Emerging Africa: The Case of Ghana

Augustin Kwasi Fosu, Ph.D.*

* Director of Research, African Economic Research Consortium, Nairobi
and Professor of Economics (on leave), Department of Economics, School of Business Administration, Oakland University, Michigan

I. An Overview of Long-Run Economic Performance

I.1. The Growth Record

The growth record of Ghana has been one of unevenness, as Table I.1 and Figure I.1 clearly indicate. With a reasonably high GDP growth in the 1950s and early 1960s, the Ghanaian economy began to experience a slowdown in GDP growth as of 1964. Growth was turbulent during much of the period since the mid-1960s and only began to stabilize by 1984. In 1966, 1972, 1975-1976, 1979, 1980-1983, the growth rate was negative. The years in which negative growth was experienced generally coincide with change in government and sometimes with policy changes or reversals.

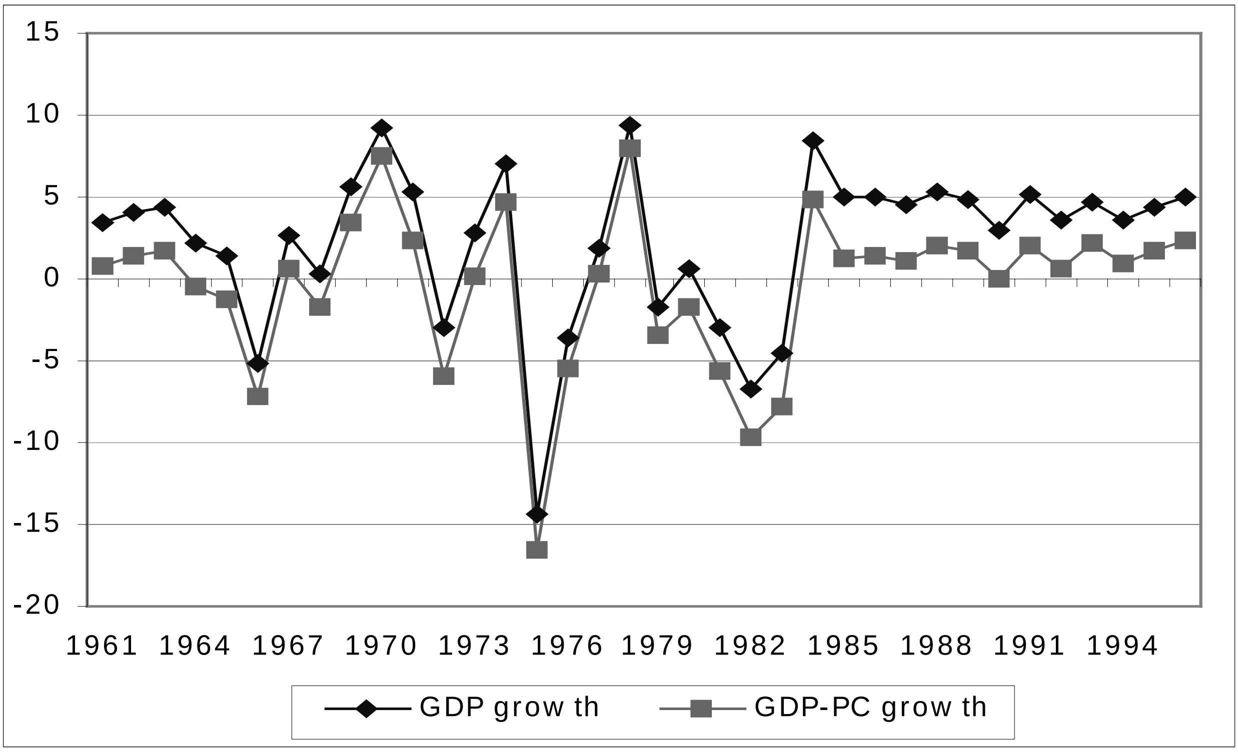
Negative growth was first recorded during the time of the first coup d'etat, with a forceful transfer of authority from the dictatorial Nkrumah regime to the military headed by General Ankrah. The lowest growth of negative 14% was experienced in 1975, coinciding with the oil-supply shock as well as a policy reversal from a market-oriented stance to an inward looking protectionist regime. The period of turbulence, however, also had positive growth trends, with the highest peaks of growth rate reaching 9% in 1970 and 1978.

Table I.1. **Real GDP growth (GDP87G) and real per capita growth (PCGDP87G)**

Year	GDP87G	PCGDP87G	Year	GDP87G	PCGDP87G
1960					
1961	3.372178	0.726942	1979	-1.67998	-3.39927
1962	4.026976	1.380429	1980	0.558622	-1.69838
1963	4.311648	1.652135	1981	-2.98105	-5.64543
1964	2.185294	-0.47121	1982	-6.71132	-9.71208
1965	1.359698	-1.27939	1983	-4.54785	-7.84499
1966	-5.11332	-7.19567	1984	8.386862	4.865695
1967	2.613635	0.561452	1985	4.969483	1.322152
1968	0.358723	-1.72456	1986	4.996393	1.469775
1969	5.562385	3.497996	1987	4.538072	1.131599
1970	9.22475	7.503496	1988	5.381699	2.101763
1971	5.30457	2.29853	1989	4.807684	1.652715
1972	-3.02587	-5.9251	1990	3.009284	-0.02901
1973	2.856772	0.157698	1991	5.121066	2.035341
1974	7.076138	4.624545	1992	3.532426	0.627711
1975	-14.333	-16.5329	1993	4.686309	2.1102
1976	-3.55532	-5.44882	1994	3.638739	0.963487
1977	1.807158	0.282376	1995	4.328839	1.743674
1978	9.377848	7.963121	1996	4.926395	2.307347

Source: Computed from World Bank data

Figure I.1 **Real GDP growth and per capita growth**



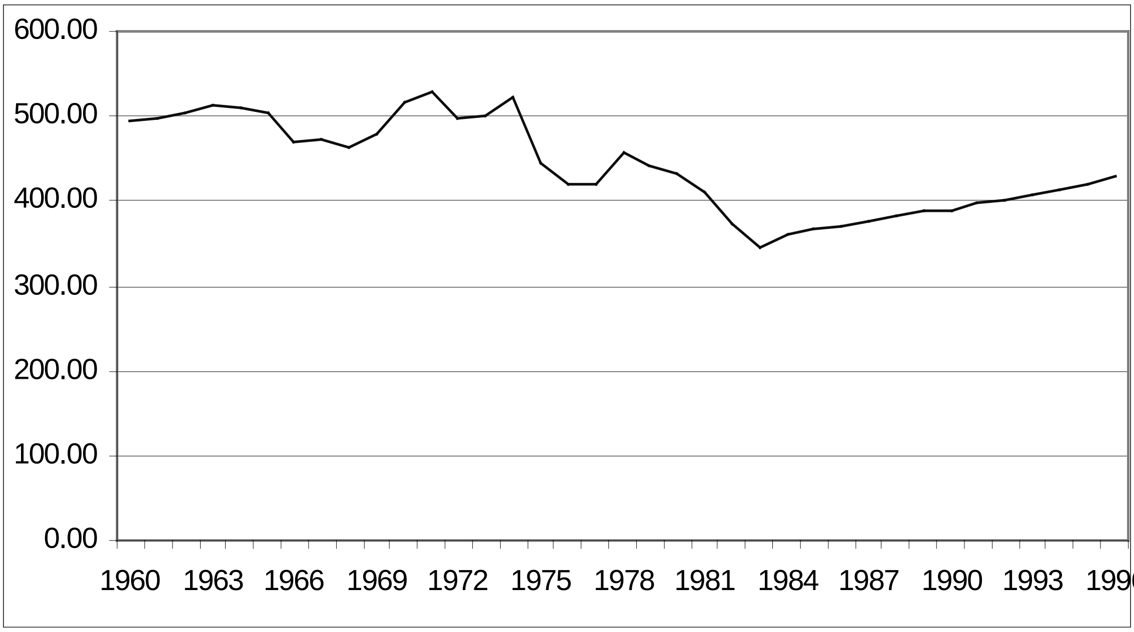
Source: **Computed from World Bank data**

The Economic Recovery Program (ERP), under the International Monetary Fund and the World Bank, was instituted beginning in April of 1983, with actual implementation over 1983-1986. The ERP, a market-oriented program, was intended to halt the downward economic spiral and to stabilize the economy on a reasonable track. Starting in 1986, the ERP was supplemented with the Structural Adjustment Program (SAP), geared toward correcting a number of structural imbalances in order to engender a sustained healthy economic growth.

The economy appears to have positively responded to the ERP and the SAP. It recovered from its negative growth rate of about 5 percent in 1983 to a hefty positive rate of 8 percent in 1984. This favorable growth appears to have continued since that time, with relatively little variance, though there seems to be a slight slowdown in the rate of growth since 1990.

The growth record, based on per capita income, appears similar to that of the GDP illustrated above. As Figure I.1 shows, per capita GDP growth closely tracks that of GDP, suggesting that population growth has been rather stable, though the larger gap between them since the 1980s suggests an acceleration in population growth over this period.

Figure I.2. **Real per capita GDP in 1987 US Dollars**



Per capita GDP generally maintained its value at about 500 US dollars until about 1975 when its downward trend began, hitting a low of 344 dollars in 1983 (Figure I.2). Its upward trend began in 1984, however, after the initiation of ERP in 1983 and has continued to the present, reaching nearly 430 dollars in 1996. While this is still lower that it's previous peak of 513 dollars in 1963, it is certainly far, by nearly 100 dollars, above its nadir in 1983.

The Investment Record

As a percent of GDP, gross domestic investment was as high as 25 percent in 1960 (Figure I.3). It fell to about 20 percent the following year and hovered around that level until 1967 when it tumbled as low as 11 percent. This low level of investment continued into the 1970s, reaching levels below 10 percent in the early 1980s. When ERP was instituted in 1983, the investment ratio was 9 percent. By 1987, however, it had regained its earlier levels of the mid-teens and by 1993, it had moved to about 20 percent, about the levels in the early 1960s. Thus on the surface, at least, it appears that investment levels improved substantially above its levels in the 1970s and early 1980s upon the implementation of the ERP and SAP.

Figure I.3 shows a pattern of secular disinvestment over the 1960s and the 1970s. Starting about 1983, however, this trend had been reversed, a reversal that may be attributable to the liberal economic reforms starting in 1983.

Growth in domestic investment remains slow, however. Projections in the first medium-term development plan place investment at only 22% of GDP by the year 2000 (Ghana vision-2020; Dordunoo, C K. and V K. Nyanteng IN: Nyanteng 1997). Domestic savings are expected to equal foreign savings by the same year, contributing 11% each to GDP (Table I.2).

Figure I.3. **Investment to GDP**

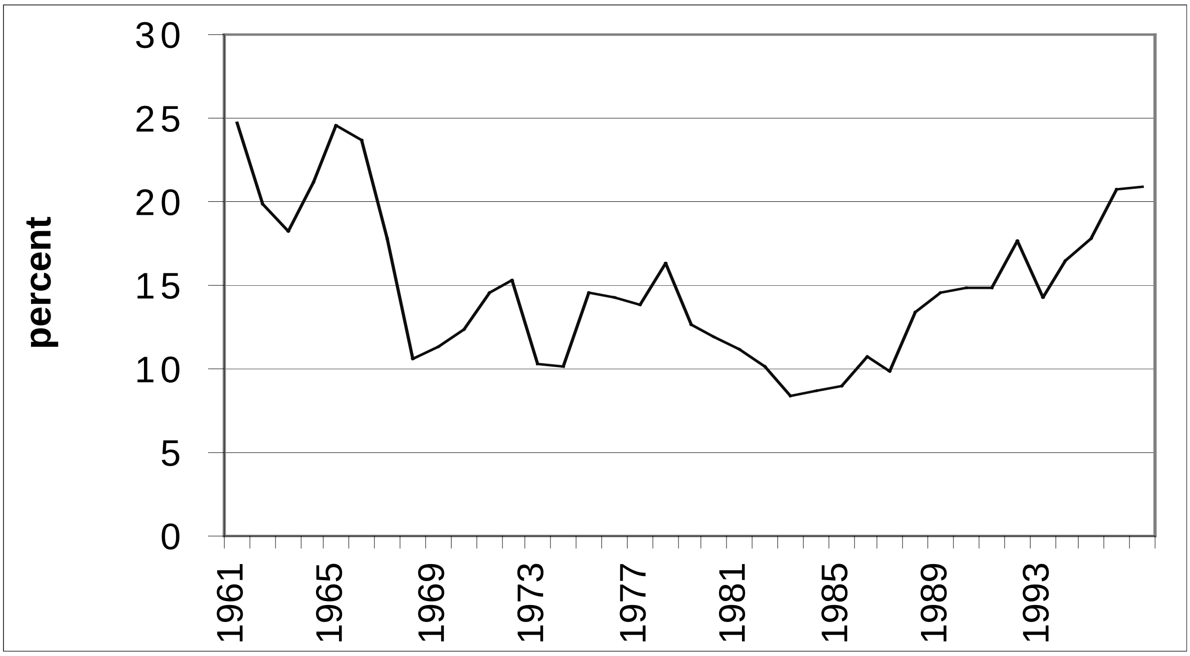


Table I.2. **Savings and investment, 1991-2000 (percent of GDP)***

Item	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Gross investment	14.2	14.8	17.1	17.5	17.1	17.5	18.6	19.0	21.1	22.4
of which private	10.3	9.8	11.5	1.0	10.8					
Domestic savings	4.1	2.1	2.0	3.8	6.5	7.4	7.9	8.5	9.6	11.2
of which private	3.4	1.7	1.6	0.1	5.3					
Foreign savings	10.1	12.7	15.0	13.7	10.6	10.1	10.8	11.3	22.5	11.2
of which private	6.9	8.1	9.8	8.0	5.5					

* Projected figures in the period 1996-2000.
Source: Ghana vision-2020: The first medium term development plan (1997-2000

As paltry as the future predicted levels of investment are, the fulfillment of such projections will even largely depend on whether Ghana can generate the expected domestic savings as well as foreign savings. So far the level of domestic savings as a percentage of GDP has been below 8 percent. Although there is a definite upward trend since the dismal levels of the early 1990s, much higher levels are required for any sustained growth in investment and GDP.

The Structure of the Economy

The current and historical pattern of the Ghanaian economy portrays significant structural changes. As Table I.3 shows, the structure of the economy has shifted from agriculture toward service, with little change in the share of industry. While a shift toward a high-order service could be a positive signal of a possible take-off, much of the increase in service derives from Wholesale, Retail, Restaurants and Hotels, whose share as a proportion of GDP increased from 13 percent in 1989, for example, to 17 percent in 1996 (ISSER; Quarterly Digest of Statistics). Meanwhile, the share of manufacturing has at best remained about the same. Although the reforms seem to have halted the decline in manufacturing, which reached an abyss of 7.4 percent of GDP in 1982, its growth appears to have declined substantially during the latter part of the reform period. Indeed, of the four sub-sectors shown in Table I.3, manufacturing experienced the lowest growth in 1990-1996.

Table 1.3. **Trends in the structure of the Ghanaian economy**

A. Relative sizes of major sectors (percent value added)

	1980	1990	1996
Industry	19	17	17
Agriculture	56	47	43
Service	25	36	40

Source: Computed using ADI data

B. Industry and subsectors, % GDP (% Industry in parentheses)

	Industry	Manufacturing	Mining and quarrying	Electricity and water	Construction
1981	15.2 (100)	10.9 (71.6)	1.2 (8.1)	1.0 (6.6)	2.1 (13.8)
1982	12.6 (100)	7.4 (56.1)	1.2 (9.7)	0.9 (7.1)	3.0 (24.1)
1985	13.0 (100)	8.5 (65.3)	1.2 (8.9)	0.9 (6.6)	2.5 (19.2)
1990	14.5 (100)	9.2 (63.2)	1.3 (9.1)	1.3 (9.2)	2.7 (18.6)
1996	14.2 (100)	8.1 (56.9)	1.5 (10.5)	1.6 (11.1)	3.1 (21.5)

Source: Computed from Statistical Services, Quarterly Digest of Statistics; ISSER

C. Growth rates of industry and subsectors (%)

	Industry	Manufacturing	Mining and quarrying	Electricity and water	Construction
1981-83	-12.5	-15.6	-10.2	-10.4	10.1
1984-89	9.7	10.6	8.3	20.2	5.1
1990-96	4.1	2.6	6.8	8.5	6.6

Source: Computed from Statistical Services, Quarterly Digest of Statistics; ISSER

D. Manufacturing exports (% total exports)

1970-79	3.87
1980-84	5.65
1985-89	8.77
1990-94	18.24

Source: Derived from World Bank data

While the above data are not encouraging, there appears to be a silver lining in the manufacturing exports data, possibly pointing to increased competitiveness of Ghana's slimmer manufacturing sector. For example, the share of manufacturing in Ghana's total exports increased from less than 5 percent in 1970s to 9 percent in 1985-89, and to over 18 percent in 1990-94 (Table I.3). Manufacturing exports include chemicals and related products, basic manufactures, machinery and transport equipment, other manufactured articles and goods not elsewhere classified, excluding non-ferrous metals. This exclusion implies that this phenomenal increase in the share of manufacturing exports cannot be attributed to the dramatic increase in gold exports since the mid-1980s, for example.

It is not exactly clear why the manufacturing sector is declining over time yet there appears to be a considerable upward trend in the manufacturing contents of exports. A possible explanation is that while non-competitive products of the manufacturing sector have withered away with increased competition from liberalization, a number of manufacturing export firms may have become relatively competitive.

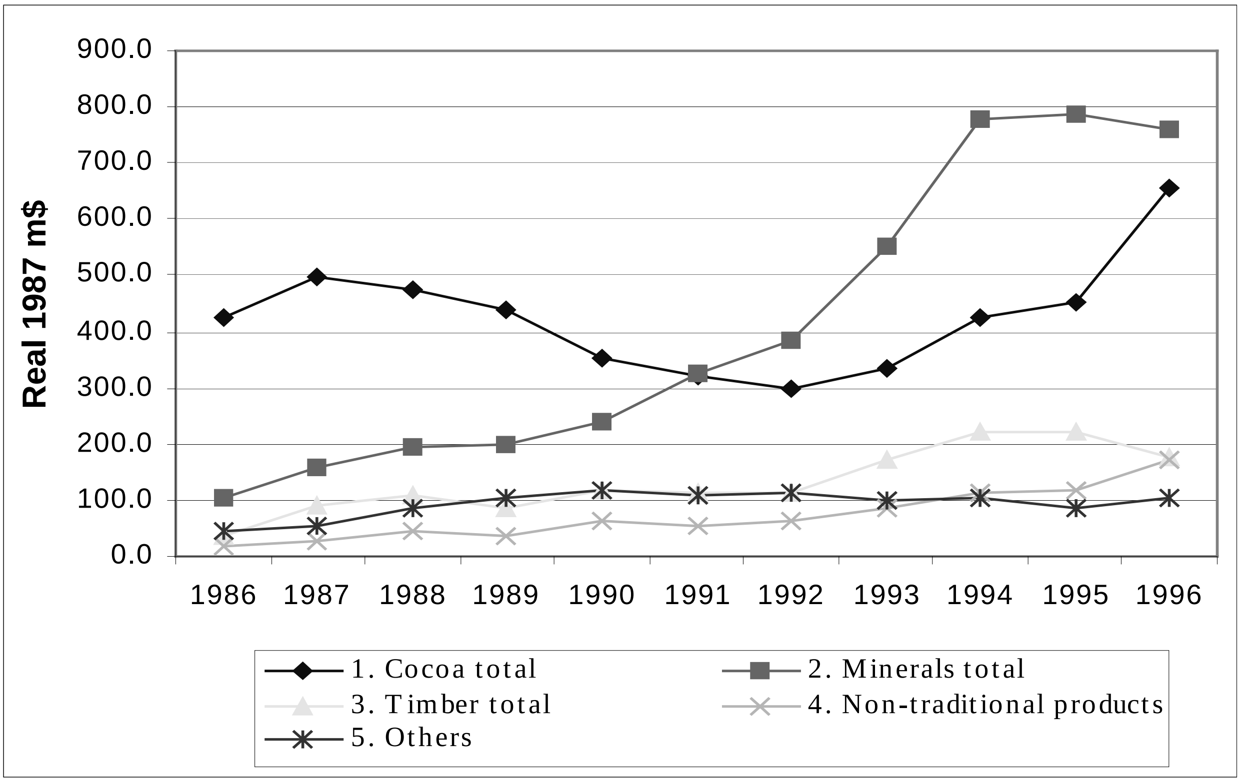
Apparently, within the realm of deindustrialization is an element of burgeoning activity of manufacturing competitiveness. Perhaps, that activity is embryonic, but if the increasing share of manufacturing in exports is sustained or improved, it should bode well for a sustained growth of the economy, given manufacturing exports as the potent ingredient in the growth-export relationship (Fosu [1990, 1996]).

Table I.4. **Merchandise export earnings by sector, 1986-1996 (Real 1987 million US dollars)***

Item	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Gross exports	634.5	826.6	908.2	865.0	882.7	921.2	970.8	1242.5	1641.5	1660.3	1863.6
of which:											
1. Cocoa total	426.2	495.4	476.3	436.6	354.9	319.9	297.7	334.0	424.7	451.9	654.6
% contribution	67.2	59.9	52.4	50.5	40.2	34.7	30.7	26.9	25.9	27.2	35.1
2. Minerals total	105.3	159.4	193.5	199.1	238.6	325.5	382.5	553.2	780.1	787.5	760.7
% contribution	16.6	19.3	21.3	23.0	27.0	35.3	39.4	44.5	47.5	47.4	40.8
3. Timber total	37.3	89.8	109.5	85.9	116.1	114.7	112.1	172.2	219.4	221.1	174.3
% contribution	5.9	10.9	12.1	9.9	13.2	12.4	11.5	13.9	13.4	13.3	9.4
4. Non-traditional products	20.2	27.9	43.6	37.2	61.3	53.6	63.9	83.8	114.9	116.0	172.0
% contribution	3.2	3.4	4.8	4.3	6.9	5.8	6.6	6.7	7.0	7.0	9.2
5. Others	45.5	54.1	85.3	106.2	117.4	107.5	114.6	99.4	102.5	83.9	102.0
% contribution	7.2	6.5	9.4	12.3	13.3	11.7	11.8	8.0	6.2	5.1	5.5

*Real 1987 dollar conversion using Ghana's GDP deflator based on US dollar series.
Source: **Bank of Ghana and Ghana Export Promotion Council**

Figure I.4a. **Merchandise Export Earnings by Sector**

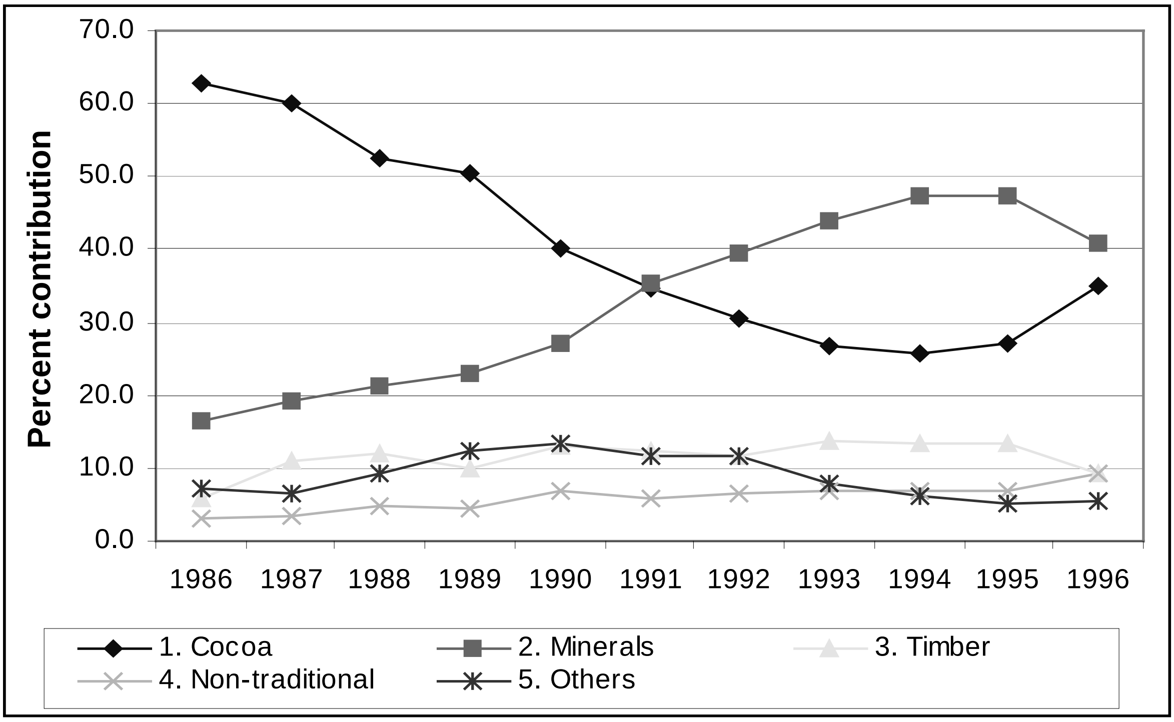


Earnings from cocoa exports in real terms rose to a peak of $495 million (real 1987 dollars) in 1987 from $426 million in 1986 and then started declining (Table and Figure I.4a). The dominance of this sector continued to dwindle as Ghana expanded its export base. Cocoa's share of export earnings steadily declined from 67 percent in 1986 to 26 percent in 1994, though it appears to have picked up somewhat to 35 percent in 1996 (Table I.4 and Figure I.4b).

In contrast, contributions to export earnings by the minerals sector rose steadily through the 1986-1995 period taking over from cocoa as the principal foreign exchange earner. The mineral earnings share reached its peak in 1994 at 48 percent but declined to 41 percent in 1996.

Unlike cocoa, there have been increases in contributions to total exchange earnings by timber, minerals and non-traditional exports since 1986. More recently, (1995-96), however, the share of cocoa has experienced an upward tick, while those of timber and minerals have fallen. Nevertheless the share of non-traditional exports has shown an increase. In 1996 minerals continued to be the major export earner for Ghana even though its contribution to total earnings fell from 47 percent in 1995 to 41 percent in 1996 (Table I.4 and Figure I.4b).

Figure 1.4b. **Merchandise export earnings shares**



Inflation

Inflation trends in Ghana display a long period of inflationary pressures. The period between 1976 and 1986 experienced a great deal of volatility. The annual average rate of inflation rose from single-digit figures in the early seventies to a peak of over 100% in 1977 (Table I.5 and Figure I.5). After a slight decline, inflation rose again to 117% in 1981. The sharp decline to 22% in 1982 was unfortunately followed by the highest rise to 122% in 1983. This period of great volatility is associated with a devaluation and a counter devaluation of the currency. During most of the period, price controls were in force and there were changes in economic policy that were later followed by reversals. The highest peak in inflation was experienced against a backdrop of the introduction of the ERP in 1983. Figure I.5 shows that food prices were much more volatile than non-food prices, implying an inelastic food supply situation.

Table I.5. **Consumer price index and rate of inflation, 1970-1996**

Consumer price index 1977 = 100				Inflation		
Year	Combined	Food	Non-food	Combined	Food	Non-food
1970	13.7	12.9	26.3	3.85	2.39	1.94
1971	14.9	13.7	27.7	8.67	6.20	5.32
1972	16.4	15.9	30.5	10.07	16.06	10.11
1973	19.3	18.9	33.8	17.68	18.87	10.82
1974	22.8	22.7	41.9	18.13	20.11	23.96
1975	29.6	30.3	52.9	29.82	33.48	26.25
1976	46.2	43.7	71.1	56.08	44.22	34.40
1977	100.0	100.0	100.0	116.45	128.82	40.65
1978	173.3	159.4	181.1	73.30	59.40	81.10
1979	267.3	257.7	304.1	54.24	61.67	67.92
1980	401.2	392.5	485.1	50.09	52.31	59.52

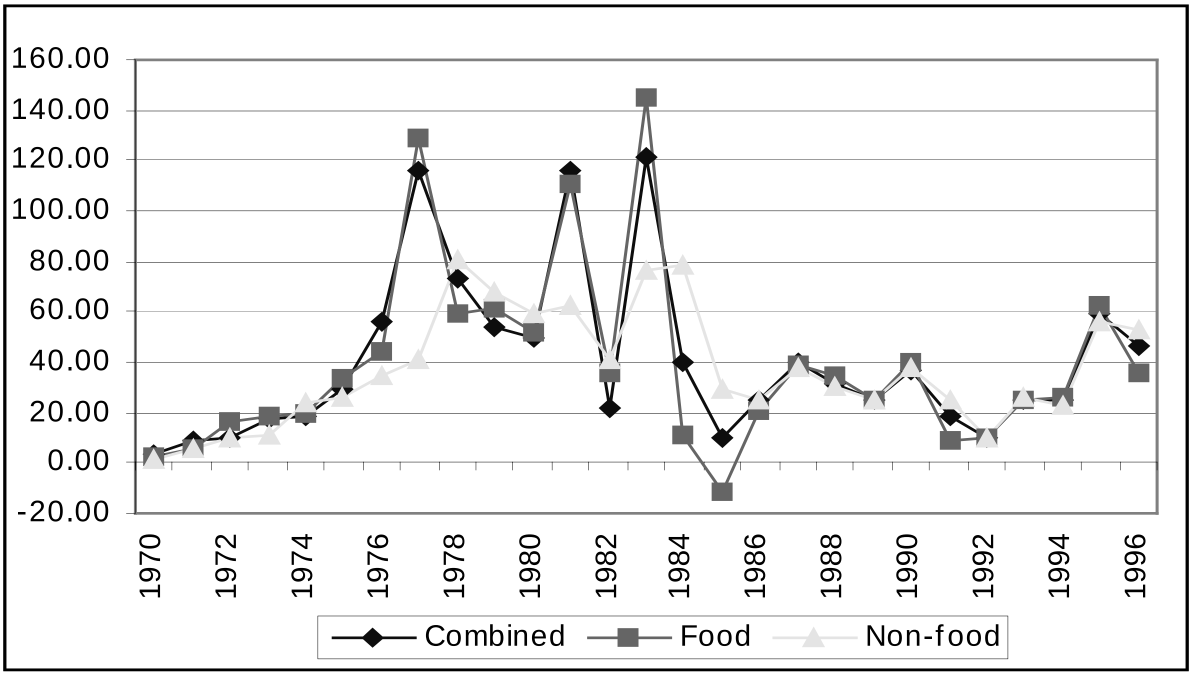
1981	868.7	828.8	790.5	116.53	111.16	62.96
1982	1062.4	1124.4	1116.8	22.30	35.67	41.28
1983	2357.4	2754.6	1975.1	121.89	144.98	76.65
1984	3304.2	3059.5	3528.1	40.16	11.07	78.63
1985	3647.0	2718.0	4560.9	10.37	-11.16	29.27
1986	4543.0	3269.0	5716.2	24.57	20.27	25.33
1987	6352.0	4527.0	7863.1	39.82	38.48	37.56
1988	8344.0	6071.0	10241.6	31.36	34.11	30.25
1989	10449.0	7594.0	12765.8	25.23	25.09	24.65
1990	14342.0	10642.0	17536.3	37.26	40.14	37.37
1991	16933.0	11579.0	21957.3	18.07	8.97	25.21
1992	18630.0	12800.0	24044.9	10.02	10.37	9.51
1993	23280.0	15995.0	30417.8	24.96	24.96	26.50
1994	29069.0	20135.0	37477.1	24.87	25.88	23.21
1995	46355.0	23661.0	58615.4	59.47	62.21	56.40
1996	67938.0	44345.0	89806.5	46.56	35.77	53.21

Source: Statistical Service

In the decade following the introduction of the ERP, inflation levels generally declined even though they were still in double digits and higher than the official targets. In this period, the figures oscillated between 10% in 1992, 60% in 1995 and a decline to 47% in 1996, indicating that although volatility was much lower, it was not over. The rather substantial rise in the inflation rate in 1995 and 1996 might be attributable to large increases in government spending preceding the 1996 elections. It is interesting to note, for instance, that while food inflation showed a remarkable decline between 1995 and 996, non-food inflation remained quite high.

Inflation in Ghana has continued to be a major source of concern among policy makers and it threatens to undermine the modest gains made under the ERP. It also means lower standards of living for the majority of the people. The trends in inflation are largely attributable to excess liquidity and constrained food supply. The Central Bank has for a long time been under enormous pressure to give active support to the expansionary economic policies of Government. Other causes include effects of discretionary changes in the prices of fuel and utilities, tax measures, and exchange rate depreciation.

Figure I.5. **Rate of inflation, 1970-1996**



The Budget Balance

With closer monitoring of government expenditure and more effective management policies, the government budget (narrow definition) recovered from its earlier deficits to surpluses during the 1986-91 and 1994-95 periods (Table I.6 and Figure I.6). It, however, recorded huge deficits to the tune of 49 and 29 real billion cedis in 1992 and 1993, respectively, on account of wage increases to the civil service and public corporations and costs incurred during the transition to democratic rule.

Fiscal action in the petroleum industry enabled the government to convert the perennial deficit of the 1970s and early 1980s into a modest surplus in 1986. The surplus reached a peak of over 1.5 percent of GDP in 1991 before falling back to a 4.8 percent deficit in 1992. However, by 1994, a new peak of budgetary surplus of 2.5 percent of GDP had been attained (Table I.6). Ultimately, the government mobilised a yearly average of 5 billion real 1987 cedis in foreign resources to finance the budget deficit.

It is important to note that the government's demands on the Bank of Ghana (BOG) have entailed direct creation of money by the latter. This kind of deficit financing has been the main source of excess liquidity in the economy and the growth in broad money supply, which averaged 42 percent of GDP in the period 1984-96.

Table I.6 **Budget deficit/surplus (narrow definition), 1984-1996 (in real 1987 billion cedis)** *

Year	Nominal overall Deficit/Surplus (bil. cedis)	Real overall Deficit/Surplus (bil. cedis)	Deficit/Surplus % of Expenditure	Deficit/Surplus % of GDP
1984	-4.8	-9.2	-17.6	-1.8
1985	-7.6	-13.2	-15.8	-2.2
1986	0.3	0.4	0.4	0.1
1987	4.1	4.1	3.8	0.5
1988	3.9	3.0	2.6	0.4
1989	10.3	6.3	5.1	0.7
1990	3.4	1.5	1.3	0.2
1991	39.0	14.6	11.0	1.5

1992	-144.7	-49.3	-28.5	-4.8
1993	-106.1	-28.9	-12.7	-2.7
1994	123.8	27.1	10.5	2.5
1995	70.3	9.6	4.1	0.9
1996	-335.5	-31.4	-13.9	-3.2

*Real 1987 cedi conversion using Ghana's CPI series.
Source: Ministry of Finance (PAD) and authors' calculations

Figure I.6a. **Real overall budget deficit/surplus (narrow definition)**

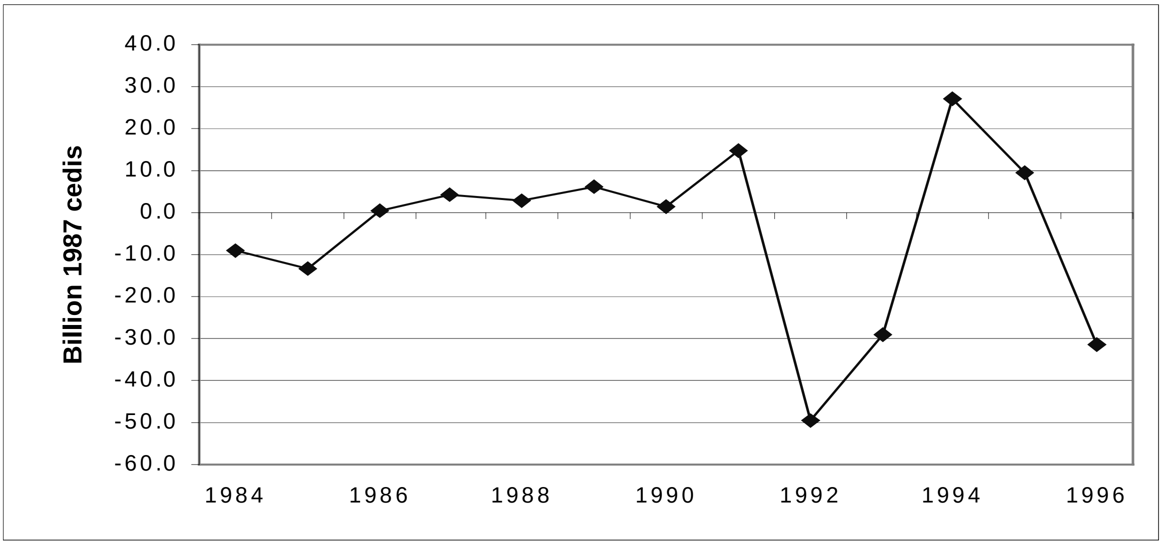


Figure I.6b. **Deficit/surplus as a percentage of expenditure and GDP**

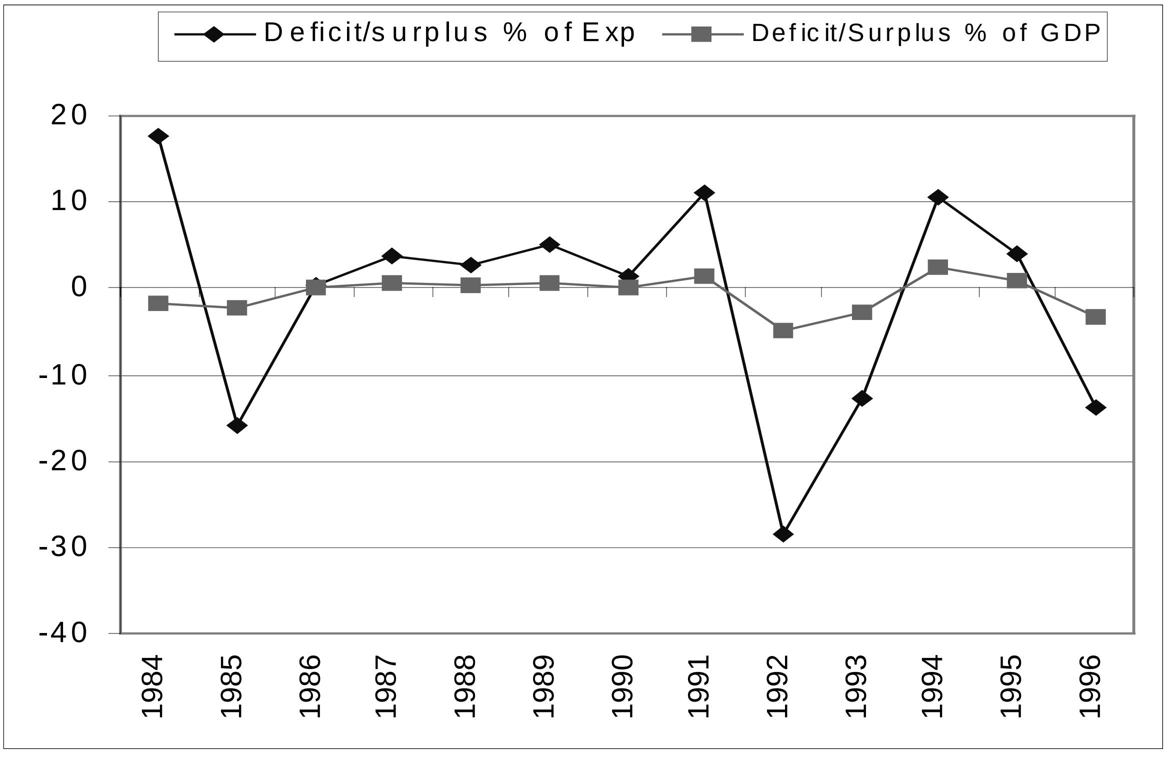
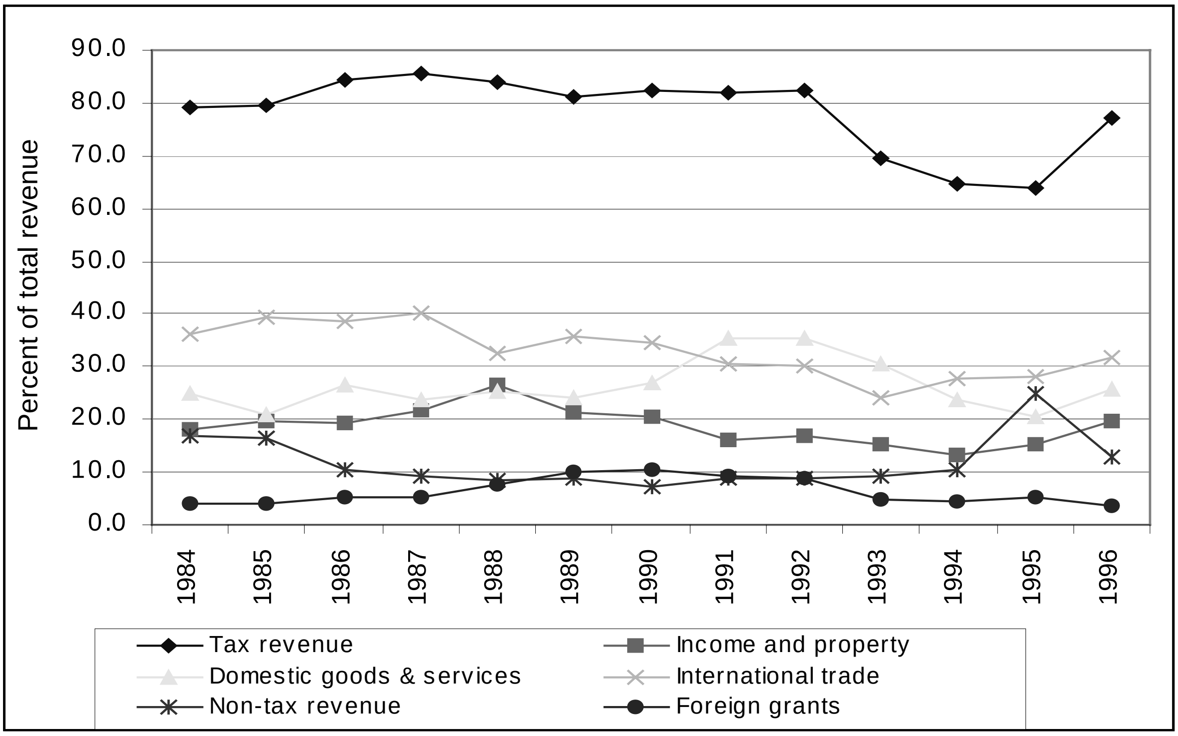


Table: I.7. **Structure of government revenue (percent)**

Item	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Total revenue (real billion cedis)*	43.4	70.2	102.9	111.0	117.0	130.4	118.4	146.5	124.9	199.6	284.6	223.7	207.5
Tax revenue	79.2	79.7	84.5	85.5	84.0	81.4	82.2	81.8	82.4	69.6	64.6	63.8	77.1
Income and property	18.1	19.9	19.2	21.7	26.3	21.4	20.6	16.0	17.0	15.1	13.1	15.4	19.5
Domestic goods & services	24.8	20.8	26.6	23.6	25.2	24.3	26.8	35.3	35.2	30.5	23.7	20.4	25.9
International trade	36.3	39.2	38.7	40.2	32.5	35.7	34.7	30.5	30.3	24.1	27.8	28.0	31.7
Imports	14.2	16.4	19.3	16.0	16.6	21.0	24.5	21.2	24.7	19.2	16.5	19.2	19.1
Exports	22.6	22.8	19.3	24.2	15.9	14.6	10.2	9.0	5.6	4.9	11.2	8.8	12.5
Non-tax revenue	16.8	16.4	10.3	9.1	8.5	8.7	7.4	8.9	8.7	9.4	10.3	25.0	12.9
Income and fees	16.8	16.4	10.3	9.1	8.5	8.7	7.4	7.7	7.0	8.6	9.8	24.7	12.7
NPART transfers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.2	1.6	0.9	0.5	0.3	0.2
Divestiture receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	16.0	20.5	6.0	6.4
Foreign grants	4.0	4.0	5.3	5.4	7.5	9.9	10.4	9.3	8.9	4.9	4.6	5.3	3.5
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Real 1987 cedi conversion using Ghana's CPI series.
Source: Calculations from Ministry of Finance data

Figure I.7. **Structure of government revenue**



Other means of deficit financing for the government involve issuing domestic debt. The stock of domestic debt stood at 1,404 real billion cedis at the end of 1996. This represents a growth of about 115% from 1990, and as much as 62% from 1995 alone. This huge growth is associated with the government's intensive efforts at mopping-up excess liquidity through the sale of treasury bills. The continuous rise in domestic debts poses a serious burden on any future budget, since increased budgetary allocations would be required for debt servicing in subsequent years. The extent of this fiscal constraint on the budget was evident particularly in the financial year 1996, when the interest payments on domestic debt rose by 87%, from 233 billion cedis in 1995 to 435 billion cedis. Even though domestic debts accounted for only 11% of the total national external and domestic debt in 1996, interest payments on the domestic debts constituted over 75% of the total interest payments (ISSER, 1996).

The greatest contribution to government revenue was taxation in the period 1984-96. Although it fell to as low as 63 percent in 1995 during most of the period, tax revenue was higher than 77 percent (Table 1.7 and Figure 1.7). Proceeds from international trade constituted the bulk of the tax revenue, followed by tax on domestic goods and services.

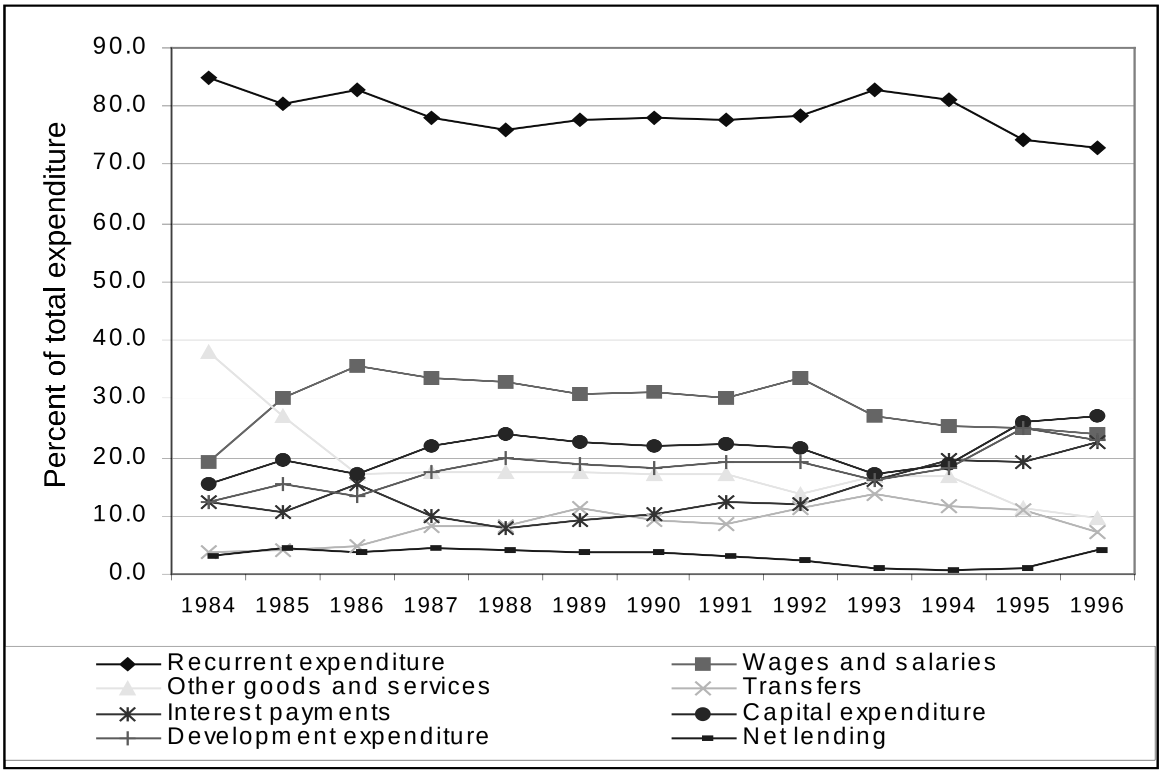
Total real government expenditure rose tenfold from 53 billion cedis in 1984 to 239 billion cedis in 1996. The highest level of expenditure however was in 1994 when the government spent 258 billion cedis. Much of the increase in government spending during owes to increased civil servant salaries, which rose from 2.0 percent to 6.0 percent of GDP (ISSER 1996).

Table I.8 **Structure of government expenditure (percent)**

Item	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Total expenditure (real billion cedis)*	52.8	83.4	102.5	107.0	114.1	124.1	116.9	131.9	174.2	228.5	257.5	214.9	238.8
Recurrent expenditure	84.7	80.4	82.9	78.1	76.1	77.5	78.1	77.6	78.4	82.9	81.2	74.2	72.9
Wages and salaries	19.3	30.3	35.7	33.6	33.0	30.8	31.2	30.0	33.5	27.2	25.2	25.1	24.0
Other goods and services	37.8	26.9	17.1	17.4	17.5	17.5	17.0	17.2	13.5	16.9	16.8	11.1	9.5
Subventions	12.0	8.4	10.1	9.0	9.4	8.8	10.2	9.6	8.1	9.0	8.0	7.9	9.4
Transfers	3.6	4.0	4.6	8.3	8.1	11.2	9.4	8.7	11.3	13.8	11.6	10.8	7.3
Interest payments	12.4	10.6	15.4	9.9	8.0	9.2	10.3	12.2	11.9	16.1	19.6	19.2	22.7
Capital expenditure (Development and net lending)	15.3	19.6	17.1	21.9	23.9	22.5	21.9	22.4	21.6	17.1	18.8	25.8	27.1
Development expenditure	12.4	15.2	13.4	17.4	19.9	18.7	18.3	19.1	19.3	16.2	18.1	24.9	22.9
Cash expenditure	12.4	15.2	13.4	17.4	19.9	18.7	18.3	19.1	19.3	14.2	14.1	18.8	17.5
Arrears clear	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.9	0.8	2.7	2.3
District assemblies C	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.3	3.4	3.1
Net lending	2.9	4.4	3.7	4.6	4.0	3.8	3.6	3.2	2.3	1.0	0.7	0.9	4.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*Real 1987 cedi conversion using Ghana's CPI series.
Source: calculations from: Ministry of Finance data

Figure I.8 **Structure of government expenditure (percent)**



This increase was in part aimed at offsetting the erosion of real incomes from the 1970s and also reducing the wide disparities existing between the public and private sectors. Increased spending was also made in the areas of physical and social infrastructure as well as agriculture.

Recurrent expenditure dominated the bulk of government expenditure ranging between 73 percent and 85 percent in the same period (Table I.8 and Figure I.8). The bulk of this was on wages and salaries, which remained over 30 percent of total expenditure during much of this period. Capital expenditure took up between 15 percent and 27 percent much of this being development expenditure. It is noteworthy that while the relative contribution of wages and salaries to government expenditures have been falling since 1992, that of capital expenditures has been increasing. Since the latter comprises almost entirely development expenditure, the observed pattern should bode well for infrastructure base in the long run.

International Trade and Payments

Due to the balance of payment problems that prevailed in the latter part of the seventies and early eighties, one of the primary objectives of the ERP was that Ghana should attain a viable balance of payments (BOP) position in the medium to long-term. This was to be achieved through increased export earnings and foreign direct investments. Unfortunately, both trade and current account balances continued to show persistent deficits and, worse yet, worsening trends (Table I.9 and Figure I.9). There appears to have been general improvements in these deficits sine 1993, however.

Between 1987 and 1991 Ghana achieved an overall BOP surplus. In 1996, however this reversed with real BOP declining from a surplus of $289 million in 1995 to a deficit of $22 million in 1996 (Table 1.9 and Figure I.9). Although there were substantial transfers from both official and private sources, they were not enough to counteract the adverse impact of the negative trade balance on the current account. In addition, an unfavourable capital account meant that the outcome of the overall balance was negative.

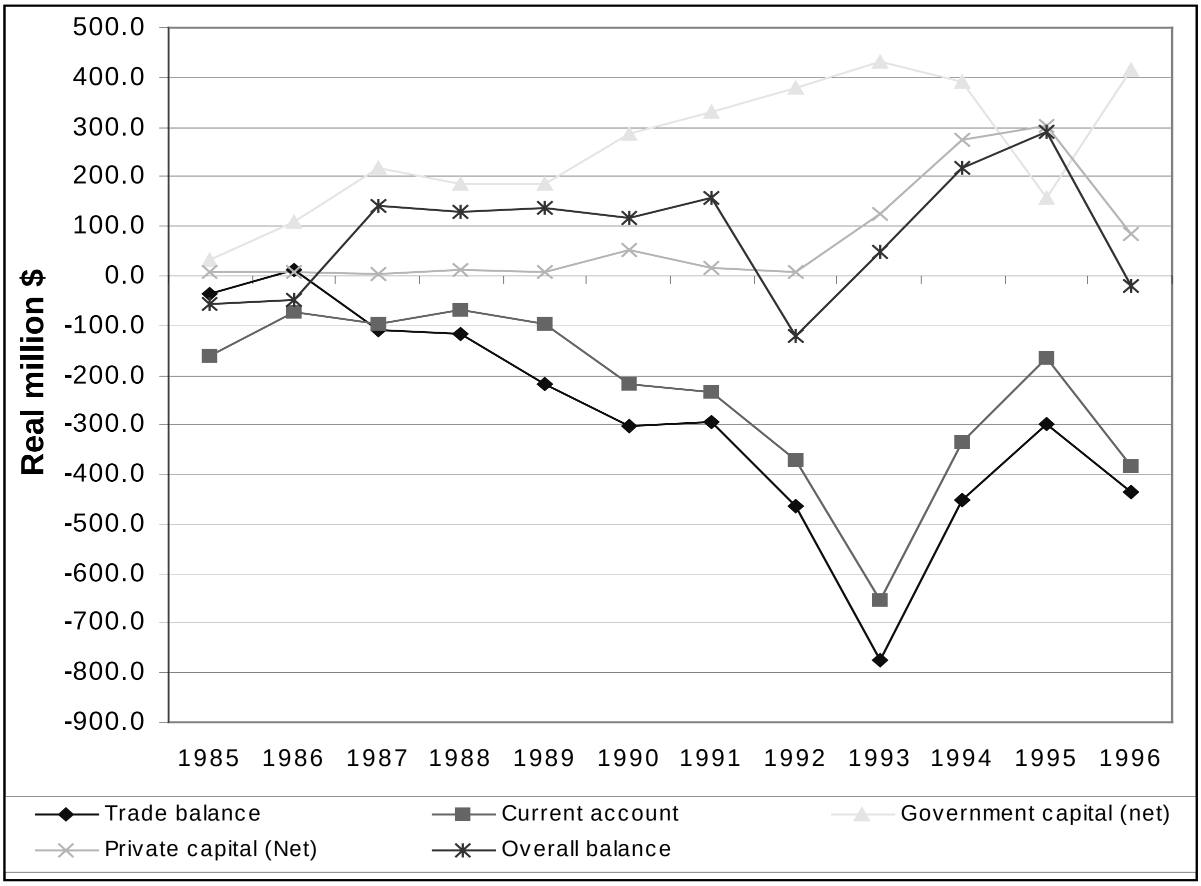
Both private and government (net) capital levels have moved upward over the 1985-86 period. In particular, private capital picked up substantially as of 1992, though there was an ebb between 1995 and 1996. One of the possible explanations is that 1996 was an election year, and potential investors must have held on to their capital, due to increased uncertainties regarding the election outcome, a move that is consistent with a “wait and see” strategy. A similar trend emerged four years earlier during the 1992 elections, when private capital fell from $18 million in 1991 to a low of $6 million (Table I.9).

Table I.9 **Summary of Ghana’s balance of payments, 1985-1996 (Real million 1987 US$)***

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Merchandise Exports (f.o.b)	648.1	634.5	826.6	908.2	865.0	882.7	921.2	970.8	1242.5	1641.5	1660.3	1863.6
Merchandise Imports (f.o.b)	-685.1	-622.4	-993.9	-1024.1	-1083.1	-1186.0	-1217.6	-1433.6	-2018.7	-2095.4	-1958.0	-2297.7
Trade balance	-37.1	12.0	-107.3	-115.9	-217.8	-303.3	-296.4	-462.8	-776.6	-453.7	-297.7	-434.2
Invisibles (net)	-123.3	-84.3	9.3	46.9	121.7	83.8	64.1	92.5	123.0	117.0	131.0	51.2
Current account	-160.3	-72.2	-98.0	-69.0	-96.0	-219.6	-232.3	-370.3	-653.0	-336.7	-166.7	-382.9
Government capital (net)	32.9	108.6	218.0	185.5	183.3	285.8	329.3	380.4	432.5	391.6	157.2	416.6
Long-term loans (net)						317.3	344.4	306.7	540.7	413.9	373.9	366.9
Gross inflows						348.9	379.1	345.1	594.3	489.9	460.6	457.8
Amortization						-31.6	-34.7	-38.4	-53.6	-76.0	-86.7	-90.9
Medium-term loans						-28.1	-14.8	73.7	-108.2	-22.3	-216.7	49.7
Gross inflows						64.1	65.2	153.1	144.9	150.1	120.2	208.1
Amortization						-92.1	-81.8	-79.2	-253.0	-172.4	-336.9	-158.4
Trust fund loan						-3.4	-0.4	0.0	0.0	0.0	0.0	0.0
Short term capital (net)	25.1	-58.3	29.8	27.4	20.0	-58.3	14.6	-117.0	179.4	-29.6	198.1	-42.3
Private capital (Net)	5.9	5.9	4.4	11.3	9.6	52.0	17.6	6.3	124.2	272.9	303.0	83.0
Direct investment (Net)	5.7	3.6	4.7	12.4	16.1	14.6	18.5	22.1	29.2	39.8	40.6	23.7
Divestiture	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	116.8	269.6	82.9	118.6
Suppliers credit (Net)	0.2	2.3	-0.3	-1.0	-6.4	37.4	-0.8	-15.8	-21.8	-36.5	179.5	-59.3
Gross inflows						42.3	12.4	3.0	2.3	0.0	214.6	0.0
Amortization						-4.9	-13.2	-18.8	-24.2	-36.5	-35.0	-59.3
Non-monetary short-term capital						7.7	-22.1	-50.5	134.9	47.3	135.3	133.7
Monetary short-term capital						-65.9	36.7	-66.5	44.5	-76.9	62.9	-176.0
SDR allocation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	41.1	-32.2	-12.2	-26.8	19.9	56.3	28.5	-21.9	-35.0	-81.0	-76.9	21.8
Overall balance	-55.3	-48.3	139.3	128.5	136.8	116.2	157.7	-122.3	48.1	217.2	289.0	-22.4
Change in off/term ext. post.	55.3	48.3	-139.3	-128.5	-136.8	-116.2	-157.7	122.3	-48.1	-217.2	-289.0	22.4

*Real 1987 dollar conversion using Ghana's GDP deflator based on US dollar series.
Source: Calculations from Bank of Ghana data.

Figure I.9. **Balance of payments (real 1987 US$)**



Aid Flows

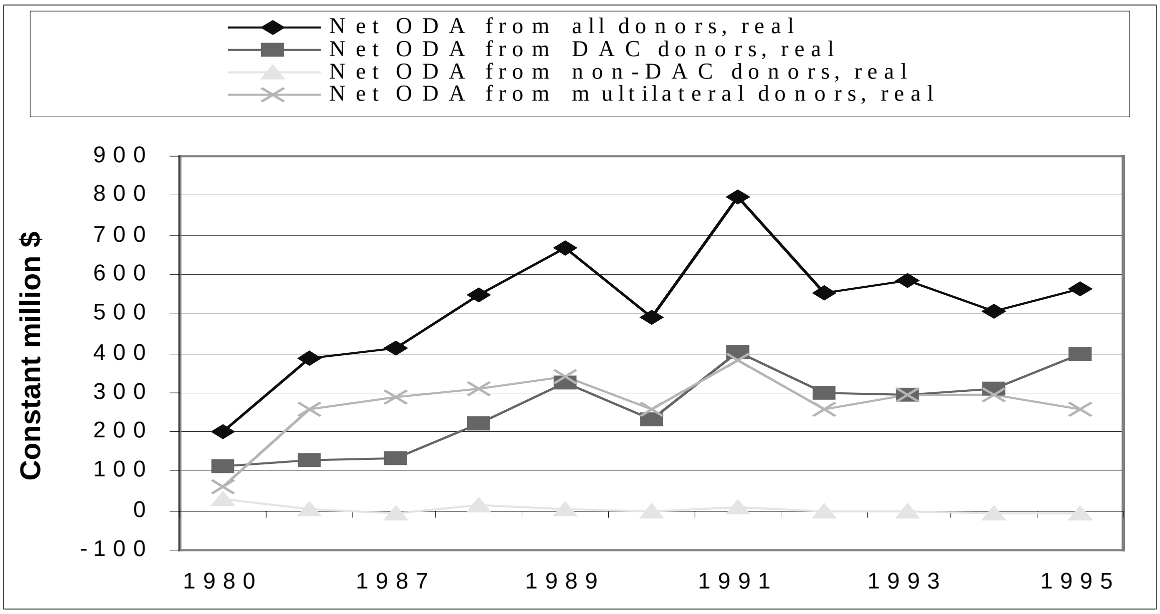
Since the launching of the ERP, Ghana has successfully mobilised substantial resources from the donor community. In 1991, net ODA from all donors in real terms reached a peak of four times the amount in 1980 (Table 1.10 and Figure I.10). This figure had declined to $565 million by 1995. A pertinent question is how much economic growth in the reform period depends on the amount of aid received and whether this level of external assistance can be sustained.
Another worrisome situation is the large proportion of ODA as a proportion of GDI. This proportion reached 100 percent in the late 1980s for all donors (Table I.10). Should this constitute the major source of investment, then finding other sources of investment funding is imperative. Fortunately, the ODA proportion has gradually been falling in the 1990s, to less than 60 percent in 1995.

Table I.10. Aid flows to Ghana

	1980	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Millions of 1987 US$ (constant prices)											
Net ODA from all donors, real	198	389	413	546	668	493	794	553	585	505	565
Net ODA from DAC donors, real	110	130	131	223	327	232	404	300	296	307	397
Net ODA from non-DAC donors, real	27	4	-5	13	2	1	8	-4	-4	-5	-5
Net ODA from multilateral donors, real	61	255	287	310	338	260	382	257	294	294	260
Percentage of GDP											
Net ODA from all donors as share of recipient GDP	4.3	6.3	8.1	11.1	13.7	9.6	13.4	9.6	10.9	10.6	11.3
Net ODA from DAC donors as a share of recipient GDP	2.4	2.1	2.6	4.5	6.7	4.5	6.8	5.2	5.5	6.4	5.8
Net ODA from multilateral donors as share of recipient GDP	1.3	4.1	5.7	6.3	6.9	5.1	6.4	4.4	5.5	4.3	4.9
Percentage of GDI											
Net ODA from all donors as share of recipient GDI	76.8	65	60.7	98.4	103.5	66.3	84.2	74.7	73.8	66.4	56.8
Net ODA from DAC donors as share of recipient GDI	42.8	21.8	19.2	40.2	50.8	31.2	42.8	40.5	37.3	40.3	31.2
Net ODA from multilateral donors as share of recipient GDI	23.6	42.6	42.2	55.9	52.4	35.0	40.5	34.7	37	6.8	26.1

Source: The World Bank, ADI (1997)

Figure I.10. **Aid Flows to Ghana 1980-1996**



I.2. Political Developments and Economic Performance

Various Economic/Political Regimes

In order to properly interpret the above economic trends, it is important to recognize the various economic/political regimes historically characteristic of the Ghanaian economy. Tabulated overleaf, are the various political regimes in existence as well as their respective economic stances. The summary displays a turbulent political and economic history in the country. Between 1957 and 1981, the country had experienced seven changes in government most of which were military. Except for very brief intervals, the economic regime during much of this period was closed and protectionst implying a heavily controlled economy. Since the inception of the ERA in 1983, however, Ghana has pursed an open market economy policy as part of the recovery programme.

Krueger [1978] and Bhagwati [1978] have identified five main phases involved in the evolution of economic trade regimes usually after the introduction of economic controls: introduction of controlled regime (Phase 1); breakdown of the system of controls (Phase 2); attempted liberalization (Phase 3); import liberalization (Phase 4); and liberal trade regime (Phase 5). The Ghanaian economy may be viewed historically as having gone through two cycles of these phases:

Cycle I (1950-1971): 1950-1961 – Phase 5; 1961-1963 – Phase 1; 1963-1966 – Phase 2; 1966-1967 – Phase 3; and 1967-1971 – Phase 4.

Cycle II (1972-present): 1972 - Phase 1; 1973-1983 - Phase 2;
1983-1986 - Phase 3; 1986-1989 - Phase 4; and 1990-present - Phase 5.

The first cycle has been discussed by Leith [1974] and the second by Jebuni et al. [1994]. The 1950-1961 was a period of relatively liberal regime (Phase 5). After independence in 1957, Ghana was still in the midst of the five-year colonial development plan. The first five-year post-independence plan, launched in 1959, involved gargantuan increases in government expenditure and a large import content. Increases in budget deficits led to the imposition of higher taxes. At the same time, foreign exchange earnings were decreasing with falling cocoa prices. Ghana began to experience balance of payments difficulties and was rapidly running out of foreign reserves. In response, the government enacted the Exchange Control Act (Act 71) to control foreign exchange, with comprehensive import licensing introduced in 1961, thus beginning the first Phase.

Despite the above difficulties, the seven-year development plan was launched in 1963-1964, which also entailed major government spending primarily in support of the import substitution effort. Trade restrictions became the preferable option to currency devaluation as a

Table I.11. **Summary of political and economic profile**

Dates	Government	Type	Economic Stance

1957-66	K. Nkrumah, Convention People's Party	Civilian	Socialist with Eastern Bloc Orientation, Inward-Looking; Protectionist; High Levels of Public Spending and Establishment of State Owned Enterprises
1966-67	A. Afrifa/E. Kotoka, National Liberation Council	Military	Renowned Socialist Orientation, Austere, Tentative steps towards Liberalization
1969-72	K.A. Busia, Progress Party	Civilian	Market-Oriented, Stronger Moves to Liberalization, Attempted Large Devaluation
1972-77	Gen. I. Cheampong National Redemption Council	Military	Inward Looking: Protectionist; Reversal of Busia Devaluation
1975-78	Gen. I. Cheampong Supreme Military Council I	Military	Inward Looking: Protectionist
1978-79	Gen. F.W.K. Akuffo, Supreme Military Council II	Military	Inward Looking: Protectionist
1979	Fl. Lt. Rawlings, Armed Forces Revolutionary Council	Military	Some Reforms but a general tightening of Economic Controls
1979-81	H. Limann	Civilian	No Real Change
1981-92	Fl. Lt. Rawlings, Provisional National Defense Council	Military	Initially a tightening of controls but from April 1983, an Outward-Oriented Economic Recovery Programme (ERA)
1988	Divestiture Implementation Committee	Military	As an outgrowth and integral part ERA; to oversee and implement the divestiture/privatization process
1993	Fl. Lt. Rawlings, National Democratic Congress (NDC)	Civilian	Continuation of ERA, privation and divestiture. No regular opposition in Government/Parliament
1997	Fl. Lt. Rawlings (NDC)	Civilian	Second election year in the 4th Republic. The minority parties participated in the election.

Source: Roe and Schneider (1992) and Dorduno, C.K. (1994)

means of managing the problems of balance of payments, as well as providing protection for domestic industry. Meanwhile, severe depletion of the foreign exchange reserves required that the government resort to external borrowing. Meanwhile, the controls, amidst the bottlenecks, led to the usual problems of severe shortages, parallel markets, severe inflation (suppressed or realized), and corruption. The period 1963-66 could thus be viewed as one of a breakdown of the system of controls (Phase 2).

With the coup d'état of 1966 overthrowing the Nkrumah government and the dismal economic conditions holding sway that year, it was not too surprising that the new military government accepted the IMF/World Bank stabilization package designed to halt the downward spiral of the economy and to control inflation. The 1966-67 period was, one of attempted liberalization (Phase 3). Signs of liberalization were apparent however. For example, state production was decontrolled, and the system for the allocation of import licenses was altered to effect greater efficiency in domestic resource mobilization and the availability of essential consumer commodities. Nevertheless, controls remained generally in the import and foreign exchange markets, and the balance of payments problems persisted.

The beginning of a liberalized import regime began in July 1967, with a devaluation of the currency by some 43 percent, lowering of import duties on certain essential commodities, and the commitment to further import liberalization over the following four years. This import liberalization regime (Phase 4) was maintained by the new Busia civilian government that began in 1969, until 1971.

To understand the difficulties associated with maintaining Phase 4, it is important to first grasp the politico-economic dynamics in operation over these periods. The IMF/World Bank stabilization package of 1966 contained restrictive fiscal and monetary policies as its essential elements. Yet, these policies led to increased unemployment, reductions in expenditures on education and health services, which helped fuel urban unrest (Sryker [1990, p. 52]). From a political perspective, therefore, these restrictive measures could not be maintained for too long. Thus it was not surprising that the pursuit of import liberalization beginning in 1967 was accompanied by expansionary fiscal and monetary policies.

Rising inflation emanating from the expansionary policies put pressure on the trade balance. This was blunted at the time by capital inflows, in part due to rising prices of cocoa on the world market, from US$379 per ton in 1965 to US$1,108 in 1969. Meanwhile, government expenditures and imports expanded rapidly, taking advantage of these capital inflows. Thus, when the world price of cocoa fell precipitously, from its high of $1,108 in 1969 to $565 in 1971, pressure for currency devaluation became inevitable.

The currency was devalued by 44 percent on December 27, 1971, accompanied by restrictive fiscal measures that saw a reduction in government expenditures and an increase in taxes, resulting in substantial increases in consumer prices. This outcome played no small role in the “successful” military coup on January 13, 1972, when Busia's government was replaced by General Kuti Acheampong's.

The second cycle of trade regimes was ushered in during 1972 when the devaluation was reduced to 26 percent via currency revaluation and strict import controls were once again introduced, thus beginning Phase I.

The 1973-1983 period could be viewed as one of a breakdown of the system of controls (Phase 2). Various experiments with controls were tried during this period. These included: variable purchase taxes, selective import duties, ad-valorem license levies, differential credit restrictions for exports and imports, an outright prohibition of the importation of all textiles and textile goods in 1975, for example, and even devaluation of the Cedi in 1978 as well as a short-lived, three-month flexible exchange rate system. Yet the system of fiscal and quantitative controls was still the bedrock of the policies intended to change trade flows.

Meanwhile, the wedge between the official and parallel market rates of the Cedi continued to widen, and substantially so especially in the latter part of the period. Accompanying this rising parallel market premium were the usual problems of hoarding, shortages, inflationary pressures, and inefficiencies (Table II.2).

The Post-1982 Economic Regime

The beginning of another import liberalization period (Phase 3) began in 1983 with the introduction of the Economic Recovery Program (ERP), when a dramatic devaluation of the effective exchange rate was put in place. For example, the ratio of parallel to the official exchange rate was 22 in October 1983; by December 1985, it had been reduced to 3 and to roughly 2 by January 1986 (World Bank [1989]). Import programming was maintained until, 1986, however. These policies were in concert with the objectives of the ERP, one of which was to "increase the overall availability of foreign exchange in the country, improve its allocation mechanism and channel it into selected high priority activities" (Republic of Ghana, 1983, p. 16).

Consistent with an ERP's main objective of improving the infrastructure and incentives to enhance production and distribution, the import program designed for 1983-1985 allocated the major portion of the budget to transport and energy. Much of the foreign exchange for financing was expected to derive from foreign donors.

The foreign tax schedules were adjusted downward in 1983 with the introduction of bonuses and surcharges but remained rather stable over 1983-1985. In 1986, there was a modest decline in the tax rates (5 to 10 percentage points) for nearly all import categories. However, with an escalating tariff structure for classes of imports - raw materials commanding the least tariff, followed by consumer goods, and then luxuries - there was an increase in the effective rate of protection for import-substituting domestic industries.

The liberalization process, especially that involving foreign exchange transactions, continued beyond 1986. In 1988, for example, foreign exchange (forex) bureaux were introduced. These bureaux were allowed to purchase and sell foreign exchange freely, so that the exchange rate was now determined by demand and supply conditions. Also that year, exchange controls were further relaxed, with residents now allowed to take out larger foreign exchange (maximum of USD 3,000). The import licensing system was removed by January 1989.

Though the import tariff schedules were adjusted upward in 1987, they were promptly reduced in 1988. These tariffs were further reduced in 1990.

Thus the post-1982 liberalization appears to be far-reaching, and in many ways quite different from those in earlier times in the 1960s and 1967-1971. For the first time during the post-independence era, there was a floating exchange rate system. In addition, import licensing was abolished, import tariff schedules dramatically reduced, and restrictions on outflow of foreign exchange relaxed considerably.

Implications

An important objective of a liberalization program, like the current one in Ghana is to improve the external account position, and to relieve the constraint on output growth imposed by foreign exchange bottlenecks. Thus both exports and imports will be expected to respond positively to the liberalization measures undertaken starting in 1983.

Exports and imports did respond positively, as expected. For example, both export and import volumes had decreased steadily from their heights of roughly 300 (1985=100) and 250, respectively, in the 1960s to below 100 by 1983, when they began to reverse their decline (Jebuni et al. [1994, p. 35]). From 1975-1984, real exports and imports (goods and nonfactor services) fell by an average of about 10 percent per annum each, but then rose by 11 percent and 10 percent, respectively, over 1985-1989 (World Bank, *African Development Indicators (ADI)*).

Relatedly, have liberalization regimes in Ghana engendered higher economic performance and, in particular, to what extent has the economy improved since the present liberalization was begun? To answer this question, Table IV.2 presents statistics on several indicators of economic performance over the various economic regimes. In order to streamline the analysis, Phases 1 and 2 have been combined as "control" period, and Phases 3, 4 and 5 as "liberal" period. Averages of annual growth rates of GDP and its per capita, and investment, have been reported for each of the periods, beginning in 1961.

The above statistics in Table IV.2 indicate clearly that all the three indicators - growths in GDP, per capita GDP, and investment -are larger for the liberal periods than for the control periods. For example, at nearly 5.0 percent annual rate, GDP growth averaged nearly three times as high in the liberal period of 1967-1971 as in the previous control period of 1961-1966. Similarly, while its average growth was negative during the subsequent control period of 1972-1983, GDP has grown at a healthy average rate of nearly 5 percent annually since the present liberal era began.

Similar results are reported for GDP per capita. In contrast to its negative growth averages in both control periods, per capita GDP has increased in both liberal periods. For the more recent liberal era, it has risen by almost 2.0 percent, compared a decline of nearly 4.0 percent annually during the preceding 1972-1983 control period.

Table IV.2 also shows that de-investment occurred in each of the control periods. For the liberal periods, on the other hand, there appears to be at least a slowdown in the de-investment process. For instance, de-investment decelerated slightly in 1967-1971 from its rate in the preceding 1961-1966 period. For the more recent era, the deceleration process observed in the 1972-1983 period actually gave way to positive increases in the investment rate, at a rate of 7 percent annually on average.

The usual caveat, of course, applies in interpreting the above results. In particular, the role of supply shocks, domestic or external, is unclear. For instance, the negative implications of oil supply shocks for most economies around the world in the 1970s cannot be ignored. In addition, beginning in about 1982, there were terms of trade declines for Ghana and many other developing economies whose exports were predominantly in primary commodities. Cocoa prices, for example, fell by an average of 12 percent annually on average between 1980 and 1983 (derived from data presented in Jebuni et al. [1994, tables 17 and 19]). Thus part of the weak performance indicated above from 1972-1983 might have resulted in no small part from these shocks. It must be stressed, nevertheless, that the existence of controls might have actually exacerbated the impacts of these shocks.

I.3 Growth Accounting: contributions to long run growth

The growth accounting model is in the form of a Cobb-Douglas production function.

The model estimated over 1961-96, using annual data, is specified as follows:

$q = \alpha + \beta l + \delta k + d + \varepsilon$,
Where,
q is GDP growth
l is labor growth
k is growth in capital (measured as investment to GDP ratio)
d is a dummy variable representing economic liberalization (d = 1 from 1969-72 and 1983-96; d = 0 from 1961-68 and 1973-1982
ε is the error term

The results of the estimation, though admittedly crude, indicate that most of GDP growth seems to be accounted for by factors outside of the model (Table I.12). The results show that the only significant variable is the economic liberalization dummy variable, which has a positive coefficient. Growth in labor and capital has not contributed significantly to GDP growth.

The results suggest that total factor productivity (TFP) may have played a more important role in the observed pattern of GDP growth, and that TFP is affected by economic regimes. In particular, liberal regimes apparently positively contribute to TFP and to growth.

It is interesting to note that although the coefficient of labor growth is not significant, it is negative. These results may imply that since Ghana is a country that relies heavily on gold and cocoa exports, GDP growth may be driven more by price fluctuations in international markets, weather conditions and economic policy regimes rather than growth in labor and capital.

Table I.12. **Growth equation results**

Dependent variable: GDP Growth				
Independent variables:	Constant	Investment/GDP	Labor Growth	Dummy
Coefficient	-0.056771	19.35096	-123.0872	4.720793
t-statistic	-0.012757	1.050417	-0.962469	2.840096
R-squared	0.227276			
Adjusted R-squared	0.154833			

II. Macroeconomic Policies to Promote Stability

II.1 Public finance and macroeconomic stabilization

Fiscal Performance

Tax revenues derived from international transactions have traditionally been one of the major sources for financing in Ghana. Indeed, except for 1981 and 1982 when the proportion of total revenues derived from this source reached an abyss of 28 percent and 18 percent, respectively, this has been the most important single source of government revenue.

Data from Table II.1 indicate that the highest share of foreign transactions in total government revenue, nearly 50 percent, occurred during the liberal economic regime of 1967-1971. It fell to 40 percent during the 1972-1983 control period and to 34 percent in the current liberal era. It appears, therefore, that the proportion of tax revenues derived from foreign transactions has continued to fall, notwithstanding the nature of the economic regime.

To further understand the forces behind the above observation regarding economic regimes and fiscal performance, Table II.1 further categorizes the foreign transactions source into export duties and imports. These data indicate that the lower proportion reported for the present liberal period derives from the unusually low ratio from export duties, perhaps due to the fact that cocoa export duties, which constitute the lion's share of the source for export duties, were lowered a great deal as part of the overall liberal program.

Table II.1 Ghana: economic regimes and economic performance

	Control 1961-66	Liberal 1967-71	Control 1972-83	Liberal 1984-96
A. Macroeconomic performance (Average annual percent growth rate)				
1. GDP growth	1.7	4.6	-1.3	4.7
2. Per capita GDP growth	-0.9	2.4	-3.6	1.7
3. Investment growth	-5.4	-4.2	-5.1	6.8
B. Fiscal performance: Revenue sources from international sector (percent of total government revenue, excluding grants)				
1. Taxes on international transactions		46.8	40.7	35.0
a) Export duties		26.2	24.9	14.8
b) Imports		21.4	16.0	20.4

Sources: A:Computed from World Bank data
B: Computed from Jebuni et al and ISSER data

In contrast, the revenue from imports actually increased their importance from 16 percent during the preceding control period to approximately 20 percent for the present liberal period. Indeed, it may be inferred from Table II.1 that revenues derived from imports appear to increase with liberalization. This result is, of course, one of the objectives of liberalization. By facilitating imports, including the use of lower taxation, revenues from imports may actually increase, as observed for the current liberal regime.

Moreover, foreign grants have more recently been less of an important source of government revenue. While they increased from their negligible share of revenue at the period around the introduction of the ERP (no more than 1 percent) to about 10 percent by 1990, they have been declining steadily in importance since, reaching less than 5 percent in 1996 (they have increased as a proportion of GDP, though, from 2.3 percent during 1985-1989 to 3.3 percent over 1990-1996: ADI). Hence, the reliance on foreign grants to provide revenue shortfalls has, indeed, waned in the 1990s, while revenues from imports have taken on greater significance.

Domestic sources also provide a major avenue for government financing. In 1996, for example, taxes on income and property were 20 percent of total government revenues, and taxes on domestic goods and services were 25 percent, compared with 31 percent from foreign transactions (ISSER [1996, table 2.2]). Currently, the value-added tax (VAT) is being introduced. This time it is at the more modest rate of 10 percent, instead of the 1995 proposed rate of 17.5 percent, which was not implemented due in great part to major political opposition. The VAT should help foster efficiency in the tax system.

II.2 Exchange Rate Policy

As part of economic reforms, Ghana has liberalized its exchange system. Although there is a difference between the interbank exchange rate and the average forex rate, the two rates invariably move together, with the interbank being the lower of the two (Table II.2). However as the table shows, the divergence between the two rates had almost disappeared by 1996.

The growth of foreign exchange rates tended to be quite high and varied from year to year. It ranged between 13 percent and 49 percent for interbank rates and between –0.8 to 59 percent for the average bureau de change rate. Growth in interbank rates was generally higher than that of bureaux for the 1988 to 1996 period. It is not exactly clear why growth rates would differ by as much as 20 percent between the interbank and bureaux rates during some years. What is apparent, though, is that the rate of depreciation of the cedi has been higher under the inter-bank rate in order to effect the convergence between the two rates (Table II.2).

Table II.2 Nominal exchange rate of the (cedi/US dollar), 1988-1996

Year	Average inter-bank exchange rate (cedi/US$)	Average forex bureau rate	Inter-bank growth (percent)	Bureaux growth (percent)	Parallel market premium
1986	89.21				
1987	162.37				
1988	202.34	285.75			83.41
1989	270.01	351.56	33.44	23.03	81.55
1990	326.28	348.85	20.84	-0.77	22.57
1991	367.73	388.23	12.70	11.29	20.50
1992	437.09	459.21	18.86	18.28	22.12
1993	648.98	670.22	48.48	45.95	21.24
1994	956.73	1065.39	47.42	58.96	108.66
1995	1200.40	1229.63	25.47	15.42	29.23
1996	1637.24	1657.22	36.39	34.77	19.98

Source: Bank of Ghana and author's calculations

It is expected that the rapid depreciation of the nominal exchange rate and the resulting elimination of the real exchange rate misalignment, as exemplified by the unification of the official and parallel market rates, would improve Ghana's external competitiveness and increase the incentives for export production and diversification (Table I.3 and Figure I.3). Despite its advantages, the rapid rate of depreciation of the cedi has had some adverse effects on the economy, however. Though inflation has been lower during the most recent reform than previously, there is little doubt that the depreciating cedi has made the inflationary picture less bright.

II.3 Public debt

Ghana's external public debt continues to increase. From 1990 the real total external debt increased by 9.0 percent to reach $4 billion in 1991; from 1991 to 1992 there was a 10 percent increase; and from 1992 to 1993 it rose by 12 percent to reach $5 billion (Table II.3). This growth rate declined to 7.0 percent, 1.0 percent and 5.0 percent between 1994 and 1996. Total external (public) debt as a proportion of GDP rose from about 56 percent in 1990 to as high as 97 percent in 1994, before dropping to 84 percent by 1996 (Table II.3). The increased indebtedness underscores the need to wean the Ghanaian economy from external financing. Such indebtedness is worrisome in the light of the finding that external debt can have deleterious impacts on economic growth (Fosu [1996, 1999]).
However, the terms for most of the multilateral long-term debts were concessional, with the International Development Agency of the World Bank lending to Ghana at 0.5 percent interest rate. The share of the International Monetary Fund (IMF) in Ghana's loan portfolio was 16 percent. Part of the IMF loan ($185

million was used as a Structural Adjustment Facility and another part ($393 million) covered the Extended Structural Adjustment Facility.

The composition of the loan portfolio of Ghana in total external public debt in 1990 consisted of 1.5 percent short-term, 36 percent medium-term and 63 percent long-term loans (Table II.3). By 1996 this composition consisted of 5.0 percent, 17 percent and 78 percent in short-term, medium-term and long-term loans respectively. Thus the term structure of external debt has been shifting toward the long term. This is, of course, a positive sign for debt sustainability and long term investment.
Ghana's liquidity situation has been improving over the years since 1988. By July 1996, Ghana's foreign exchange reserves (excluding gold) stood at $755 million as opposed to 228 million in 1988 (Table II.4). Total reserves (excluding gold) and gold reserves were $813 million and $91 million (in real terms) by July 1996 compared to $228 million and $80 million in 1988, respectively.

Table II.3. **Ghana: External public debt, 1990-96 (in real million 1987 US dollars; end of period)***

Debt	1990	1991	1992	1993	1994	1995	1996
External public debt							
Total	3432.11	3505.84	4109.42	5467.25	6660.70	5886.61	6342.76
Growth rate of total		8.88	9.96	12.09	7.13	1.04	5.37
Short-term	52.98	27.10	70.04	230.34	354.91	313.81	339.26
(a) arrears	0.00	0.00	0.00	0.00	0.00	0.00	0.00
(b) Loans and overdraft facilities	0.00	0.00	44.29	162.36	339.24	221.00	256.23
© Short-term oil	52.98	27.10	25.75	68.00	55.45	92.81	83.04
Medium-term	1234.85	1227.89	1325.24	1463.00	1608.63	1132.25	1045.91
(a) Medium-term (Non oil)	513.80	458.38	492.24	588.21	665.53	367.44	389.43
(1) Pre-1966) Rescheduled	128.57	101.69	92.94	96.09	89.39	63.13	52.43
(2) Post-1996	385.22	356.69	399.30	492.13	576.14	304.30	337.00
(b) Medium-term (Oil)	10.63	9.97	105.12	12.62	14.32	12.53	12.81
© IMF	710.42	759.54	727.87	862.17	928.78	752.29	643.67
(1) Others **	309.46	200.30	146.68	186.19	172.23	130.88	100.71
(2) SAF	183.17	186.45	193.73	216.58	227.67	156.93	123.83
(3) ESAF	217.33	372.92	387.46	459.40	528.89	464.48	419.12
(4) Trust Fund loan	0.46	0.00	0.00	0.00	0.00	0.00	0.00
Long-term	2144.28	2250.84	2714.14	3773.91	4697.16	4440.56	4957.59
(a) Bilateral	459.25	472.99	574.69	917.16	1224.12	1191.26	1369.22
(b) Multilateral	1685.02	1777.85	2139.45	2856.75	3474.11	3249.29	3588.37
(In percentage of total; end of period)							
Short term	1.54	0.77	1.70	4.21	5.33	5.33	5.35
Medium-term of which:	35.98	35.02	32.25	26.76	24.15	19.23	16.49
(1)Pre-1966 Rescheduled	3.75	2.90	2.26	1.76	1.34	1.07	0.83
(2) Post-1966 debt	11.22	10.17	9.72	9.00	8.65	5.17	5.31

IMF	20.70	21.66	17.71	15.77	13.94	12.80	10.15
Long-term of which:	62.48	64.20	66.05	69.00	70.52	75.43	78.16
(1) Bilateral	13.38	13.49	13.98	16.78	18.34	20.24	21.59
(2) Multilateral	49.10	50.71	52.06	52.20	52.14	55.20	56.57
Memorandum item		(In percentage)					
External public debt/GDP ***	56.00	54.24	60.65	82.65	97.06	81.95	84.30

Notes:
*Real 1987 dollar conversion using Ghana's GDP deflator based on US dollar series.
** This comprises the following
(i)Standby facilities
(ii) External fund facility
(iii) Compensatory fund facility
*** Provisional GDP figures were obtained from Statistical Service, Accra
Source: Bank of Ghana

Table II.4. **Ghana's external liquidity, 1988-1996 (real 1987 million dollars; end year)***

Item	1988	1989	1990	1991	1992	1993	1994	1995	1996
Foreign exchange	227.8	339.8	211.0	496.5	287.0	450.1	735.1	776.3	755.4**
SDRs	0.3	32.0	4.3	11.5	4.3	0.6	5.6	2.8	27.6**
Total reserves (excluding gold)	228.1	371.8	215.4	508.0	314.9	478.6	774.4	809.2	812.9**
Gold (national valuation)	79.9	83.8	62.6	68.3	76.9	90.2	102.4	89.8	90.9**
Merchandise imports/reserves (excluding gold)	4.6	3.1	5.4	2.2	4.5	4.9	3.6	2.8	3.1***

*Real 1987 dollar conversion using Ghana's GDP deflator based on US dollar series.
** Average for January to July
*** Provisional
Source: Computed from IMF, International Financial Statistics data

III. Structural Policies to Promote Long-run Growth

Objectives of the Economic Recovery and Structural Adjustment Programs - A Focus

In order to properly analyze and interpret more recent economic trends, it is important to bring into sharper focus the nature of the economic recovery program (ERP) and the subsequent structural adjustment program (SAP). ERP, covering roughly 1983-1986, was intended to stabilize the economy. On the other hand, SAP was designed to effect long-term sound structural changes in the economy.

The objectives of the ERP included: (1) realignment of relative prices in favor of production and away from mere trading and rent-seeking activities; (2) reducing the high rate of inflation to tolerable levels; (3) lowering the large budget deficits; (4) improving government finances; (5) rehabilitating the social and economic infrastructure; (6) eliminating smuggling and parallel market transactions; and (6) realigning the currency with the major international currencies (Dordunoo and Nyanteng [1997]).

The objectives of the SAP included: (1) attaining a 5.0 percent average annual growth rate of GDP in order to improve real per capita income by about 2.5 percent annually, that is, after adjustments for population growth; (ii) reducing inflation by about 8.0 percent by 1990; and (iii) maintaining balance of payment surpluses averaging about US $110 million annually in order to enable Ghana to pay off all external debt arrears by 1990. (Dordunoo and Nyanteng [1997]).

The objectives of SAP were to be achieved via a number of reforms in the economy, involving both the financial and non-financial sectors of the economy. These included a tax reform that provided greater relief for personal income taxes while raising consumption taxes, including those on motor vehicles and petroleum.

III.1 Lifting Price Distortions and Promoting Trade Reform: achievements and challenges ahead

Efforts in lifting price distortions and promoting trade reform were made in the areas of price controls, import duties and export promotion.

Price controls

— Widespread wage and price controls were introduced in an attempt to check inflation - February, 1982.
— All controlled prices, including those of government services, increased substantially to pass through the cost of devaluation - April, 1983.
— Price controls have been eliminated on all but 23 goods throughout the year - December, 1983.
— Last of goods with controlled prices reduced to 8: Imported rice, sugar, baby food, cement, textiles, drugs, matches, and soap - July, 1985.

Import duties

— Tariff schedules were simplified to rates of 0, 25, and 30 percent - April, 1993.
— The 10%special tax on goods imported under SUL (Special Unnumbered License) was abolished - February 1987.
— Abolition of import duty and purchased tax on all commercial vehicles - February, 1987.
— Import sales taxes now imposed on such goods as milk, rice, and prepared fish from other countries - February, 1987.
— Reduction of duty rates on basic raw materials and capital goods - February, 1987.
— Reintroduction of import duty and sales tax on all cars (including commercial motor vehicles) - January, 1987.
— Abolition of the requirement for importers to obtain import license to allow them access to foreign exchange. Abolition of special SUL tax - January, 1998.
— The 20% tax on SUL imports was abolished – 1989.
— The special duty rates have been abolished. All goods now attract ad valorem duty rate. Special tax - January, 1990.
— Goods which already attract the special taxes will continue to attract them in addition to the special import duty and sales tax, except for textile factories tax on which has been reduced from 40% to 10% January, 1990.

— Protection given to three additional commodities namely edible oil, batteries and tanterm globes January, 1990.

Export Promotion

— Throughout 1984, foreign exchange retention schemes were introduced for key exporters needing inputs. Timber exporters were allowed to retain 20% of their foreign exchange earnings, gold exporters 35% to 45%; and exporters of other minerals, 20% - December, 1984.
— The Export Development and Investment Fund was established - February, 1989.
— Assistance to local industry. Government recognized that some industries, which were in difficulties could only become viable with some assistance - February, 1989.

a) Their capability for producing exportable goods and/or import substitutes at competitive prices.
b) Past failure to operate profitably is due to rectifiable financial and/or managerial constraints.
c) The enterprise must be prepared to enter into a performance agreement

— Establishment of Export Finance Company Limited with the main objective to finance the export of non-traditional commodities. The company began its operation at the end of July 1990 - August, 1989.
— As an incentive to the export sector, corporate tax rebates were raised to a maximum of 60% to 75% for agriculture (from 30% to 40%) and manufacturing (from 25% to 30%), depending on the proportion of output exported. The customs Duty Drawback rate was increased to 100% August, 1989 (ISSER).

III.2 Strengthening the Financial System

The Financial Sector Reform Program (FINSAP)

The financial sector reform program (FINSAP) was implemented during 1989-1990, intended to strengthen and reform the banking system. The main objectives were to: (i) enhance the soundness of the banking system by improving the regulatory framework and strengthening bank supervision; (ii) restructure financially distressed banks; and (iii) improve resource mobilization and increase efficiency and credit allocation in the banking system. Specific actions taken included the improvement of the Bank of Ghana's supervision capacity; redemption from banks' portfolios, through offsets and the issue of bonds, the non-performing loans and other Government guaranteed obligations made by banks to state-owned enterprises as well as to the private sector. A Stock Exchange was also begun in November 1990. More specifically, the following reforms took place:

— The government approved the framework for restructuring banks in July 1989 and the implementation of the framework to restructure banks got underway - July, 1989.
— The restructuring plans for Ghana Commercial Bank (GCB), Social Security Bank (SSB) and the National Saving and Credit Bank (NSCB) were prepared - July, 1989.
— The new Banking Law was approved by the PNDC on August 8, 1989, covering capital adequacy, reserve requirements, loan limits and reporting requirements - August, 1989.
— Legislation (PNDC Law 242) for the Non-Performing Assets Recovery Trust (NPART) and its special judiciary tribunal (Loans Recovery Tribunal) was enacted in February 1990. The Tribunal was mandated to hear and determine all issues related to non-performing assets - February, 1990.
— New regulations were also published for the setting up and supervision of savings and loans companies - February, 1990.

- The new Banking Law strengthened the Bank of Ghana in its supervisory role including periodic on-site examination of bank, regular and standard reporting, issuance of uniform accounting standards and audit guidelines, and authority to impose fines and punitive actions in case of violations - February, 1990.
- The Ghana Stock Exchange Company (GSEC) opened its doors for business. Incorporated under the companies' codes, the stock exchange would be on of the tools to mobilize capital for development as part of the country's financial sector reform. The GSEC, with 20 organisations involved raised an amount of 170 million required as capital. On the opening day, 10,700 shares of 11 companies listed were sold the second day there were 25,920 shares sold - November, 1990.

III.3 Investing in core infrastructure and social overhead capital

Structural Factors

A. Investment in physical infrastructure

Infrastructure in capital clearly represents a major element in the calculus of Ghana's emergence. Despite major construction efforts in the 1980s, road length per capita (1000 km/1 million persons) has not changed much since the 1970s, registering an annual average of 2.8, 2.7 and 2.6 for 1975-84, 1985-89 and 1990-95, respectively. Worse yet, rail traffic (units per million US dollars of GDP) has dwindled steadily: annual average of 13.1, 7.9 and 5.9 in 1975-84, 1985-89, 1990-95, respectively (ADI).

B. Structural Change – Energy

One important recent structural change that could have important negative implications for the future direction of the Ghanaian economy is the domestic energy crisis. This crisis has been so severe that power outages were the order of the day in much of 1997 and 1998. Recent increases in rainfall have helped replenish the hydroelectric capacity of the Akosombo dam, the main source of power generation in Ghana. Meanwhile, new thermal plants have been constructed to boost electricity supply, while policies have been designed to curb demand through a graduated pricing system. What now seems certain, however, is that the time of cheap power is over. This could have negative implications for further industrial development.

C. Investment in social infrastructure

There was marked improvement in the human capital investment in the 1990s (literacy, infant mortality, life expectancy, death rate) (Table III.1). However despite the improvement, there is a worrisome trend. In 1991-93, only 25 percent of the population had access to health services. This compares with the rate of 65 percent in 1988 (Table III.1). The proportion of public expenditure on education remained about 22 percent in 1991-93, the rate in 1980 (Table III.2). It declined in the 1994-1996 period ranging between 18 and 19 percent reverting to the 1983-84 levels. The proportion of public expenditure on stood at 4.0 in 1993 and increased to its highest level of 10 by 1990. It continued to decline thereafter, falling to a level of 5.0 by 1996.

Similar trends prevailed in the entire expenditure on community and social services. This expenditure rose from 32 percent in1983 to 46 percent in 1990. It thereafter declined to 34 percent of total expenditure by 1996. Such trends may have grave consequences on future poverty alleviation efforts.

Table III.1 **Ghana: selected social indicators**

(Year in parentheses)*			
Urbanization	31.2 (1980)	33 (1987)	36.3 (1995)
Fertility rate	6.5 (1982)	6.2 (1987)	5.1 (1995)
Crude birth rate (per 1000 population)	45.2 1982)	46.2 (1987)	37 (1995)
Crude death rate (per 1000 population)	14.2 (1982	13.4 (1987)	10.1 (1995)
Life expectancy at birth (Years)	53 (1982)		59 (1995)
Infant mortality (per 1000)	98 (1982)		73 (1995)
Access to health services (% of population)	64 (1985)	65 (1988)	25 (1991-93)
Illiteracy rate	47 (1985)	40 (1990)	36 (1995)
Male	36	30	24
Female	58	49	47
Education:	1980	1989	1991-93
% of public expenditure	22	24.3	22
% of GDP	1.1	2.4	
Poverty incidence			
(% of population below poverty line)	(1987-98)	--	(1991-95)
Urban	25.7	--	26.7
Rural	41.9	--	43.3
National	36.4	--	31.4

*Percent unless otherwise indicated
Sources: The World Bank, ADI; IMF Country report on Ghana

Table III.2 **Composition of government expenditure on community and social services, 1983-1991**
(Percent of government expenditure)

Year	Education	Health	Social and Welfare Services	Housing and community amenities	Recreational, Cultural and Religious Services	Community & S. S. as a percentage of total exp.
1983	19.88	4.27	4.14	1.61	1.71	31.6
1984	19.57	8.28	4.10	2.14	2.18	36.3
1985	21.45	8.33	4.67	1.73	1.66	37.7
1986	23.07	7.98	5.16	1.87	1.63	39.7
1987	25.32	8.64	6.13	0.78	2.12	43.2
1988	24.67	8.58	6.62	3.35	1.48	44.7
1989	23.32	9.70	7.03	2.54	1.87	44.5
1990	24.59	9.74	6.96	2.55	2.60	46.4
1991	22.39	8.17	6.80	2.13	2.21	41.7
1992	23.41	7.64	6.81	1.83	1.91	41.5
1993	20.17	7.62	8.74	1.44	2.09	40.1
1994	18.61	4.85	7.18	2.9	1.51	35.1
1995	19.45	6.47	8.47	1.37	1.45	37.2
1996	18.66	5.04	7.15	1.49	1.47	33.8

Source: Computed from Statistical Service, Quarterly Digest of Statistics

IV. Public Sector Management and Economic Performance

IV.1. Securing the private/public sector boundary

Efficiency Improvement and Divestiture of Public Enterprises

Another cornerstone of SAP was a program to improve the management of public sector resources. This included revision of corporate plans for 13 state-owned priority enterprises and the signing of performing contracts. In addition, the program of divestiture and privatization was implemented. By January 1991, 23 enterprises had been liquidated and another 15 privatized, via joint ventures, leases, management contracts and sale of shares (Dordunoo and Nyanteng [1997]). By the end of 1991, 60 state-owned enterprises had been approved for divestiture, 24 by liquidation, 16 by outright sales and the rest through shares sales, joint venture, and leasing. Indeed by 1997, some 201 enterprises had been approved for divestiture (Asante [1998; Divestiture Committee (1997)). The most recent divestiture includes the telecommunications segment of the Ghana Post and Tele-communications, and the privatization of State Transport Corporation is currently under way. It is estimated that over two-thirds of Ghana's parastatal companies have now been divested (Business Watch, December 1998).

Table IV.1 **Progress of divestiture programme, 1991-1996**

Mode	Up to 1991	1992	1993	1994	1995	1996	Total
Outright sale	16	4	3	30	19	16	91
Sale of shares	11	5	2	2	6	1	27
Joint venture	6	3	1	4	0	4	18
Lease	3		0	1	0	-	5
Liquidation	24	2	5	5	6	-	42
Total	60	15	11	42	31	24	183

Source: Compiled from ISSER (various issues)

IV.2 Macroeconomic achievements of reforms: an overview

As indicated above, there were generally favorable implications of the reforms for the performance of the foreign sector of the economy, that is, in terms of import and export growth, at least as compared to the previous control period. However, were the general macroeconomic goals of the reforms achieved?

To answer the above question, we present in Table IV.2 general development indicators for the periods 1975-1984, 1985-1989, and 1990-1996. These are roughly the control period, early reform period and mature reform period, respectively. Although the ERP began in 1983, many of the ERP reforms did not take place until later, hence the slight lag. Furthermore, by 1990, substantial portions of both the ERP and SAP were in place; for example, the foreign exchange liberalization program was very much complete with the establishment of the foreign exchange bureaux in 1988; and the import tariff schedule was at substantially lower level by 1990. Hence, we wish to additionally explore the implications of the reforms for a later, maturer part of the SAP.

The Early Phase of the Reform (1985-1989)

Table IV.2 suggests that attempting to meet the specific targets stated in the reforms program above met with mixed results. For example, GDP growth averaged 5.1 percent annually during 1985-

1989, approximately the 5 percent target set. In contrast, the inflation rate target of 8 percent was widely missed, and so was the target of a surplus in the balance of payments intended for retiring external debt arrears. Indeed, the current account deficit of 2.4 percent of GDP during 1975-1984 was doubled to 5.0 percent over 1985-1989.

Nevertheless, it is important to stress that the broad macroeconomic objectives of the reforms were generally achieved during the early phase of the reforms. For example, the inflation rate was brought down substantially from its average of nearly 70 percent during 1975-1984 to roughly 30 percent in 1985-1989. In addition, government fiscal deficits (excluding grants) were trimmed, from about 12 percent of GDP from the earlier period, to 5.0 percent during 1985-1989, that is, less than one-half of its value previously. Much of this improvement in the fiscal health occurred as a result of enhancement in government revenues, which increased from 8 percent to 13 percent of GDP.

It must also be emphasized that the GDP growth improvement, at least in the early phase of the reform, was pervasive across all three sectors. While value added in industry fell at an average rate of about 7.0 percent annually during 1975-1984, it grew at a very healthy average rate of 9.0 percent annually during 1985-1989. Similarly, the growth rate of the value added in agriculture increased from about nil to 2.0 percent, and that for service from 2.0 percent to 8.0 percent.

Table IV.2. Ghana: Selected development indicators*

	1975-84	1985-89	1990-96
GDP growth	-0.8	5.1	4.3
Population growth	2.3	3.5	2.8
Industry and value added growth	-7.5	9.1	4.6
Agriculture value-added growth	0.2	2.3	2.3
Services value-added growth	2.2	7.8	6.6
Gross Domestic Investment (GDI/GDP)	6.9	11.4	15.9
Gross Public Investment/GDP		7.0	11.4
Gross Private Investment/GDP		4.3	4.4
Gross Domestic Saving/GDP	6.2	5.7	5.0
Gross Natural Saving/GDP	6.2	5.9	6.5
Resource balance	-0.6	-5.8	-10.9
Export (Goods and non-factor services) growth	-9.4	11.3	-0.1
Imports growth	-9.8	9.9	5.3
GNP per capita (US$)	356.0	402.0	387.0
Inflation rates (CPI)	67.9	27.7	28.8
Parallel exchange rate/official exchange rate	8.0	1.7	1.0
Real effective exchange rate (indes:1990 = 100)		142.6	83.9
Credit to private sector (growth)	28.0	48.0	30.0
Credit to government sector (growth)	36.0	32.0	34.0
Current account balance/GDP	-2.4	-5.0	-8.8
Net FDI/GDP	0.4	0.1	0.4
Net FDI/GDI	5.1	1.2	2.5
Net L-T borrowing/GDP	1.8	4.7	5.5
Terms of trade (growth)	-1.4	-1.0	-0.4
Cocoa exports (growth of quantity)	-7.7	9.0	-1.8
Government deficit (surplus)/GDP			
Grants inclusive	-2.3	-2.7	-7.4
Grants Exclusive	-11.8	-5.1	-10.8
Primary	-0.3	-1.9	-7.5

Government expenditure and lending minus repayments/GDP	13.1	18.3	27.2
Government interest payments/GDP	1.3	1.5	3.4
Government revenue (Excluding grants)/GDP	8.0	132.0	16.5
Grants to government/GDP	0.1	2.3	3.3

*percent, unless otherwise indicated.
Source: The World Bank, ADI, 1997

The Latter Phase of the Reform (1990-1996)

Did the above improvements in the macroeconomic indicators endure beyond the initial post-reform period? To answer this question, Table IV.2 reports data for the 1990-1996 period as well.

We note from this table that there appeared to be an ebb somewhat in the initial improvements. For example, GDP growth declined slightly from its 5.1 percent average to 4.3 percent for the latter period. This decline was registered in two of the three sectors of the economy: industry and services, but not agriculture whose growth remained constant at about 2 percent.

While export growth rebounded strongly to a growth of 11 percent in 1985-1989 from its dismal decline in the pre-reforms period of about 9.0 percent, it registered no growth in the latter 1990-1996 period. Meanwhile, unlike the first two periods when the growth of imports paralleled that of exports, import growth was substantially positive at 5.0 percent despite no growth of exports this latter period. Consequently, the current account balance worsened further to about 9.0 percent of GDP, from its earlier reform ratio of 5.0 percent. Furthermore, the fiscal condition of the economy seems to have reverted to its earlier period of ill health, registering a deficit of 11 percent of GDP (government deficits, excluding grants), nearly paralleling the 12 percent rate for the 1975-1984 control period, and slightly more than twice the ratio during the earlier phase of the reform era. Much of this worsening in the government budget deficit could be attributable to substantial increases in government expenditures which, as percent of GDP, increased by 9.0 percentage points over the previous period, compared to only about 3.0 percentage-point increase in government revenues.

The inflation rate did not change much, however, increasing slightly from its 28 percent annual average in 1985-1989 to 29 percent in the latter part of the reform period. Nor did private investment which, as a percent of GDP, remained about the same at about 4.0 percent, though overall gross domestic investment rose from about 11 percent to 16 percent, suggesting that all the improvement in investment during the latter part of the reform era was attributable to increases in public investment.

Implications for Well-being

The above discussion indicates that there were substantial improvements in many of the macroeconomic indicators during the reform period, even if there appears to be a dip in several of these in the more recent phase. An important question of the study, however, is the implication of growth for economic welfare. Hence, to what extent were the socio-economic indicators also enhanced? One obvious, though imprecise, measure of economic well being is the real per capita income, approximated by the per capita GDP. This measure (based on OECD data) was nearly 500 1987 US dollars in 1960. By 1983, it had fallen to a minimum of 344 dollars. It began to rise steadily after that year, during the reform era, however, reaching 430 dollars by 1996.

To provide a more comprehensive depiction, Table III.1 presents a set of selected social indicators for which data for meaningful comparisons across reform/non-reform regimes can be made. These data indicate that there have generally been improvements in the usual measures of economic well being over the reform period. For example, life expectancy at birth improved from 53 years in 1982 to 59 years in 1995, and infant mortality per one thousand of population was reduced precipitously from 98 to 73. Similarly, the illiteracy rate fell from 47 percent of the population in 1985 to 36 percent in 1995. This decline was observed for both men (from 36 percent to 24 percent) and women (from 58 percent to 47 percent).

Meanwhile, the poverty rate (percent of population falling below the poverty line, estimated at 132,000 Cedis per year as at mid-1992) fell nationally from about 36 percent to 31 percent between 1987-1989 and 1991-1995. Perhaps more important, this reduction was primarily in the rural sector of the economy, which saw a decrease of nearly 10 percentage points (from 42 percent to 34 percent), while that in the urban sector was about flat (a slight uptick from 26 percent to 27 percent).

It is not entirely clear what might have been responsible for the above improvement in the poverty picture in the rural area. One explanation might simply be one of statistical quirk, in that urbanization also increased over this period, from 33 percent to 36 percent. However, it would be hard to believe that such a modest shift in population alone could have been responsible for all of this relatively bright picture. A more potent explanation might be this population shift in conjunction with the decreasing rate of population growth overall as well as the continuous, though modest, growth in agriculture. For example, while the rate of growth of the value added in agriculture was almost nonexistent during 1975-1984, it increased to 2.3 percent per annum on average in both 1985-1989 and 1990-1996.

Although the industrial and service sectors have both grown faster than the agricultural sector since the mid-1980s (table 2), it is unclear how much of that differential growth showed up in real wages, which have remained about the same secularly since the mid-1980s (Centre for the Study of African Economies, Research Summary, 1998, pp. 38-39). Unlike these sectors, however, the bulk of the agricultural sector's output is owned by the rural population, since 64 percent of the agricultural GDP is attributable to the crops sub-sector (that is, other than cocoa and forestry/logging), with the starchy foodcrops (roots, tubers, and plantains) alone accounting for as much as 55 percent of the agricultural GDP (ISSER [1996; p. 83]). Hence, much of the growth in the agricultural sector could be seen as directly translating into the earnings of rural workers/dwellers.

Interestingly, it appears that cocoa earnings did not contribute much to the observed reduction in poverty in the rural sector, despite the fact that, generally, increasing proportions of cocoa earnings have been transferred to farmers since the reforms (slippage though since 1993). This is because, the actual producer earnings from cocoa which rose with reforms since about 1985 have shown a slight downward trend beginning in 1988, resulting mainly from a downward trend in the world price of cocoa since that time, despite the fact that there has been a slight upward trend in the volume of cocoa exported as of the mid-1980s. Based on data in ISSER [1993 and 1996: tables 4.3 and 4.4], we compute that farmers received an average of about 166 million US dollars during 1988-1990, compared with $133 in 1990-1996.

Is Ghana Emerging? The Future Prognosis

These and other data have led to pessimistic conclusions by some analysts. For example, based on the structuralist approach, Tony Killick [1997] concludes that there is little evidence to believe that Ghana's economy has reached the take-off threshold. In addition, Lall [1995] observes that reforms alone are unlikely to lead to the anticipated results of a long-term resurgence in economic activity, as de-industrialization is likely to accompany such reforms.

What is needed is a continuous effort to reduce the impediments to manufacturing exporting. In this respect, recent policies to promote exports are in the right direction. For example, the Business Assistance Fund (BAF), consisting of a Government of Ghana Credit line of 10 billion Cedis to support distressed but potentially viable business was launched in 1993 and disbursement began in 1995. This program has been so popular that it has been oversubscribed by 5 billion Cedis. Other programs include the USAID-sponsored Trade and Investment Program (TIP), Funds for Small and Medium Enterprises Development (FUSMED), and Private Enterprise and Export Development (PEED), all intended to facilitate export promotion (ISSER [1993, pp. 116-118; 1996, pp. 123-128]).

V.1 Direction of Macroeconomic Indicators

A. Inflation

As observed above, inflation has been substantially lower during the period of the reforms than in the previous decade. The rate has been by no means uniform, however. It dropped to as low as 10 percent in 1992 but rose to about 70 percent by the end of 1995 (blamed on major increases in the money supply attributable to monetary accommodation of substantial pre-election government spending). Since then, however, the trend has been downward and is currently about 20 percent. This level, if maintained or reduced, is certainly tolerable and need not be excessive, since rates below 40 percent are usually not considered deleterious to growth (Barro [1998]).

It is estimated that much of the recent success in inflation reduction was attributable to relatively low food prices. A sustained favorable inflationary picture would likely require success in government efforts to reduce its budget deficits.

B. Interest Rates

Interest rates have also been trending downward in recent periods. At over 40 percent in December 1996, for example, the 91-day treasury bill now stands at about 26 percent (Bank of Ghana). This has of course been in response to the trend in the inflation rate observed above. Such a trend, if it continues, should help to prolong the present positive direction of the economy.

C. Debt burden

Since 1990, Ghana's debt burden has increased substantially. Its external and domestic debts have risen by 7.6 percent and 30 percent per annum, respectively. With external debt constituting about 85 percent of total debt, it deserves particular attention. In 1990, for example, the external public debt outstanding as a proportion of GDP stood at 57 percent. By 1994, it had reached 97 percent of GDP (ISSER; Bank of Ghana). It has since been reduced to 84 percent in 1996. This huge external debt is, of course, disturbing especially in the light of the evidence of its potentially deleterious implications for economic performance (Fosu [1999], Elbadawi et al. [1996], and Fosu [1996]).

Nevertheless, to the extent that such debt is used for productive public investment, the burden may be considerably alleviated. For instance, the bulk of the tremendous increases in public investment since 1990 are attributable to the availability of funds through external borrowing. Much of this investment is in road construction and other infrastructure creation and could have positive implications for the economy down the line. That the structure of the external debt is now toward the long term is also significant. Furthermore, there have been no arrears since 1991. Debt management is certainly going to be an important issue for the Ghanaian economy in the medium and long term.

V.2 Political/Institutional Developments and Conclusion

The role of political/institutional factors in the economic growth process has now been well established. Until the 1980s, Ghana was one of the most politically unstable nations in SSA, in terms of the incidence of coups d'etat by the military. During 1960-85, Ghana had 5 "successful" coups, 6 attempted but unsuccessful coups, and 13 coup plots. In comparison, Nigeria had 5, 1, and 4, respectively, over the same period. That such political instability has been adverse to the economic performance of SSA has been well documented (e.g., Fosu [1992]). In this regard, the last decade and a half has been one of political tranquility, within which the present economic liberal regime has operated.

We have observed that liberal political regimes in Ghana have been associated with substantially better economic performance than control regimes. Hence, if the present relatively good economic performance is to continue, a stable political environment is a *sine qua non*. What are the prospects?

The current Ghanaian president, Jerry J. Rawlings, has been head of the government on a continuous basis since the early 1980s. To his credit, he has presided over the relative political tranquility within which the liberal reforms have functioned. He was the constitutionally elected president in 1992, assuming office in January 1993. He was re-elected in 1996 and re-assumed the presidency in 1997. According to the constitution, he cannot serve a third term. Hence, a new president must be installed in 2001.

President Rawlings has already designated his political party's successor for the next election, Prof. Edwin Mills, the current vice president. This action should reduce the uncertainty as to whether President Rawlings might wish to usurp power or amend the constitution in order to remain in office beyond 2000. There are currently, however, political wrangling both within and outside of his party regarding the designated successor. Some insiders are unhappy with Rawlings's unilateral choice, while many outside of his party believe that Prof. Mills would be his political puppet.

In my view, Rawlings's successor designation should help to minimize the chances of the military once again returning to power. That Rawlings has gained the confidence of the military over the last decade and a half, through his own strong association with that institution, may constitute a source of trust that his presence in politics would help maintain the stable political environment. Conversely, one must be concerned that Rawlings's absence from political authority, especially in the case of the opposition gaining power, could precipitate the resurgence of the military's power usurpation. The maintenance of the current politically stable environment clearly represents the critical element in determining if the present liberal economic regime will survive and if Ghana will emerge as an economically prosperous nation.