FOR
AGENDA

EBS/85/211

CONFIDENTIAL

August 30, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Ghana - Staff Report for the 1985 Article IV Consultation and Second Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Ghana and a second review under its stand-by arrangement. Draft decisions appear on pages 29 and 30.

It is understood that the Executive Director for Ghana will be requesting the Board for a waiver of the circulation period, to enable this subject to be brought to the agenda for discussion on Friday, September 13, 1985, as indicated in the tentative schedule of Executive Board meetings.

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

Att: (1)

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INTERNATIONAL MONETARY FUND

GHANA

Staff Report for the 1985 Article IV Consultation and Second 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

August 30, 1985

I. Introduction

The 1985 Article IV consultation discussions with Ghana were held in Accra during June 24-July 10, 1985 concurrently with discussions on the second review of the 1984-85 economic and financial program supported by a 16-month stand-by arrangement running through December 1985 that was approved by the Executive Board at the end of August 1984. The discussions on the second review were concluded in Washington on August 23 and 24, 1985. The stand-by arrangement, for an amount of SDR 180 million, provided for six equal phased purchases, of which two were made during the third and fourth quarters of 1984. The first of two scheduled reviews was completed on May 22, 1985, and having met end-December 1984 and end-March 1985 performance criteria, Ghana made a purchase of SDR 60 million on May 31, 1985, the equivalent of the third and fourth purchases available under the arrangement (Table 1). 1/ The fifth purchase under the arrangement is subject to satisfactory completion of the second review and the observance of end-June 1985 performance criteria. Participants in the discussions included Dr. Kwesi Botchwey, the Secretary for Finance and Economic Planning; Mr. J.S. Addo, the Governor of the Bank of Ghana; Mrs. Theresa Owusu, the Under Secretary for Finance and Economic Planning; as well as the Secretaries for Lands and Natural Resources, Trade, Fuel and Power, Industry; and senior officials of the Ministry of Agriculture, Transport and Communications, the Cocoa Marketing Board (CMB) and other public and private institutions. The staff representatives were Messrs. J.W. Kratz (head-AFR), S. Chand (FAD), J. Davis (INST), K. Huh (ETR), H. Lorie (AFR), and Mrs. S. Bright (secretary-AFR). Mr. Salehkhou, the Executive Director for Ghana, participated in the policy discussions in Accra during July 7-9, 1985. Mr. R. Sharer, the newly appointed Fund resident representative in Ghana, also contributed to the mission's work.

1/ EBS/85/110.

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

	Outstanding at beginning of arrangement August 27, 1984	Aug. 1984	Nov. 1984	Dec. 1984	Feb.-April 1985	May-July 1985	Aug.-Oct. 1985	Nov.-Dec. 1985
				(In millions of SDRs)				
Transactions under tranche policies (net) 1/	--	30.0	30.0	--	--	60.0	30.0	30.0
Purchases	--	30.0	30.0	--	--	60.0	30.0	30.0
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	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Englarged access resources	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Transactions under special facilities (net) 2/	--	--	--	58.2	--	--	--	--
Purchases	--	--	--	58.2				
Repurchases	--	--	--	--	--	--	--	--
Total Fund credit outstanding (end-of-period)	359.0	389.0	419.0	477.2	477.2	537.2	567.2	597.2
Under tranche policies 1/	238.5	268.5	298.5	298.5	298.5	358.5	388.5	418.5
Special facilities 2/	120.5	120.5	120.5	178.7	178.7	178.7	178.7	178.7
				(As percent of quota)				
Total Fund credit outstanding (end-of-period)	175.5	190.2	204.9	233.4	233.4	262.7	277.4	292.0
Under tranche policies 1/	116.6	131.3	146.0	146.0	146.0	175.3	190.0	204.6
Special facilities 2/	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.

In the attached letter to the Managing Director, dated August 27, 1985 (Appendix I), the Secretary for Finance and Economic Planning and the Governor of the Bank of Ghana review Ghana's performance under the 1985 program in the light of real sector, balance of payments, fiscal, and monetary developments during the first half of the year. The letter details the additional fiscal measures which the Ghanaian authorities have implemented to recoup an unexpected shortfall in revenues in order to keep the financial program on track. The letter also indicates the policy actions taken by the Ghanaian authorities in the areas of exchange rate and interest rate policies.

Collaboration between the staff of the Fund and the World Bank Group in the case of Ghana has been good. Continued close contacts will be essential in the months ahead in the context of the authorities' development of a medium-term strategy to ensure Ghana's continued progress toward economic recovery and balance of payments viability. The medium-term strategy is likely to be discussed during the forthcoming Consultative Group meeting in November 1985, which the Bank will chair. Program lending by the Bank since April 1983 has consisted of a first Reconstruction Import Credit (RIC I) of US$40 million, two Export Rehabilitation Projects (ERPs) amounting to US$93 million, and a Second Reconstruction Import Credit (RIC II) of US$60 million, approved in March 1985. Proposals for an Industrial Sector Adjustment Credit are under consideration. Disbursements under program and project loans are expected to reach US$61.4 million and US$35.1 million, respectively, during 1985, as against US$29.4 million and US$26.2 million in 1984. Additionally, some US$15 million under an IFC US$45 million facility for the Ashanti Goldfields Corporation (AGC) is expected to be disbursed before the end of the year.

Ghana continues to avail itself of the transitional arrangements of Article XIV and maintains external payments arrears and bilateral payments agreements with Fund members that are subject to approval under Article VIII.

Summaries of Ghana's relations with the Fund and with the World Bank Group appear in Appendices II and III; a table on economic and financial indicators and a note on statistical issues are provided in Appendices IV and V.

II. Economic and Financial Developments Through 1984

Throughout the 1973-83 period, the Ghanaian economy deteriorated rapidly, as real GDP declined on average by almost 1.5 percent per annum, while the population continued to grow at more than 2.5 percent annually. As a result of increasingly unfavorable relative price changes for productive export sectors, mainly cocoa, timber, gold, and some other minerals, total exports declined from some US$630 million in 1973 to US$440 million in 1983. Increasing budget deficits financed by recourse to domestic bank credit were a major source of inflation, which averaged 60 percent per annum during the period, and in the absence of a flexible exchange rate policy, the cedi appreciated rapidly in real terms. The widening imbalance between demand and supply of foreign exchange was compounded by a severe deterioration in the terms of trade in the period 1979-82, and by the drying-up of external sources of financing. This imbalance resulted in a general scarcity of imports, in spite of the development of a parallel exchange market. Shortages involved not only imports of consumer goods but also of inputs (including spare parts and capital) essential to the agricultural and industrial sectors. The low level of imports led to pervasive low capacity utilization throughout the Ghanaian economy (including the agricultural sector) and exacerbated domestic inflation. It also greatly contributed to a progressive deterioration of the infrastructure. Strongly negative real interest rates on financial savings and the dismal rate of return on capital associated with the distortion in relative prices produced a threefold reduction in both domestic saving and fixed investment as percent of GDP during the period, thereby halting the prospects for economic growth.

The economic recovery program which the Ghanaian authorities started to implement with substantial Fund support in the spring of 1983 aims first and foremost at halting the spiraling decline of the economy. Secondly, it aims at setting the basis for a return to stable economic growth in the context of balance of payments and external debt viability and of reduced restrictions on external transactions. The policies associated with the recovery program include restructuring, stabilization and rehabilitation aspects. Considerable progress had been achieved in the first two areas by the end of 1984. Hence, the phased depreciation of the cedi from ₵ 2.75 = US$1 to ₵ 50 = US$1 over two years (implying an 80 percent real depreciation) and the broad dismantling of price controls and consumer subsidies (including those on petroleum products) had dramatically shifted relative prices in favor of export and efficient import substitution industries. Thus, it became possible to adjust the cocoa producer price from ₵ 12,000 per ton in 1981/82 to ₵ 30,000 per ton in 1984/85, and thereby halt its decline in real terms, without causing damaging effects on the budget.

The reduction of the government budget deficit from 4.5 percent of GDP in 1982 to less than 2 percent in 1984 together with the reduction in the share of the domestic banking system in financing of the budget deficit considerably lowered inflationary pressures. While during the first six months of 1983 bank financing reached 63 percent, it had fallen to 36 percent by 1984. The improved budgetary position reflected action to strengthen tax collection, as well as the implementation of a number of discretionary measures to raise revenue. A tight lid was also maintained on recurrent expenditures, and capital expenditures were kept below budgeted levels whenever shortfalls in foreign financing occurred. As a result of the smaller domestic bank financing of the deficit, more credit could be made available to other productive sectors, providing the domestic counterpart that enabled them to absorb increased external resources (including those from the Fund); at the same time, the overall rate of credit expansion could be curtailed. The growth of net domestic assets and broad money (which had reached, respectively, 53 and 57 percent on an annual basis by June 1983) had declined to 32 and 29 percent by the end of 1984.

The restructuring and stabilization policies pursued by the authorities and their strong commitment to progressively eliminate Ghana's external payments arrears (which stood at US$232 million at the end of 1984, compared with US$577 million at the end of 1982) encouraged a pickup in external assistance to help finance a programmed increase in essential imports. Actual disbursements of official long- and mediumterm capital rose by almost 40 percent during 1984, reaching US$211 million. However, this fell substantially short of the US$327 million initially projected, in part because the extent of the physical and financial deterioration of the productive sectors and of the run-down of the infrastructure in Ghana had been underestimated. As a result of the shortfall in capital inflows and lower-than-anticipated absorptive capacity of productive sectors, imports increased by only 10 percent during 1984 to US$627 million. This development delayed progress under the rehabilitation phase of the program.

Official national accounts data now available for 1984, both in constant and current prices, confirm that a broad economic recovery took place during 1984, except for the lingering negative impact of the 1983 drought on the cocoa and energy sectors early in the year. 1/ At least in part, the estimated 7.6 percent overall real GDP growth reflects the economy's response to the Ghanaian authorities' adjustment program. Better producer price incentives, in addition to favorable weather conditions, contributed to the 15 percent rise in agricultural output, other than cocoa. The greater availability of inputs also enabled the manufacturing sector to grow by some 10 percent during 1984. Because of longer gestation lags characterizing the forestry and mining sectors, the response to the improved incentives in 1984 was limited. The improvements in economic performance were reflected in the increase in export earnings during 1984, by 29 percent in U.S. dollar terms, although almost 85 percent of that increase was on account of the sharp rise in world market prices for cocoa.

With regard to price developments, the overall GDP deflator is now estimated to have increased by 34 percent during 1984, in part because the deflator for agricultural output (excluding cocoa) rose by 9 percent,

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1/ The official national accounts data involve several revisions of the initial estimates included in EBS/85/110. These revisions include a reduction in value added in the cocoa sector in 1982 to allow for the losses of the CMB in that year, and a lowering of the estimated GDP deflators, particularly in the agricultural sector, in 1983 and 1984. The result of these revisions is a scale decrease in nominal GDP for recent years. This decrease raises the level of ratios that use GDP as a denominator, but does not substantially affect the year-to-year change in these ratios.

well below earlier indications. The CPI increased by less than 40 percent during 1984, compared with 123 percent in 1983, reflecting bumper food crops and the greater availability of goods in addition to tighter fiscal and monetary policies. Also, it should be noted that national accounts data for 1984 indicate for the first time since 1973 an increase in both domestic investment and domestic savings as percent of GDP. The former is estimated to have risen from 3.8 percent of GDP in 1983 to 6 percent in 1984, and the latter from 3.1 percent to 5.2 percent. The increase of the savings ratio in particular appears to reflect, in addition to the higher rural incomes and improved fiscal situation, a return of confidence in the banking system and an awareness of lower inflation and higher interest rates.

III. Implementation of the 1985 Economic and Financial Program

1. Objectives and policies

The economic and financial program for 1985 (EBS/85/110) stresses the continuation of the price restructuring and stabilization policies undertaken since early 1983. Further emphasis has also been placed on rebuilding the infrastructure and providing adequate capital, spare parts, and raw materials for the rehabilitation of export sectors. Specific targets for 1985 include a further depreciation of the cedi by 20 percent in real terms (on a trade-weighted basis) and a reduction in the rate of inflation to 20 percent, in addition to reaching a 5.3 percent real GDP growth. To help achieve the targeted reduction in inflation, the overall budget deficit is to be limited to ₵ 8.6 billion or some 2.3 percent of revised GDP, and its financing through the domestic banking system to ₵ 2.0 billion, which is less than 25 percent of the overall deficit and equivalent to 7 percent of money stock at the beginning of the period. In support of higher government outlays necessary to fulfill the rehabilitation objectives, the 1985 program envisages both a substantial effort at domestic resource mobilization and a large increase in foreign financing on concessional terms. The latter inevitably implies a widening of the external current account deficit for 1985, projected in EBS/85/110 to reach US$363 million compared with US$143 million in 1984. The program aims, however, at limiting the overall balance of payments deficit to US$60 million and *at a further reduction of external payments arrears by US$60 million* in the course of the year, while net international reserves will be maintained at their end-1984 level, equivalent to more than six months of 1984 imports. Credit policies under the program aim at supporting the balance of payments and inflation rate objectives, while at the same time facilitating the absorption of external resources by the productive sectors. Table 2 summarizes and updates the objectives and principal policies of the 1985 program.

Table 2. Ghana: Summary of the 1985 Economic and Financial Program

	1985	
	EBS/85/110	Revised
Objectives		
	(Percent changes)	
Real GDP growth	5.3	5.3
National consumer price index	20.0	20.0
Real exchange rate depreciation	20.0	20.0
External current account deficit (-)		
In millions of U.S. dollars	-363	-330
As percent of GDP	5.6	5.1
Overall balance of payments deficit (-)		
In millions of U.S. dollars	-60	-60
Overall government budget deficit (-)		
In billions of cedis	-8.6	-8.6
As percent of GDP	2.3	2.3
	(Percent changes)	
Net domestic assets of the banking system	42.2	42.2
Of which: net claims on government	8.8	8.8

Principal policies of the program

a. *Exchange rate and other external policies*

Further phased real depreciation of the cedi by 20 percent on a trade-weighted basis. In line with this policy, the exchange rate was depreciated from ₵50 = US$1 to ₵ 53 = US$1 on April 19, 1985, and to ₵ 57 = US$1 on August 12, 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 period June 1984 to December 1985.

b. Pricing and income policies

Continuation of the process of price liberalization to virtual elimination of all controls by end of 1985 with the exception of 8 items for which flexible price caps allowing full pass-through of costs and a profit margin remain. Increase of cocoa producer price by 69 percent to ₵ 56,600 per ton (announced in May 1984). No across-the-board increase of wages and salaries during 1985 above the 89 percent rise granted at the end of 1984 and in January 1985, but further salary adjustments during the year for special groups of professionals (limited to ₵ 1.9 billion). Redeployment by the Cocoa Marketing Board of 19,000 of its employees in the course of 1985.

c. Fiscal policies

The programmed increase in the overall government budget deficit for 1985 reflects the higher level of net foreign financing, mostly in the form of concessional commodity assistance. Major domestic resource mobilization measures to yield ₵ 4.9 billion. Several measures to contain the growth in recurrent expenditure (including lid on overall size of civil service), and actions to reduce operating costs of the Cocoa Marketing Board. Doubling of development expenditure to ₵ 8.0 billion, with emphasis on eliminating infrastructural bottlenecks to exports.

Authorities have taken since mid-1985 additional measures to recoup estimated ₵ 3.3 billion revenue shortfall from initial projections (including ₵ 1.1 billion on the projected yield of ₵ 4.9 billion mentioned above). These measures include a road tax and an increase in hospital fees and charges.

d. Monetary policies

In line with overall balance of payments and inflationary objectives, domestic credit expansion is to be limited to ₵ 12.6 billion, of which ₵ 2 billion is allocated to government. In accordance with the aim of reaching positive real interest rates by the end of 1985, or June 1986 at the latest, deposit rates were increased by one percentage point on April 18, 1985. A further increase of one percentage point for deposit rates and half a percentage point for lending rates will be effected as of September 2, 1985.

The following sub-sections report on the staff's discussions with the Ghanaian authorities on progress made so far under the 1985 program, and on the further measures that they have taken in the context of the second review.

2. Production, prices, and incomes

Real sector developments during the first half of 1985 point toward some marginal realignment of the main sources of growth during 1985, but indicate that the earlier projection of a 5.3 percent increase of real GDP can still be retained. In agriculture, food crops are likely to remain approximately at their level of 1984, but industrial crops such as oil palm, tobacco, and cotton are expected to continue to respond to higher prices, and overall agricultural output is projected to increase by some 1.5 percent during 1985. With regard to cocoa, the authorities now estimate the 1984/85 crop at 172,270 tons, which amounts to an 8.6 percent increase from its level of 1983/84, but falls short of the 200,000 tons projected at the beginning of the year. While at an earlier stage abundant flowering seemed to indicate a large crop, a lot of small beans failed to mature later in the growing season. The farmers' response to recent producer price increases is reported to have been good, and the recent 89 percent rise will return the real producer price to about its 1975/76 level. Maintenance and harvesting have markedly improved; however, the new producer price still appears insufficient to induce large-scale replanting and to eliminate smuggling to neighboring countries. 1/ The CMB has revised downward its projections for the 1985/86 crop from 250,000 to 200,000 tons, and cocoa production would therefore increase on a calendar year basis by at most 10 percent during 1985.

The rehabilitation of the infrastructure, particularly road transportation and railways, and the pace of imports have gained momentum, reflecting the larger and faster disbursements of external loans, still projected to reach US$448 million during 1985. The positive impact on some industries has been impressive. Hence, production and exports of manganese, which had already risen by more than 60 percent by late 1984, have continued to increase sharply in 1985 and could reach 295,000 tons for the year as a whole. Similarly, current rates of bauxite production and evacuation to the port of Takoradi indicate an expected fivefold increase in exports to some 225,000 tons during the year. Nevertheless, the recovery of two major export sectors, gold and timber (which together account for some 20 percent of total exports), has lagged behind expectations. Rehabilitation of the gold sector will benefit during 1985 from IDA assistance (for the State

1/ In July 1985, the parallel exchange rate for the cedi was reported at ₵ 130-150 per U.S. dollar, which is virtually unchanged from levels reported about 10 months ago. At these rates, however, the new cocoa producer price of ₵ 56,600 per ton still amounts to only 60-50 percent of the Ivorian producer price.

Gold Mining Corporation) and from disbursements under the IFC US$45 million loan (for the AGC). However, due to administrative delays, management and labor relations problems, and technical difficulties with the exploitation of tailings at the AGC (pending the drilling of new shafts), total gold production is unlikely to increase by more than 10 percent during the year, though it is expected to pick up significantly from 1986 onward.

The disbursement of the substantial external assistance available for the rehabilitation of the timber sector was begun only recently because of earlier difficulties with the provision of guarantees by the local banks. It is expected that timber production will grow by some 10 percent during 1985. Nevertheless, projections for timber exports have been revised downward, reflecting the fact that even at the present exchange rate there is still a tendency to concentrate on the local market because of high transportation and port handling costs, and that there is currently a strong local demand for railways sleepers in connection with the crash program to rehabilitate the railways system.

There is evidence that the manufacturing sector is performing more strongly than earlier anticipated, and its output could rise by more than 25 percent during 1985. The greater availability of imported inputs has allowed a significant increase in capacity utilization, particularly for private firms in industries that provide basic commodities or are major sources of government revenue.

As a result of the improved general supply situation and the prudent demand management policies, price developments during the first four months of the year have been well in line with the projections under the economic program. In fact, the monthly rates of inflation, as measured by the CPI for both food and non-food items, have steadily declined since the beginning of the year. For a number of items, local supplies are effectively competing with imports, and in some instances prices have declined below officially proposed retail prices. The CPI increased by only 1.1 percent in April, with food prices remaining stable, even though this period coincides with the peak of the "lean" season in Ghana; on average, the CPI for the first and second quarter of 1985 were only 5 and 3 percent higher, respectively, than for the same quarters of 1984. The above developments reflect apart from seasonal factors the success met in the operation of stock facilities for cereals. The overall average rate of inflation during 1985 is therefore expected to be within the 20 percent target set under the program.

In spite of the across-the-board wage and salary increases granted at the end of 1984 and in January 1985, Ghanaian workers continue to face particularly low real wages. These have resulted from the deteriorating productivity performance during the 1973-83 period, itself an outcome of the misallocation of labor induced by inappropriate relative prices and by overstaffing in the public sector. The authorities intend to encourage the redeployment of workers toward more productive jobs within the civil service or toward newly profitable activities in the rural sector; to this end, a ₵ 200 million fund was set aside in the 1985 budget. A number of pilot schemes are being designed (with assistance from multilateral and bilateral donors) to set up artisan training and production centers both in Accra and in the interior. These centers will aim at encouraging low-level government employees to leave the public payroll. The higher incomes now available in agricultural, cocoa, and forest regions have already initiated a modest reflow of labor from urban to rural areas. In the medium term, the above developments should allow a more generous pay policy toward skilled civil servants; during 1985, however, further salary increases have been limited to doctors, nurses, teachers, policemen and upper-level civil servants. These increases will be financed from the ₵ 1.9 billion contingency fund budgeted under the program. Plans to lay off some 19,000 workers at the CMB are moving ahead according to the scheme detailed in EBS/85/110.

3. Exchange rate policy

A comprehensive review of the exchange rate policy to be pursued in 1985 was undertaken during the first review of the stand-by arrangement. 1/ The authorities' objective is to adjust the exchange rate periodically on the basis of a formula and quarterly benchmarks so as to effect a real adjustment of 20 percent on a trade-weighted basis during 1985. In accordance with this objective, the authorities adjusted the exchange rate from ₵ 50 = US$1 to ₵ 53 = US$1 on April 19, 1985 and to ₵ 57 = US$1 on August 12, 1985. The adjustment on April 19 brought about a real adjustment on a trade-weighted basis of 8 percent during the first five months of 1985 (Chart 1).

4. Balance of payments projections for 1985

Two major revisions have been made in the balance of payments projections for 1985 (Table 3). First, the projection of export earnings has been revised downward from US$654 million to US$630 million, mainly on account of a revision of earnings from cocoa, from US$422 million to US$403 million. Total cocoa exports are now projected to increase by some 5.6 percent over 1984 in nominal terms, and 8 percent in volume terms. The earlier volume projection of bean exports turned out to be too optimistic, and it was revised downward by 13 percent to 152,500 metric tons. A marginal downward revision has been made to the projected unit export value, and in comparison with 1984, it is expected to be 11 percent lower. The export volume of cocoa products (cocoa butter, cake, and liquor) is now projected to increase by as much as 100 percent from 1984, which is slightly higher than expected earlier, while the export unit value is now projected to rise by 32 percent, reflecting the upward movement in prices throughout the latter part of

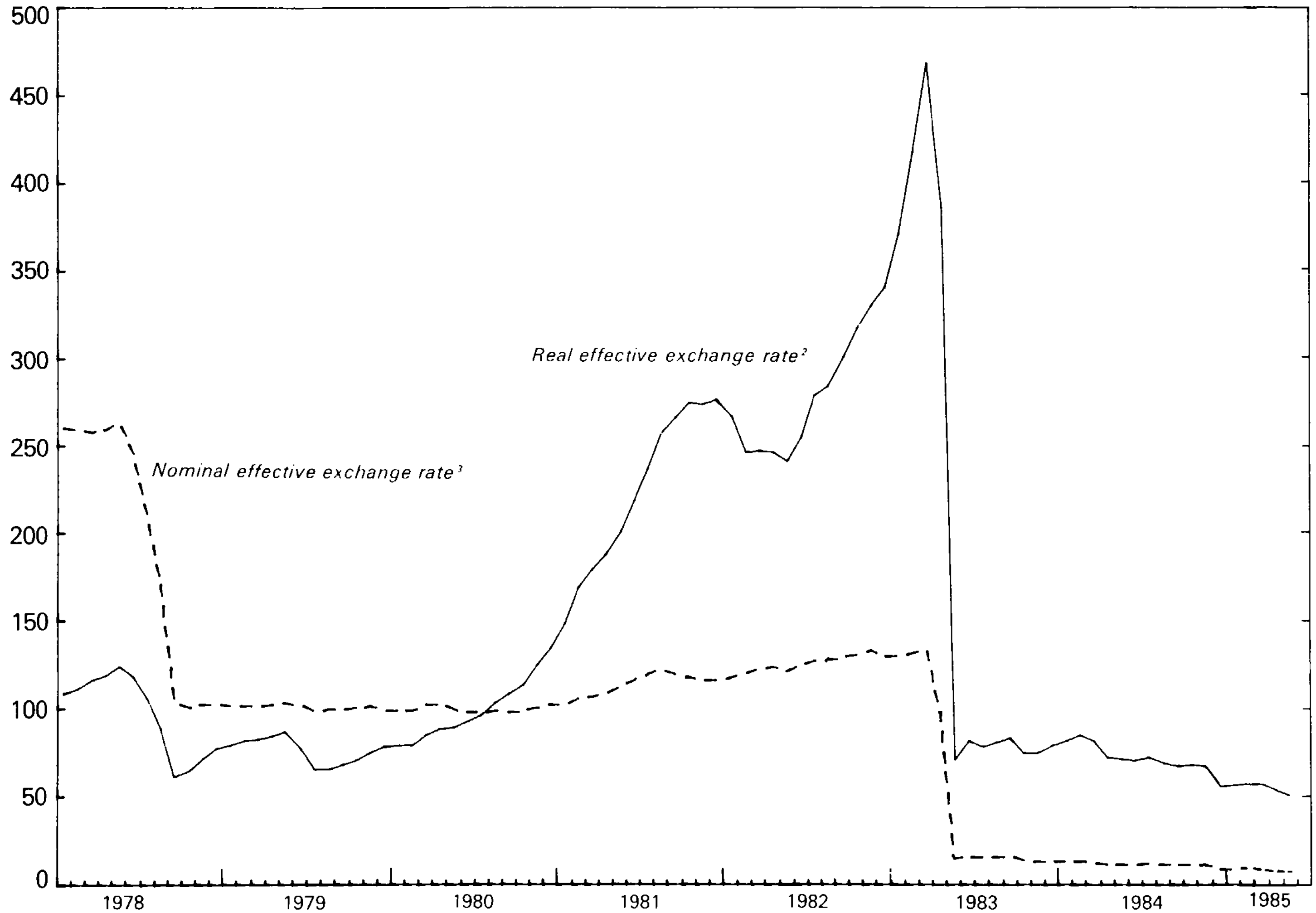
1/ EBS/85/110.

CHART 1

GHANA

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, 1978-85[1]

(1980 = 100)



Source: IMF Data Fund

[1] Decline (rise) indicates depreciation (appreciation)

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

[3] Trade weighted.

Table 3. Ghana: Balance of Payments, 1983-85

(In millions of U.S. dollars)

	1983	1984	1985		
			Program Projections (EBS/84/172)	Revised Projections (EBS/85/110)	Revised Projections
Exports (f.o.b.)	439.6	565.9	662.0	654.0	630.0
Cocoa	(275.7)	(381.7)	(399.0)	(422.0)	(403.0)
Noncocoa	(163.9)	(184.2)	(263.0)	(232.0)	(227.0)
Imports (f.o.b.)	-570.2	-626.5	-968.0	-835.0	-780.0
Oil	(-161.1)	(-161.0)	(-253.0)	(-227.0)	(-227.0)
Nonoil	(-409.1)	(-465.5)	(-715.0)	(-608.0)	(-553.0)
Trade balance	-130.6	-60.6	-306.0	-181.0	-150.0
Services (net)	-279.5	-227.4	-276.0	-314.0	-329.0
Freight and insurance	(-30.2)	(-41.4)	(-53.0)	(-57.0)	(-54.0)
Investment income	(-82.0)	(-80.3)	(-119.0)	(-121.0)	(-121.0)
Other services	(-167.3)	(-105.7)	(-104.0)	(-136.0)	(-154.0)
Unrequited transfers (net)	110.0	142.7	55.0	132.0	148.7
Government	(113.9)	(141.0)	(51.0)	(128.0)	(144.7)
Private	(-3.9)	(1.7)	(4.0)	(4.0)	(4.0)
Current account balance	-300.1	-145.3	-527.1	-363.0	-330.3
Capital account balance	173.0	62.4	260.0	303.0	270.3
Official capital (net)	67.4	87.8	135.0	215.0	216.7
Long-term loans	37.1	131.0	169.0	223.0	218.2
Inflows	(84.4)	(156.7)	(222.0)	(256.0)	(249.2)
Of which: World Bank	[23.1]	[55.6]	[110.0]	[96.0]	[97.0]
Amortization	(-47.3)	(-25.7)	(-53.0)	(-33.0)	(-31.0)
Medium-term loans	30.3	-42.0	-27.0	-1.0	5.5
Inflows	(67.8)	(54.5)	(224.0)	(192.0)	(198.3)
Amortization	(-37.5)	(-96.5)	(-251.0)	(-193.0)	(-192.8)
Trust Fund	--	-1.2	-7.0	-7.0	-7.0
Private capital(net)	44.7	59.3	125.0	98.0	63.6
Direct investment	(14.5)	(2.0)	(12.0)	(5.0)	(5.6)
Suppliers' credits	(11.8)	(-13.7)	(60.0)	(18.0)	(18.0)
Other 1/	(18.4)	(71.0)	(53.0)	(75.0)	(40.0)
Nomonetary short-term capital	55.0	-25.8	--	-10.0	-10.0
Monetary short-term capital	5.9	-58.9	--	--	--
Errors and omissions	-115.9	-38.1	--	--	--
Overall balance	-243.0	-121.0	-267.0	-60.0	-60.0
Financing	243.0	121.0	66.0	60.0	60.0
IMF (net)	258.7	213.7	126.0	120.0	120.0
Payments arrears	-33.7	-70.0	-60.0	-60.0	-60.0
Other	18.0	-22.7	--	--	--
Financing gap	--	--	201.0	--	--

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

1/ Mostly counterparts to SIL imports.

1984. Small downward revisions have also been made to the projections of export earnings from timber and gold. A second major revision concerns the projection on the inflow of foreign exchange resources to finance imports under special import licenses (SILs), i.e., imports not requiring foreign exchange transfers from Ghana. The recently introduced tax on imports under SILs is now expected to have a more restrictive effect than anticipated, and the projected inflow of these foreign exchange resources during 1985 has been revised downward from US$75 million to US$40 million.

The earlier projections of both official medium- and long-term capital inflows are expected to be realized, so that the net official capital inflows are projected to reach US$217 million, nearly two and one-half times larger than the 1984 level. The disbursements of World Bank loans are expected to reach US$97 million, representing an increase of 74 percent over 1984. Loans from bilateral sources are projected to amount to US$77 million, compared with US$52 million in 1984. The projection of net private capital inflows other than the counterpart of imports under SILs remains unchanged at US$24 million.

The authorities intend to maintain their balance of payments objective for 1985 of an overall deficit of US$60 million. As a result of the projected decline in export earnings and in the inflow of foreign exchange resources to finance SILs imports, the level of total imports is now projected at US$780 million (f.o.b.), US$55 million less than was envisaged earlier. This reduction (to be reflected in the utilization of import licenses, especially SILs) more than offsets the decline in exports, and the trade deficit is therefore projected to be smaller. The deficit on services accounts is projected to be slightly higher than originally anticipated, but this is expected to be fully offset by larger receipts of government transfers. Thus, the current account deficit is forecast to be US$33 million less than anticipated earlier, amounting to US$330 million. The downward revision of the import projection is expected to affect only non-oil imports, and oil imports are still projected at US$227 million. The 1985 import program provides for an initial licensing base of US$830 million (c. and f.), with a possible additional allocation of US$120 million. Imports to be financed with Ghana's own foreign exchange resources are programmed at US$290 million. As of mid-June, the value of licenses issued totalled US$321 million (US$156 million for aid-financed imports and US$165 million for cash imports). A substantial number of licenses issued under the 1984 import program are still outstanding, and they are expected to be utilized in 1985.

5. Other external policies

Under the program, the authorities have undertaken to pursue a prudent external debt management policy so as not to aggravate unduly Ghana's future debt service burden. The limit on the contracting and guaranteeing by the Government of external loans on nonconcessional terms is US$400 million with respect to loans 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 (including oil import credits). 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 program period through June 1985, the Government contracted nonconcessional loans amounting to US$178.7 million, and all of these were in the 1-5-year maturity category. Of this amount, US$150 million represented oil import credits, which are being drawn at a rate of US$10 million per month and are repayable one year after each drawing. To date, the Government has not guaranteed any loans (either on concessional or non-concessional terms). The authorities contracted a bridging loan in the amount of US$40 million and drew the full amount in January 1985; one half of this amount has been repaid, and the remainder is expected to be repaid in two equal installments by the end of 1985. To date, the Government has not obtained short-term loans with an original maturity of less than one year, other than trade credits and the bridging loan mentioned above.

The debt service payments in 1985 (including obligations to the Fund) are projected at US$327 million, equivalent to 49 percent of exports of goods and nonfactor services. The bulk of these service payments will represent servicing of one-year oil credits (US$170 million) under a special facility arranged in early 1984.

The authorities have undertaken to reduce arrears on payments and transfers for current international transactions, which amounted to US$266.6 million at end-June 1984, through quarterly net cash payments totaling US$90 million between June 1984 and December 1985. The cumulative reduction through cash payments up to end-June 1985 amounted to US$71.1 million, or US$11.1 million more than the targeted reduction of US$60 million. The authorities reduced payments arrears in an orderly and nondiscriminatory manner, and intend to continue to do so during the remainder of 1985 as scheduled. The level of outstanding payments arrears is expected to amount to US$176.6 million at the end of 1985 when the cumulative reduction of US$90 million will be completed.

With effect from June 19, 1985, seven authorized foreign exchange dealer banks have been permitted to open foreign exchange accounts (in deutsche mark, CFA francs, pound sterling, Swiss francs, and U.S. dollars) for resident as well as nonresident Ghanaians and non-Ghanaians, and to maintain balances in these accounts with specified correspondent banks abroad. These accounts may be credited with foreign exchange earnings from all sources other than (1) exports of goods and services originating from Ghana, (2) agency commissions, and (3) discounts on imports into Ghana. Interest is paid at rates comparable to those in effect in the country where the authorized foreign exchange dealer banks maintain the deposits. Transactions through the accounts are free from exchange restrictions.

The authorities have recently intensified export promotion efforts. Under the 1985 import program, US$4 million has been allocated for import licenses to be issued by the Ministry of Trade to export-oriented industries. A secretariat has been set up to monitor the activities and operations of export rehabilitation programs. A revised investment code, aimed at promoting foreign investments that result in foreign exchange earnings, has been promulgated on July 13, 1985.

With the exception of external payments arrears and the restrictions on transfers of balances under the bilateral payments arrangements with Fund members, the restrictions on payments and transfers for current international invisible transactions are maintained by Ghana in accordance with Article XIV.

The authorities have observed the intentions mentioned 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.

The authorities are continuing with the efforts to improve the administration of the foreign exchange allocation and import system, in particular the monitoring mechanism of import license utilization and letters of credit establishment. Serious consideration is being given to streamlining the use of special import licenses (imports not requiring foreign exchange transfers from Ghana) by changing from a positive to a negative product list for such licences. This change is expected to improve the collection of the tax on these imports.

6. The 1985 budget

The 1985 budget (January-December) was discussed during the first review of the stand-by arrangement (EBS/85/110; 1/5/85). In brief, the budget continues with the cautious fiscal policy of the previous two years. The increase in the overall deficit from 1.8 percent of GDP in 1984 to 2.3 percent in 1985 results from the need to absorb higher levels of noninflationary concessional external finance, while the bank-financed component of the budget is projected to decline from 0.6 percent of GDP in 1984 to 0.5 percent in 1985 (Table 4). The budget provides for a major increase in expenditure from 9.9 percent of GDP in 1984 to 12.6 percent of GDP in 1985. This reflects an attempt to partially reverse the steep erosion in the real level of emoluments of public servants over the past several years and to address more vigorously the rehabilitation requirements of the badly run-down infrastructure, especially in the transportation and communications sectors, that have hampered the evacuation of exports. The expenditure increase is matched by a major increase in the revenue to GDP ratio from 8.2 percent in 1984 to 10.3 perpercent in 1985. Discretionary revenue measures amounting to 1.3 percent of GDP account for nearly one half of the increase in the revenue ratio. These measures include increases in excise duties, a special tax on consumer goods imports, and increases in registration and licensing fees as a well as in various service taxes.

Table 4. Ghana: Summary of Central Government Operations, 1983-85

	1983 Provisional 1/	1984 Budget	1984 Provisional	1985 Budget 2/	1985 Revised
	(In millions of cedis)				
Total revenue and grants	10,241	22,584	22,641	39,900	37,880
Revenue	10,184	22,534	21,727 3/	38,109	36,090
Taxes on income and property	(1,780)	(2,526)	(4,125)	(6,016)	(6,016)
Taxes on international transactions	(4,990)	(9,731)	(8,133)	(16,770)	(14,579)
Taxes on goods and services	(1,689)	(7,270)	(5,562)	(10,190)	(9,788)
Nontax revenues	(1,726)	(3,007)	(2,884)	(5,134)	(5,707)
Foreign grants	57	50	914	1,790	1,790
Total expenditure and net lending	15,178	28,463	27,485	48,510	46,481
Current expenditure	13,566	22,598	23,326	36,535	35,759
Of which:					
Interest	(2,204)	(3,740)	(3,425)	(4,786)	(4,786)
Operating deficit of the Petroleum Department	(1,095)	(500)	(--) 4/	(--)	(--)
Other current expenditure	(10,267)	(18,358)	(19,889)	(31,749)	(30,973)
Capital expenditure 5/	1,192	4,574	3,368	8,025	8,025
Net lending	420	1,291	791	3,950	2,697
Overall deficit	-4,937	-5,879	-4,844	-8,610	-8,610
Financing (net)	4,937	5,879	4,844	8,610	8,610
Foreign (net)	687	2,729	1,820	5,360	5,360
Borrowing	(1,973)	(7,158)	(5,077)	(11,556)	(11,556)
Repayments	(-1,286)	(-4,429)	(-3,257)	(-6,196)	(-6,196)
Domestic (net)	4,298	3,150	3,028	3,250	3,250
Banking system	(2,572)	(1,800)	(1,760)	(2,000)	(2,000)
Social security	(230)	(350)	(591)	(500)	(500)
Other	(1,496)	(1,000)	(677)	(750)	(750)
Unidentified	-48	--	-4	--	--
Memorandum items:					
	Selected fiscal ratios (percent of GDP)				
Total revenue and grants	5.3	8.2	8.2	10.9	10.3
Total expenditure	7.9	10.3	9.9	13.2	12.6
Overall deficit	-2.6	-2.1	-1.8	-2.3	-2.3
Banking system finance	(1.3)	(0.7)	(0.6)	(0.5)	(0.5)
(Net) foreign financing	(0.4)	(1.0)	(0.7)	(1.5)	(1.5)

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

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

2/ Revisions to the projections in EBS/85/110, May 1, 1985, concern a reclassification of the tax on special unnumbered licenses from nontax revenue to taxes on international trade.

3/ Includes ₵ 109 million of revenue that is as yet unclassified.

4/ A surplus of ₵ 311 million was realized in the form of stock valuation gains, which has been included in nontax revenue.

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

In addition, the contribution of foreign financing, which has progressively improved during the period of stand-by arrangements from the Fund, is projected to more than double from 0.7 percent of GDP in 1984 to 1.5 percent of GDP in 1985.

The assumptions underlying the 1985 fiscal projections were reviewed in the light of current economic developments. Budget expenditures appear to be broadly on track, while a review of the foreign financing position indicates that the earlier projections remain realistic as does the position with regard to domestic nonbank financing. As mentioned earlier, balance of payments developments are expected to be less favorable, owing to shortfalls in the volume of cocoa export shipments and in receipts from private external transfers that were expected to finance imports under the special import licenses (SILs) scheme. In the face of these developments, the response of the authorities to uphold the overall balance of payments objective by reducing the import program for the year will further erode the import revenue base. In addition, sales of excisable commodities, while showing a sizable improvement over the previous year, have fallen behind projections, thereby necessitating a downward adjustment in budgeted collections. These developments imply a total revenue loss of ₵ 3.3 billion. Cocoa export duties are now projected to be ₵ 7,412 million or ₵ 527 million less than earlier budgeted, while the reduction in imports is expected to reduce total import duty collection by ₵ 1,663 million (from ₵ 8,300 million). Of this amount, ₵ 1,101 million is attributable to a shortfall in the SIL tax. The shortfall projected in excise duty collections is ₵ 1,069 million (from ₵ 10,190 million) as a result of a smaller pickup in sales of alcoholic beverages and tobacco.

The authorities wish, to the extent possible, to avoid any cutbacks in present developmental expenditure programs, which they view as essential to promote recovery. Instead, they plan to recoup the revenue loss through two revenue measures and some savings on current expenditures and net lending. A road tax of ₵ 5 per gallon on all kinds of vehicle fuel that is payable at the pump has been instituted, and is expected to yield ₵ 0.7 billion for the remainder of 1985. A sharp upward adjustment in hospital fees and charges has also been implemented, one half of the proceeds of which are to be assigned to hospitals and other medical institutions in furtherance of the decentralization objectives of the authorities and to improve the services provided. It is estimated that the amount that will accrue to the budget in 1985 will be about ₵ 573 million. A review of expenditures and lending operations recently concluded by the authorities has indicated scope for some savings. Regarding subventions, steps have been taken to save ₵ 1.3 billion, of which ₵ 0.4 billion will result from the policy of requiring local governments to be responsible for one-half of their wage and salary payments starting July 1, and ₵ 0.6 billion from the cancellation of subscriptions to various international associations. In the area of net lending, a saving of ₵ 0.7 billion results from the authorities having made a larger provision in the budget (₵ 1.5 billion) than was needed for servicing the debt in connection with the CIMAO project following the recently concluded agreement between the three governments involved and the creditors. The remaining saving of ₵ 0.6 billion results primarily from lower funding needs in 1985 for the post and telecommunications capital project. These savings together with the additional revenue will cover both an increase of ₵ 0.6 billion in the personnel costs associated with the upgrading exercise beyond the ₵ 1.9 billion budgeted for this purpose, and the revenue shortfall discussed above.

While the authorities have managed to remain in control of the fiscal situation, difficulties encountered in issuing the budget on time and in satisfactorily implementing some of the measures have remained in 1985. A key problem concerns the weakness in administration as a result of the depredations of the past several years. The authorities are attempting to rectify the situation, partly through adjusting the emoluments that were described earlier and partly through reorganizing the civil service structure and procedures. Some steps have already been taken with regard to the latter. In order to promote revenue collection, a national revenue secretariat has just been established, which unifies in one body the separate branches entrusted with the collection of various direct and indirect taxes. Procedures are also being instituted for the more effective budgeting and control of expenditures, and for more devolution of autonomy to other layers of government and to public enterprises. Looking ahead, the authorities plan to substantially strengthen the revenue system so as to be able to finance the large increases in expenditures that are needed to adequately rehabilitate the run-down infrastructure, to provide for various requirements in the social sectors, particularly health and education, and to support a narrowing of the present large differential between public and private sector wages and salaries, particularly at the senior levels. A number of studies are under way or soon to be initiated with the collaboration of Bank and Fund staff that are intended to support the process of reforming major components of the public finance sector.

7. Monetary and credit policies

Monetary targets and credit ceilings for the whole of 1985 were set at the beginning of the year and have been described in EBS/85/110. They conform to the twin objectives of reducing inflation to 20 percent and of limiting the overall balance of payments deficit to US$60 million. They are also consistent with GDP growth projections of some 5.3 percent in real terms, and 33 percent in nominal terms. Since none of the basic objectives or macroeconomic assumptions of the financial programming exercise presented in EBS/85/110 have changed significantly, and since the developments of the first half of 1985 have broadly conformed to the projections of the program, those earlier monetary targets and credit ceilings remain valid (Table 5). Hence, broad money and net domestic assets are programmed to increase during 1985 by ₵ 9.0 billion and ₵ 12.6 billion, respectively, which amounts to a 31.7 and 42.2 percent annual growth. Reflecting the priority given to the provision of

Table 5. Ghana: Monetary Survey, 1983-85

	1983	1984						1985		1985 Program		
	Dec.	June		September		December		March		June	Sept.	Dec.
		Prog. (EBS/84/172)	Actual	Prog.	Actual	Modified Prog.	Actual	Prog.	Actual			
	(In billions of cedis)											
Net foreign assets 1/	-16.68	-12.46	-24.15	-13.23	-24.16	-20.19	-32.90	-38.28	-36.01	-37.29	-34.48	-36.46
Net domestic assets	22.60	27.00	26.56	26.50	24.58	29.90 2/	29.72 2/	35.80 3/	35.74 3/	36.85 3/	34.35 3/	42.45 3/
Claims on government (net)	21.06	22.86	22.75	22.66	22.63	22.86	22.82	23.82	23.75	24.22	24.52	24.82
Cocoa financing	0.52	1.60	2.42	--	--	3.70	3.48	5.60	5.19	4.80	--	--
Claims on rest of economy	3.85	6.15	5.49	6.55	6.61	7.75	7.68	10.64	10.22	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	-3.42	-4.26	-4.26	-4.26
Maize financing	--	--	--	--	--	0.50	0.13	...	...	...	...	...
Revaluation account 1/	16.16	10.21	22.39	10.99	25.76	16.28	34.71	34.71 4/	34.10	34.71 4/	34.71 4/	34.71 4/
Broad money	20.50	24.60	22.95	24.11	23.71	26.34	28.55	29.12	30.72	31.16	31.47	37.59
Counterpart of SDR allocations	1.58	0.15	1.85	0.15	2.47	0.15	3.11	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 3/	32.0 3/	42.6 3/	42.4 3/	38.7 3/	39.7 3/	42.2 3/
Broad money	38.1	27.7	19.2	15.0	16.2	19.3	39.3	31.3	38.5	35.8	32.7	31.7

Sources: Bank of Ghana; and staff projections.

1/ Actual figures have been revised to fully reflect the valuation adjustments at end of period exchange rates, including for use of Fund credit. Program figures for 1985 as regard to net foreign assets and the revaluation account have been adjusted accordingly.
2/ Excluding maize financing.
3/ Including maize financing.
4/ 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.

local financing to support recovering productive sectors, the increase in net claims on Government will be limited to ₵ 2.0 billion in 1985, which represents an 8.8 percent growth on an annual basis. Credit to the rest of the economy, excluding cocoa, is targeted to increase by ₵ 8.6 billion, or more than twice its increase in 1984.

Data for end-March 1985 and provisional data for end-June 1985 indicate that both the expansion of overall net domestic assets and of net claims on Government were only slightly below the program's ceilings and targets. Broad money, on the other hand, grew somewhat faster than anticipated, in line with a seemingly better-than-projected balance of payments outcome during the first and second quarter of 1985. As indicated earlier, the inflationary performance during the same period, however, remained consistent with the annual average target of 20 percent taking into account the seasonality factors. Accordingly, the additional liquidity appears to have been absorbed by a shift in money demand, reflected in a fall of velocity. During the first quarter of 1985, claims on the rest of the economy increased by ₵ 2.5 billion, slightly less than targeted under the quarterly phasing of the program. Some ₵ 1.5 billion of that amount consisted of disbursements under the programmed special facility for three development banks whose debt/equity ratio had been eroded by the recent exchange rate adjustments. As anticipated, the expansion of credit to the rest of the economy since the end of 1984 has been largest in the general area of import financing, and especially in the timber sector as the result of the inflow of foreign assistance. But credit to manufacturing and services industries has also increased significantly, reflecting the greater availability of imported inputs and the higher capacity utilization. Not enough is known about the profitability of enterprises, including public enterprises, involved in the latter two sectors, and for this reason, close monitoring of credit expansion to manufacturing and services industries will remain essential. The slower development of credit to the mining industries reflects mostly the longer gestation period of rehabilitation projects in that sector.

The Ghanaian authorities remain committed to the pursuit of a flexible interest rate policy to promote the mobilization of private financial savings and the optimal allocation of credit. In accordance with their objectives of reaching positive real interest rates by the end of 1985 or June 1986 at the latest, the authorities will announce with effect from September 2, 1985, an increase of one percentage point on deposit rates and half a percentage point on lending rates. This will imply that since July 1984 rates on 12-month deposits will have increased by 5.5 percentage points to reach 18 percent, and that maximum lending rates will have risen by 4 percentage points to reach 23 percent. In spite of the narrowing of the spread between the above rates, the profit position of commercial banks remains quite comfortable. The recovery in the general level of economic activity has been very favorable to the banks which have also benefitted from the large demand for credit related to the need of cedi backing for the disbursement of external resources at adjusted exchange rates. To further attract private savings to the banking system and better enable the banks to lengthen the maturity of commercial and trade credits that they are extending, 24-month deposits have recently been introduced for the general public. Currently these deposits carry an interest rate of 18 percent which will be raised to 19 percent effective September 2, 1985.

8. Medium-term prospects

Ghana's medium-term balance of payments and debt prospects for the period 1986-90 were discussed at length in EBS/85/110. It will be recalled that the assumptions with regard to the international economic environment were those of the main WEO exercise of early 1985. The medium-term projections take into account the marginal revisions made for 1986 in the context of the mid-year WEO update of July, and revisions to Ghana's trade flows in 1985, reflecting additional information gathered by the Fund staff in the context of the Article IV discussions and by the World Bank staff in the context of recent detailed sectoral reviews (Tables 6 and 7).

In line with the WEO forecasts, commodity prices in U.S. dollar terms are expected to remain quite strong, reflecting in part a projected steady depreciation of the U.S. dollar against the SDR by some 3.3 percent per annum from 1987. Thus, cocoa prices are forecaseted to rise by 8.5 percent annually in the period 1987-90 after remaining virtually unchanged in 1986. Import prices of manufactures in U.S. dollar terms are also expected to remain buoyant from 1987, increasing by 7.5 percent per annum compared with 4 percent during 1986. Official development assistance, which is a key consideration in the case of Ghana, is projected to grow by 3.5 percent during 1986 and 7.5 percent annually thereafter, again in U.S. dollar terms.

The main revision on the export side of Ghana's balance of payments concerns the cocoa sector. As indicated earlier, CMB projections for the 1985/86 cocoa crop have been revised downward to 200,000 tons, from the figure of 250,000 tons quoted earlier. Recent in-depth studies of the cocoa sector in Ghana have also indicated that the problem of the old age of many plantations and of the spread of tree diseases, resulting from the lack of replanting and years of neglect, may have been underestimated. Under the best of circumstances, it now appears unlikely that production could reach more than 260,000 tons in 1988, compared with the earlier projection of 300,000 tons; thereafter, the maturing of new hybrid trees should allow a somewhat faster growth. It should be stressed that these projections assume not only a significant pick-up of replanting by 1987, but also the elimination of most cocoa smuggling now estimated at around 30,000 tons annually. This is likely to require stronger than earlier expected actions with regard to the cocoa producer price, and thus by necessity with regard to the exchange rate. Other revisions reflect the slower-than-expected recovery of the gold and timber sectors in 1985. In spite of the downward revision in yearly total export earnings in U.S. dollar terms that the above revisions

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.)	630	723	900	1,082	1,271	1,470
Cocoa	403	457	583	699	817	934
Noncocoa	227	266	318	383	454	536
Imports (f.o.b.)	-780	-858	-975	-1,110	-1,246	-1,384
Trade balance	-150	-135	-75	-28	25	86
Services (net)	-329	-339	-369	-391	-407	-420
Freight and insurance	-54	-45	-50	-56	-61	-67
Investment income	-121	-139	-159	-170	-174	-176
Profits and dividends (net)	-4	-3	-4	-5	-7	-9
Interest payments 1/ 2/	-117	-136	-155	-165	-167	-167
Other services	-154	-154	-160	-166	-171	-177
Unrequited transfers (net)	189	154	165	177	190	196
Official	145	94	100	108	116	118
Private 3/	44	60	65	69	74	78
Current account balance 3/	-290	-320	-279	-242	-192	-138
Capital account (net) 3/	230	225	274	291	293	245
Official (net)	216	167	229	241	248	200
Long-term loans (net)	218	221	239	262	259	246
Drawings	249	258	277	298	320	344
Amortization 2/	-31	-37	-38	-36	-61	-98
Medium-term loans (net)	5	-44	--	-11	-2	-43
Drawings	198	170	155	140	140	100
Amortization	-193	-214	-155	-151	-142	-143
Trust Fund repayment	-7	-10	-10	-10	-9	-3
Private capital (net) 3/	24	58	45	50	45	45
Direct investment	6	15	25	35	40	45
Suppliers' credits	18	43	20	15	5	0
Drawings	50	70	80	90	90	90
Amortization	-32	-27	-60	-75	-85	-90
Other 3/	--	--	--	--	--	--
Non-monetary short-term capital	-10	--	--	--	--	--
Monetary short-term capital	--	--	--	--	--	--
Errors and omissions	--	--	--	--	--	--
Overall balance	-60	-95	-5	49	101	107
Financing	60	...	...	...	...	...
Use of Fund resources (net)	120	...	...	...	...	...
Purchases	120	...	...	...	...	...
Repurchases	--	-19	-137	-207	-148	-82
Payments arrears reduction	-60	-60	-60	-53	--	--
Other	--	--	--	--	--	-25
Residual financing requirement	--	174	202	211	47	--
Memorandum items						
External current account (in percent of GDP)	-4.5	-6.7	-5.4	-4.2	-3.0	-1.9
Gross official borrowing (including residual financing)	448	602	634	649	508	420

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.

3/ The 1985 figures reflect reclassification for the medium-term projections of counterparts to imports under SIL as private unrequited transfer rather than private capital inflow.

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	666.6	762.6	945.7	1,133.0	1,327.9	1,532.8
B. New borrowing 2/	448.6	602.2	633.7	649.4	507.6	419.8
Of which: oil credits 3/	(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)	265.1	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	223.7	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	30.9	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	15.1	171.5	187.5	207.6	252.8	313.4
Interest 2/	15.1	42.9	64.2	86.0	104.5	115.2
Of which: oil credits	(6.6)	(13.7)	(10.5)	(7.5)	(6.0)	(3.0)
Amortization 2/	--	128.6	123.3	121.7	148.3	198.2
Medium-term	--	128.6	123.3	121.7	123.3	130.0
Of which: oil credits	(--)	(128.6)	(100.0)	(75.0)	(50.0)	(50.0)
Long-term	--	--	--	--	25.5	68.2
F. Fund	47.0	71.6	187.1	245.8	173.3	96.5
Charges	47.0	53.1	50.0	38.6	24.9	14.8
Repurchases	--	18.5	137.1	207.2	148.4	81.8
G. Total (D + E + F)	327.2	408.3	484.5	557.3	514.6	479.1
H. Debt service ratio (in percent of exports of goods and nonfactor services) 2/						
Including Fund charges and repurchases (G/A)	49.1	53.5	51.2	49.2	38.8	31.3
Excluding Fund charges and repurchases (G-F/A)	42.0	44.2	31.4	27.5	25.7	25.0
Memorandum items:						
1. Total line G	327.2	408.3	484.5	557.3	514.6	479.1
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	379.7	442.5	555.0	644.5	612.9	582.6
4. Total debt service in balance of payments	379.7	442.5	555.0	644.5	612.9	582.6

1/ Debt flows in the table differ from balance of payments figures by amounts related to private suppliers' credits.
2/ Including residual financing requirement.
3/ Assumed to be of one-year maturity.
4/ Including servicing of debt to the Fund.

imply, the revised average growth rate of Ghana's exports for the 1986-90 period is only marginally lower than the 19 percent growth indicated earlier, a result which mostly reflects the lower 1985 base. In volume terms, growth of exports would amount to some 11 percent annually.

Import volumes are now projected to increase on average by about 5 percent per annum during the period 1986-90, with somewhat higher growth in the earlier years of the period, and imports in dollar terms would then grow by an average 12 percent per annum during the same period. Such a growth rate of imports is only marginally lower than the one projected in EBS/85/110 and should remain consistent with an unchanged real GDP growth target of about 4 percent per annum throughout the period, provided appropriate policy actions are taken. Since the downward revisions of exports, in particular with regard to cocoa, are more substantial for 1986 than for later years, but the converse is true for imports, improvement in the trade balance would be somewhat slower than estimated earlier. The trade balance is, however, still projected to turn into a surplus by 1989. After peaking at US$321 million in 1986, the external current account deficit is projected to decline to US$130 million, or some 2 percent of GDP, by 1990. 1/ The earlier assumptions of EBS/85/110 have been retained with regard to external financing. The residual financing requirement implied by the above approach and the absence of any assumption with respect to further purchases from the Fund beyond the current stand-by arrangement would amount to US$174 million in 1986, US$202 million in 1987, US$211 million in 1988, and US$47 million in 1989 if Ghana is to meet its substantial obligations to the Fund and eliminate its remaining external payments arrears by 1988.

In comparison with the earlier medium-term exercise, the above results indicate some additional financing needs of between US$30 million and US$50 million a year. Accordingly, gross official borrowing would have to amount to US$602 million in 1986 and peak at US$649 million in 1988, before declining to US$508 million in 1989 and US$420 million in 1990, in order to eliminate all residual financing requirements during the period. As a result of projected lower levels of exports and the somewhat higher borrowing, the debt service ratio is now expected to be some 5 percentage points above earlier projections for the 1986-90 period, stabilizing at an average of 50 percent of goods and nonfactor services during 1986-88 before declining rapidly to reach 31 percent in 1990. It should be noted that these debt service ratios reflect the amortization payments on one-year oil credits, assumed to be progressively phased out during the period. Excluding debt services on oil

1/ These figures are not quite comparable with those of Table 6 in EBS/85/110 because they reflect a methodological change in the treatment of counterparts to SIL imports. These have been reclassified as private unrequited transfers rather than capital inflows, to reflect the non-liability creating character of such counterparts. It explains the lower figures for the external current account deficits.

credits, the debt service ratio would increase from some 28 percent in 1986 to some 42 percent in 1988 and then decline to reach about 28 percent in 1990.

Clearly, the above projections with regard to residual financing requirements for the rest of the decade remain very sensitive to assumptions made concerning available development assistance and commodity prices during the period. Sensitivity analysis indicates in particular that if export prices for cocoa were to increase in US dollar terms during 1987-90 by 6.5 rather than 8.5 percent annually as assumed above (which would imply a 1 percent per annum deterioriation rather than improvement of terms of trade), the total residual financing requirement over the 1987-90 period would be some US$160 million higher.

9. Performance criteria

At the outset of the 1984/85 program (EBS/84/172), the following performance criteria were set: (a) phased credit ceilings and subceilings for the period up to end-December 1984; (b) cumulative reductions of external payments arrears through net cash payments for the entire period of the stand-by arrangement; (c) limits on the contracting and guaranteeing of nonconcessional foreign loans for the entire period of the stand-by arrangement; (d) the satisfactory completion of two reviews with the Fund, the first of which was completed by the Executive Board on May 22, and the second of which is the subject of the present paper; and (e) 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. Phased performance criteria on net domestic assets of the banking system and on net claims on Government for the entire 1985 period were set in EBS/85/110, and are reproduced in Table 8, which also shows observance of the criteria through March 1985.

III. Staff Appraisal

For the past two years, the Ghanaian authorities--with Fund support--have successfully pursued a combination of measures and policies in the external, fiscal, and monetary areas, and also with regard to prices and incomes, aimed at bringing Ghana back on the path to sustainable growth. Hence, by mid-1985, the cedi had been depreciated by almost 90 percent in real terms in comparison with its level of January 1983, resulting in a dramatic improvement in the profitability of export sectors. Reflecting the shift in relative prices, the cocoa producer price has now been adjusted to almost five times its level of 1981/82, restoring the real remunerations of cocoa farmers to their level of the mid-1970s. At the same time, virtually all price controls have been eliminated, giving freer vent to market forces to determine prices. To support and sustain these price restructuring efforts, the Ghanaian authorities have successfully undertaken to stabilize the economy by

Table 8. Ghana: Quantitative Performance Criteria and Targets, June 1984-December 1985

	1984				1985				1985 Program	
	June	Sept.	December		March		June		Sept.	Dec.
	Actual	Actual	Modified Program	Actual	Prog.	Actual	Prog.	Prov.		
	Outstanding (end of month, in billions of cedis)									
Net domestic assets	26.56	24.58	29.90 1/	29.72	35.80 1/2/	35.74	36.85 1/2/	34.27	34.35 1/2/	42.45 1/2/
Net claims on Government 3/	22.75	22.63	22.86 1/	22.82	23.82 1/	23.75	24.22 1/	24.18	24.52 1/	24.82 1/
Cocoa financing	2.42	--	3.70	3.48	5.60	5.19	4.80	3.88	--	5.66
Credit to rest of the economy	5.49	6.61	17.75	7.68	10.64	10.22	12.09	11.86	14.09	16.23
Other items (net)	-4.10	-4.66	-4.41	-4.26	-4.26	-3.42	-4.26	-5.65	-4.26	-4.26
Maize financing	--	--	0.50 1/	0.13	...	...	...	...	...	...
					Cumulative changes from end-December 1984					
Net domestic assets					6.0 2/	5.9	7.0 2/	4.4	4.5 2/	12.6 2/
Of which: net claims on Government					(1.0)	(0.9)	(1.4)	1.4	(1.7)	(2.0)
	Actual outstanding End-June 1984		Cumulative net cash reductions 1/							
External payments arrears (in millions of U.S. dollars)	266.6	16.5	30.0	34.8	45	50	60	71	75	90
New nonconcessional external borrowings contracted or guaranteed by Government					During August 1984-December 1985					
					Maximum		As of end-June 1985			
(In millions of U.S. dollars) of maturities 1-12 years					400.00 1/		178.7			
Of which: 1-5 years					(250.00) 1/		(178.7)			
External loans of less than 1-year maturity other than trade-related credits										
Net disbursements					100.00 1/		--			
Bridging loans outstanding					75.00 1/		20.0			

1/ Performance criteria.
2/ Including maize financing
3/ *In 1985, any increase in disbursements of budgetary net foreign financing beyond* ₵ 5.4 billion *would call for a* corresponding reduction in net claims on Government.

reducing the overall government deficit, which as a ratio to GDP by 1984 stood at less than half its level of 1982, and by significantly decreasing the contribution of the domestic banking system to its financing, while curtailing the rate of credit expansion. The Ghanaian authorities' commitment to stabilize and restructure the economy and to the elimination of their external payments arrears, has resulted in growing support from bilateral and multilateral donors.

In the context of the economic and financial program for 1984/85, the Ghanaian authorities have actively promoted the use of concessional external financing to support in a non-inflationary way a needed increase in public expenditure, and in particular a doubling of the development budget to rehabilitate the economic infrastructure. New revenue measures to yield some 1.3 percent of GDP were another major source of support for the rehabilitation effort. The authorities also sought to effect a further 20 percent real depreciation of the cedi in the course of 1985 and to limit inflation to at most 20 percent in furtherance of their price restructuring and stabilization objectives. They planned to achieve the latter objective in part by significantly curtailing the growth of domestic bank credit to the Government and by encouraging the mobilization of private savings through an interest rate policy aimed at reaching positive interest rates in real terms by the end of 1985 or June 1986 at the latest. Reflecting the rehabilitation needs and the increase in foreign financing, the budget deficit and external current account deficit as percent of GDP were programmed to increase somewhat from their level of 1984.

In the staff's opinion, the policies pursued by the Ghanaian authorities have contributed to a general recovery of economic activity and toward the achievement of greater price stability. Also encouraging has been the fact that since late 1984 the disbursement of external assistance has accelerated and that the rehabilitation of railways, roads and ports, after a slow start, has gained momentum and has already positively affected production and exports.

At the same time, in the face of a likely revenue shortfall compared with earlier projections affecting cocoa revenues, import duties, and excise taxes, the Ghanaian authorities have taken appropriate remedial actions in mid-1985. Anxious not to cut essential development expenditures, they have opted for additional revenue measures that include upward adjustments in petroleum prices and charges for health services and have effected savings in certain areas of expenditure and net lending. The staff believes that based on these actions, and in conjunction with the exchange rate adjustment to ₵ 57 = US$1, on August 12, 1985 and the planned further exchange rate adjustments during the remainder of the year, the fiscal target and credit ceilings under the program remain feasible as do the broader macroeconomic objectives.

The medium-term scenario reviewed by the staff indicates that Ghana can still be expected to reach a relatively satisfactory balance of payments situation before the end of the decade. Nevertheless, the next three years on present assumptions are likely to prove difficult, as indicated by the substantial foreign financing requirements that are in prospect to help finance import levels commensurate with modest real GDP growth. The constraints on the speed of recovery of the cocoa sector in the medium term render even more critical the need for appropriate price incentives to encourage cocoa production and also to promote the recovery of other exports so as to gradually reduce Ghana's dependence on cocoa exports. Further sizable depreciation of the exchange rate together with supporting measures to improve productivity in the export sectors are therefore essential, and would also introduce greater efficiency in the allocation of foreign exchange for imports and help reduce the need for the present stringent import licensing system.

The Ghanaian authorities have been aware for some time of the need for a coordinated and consistent approach in designing a medium-term development strategy. They have requested technical assistance from the staffs of the Fund and the World Bank for the preparation of a medium-term plan for resource mobilization and allocation. It is important to bring these efforts to an early, successful conclusion, if possible by the time of this year's Consultative Group meeting in November, so as to give the Ghanaian public, bilateral donors, as well as the international institutions a clear sense of direction for further action during the next few years. Only in such a well-defined setting is the growing support of bilateral and multilateral donors assumed in the medium-term scenario likely to be forthcoming. Such support remains a critical condition for the attainment of balance of payments viability without sacrificing the objective of modest real GDP growth. The latter will necessitate the sustained implementation of efforts underway to rehabilitate the economic infrastructure, which will require not only the growing external assistance already indicated, but also the additional mobilization of domestic savings. While substantial depreciation of the exchange rate would assist in mobilizing local resources through the budget, a major effort at further revenue mobilization will also be needed.

The exchange restrictions evidenced by the external payments arrears and restrictions on transfer of balances under the bilateral payments arrangements with Fund members are subject to Fund approval under Article VIII. In view of the scheduled reduction of external payments arrears during the period of the stand-by arrangement and of the authorities' commitment to eventual elimination of all arrears, the staff recommends the approval of the restrictions pertaining to such arrears until August 31, 1986, or the next Article IV consultation, whichever comes first. The staff encourages the authorities to eliminate the bilateral payments arrangements.

The staff considers that the economic and financial targets for 1985 are appropriate and remain attainable in view of the corrective measures taken by the Ghanaian authorities in the context of the second review. The staff believes that the policies being adopted by the

Ghanaian authorities will also allow substantial progress toward the attainment of medium-term objectives, and that they merit continued Fund support.

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

IV. Proposed Decisions

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

(i) 1985 Consultation

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

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

(ii) Stand-By Arrangement

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, and the letter of April 26, 1985.

2. The letter dated August 27, 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 supplemented and modified by the communication of November 28, 1984, the letter of April 26, 1985, and the letter of August 27, 1985.

3. The Fund finds that no further understandings are necessary, and that Ghana may proceed to make purchases under the stand-by arrangement.

Accra, Ghana
August 27, 1985

Mr. J. de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Larosière:

1. The Ghanaian authorities have continued to implement strong adjustment policies under a comprehensive economic and financial program covering the period July 1984-December 1985. In support of the program, the Fund's Executive Board approved at the end of August 1984 our request for a 16-month stand-by arrangement for an amount of SDR 180 million, of which SDR 120 million has so far been drawn. During the first review, we reached understandings on the external, fiscal, and monetary policies to be pursued during 1985, which included the setting of credit ceilings as performance criteria for the remainder of the year. The next purchase under the arrangement is subject to the satisfactory completion of the second review and meeting of performance criteria for end-June 1985. The second review was initiated by a Fund staff mission which visited Accra during the period June 24 to July 10, 1985.

2. Developments during the first six months of the year indicate that the targets we have set for 1985, with particular regard to real growth, the rate of inflation, the budget deficit, and the planned increase in development expenditure, remain achievable. Nevertheless, it has become apparent that additional adjustment measures are needed to correct the impact on government revenue of some negative developments in the external sector. Specifically, the recovery in cocoa exports, although quite encouraging, will fall short of earlier projections. In addition, receipts from private external transfers, which were expected to finance imports under the special licenses scheme, are also expected to register a shortfall. These developments have necessitated a compensatory reduction in non-oil imports in order to enable us to maintain our balance of payments objective. To recoup the projected loss in tax revenue that the above developments imply, we intend to implement the additional revenue and expenditure measures detailed in paragraph 4 below.

3. Major growth impetus this year is expected to come from the manufacturing and mining sectors, reflecting the increased availability of essential inputs and the progress that has been achieved in addressing the serious transportation bottlenecks. Some further increase is also expected in agricultural output, especially in cocoa. Accordingly, we have retained the earlier projection of a 5.3 percent real GDP growth during 1985. Reflecting the improved supply situation and the cautious

demand management policies, price developments during the first four months of the year have conformed to our expectations, and the average rate of inflation during 1985 (as measured by the CPI) is expected to be within the 20 percent target set under the program.

4. The budget for 1985 provides for a fiscal deficit of ₵ 8.6 billion, of which ₵ 2 billion is to be financed from the banking system. A detailed review of the assumptions underlying the budget has indicated the need for some mid-term corrections in order to ensure that the above fiscal targets are not exceeded. In addition to a significant decline in the taxes on international trade for reasons explained above, performance of the excise duties, while continuing to exhibit a marked improvement over that in 1984, is also expected to show some shortfall. In order to recoup part of the revenue losses, we have implemented a number of measures that together are expected to generate an additional ₵ 1.2 billion over the remainder of the year. The measures include an increase in hospital fees, consistent with our objective to improve health services and a tax on the ex-pump price of gasoline. In addition, we have effected savings of ₵ 1.3 billion on subventions and another ₵ 1.3 billion on net lending. These measures have been taken in order to prevent any reduction in developmental expenditures, directed to the rehabilitation of the infrastructure that is essential for the economic recovery.

5. We have maintained a cautious monetary policy stance consistent with the attainment of the agreed credit ceilings and the achievement of a more rational allocation of financial resources. In accordance with our objective to reach positive real interest rates by the end of 1985 or June 1986 at the latest, we intend to announce with effect from 2nd September 1985 an increase of one percentage point on deposit rates and half a percentage point on lending rates. To strengthen financial intermediation in Ghana, we have introduced for the general public twenty-four-month deposits which will from 2nd September 1985 carry an interest rate of 19 percent.

6. On the occasion of the first review of the stand-by arrangement, we reaffirmed our intention to continue to pursue a flexible exchange rate policy. We undertook to adjust the rate periodically in 1985 in accordance with quarterly benchmarks so as to effect a further real adjustment of 20 percent on a trade-weighted basis. Thus, the exchange rate was adjusted from ₵ 50 = US$1 to ₵ 53 = US$1 on April 19, 1985 and to ₵ 57 = US$1 on August 12, 1985. The objective of our exchange rate policy is to improve the international competitiveness of the Ghanaian economy and to achieve balance of payments viability over the medium term. In furtherance of this objective, we have recently initiated vigorous export promotion efforts. We are also continuing with the efforts to improve the administration of the foreign exchange allocation and import licensing system, in particular the monitoring mechanism of licenses' utilization.

7. We have continued to observe all of the limits on external loans that were specified in the letter of intent of July 30, 1984. Furthermore, we have not contracted any new loans on nonconcessional terms since our letter of April 26, 1985, and have continued to reduce arrears on payments and transfers for current international transactions through cash payments as planned, and have met the targets for end-June 1985. It is the intention of the Government to continue to reduce payments arrears through net cash payments during the remainder of 1985 as scheduled and in an orderly and nondiscriminatory manner.

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 July 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 741.7 million, or 362.7 percent of quota

	Millions of SDRs	Percent of quota
(c) Use of Fund credit	537.2	262.7
Credit tranches	181.0	88.5
Enlarged access	177.5	86.8
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, the second on November 30, 1984, upon satisfactory compliance with the end-September 1984 performance criteria, and the third and fourth on May 22, 1985, upon satisfactory completion of the first review and satisfactory compliance with end-December 1984 and end-March 1985 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

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

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.

(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 10.60 million, or 5.18 percent of net cumulative allocation

V. Administered Accounts:

Trust Fund loans	
(i) Disbursed	SDR 48.96 million
(ii) Outstanding	SDR 42.41 million

VI. Overdue Obligations to the Fund — None

B. Nonfinancial Relations

VII. Exchange System

Ghana maintains a flexible exchange rate system, using the U.S. dollar as the intervention currency. In April 1983 Ghana depreciated the cedi through the introduction of a multiple exchange rate system. In October 1983 the exchange rate system was unified at the rate of ₵ 30 = US$1 compared with the exchange rate of ₵ 2.75 = US$1 that prevailed prior to April 1983. In March 1984, the cedi was depreciated to ₵ 35 = US$1; on August 23, 1984 to ₵ 38.5 = US$1; on December 3, 1984 to ₵ 50 = US$1, on April 19, 1985 to ₵ 53 = US$1, and on August 12,1985 to ₵ 57 = US$1. Ghana maintains restrictions on payments and transfers for current international transactions primarily in the form of external payments arrears.

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

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:

(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.

A modification of performance criteria under the 1984/85 stand-by arrangement was approved by the Executive Board on December 3, 1984; the decision read as follows:

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

1. Ghana has consulted with the Fund in accordance with paragraphs 10 and 11 of the stand-by arrangement for Ghana (EBS/84/172, as amended) and paragraph 31 of the letter dated July 30, 1984 from the Secretary for Finance and Economic Planning and the Governor of the Bank of Ghana.

2. The communication from the Secretary of Finance and Economic Planning and the Governor of the Bank of Ghana, and the letter from the Secretary for Finance and Economic Planning and the Governor of the Bank of Ghana dated July 30, 1984 shall read as supplemented and modified by the communication dated November 28, 1984.

3. Accordingly, the limits on total net domestic assets of the banking system for end-December 1984, shall be those referred to in the communication dated November 28, 1984 in place of those referred to in paragraph 23 of the letter of July 30, 1984 and specified in the table appended to it, and there will be a separate limit for maize financing, as specified in the communication dated November 28, 1984.

The first review under the 1984/85 stand-by arrangement was completed by the Executive board on May 22, 1985; the decisions read as follows:

1. Ghana has consulted with the Fund in accordance wth 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--Relations with the Fund (concluded)
(As of July 31, 1985)

IX. Technical Assistance

Panel Expert	Bank of Ghana (banking operations and accounts): 1981-82
Bureau of Computing Services	Bank of Ghana (systems analysis): June 1985

X. Resident Representative

A Fund resident representative has been posted in Accra since June 1985

GHANA - Relations with the World Bank Group
(As of June 30, 1985)

(In millions of U.S. dollars)

Lending operations 1/

	IBRD and IDA		
	Total commitments 2/	Disbursed 3/	Undisbursed 4/
Loans and credits fully disbursed	253.8	253.8	--
Telecommunications	23.0	17.9	5.1
Agricultural development (Upper Region)	21.0	20.3	0.7
Second NIB	19.0	15.9	3.1
Agricultural development (Volta Region)	29.5	6.7	22.8
Third Highway	25.0	22.0	3.0
Railway	29.0	9.7	13.6
Water supply project	13.0	4.9	6.9
Reconstruction CIMAO	9.3	--	8.6
Energy project (petroleum exploration)	11.0	1.4	8.8
Reconstruction import credits	40.0	28.8	8.2
Export rehabilitation project	76.0	7.1	64.5
Export rehabilitation T.A.	17.1	3.6	12.6
Petroleum refinery	6.9	1.3	5.3
Oil Palm II	25.0	1.9	21.6
Accra district rehabilitation	22.0 5/	--	22.0
Second reconstruction import credit	60.0 5/	--	60.0
Road rehabilitation and maintenance	40.0 5/	--	40.0
Total 6/	720.6	395.3	306.8
Less amount repaid	65.3		
Total outstanding 6/	655.3		

Source: World Bank.
1/ Less cancellations.
2/ U.S. dollar equivalent at time of Board approval (credits denominated in SDRs).
3/ Converted into U.S. dollars at exchange rate applicable on transaction date.
4/ Converted into U.S. dollars at exchange rate applicable on June 30, 1985.
5/ Not yet effective.
6/ Due to exchange rate differences, disbursed and undisbursed amounts do not add up to total commitments.

Ghana--Statistical Issues

1. Outstanding statistical issues

a. Real sector

A technical assistance mission in general economic statistics took place in August 1984 and its report was transmitted to the authorities on January 11, 1985. The mission's recommendations focused on improving the currentness of the data on prices, production, and external trade as a basis for policy decisions and de-emphasized the importance of closing the statistical gap for earlier years. Suggestions were made regarding a pending reorganization of the statistical service, personnel issues, and cooperation with other agencies. Recommendations of a technical nature were provided on the compilation of the consumer and wholesale prices indices, industrial production statistics, and on the processing of the external trade data.

b. Monetary accounts

The monetary statistics in Ghana need improvement with respect to their institutional coverage and quality. The Monetary Survey, as published in IFS and as used in staff reports, only covers the monetary authorities and three "primary banks," although in recent years the assets and liabilities of certain "secondary banks," vis-à-vis the economy, have become quite significant. A technical assistance mission to Ghana, during June 1985, explored the possibility of broadening the institutional coverage of monetary statistics and of establishing procedures to improve the quality of the data obtained from the deposit money banks and other financial institutions.

c. Government finance

A technical assistance mission in the field of government finance statistics took place in July 1985 to review a number of statistical issues related to the coverage and classification of revenue, expenditure, and financing data. A seminar on GFS methodology was scheduled but did not take place because of difficulties encountered by the authorities in making the necessary arrangements.

d. Balance of payments

In May 1985 a technical assistance mission in balance of payments statistics reviewed the sources and methods of compilation of balance of payments statistics and identified certain problems of data sources, coverage, and the timing of the recording of transactions.

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

The table below shows the currentness and coverage of data published in the country page for Ghana in the August 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Bank of Ghana, which during the past year have been provided on an irregular basis.

Status of IFS Data

		Latest Data in August 1985 IFS
Real Sector	- National Accounts	1981 1/
	- Prices: CPI	Dec. 1984
	WPI	Q1 1984
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1983
	- Financing	1983
	- Debt	1983
Monetary Accounts	- Monetary Authorities	March 1985
	- Deposit Money Banks	March 1985
	- Other Financial Insitutions (Post Office Savings deposits only)	1978
External Sector	- Merchandise Trade: Values	Q4 1983
	Prices	n.a.
	- Balance of Payments	1983
	- International Reserves	May 1985
	- Exchange Rates	June 1985

1/ GDP only through 1983.

Ghana: Selected Financial Data and Ratios, 1979-85

(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)

	1979	1980	1981	1982	1983	1984 Prov. outturn	1985 Proj.
National accounts							
GDP real growth (percent)	-2.5	1.2	-3.8	-6.1	-2.9	7.6	5.3
GDP per capita growth (in percent)	-6.1	-2.4	-8.1	-9.1	-5.4	4.9	2.6
Fixed investment to GDP	6.5	5.6	4.5	3.3	3.7	6.0	...
Domestic saving to GDP	8.2	4.9	3.4	3.3	3.0	5.2	...
Prices and wages							
GDP deflator index (percent change)	37.9	50.1	80.4	25.3	125.7	34.0	26.3
National consumer price index (percent change)	54.2	50.1	116.5	22.3	122.8	39.6	20.0
Real producer price for cocoa (index: 1978 = 100)	114.2	127.2	59.7	127.4	67.5	67.5	88.1
Real public sector wages (index: 1975 = 100)	22.2	19.7	20.5	16.7	13.1	14.7	23.2
Central government finances (Through mid-1982 the fiscal year was July-June. Beginning 1983 the fiscal year is the calendar year.) 1/							
Overall deficit as a percent of GDP	5.2	8.0	5.8	4.5	2.6 2/	1.8 2/	2.3 2/
Bank financing of overall deficit as a percent of M_2 at beginning of period	7.4	27.2	52.0	3.4	67.4	8.0	7.0
Overall deficit as a percent of total expenditure	38.0	58.9	50.0	43.0	32.5	17.6	17.8
Money and credit (percent change; end of period)							
Net domestic assets	7.2	28.7	58.3	20.1	41.2	31.9	42.2
Of which: claims on Government	(9.1)	(33.0)	(63.2)	(3.8)	(23.5)	(8.4)	(8.8)
Money (M_2)	15.5	33.8	51.3	23.4	38.1	39.3	31.7
Interest rates (at end of period)							
Savings deposits	13.00	13.00	19.0	9.0	12.5	16.0	17.0 3/
Maximum lending rate	12.50	12.50	25.0	14.0	19.0	22.5	22.5 3/

Ghana: Selected Financial Data and Ratios, 1979-85 (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)

	1979	1980	1981	1982	1983	1984 Prov. outturn	1985 Proj.
Balance of payments							
Exports (percent change in SDR value)	15.4	2.8	-28.9	-8.8	-25.2	34.6	16.0
Imports (percent change in SDR value)	-0.1	12.3	16.0	-34.1	--	14.6	29.7
Current account (in millions of SDRs)	94.3	21.4	-357.7	-98.5	-280.7	-141.8	-335.7
Current account to GDP 2/ (in percent)	1.2	--	-1.5	-0.3	-2.9	-1.9	-5.1
Oil imports to total imports (in percent)	21.4	31.8	36.3	52.1	28.3	25.7	27.2
Export volume (percent change)	-12.4	1.0	-10.0	8.0	-28.0	-0.2	21.2
Import volume (percent change)	-10.0	-8.0	-4.0	-35.0	-1.2	13.4	29.3
Terms of trade (percent change)	-2.2	-16.0	-30.0	-17.0	-3.0	33.0	-4.6
Nominal effective exchange rate (depreciation -)	4.9	5.8	6.3	5.2	-89.9	-31.6	...
Real effective exchange rate (depreciation -)	45.8	32.2	108.3	30.4	-76.5	-35.1	-20.0
External debt to GDP 4/	9.1	7.3	4.4	3.8	25.7	37.1	44.1
External debt service as percent of exports of goods and non-factor services 5/	6.7	7.4	10.9	13.4	30.9	29.9	49.1
External payments arrears (in millions of US$)							
Outstanding at the end of period	427.4	342.5	512.2	575.9	439.5	231.7	195.1 6/
Gross international reserves 7/ (in millions of SDRs)	385.0	154.9	171.6	203.0	204.3	401.2	442.0 8/
Equivalent weeks' imports	32.3	11.54	11.0	19.8	19.5	33.3	29.5

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

1/ For the four-year period 1978-81, the fiscal data in this table refer 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/ As of end-April 1985.

4/ Government and government-guaranteed medium- and long-term debt, including Fund debt.

5/ Including Fund debt.

6/ At end-June 1985.

7/ Part of these reserves are pledged.

8/ At end-May 1985