

Chapter 1

Overview: Global Economic Developments and Ghana's Economic Performance

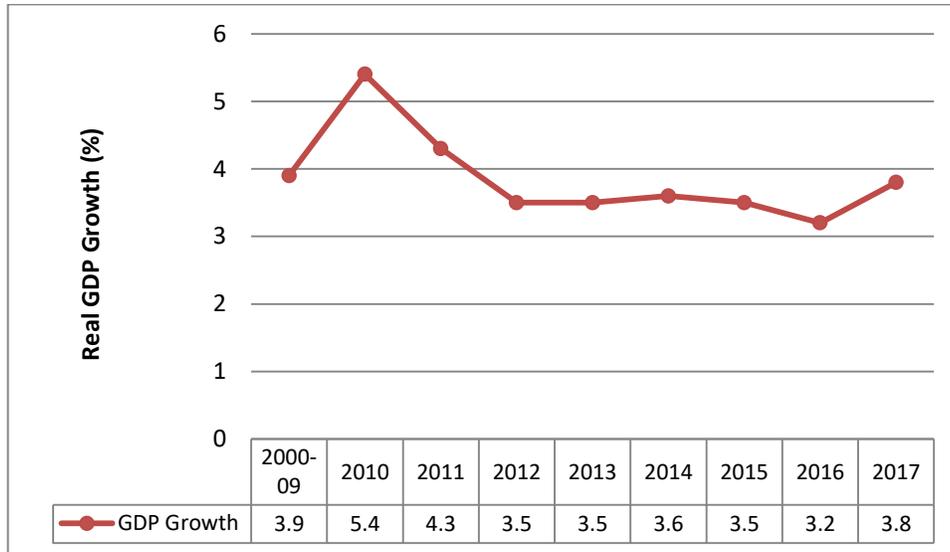
Introduction

Ghana's GDP growth rate of 8.5% in 2017 was certainly a major rebound from the anaemic rate of 3.7% in 2016 (GSS, 2018) and clearly breaks the downward trend since 2011. This 2017 growth outturn was substantially higher than the 2.8% registered by sub-Saharan Africa (SSA) as a whole (IMF, 2018a), and also exceeded the government's revised target of 6.3% (GoG, 2017). Moreover, the country's overall GDP growth rate in 2017 was considerably higher than the 4.9% (GSS, 2018) recorded by the non-oil sector which was a slight fall from the 5.0% in 2016. Thus, the substantial improvement in the performance of the oil sub-sector – with upstream petroleum revenue up by 80.4% in 2017 after the 16.7% contraction in 2016 – constituted the lion's share of the tremendous increase in economic growth in 2017.

The growth recovery of the Ghanaian economy is indeed impressive, though it is attributable mainly to the oil sub-sector, and is situated within a generally feeble global recovery. GDP growth globally increased from 3.2% in 2016 to 3.8% in 2017, the highest increase since the downward trend from 2010 ended in 2012 (**Figure 1.1**). The present recovery is attributable to investment recovery in industrialised countries, as well as to

increased trade and the partial improvement in commodity prices, especially for oil and natural gas (IMF, 2018b).

Figure 1.1: World Output Growth, 2000-2017 (%)



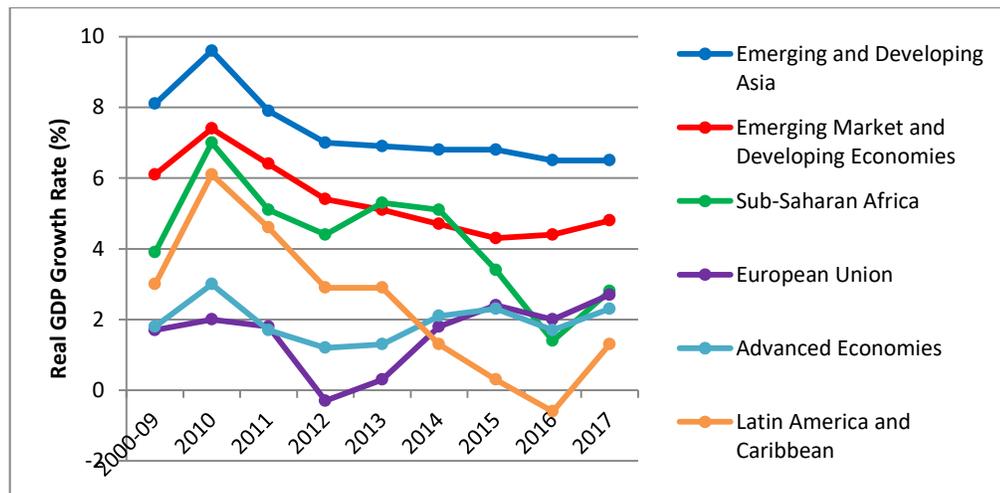
Data source: IMF, 2018b

Global Economic Performance

All world regions experienced growth increases in 2017. Advanced economies registered an increase in growth from 1.7% in 2016 to 2.3% in 2017, while the European Union's growth increased from 2.0% in 2016 to 2.7% in 2017. Emerging Market and Developing Economies' growth rose to 4.8% in 2017 from 4.4% in 2016. The Latin America and the Caribbean region grew by 1.3% in 2017 compared to the decline of 0.6% in 2016. Meanwhile, GDP growth in SSA doubled from 1.4% in 2016 to 2.8% in 2017, as compared to the 2.0 percentage point decline in the previous year. **(Figure 1.2)**

Emerging and Developing Asia maintained its 6.5% growth rate of 2016 in 2017. This region continues to enjoy the fastest growth in the global economy, followed by Emerging Markets and Developing Economies (with a GDP growth rate of 4.8%). (**Figure 1.2**)

Figure 1.2: Global Growth Performance, 2000-2017 (%)



Data source: IMF, 2018b

From a medium-term perspective, growth rates of most regions of the world have been trending downward since 2010, including Emerging and Developing Asia, and most steeply in Latin America and the Caribbean. For the first time, however, there has been a recovery in almost all the regions of the world, with the exception of the Middle East and North Africa (MENA), where aggregate growth fell from 4.9% in 2016 to 2.2% in 2017. The European Union (EU) appears to have been recovering since 2013. It experienced an increase in growth from 2.0% in 2016 to 2.7% in 2017, despite the previous decline in its growth from 2.4% in 2015 to 2.0% in 2016. In spite of the recovery in 2017, EU growth is projected to decline to 2.5% in 2018 while that of advanced economies may increase from 2.3% in 2017 to 2.5% in 2018 (**Figure 1.2**; IMF, 2018b).

Growth in Emerging Markets and Developing Economies has continued to improve since 2015, and it is projected to increase marginally from 4.8% in 2017 to 4.9% in 2018. The 2017 pickup is largely attributed to higher fixed investment growth and acceleration in private consumption. Large emerging market economies such as Brazil, Russia, South Africa and Turkey also experienced faster growth rates, attributed to recovering domestic and external demand. For instance, Brazil registered an expansion in GDP of 1.0% in 2017, following the previous year's decline by 3.5%. Brazil's positive growth is attributed to improvements in export performance and domestic demand. Moreover, the country's growth is projected to increase further to 2.3% in 2018. This is welcome news, as these economies enjoyed substantial growth rates prior to the global economic meltdown in 2008, and had managed to recover rapidly by 2010. (IMF, 2018b)

Despite Emerging and Developing Asia continued to be the region with the highest growth, at 6.5% in 2016 and in 2017, which is rather lethargic compared with the post-crisis rebound rate of 9.6 % in 2010. This decline is largely attributed to the relatively low growth outcomes of China and India. India's economy grew by 6.7% in 2017 (a decrease from the 7.1% rate in 2016) but is projected to grow faster at 7.4% in 2018 and even faster at 7.8% in 2019. China's growth rate increased only slightly from 6.7% in 2016 to 6.9% in 2017, but is projected to fall to 6.6% and 6.4% in 2018 and 2019 respectively (IMF, 2018b).

The projected growth from 2.3% in 2017 to 2.5% in 2018 for advanced economies is good news for many developing countries, as the advanced economies absorb huge amounts of their exports. However, the slowdown in the growth of large emerging market and developing economies, particularly China, should be an issue of major concern for SSA generally, and for Ghana in particular, as a substantial and increasing share of its exports are to these economies.

World Employment Trends

Global employment levels improved marginally due to the slow economic recovery. The unemployment rate worldwide declined slightly from 5.7% in 2016 to 5.6% in 2017. This was lower than the post-economic crisis crest of 6.2% in 2009, but marginally above the pre-crisis 2007 rate of 5.5% (**Figure 1.3**). Moreover, at 192.7 million in 2017, the number of the unemployed globally was 2.6 million above the previous year's (ILO, 2018).

Employment conditions in developed countries remained poor, but have improved, with the unemployment rate falling to 5.7% in 2017 from 6.3% in 2016. Meanwhile, for all developing economies, the rate decreased slightly to 5.3% in 2017 from 5.6% in 2016, but remained stable at 7.2% in 2017 for SSA. (ILO, 2018)

Compared to the developed world, the post-crisis unemployment picture for developing countries has not been as bleak. This outcome is largely due to their relatively quick recovery from the crisis, coupled with benefits from targeted stimulus packages initiated, in some countries, to mitigate the adverse labour-market impact of the crisis. However, the problems of underemployment, low wages, poor working conditions, and the lack of adequate social protection schemes continue to worsen the plight of the workforce in the developing world (ILO, 2018).

Indeed, for many developing countries vulnerable employment (VE), the category in which most of the working poor fall, is particularly germane. Globally, VE has declined slightly from 42.9% of workers in 2016 to 42.5% in 2017, affecting some 1.4 billion people. However, in emerging economies and developing countries, VE constitutes 46.2% and 76.5% of total employment, respectively. VE rates were 72.1% of workers in both South Asia and SSA and the two regions account for more than half of the world's VE (ILO, 2018).

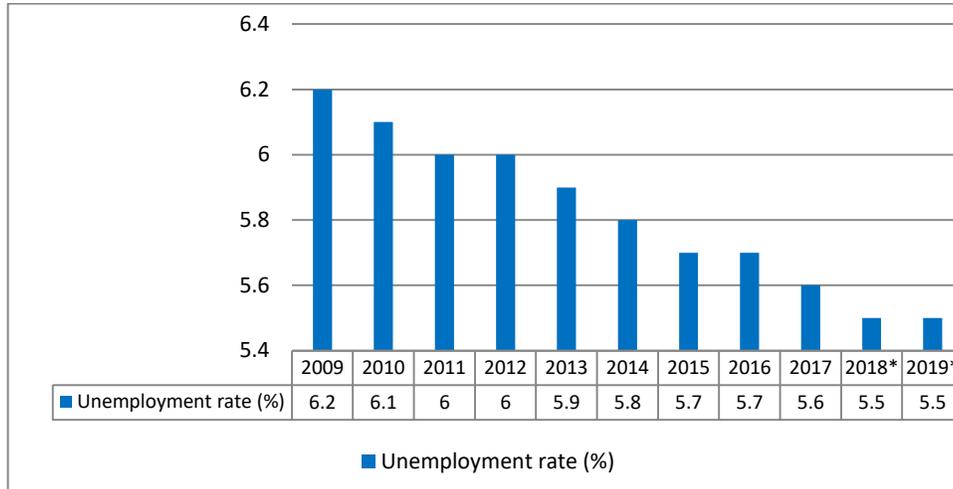
Global unemployment *rates* are projected to decrease marginally in 2018 and in 2019 at 5.5% while projected *numbers* of the unemployed are ex-

pected to decrease in 2018, but increase in 2019. Globally, the number of unemployed people is forecast to decrease by approximately 0.4 million in 2018, but increase by about 1.3 million in 2019, with as many as 193.6 million people anticipated to be unemployed in 2019. (ILO, 2018)

For developing countries, the number of the unemployed is projected to reach 16.1 million by 2018, from 15.6 million in 2017, even though the unemployment rate is to remain stable at 5.3% in 2017 and 2018. For SSA, the number of the unemployed is expected to rise from 29.1 million in 2017 to 31.3 million in 2019, an increase of 7.6%, while the unemployment rate is to increase slightly from 7.2% to 7.3% over the same period. That the projected unemployment rate increase is nil or only marginal, despite the expected increase in the number of the unemployed by over 2 million, may be explained in large part by projected population growth and the changing distribution of income and demographic characteristics of the regional groups over time (ILO, 2018).

Unemployment among the youth (persons 15-24 years of age) remains much higher than among other cohorts of the labour force in most economies. This situation is exacerbated by previous episodes of slow growth in the global economy, with youth unemployment usually more than twice the adult rate. For example, in 2017, the estimated rate of youth unemployment was 13.1%, compared with 13.0% in 2016. This level represents

Figure 1.3: Trends in World Unemployment Rates, 2009-2019 (%)



* Projected

Data source: ILO, 2018

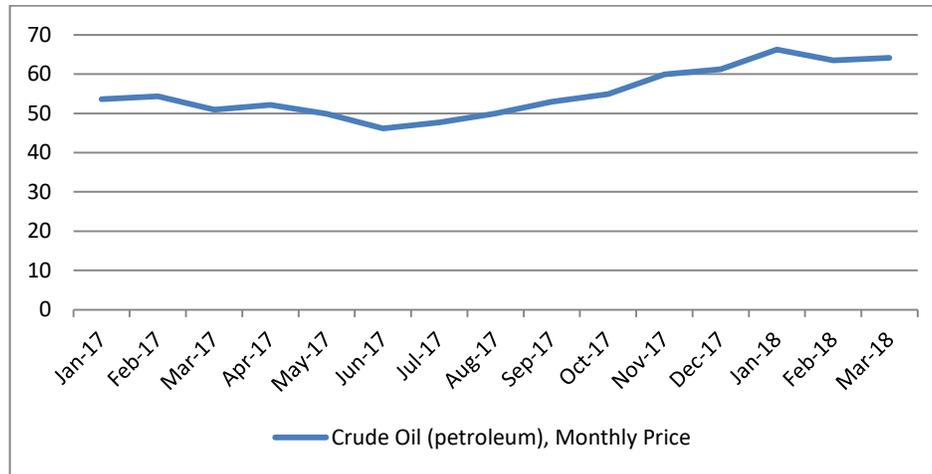
more than twice the overall rate, leaving about 70.9 million young people unemployed worldwide. The global youth unemployment rate is projected to remain stable at 13.1% in 2018 (ILO, 2017).

An increasingly worrying trend in the labour market, in the face of a growing global youth population, is the gradual withdrawal of young people from the labour market due to the difficulty of finding jobs, despite an increase in average educational attainment of young cohorts. Such a phenomenon is ominous, as the youth are particularly vulnerable to getting caught up in social unrest and other forms of violence.

Developments in Crude Oil and Food Prices

Oil prices rose by about 14.2% in 2017, from US\$53.6 per barrel in January 2017 to US\$61.2 by December 2017 (**Figure 1.4**; Index Mundi, 2018).

Figure 1.4: World Crude Oil Prices, January 2017-March 2018 (US\$/barrel)



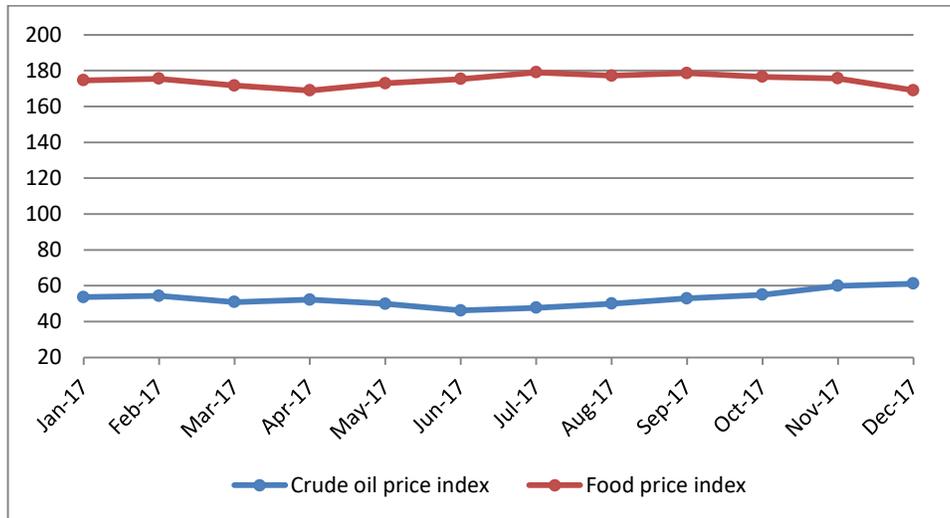
Source: Index Mundi, 2018

The rise benefits oil-exporting countries, which have suffered from uncharacteristically low prices. However, it has adverse implications for many net oil-importers. The firming up of oil prices in 2017 is attributable to supply reductions (IMF, 2017a), presumably due to OPEC action.

There is a historical link between energy and agricultural products, with an appreciable co-movement of prices in the two sectors. **(Figure 1.5).**¹ Hence, food prices have also been trending upward since January 2017, and continued to rise except for a pause in March and April 2017. Between January and February 2017, the food price index increased from 174.6 to 175.5, after which it declined to 171.6 and 168.9 in March and April 2017, respectively. However, from May to July 2017, the index rose continuously to a peak of 179.0 in July 2017. Thereafter, it declined continuously from September 2017 to January 2018. (FAO, 2018)

Figure 1.5: Trends in FAO Food Price Index and Index Mundi Crude Oil (Petroleum) Price Index, January-December 2017

¹ "As fuel prices rise, so does the demand for biofuels, which are the only non-fossil liquid fuels able to replace petroleum products," (Heinberg, 2011) thus raising the price of food.



Data sources: Index Mundi (2018); FAO (2018)

The outlook for global cereal supply and demand in 2017/18 remains favourable, as the global utilization rate (demand) is projected to increase by 0.2% from February, 1.5% higher than in 2016/17. Meanwhile, the supply of cereal is also projected to increase, largely due to greater maize production expectations, mostly reflecting an upward revision of maize output in the EU, and to improved prospects for the secondary crop in India (FAO, 2018). Thus, no major price rise is anticipated. (FAO, 2018)

Economic Performance in Sub-Saharan Africa

SSA's GDP growth doubled from 1.4% in 2016 to 2.8% in 2017. Per capita GDP growth also increased from -0.9% in 2016 to 0.4% in 2017, and is estimated to reach 1.0% in 2018. This is higher than the growth rates of Advanced Economies, EU and Latin America and Caribbean among the major regional groups in the world, but lower than those of Emerging and Developing Asia and Emerging Market and Developing Economies (IMF, 2018b).

The pickup in SSA growth is attributed to factors such as "the more supportive external environment, including stronger global growth, higher

commodity prices and improved market access” (IMF, 2018a), particularly the rebound in commodity prices, with oil prices being higher on average in 2017 than in 2016. Indeed, SSA’s oil exporters (excluding Nigeria) experienced an increase in growth, from -1.3% in 2016 to -0.3% in 2017, or from -1.5% to 0.5% including Nigeria (IMF, 2018a).

The SSA region seemed to have weathered the 2008 financial crisis reasonably well, especially in comparison with other regions of the world and with the region’s historical record (Fosu, 2013a). The precipitous decline to 1.4% in 2016 was a major concern, making the doubling of the growth rate to 2.8% in 2017 a welcome development, signalling a possible return to a path of resiliency. Nonetheless, the 2017 growth rate is still well below the 2009 crisis value of 3.9% (IMF, 2017a).

An important difference between the current situation and the global economic crisis of 2009 appears to be that the external terms of trade (TOT) held up reasonably well for SSA generally (Fosu, 2013a). In contrast, TOT has fallen substantially this time around, by as much as 9.7% between 2012 and 2017, with unfavourable implications for growth, though it has risen by 6.0% between 2016 and 2017 (IMF, 2018a).

Economic growth has been robust in the non-fragile low-income and fragile states². The post-crisis growth performance of this group of countries actually surpassed that of their middle-income counterparts (Fosu, 2013a). This pattern continued in 2016 and 2017 as well for the non-fragile countries, with the growth rate of this group remaining relatively high, increasing from 6.1% to 7.2% during this period, consistent with the considerable increase for SSA as a whole. Similarly, the GDP growth of fragile African countries as a group increased substantially from 2.5% in 2016 to 3.3% in 2017 (IMF, 2018a). This outcome is welcome news, as it suggests that the growth of this particular group of economies is also picking up, consistent with the rest of SSA.

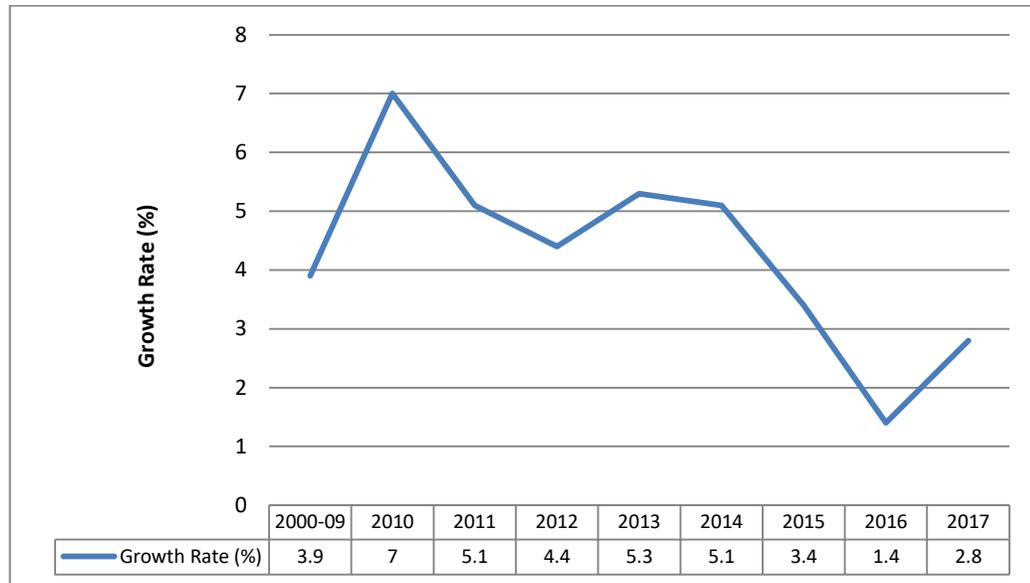
² Fragile states include: Burundi, Central African Republic, Comoros, Democratic Republic of the Congo, Côte d’Ivoire, Eritrea, Guinea, Guinea-Bissau, Liberia, São Tomé and Príncipe, Togo and Zimbabwe. This list does not include certain fragile countries classified as oil exporters, where oil sales account for a major share of exports and government revenue.

The two largest SSA economies, Nigeria and South Africa, fared relatively well in 2017. Nigeria, Africa's largest economy and oil exporter, has been affected positively by the oil price rise in 2017, with government revenues increasing from 5.6% of GDP in 2016 to 6.0% in 2017, though this revenue share in 2017 represents a decline of more than 66 percent from their zenith of 17.7% in 2011. Correspondingly, Nigeria's GDP growth rate increased from -1.6% in 2016 to 0.8% in 2017. Similarly, the country's non-oil GDP growth also increased to 0.5% in 2017 from -0.3% in 2016, compared to 3.6% in 2015, 7.3% in 2014 and 8.3% in 2013. The apparent growth recovery in 2017 is attributed to good harvests and a recovery in oil production after easing tensions in the Niger Delta (IMF, 2018a) .

Following its decline from 1.8% in 2014 to 1.3% in 2015 and 0.6% in 2016, South Africa's growth increased to 1.3% in 2017, partly due to improvements in the mining sector and good harvests. However, foreign direct investment fell by 1.7% of GDP in 2017, which is a continuation of the 0.4% fall in 2016, suggesting further deterioration in foreign investors' view of the country's economy (IMF, 2018a).

Although these two largest SSA economies are experiencing a growth rebound, the low pace does not bode well for the region as a whole. This is because they count considerably in the overall computation of the regional average. Moreover, they are supposed to represent growth 'poles' for SSA, so that regional trade is likely to suffer, with deleterious implications for growth. Hopefully, the tide will change for South Africa, with positive economic implications for SSA as a whole.

Figure 1.6: Real GDP Growth Rates for SSA, 2000-2017 (%)



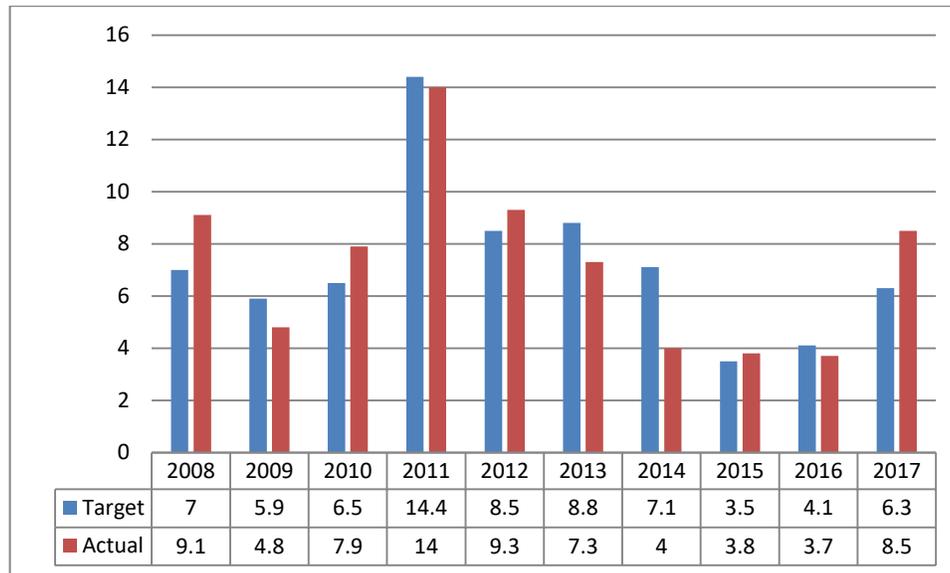
Data source: IMF, 2017a

SSA's growth is projected to increase from 2.8% in 2017 to 3.4% in 2018. This forecast is underpinned by such factors as the benefits arising from favourable global growth, an uptick in commodity prices and improved market access, along with an improved business environment and continuous strong infrastructure investment among non-resource-intensive countries (IMF, 2018a). However, threats that are likely to hinder progress include drought and armed conflicts in parts of the region, deteriorating fiscal conditions, increasing debt burdens, as well as limited structural transformation and diversification of the product space (IMF, 2016a, 2017a, 2018a).

Economic Performance in Ghana

Ghana's GDP grew by 8.5% in 2017, an increase from the 3.7% rate in 2016, representing a substantial recovery from the downward trend beginning in 2012 (Figure 1.7). The realized growth rate was also above the (revised) target of 6.3% (Figure 1.7).

Figure 1.7: Ghana: Trends in Target and Actual GDP Growth Rates (%), 2008-2017.

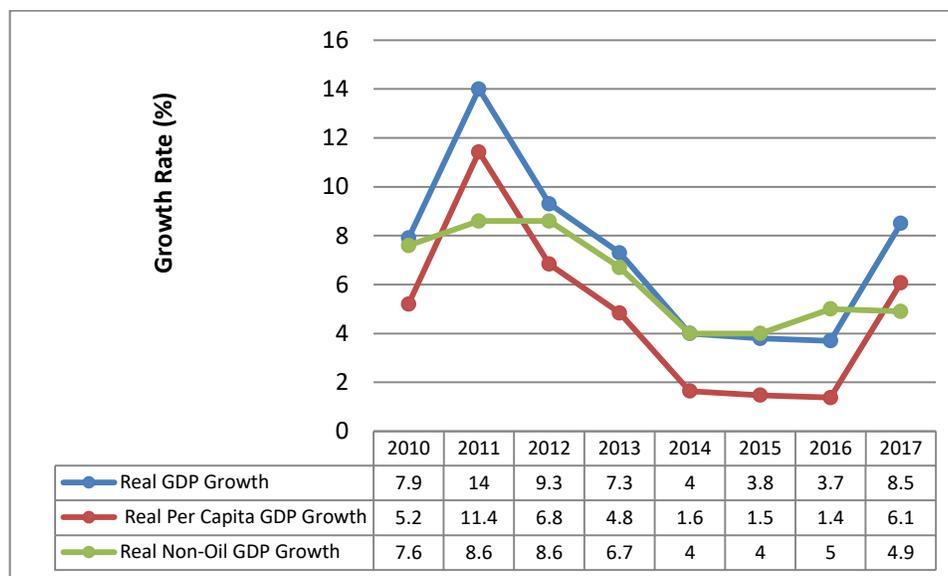


Data source: ISSER, 2017; GSS, 2018; IMF, 2017a; GoG, 2017

From 2011 to 2013, Ghana's growth was buoyed by oil exports, but that was not the case in 2014, 2015 or 2016. Overall GDP growth exceeded non-oil growth from 2010 to 2013. Since 2014, however, the non-oil GDP growth rate outpaced overall GDP growth, with the gap widening in 2016. Nonetheless, in 2017, overall GDP growth actually exceeded non-oil growth, as previously (**Figure 1.8**).

That fuel has become an increasingly important share of exports – nearly 30.0% in 2014, for instance, versus approximately 0.0% in 2010 (Fosu, 2017), and with oil being by far the main contributor to faster growth in 2017 – signals that the Ghanaian economy is possibly becoming oil-dependent. This issue is worthy of future investigation, especially given the potential for the 'oil curse'.

Figure 1.8: Ghana: Trends in Real GDP, Non-Oil GDP and Per Capita GDP Growth Rates, 2010-2017 (%)



Notes: Real GDP and non-oil GDP growth rates are obtained from the Ghana Statistical Service (GSS, 2018). Real per capita GDP growth rates are calculated from GSS data on at constant 2006 prices (GH¢ million) and the estimated population (million). For comparison, note that the respective growth rates of GDP, non-oil GDP and per capita GDP from IMF (2018a) are: 8.4%, 4.0% and 5.7%, compared with the respectively higher GSS numbers in this table: 8.5%, 4.9% and 6.1%.

Data source: GSS (2018)

Per capita GDP growth tracks GDP growth quite closely. This is not surprising, since population growth seldom changes significantly in the short run. Consequently, per capita GDP growth increased from 1.4% in 2016 to 6.1% in 2017 (IMF, 2018a), compared with a GDP growth increase from 3.7% to 8.5% over the same period. **(Figure 1.8)**

Disaggregating Growth

The services sector, which currently represents more than half of GDP (GSS, 2018), registered a growth rate of 4.3% in 2017 compared with 5.7% in 2016. In contrast, industry, which is the second largest sector, increased in 2017 by 16.7% compared with a decrease of 0.5% in 2016. Meanwhile, the growth rate of the agricultural sector in 2017 was 8.4% compared with 3.0% in 2016. **(Table 1.1)**

TABLE 1.1: Ghana: Selected Economic Indicators, 2016-2017

<i>Indicator</i>	<i>2016</i>	<i>2017</i>	<i>2017*</i>	<i>Difference</i>	<i>Difference</i>
<i>(% unless otherwise stated)</i>	<i>Actual (C1)</i>	<i>Target (C2)</i>	<i>Actual (C3)</i>	<i>(C3-C1)</i>	<i>(C3-C2)</i>
National nominal GDP (GH¢ million)	167,353	202,010	205,914	38,561	3,904
Real GDP growth	3.7	6.3	8.5	4.8	2.2
Real per capita GDP growth	1.4		6.1	4.7	
Sectoral growth rates (%)					
Agriculture	3.0	3.5	8.4	5.4	4.9
Industry	-0.5	11.2	16.7	17.2	5.5
Services	5.7	5.1	4.3	-1.4	-0.8
Fiscal Indicators (%)					
Domestic primary revenue/GDP	19.3	20.6	19.4	0.1	-1.2
Domestic expenditure/GDP	16.7	17.1	15.2	-1.5	-1.9
Tax revenue/GDP	15.2	16.3	15.7	0.5	-0.6
Domestic primary balance/GDP	2.6	3.5	4.2	1.6	0.7
Overall balance/GDP (cash)	-7.8	-6.3	-5.9	1.9	0.4

TABLE 1.1: Ghana: Selected Economic Indicators, 2016-2017 (Cont'd)

<i>Indicator</i>	<i>2016</i>	<i>2017</i>	<i>2017*</i>	<i>Difference</i>	<i>Difference</i>
<i>(% unless otherwise stated)</i>	<i>Actual (C1)</i>	<i>Target (C2)</i>	<i>Actual (C3)</i>	<i>(C3-C1)</i>	<i>(C3-C2)</i>
Broad money supply (M2+) growth (year-on-year)	22.04		16.72	-5.3	

Reserve money growth	29.60		13.12	-16.5	
Inflation (year-on-year)	15.4	11.2	11.80	-3.6	0.6
Inflation (yearly average)	17.52	12.4	12.38	-5.1	0.0
Interest Rates					
Demand deposits (annual av.)	3.44		3.96	0.5	
Savings deposits (annual av.)	4.92		7.19	2.3	
Time deposits (annual av.)	14.81		16.56	1.7	
Lending rates (annual av.)	28.73		30.35	1.6	
91-day T-bill (end period)	16.81		13.33	-3.5	
Exchange Rates					
Interbank rate (GH¢/US\$)	3.92		4.36	0.44	
Forex bureau rate (GH¢/US\$)	3.99		4.45	0.46	

* Provisional

Notes: Time Deposit is for 12 months

Source: GoG, 2017; GSS, 2018; BoG, 2018; ISSER, 2017; IMF, 2017a; MoF, 2018.

Thus, the ranking of sectoral growth in 2017 is different from the ranking in 2016. In 2017, industry was in the lead, followed by agriculture and then by services. However, the stellar industrial performance in 2017 was attributable mainly to production in upstream oil and gas and has little direct bearing on diversification of the Ghanaian economy based on value addition.

The Inflation Picture and Monetary Policy: At a Glance

The end-of-year inflation rate in 2017 was 11.8% compared to 15.4% in 2016. This outturn is only slightly above the 2017 targeted rate of 11.2%. However, the average annual inflation rate fell substantially from 17.5% in 2016 to 12.4% in 2017, achieving the target rate. Meanwhile, broad money supply, including foreign currency deposits (M2+), grew by 16.7% in 2017, versus 22.0% in 2016. Similarly, at 13.1%, reserve money growth was lower in 2017 than the 29.6% rate in 2016. Thus, the reduced growth

of both the broad money supply and reserve money was consistent with the decline of the overall inflation toward the targeted level in 2017. (**Table 1.1**)

Interest Rates and the Cedi Exchange Rate: At a Glance

Between 2016 and 2017, all interest rates for depositors increased, except the 91-day T-bill (end-of-period) rate. Lending rates also increased. Such an outcome suggests a higher risk premium in 2017 than in 2016. Meanwhile, the Ghana cedi depreciated against the US dollar by 11.2% and 11.5% based on the average inter-bank and forex bureau rates respectively (**Table 1.1**). The cumulative depreciation rates were 4.9%, 11.9% and 14.6% against the US dollar, the pound sterling and the euro respectively, on the interbank market in 2017. The cedi's depreciation against the US dollar in 2017 was, therefore, lower (9.6%) than in 2016, but higher in comparison with the euro in 2016 when the depreciation rate was 5.3%; and even higher against the British pound in 2016, against which the cedi appreciated by 10.0% (BoG, 2018).

Disaggregated Sectoral Performance

Services

The services sector, representing more than 50% of the economy, recorded the lowest growth (4.3%) compared to industry (16.7%) and agriculture (8.4%). The 2017 service growth rate was lower than the 5.7% in 2016. The following sub-sectors recorded higher growth rates in 2017 than in 2016 (differences in parentheses and in percentage points): hotels and restaurants (0.3); real estate, professional administrative and support service activities (1.4); financial intermediation services (1.5); community, social and personal service activities (1.4); and education (1.6). (**Table 1.2**)

There was slower growth, however, in the following sub-sectors (differences in parentheses and in percentage points): information and communications (-8.5); financial and insurance activities (-3.2); public administration, defence and social security (-0.7); health and social work (-2.4); trade, repair of vehicles and household goods (-0.3); and transport

and storage (1.8). **(Table 1.2)** The relatively large decline in the growth rate for information and communications might result from the unusually high growth of the sub-sector in 2016.

Industry

Industry, the second largest sector, grew substantially by 16.7% in 2017, compared to its contraction of 0.5% in 2016. Indeed, the 2017 industrial performance represents a substantial course reversal since industry's record growth rate of 41.6% in 2011 when oil and petroleum came on board. Industrial performance since 2011 has been underpinned primarily by growth in mining and quarrying, with petroleum being the main contributor. This sub-sector expanded by 46.7% in 2017, as compared to its 7.6% decline in 2016. The increase is attributed to the increase in upstream petroleum by 80.4% in 2017 versus the contraction of 16.7% in 2016. The increase in petroleum is due to deferment of the FPSO Turret Remediation project to 2018, thus, allowing for increased production in 2017 (GOG, 2017). However, electricity grew by only 6.3% in 2017, compared with a growth rate of 11.7% in 2016. Electricity's performance, therefore, represents a significant deterioration and may reflect the likelihood that irregular outages (*dumsor*) remain a challenge that has severely limited the supply of electricity in the country in recent years.

Meanwhile, manufacturing grew at 3.7% in 2017 after 2.7% growth in 2016. Both construction and water and sewage came in with positive growth rates in 2017.

TABLE 1.2: Sectoral and Sub-Sectoral Growth Rates (%), 2016-2017

Sector	2016*	2017	2017**	Difference	Difference
	Actual (C1)	Target (C2)	Actual (C3)	(C3-C1)	(C3-C2)
AGRICULTURE	3.0	3.5	8.4	5.4	4.9
Crops	2.5	3.4	9.4	6.9	6.0

Of which: Cocoa	-7.0	3	17.3	24.3	14.3
Livestock	5.3	5.3	5.4	0.0	0.1
Forestry and Logging	2.5	3.9	1.6	-1.0	-2.3
Fishing	5.7	1.6	11.7	6.0	10.1
INDUSTRY	-0.5	11.2	16.7	17.1	5.5
Mining and Quarrying	-7.6	30.2	46.7	54.3	16.5
Of which: Oil (and Gas)	-16.9	39.6	80.4	97.4	40.8
Manufacturing	2.7	2.6	3.7	1.0	1.1
Electricity	11.7	6.7	6.3	-5.3	-0.4
Water and Sewerage	-3.2	6.2	6.8	10.0	0.6
Construction	2.9	3.7	4.6	1.6	0.9
SERVICES	5.7	5.1	4.3	-1.4	-0.8
Trade; Repair of Vehicles, Household Goods	3.1	6.3	2.8	-0.3	-3.5
Hotels and Restaurants	0.9	1.1	1.1	0.3	0.0
Transport and Storage	2.2	2.3	0.4	-1.8	-1.9
Information and Communications	21.7	10.7	13.2	-8.6	2.5
Financial and Insurance Activities	3.6	4.1	0.5	-3.2	-3.6
Real Estate, Professional, Administrative and Support Service Activities	3.8	6.2	5.2	1.4	-1.0

TABLE 1.2: Sectoral and Sub-Sectoral Growth Rates (%), 2016-2017 (cont'd)

Sector	2016*	2017	2017**	Difference	Difference
	Actual (C1)	Target (C2)	Actual (C3)	(C3-C1)	(C3-C2)

Public Administration and Defence; Social Security	2.2	6.1	1.5	-0.7	-4.6
Education	8.3	6.7	9.9	1.6	3.2
Health and Social Work	16.8	5.3	14.4	-2.5	9.1
Community, Social and Personal Service Activities	-5.2	-0.5	-3.8	1.4	-3.3
FISIM (Financial Intermediation Services Indirectly Measured)	-0.6	4.1	0.9	1.5	-3.2

* Revised

** Provisional

Source: GSS, 2018; GoG, 2017

At 6.8%, the substantial growth of water and sewage in 2017 represents an improvement from the contraction of 3.2% in the previous year. (**Table 1.2**)

Agriculture

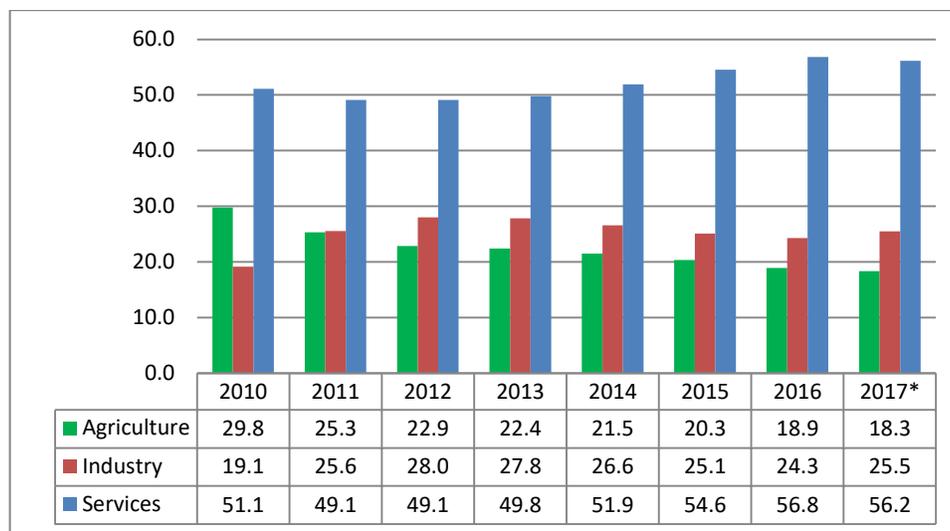
Agriculture recorded a growth rate of 8.4% in 2017, which was higher than the growth rate of services but lower than that of industry. All sub-sectors of agriculture grew in 2017. Furthermore, with the exception of forestry and logging, the sub-sectors grew faster in 2017 than in 2016. The cocoa sub-sector had the fastest expansion, followed by fishing, and then by crops. The cocoa sector's growth was 17.3% in 2017, a major improvement over the contraction of 7.0% in 2016, registering the largest growth improvement in the agricultural sector in quite a while. This growth is mainly attributed to improved weather. (**Table 1.2**)

Livestock growth improved marginally from 5.3% in 2016 to 5.4% in 2017, while forestry and logging grew nearly 1.0 percentage point slower in 2017 than in 2016 (1.6% versus 2.5%). The performance of fishing improved in 2017, recording a growth rate of 11.7% after 5.7% in 2016. The growth rate of crops in turn increased, from 2.5% in 2016 to 9.4% in 2017. (**Table 1.2**)

Sectoral Contributions to GDP

Sectoral contributions to GDP in 2017 largely follow the pattern observed in recent years. Despite the service sector exhibiting the lowest growth, its dominance in terms of size continues. Services, the largest sector since 2007, contributed 56.2% of GDP in 2017, marginally below the 56.8% share the previous year.

Figure 1.9: Sectoral Contributions to GDP, 2010-2017* (%; basic prices)



*Provisional (annual)

Source: MoF, 2018

Meanwhile, industry, the second largest sector, improved its share to 25.5% of GDP in 2017, from a 24.3% share in 2016. The share of agriculture in GDP decreased slightly from 18.9% in 2016 to 18.3% in 2017, a continuation of its downward trend from its peak at 31.8% share of GDP in 2009. This trend has largely resulted from the rapid expansion in the oil and service sectors. Meanwhile, the contribution of agriculture has continued to shrink in proportion of GDP even though the sector has been expanding in absolute terms³ (Figure 1.9).

³ Another factor behind the shrinking share of the agricultural sector is that food imports have been increasing in recent years, rising from 5.2% of GDP in 2010 to 6.2% of GDP in 2013. Inter-

Fiscal Developments

Macroeconomic stability through prudent fiscal policies has been at the forefront of the government's agenda to ensure economic growth. Ghana's fiscal deficits skyrocketed in 2012, largely because of the implementation of the Single Spine Pay Policy which led to a huge public wage bill. Since then, there have been attempts to reduce the deficits, which have been trending downward. Nonetheless, the objective of the new government was to reduce the fiscal deficit (including grants) to 6.3% in 2017, with an actual overall budget deficit of 5.9% of GDP; this target was attained. Indeed, the deficit outturn in 2017 represents a considerable improvement over the 7.8% deficit in 2016, by nearly 2 percentage points (**Table 1.3**).⁴

According to the IMF (2018a), total government revenue, comprising tax and non-tax revenue (but excluding grants) as a proportion of GDP increased from 16.6% in 2016 to 18.1% in 2017. Meanwhile, total government expenditure, as proportion of GDP, decreased from 26.1% in 2016 to 23.3% in 2017. Thus, the observed decrease in the deficit between 2016 and 2017 was attributable equally to changes in public expenditure and revenue.

TABLE 1.3: Selected Fiscal Indicators, 2009-2017 (% GDP)

Indicator	2009	2010	2011	2012	2013	2014	2015	2016	2017*
Total Receipts	25.4	28.8	24.3	23.2	23.9	21.8	23.3	20.0	20.2
Total Revenue	15.5	16.8	20.8	21.6	22.4	21.1	22	19.3	19.4

estingly, this proportion actually fell from 10.8% in 2001 to as low as 4.4% in 2006, before rising by nearly 2 percentage points by 2013. (Source: Computed using data from World Bank, 2017, on food import share of total merchandise imports and merchandise imports as a proportion of GDP).

⁴ The corresponding IMF (2018a) figures for the overall balance excluding grants (%) for 2012, 2013, 2014, 2015, 2016 and 2017 are: **-12.8, -12.5, -11.7, -7.3, -9.5 and -5.8**, and for the balance including grants: **-11.3, -12.0, -10.9, -5.4, -8.9 and -5.0**, respectively. It is not entirely clear why these IMF figures differ somewhat from the GSS numbers reported here. Indeed, the IMF figures point to a much larger reduction in the deficits between 2016 and 2017.

Tax Revenue	12.7	13.7	17.4	17.2	17.4	17	18.1	15.2	15.7
Direct Taxes	4.7	5.3	7.2	7.7	6.7	7.5	6.5	5.4	6.5
Indirect Taxes	4.4	4.3	5.5	4.9	5.2	5.7	7.5	7.2	6.5
International Trade Taxes	2.1	2.5	2.7	2.8	3.4	3.8	4.1	2.6	2.7
Non-Tax Revenue	2.4	2.7	3.2	4	4.6	4	3.7	2.9	2.6
Grants	3	2.4	2.1	1.6	0.2	0.7	1.3	0.7	0.7
Other Receipts	6.9	8.6	5.4	12.2	0	***	***	0.98	0.96
Divestiture	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project Loans	3	3.1	1.2	2.3	2.8	3.6	3.1	2.7	2.4
Programme Loans	0.9	0.6	0.4	0.3	0	0	0.6	0	1.8
Exceptional Financing	0.2	0.2	0.2	0.1	0	***	***	***	***
Net Domestic Financing	2.9	4.7	3.5	9.6	7.6	5.4	2.6	6.7	5.8
Total Payments	25.4	28.8	24.3	32.9	23.6	28.2	28	30.3	25.2
Statutory Payments	6.7	7.6	7.9	7.1	8.8	***	***	***	***
Discretionary Payments	18.7	21.2	16.4	25.8	21.3	***	***	***	***
Overall Budget Balance (cash)	-5.6	-6.5	-4.3	-12.2	-10.1	-10.2	-7.1	-7.8	-5.9
Primary Budget Balance	0.3	0.1	2.9	-2.2	-0.7	2.3	-0.3	-1.4	0.6

* Provisional

*** Not available

Sources: ISSER, 2017; GoG, 2017; MoF, 2018

Within the Medium-Term Expenditure Framework (MTEF), government expenditure is divided into discretionary and statutory components. The largest constituents of discretionary expenditure in 2017 as in previous years were: personnel emoluments, administration and service, and arrears clearance. Personnel emoluments have been consistently rising since 2009, largely as a result of the Single Spine Salary Policy. They in-

creased again by 38.5% between 2016 and 2017, to the tune of GH¢16,776.24 million in 2017. However, administration and service decreased by 22.9% between 2016 and 2017, and arrears clearance also fell by 46.2% over the same period. The decline in arrears in 2017 apparently reflects the relatively substantial clearance in 2016 and 2015 (**Table 1.4**).

**TABLE 1.4: Composition of Government Expenditures, MTEF Format, 2015-2017
(GH¢ million)**

Component	2015	2016	2017*	Difference	%	Difference	%
	C1	C2	C3	(C3-C1)	Change	(C3-C2)	Change
Discretionary	***	***	***	***	***	***	***
Personnel	10,555.93	12,109.85	16,776.24	6,220.31	58.93	4,666.39	38.53
Emoluments							
Administration and Service	1,388.22	3,220.76	2,482.11	1,093.89	78.80	-738.65	-22.93
Total	***	***	***	***	***	***	***
Investments							
Domestic	925.85	2,048.53	1,020.99	95.14	10.28	-1,027.54	-50.16
Financed							
Other Cash	2,058.65	202.90	1,800.66	-257.99	-12.53	1,597.76	787.46
Expenditure							
Net Lending	-4,959.06	-5,629.57	-5,310.42	-351.36	7.09	319.15	-5.67
Foreign							
Financed							
VAT Refunds	-627.04	-1,445.17	-1,803.38	-1,176.34	187.60	-358.21	24.79
Arrears	2,047.20	2,320.28	1,247.24	-799.96	-39.08	-1,073.04	-46.25
Clearance							
Utility Price	***	***	***	***	***	***	***
Subsidies							
HIPC-Financed	***	***	***	***	***	***	***
Expenditure							
MDRI-	***	***	***	***	***	***	***
Financed							
Investment							

TABLE 1.4: Composition of Government Expenditures, MTEF Format, 2015-2017 (Cont'd)

Component	2015	2016	2017*	Difference	%	Difference	%
	C1	C2	C3	(C3-C1)	Change	(C3-C2)	Change
Outstanding	***	***	***	***	***	***	***
Commitments							

Reserve Fund	***	***	***	***	***	***	***
Other	***	***	***	***	***	***	***
Transfers							
Repayment of Domestic Debt	***	***	***	***	***	***	***
Statutory Payments	***	***	***	***	***	***	***
External Debt	***	***	***	***	***	***	***
Principal	***	***	***	***	***	***	***
External Interest	1,762.43	2,304.07	2,532.66	770.23	43.70	228.59	9.92
Domestic Interest	7,312.91	8,466.37	11,039.46	3,726.55	50.96	2,573.09	30.39
DACF	1,470.44	1,171.17	1,046.18	-424.26	-28.85	-124.99	-10.67
Transfers to Households	***	***	***	***	***	***	***
Education Trust Fund	923.19	762.46	503.50	-419.69	-45.46	-258.96	-33.96
Road Fund	272.60	1,040.68	905.30	632.70	232.10	-135.38	-13.01
Petroleum-Related Fund	5.46	25.04	23.73	18.27	334.62	-1.31	-5.23
National Health Fund	1132.05	1,101.85	1,106.08	-25.97	-2.29	4.23	0.38

Notes: HIPC = Heavily Indebted Poor Country; MDRI = Multilateral Debt Relief Initiative; DACF = District Assemblies Common Fund

Source: ISSER, 2017; GoG, 2017; MoF, 2018.

* Provisional *** Not available

Expenditure on HIPC-related projects and programmes and investment financed by the Multilateral Debt Relief Initiative (MDRI) ceased in 2011. Allocation to the Ghana Education Trust Fund (GETFund) decreased by 34.0% between 2016 and 2017, following a decline of 17.4% in the previous year. In the case of the National Health Fund, there was a slight increase of 0.38% in 2017 over the 2016 allocation. The allocations to both the Road Fund and the Petroleum-related Fund also decreased by 13.0% and 5.2%, respectively, between 2016 and 2017, following relatively considerable increases between 2015 and 2016. (Table 1.4)

Details of Monetary and Financial Developments

Inflation Rate

The inflation targeting regime of the Bank of Ghana (BoG) has been largely sustained over the past few years with policies aimed at attaining a single-digit inflation rate, as well as maintaining exchange rate stability. Achieving the former objective of single-digit inflation has, however, been elusive. Nonetheless, the rate fell considerably in 2017 to 12.38%, from the respective 2016 and 2015 rates of 17.5% and 17.1%. Moreover, end-of-year inflation in 2017 was 11.8%, representing a decrease of 3.6 percentage points below the 15.4% rate in 2016 (GoG, 2018; GSS, 2017).

The decline in end-of-year inflation in 2017 was mainly driven by movements in both food and non-food prices due to relative stability in the domestic currency (GoG, 2017). Overall, food inflation decreased to 8.0% in December 2017 from 9.7% in December 2016, while non-food inflation declined to 13.6% from 18.2% over the same period (GoG, 2018; GSS, 2017). The decrease in end-of-year inflation in 2017 could be attributed to the effect of tight monetary policy during the year (IMF, 2018a).

Money Supply Growth and Interest Rates

Reserve money grew by 13.12% in 2017, significantly down from 29.6% in 2016. In addition, growth in total liquidity (M2+) was 16.7% in 2017, compared with the rate of 22.0% by the end of December 2016. (**Figure 1.10**) Indeed, all the monetary measures (e.g. reserve money, private sector credit, broad money (M2) and total liquidity (M2+)) recorded growth declines in 2017, from their respective values in 2016 (BoG, 2018).

Consistent with the objective of inflation targeting, the decline in the growth of money supply was intended to rein in inflation. The policy seems to have succeeded, with both average and end-of-year inflation down in 2017. Furthermore, the policy also succeeded in lowering nominal interest rates – nearly all the (nominal) rates were lower in 2017 than

91-day	23.1	9.6	8.81	5.42	1.41	1.53	25.81	23.12	16.81	13.33
182-day	22.9	9.4	9.41	6.7	3.1	1.98	26.41	24.4	18.5	13.78
1-year	22.5	9	5.5	5.05	6.1	3.2	22.5	22.75	21.5	15.0
2-year fixed	23	9.5	6	5.6	7.1	5.7	23	23.3	22.5	17.5
3-year fixed	19.2	5.7	8.4	5.79	8.6	6.45	25.4	23.49	24	18.25
Savings Rate	5.75	-7.75	-12	-11.65	-9.35	-4.25	5.0	6.08	6.05	7.55
Lending Rate	25.56	12.06	11.98	13.98	15.81	17.45	28.98	27.5	31.68	29.25

Source: ISSER, 2017; BoG, 2018

Exchange Rates

The central bank continued with its efforts to minimise the fluctuation of the Ghana cedi against the major trading currencies. The exchange rate remained relatively stable against all the major currencies in 2017, due to tighter monetary policy and improved foreign exchange inflows. The annual average exchange rates of the Cedi against the US dollar, pound sterling and euro on the inter-bank market in 2017 (in cedis/foreign currency) were: 4.36, 5.67 and 4.96 compared with 3.92, 5.25 and 4.33 respectively in 2016. The cumulative depreciation rates were 4.9%, 11.9% and 14.6% against the US dollar, the pound sterling and the euro respectively, on the interbank market in 2017. The Cedi depreciation in 2017 was, therefore, lower in relation to the US dollar in 2016, when the depreciation rate was 9.6%) but higher in relation to the euro in 2016 when the depreciation rate was 5.3%; and even higher against the British pound in 2016, against which the Cedi appreciated by 10.0% (BoG, 2018).

External Sector Developments

Exports

Ghana's exports continue to be dominated by primary commodities, predominantly gold and cocoa, together with crude oil. The value of merchandise exports increased to US\$13,835.01 million from US\$11,136.35 million in 2016 and from 26.1% in 2016 to 29.3% in 2017 as a proportion of GDP (**Table 1.6**). The increase is attributed largely to improved export earnings arising from significant increases in production volumes of cocoa, gold and crude oil, as well as an increase in world market prices for crude oil in 2017 (GoG, 2017).

Crude oil exports in 2017 rose substantially to US\$3,115.10 million, more than double the US\$1,345.22 million in 2016. The increase is explained in part by a price increase of 21.6%, from a monthly average price of US\$45.04 per barrel in 2016 to US\$54.79 per barrel in 2017, as well as by a substantial increase in the actual volume exported (BoG, 2018).

Meanwhile, the value of cocoa exports in 2017 was estimated at US\$1,903.49 million, a slight decline from US\$1,923.30 million in 2016. This decline is attributable to a price fall, as the average monthly realized price of cocoa decreased by 28.3% to settle at £1,563.54 (British pounds) per tonne in 2017, from £2,181.51 in 2016 (BoG, 2018).

However, total earnings from gold exports rose to US\$5,786.16 million in 2017, from US\$4,919.46 million in 2016. The increase resulted from rising export volumes as well as slightly higher price of gold, with the average realized price up by 0.8% to US\$1,258.10 per fine ounce in 2017, from US\$1,248.11 the previous year (BoG, 2018).

Ghana's main export destinations are the major industrialized countries: France, Germany, Italy, Japan, Netherlands, United Kingdom, and United States (BoG, 2017). Thus, understanding the current and prospective growth of these countries is important to better gauge Ghana's export performance.

Imports

Ghana's imports are mostly industrial supplies, capital and consumer goods, oil and foodstuffs, from China, United States, Belgium, United Kingdom, and France. There was a decrease in the import bill for goods, from US\$12,920.11 million in 2016 to US\$12,647.35 million in 2017. The decline resulted primarily from a drop in non-oil imports from US\$11,085.22 million in 2016 to US\$10,655.20 million in 2017 (BoG, 2018).

External Balance and Reserves

There was a trade (goods) surplus of US\$1,187.67 million (2.51% of GDP) in 2017 compared with a deficit of US\$1,781.77 million (4.17% of GDP) in 2016. The improving trade deficit is attributable primarily to declining imports, particularly non-oil imports. It is also underpinned by the rising value of exports, driven by an increase in receipts from gold and crude oil exports. (**Table 1.6**).

The deficit in the current account also fell from US\$2,832.05 million (6.63% of GDP) in 2016 to US\$2,224.85 million (4.24% of GDP) in 2017. The surplus (merchandise) in trade balance against the current account deficit in 2017 suggests a higher service deficit, lower net income inflows (remittances relative to income from foreign assets in Ghana), and/or smaller ODA receipts (GoG, 2017; **Table 1.6**)

At a projected 3.0 months of imports of goods and services, Ghana's international reserves level in 2017 is slightly higher than the 2.8 months level in 2016. Against the recommended 3.0 months of import cover, the 2017 reserve level signals a continuing precarious foreign exchange position for the country (**Table 1.6**).

TABLE 1.6: Summary of External Sector Performance, 2012–2017

<i>Indicators (US\$ million unless otherwise stated)</i>	<i>2012</i>	<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2017*</i>
Merchandise Exports	13,552.30	13,751.92	13,216.79	10,321.18	11,138.35	13,835.01
% of GDP**	32.53	28.26	34.23	28.46	26.1	29.27
Merchandise Imports	-	-17,600.24	-14,600.20	-	-	-12,647.35
% of GDP**	42.62	36.17	37.81	37.13	30.27	26.81
Trade Balance	-4,200.10	-3,848.32	-1,383.41	-3,143.99	-1,781.77	1,187.67
% of GDP**	-10.08	-7.91	-3.58	-8.67	-4.17	2.51
Current Account	-4,910.64	-5,704.03	-3,694.47	-2,823.75	-	-2,004.85
% of GDP**	-11.79	-11.72	-9.57	-7.79	2,832.05 -6.63	-4.24
Gross International Reserves (GIR)	5,348.90	5,212.10	5,461.01	4,403.06	4,862.07	5,490.97
GIR in Months of Imports	2.9	2.9	3.2	2.6	2.8	3.0***

*Provisional (annual); **Projected; ***Computed using export and import data from BoG (2018) and GDP data from GSS (2018)

Source: BoG (2018); GSS (2018)

Outlook

At 8.5%, Ghana's GDP growth in 2017 was a rebound from the downward trend since 2011. The increase in economic growth mirrors somewhat that of SSA as a whole and of the global economy. The economic growth rebound in SSA, and in emerging and developing economies generally, is attributed largely to the apparent resurgence of commodity prices, par-

ticularly petroleum prices. Not only did Ghana benefit from the positive price effect, but also the country enjoyed higher volumes of petroleum exports.

Ghana's growth rate is projected to slow to 6.3% in 2018, down 2.2 percentage points on the 2017 rate (IMF, 2018a). This forecast is based on lower growth of the oil sector but an increase in the non-oil growth rate from 4.0% to 5.0%. A rise in non-oil sector growth would be good news, given the concern of possible oil dependency. However, the projection also critically assumes that the *dumsor* challenge involving severe constraints in energy supply will have been addressed. That of course remains to be seen, though significant improvements occurred in 2017.

Structural limitations in infrastructure and labour markets along with fluctuating commodity prices have contributed greatly to the recent slowdown in growth momentum in many emerging and developing economies. Continuing higher commodity prices would certainly help to prop up growth, but for how long? As Rodrik (2018) argues, Africa's growth 'miracle' is unlikely to be sustained, as commodity prices fall and global interest rates rise. This bell tolls for Ghana as well. Thus, in preparation, it is hoped that not only will the *dumsor* bottleneck be a thing of the past in Ghana for the medium and presumably long term, but also that the country's other infrastructural problems will receive maximum attention in order to sustain growth.

Ghana's fiscal situation improved considerably in 2017. This was due to both higher revenues and lower expenditures as a proportion of GDP, leading to a smaller fiscal deficit. The main question now is if this favourable fiscal outcome is sustainable. Projections by the IMF show that the situation is likely to be positive in the short run – fiscal deficits with and without grants are projected to fall by 2019 to 3.6% of GDP and 3.9% of GDP respectively, from their 2017 levels of 5.0% and 5.8% (IMF, 2018a).

Ghana's external balance improved substantially in 2017, due to both an expansion in exports and a contraction in imports, both nominally and as a proportion of GDP. The trade balance even enjoyed a surplus, for the

first time in recent history. This balance is projected to fall slightly to -0.5% by 2019. The external current account deficit improved by some two percentage points in 2017, and is projected to fall further to 4.0% by 2019. Nonetheless, international reserve holdings, which are slightly higher in 2017 than in 2016, are not forecast to change much by 2019 (IMF, 2018a).

Ghana's inflation rate has been historically high, often about twice the SSA average. However, the gap has been closing, with Ghana's average inflation rate decreasing from 17.5% in 2016 to 12.4% in 2017, compared to SSA's slight decline from 11.3% to 11.0% (IMF, 2018a).

Interest rates remain very high in Ghana, especially compared with very low rates globally. Such levels are likely to discourage borrowing and productive investment. Thus, the decline in real long-term rates in Ghana during 2017 is a welcome development.

Although total government debt has decreased from 73.4% of GDP in 2016 to 71.8% in 2017, it remains far above the debt-to-GDP ratio of SSA as a whole (45.9%). Indeed, this 2017 debt ratio is double its level in 2009, and is huge by both historical and SSA standards,⁵ with a rapidly increasing share owed to the domestic and external private sectors.⁶

Moreover, infrastructural challenges remain daunting, as demonstrated by the ongoing, though improved, *dumsor* problem. In addition, Ghana performs in the bottom two quintiles among African countries on 'proportion of people using at least basic sanitation services' and on 'proportion of roads paved' (Fosu, 2018). This infrastructural challenge calls for a serious prioritisation of Ghana's public finances. Such an undertaking would, in turn, require considerable political discipline.

As advised in previous publications of the SGER, it makes very little economic sense, for instance, that despite these fiscal-derived challenges,

⁵ The total debt/GDP ratio has ballooned from 36% in 2009 to 71.8% in 2017.

⁶ As a decreasing share of the debt is owed to official external lenders, and Ghana is now a lower middle-income country, Ghana can no longer count on any future debt forgiveness.

the government seems to continue embarking on, for instance, expanding public tertiary institutions in every region of the country. This requires major public expenditure in perpetuity, even though access to existing public institutions is national and not limited to natives of any region. In addition, there has been substantial proliferation of private tertiary institutions in the country, while the share of the public budget spent on education, especially tertiary education, is currently very high.⁷ Concurrently, there appears to be an excess supply of graduates entering the labour market. Might it not be better instead to allocate more funds towards greater improvements in fiscal infrastructure in order to boost derived demand for skilled labour?

Finally, despite Ghana's current ranking among the top quintiles of SSA countries on measures of institutional quality (IQ) (Fosu, 2018), the country's scores on 'government effectiveness', an indicator of the quality of public services, have fallen below the world average since 2009 and have been falling steadily since 2011.⁸ Similarly, 'control of corruption' has been declining, suggesting an increasing level of corruption in the country. Yet, higher measures of IQ are critical if Ghana is to maintain the level of 'developmental governance' that is required to sustain the economic growth and development success accruing from the reforms begun in the 1980s.⁹

Backed by strong investment in the oil and gas sector, Ghana can sustain economic growth well into the future, provided the country continues to improve its infrastructure and macroeconomic management. However, unemployment remains a key challenge and opportunities for employment in the industrial sector remain limited and highly specialised.

7 In 2011, the latest year for which data are currently available, 33% of public expenditure was on education in Ghana, as compared to the SSA mean of 16%. Since 2011 might be an aberration due to payments under the Single Spine Pay Policy, the average share during 2004-2014 was computed as 26%, compared with the SSA mean of 17% over the same period, and against respective historical averages of 17% and 15% for Ghana and SSA (World Bank, 2015c; Fosu, 2007). Meanwhile, the share of tertiary education in the educational budget averaged 23% over 2004-2010 for Ghana, as compared with the SSA mean of about 18%.

8 See Fosu (2017), with data source: World Bank, 2015b.

9 'Developmental governance' is used here to mean 'economic policy coherence (free-market policies), public-service effectiveness, and limited corruption' (Alence, 2004).

The composition of Ghana's trade continues to be dominated by primary commodity exports, particularly gold and cocoa. However, the advent of oil production seems to be changing the pattern of the country's exports. Is Ghana teetering toward an oil-dominated economy, or will the proceeds from oil exports be employed wisely to diversify the economy?

To ensure that medium-term growth targets are met, there is a need for massive investment in productive infrastructure and for prioritising non-traditional exports. That the manufacturing share of non-fuel exports has improved substantially from about 1% in the pre-reform period to average over 25% during 2005-2013 is a welcome development (World Bank, 2015a). This momentum must continue if competitive manufacturing for sustained growth is to be maintained.¹⁰

On the fiscal side, the urgent need for prudent management of government resources remains compelling. While increased efforts should be pursued to mobilise revenue through an expanded tax base, government expenditure must be reined in over the short-to-medium term.

Key risks to monetary policy include possible adverse developments in world commodity prices and foreign investment inflows, despite the rebound in these prices lately. The cedi appears to have stabilised recently and, if sustained, this development should bode well for the inflation outlook. That would in turn facilitate monetary policy by allowing the Bank of Ghana to lower the policy rate further, with favourable implications for the lending rate, provided there is continued discipline in public expenditure. Such a development may affect private sector investment favourably. However, Ghana's weak infrastructure, especially in the energy and transportation sub-sectors, and ineffective public administration structures require significant improvements in order to enhance Ghana's reputation as a favourable destination for productive investment.

¹⁰ For developing countries, Fosu (1990; 1996) for instance finds that given international competition, manufacturing exports, rather than primary products, tend to be the growth-enhancing component of exports in developing economies in the longer term.

Regarding broader development, the Ghana Shared Growth and Development Agenda II (GSGDA II), the successor to GSGDA I (2010-2013), ended in 2017 and has been succeeded by a new medium-term national development framework, *An Agenda for Jobs: Creating Prosperity and Equal Opportunity for All, 2018-2021 (First Step)*

Among the highlights of the Agenda for Jobs are:

- Under the One Village, One Dam policy, small- and medium-scale irrigation schemes are to be identified and rehabilitated.
- Ministry of Trade and Industry to implement the One District, One Factory initiative to ensure an even spatial spread of industries.
- Ministry of Education to commence implementation of free secondary education in September for the 2017/18 academic year.
- 275 constituencies to be allocated the equivalent of US\$1 million annually under the Infrastructure for Poverty Eradication Programme (IPEP)” (GoG, 2017)

As many of these projects were initiated in 2017, it is too early to assess progress effectively. Nonetheless, it is anticipated that the first two initiatives will expand employment across districts; the third should increase the supply of secondary school graduates; while the fourth might help strengthen local authorities financially.

As is to be expected, the implementation details of most of these initiatives are yet to be spelt out. It is hoped, however, that government resource allocation would be kept at a minimum, and that the already cash-strapped basic education system will not suffer from further quality deterioration due to a potential decrease in per student resource allocation as resources are funnelled into funding enrolment increases at the senior secondary level, consistent with the free senior high school policy.

The concern is that effective implementation of the above initiatives may require additional financial resources, with possible adverse implications for fiscal balance. So far though, the government has managed to main-

tain a degree of macroeconomic stability that is projected to continue into 2019, due largely to expected oil revenue.

Another dimension of the government's programme is the abolition of taxes in several areas with the avowed intent of incentivising business. While the effectiveness of these incentives will take some time to assess, the government must be commended for its pro-business stance, although there is also a potential downside risk. Many of these extant taxes seem to be relatively demand or supply inelastic, thus there is a real possibility that their abolition will lead to reduced tax revenues, with further adverse implications for fiscal balance. An additional downside is that it is politically easier to remove taxes than to reinstitute them, thus hampering efforts to expand the tax base. In either case, further adverse implications for fiscal balance appear likely, although higher tax revenues resulting mainly from oil will continue to serve as a cushion for at least the near future.

Thus, the success of the new programme is crucially contingent on the ability of the government to cut wasteful expenditure significantly, which invariably entails effective control of corruption. Unless there are considerable efficiency improvements in government spending in the above programme, Ghana could return to deterioration in macroeconomic imbalances. Such an outcome would lead to more borrowing and debt accumulation, which could reignite rising inflation and interest rates, with deleterious consequences for the country's growth and development.

As the implementation of the above programme takes further shape, it is proposed, as in previous years and consistent with Asante and Owusu (2013) and Fosu (2013b), that the following guidelines be kept in view:

- Policies of inclusive growth with the objective of ensuring sustainable economic growth and human development. Such policies involve a focus on the equitable participation of all, including women, youth and persons with disabilities, in the economic growth process. Spatial inequality must also be tackled more effectively;

- Pursuit of an employment-centred economic growth strategy that will ensure that employment expands along with production, and that the benefits of growth will be widely shared through better job opportunities and enhanced incomes, particularly for the growing pool of unemployed youth. Labour productivity must also rise, commensurately with higher wages, especially for public employees under the Single Spine Pay Policy;
- Ensuring sustainability in the exploitation of Ghana's natural resource endowment, including agriculture and minerals, as well as oil and gas, supported by strategic investments in human capital, infrastructure, science, technology and innovation. In particular, the government must bring an end to *galamsey* (illegal mining) activities that have, *inter alia*, degraded water bodies, soil and environment, and initiate serious reclamation efforts;
- Engagement in strategic infrastructural (physical, human and institutional) development as well as the application of science, technology and innovation to enhance the creation of employment and income-earning opportunities for rapid and sustained poverty reduction and to substantially increase absorption of the apparent oversupply of graduates from secondary and tertiary institutions;
- Tighter regulation of private tertiary institutions in order to ensure high quality education. Ongoing efforts to expand the public tertiary education sector should cease; instead, greater attention must be paid to enhancing the quality of graduates from the existing public institutions. These institutions must be allowed to raise the necessary resources, including tuition fees for those who can afford to pay, while assisting those who cannot. At the same time, greater efforts should be placed on improving the quality of basic education, not only to prepare students properly for senior high school, but also to enhance the vocational track in order to change the present apparent sub-optimal range of labour-market supply; and
- Fiscal prudence. Ghana must achieve the requisite macroeconomic stability for deepening its substantial economic progress since the reforms of the 1980s and 1990s.

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