

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments Restrictions

REPORT ON THE 1983 CONSULTATION WITH GHANA

1. The Committee consulted with Ghana in accordance with its terms of reference and the Declaration of the CONTRACTING PARTIES on Trade Measures Taken for Balance-of-payments Purposes (BISD 26S/205). The consultation was held on 6 December 1983 under the Chairmanship of Mr. J.N. Feij (Netherlands). The International Monetary Fund was invited to participate in the consultation pursuant to Article XV of the General Agreement.

2. The Committee had the following documents before it:

Basic Document	(BOP/238)
Secretariat Background Paper	(BOP/W/73)
IMF Report Recent Economic Developments, dated 21 July 1983	

Opening Statement by the Representative of Ghana

3. In his introductory statement, the representative of Ghana said that in the light of the unprecedented economic difficulties his government had inherited, coupled with the crisis in the world economy, the Government of Ghana was committed to maintaining for the time being the restrictions on trade and payments which had been in force for some time in the belief that it would receive the sympathetic understanding and material support that would make it possible to discontinue the restrictions as soon as economic circumstances permit. These measures had been taken after consultation with the appropriate multilateral institutions, and he hoped that the mutual understanding, confidence and sympathy that had prevailed during previous balance-of-payments consultations in the GATT would be sustained. Ghana's protracted balance-of-payments difficulties were due to the failure of exports to generate enough foreign exchange to finance needed imports and to meet debt obligations. These difficulties had been aggravated by the oil crisis of the mid-1970's and unfavourable terms of trade. In addition, adverse weather conditions and bushfires had increased the need for food imports, which meant that available external resources could not be used to finance the import of inputs required for the export sector; this inadequate supply of inputs and the lack of incentives for producers resulted in the recent low levels of production.

4. The economic recovery programme, instituted by the Ghanaian Government to provide the basis for resumed growth, had been supported by the IMF in the form of a standby arrangement and compensatory financing and by the World Bank in the form of a reconstruction import credit of US\$ 40 million; negotiations were also underway for a World Bank export rehabilitation loan. Further support for the economic recovery programme was given by the Paris donors' conference in the middle of November 1983, at which the donor

countries pledged a total of US\$ 150 million during 1984. All these forms of assistance were expected to provide a firm foundation for the country's economic recovery programme and lead to a significant growth in the economy.

Statement made by the Representative of the International Monetary Fund

5. At the invitation of the Committee, the representative of the International Monetary Fund made a statement, the full text of which is reproduced in the Annex.

Balance-of-Payments position and prospects - alternative measures to restore equilibrium

6. Several members of the Committee expressed sympathy for the great difficulties Ghana was facing in rehabilitating its economy, and welcomed the economic recovery programme instituted by the Ghanaian Government. While it was recognized that under present circumstances Ghana needed to implement trade restrictions for balance-of-payments purposes, the hope was expressed that no new additional measures would be taken, but that should any new measures be taken they would be notified promptly. Members welcomed indications to the effect that the Ghanaian authorities would continue their adjustment efforts beyond the current programme period and would liberalize restrictions as the balance-of-payments situation improved. In this connection, the representative of Ghana noted that no new restrictions had been introduced by the present government.

7. In reply to the question whether all measures listed in the secretariat paper were justified on balance-of-payments grounds, the representative of Ghana said that only the licensing system was used to regulate imports. The other measures listed, though they might have an incidental effect on imports, had not been instituted for balance-of-payments reasons.

8. Several members underlined the importance of stimulating national production, in particular but not exclusively for exports. Referring to point 2 of Ghana's Economic Recovery Programme (BOP/238, page 5) they said it was important not to neglect "small inputs" whose constant and immediate availability are necessary for the smooth running of any machinery. In this regard, they also referred to the closure of the Ghanaian border which had cut off the supply of such inputs and asked whether the Government of Ghana was aware of this problem and when and how it would be solved. Regarding the transport sector, they noted that the standstill on imports of used vehicles into Ghana could be a complicating factor in further development of that sector. They also said that delays in implementing development projects based on new loans might occur due to labour shortages created by inappropriate wage policies. They also asked whether progress had been made on a new investment code under preparation. Finally, it was noted that while the increase in producer prices of cocoa seemed high, in real terms cocoa farmers were earning much less than they had in previous years.

9. The representative of Ghana, referring to restrictions on imports of vehicles, said that there was no absolute ban on such imports. The aim of the restrictions was merely to keep the number of vehicles in the country within reasonable limits due to limited availability of fuel and spare parts. Permission to import a vehicle had been granted in a number of cases where applications for compelling reasons had been made to the authorities. The problem of imports of "small inputs" was eased by permitting exporters to retain 20 per cent of their hard currency earnings in foreign exchange in overseas accounts. In addition, discussions concerning the reopening of the Eastern border were underway. As to the cocoa prices, it was true that there had been a real decline in recent years: the government's producer price policy, however, aimed at ensuring that there would be no significant erosion of the producer price in real terms. New investment legislation was being drafted but had not been finalised.

10. One member asked whether provisions were being made to diversify exports under World Bank programmes. He cited a number of possible areas of expansion, including moving from raw material to processed exports of cocoa and timber and deep-sea fishing. He also asked whether there had been a reversal of the capital flight since the adoption of Ghana's economic recovery programme.

11. The representative of Ghana said that export rehabilitation and diversification were priorities for his country. A certain degree of export diversification had already taken place including development of exports of processed cocoa and timber as well as of canned tuna. There were currently three measures in force which had the effect of helping the growth of non-traditional exports, namely the 20 per cent foreign exchange retention, more adequate provision of raw materials and spare-parts under the 1983 budget to increase capacity utilization and customs duty draw-back on imported inputs. It was still too early to assess the impact of the economic recovery programme on capital flows but information on this point was expected to be available in the near future. In reply to a question, he said that although the external trading environment was relevant to Ghana's balance-of-payments situation, it did not seem appropriate to discuss it in the present circumstances.

#### System, method and effects of the restrictive import measures

12. Several members asked how and at what stage transactions under special licences were accounted for in the balance-of-payments since the exchange to finance them was held outside the country. They also asked what was the reason for the clean report of findings for imports over US\$ 2,000 f.o.b. referred to on page 7 of BOP/238. The representative of Ghana said that the sources of foreign funds for special licences were not generally known, and that such imports could be financed from the proceeds of unrecorded exports or funds held abroad by residents and non-residents. Special licences were only used to monitor imports financed by such funds. The clean report of findings referred to price, quality and quantity of imported goods. In reply to a further question, he said that no preferences were given to ECOWAS members in the allocation of import licences.

13. Regarding the import licensing system in general, one member asked whether the Ghanaian Government had any future plans to facilitate access to import licences. In addition, she asked what was the percentage of imports entering under both specific and special licences. The representative of Ghana replied that there was no discrimination regarding the allocation of import licences to eligible importers. Specific licences were allocated according to an annual import programme based on foreign exchange availability. There was, however, no a priori determination of the percentage of imports allowed under special licences, which were delivered on an ad hoc basis.

14. In response to a question regarding agricultural restrictions as listed in BOP/238, the representative of Ghana said that any restricted item not appearing on the list might be due to a problem of classification rather than omission. He said that because Ghana needed to import food, what restrictions may exist in the agricultural sector were for foreign exchange reasons. There was no policy to restrict agricultural imports beyond the need to encourage local production.

15. A question was raised regarding the procedures that Ghana was following to ensure that tender documents arising from the World Bank export rehabilitation loan would be made available to all interested parties. The representative of Ghana replied that all tenders were advertised regarding certain contracts or imports the government wanted to execute, and in many cases foreign as well as local companies were allowed to participate in them. While the Ghanaian authorities were not bound by the lowest bids, they looked to the most efficient and expeditious means of carrying out the tenders.

#### Conclusions

16. The Committee recognized the difficulties facing the Ghanaian economy and welcomed the efforts made by Ghana to overcome them with the assistance of multilateral financial institutions. It noted that Ghana's import regime had been simplified and that it operated without discrimination regarding sources of supply outside of bilateral clearing systems maintained with a few countries.

17. The Committee encouraged Ghana to pursue its efforts to adjust to the current 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.

ANNEX

Statement by the Representative of  
the International Monetary Fund

During most of the 1970s, Ghana experienced serious economic and financial difficulties, resulting mainly from severe structural imbalances and expansionary policies. The cumulative impact of large budgetary deficits, rapid increases in domestic bank credit, and the pursuit of unrealistic domestic pricing, interest rate, and exchange rate policies, led to severe supply shortages, high inflation, a steady worsening of the balance of payments, and the accumulation of external payments arrears. These problems deepened during 1980-82, following a sharp deterioration in the terms of trade and prolonged drought conditions. As a result, real output, which had dropped steeply in the mid-1970s, declined at an annual average of about 2 percent during 1979-81, and fell again by an estimated 7 percent in 1982. Broadly in line with increased government controls and a tightening supply situation, parallel market activity for foreign exchange and goods flourished. Concurrently, the rate of inflation, as measured by the national consumer price index, accelerated sharply, peaking at 116 percent in 1981.

In the face of rising balance of payments pressures, imports were cut back to match declining exports, and the current account was thereby contained to an annual average deficit of US\$90 million in 1981-82, following surpluses averaging about US\$70 million in 1979-80. Although the value of trade fluctuated considerably during 1979-82, over the period as a whole both exports and imports declined in nominal U.S. dollar terms. Export earnings decreased at an annual average rate of 8.5 percent during 1979-82, from US\$1,066 million to US\$627 million. During the same period, nominal imports also registered an annual average decrease of about 9 percent, from US\$803 million to US\$529 million, but the decline was much greater in volume terms, amounting to 15 percent per annum. Net capital inflows were low relative to the requirements of the country. While net inflows of long- and medium-term government capital registered a broadly rising trend between 1979 and 1982, and direct private investment also increased, very large outflows on "errors and omissions," probably representing speculative capital flight, tended to depress the capital account balance. On a cumulative basis, the overall balance of payments was in virtual equilibrium during 1979-82, after taking into account changes in the stock of payments arrears. Gross international reserves amounted to US\$224 million at end-1982, equivalent to five months' imports. This relatively high ratio of reserves to imports is misleading, because the level of imports in 1982 was unusually low and a large portion of reserves was pledged against past borrowings. Net foreign assets of the Bank of Ghana, excluding payments arrears, amounted to US\$140 million at end-1982; if payments arrears are included, net foreign assets would be negative.

The restrictions on exchange and trade were progressively tightened throughout the 1970s and the early 1980s. All imports involving the use of official foreign exchange became subject to an increasingly restrictive specific import license requirement, within the framework of an annual import program. The list of products eligible for specific import licenses became progressively shorter; in 1982 licenses were issued only for a limited category of essential products. The number of prohibited imports also grew. As the restrictions on the issuance of specific import licenses intensified, the use of special import licenses not requiring transfers of foreign exchange through the banking system was encouraged and expanded. However, the utilization of these licenses was largely inadequate to compensate for the cutback of specific import licenses. As a result, severe shortages of imported goods developed. In addition, all invisible payments required specific approval of the Bank of Ghana. Foreign exchange for business travel and remittances of profits and dividends was granted only in exceptional cases, and foreign exchange for tourist travel was not granted. Foreign exchange for payment of approved imports was, in principle, granted without restriction. However, payments arrears emerged with respect to trade credits and other current payments, and, by end-April 1983, amounted to US\$601 million, or the equivalent of one year's merchandise exports.

On April 21, 1983, the Government announced a major adjustment program which is being supported by a one-year stand-by arrangement with the Fund which became effective on August 3, 1983. The Government's policies focus on a major restructuring of relative prices, especially on correcting the substantial overvaluation of the cedi, on improving the financial position of the public sector, on increasing the volume of imports to promote economic activity, and on reducing external payments arrears. Substantive action has already been taken in a number of areas. The authorities initially adopted a multiple exchange rate system as a transitional arrangement, which resulted in an implicit average exchange rate of about C25 = US\$1, compared with the rate of C2.75 = US\$1 which had been in effect since August 1978. Action on the unification of the exchange rate was taken on October 10, 1983, well ahead of schedule, with the new unified exchange rate of C30 = US\$1 representing a further depreciation in terms of local currency of about 20 percent. The Government is committed to continuing with a flexible exchange rate policy, so as to maintain Ghana's international competitive position.

Domestic price policy has been made more flexible. Producer prices for cocoa and other export crops are being adjusted to provide adequate incentives to farmers; the producer price for cocoa was raised by 67 percent in May 1983. Price controls on domestically produced food items have been lifted, and a flexible policy is being applied to other prices. The policy is to allow a full pass-through of the effects of the exchange rate adjustment on domestic prices of most imported and locally processed goods. The pass-through on petroleum products will be effected in stages; following a doubling, on average, of retail prices of petroleum products in April 1983, these were raised further by about 50 percent in October.

To partially offset the erosion in real wages and salaries which, by early 1983, had dropped to 16 percent of the 1975 level, nominal wages and salaries were raised by 60 percent in the civil service and by 25 percent for other workers. Interest rate policy aims at attaining positive real rates over the medium term; toward this end, interest rates were raised by 35-40 percent (or by up to 5 percentage points) in October. Budget expenditure control has been strengthened, and additional discretionary revenue measures to strengthen the budget have also been taken. Cautious monetary and credit policies are being pursued, consistent with the needs of a reviving economy, at the same time as inflationary pressures are avoided.

The positive effects of the adjustment measures are expected to be felt progressively over 1983-84. Real growth is likely to be positive this year, and to accelerate to about 4 percent in 1984. In view of price decontrol measures, the rate of inflation, as measured by the national consumer price index, is expected to rise to 50 percent in 1983, but to be reduced by half in 1984. The overall budgetary deficit is expected to decline steadily through 1984 from the 1982 level of 4.6 percent of GDP. With regard to the balance of payments, a considerable increase in the current account deficit is expected, both in absolute terms and in relation to GDP (7-10 percent in 1983-84) because of the urgent need to expand import volumes to support investment and growth. Thus, import volumes are programmed to rise by around 50 percent in 1983-84. Already, a relatively more liberal import licensing policy has been adopted to enable the programmed increase in imports to take place. The impact of changes in the exchange rate, producer prices, and improved supply of imported inputs is expected to result in a strong expansion in export volumes in 1984. In addition, the Government intends to bring about a phased cash reduction of external payments arrears during the program period.

The Fund welcomes the adoption of the adjustment program as an important step toward rehabilitating the Ghanaian economy, and improving medium-term viability of the balance of payments. The authorities would clearly need to continue with their adjustment efforts beyond the current program period, and a significant increase in concessional external assistance from bilateral and multilateral sources would contribute to the success of such efforts. As the economic recovery takes hold, the authorities should be in a better position to ease exchange and trade restrictions.