Presentation of

THE STATE OF THE GHANAIAN ECONOMY REPORT, 2005

Institute of Statistical, Social and Economic Research (ISSER)

University of Ghana

Outline

- Introduction
- Global and Ghanaian Economic Performance
- Fiscal Developments
- Monetary and Financial Developments
- External Sector Developments
- Sectoral Developments
- Growth and structural change Discussion

Introduction

- 2005 was characterized by mixed events and reactions:
  - Volatile oil market plus many natural disasters (e.g. Katrina)
  - But satisfactory macroeconomic policies led to growth rates that exceeded expectations

Table 1: World and Regional growth rates, 2005

Region	World	China	India	Russia	Africa	SSA	Ghana
Real GDP growth rate (%)	3.2	9.9	8.3	6.4	5.2	5.5	5.8

- According to the World Bank, the impressive global growth was aided by benign financial market conditions and appropriate macroeconomic policies.

Introduction (cont.)

- ECOWAS postponed the introduction of a second monetary union in West Africa from July 2005 to December 2009 after finding member countries falling short of achieving both the quantitative and qualitative criteria.
- Increased inflows (exports and aid) coupled with prudent stabilization policies in Ghana also helped to neutralize the negative effects of high world oil prices.
- Ghana benefited from yet another debt relief effort in the year under review:

  - Multilateral Debt Relief Initiative

ECONOMIC PERFORMANCE

- From 2001 to 2005, the Ghanaian economy has maintained a relatively high average growth rate of about 5.1% , driven mainly by the agricultural sector (see next slide)
- However, this rate of growth falls short of what the country needs to attain middle-income status and to achieve the MDGs by 2015.
- The relatively high growth rates over the last few years has not been translated into real per capita output growth (see Figure 1.1)

Economic Performance (cont.)

Fig.1.1 Trends in Real GDP and Real Per Capita Growth Rates, 2000-2005(%)

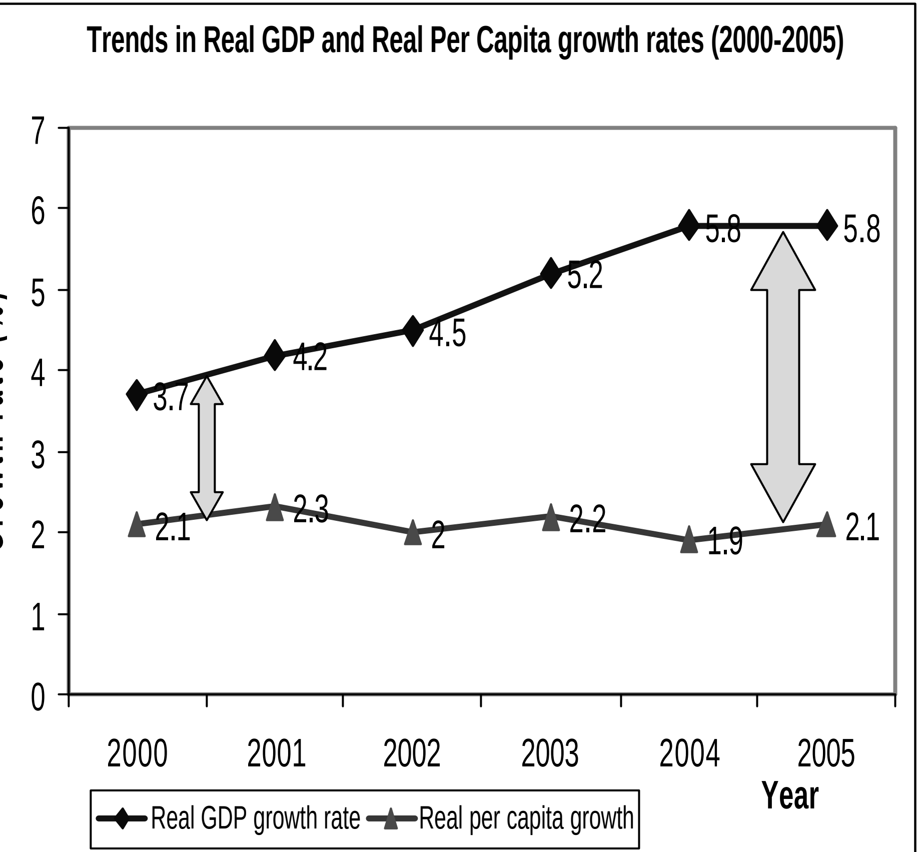


Fig. 1.2 Sectoral Contributions to National Output, 2000-2005 (% of Total) in Constant 1993 Prices

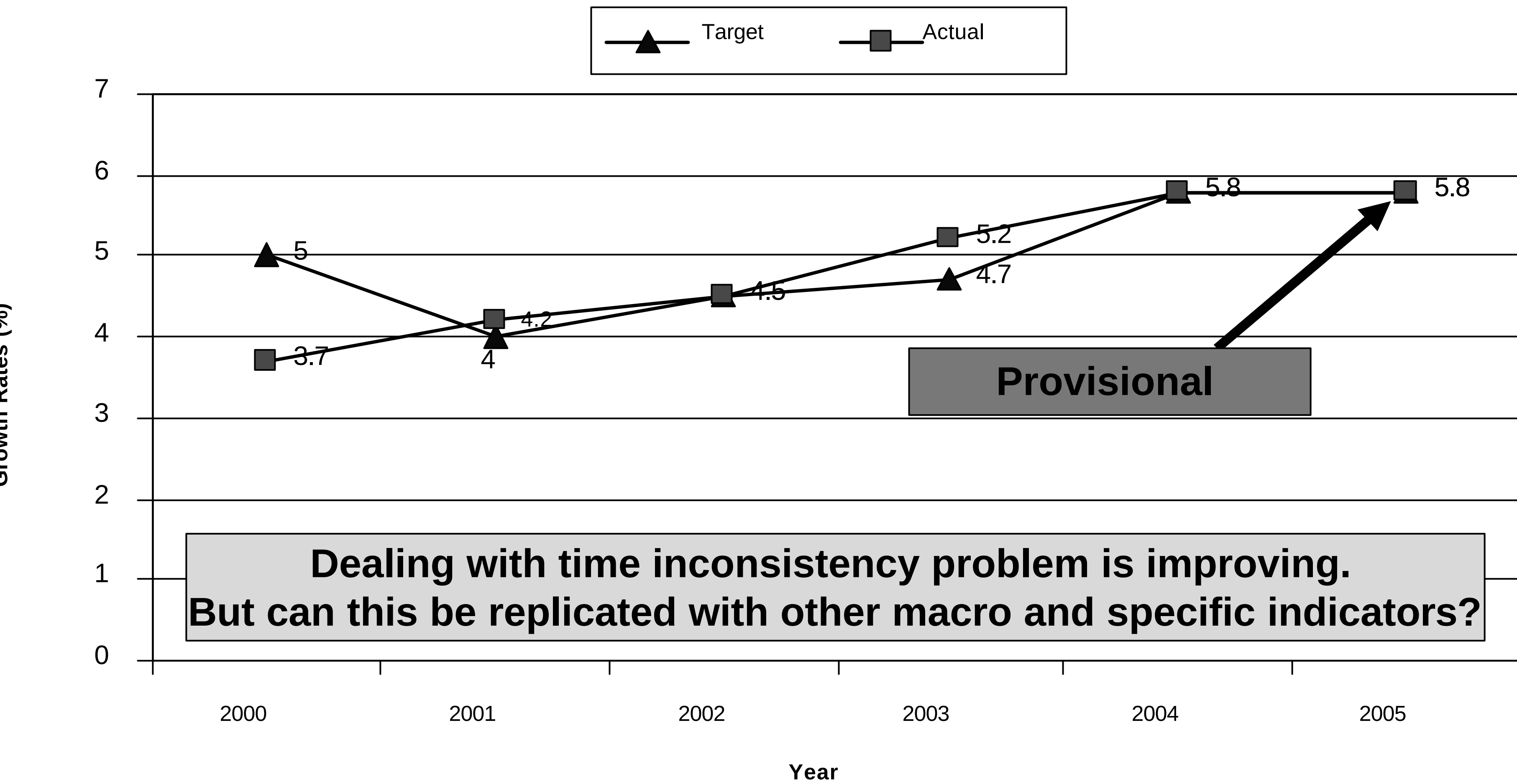
Year	*Agriculture*	*Industry*	*Services*
2000	36.0	25.2	29.7
2001	35.9	24.9	29.9
2002	35.8	24.9	30.0
2003	36.1	24.9	29.8
2004	36.7	24.7	29.5
2005	37.0	24.7	29.4
Average (2000-2005)	**36.3**	**24.9**	**29.7**

National Output structure has not changed much

Selected Performance Indicators, 2004-2005

Indicator	*2004*	*2005*	*2005*	*Differen ce*	*Differe nce*
(% unless otherwise stated)	*Actual (C1)*	*Target (C2)*	*Actual (C3)*	*C3-C1*	*C3-C2*
National GDP					
Nominal GDP (¢ billion)	**79,804**	**96,319**	**97,018**	**17,214.3**	**699**
Real GDP Growth	**5.8**	**5.8**	**5.8**	**0.0**	**0.0**
Real Per Capita GDP Growth	**1.9**		**2.1**	**0.2**	
Sectoral Growth Rates					
Agriculture	**7.5**	**6.5**	**6.5**	**-1.0**	**0.0**
Industry	**5.1**	**5.8**	**5.6**	**0.5**	**-0.2**
Services	**4.7**	**5.4**	**5.4**	**0.7**	**0.0**

Trends in Target and Actual GDP Growth Rates, 2000-2005



Source: Ministry of Finance and Economic Planning, various Budget Statements

Fiscal Developments

- The government’s fiscal policy for 2005 was aimed at stimulating growth and reducing domestic debt stock.

- The specific targets were to achieve a domestic primary surplus equivalent to 2.4 percent of GDP and an overall budget deficit equivalent to 2.7 percent of GDP.

- Major policy interventions included implementation of the deregulation policy in the petroleum sector and the capitation grant policy for public first-cycle schools.

- Total revenue and grants amounted to ¢28,256.4 billion as against a target of ¢29,357.4 billion. The shortfall in revenue collection was mainly due to the inability of the Customs, Excise and Preventive Service (CEPS) to meet its collection targets.

- Total government receipts increased slightly from 36.01 percent of GDP in 2004 to 36.77 percent in 2005, total government revenue also increased marginally from 23.81 percent of GDP in 2004 to 23.87 percent in 2005.

- The share of direct taxes in total revenue also rose slightly from 6.70 percent in 2004 to 6.82 percent in 2005, but collections of indirect taxe and international trade taxes fell marginally.

- While government expenditure on **utility price subsidies** was cut back drastically by **81 percent** from 2004 levels, expenditure financed from HIPC debt relief increased by 4% to ¢1,946.6 billion.

Selected Fiscal Indicators, 2004-2005

Indicator	*2004*	*2005*	*2005*	*Diffe-rence*	*Diffe-rence*
(% unless otherwise stated)	*Actual (C1)*	*Target (C2)*	*Actual (C3)*	*C3-C1*	*C3-C2*
Domestic Revenue/GDP	**23.8**	**24.6**	**24.9**	**1.1**	**0.3**
Domestic Expenditure/GDP	**23.1**	**22.2**	**22.2**	**-0.9**	**0.0**
Tax Revenue/GDP	**21.8**	**21.8**	**22.2**	**0.4**	**0.4**
Primary Balance/GDP	**0.7**	**2.5**	**2.4**	**2.0**	**-0.1**
Overall Balance/GDP	**-3.2**	**-2.2**	**-2.7**	**0.5**	**-0.5**
Net Domestic Financing/GDP*	**0.5**	**-1.0**	**0.0**	**-0.5**	**1.0**

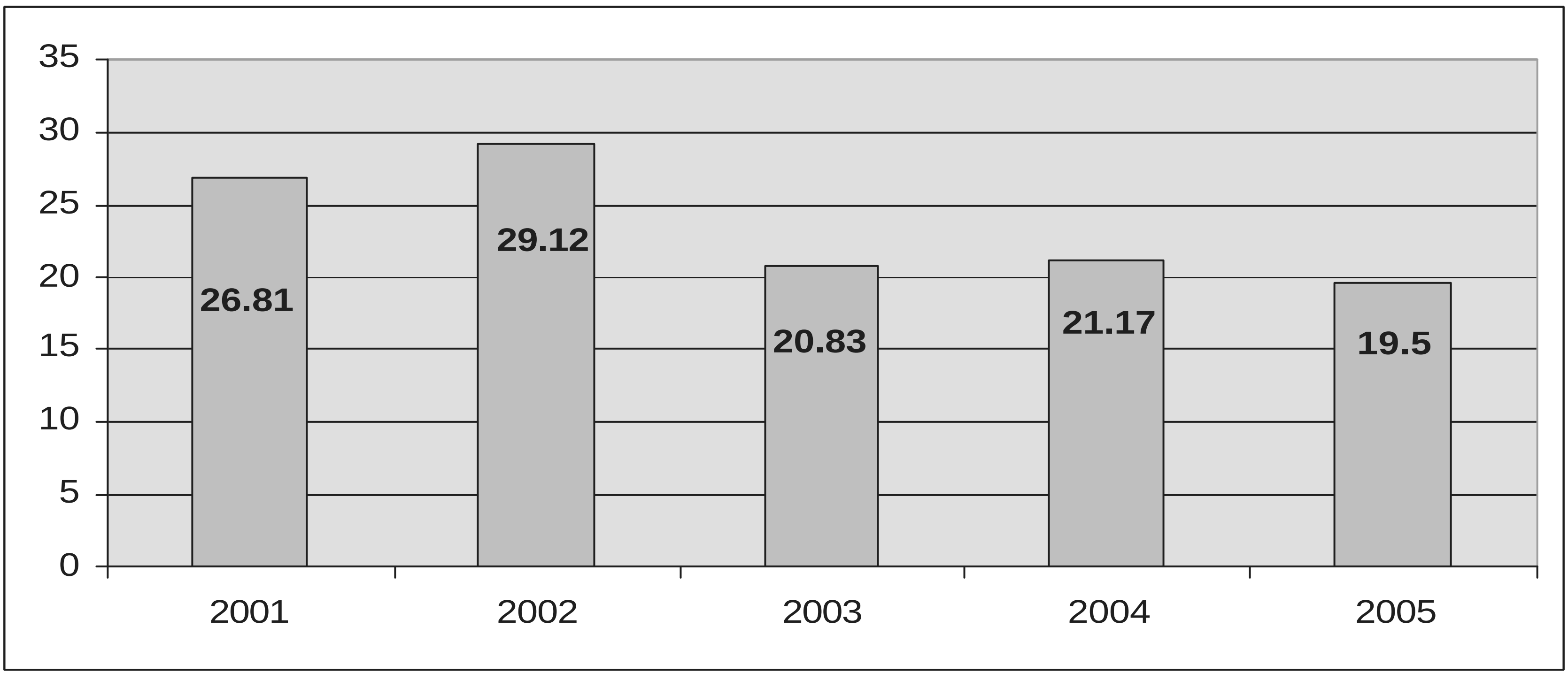
Government Fiscal Indicators, 2000-2005 (% of GDP

NDICATOR	2000	2001	2002	2003	2004	20
otal Receipts	36.52	35.70	32.34	33.71	36.01	36.
Total Revenue	17.72	18.16	18.42	20.12	23.81	23.
Tax Revenue	16.26	17.25	17.90	19.56	21.81	20.
Direct Taxes	5.19	5.59	5.85	6.27	6.70	6.
Indirect Taxes	7.43	7.54	7.87	8.45	10.34	9.
International Trade Taxes	3.63	4.13	4.18	4.84	4.77	4.
Non-Tax Revenue	1.46	0.91	0.53	0.56	1.42	1.
Grants	2.12	6.91	3.19	4.78	6.19	5.
Other Receipts	16.69	10.62	10.73	8.57	6.45	4.
Divestiture	1.19	0.41	0.02	0.65	0.36	0.
Project Loans	3.72	5.17	2.48	3.13	3.11	3.
Programme Loans	2.95	2.78	0.33	1.68	1.15	1.
Exceptional Financing	0.00	0.00	2.60	2.76	1.33	1.
Net Domestic Financing	8.83	2.27	4.88	0.35	0.49	-1.
otal Payments	36.52	35.70	32.34	33.70	36.01	36.
Statutory Payments	17.14	13.52	13.98	13.84	11.22	12.
Discretionary Payments	19.38	22.18	18.36	19.86	24.78	24.
udget Balance	-8.48	-7.24	-5.26	-3.40	-3.20	-2.
rimary Budget Balance	2.45	3.80	2.14	2.50	0.70	3.

Ghana's Domestic Debt Trends

The domestic debt-to-GDP ratio fell to 19.5 percent from 21.17 percent in 2004 (Figure below). However, in *absolute terms*, total domestic debt stock rose by 10 percent from ¢16,897.2 billion in 200 to ¢18,583.3 billion in 2005 on account of delays in accessing the programmed external borrowing and lower-than-programmed revenu inflows.

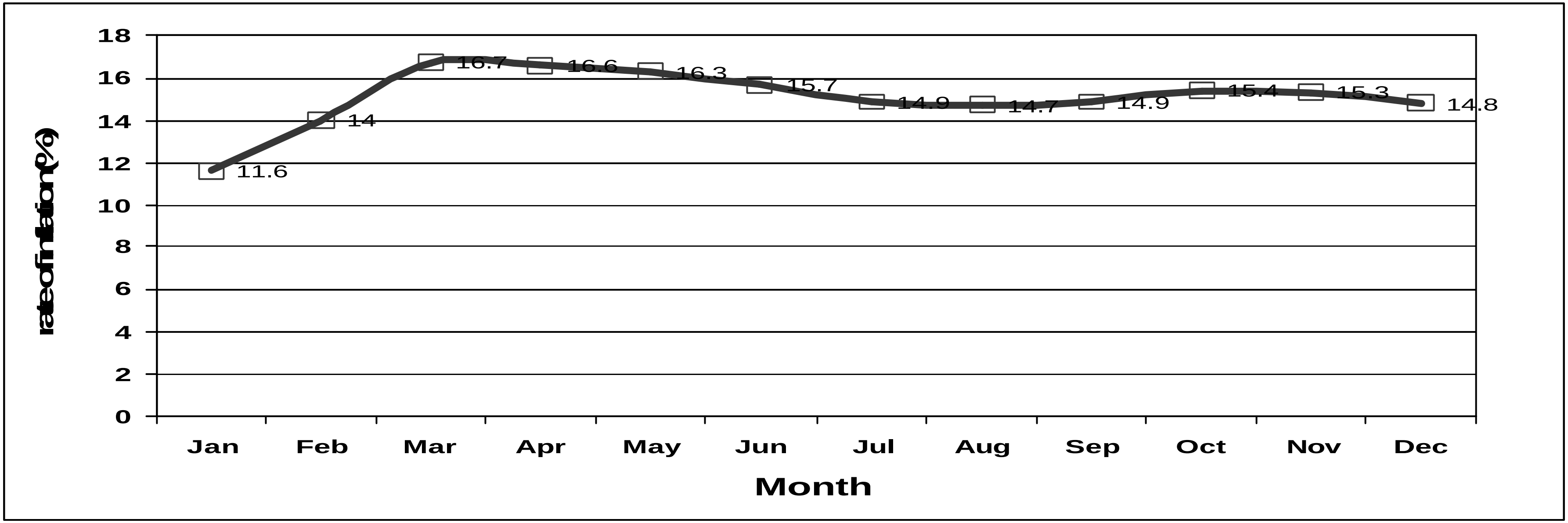
Domestic Debt as Ratio of GDP, 2001-2005 (%)



Monetary and Financial Developments

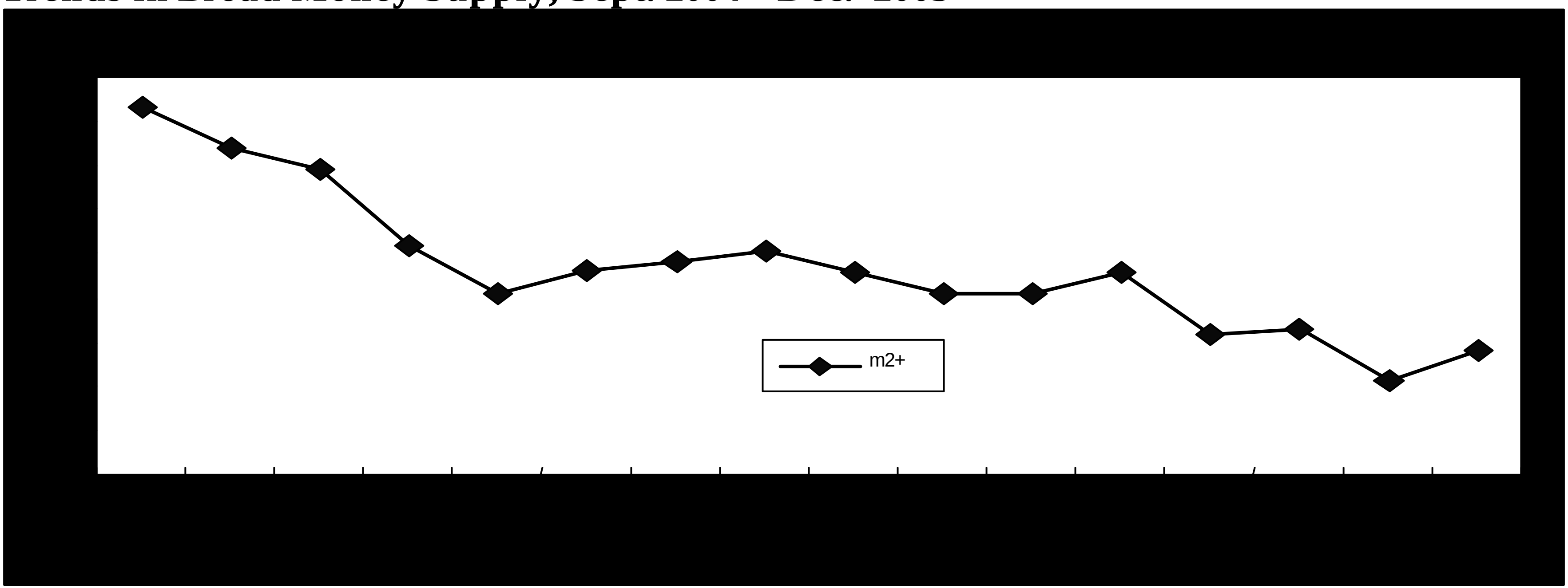
- The government proposed to reduce the end-of-period inflation to 13.5 percent by end-December 2005 and gradually move towards a single digit by end-2006 (part of WAMZ convergence criteria).
- However, the downward trend of inflation that began in August 2004 (12.9 percent) could not be maintained in 2005.

Month-on-Month Rate of Inflation, 2005



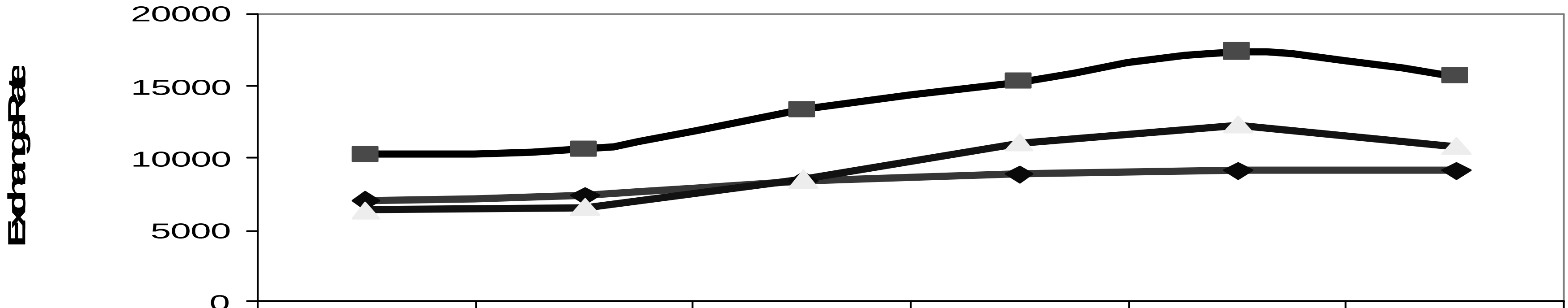
- The deregulation of petroleum prices also help to remove the sharp rise in general prices caused by speculation
- The muted pass-through effect of the volatile oil situation on domestic prices was partly due to a surge in inflows (exports, aid, remittances) and improved monetary tools with improvements in money supply growth.

Trends in Broad Money Supply, Sept. 2004 – Dec. 2005



On the foreign exchange market, the cedi gained 9.98% and 12.14% respectively against the British Pound and the Euro during the year, but fell (< 1%) against the US dollar (figure below

Nominal Exchange Rate Movements, 2000-2005



	2000	2001	2002	2003	2004	2005
¢/$	7047.65	7321.94	8438.82	8852.32	9051.26	9130.82
¢/£	10189.87	10596.74	13305.25	15296.02	17411.51	15673.3
¢/€	6343.47	6500.48	8511.64	10986.26	12308.98	10814.97

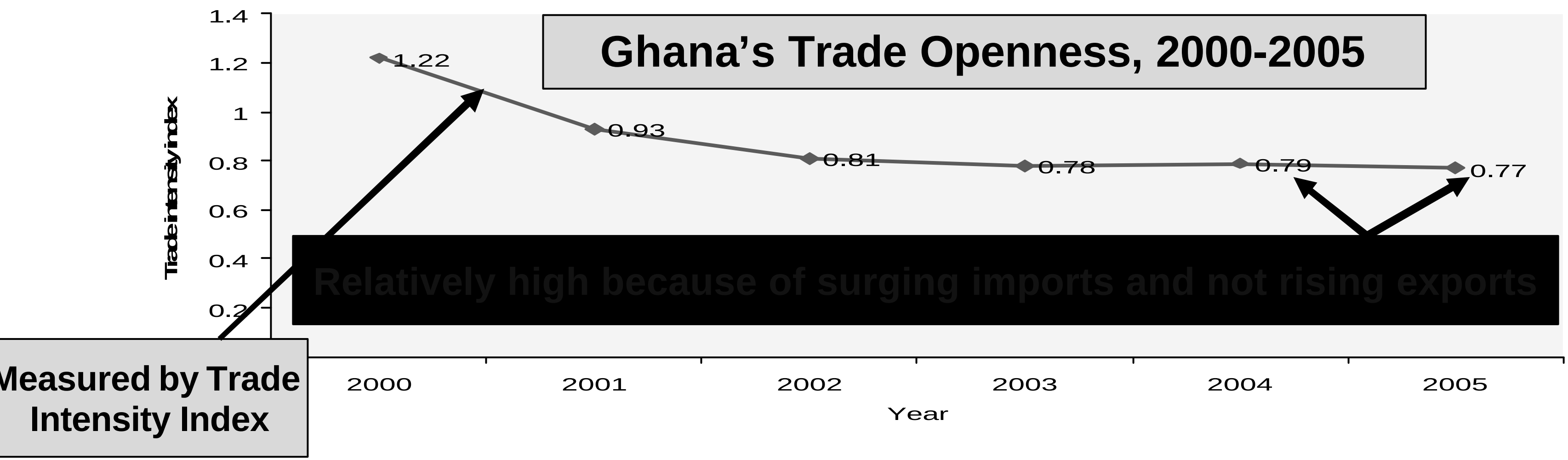
Year

n 2005 also saw more entry of Nigerian banks into the Ghanaian anking industry. Full scale competition is yet to be felt, although new echnologies and more innovative products have been introduced. We ope to see the more ECOWAS cross-border listings/investments on the Ghana Stock Exchange soon.

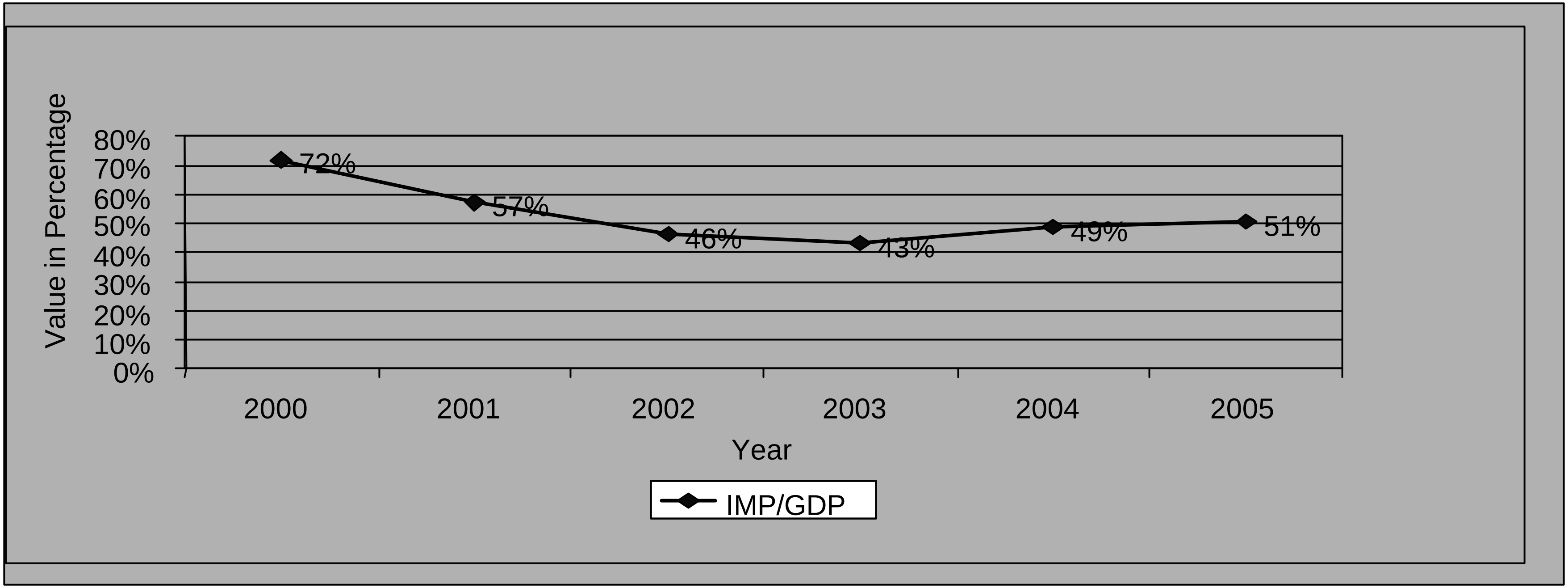
External Sector Developments

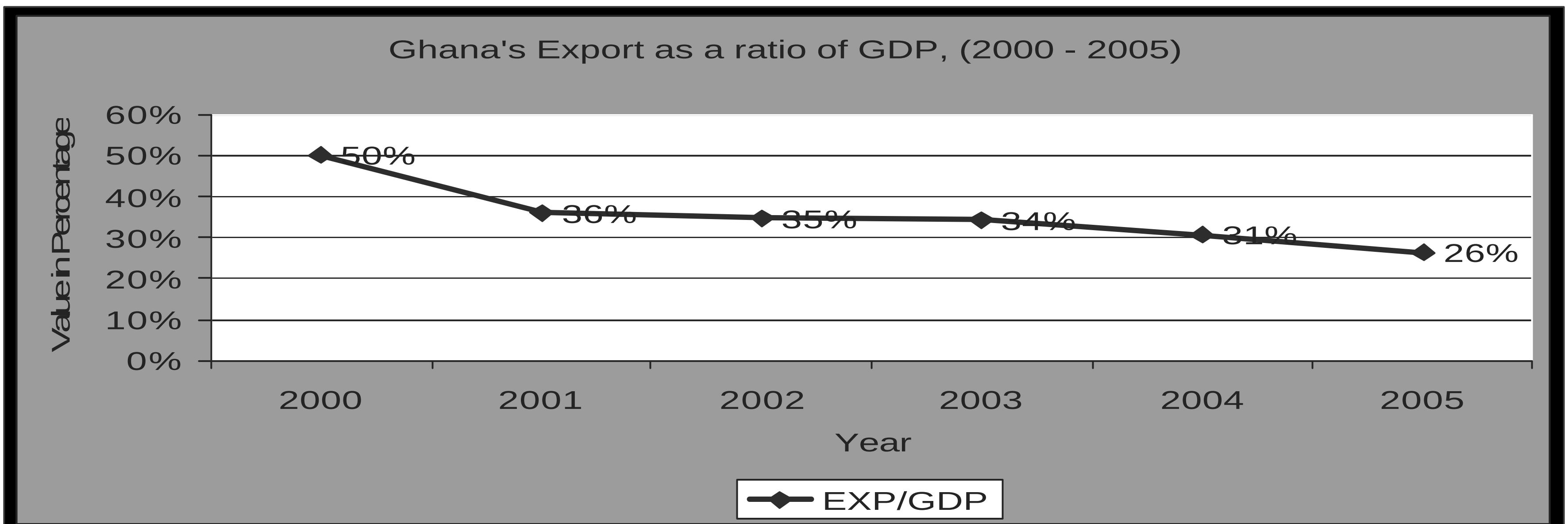
- Although Ghana maintains an export-led growth strategy, there was little improvement in the export sector in 2005. Translating relative macroeconomic stability into successful export-led growth has been a major problem.

- In 2000-2005, Ghana's total import bill rose by some 90 percent while exports rose by 41 percent only; with the resultant trade gap widening by more than 20 percent. The sharp decline in merchandise exports-to-GDP from 50 percent in 2000 to 26 percent in 2005 clearly shows that Ghana is not doing much to spur export growth.



Imports to GDP ratios, 2000 - 2005





- Ghana’s overall balance of payments position changed from a deficit of US$10.5 million in 2004 to a surplus of US$110 million in 2005 (see table on next slide).

- The surplus for 2005 was primarily driven by payments on the capital account which rose by 346 percent from the 2004 surplus of US$201.6 million to US$899 million in 2005. This significant injection in the capital account is largely explained by private capital inflows which make up about 64 percent of the total capital account.

- However, the current account recorded a significant deficit of US$758 million in 2005, the highest in the last five years and more than twice the 2004 deficit of US$316 million.

- The current account deficit in 2005 was primarily driven by the trade deficit which went up by 57.7 percent from US$1,593 million in 2004 to US$2,512 million.

Ghana's Balance of Payments, 2000-2005 (US$ million)

Indicator	2000	2001	2002	2003	2004	2005
Merch. Exports (f.o.b.)	1,936.3	1,867.1	2,015.2	2,562.4	2,704.5	2,736.6
Merch. Imports (f.o.b.)	-2,766.6	-2,968.5	-2,707.0	-3,232.8	-4,297.3	-5,248.3
Non-Oil	-2,246.4	-2,451.7	-2,197.0	-2,669.9	-3,522.3	-4,156.4
Oil	-520.1	-516.8	-510.0	-562.9	-775.0	-1,091.9
Trade Balance	-830.2	-1,101.4	-691.8	-670.4	-1,592.8	-2,511.7
Services (net) of which	-187.0	-182.1	-240.3	-426.4	-554.0	-303.6
Interest payments	-107.0	-106.1	-124.0	-118.1	-167.5	-159.5
Private Transfers (net)	499.0	709.7	680.0	1,017.2	1,287.1	1,516.3
Current Account (excl. official transfers)	-518.3	-573.8	-252.1	-79.7	-859.8	-1,299.0
Official Transfers (net)	131.9	249.3	220.2	382.0	543.9	541.3
Current Account (incl. official transfers)	-386.4	-324.5	-31.9	302.3	-315.8	-757.7
Capital Account	369.3	392.2	-38.6	340.4	201.6	899.5
Official Capital	139.7	84.6	-115.2	85.8	52.5	96.5
Private Capital	176.8	137.3	105.7	199.9	332.0	579.0
Short-term Capital	52.8	170.3	-29.1	54.7	-182.9	224.0
Errors and Omissions	-99.7	-59.1	110.4	-84.4	103.8	-31.7
Overall Balance	-1,16.8	8.6	39.8	558.3	-10.5	110.0

Source: Bank of Ghana

External Debt Management

- Ghana's external debt rose (in absolute terms) by 5% in 2005;
- Of a total of US$6.7billion, long-term loans accounted for 82.3%;
- However, total external public debt as a percentage of GDP continued to fall in 2005, from a high 157.3% in 2000 to 72.2% in 2004 and 64.5% in 2005. The Multilateral Debt Relief Initiative (MDRI) will further reduce the national debt burden;
- What is worrying is whether Ghana can strike rapid Pro-poor growth from all these financial rewards

External Debt Trends, 2000-2005 (US$ million; end of period)

Items	**2000**	**2001**	**2002**	**2003**	**2004***	**2005***
Total	6,062.0	6,376.8	6,585.3	8,034.6	6,367.9	6,692.4
Short-term	275.0	300.0	360.0	474.8	330.0	540.0
Medium Term	382.7	476.2	528.3	730.8	722.8	647.1
Long Term	5,404.3	5,600.5	5,697.0	6,829.0	5,315.2	5,505.3
External Debt/GDP (%)	**157.3**	**122.6**	**112.6**	**107.5**	**72.2**	**64.5**

* Provisional

Sectoral Developments

- 2005 real growth rate was agriculture dominated. But agric growth fell short of target due to the slowed performance of the cocoa sub-sector
- Industrial sector saw marginal growth improvement, driven by the construction sub-sector.
- Services sector also bounced back after three years of stagnation.

Sectoral Growth Rates (2003-2005

Year/Period	*SECTOR*			
	Agric.	*Serv.*	*Indus*	*All*
1998	**5.1**	**6.0**	**3.2**	**4.7**
1999	**3.9**	**5.0**	**4.9**	**4.4**
2000	**2.1**	**5.4**	**3.8**	**3.7**
2001	**4.0**	**5.1**	**2.9**	**4.2**
2002	**4.4**	**4.7**	**4.7**	**4.5**
2003	**6.1**	**4.7**	**5.1**	**5.2**
2004	**7.5**	**4.7**	**5.1**	**5.8**
2005	**6.5**	**5.4**	**5.6**	**5.8**
Averages				
1990-94	**1.1**	**7.0**	**4.1**	**4.3**
1995-99	**4.4**	**5.3**	**4.7**	**4.4**
2000-05	**5.1**	**5.0**	**4.5**	**4.9**

A closer look: Sectoral and Sub-Sectoral Growth Rates, 2002-2005

Item	*2002*	*2003*	*2004*	*2005*
Agriculture of which:	**4.4**	**6.1**	**7.5**	**6.5**
Crops and Livestock	**5.2**	**5.3**	**5.3**	**6.0**
Cocoa (Production and Marketing)	**-0.5**	**16.4**	**29.9**	**13.2**
Forestry and Logging	**5.0**	**6.1**	**5.8**	**5.6**
Fishing	**2.8**	**3.0**	**3.5**	**3.6**
Industry of which:	**4.7**	**5.1**	**5.1**	**5.6**
Mining and Quarrying	**4.5**	**4.7**	**4.5**	**3.0**
Manufacturing	**4.8**	**4.6**	**4.6**	**5.5**
Electricity and Water	**4.1**	**4.2**	**3.7**	**6.6**
Construction	**5.1**	**6.1**	**6.6**	**7.0**
Services of which:	**4.7**	**4.7**	**4.7**	**5.4**
Transport, Storage and Communication	**5.7**	**5.8**	**5.6**	**6.0**
Wholesale & Retail Trade,	**5.6**	**5.0**	**4.9**	**6.1**
Finance and Insurance	**5.5**	**5.2**	**4.8**	**5.6**
Government Services	**3.6**	**4.0**	**4.4**	**5.0**
Community, Social and Personal Services	**4.4**	**4.1**	**4.2**	**4.3**
Producers of Private Non–Profit Services	**3.1**	**3.3**	**3.3**	**3.8**

Looking Ahead

- Government's vision as enshrined in 2006 budget includes:
  - Real GDP growth of 6% at least (5.8% in 2005)
  - Single digit inflation (7-9%) by end-year (13.5% in 2005) and average inflation rate of 8.8%
  - 4 months import cover (same in 2005)
  - Domestic primary surplus of 2% of GDP (2.4% in 2005)
  - Overall budget deficit of 2.1% of GDP (2.7% in 2005)

- To accelerate economic growth, strategic areas have been focused on in the GPRS II
  - Sustain macroeconomic stability
  - Accelerate private sector-led growth
  - Deepen human capital development
  - Good governance

Where will the growth come from?

❑ The expected average growth rate for 2006-2009 will be driven evenly by the agric and industrial sectors respectively

- Such relatively stable growth rates are acceptable for the period but not adequate for achieving the expected middle-income status
- Agricultural-led industrialisation is good
- The MCA compact must be implemented well to make huge public returns

Sectoral Growth Projections for Ghana, 2006-2009

Item	*2006*	*2007*	*2008*	*2009*	*Ave 2006 2009*
Agriculture	**5.24**	**6.71**	**5.18**	**6.6**	**5.9**
Industry	**6.11**	**5.83**	**6.06**	**5.72**	**5.9**
Services	**5.75**	**5.9**	**5.99**	**5.72**	**5.8**
Real GDP Growth Rate	**6.11**	**5.83**	**6.06**	**5.72**	**5.9**

Source: Growth and Poverty Reduction Strategy (GPRS II), 2006-2009

Will growth be Pro-Poor???

What is Pro-Poor growth and how can we achieve that??

- Pro-poor growth goes beyond high growth rates. Pro-poor growth may mean that the proportion of the poor's income must rise alongside overall growth.
- Government should adopt strategic tools (be selective) to make agricultural-led industrialization possible.
- Increasing the quantity and quality of investment with a view to reducing market failure is essential. Sound investment in selected economic infrastructure, R&D, etc., must be complemented with a conducive macroeconomic environment.
- The MCA is timely but sectoral Dutch disease must be avoided. Other non-farm investments must be undertaken in beneficiary districts to accelerate and sustain pro-poor growth.
- Development in the private sector must be vigorous.
- Skills acquisition and development are essential for pro-poor sustenance.

- Developing the private sector is also key determinant of pro-poor growth. The manufacturing sector must be of prime interest; to help transform the economy

Structural Change in Selected Economies

Country	***Agriculture (% of GDP)***		***Industry (% of GDP)***		***o/w Manufacturing (% of GDP)***		***Services (% of GDP)***	
	1990	*2003*	*1990*	*2003*	*1990*	*2003*	*1990*	*2003*
China	27	15	42	52	33	39	31	33
Ghana	**45**	**36**	**17**	**25**	**10**	**8**	**38**	**39**
Indonesia	19	17	39	44	21	25	41	40
Korea Republic	-	3	-	35	-	23	-	62
Malaysia	15	10	42	49	24	31	43	42
Thailand	12	10	37	44	27	35	50	46
Sub-Saharan Africa	**19**	**17**	**34**	**31**	**17**	**14**	**47**	**52**

Source: Extracted from World Bank, *World Development Indicators 2005*, CD-ROM