GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

BOP/W/109
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Limited Distribution

Committee on Balance-of-Payments Restrictions

1987 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 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). Since then one simplified consultation has been held in December 1985 (BOP/R/94).

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

(a) Import programmes and import licensing

3. Up to 6 October 1986, the overall level of imports into Ghana was controlled under annual import programmes, linked to annual foreign exchange budgets. The Import Programming and Monitoring Committee (IPMC), comprising the major economic ministries, the Central Bank and commercial banks, formulated 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 1985 was set at some US$950 million to be financed to the extent of 70 per cent from foreign sources; energy accounting for 22 per cent, and inputs to the export sectors for 20 per cent. The programme originally established for 1986 was some US$1,060 million.

4. In September 1986, the authorities introduced a new foreign exchange auction scheme, subsequently reinforced in March 1987 (see paragraph 7 below) and a new system of import licensing. Under this three types of licences are issued. The "A" licence permits the holder to bid for foreign exchange through the auction system. It is issued for import of drugs, raw materials, spare parts, capital and intermediate goods. A fee of 0.1 per cent of the value of the imports licensed is charged. The "S" licence is issued for import of goods financed by importers' own foreign exchange resources. Any goods may be imported except goods on the prohibited list, cigarettes, beer, stout, asbestos or fibre-cement roofing sheets and pipes, and motor vehicles over four years old. Conditions for imports are laid down in the Imports and Exports (Special Licence) Regulations 1985, which were annexed to the Ghanaian statement for the 1985 consultations (BOP/259). "G" licences are reserved for imports by government organizations within the import programme for such organizations approved by the IPMC.

5. The statement by Ghana mentions that the scope of the "A" licensing system was significantly enlarged in May 1987 (BOP/276, Apppendices I and II), and that a timetable has been drawn up for the complete unification of the "S" licensing market with the "A" market. For a number of items, import prohibitions have been lifted and the goods concerned are now subjected to special import levies. At the same time, a number of import duties have been abolished or reduced.

(b) Foreign currency regulations related to trade financing

6. Most imports are made through confirmed letters of credit established through Ghanaian banks. "A" licence imports are financed through the foreign exchange auction. For "S" licence government imports, foreign exchange is provided by the Bank of Ghana. All imports over US$2,000 f.o.b. require pre-shipment inspection before payment can be made. Import licences are issued on a cost plus freight basis; insurance must be covered in Ghana. Since June 1985, Ghana residents as well as non-residents have been permitted to hold foreign exchange accounts in specified convertible currencies, 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 their operation is free from other exchange control restrictions. "S" licence imports may be made using such funds.

III. Other policies aimed at restoring equilibrium

(a) Exchange rate policy

7. Up till January 1986, the value of the cedi had been adjusted periodically at approximately four-monthly intervals in an attempt to maintain export competitiveness. From January until September 1986 the rate was held at ¢90 = US$1. On 19 September 1986, a dual foreign exchange system was reintroduced, with purchases of crude oil and essential drugs,

government debt servicing and exports of cocoa remaining at the "official" rate of 90 cedis to the United States dollar, and other foreign exchange transactions for imports open to auction by holders of valid import licences. Bids were made weekly to the Bank of Ghana. The objectives were to encourage non-traditional exports which were not competitive at the previous official rate (such as palm oil and copra) while discouraging parallel market currency activities. The immediate effect was to devalue the auction price of the cedi to ₵128 = $1.

8. In March 1987, with the Budget, it was announced that all foreign exchange transactions were to be made at the auction rate. This rate was maintained at some ₵150 = $1 until May 1987. Banks and other licensed currency dealers were permitted to establish exchange bureaux. Non traditional exports were to be further encouraged by increasing the foreign exchange retention allowance from 25 to 30 per cent.

(b) Import liberalization and tax reduction measures

9. The 1987 budget also reduced the corporate tax rate by 10 per cent to 45 per cent, reduced sales taxes on various locally produced items including construction materials and electric current, and reduced import duties on a number of inputs and capital goods. Duties on cotton, jute and pig iron were halved to 15 per cent; the rate on other raw materials and capital goods, previously set at between 20 and 30 per cent, was unified at 20 per cent; raw materials for pharmaceuticals were given a concessional rate of 10 per cent and duties on "non luxury" consumer goods were reduced by one-sixth to 25 per cent. A major change was made to the taxation of imported transport goods, with all import duties and purchase taxes on commercial vehicles, railway engines, coaches and vans, motorcycles and bicycles abolished: tax exemption for saloon cars up to 1800cc and reductions for those between 1800 and 2000cc; a concessionary duty rate of 10 per cent on all spare parts, accessories and lubricants; and liberalization of import licensing requirements on motor vehicles.

IV Recent trends in Ghana's economy and foreign trade

10. The government introduced a far-reaching Economic Recovery Programme in April 1983, designed principally to improve the economy's productive base through an extensive realignment of relative prices, to strengthen official finances and provide incentives for private investment and enterprise. It was anticipated that the economy's response to the policy and institutional reforms, which included the restructuring of the exchange rate regime, the liberalization of trade, and more realistic pricing policies in the export sector, would be evident in the short to medium term. The economy's growth performance, as measured by annual percentage changes in real GDP, improved discernibly in 1984 and 1985 and, from preliminary figures, also in 1986, as compared with its average performance in 1979-83. Annual increases in real GDP of 7.6 per cent in 1984 and 5.1 and 5.3 per cent in 1985 and 1986 may be compared with declines of between 3 and 6 per cent in 1979-83. The broad sectoral balance of the economy has

also been enhanced with significant growth in agricultural and industrial output, and in mining and manufacturing production, relative to primary trading and rent-seeking activities.

11. Agricultural output growth has been uneven, reflecting both the incidence of drought and rainfall and a reaction to critical producer and related price changes. The share of agriculture in real GDP rose by an estimated 5.3 per cent in 1986 compared with 0.8 per cent in 1985 and over 10 per cent in 1984. While the output of most food crops fell in 1985 and to a lesser extent in 1986, the output of cocoa, the key export crop, rose sharply in response to higher producer prices, from May 1985, and improved production and distribution arrangements. The output of the mining sector was up by 15 per cent in 1985, following a three-fold rise in bauxite production, the doubling of diamond production and a 7 per cent rise in gold output. Mining production rose more slowly in 1986, with bauxite output up by around 20 per cent and that of gold, diamonds and manganese falling due to domestic labour and organizational problems in the gold and diamond industries and a decline in the country's proven manganese ore reserves.

12. Manufacturing output rose strongly in 1984 and 1985, by 13 per cent and 22 per cent respectively, largely in response to much improved availability of finance for importing essential raw material inputs and spare parts and equipment. Further growth would depend even more on the provision of increased and more durable flows of domestic and foreign capital for purchasing imported inputs, particularly of manufacturing plant and equipment. Growth in the effective rate of utilization of manufacturing capacity, which rose sharply in 1984-85 from under 15 per cent in 1981 and no more than 30 per cent in 1983, has reportedly continued in 1986-7, although at a more measured pace and has become increasingly dependent on a rise in investment in new plant and equipment. Several industries are estimated to be close to or above a capacity utilization rate of 50 per cent.

13. Growth in non-government services has continued at rates above real GDP growth particularly since 1985. Government services have expanded at an average annual rate of 2 per cent since 1983. A significant trend in the growth of non-government services has been the marked rise in transport services following large and continuing investment since 1983 in rehabilitating the road and rail networks and related infrastructural facilities. Among the other main service industries it is anticipated that the wholesale and retail trade sector could grow more slowly than in 1985 and 1986 as production incentives in the non-services sectors become more attractive and consumption taxes restrain spending.

14. Estimates of investment in 1985 show a slight fall to 7.3 per cent of GDP as compared with 1984, although a rise to around 10 per cent may have occurred in 1986. Public investment spending as a percentage of GDP now closely dependent on the rate of disbursements of external aid commitments improved only slightly in 1985 and 1986. It is expected that the much

higher level of concessional funding secured at the most recent Paris Consultative Group consultations, $818 million against an anticipated $575 million, would be translated into more rapid and larger effective absolute disbursements. Private sector investment has shown few signs of vigorous growth, responding uneasily to the major changes in effective exchange rate relationships which have characterized the first phase of the Economic Recovery Programme and more generalized uncertainty over the short to medium term investment climate. The full impact of recent, more liberal investment incentive legislation is yet to be felt. Public investment expenditures, by the central government and state-owned enterprises, as a proportion of GDP, have remained fairly stable since 1984. The relative contribution of the public sector to national savings as a share in GDP appeared to have been slight in 1986, with the bulk of savings contributed by the private sector. The overall (net) savings ratio is expected to rise as improvements are sustained in the balance of payments - as increased official capital inflows reduce the government's budget deficit (that is, the government's dis-saving).

15. By far the most important single element in the strategy of the Economic Recovery Programme has been the progressive re-alignment in effective exchange rates and in the coverage, structure and functioning of the exchange rate regime. The real effective exchange rate of the the cedi has declined since 1983 by over 90 per cent. Following systematic adjustments in an exchange rate system of largely market-orientated exchange auctions, imports of consumer goods and non-factor services are now the only non-capital transactions yet to be fully integrated into the auction framework. The extent of depreciation in the exchange rate is shown in the table below.

Ghana: Real effective exchange rate Index, 1983-86
(1983 = 100)

	1983	1984	1985	1986
Index	100.0	69.2	57.1	30.2
Annual % change	-76.6	-30.8	-17.5	-47.1
Ratio of parallel market to official exchange rate	22.2	3.2	2.8	1.8

Source: World Bank, 1987

16. Changes in real effective exchange rates are believed to have produced a far-reaching economy-wide re-alignment of relative prices which has been

central to the programme for liberalizing both the import and export regimes, and the reform of the entire structure of administered pricing, revenue raising and the management of interest rates. The authorities regard maintenance of improved exchange rate arrangements as an essential basis for achieving sustained growth and greater viability in external payments.

17. Foreign trade performance has improved markedly since the coming into effect of the Economy Recovery Programme in 1983-84. Official figures indicate that export volume rose on average by around 13 per cent, some 4 percentage points below the annual growth in imports. Notwithstanding this trend in the underlying merchandise trade balance and increasingly adverse terms of trade, Ghana paid all external debts maturing over the last four years and reduced the stock of arrears in debt payments to $171 million at the end of 1986 from $440 million in 1983.

Ghana: Volume index of major exports, 1983-86
(1977 =100)

	1983	1984	1985	1986
Cocoa	63	60	68	78
Timber	19	23	46	66
Gold	70	72	72	73

18. Exports have risen in value each year since 1984 when they were valued at $566 million. The value of exports in 1986 was $773, an increase of 22.3 per cent over the 1985 figure. However, even in 1986 exports were valued at significantly less than the $1104 million figure for 1980. The value of cocoa exports, comprising between 60 and 70 per cent of total exports, has varied considerably between 1980 and 1986, due to a combination of factors of which world market cocoa prices are by far the most important. High world prices for cocoa in 1983, for example, were mainly responsible for the sharp rise in the 1983 value of cocoa exports compared with the previous year. Volume changes from one year to another have also been reflected in export values. Of greater significance is the strong upward trend in cocoa export volumes since 1984.

19. The dollar value of imports in 1986 was $713 million, some 6.6 per cent larger than in 1983. Imports which had fallen in value quite sharply in 1982 and 1983 rose in 1984 and even more strongly in 1985 over 1984, by some 26 per cent. The rising trend in the value of imports may be attributed to the much improved availability of import finance and higher average capital inflows under the Economic Recovery Programme. As the

massive restructuring of relative prices, following the re-alignment of the exchange rate, hit consumer goods imports much harder than other imports, rather more of "essential" imports were made available to the economy, particularly imports of industrial raw materials, plant and vehicles and spare parts.

20. The trade balance improved quite noticeably between 1983 and 1986. Although the current account deficit was much larger in 1985 than in 1984, an estimated $283 million compared with $215 million, it fell sharply in 1986 to $193 million. The overall balance, including capital transactions, shows a declining deficit from 1984. (See Table)

Ghana: Balance of Payments

(in current US$ million)

	1984	1985	1986
Exports of Goods (fob)	566	632	773
Cocoa beans and products	382	412	519
Other exports	184	220	254
Imports of Goods (cif)	-681	-727	-780
Oil	-161	-200	-125
Non-oil	-520	-527	-655
Trade Balance	-115	-94	-7
Non-factor Services	-91	-110	-130
Receipts	38	39	45
Payments	129	149	175
Resource Balance	-206	-204	-137
Net Factor Payments	-81	-111	-105
Interest Payments	-79	-108	-101
Public	-53	-59	-44
Private	-5	-5	-2
Banking	-21	-44	-55
Factor Payments & other	-2	-3	-4
Net Private Transfers & SIL	73	32	49
Current Account Balance = Foreign Savings	-215	-283	-193
External Capital Inflow	132	150	155
Grants	141	93	115
Public Foreign Borrowings	70	31	99
MLT net	71	39	111
Gross Inflows	211	287	358
Concessional	138	134	243
Non-concessional	73	153	115
of which: oil	49	116	59
Amortization	140	248	248
Trust Fund	-1	-7	-11
Private Foreign Borrowing (Net)	4	5	18
Direct Foreign Investment	2	6	4
Short term borrowing	-85	15	-81
Errors & Omissions	-38	16	-18
Overall Balance	-121	-117	-56
Financing Gap	0	0	0