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GHANA'S MIDDLE-INCOME STATUS HAS SEVERAL GAPS THAT NEED TO BE FILLED

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Summary

After rebasing in 2010, Ghana's per capita GDP rose to Middle-Income Country (MIC) level as defined by the World Bank. The per capita income measure is, however, seen to be too narrow as it does not even include key economic indicators let alone important social and development indicators. The IEA has assessed Ghana's MI status in comparison with Malaysia and South Africa based on wide-ranging economic and social indicators, including: the domestic macroeconomy, real economy, financial sector, external sector, infrastructure, competitiveness, education, health, and poverty. It is found that Ghana trails these two major MICs on almost all the economic and social indicators investigated. The paper recommends some of the policy interventions that would be needed to improve Ghana's economic performance and social indicators to the levels commensurate with its new MIC status.

IEA Ghana

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In November 2010, the Ghana Statistical Service (GSS) rebased GDP figures that indicated that Ghana joined the ranks of Middle Income Countries (MICs) from 2007 based on the World Bank's per capita GDP measure. The WB measure is, however, seen to be too narrow as it does not even include key economic indicators let alone important social and development indicators.

The IEA has assessed Ghana's MIC status using a broader range of socio-economic indicators. Some of the data used go as far back as 1960 and extend to 2010. In the assessment, Ghana was pitched against two of the best MIC performers Malaysia and South Africa. Apart from its spectacular socio-economic performance as a member of the “Asian Tigers”, Malaysia had a lot in common with Ghana at the time of their common year of independence, 1957, although they have since moved along quite dissimilar development paths. South Africa, on the other hand, is the African giant and powerhouse that has made tremendous economic strides. Its inclusion brings geographical balance to the assessment. These two countries provide excellent development models for Ghana.

Ghana has lagged substantially behind the two peers in terms of general macroeconomic performance, with higher rates of inflation, higher monetary growth rates, and higher budget deficits. Further, Ghana has had higher public debt-to-GDP ratios, more overvalued and, by implication, less competitive exchange rates, and lower national savings and investment ratios. Ghana has also had the lowest GDP and per capita GDP growth rates. Ghana has seen a relative decline of its industry in general and the manufacturing sector in particular. Agriculture's share of GDP has declined, as expected, but rather slowly, while the services sector has grown strongly, emerging in recent years as the lead sector of the economy. Malaysia's economy has followed a more normal evolution to the extent that industry and services have continuously increased their share of GDP, while agriculture's relative share has declined. In terms of value added or productivity, Ghana has fared poorest in industry and services compared with Malaysia and South Africa, and in agriculture compared with Malaysia. In the course of development, countries normally evolve from agrarian to the industrial and services stages. The sharp increase in Ghana's services sector, the relative decline of industry, and low agricultural productivity growth do not seem to portend well for the country's long-term sustainable development. Remedial policy interventions may be required to redress the balance, in particular by providing direct state support to industry and agriculture.

In terms of financial intermediation and deepening, Ghana has trailed its peers. Ghana has had the lowest banking density of the three countries, implying the least access to banking services, and lowest private sector credit, a factor cited as a key obstacle to business in the country. Ghana's financial sector thus has the least capacity to facilitate savings and investment in support of economic growth. On external performance, Ghana generally has lagged its peers. Ghana has had much larger trade and current account imbalances, reflecting inadequate receipts from primary product-dominated exports and high imports in the face of inadequate production of import substitutes by a declining/stagnating manufacturing sector. This exerts constant pressure on the international reserves and the exchange rate. Ghana has also had the highest external debt-to-GDP ratios of the three countries, the result of borrowing to finance the external imbalances. While Ghana's debt ratios declined sharply following HIPC and MDRI reliefs, they have subsequently been on the rise once more as borrowing has increased to finance infrastructure projects. In terms of FDI flows, Ghana has had generally the lowest net inflows relative to GDP, constraining investments and growth.

In terms of infrastructure, Ghana generally trails its peers. Ghana has lagged behind in terms of road length, density, and quality, as well as length of rail lines. Ghana has the lowest electricity production and population access. Ghana trails in terms of the stock of agricultural machinery, a situation that has led to low yields and output. Ghana has lagged far behind in terms of mobile cellular subscriptions. What is remarkable, however, is the explosion in Ghana's mobile subscription in the past decade. The explosion has completely transformed communication in the country, particularly in terms of speed, with positive economic externalities. Ghana has substantially lagged behind both Malaysia and South Africa in terms of telephone lines. Here also, Ghana has significantly added to its stock. In terms of internet use, Ghana has lagged behind South Africa and much farther behind Malaysia. Ghana has, however, expanded its usage significantly.

In terms of competitiveness, Ghana has trailed its peers. Ghana has had a relatively more overvalued exchange rate that rendered the economy uncompetitive in price terms. In terms of broader non-price measures of competitiveness, Ghana has also trailed its peers. The Global Competitive Index (GCI) report for 2011-12, based on wide-ranging indicators, ranked Ghana 114th out of 142 countries. By comparison, Malaysia was ranked 21st and South Africa 50th. Further, figures from World Development Indicators (WDI) for 2011 show Ghana trailing both Malaysia and South Africa in terms of the ease of doing business. Ghana's relatively low competitiveness has been a drag on investment in the country and on the economy's growth.

In terms of education, Ghana generally trails its peers. Ghana has lagged behind in terms of school enrolment rates, especially at the secondary and tertiary levels, and completion rates at the primary level. Ghana needs to improve its school enrolment and completion rates if it has to meet its long-term development capacity needs. In terms of pupil-teacher ratios, which affect the quality of teaching and the outcomes, Ghana seems to have been at par with South Africa at the primary level but underperformed Malaysia. At the secondary level, Ghana has outperformed South Africa, but slightly underperformed Malaysia. Ghana's ratio has, however, declined slightly over time, which is a positive development. In terms of literacy, Ghana has had the lowest rates. This is the case across all categories of people adults, youth, and the elderly. In terms of expenditure on education, Ghana has been spending slightly less of its GDP compared to Malaysia and South Africa. Thus, although Ghana has not been far behind in terms of expenditure, it has fallen substantially behind in terms of education outcomes. This brings into question the end-use and efficiency of education spending.

In terms of health, Ghana generally trails its peers. In terms of life expectancy, Ghana's has seen a steady increase during 1995-2009, Malaysia has had higher and increasing levels, while South Africa has witnessed a decline in its levels, ostensibly due to the effects of exceptionally-high HIV/AIDS prevalence and related deaths. In terms of death rate, Ghana's declined marginally during 1995-2009, while South Africa's increased. Malaysia has the best record of the three countries. In terms of infant mortality rate, Ghana has had the worst, albeit improving, record of the three countries; South Africa has seen its rate rise and then decline. In sharp contrast; Malaysia has had the best record, with its rate declining sharply. When it comes to maternal mortality, Ghana also has had the worst, albeit improving, record; South Africa follows, however, with deteriorating rates. Infant and maternal mortality is an area where Ghana has fallen behind in meeting the Millennium Development Goals (MDGs).

In terms of prevalence of malnutrition, Ghana has had the worst record. Remarkably, however, Ghana has made considerable progress over the past two decades. Ghana trails its peers in terms of ratios of nurses-to-population, physicians-to-population, and hospital beds-to-population. In terms of access to improved water source, Ghana has fallen behind its peers. As expected, rural access falls behind urban access. Remarkably, however, Ghana has made steady progress during the past two decades in improving water access across the country. In terms of access to improved sanitation, Ghana has had an abysmal record compared to its peers. In terms of urban population living in slums, Ghana has had the highest proportions. In terms of health expenditure (as a percentage of GDP), Ghana has been spending slightly below South Africa, while Malaysia falls far behind. However, in terms of health expenditure per capita, Ghana has been spending only a fraction of that of its peers. It is notable, however, that Ghana's per capita health expenditure has risen steadily in the past two decades. In terms of poverty, Ghana has generally had the worst record. Measured in terms of the poverty gap based on the population living below both $2 and $1.25 dollars a day, Ghana has fallen behind its peers. Further, in terms of regional variation, the available data, as expected, shows that rural poverty has been higher in Ghana than urban poverty.

The key conclusion is that, while Ghana's per capita GDP after rebasing may have risen to MIC levels, the country still lags behind major MICs in terms of a broader range of economic and social indicators. Major policy interventions would, therefore, be needed to improve Ghana's economic and social indicators to levels commensurate with its new MIC status. Above all, it is important to create conditions that support mobilization of higher levels of resources for investment in order to raise the rate of growth. More specifically, macroeconomic stability needs to be consolidated to sustain low inflation, exchange rate stability, and low credit costs. The financial sector should be bolstered to be able to mobilize savings and allocate credit efficiently. The economy's overall competiveness could be boosted by ensuring, as indicated, macroeconomic stability and financial market development, as well as promotion of human capital, infrastructure, technology, and business-friendly institutions. Further, industrialization and exports, the bedrocks of the economy, should be directly promoted, including through availability of affordable credit, marketing-support systems, and other relevant infrastructure. Further, more resources should be devoted to the social sectors. To maximize outcomes in education and health, it is important to improve end-use and efficiency of spending. Poverty is more serious in rural than in urban areas. Therefore, greater success would be achieved in tackling poverty if remedial interventions target rural areas, including through agricultural productivity-enhancing measures, provision of social amenities, and targeted subsidies for public goods and services.

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