

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/W/94

22 November 1985

Limited Distribution

Committee on Balance-of-Payments Restrictions

1985 CONSULTATION WITH GHANA
(SIMPLIFIED PROCEDURES)

Background Paper by the Secretariat

1. This paper has been prepared in accordance with Paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205) to assist the Committee in taking the decision referred to in Paragraph 8 of the Declaration.

I. Ghana's previous consultations

2. The last full consultation with Ghana took place on 15 December 1983. At this consultation, the Committee recognized the difficulties facing the Ghanaian economy and welcomed the efforts made by Ghana to overcome them with the aid of multilateral financial institutions. It noted that Ghana's import régime had been simplified and that it operated without discrimination regarding sources of supply, outside of bilateral clearing systems maintained with a few countries. The Committee encouraged Ghana to pursue its efforts to adjust to the prevalent difficulties, and expressed the hope that it would soon be in a position to fulfil its intention to relax trade restrictive measures as soon as its balance-of-payments situation improved (BOP/R/136).

II. Changes in Ghana's trade restrictions since the last consultation

(a) Import programmes and import licensing

3. The overall level of imports into Ghana continues to be controlled under annual import programmes, linked to annual foreign exchange budgets. Up till 1984 the import programme was established by the Secretary of Trade, as Controller of Exports and Imports. In March 1984 a new Import Programming and Monitoring Committee (IPMC) was established comprising the major economic ministries, the Central Bank and commercial banks. This committee now formulates the annual import programme on the basis of a foreign exchange budget prepared by the Ministry of Finance and recommendations on import requirements, covering both public and private sectors, made by the relevant sectoral ministries. The import programme for 1984 was set at some US\$810 million, of which energy accounted for one-fifth, imports for major export sectors for 15 per cent and industry 17 per cent. The 1985 programme is 17 per cent higher in US dollar terms, to be financed to the extent of 70 per cent from foreign sources; energy accounting for 22 per cent, and export sectors for 20 per cent.

4. As mentioned in the background paper for the 1983 consultation (BOP/W/73, paragraph 5) two types of import licences are granted: specific licences, required for all commercial imports purchased with foreign exchange

including external aid or credits, and Special Licences, issued for imports by firms which have access to foreign exchange outside Ghana and do not therefore imply any transfer of foreign exchange.

5. Specific licenses are valid within the calendar year and entitle importers to obtain the foreign exchange necessary. Since June 1984 three levels of priority categories of imports have been in force. Category I, the core category covers essential inputs, raw materials and equipment, and spare parts. Category II covers other items linked to "core" products, Category III covers all other approved imports. Details have not been provided to the GATT.

6. New regulations introduced in September 1985 for Special Licenses are shown in Appendix I to the Ghanaian Statement (BOP/259). All goods except cigarettes, beer, stout, asbestos and fibre cement roofing sheets and pipes and motor vehicles over four years old may be imported on condition that no transfer of foreign exchange is implied.

7. Import prohibitions remain in force on commodities considered as luxuries; including all textiles and textile products, chocolate, and chilled and frozen fish.

(b) Foreign currency regulations related to trade financing

8. Most imports are made through confirmed letters of credit established through Ghanaian banks. The Bank of Ghana provides the necessary foreign exchange cover for approved imports, via commercial banks. All imports over US\$2,000 f.o.b. require SGS inspection before payment can be made. Import licences are issued on a cost plus freight basis; insurance must be covered in Ghana. In June 1985 Ghana residents, as well as non-residents were permitted to open foreign exchange accounts in specified convertible currency, into which foreign exchange earnings from sources other than exports of goods and services, agency commissions, and discounts on imports may be credited. The interest on such accounts is free from Ghanaian tax and then operation is free from other exchange control restrictions.

III. Other policies aimed at restoring equilibrium

(a) Exchange rate policy

9. Since the unification of the exchange rate at Cedi 30=US\$1 in October 1983, the cedi has been adjusted periodically, at approximately four-monthly intervals, during 1984 and 1985 in order to maintain export competitiveness: since October 1985 the rate has been C60=US\$1, representing a depreciation of 50 per cent in dollar terms since October 1983.

(b) Policies towards exports and foreign investment

10. Ghana's economic recovery programme stresses the rebuilding and rehabilitation of the main export sectors of cocoa, timber, manganese, bauxite and gold. Exchange rate policy, foreign assistance from bilateral

and unilateral sources and new legal provisions for investment are directed to that end. Producer prices for cocoa have been increased in order to encourage better cultivation and harvesting of the crop. Timber production is expected to grow more rapidly with incentives provided both by more competitive exchange rates and by provisions allowing greater retention of foreign earnings for imports of spares and equipment. The improvement of the railway system which is underway will also assist production and export of timber and minerals.

11. A new foreign investment code introduced in the autumn of 1985 provides for exemption from customs duties on plant, machinery, equipment and parts imported for the establishment of new enterprises, income tax, rebates for tree crops and livestock projects and depreciation or capital allowances for projects in the manufacturing, construction and tourism sectors. All foreign exchange earning enterprises may retain a proportion of foreign exchange earnings in external accounts and provisions are made for free transferability of dividends, profits and other charges attributable to foreign investment. At the same time, conditions are placed on foreign ownership of approved enterprises in terms of foreign equity capital or capital goods participation and foreign exchange earnings by the enterprises.

IV. Recent trends in Ghana's economy and foreign trade

12. After contracting by 3.8, 6.1 and 2.9 per cent respectively in 1981, 1982 and 1983, the real GDP of Ghana rebounded with an estimated growth rate of 7.6 per cent in 1984.

13. The economy suffered in 1983 from a drought which severely cut food production and forced electricity rationing. The real output of agriculture, forestry and fishing decreased by 5.7 per cent in 1983 but then increased by about 10 per cent in 1984 (maize production more than doubled in the latter year). Following a 12½ per cent decline in 1983, the industrial sector grew by 7 per cent in 1984, boosted mainly by the 10 per cent growth of manufacturing. However, capacity utilization is still reportedly very low. The distribution and services sector, which accounted for one-third of GDP in 1983 and 1984, grew by 5.3 and 3.8 per cent respectively in these two years. Investment and private consumption, which increased by about 17 per cent and 11.7 per cent respectively in 1984, provided an important stimulus to the economy. A large part of the new investment reflects efforts to boost infrastructural and production facilities. (Gross fixed capital formation increased by about 10 per cent in 1983 and by 16 per cent in 1984.)

14. The drought in 1983 contributed to a sharp increase in prices. Inflation (measured by the consumer price index) was about 123 per cent in 1983 and then came down to 40 per cent in 1984. (Three-digit inflation is not unprecedented in Ghana, which had an inflation rate of 116 per cent in 1981; the rate of inflation in 1982 was 22 per cent.)

15. The official exchange rate of the cedi was unchanged from 1979 to the third quarter of 1983. It depreciated, on an average, by 20 per cent in 1983, due to the 81 per cent depreciation in the fourth quarter compared to the third quarter of that year. From fourth quarter 1983 to fourth quarter

1984, the cedi depreciated by 65 per cent, and then further depreciated by 21 per cent till the second quarter of 1985. On 12 August 1985 the government devalued the official exchange rate of cedi again by 7 per cent.

16. Measured in US dollars, exports (f.o.b.) in 1984 increased for the first time in four years, reaching an estimated US\$565 million. The main impetus was provided by exports of cocoa, which account for 60 to 70 per cent of total exports. Cocoa exports increased by 38½ per cent in 1984, helped by 48½ and 56 per cent increases respectively in the unit values of cocoa beans and cocoa products. Though the value of total exports in 1984 increased by 29 per cent, the amount was only half the amount exported in 1980, and was less than the value of exports in 1982. Figures recently issued by the Ghanaian authorities for the first six months of 1985 indicate a doubling of exports to US\$310 million compared with the first half of 1984.

17. The dollar value of imports (f.o.b.) decreased by 3 per cent in 1983 and then increased by about 10 per cent in 1984 to reach US\$626½ million. This was preceded by a large decrease (38 per cent) in imports in 1982. The bulk of this decrease was due to a 53½ per cent fall in non-oil imports, thus increasing the share of oil imports to 52 per cent of total imports (despite an 11 per cent reduction in oil imports). However, in 1983 the value of oil imports decreased by 47½ per cent, and then remained flat in 1984. In contrast, non-oil imports increased by 45 per cent in 1983 and by about 14 per cent in 1984. As a result the trade balance, which was in surplus (US\$18.3 million) in 1982, registered a deficit of US\$130.6 million and US\$60.6 million in 1983 and 1984 respectively; by contrast, in the first half of 1985 Ghanaian data showed a trade surplus of US\$350,000. A net deficit on the services account of US\$279 million and US\$227 million respectively in 1983 and 1984 overwhelmed the large (mostly official) unrequited transfers of US\$110 million and US\$142 million in these years, and resulted in a corresponding current account deficit of US\$300 million and US\$145 million.

18. Ghana's total foreign exchange reserves (minus gold) were about US\$145 million and US\$302 million at the end of 1983 and 1984 respectively. The reserves have increased further during mid-1985, and were US\$385 million at the end of July 1985. However, the debt-service ratio as a percentage of exports of goods and non-factor services increased from about 13½ per cent in 1982 to 31 per cent in 1983, and was 30 per cent in 1984.