exports, they are projected to increase in volume from 280,000 to 580,000 cubic meters between 1985 and 1990. The assumption of international market prices for these exports are in line with WEO assumptions. Accordingly, world market prices for cocoa, after rising only marginally during 1986, are projected to increase by 8.5 percent annually, and both gold and timber prices are assumed to increase by 3.5 percent in 1986 and 7.5 percent per annum thereafter. With exports of diamonds, manganese, bauxite, residual oil and electricity expected to almost double in value during the next five years, Ghana's total exports in U.S. dollar terms are projected to grow at an average annual rate of 19 percent in value, and 8 percent in volume, during the period 1986-90.

Table 6. Ghana: Medium-Term Balance of Payments, 1985-90

(In millions of U.S. dollars)

	1985	1986	1987	1988	1989	1990
Exports (f.o.b.)	654.0	800.6	957.1	1,138.7	1,349.4	1,594.2
Cocoa	422.0	530.1	632.7	748.9	880.3	1,028.5
Noncocoa	232.3	270.5	324.4	389.8	469.1	565.7
Imports (f.o.b.)	-835.0	-912.4	-1,027.0	-1,162.8	-1,322.1	-1,507.2
Trade balance	-181.0	-111.7	-69.9	-24.2	27.3	87.0
Services (net)	-314.0	-331.4	-361.4	-383.0	-399.6	-417.3
Freight and insurance	-57.0	-56.6	-62.5	-69.7	-78.1	-87.9
Investment income	-121.0	-133.8	-153.0	-162.4	-165.3	-168.0
Profits and dividends (net)	-3.5	-3.0	-4.0	-5.0	-7.0	-9.0
Interest payments <u>1/</u> <u>2/</u>	-117.5	-130.8	-149.0	-157.4	-158.3	-159.0
Other services	-136.0	-141.0	-145.9	-150.9	-156.1	-161.5
Unrequited transfers (net)	132.0	85.0	90.0	95.0	95.0	95.0
Official	128.0	85.0	90.0	95.0	95.0	95.0
Private	4.0	--	--	--	--	--
Current account balance	-363.0	-358.1	-341.3	-312.2	-277.3	-235.3
Capital account (net)	303.0	312.4	364.2	380.6	383.7	333.4
Official (net)	215.0	174.4	239.2	250.6	258.4	213.4
Long-term loans (net)	223.0	228.4	247.0	270.1	267.6	259.4
Drawings	256.0	265.0	284.8	306.2	329.1	353.8
Amortization <u>2/</u>	-33.0	-36.6	-37.8	-36.1	-61.5	-94.4
Medium-term loans (net)	-1.0	-44.3	2.3	-9.1	0.3	-43.0
Drawings	192.0	170.0	155.0	140.0	140.0	100.0
Amortization	-193.0	-214.3	-152.7	-149.1	-139.7	-143.0
Trust Fund repayment	-7.0	-9.7	-10.1	-10.4	-9.5	-3.0
Private capital (net)	98.0	138.0	125.0	130.0	125.0	120.0
Direct investment	5.0	15.0	25.0	35.0	40.0	40.0
Suppliers' credits	18.0	43.0	20.0	15.0	5.0	0.0
Drawings	50.0	70.0	80.0	90.0	90.0	90.0
Amortization	-32.0	-27.0	-60.0	-75.0	-85.0	-90.0
Other	75.0	80.0	80.0	80.0	80.0	80.0
Non-monetary short-term capital	-10.0	--	--	--	--	--
Monetary short-term capital	--	--	--	--	--	--
Errors and omissions	--	--	--	--	--	--
<u>Overall balance</u>	-60.0	-45.7	22.9	68.4	106.4	98.1
Financing	60.0	...	...	...	...	...
Use of Fund resources (net)	120.0	...	...	...	...	...
Purchases	120.0	...	...	...	...	...
Repurchases	--	-18.8	-138.9	-195.8	-100.7	-42.1
Payments arrears reduction	-60.7	-60.0	-60.0	-53.0	--	--
Other	--	--	--	--	-5.7	-56.0
<u>Residual financing requirement</u>	--	124.5	176.0	180.4	--	--
<u>Memorandum items</u>						
GDP (in billions of cedis)	430.5	530.1	634.7	743.8	851.9	953.4
External current account (in percent of GDP)	-4.8	-5.0	-5.0	-4.1	-3.2	-2.5
Gross official borrowing (including residual financing)	448.0	559.5	615.8	626.6	469.1	453.8

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

1/ Including private suppliers' credits, and oil credits.

2/ Includes servicing on residual financing.

Table 7. Ghana: Government and Government-Guaranteed
External Debt Projections, 1985-90 ^{1/}

(In millions of U.S. dollars)

	1985	1986	1987	1988	1989	1990
I. Financial flows						
A. Exports of goods and nonfactor services	690.8	842.1	1,003.5	1,190.6	1,407.7	1,659.6
B. New borrowing ^{2/}	448.0	559.5	615.8	626.6	469.1	453.8
Of which: oil credits	128.6	100.0	75.0	50.0	50.0	0.0
C. Fund purchases	120.0	...	...	...	...	...
II. Service on:						
D. Debt outstanding (12/31/84)	267.1	165.2	109.9	103.9	88.5	69.2
Interest	34.4	33.2	30.5	27.9	24.5	23.2
Of which: oil credits	2.0	--	--	--	--	--
Amortization	225.7	122.3	69.3	65.6	54.5	43.0
Medium-term	192.8	85.7	31.5	29.5	18.5	13.0
Of which: oil credits	161.6	54.7	--	--	--	--
Long-term	32.9	36.6	37.8	36.1	36.0	30.0
Trust Fund	7.0	9.7	10.1	10.4	9.5	3.0
E. New borrowing	14.9	170.2	183.0	202.5	247.1	304.4
Interest ^{2/}	14.9	41.6	61.8	83.0	100.4	109.9
Of which: oil credits	6.6	13.7	10.5	7.5	6.0	3.0
Amortization ^{2/}	--	128.6	121.2	119.6	146.7	194.4
Medium-term	--	128.6	121.2	119.6	121.2	130.0
Of which: oil credits	--	128.6	100.0	75.0	50.0	50.0
Long-term	--	--	--	--	25.5	64.4
F. Fund	47.2	67.5	185.1	230.1	120.9	54.5
Charges	47.2	48.7	46.2	34.2	20.2	12.3
Repurchases	--	18.8	138.9	195.8	100.7	42.1
G. Total (D + E + F)	329.2	402.9	478.0	536.5	456.5	428.0
H. Debt service ratio (in percent of exports of goods and nonfactor services) ^{2/}						
Including Fund charges and repurchases (G/A)	47.6	47.8	47.6	45.1	32.4	25.8
Excluding Fund charges and repurchases (G-F/A)	40.8	39.8	29.2	25.7	23.8	22.5
Memorandum items:						
1. Total line G	329.2	402.9	478.0	536.5	456.5	428.0
2. Private suppliers' credit	52.5	34.3	70.5	87.3	98.3	103.5
Interest	20.5	7.3	10.5	12.3	13.3	13.5
Amortization	32.0	27.0	60.0	75.0	85.0	90.0
3. Total 1 + 2	381.7	437.2	548.5	623.7	554.7	531.5
4. Total debt service in balance of payments	381.7	437.2	548.5	623.7	554.7	531.5

^{1/} Debt flows in the table differ from balance of payments figures by amounts related to private suppliers' credits.

^{2/} Including residual financing requirement.

The anticipated large increase in imports during 1985 reflects the rehabilitation needs of key export sectors and of the transportation infrastructure. Although these particular components of imports may start to subside later in the 1980s, the trend growth rate of imports will remain high because of a large real income elasticity, empirically estimated to be above 1.5. With import prices in U.S. dollar terms expected to increase by 3.5 percent in 1986 and 7.5 percent annually in subsequent years, which is also consistent with the WEO assumptions, the level of imports is projected to rise by some 9 percent in 1986 and 13 percent thereafter, in line with an average annual growth in volume of some 5.5 percent. Since the growth rate of imports would remain below exports, the merchandise trade balance would improve markedly during the projection period, and turn into a surplus by 1989. The structural weakness of Ghana's balance of payments with regard to service payments related to trade, coupled with larger interest payments (expected to stabilize at about US\$160 million by 1988) will not allow the external current account deficit to show a similar marked improvement as the trade account. After increasing substantially in 1985 to more than US\$360 million, the current account deficit is expected to remain close to that level in 1986 (some 5 percent of GDP in U.S. dollar terms), and to fall gradually thereafter, to about US\$235 million (2.5 percent of GDP) by 1990. Accordingly, external financing needs will remain substantial throughout the decade. The new borrowing includes assumed oil credits of US\$100 million in 1986, US\$75 million in 1987 and US\$50 million in 1988, on commercial terms with an interest rate of 12 percent per annum. In addition, it assumes drawings under official medium-term loans (oil excluded) to increase to US\$100 million in 1990, and to be on average of 5 year maturity, including 2 years of grace, with an annual interest rate of 10 percent. Drawings under long-term loans identified above the line in the balance of payments are assumed to grow at 3.5 percent in 1986 and 7.5 percent annually thereafter, in line with WEO assumptions on average growth in official development assistance. This approach, and the absence of any assumption with respect to further purchases from the Fund beyond the current stand-by arrangement, implies a residual financing requirement of US\$124.5 million in 1986, US\$176.0 million in 1987 and US\$180.4 million in 1988, if Ghana is to meet its substantial repurchase obligations to the Fund and continue its progress towards the full elimination of its remaining external payments arrears. Both the identified long-term loans and the residual financing are assumed to have an average maturity period of 14 years including 4 years of grace. Reflecting their concessional or semi-concessional character, the average interest rate on new long-term loans and residual financing is assumed to be 4 percent.

According to the above balance of payments scenario, gross official borrowing would have to be at about US\$560 million in 1986 and peak at some average US\$620 million in both 1987 and 1988 if the residual financing requirement is to be eliminated in each of these years. Debt service projections indicate that the overall debt service ratio for government and government-guaranteed external debt (including payments to the Fund),

as percent of merchandise exports and nonfactor services, after increasing from 30 percent in 1984 to almost 48 percent in 1985, would stay close to this latter level until 1988 and decline thereafter to 26 percent by 1990. Even excluding Fund charges and repurchases, the debt service ratio would remain at about 40 percent in both 1985 and 1986, reflecting the recourse to large revolving oil credits in 1984 and 1985. The authorities plan the gradual phasing-out of these oil credits before 1990.

While the above medium-term scenario suggests that Ghana can achieve balance of payments viability over the medium term and that its financing needs during the remainder of the decade appear manageable, 1987 and 1988 are likely to be particularly difficult years, which would require early and sympathetic consideration on the part of the international community. In this regard, it should be stressed that the above scenario applies the WEO assumptions concerning the average growth in official development assistance for the remainder of the decade with the level of assistance expected for 1985 as a basis. These assumptions appear on the high side in the light of recent trends, and any shortfall in the assumed level of such assistance would increase the size of the residual financing requirement in the period 1986-90. It should also be emphasized that both the assumed degree of concessionality on long-term loans and the marginal improvement in external terms of trade projected for the period, again in line with the WEO assumptions, are critical parameters of the above scenario. Sensitivity analysis indicates that an increase (decrease) of one percentage point in the average long-term interest rate (rate of growth in cocoa prices) throughout the 1986-90 period would result in additional gross financing needs of more than US\$70 million (US\$90 million) over the period.

7. Performance criteria

At the outset of the 1984/85 program the following performance criteria were set: (a) phased ceilings on net domestic assets of the banking system, with sub-ceilings and net credit to the Government for the period up to end-December 1984; (b) phased cumulative reductions of external arrears through net cash payments amounting to US\$90 million for the entire period of the stand-by arrangement (of which US\$30 million by end-December 1984); (c) limits on the contracting and guaranteeing of new nonconcessional foreign loans by the Government for the entire period of the stand-by arrangement; (d) limits on net disbursements of short-term loans and bridging loans for the entire period of the stand-by arrangement; (e) the satisfactory completion of two reviews with the Fund, the first of which is the subject of the present paper, and the second due to take place by August 1985; and (f) the standard clauses relating to the exchange and trade restriction and multiple currency practices. Original performance criteria on net domestic assets of the banking system for end-December 1984 were modified in EBS/84/243. The quarterly quantitative performance criteria for 1985 appear in Table 8, which also shows observance with the performance criteria which had been set for the second half of 1984.

Table 8. Ghana: Quantitative Performance Criteria and Targets

	1984					1985 Program			
	June	September		December		March	June	Sept.	Dec.
	Actual	Prog.	Actual	Modified	Actual				
				Program					
<u>Outstanding (end of month, in billions of cedis)</u>									
Net domestic assets	26.56	26.50 <u>1/</u>	24.58	29.90 <u>1/</u>	29.72	35.80 <u>1/2/</u>	36.85 <u>1/2/</u>	34.35 <u>1/2/</u>	42.45 <u>1/2/</u>
Net claims on Government <u>3/</u>	22.75	22.66 <u>1/</u>	22.63	22.86 <u>1/</u>	22.82	23.82 <u>1/</u>	24.22 <u>1/</u>	24.52 <u>1/</u>	24.82 <u>1/</u>
Cocoa financing	2.42	--	--	3.70	3.48	5.60	4.80	--	5.66
Credit to rest of the economy	5.49	6.55	6.61	7.75	7.68	10.64	12.09	14.09	16.23
Other items (net)	-4.10	-2.71	-4.66	-4.41	-4.26	-4.26	-4.26	-4.26	-4.26
Maize financing	--	--	--	0.50 <u>1/</u>	0.13	...	...	...	...
<u>Cumulative changes from end-December 1984</u>									
Net domestic assets						6.0 <u>2/</u>	7.0 <u>2/</u>	4.5 <u>2/</u>	12.6 <u>2/</u>
Of which: Net claims on Government						1.0	1.4	1.7	2.0
<u>Actual outstanding</u>					<u>Cumulative net cash reductions <u>1/</u></u>				
End-June 1984									
External payments arrears									
(In millions of U.S. dollars)	266.6	15.0	16.5	30.0	34.8	45	60	75	90
New nonconcessional external borrowings contracted or guaranteed by Government						<u>During August 1984-December 1985</u>			
						<u>Maximum</u>	<u>As of end-Feb. 1985</u>		
(In millions of U.S. dollars)									
of maturities 1-12 years						400.00 <u>1/</u>	178.7		
Of which: 1-5 years						250.00 <u>1/</u>	178.7		
External loans of less than 1 year maturity other than trade related credits									
Net disbursements						100.00 <u>1/</u>	--		
Bridging loans outstanding						75.00 <u>1/</u>	40.0		

1/ Performance criteria.

2/ Including maize financing

3/ In 1985, any increase in disbursements of budgetary net foreign financing beyond C 5.4 billion would call for a corresponding reduction in net claims on Government.

III. Staff Appraisal

Ghana's economic recovery program, initiated in April 1983, with the dual purpose of stabilization and rehabilitation, has started to show a favorable impact on the economy. The incipient recovery is the result of both the authorities' strong adjustment measures and favorable weather conditions. After years of decline, output and exports have resumed an upward trend, imports are increasing, the supply situation has eased significantly, and the rate of inflation has been falling rapidly. Following a slow start, the repair and rehabilitation of infrastructure has been gaining momentum, aided by increased bilateral and especially multilateral external resources.

From its inception, the program has sought to address a number of serious distortions and imbalances that prevented the economy from realizing its growth potential. Among the major distortions, one of the most critical was a highly overvalued exchange rate. Accordingly, the exchange rate policy, a key element in the adjustment effort, aims at progressively adjusting the value of the cedi downward. Between the beginning of 1983 and the end of 1984 the cedi had been depreciated by 94.5 percent in terms of the U.S. dollar, which has permitted the progress towards the restructuring of relative prices in favor of productive sectors and exports and has helped increase Ghana's international competitiveness. The parallel adoption of a more remunerative pricing policy for cocoa and the progressive removal of general price controls also helped move the economy towards a more efficient allocation of domestic and foreign resources. These restructuring measures were supported by reductions in both the budget deficit and in the rate of overall liquidity creation. Together with improvements in the supply situation, the stabilization efforts contributed to the reduction in the average rate of inflation from 123 percent in 1983 to 40 percent in 1984. However, owing primarily to a shortfall in foreign financing, development outlays and imports fell below program levels.

The 1985 program continues with the successful adjustment efforts, but with an increased emphasis on promoting the needed further restructuring and rehabilitation now that the immediate stabilization concerns have become less acute. The major objectives for the 1985 program include a reduction in the average rate of inflation to 20 percent from 40 percent, a consolidation of the real rate of growth at 5.3 percent and limiting the overall deficit of the balance of payments to US\$60 million. For the realization of these objectives, the 1985 program relies on continued aggregate demand restraint, the greater mobilization of domestic and external resources, continued upward adjustment of the cocoa producer price, a further phased depreciation of 20 percent in the real exchange rate, and increased public investment outlays, among other actions. With regard to the targeted real depreciation of 20 percent for 1985, the staff believes that although it will constitute another substantial step towards an equilibrium rate, there are indications that the resulting real rate will still be overvalued, and that further adjustments will be necessary in coming years.

Attaining the objectives of the 1985 program will depend not only on the successful implementation of the proposed measures, but also on the realization of the projected levels of external resources. It should be noted that the real output growth of 7.6 percent in 1984 resulted largely from the recovery of agricultural output due to improved weather conditions and from the increased price incentives. An overall recovery, particularly in industrial production and in the gold and timber sectors, is dependent on increased capital inflows and imports and on the repair of infrastructure, including roads, railways, and ports. The programmed expansion of imports by 33 percent in terms of U.S. dollars and the doubling of government development expenditure in nominal terms, made possible by increased external assistance, should support the attainment of the authorities' objective of a 5 percent expansion in real output in 1985 and the repair of the infrastructure. The authorities' efforts at domestic resource mobilization through a substantial increase in government revenue collection will support the higher budget outlays, while keeping the fiscal deficit to a level consistent with the stabilization objectives. The proposed limits on bank financing for the budget and on the overall rate of liquidity expansion are consistent with the goal of reducing the rate of inflation to 20 percent in 1985. Because of the degree of uncertainty attached to some of the exogenous factors under the 1985 program, continuous monitoring will be essential, and the authorities will need to stand ready to react flexibly and rapidly to any development that could threaten the thrust of the program.

The medium-term scenario for Ghana prepared by the staff shows that there are reasonable prospects for balance of payments viability before the end of the decade. It also indicates that the return to viability will depend critically on an early recovery of Ghana's traditional exports and on donors' financial support on concessional terms and at rising levels. This presupposes both the continuation of a strong adjustment effort, with particular emphasis on a flexible exchange rate policy, appropriate price incentives and prudent demand management, as well as the rapid rehabilitation of key productive sectors and the relevant infrastructure. Continued improvements in public administration will also be needed to support the adjustment efforts.

The staff believes that the economic and financial targets for 1985 are appropriate and that the policy measures adopted by the Ghanaian authorities will allow substantial progress towards the attainment of medium-term objectives. In the view of the staff the program presented by the Ghanaian authorities merits continued Fund support.

Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. Ghana has consulted with the Fund in accordance with paragraph 4(c) of the stand-by arrangement for Ghana (EBS/84/172, Supplement 4, August 29, 1984) and paragraph 31 of the Letter of Intent signed by the Secretary for Finance and Economic Planning and the Governor of the Bank of Ghana dated July 30, 1984, attached to the stand-by arrangement, as supplemented and modified by their communication of November 28, 1984, in order to establish performance criteria subject to which purchases may be made by Ghana under the stand-by arrangement.
2. The letter dated April 26, 1985 from the Secretary of Finance and Economic Planning and the Governor of the Bank of Ghana shall be annexed to the stand-by arrangement for Ghana, and the letter dated July 30, 1984 shall be read as supplement and modified by the communication of November 28, 1984 and by the letter of April 26, 1985.
3. Accordingly, the limits on net domestic assets of the banking system and net claims on the Government by the banking system for end-March, end-June, end-September, and end-December 1985, shall be as specified in paragraph 11 of the letter dated April 26, 1985.
4. The stand-by arrangement for Ghana is amended to read as stated in Appendix I to EBS/85/110 (May 1, 1985), in accordance with the Decision No. 7908-(85/26), adopted February 20, 1985.

GHANA - Stand-By Arrangement

Attached hereto is a letter dated July 30, 1984 from the Secretary for Finance and Economic Planning and the Governor of the Bank of Ghana, requesting a stand-by arrangement and setting forth the objectives and policies that the authorities of Ghana intend to pursue for the period of this stand-by arrangement, and understandings of Ghana with the Fund regarding reviews that will be made of the policies and measures that the authorities of Ghana will pursue for the remaining period of this stand-by arrangement.

To support these objectives, policies and measures, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from August 27, 1984 to December 31, 1985, Ghana will have the right to make purchases from the Fund in an amount equivalent to SDR 180.0 million, subject to paragraphs 2, 3, 4, 5 and 6 below, without further review by the Fund.

2. a. Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 30.0 million until November 14, 1984, the equivalent of SDR 60.0 million until February 14, 1985, the equivalent of SDR 90.0 million until May 14, 1985, the equivalent of SDR 120.0 million until August 14, 1985, and the equivalent of SDR 150.0 million until November 14, 1985.

b. None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Ghana's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota.

3. Purchases under the stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 1 until total purchases under the arrangement reach the equivalent of SDR 166,930,252 and thereafter from borrowed resources only, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Ghana will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Ghana's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota:

a. during any period in which:

(i) the limit on net domestic assets of the banking system referred to in paragraph 23 of the attached letter, as modified by the communication of November 28, 1984, and specified in the table annexed to that letter, or

(ii) the limit on net claims on the Government by the banking system referred to in paragraph 23 of the attached letter and specified in the table annexed to that letter, or

(iii) the targets for the reduction of external payments arrears as described in paragraph 26 of the attached letter and specified in the table annexed to that letter

are not being observed, or

b. if the limits on the contracting of new nonconcessional public and publicly guaranteed external debt as described in paragraph 27 of the attached letter are not observed, or

c. during any period after February 13, 1985, or August 13, 1985, respectively, until the policies of the program have been reviewed and suitable performance criteria with regard to net domestic assets of the banking system and net claims on the Government by the banking system, or any other suitable performance criteria, have been established in consultation with the Fund as contemplated in paragraphs 23 and 31 of the attached letter, or after such performance criteria have been established, while they are not being observed, or

d. if Ghana

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

(ii) introduces or modifies multiple currency practices,
or

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

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

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

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

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

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

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

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

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

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

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

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

12. In accordance with paragraph 31 of the attached letter, Ghana will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the stand-by arrangement and while Ghana has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Ghana's balance of payments policies.

Accra, April 26, 1985

Dear Mr. de Larosière:

1. In continuation of the major adjustment effort successfully initiated under the 1983/84 program, the Ghanaian authorities have been implementing further adjustment measures under a new comprehensive economic and financial program covering the period July 1984-December 1985. These measures aim at promoting the mobilization of domestic and external resources, to rebuild the infrastructure and eliminate supply bottlenecks, so as to facilitate the resumption of stable economic growth in the context of medium-term balance of payments viability. In support of this comprehensive program, the Fund's Executive Board approved on August 27, 1984 Ghana's request for a 16-month stand-by arrangement running through December 1985 for an amount of SDR 180 million. Two of the six equally-phased equal purchases of SDR 30 million have been made so far, the first upon Executive Board approval, and the second on November 30, 1984, after compliance with the end-September performance criteria. The third and fifth purchases under the stand-by arrangement available after February 14, 1985 and August 14, 1985, respectively, are each subject to the satisfactory completion of a review with the Fund provided for under the program, in addition to meeting the relevant performance criteria. The fourth and sixth purchases will be available after May 14, 1985 and November 14, 1985, respectively, upon meeting the relevant performance criteria. On December 3, 1984 the Executive Board also approved the Ghanaian authorities' request for a modification of the end-December 1984 ceiling on net domestic assets (for reasons reviewed below), and the Ghanaian request for a purchase of SDR 58.2 million under the Compensatory Financing Facility - Fluctuations in the Cost of Cereal Imports.

2. The first review was initiated by Fund staff missions which visited Accra during October 20-November 7, 1984, January 12-30, and March 16-27, 1985. The main purposes of the missions were to review our program implementation during 1984 and to assist us in the formulation of a financial and economic program for 1985. The latter includes budgetary, pricing, exchange rate and other external policies to be pursued in the course of the year, and the setting of credit ceilings, as performance criteria, for the whole of 1985.

3. The target set for the reduction in the central government deficit during 1984 was met. Credit ceilings for both Government and the overall economy were respected. Both imports and the external current account deficit were lower than targeted, but the overall deficit was larger than programmed. Real GDP grew by an estimated 7.6 percent, reflecting favorable weather conditions, increased producer incentives, and, towards the end of the year, the greater availability of spare parts and inputs. Price developments during 1984 reflected both the tight fiscal and monetary policies pursued during the course of the year and the bumper foodcrops, with the increase in the CPI reduced to an average of 40 percent during 1984, against 123 percent in 1983. The policies we intend

to pursue in the course of 1985 are consistent with consolidating real GDP growth at around 5 percent and further lowering inflation to an annual average of about 20 percent.

4. A key element of the 1984/85 stabilization program has been the continuation of the flexible exchange rate policy which was introduced under the 1983/84 program. The exchange rate policy under the stand-by arrangement initially envisaged maintaining the rate constant in real terms. Thus, in accordance with a formula, the exchange rate was depreciated by 10 percent (in local currency terms) from $\text{¢ } 35 = \text{US\$1}$ to $\text{¢ } 38.5 = \text{US\$1}$ on August 23, 1984. On December 3, 1984, the exchange rate was further depreciated by 30 percent to $\text{¢ } 50 = \text{US\$1}$, substantially more than the magnitude indicated by the formula, in order to facilitate the launching of the 1985 economic and financial program. These two adjustments, in addition to a 17 percent depreciation in March, brought about a real effective depreciation of 35 percent during 1984. We have reviewed the exchange rate policy with the Fund staff, as provided for under the stand-by arrangement, and we reaffirm our intention to continue a flexible exchange rate policy by adjusting the rate periodically in 1985 in order not only to maintain the rate constant in real terms but also to effect a further real adjustment of 20 percent on a trade-weighted basis, with the aim of improving the international competitiveness of the Ghanaian economy and of achieving balance of payments viability over the medium term. In line with this intention, the exchange rate was depreciated further from $\text{¢ } 50 = \text{US\$1}$ to $\text{¢ } 53 = \text{US\$1}$ on April 19, 1985.

5. We intend to announce in May 1985 a new cocoa producer price for the 1985/86 crop year. The new price, which was also discussed with the World Bank, will be $\text{¢ } 1,700$ per headload or $\text{¢ } 56,600$ per ton, representing an increase of 89 percent from its current level. This measure goes a long way towards restoring adequate incentives for cocoa production.

6. In the general area of pricing policy, the Ghanaian authorities will continue to rely increasingly on market forces to determine prices as the supply situation improves. Even for the few items remaining under control, rigid controls no longer apply. Rather, controls take the form of flexible price caps allowing for the full pass-through of costs and a profit margin. They are jointly determined by producers and the Prices and Incomes Board (PIB), and subsequently approved by a Tripartite Committee of employers, labor, and government representatives.

7. Towards the end of 1984, real wages in the public sector had fallen to such low levels that effective public administration was seriously affected. It became necessary therefore to increase wages and salaries by 89 percent on average, which was accompanied and supported by the advancement of the exchange rate adjustment to $\text{¢ } 50 = \text{US\$1}$, discussed above, and the increase of interest rates by 1.5 percentage points. Although the wages and salaries action improved real remunerations in the public sector to less than half of their level of 1978, the Government does not intend to grant further across-the-board wages and salaries increases in the course of 1985. Nevertheless, to retain talented

individuals with skills much needed to maintain essential services or to effect the recovery program itself, further salary adjustments may be granted during the year to special groups of professionals in the civil service, provided the resources are available.

8. The budget outturn for 1984 was in accordance with the cautious fiscal stance that we have been pursuing in the context of the program supported by the arrangement from the Fund. Realized revenue of ₦ 22.64 billion slightly exceeded the budgeted amount, despite a sizable shortfall of about 8.7 percent in tax revenue, owing primarily to a slump in import duty collections that was related to a shortfall in imports, and also some shortfalls in excises. Several actions were taken during the course of the year to recoup these losses involving, among others, the more effective enforcement of the income tax, increased collections of the cocoa export duty levy, increased transfers from the official banking sector, and new discretionary measures. The latter included higher excise duties on cigarettes, and some implicit taxation of petroleum and other commodities through the operation of a price-differential scheme. Owing to a shortfall in concessional foreign financing and difficulties encountered in collecting proceeds from the sale of food aid, it was, nevertheless, necessary to reduce expenditures by about ₦ 1 billion to ₦ 27.49 billion in order to comply with the requirements of the financial program. To restrain the growth in expenditure, strict controls were exercised during the year and efforts initiated to eliminate waste and fraud. Economies were effected through several measures, including a freeze on hiring and the early elimination of the petroleum subsidy. These measures, together with the shortfall in concessional foreign financing that affected capital expenditures in particular, resulted in a reduction of the overall fiscal deficit to ₦ 4.84 billion, amounting to 1.5 percent of GDP as against a budgeted ratio of 1.8 percent. Owing to the various actions that were taken, bank financing of the budget, which is a performance criterion, was kept within the projected path.

9. The budget for 1985, announced on April 18, 1985, continues with the cautious fiscal stance, while at the same time intensifying our attempts to address important structural issues. In order to resolve some of the pressing infrastructural problems that hamper our exports, the budget provides for a doubling in development outlays to ₦ 8.03 billion (although in real terms the increase is much less), with particular emphasis on the elimination of transportation and other bottlenecks. A substantial increase in public sector emoluments is also provided for in order to reverse the severe erosion in real terms over recent years. (The announcement of the increase was made toward the end of 1984). In order to finance these outlays in a non-inflationary manner, the budget incorporates several major domestic resource mobilization measures. These discretionary actions will raise additional revenue of ₦ 4.9 billion, which will amount to 1.1 percent of GDP or 22 percent of the previous year's revenue outturn. The revenue measures include substantial increases in the excise duties on beer and cigarettes, major increases in various registration fees and service taxes, and a special tax on consumer goods imports that is intended as a presumptive income tax. Steps are being

taken to significantly strengthen the tax administration by providing additional inputs and to broaden the tax net by opening new tax offices. In order to increase the shares of the producer and of the government in cocoa export earnings, measures are being introduced to rationalize and cut costs of the Cocoa Marketing Board. While increasing the price paid to the producer from ¢ 30,000 to ¢ 56,600 per ton, Cocoa Marketing Board costs will be kept to ¢ 35,000 per ton. As a result of these measures, the budget provides for a revenue increase of over 76 percent from ¢ 22.64 billion in 1984 to ¢ 39.90 billion in 1985, thereby raising the revenue to GDP ratio from 6.9 percent to 9.3 percent. A similar increase in total expenditures (including net lending) of 76 percent is projected from ¢ 27.49 billion to ¢ 48.51 billion. In order to restrain the growth in recurrent expenditures, the lid on the size of the establishment is being maintained together with intensified efforts to eliminate waste. Stringent controls are being applied to limit the increase in subventions to public agencies. Revenue-earning public agencies, and decentralized government entities in particular, will be required to cover an increasing portion of their costs through improvements in performance and adjustments in tariffs and other charges. As part of the continuing efforts to stem the erosion in the public finances that has occurred over the past several years, studies are being initiated that will contribute to a strengthening of budget and accounting mechanisms, improvements in tax administration, greater domestic resource mobilization, and further rationalization of expenditures. In connection with the latter, actions are being taken that will lead to a more efficient deployment of public sector employees. As a result of the various revenue and expenditure provisions, the overall deficit will amount to ¢ 8.61 billion or 2 percent of GDP. It is expected that of this amount ¢ 5.36 billion will be financed from foreign sources, ¢ 1.25 billion through the domestic nonbank sector and the remaining ¢ 2 billion through the banking system. The phasing of the latter, which is a performance criterion, is indicated in paragraph 11 below. In the event of a further increase in foreign financing for the budget, a commensurate reduction will be made in borrowing from the banking system so as to release more resources to the private sector. Should there be a shortfall in foreign financing to the budget, the Government will take compensating measures, as was done under the previous program.

10. Expansion of credit remained under tight control throughout 1984, with credit to government growing by only 8.4 percent, and overall net domestic assets increasing by less than 32 percent, figures which must be appreciated in the context of a 67 percent depreciation of the cedi in the course of the year and a substantial pick-up in the level of economic activity. The modification of end-December 1984 performance criteria which provided for ¢ 1.3 billion additional credit by the banking system (or 5.9 percent of broad money at the beginning of the period) allowed the financing of a larger-than-expected cocoa crop, of a Government-sponsored scheme to stabilize the price of maize which was tumbling, and some additional imports.

11. In calendar year 1985, overall net domestic assets are programed to increase by C 12.6 billion, amounting to a 42.2 percent annual growth. We believe that this level of credit expansion is consistent with attaining the macroeconomic objectives of the program reviewed above. A large part of the credit expansion will go to the financing of imports essential to the recovery of the agricultural and industrial sectors. We intend to limit the growth in net claims to the government by the banking system in the course of 1985 to no more than C 2.0 billion, amounting to an 8.8 percent annual growth, which will also reflect the increased availability of non-inflationary concessional foreign financing. Reflecting our concern to support agriculture and industry, the increase in credit to the private sector, including public enterprises, is targeted at C 8.4 billion. Of this amount, however, we intend to earmark C 1.88 billion for three development banks involved in channeling external resources to productive sectors. The injection of the new resources will restore their debt/equity ratio eroded by the exchange rate adjustment to enable them to continue channeling resources from the World Bank and other foreign donors. This credit will take the form of a 20-year long-term loan by the Bank of Ghana and qualify as capital increase. The Bank of Ghana will be repaid through increasing its participation in those development banks for the amount of the loan. The remaining C 2.2 billion under the programed credit expansion will be allocated to self-liquidating cocoa crop financing, reflecting the larger crop and the increase in the producer price. In translating the above yearly target for credit expansion into quarterly ceilings as performance criteria, account was taken of the seasonality in cocoa financing and in transfers of cocoa duties to the Government, as well as of the anticipated timing for the disbursement of external resources accruing to the budget. Accordingly, net domestic assets of the banking system, which amounted to C 29.85 billion (including maize financing) at the end of December 1984, will not exceed C 35.80 billion on March 31, 1985, C 36.85 billion on June 30, 1985, C 34.35 billion on September 30, 1985, and C 42.45 billion on December 31, 1985. Net claims on the government by the banking system, which amounted to C 22.82 billion at the end of December 1984, will not exceed C 23.82 billion on March 31, 1985, C 24.22 billion on June 30, 1985, C 24.52 billion on September 30, 1985 and C 24.82 billion on December 31, 1985. Although outstanding credit under the maize financing facility at end-December 1984 was well below the subceiling set in the modified performance criteria, the scheme proved useful in stabilizing maize prices during the latter part of 1984 and early 1985. We intend to continue the policy of moderating fluctuations in food prices, and to this end we intend to support an effort to upgrade storage facilities for foodcrops. The financing of stocks will be provided by the banking system on a self-liquidating basis; it is included in the above target for credit expansion to the private sector, and in the quarterly ceilings set for overall net domestic assets.

12. In July 1984, the Ghanaian Government agreed on a formula and timetable to attain positive real interest rates by the end of 1985 or by June 1986, at the latest. According to the working of the formula, no

adjustment in interest rates was required at the beginning of the second quarter of 1985, which reflects the fact that the average level of the CPI actually declined in the last quarter of 1984, mostly because of a continued decline in food prices. To anticipate in part the adjustments likely to be required later in the year, we have announced on April 18, 1985 an across-the-board increase of deposit rates by 1 percentage point, bringing the rate on twelve-month deposits to 17 percent. This move is expected to further promote the mobilization of private savings, and to strengthen financial intermediation in Ghana. We are also exploring the possibility of allowing banks to offer to the general public twenty four-month deposits which could carry an interest rate of 18 percent.

13. The overall balance of payments position is expected to improve significantly in 1985. The overall deficit is projected to be US\$60 million, or about one-half of the 1984 level. The current account, however, is forecast to deteriorate by US\$212 million to US\$357 million, mainly as a result of a strong expansion in imports. With more rapid disbursements of World Bank loans and larger aid commitments made at the Consultative Group meeting on Ghana held in Paris in December 1984, we believe that total non-oil imports of US\$608 million (f.o.b.) is attainable. This level of imports would represent a 31 percent growth over 1984. Receipts of long-term official loans and grants from multilateral and bilateral sources are projected to increase by US\$106 million to US\$410 million. Crude oil imports are also expected to grow substantially and be adequate to meet domestic requirements, because a reliable financing arrangement has been secured for 1985. Export earnings are expected to recover strongly and grow by 16 percent. Export receipts from both cocoa and non-cocoa products, with the exception of gold, are projected to increase substantially as imports of capital goods and spare parts expand production and improve the transport situation. Gold production is projected to expand by as much as 14 percent, but due to depressed world prices, earnings are expected to be slightly lower than the 1984 level of US\$103 million.

14. The most serious difficulty which had been experienced in the administration of the import program in the past was the uncertainty about the timing of foreign exchange availability including aid disbursement. This led to long delays in the issuance of letters of credit by the commercial banks. Under the 1985 import program, a number of improvements have been introduced in the license and letters of credit issuing procedures. Priority in import licensing is now also more closely aligned to the availability of foreign exchange resources. Thus, the issuance of licenses for high priority imports takes into consideration the timing of foreign exchange inflows. The machinery for coordination between the Ministry of Trade, Ministry of Finance and Economic Planning, and the Bank of Ghana has been strengthened to identify bottlenecks in the utilization of import licenses and to monitor establishment of letters of credit, their drawings, arrival of goods, and payments of imports. Under the 1985 import program, in order to expedite the establishment of letters of credit by commercial banks, import licenses of up to 60 percent of the

total value of imports planned to be financed with Ghana's own foreign exchange resources will be issued during the first half of the year, and the remainder in the second half of the year.

15. The Government has continued to pursue a prudent external debt management policy, and has avoided the contracting and guaranteeing of loans that would unduly worsen Ghana's debt service burden. We have observed all of the limits on external loans that were specified in the letter of intent of July 30, 1984. Through February 1985, nonconcessional external loans contracted by the Government amounted to US\$178.7 million, all of which in the 1-5 year maturity range. Of the above amount, US\$150 million was with respect to oil import credits, which are repayable after one year. To date, no net disbursements of short-term loans with an original maturity of less than one year, other than trade credits and bridging loans, that are subject to the limit have been made. We have contracted a bridging loan in the amount of US\$40 million and the full amount was drawn in January 1985 and will be fully repaid by October 1985. Under the stand-by arrangement, the Government has undertaken to reduce arrears on payments and transfers for current international transactions and on debt amortization, which amounted to US\$266.6 million at end-June 1984, through quarterly net cash payments totaling US\$90 million during the period July 1984-December 1985. By the end of December 1984, we reduced external payments arrears by US\$34.8 million, or US\$4.8 million more than the targeted reduction of US\$30 million. During January-February 1985, we have reduced them further by US\$11.2 million and are confident that the targeted reduction for end-March was achieved. We will continue to reduce payments arrears in an orderly and non-discriminatory manner. It is the intention of the Government to reduce the level of payments arrears through net cash payments during 1985 as scheduled.

16. The Government believes that the policies set forth in this letter are adequate to achieve the objectives of the program, but will take any further measures that may become necessary for this purpose. The Government will consult with the Fund on the adoption of any measures that may be appropriate, in accordance with the policies of the Fund on such consultation. Progress made in the implementation of the program, taking into account balance of payments developments, including the Government's interest rate and exchange rate policies, fiscal policy, and credit policy, will be reviewed to reach understandings with the Fund during the second review. The completion of this review will constitute a performance criterion.

Sincerely yours,

/s/

Dr. Kwesi Botchwey
PNDC Secretary for Finance
and Economic Planning

/s/

J.S. Addo
Governor
Bank of Ghana

GHANA--Relations with the Fund
(As of March 31, 1985)

I. Membership Status

- | | |
|------------------------|--------------------|
| (a) Date of membership | September 19, 1957 |
| (b) Status | Article XIV |

A. Financial Relations

II. General Department

- | | |
|-------------------------------------|---|
| (a) Quota | SDR 204.5 million |
| (b) Fund holdings of local currency | SDR 681.7 million, or
333.4 percent of quota |

	<u>Millions of SDRs</u>	<u>Percent of quota</u>
(c) Use of Fund credit	477.2	233.3
Credit tranches	298.5	146.0
CFF	178.7	87.4
(d) Repurchase obligations (January 1985-December 1985)	none	--

III. Stand-by arrangements and special facilities

(a) On August 27, 1984 the Executive Board approved a 16-month stand-by arrangement for SDR 180 million (88 percent of quota). Phased purchases under the arrangement are in six equal installments. The first purchase of SDR 30 million was made in late August 1984 after Executive Board approval and the second on November 30, 1984, upon satisfactory compliance with the end-September 1984 performance criteria.

(b) 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.

(c) 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.

GHANA--Relations with the Fund (continued)
(As of March 31, 1985)

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

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

IV. SDR Department

(a) Net cumulative allocation	SDR 62.98 million
(b) Holdings	SDR 0.29 million, or 0.47 per- cent of net cumulative allocation

V. Administered accounts:

Trust Fund loans	
(i) Disbursed	SDR 48.96 million
(ii) Outstanding	SDR 45.78 million

VI. <u>Overdue obligations to the Fund</u>	None
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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 $\text{¢ } 30 = \text{US\$1}$ compared with the exchange rate of $\text{¢ } 2.75 = \text{US\$1}$ that prevailed prior to April 1983. In March 1984, the cedi was depreciated to $\text{¢ } 35 = \text{US\$1}$; on August 23, 1984 to $\text{¢ } 38.5 = \text{US\$1}$; on December 3, 1984 to $\text{¢ } 50 = \text{US\$1}$, and on April 19, 1985 to $\text{¢ } 53 = \text{US\$1}$. 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

May 19-June 13, 1984; Executive Board discussion, August 27, 1984 (EBM/84/128). Decisions as follows:

GHANA--Relations with the Fund (concluded)
(As of December 31, 1984)

(i) Article IV Consultation

1. The Fund takes this decision relating to Ghana's exchange measures subject to Article VIII, Section 2, in concluding the 1984 Article XIV consultation with Ghana and in the light of the 1984 Article IV consultation with Ghana conducted under Decision No. 5392-(77/63) adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The restrictions on payments and transfers for current international transactions as described in EBS/84/172 and in SM/84/204 are maintained by Ghana in accordance with Article XIV except that the exchange restrictions evidenced by external payments arrears and the restrictions on transfer of balances under the bilateral payments arrangement 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 scheduled for reduction under the stand-by arrangement for Ghana, until August 31, 1985 or the completion of the 1985 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

1. Ghana has requested a stand-by arrangement in the amount equivalent to SDR 180.0 million for the period from August 27, 1984 to December 31, 1985.

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

3. The Fund approves the stand-by arrangement attached to EBS/84/172.

IX. Technical Assistance

Panel Expert

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

X. Resident Representative

A Fund resident representative is expected to take up his post in Accra shortly.

GHANA - Relations with the World Bank Group
(As of March 31, 1985)

(In millions of U.S. dollars)

Lending operations 1/

	IBRD and IDA		
	Total commitments <u>2/</u>	Disbursed <u>3/</u>	Undisbursed <u>4/</u>
Loans and credits fully disbursed	253.83	253.83	--
Telecommunications	23.0	15.25	7.75
Agricultural development (Upper Region)	21.0	20.20	0.80
Second NIB	19.0	15.33	3.67
Agricultural development (Volta Region)	29.5	5.70	23.80
Third Highway	25.0	21.52	3.48
Railway	29.0	8.55	14.38
Water supply project	13.0	3.91	7.70
Reconstruction CIMA0	9.3	--	8.43
Energy project (petroleum exploration)	11.0	1.37	8.65
Reconstruction import credits	40.0	27.40	9.17
Export Rehabilitation project	76.0	6.59	63.84
Export Rehabilitation T.A.	17.1	2.90	13.01
Petroleum refinery	6.9	0.94	5.54
Oil Palm II	25.0	1.73	21.32
Accra District Rehabilitation	22.0 <u>5/</u>	--	22.00
Second Reconstruction Import credit	60.0 <u>5/</u>	--	60.00
Total <u>6/</u>	<u>680.60</u>	<u>387.17</u>	<u>271.59</u>
Less amount repaid	63.70	--	--
Total outstanding <u>6/</u>	<u>616.90</u>	<u>387.17</u>	<u>271.59</u>

Source: World Bank.

1/ Less cancellations.

2/ U.S. dollar equivalent at time of Board approval (credits denominated in SDR).

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

4/ Converted into U.S. dollars at exchange rate applicable on March 31, 1985.

5/ Not yet effective.

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

Table 1. Ghana: Selected Financial Data and Ratios, 1978-1985

(Calendar years, except central government finances, which, through 1981, were on fiscal year beginning July, and real producer price for cocoa, which is on crop year basis ending September)

	1978	1979	1980	1981	1982	1983	1984 Prov. Outturn	1985 Proj.
<u>National accounts</u>								
GDP real growth (percent)	8.3	-3.7	1.7	-5.6	-6.4	-1.9	7.6	5.3
GDP per capita growth (in percent)	6.1	-6.1	-2.4	-8.1	-9.9	...	...	...
Fixed investment to GDP	5.4	4.1	5.4	3.5	1.3	...	...	...
Domestic saving to GDP	4.0	5.9	5.0	2.3	1.4	3.0	5.0	...
<u>Prices and wages</u>								
GDP deflator index (per- cent change)	73.3	39.4	40.9	103.0	24.7	143.7	40.6	25.6
National consumer price index (percent change)	73.3	54.2	50.1	116.5	22.3	122.9	39.7	20.0
Real producer price for cocoa (in cedis per ton)	100.0	114.7	128.7	60.3	128.9	68.1	68.1	89.1
Real public sector wages (index: 1975 = 100)	34.2	22.2	19.7	20.5	16.7	13.1	14.9	23.5
<u>Central government finances (Through mid-1982 the fiscal year was July-June. Beginning 1983 the fiscal year is the calendar year.) 1/</u>								
Overall deficit as a percent of GDP	7.4	5.2	8.0	5.8	4.4	2.3 2/	1.5 2/	2.0
Bank financing of overall deficit as a percent of M ₂ at beginning of period	57.3	7.4	27.2	52.0	3.4	67.4	8.0	7.0
Overall deficit as a per- cent of total expenditure	41.4	38.0	58.9	50.0	43.0	32.5	17.6	17.8
<u>Money and credit (percent change; end of period)</u>								
Net domestic assets	87.6	7.2	28.7	58.3	20.1	41.2	32.1	42.2
Of which: claims on Government	(61.9)	(9.1)	(33.0)	(63.2)	(3.8)	(23.5)	(8.4)	(8.8)
Money (M ₂)	68.5	15.5	33.8	51.3	23.4	48.8	29.3	31.7
Interest rates (at end of period)								
Savings deposits	13.00	13.00	13.00	19.0	9.0	12.5	16.0	17.0 3/
Maximum lending rate	12.50	12.50	12.50	25.0	14.0	19.0	22.5	22.5 3/

Table 1. Ghana: Selected Financial Data and Ratios, 1978-1985 (concluded)

(Calendar years, except central government finances, which, through mid-1981, were on fiscal year beginning July, and real producer price for cocoa, which is on crop year basis ending September)

	1978	1979	1980	1981	1982	1983	1984 Prov. Outturn	1985 Proj.
<u>Balance of payments</u>								
Exports (percent change in SDR value)	-14.1	15.4	2.8	-28.9	-8.8	-25.2	34.6	18.9
Imports (percent change in SDR value)	-13.2	-0.1	12.3	16.0	-34.1	--	14.6	37.1
Current account (in millions of SDRs)	-36.8	94.3	21.4	-357.7	-98.5	-280.7	-141.8	-364.5
Current account to GDP (in percent)	-0.4	1.2	--	-1.5	-0.3	-2.6	-1.6	-4.7
Oil imports to total imports (in percent)	10.1	21.4	31.8	36.3	52.1	28.3	25.7	27.2
Export volume (percent change)	-32.2	-12.4	1.0	-10.0	8.0	-28.0	-0.2	28.2
Import volume (percent change)	-16.2	-10.0	-8.0	-4.0	-35.0	-1.2	13.4	32.9
Terms of trade (percent change)	24.3	-2.2	-5.0	-30.0	-18.0	4.0	33.0	-10.1
Nominal effective exchange rate (depreciation -)	-51.1	4.9	5.8	6.3	5.2	-89.9	-31.6	...
Real effective exchange rate (depreciation -)	-23.5	45.8	32.2	108.3	30.4	-76.5	-35.1	-20.0
External debt to GDP ^{4/}	8.1	9.1	7.2	3.9	3.8	12.4	19.3	20.7
External debt service ^{5/} to merchandise exports	3.2	6.7	6.6	10.6	14.3	30.1	31.2	50.4
External payments arrears (in millions of US\$)								
Outstanding at the end of period	488.9	427.4	342.5	512.2	575.9	439.5	231.7	171.7 ^{6/}
Gross international reserves ^{7/} (in millions of SDRs)	224.0	385.0	154.9	171.6	203.0	203.3	387.1	398.2 ^{8/}
Equivalent weeks' imports	18.7	32.3	11.54	11.0	19.8	19.5	31.5	23.6

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

^{1/} For the four-year period 1978-81, the fiscal data in this table refers to the year beginning July 1, and 1982 here refers to government operations during the calendar year, which is a spliced estimate. Transactions in 1983 exclude the € 7.42 billion involved in the debt of the Cocoa Marketing Board.

^{2/} Takes into account revised GDP figures.

^{3/} End-April 1985.

^{4/} Government and government-guaranteed medium- and long-term debt.

^{5/} Including Fund debt.

^{6/} Target for end-December 1985.

^{7/} A substantial part of these reserves have been pledged over the years.

^{8/} Target for end-December 1985; in dollar terms, gross international reserves are projected to remain unchanged.