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THE INSTITUTE OF ECONOMIC AFFAIRS
A Public Policy Institute

A Review of the Ghanaian Economy in 2011



August 2012

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ABOUT US

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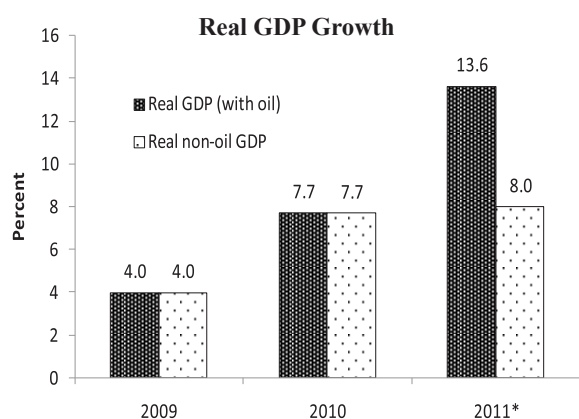
THE GHANAIAN ECONOMY: SUMMARY OF RECENT TRENDS AND DEVELOPMENTS

The profile of the Ghanaian economy has been changing in the past decade. Noted for cocoa and gold, the discovery of oil and gas reserves in 2007 coupled with its relatively stable political environment has added to the expectation that with the right mix of policies the Ghanaian economy has a strong profile to grow in the medium-term.

To put the 2011 economic performance in some perspectives, this report sets out the trends and developments on the indicators of the economy against the recent past. A summary of major trends and developments follow.

The Growth of the Economy

The economy has achieved a new era of growth and made important macroeconomic stability gains for the past decade. The official inflation measure has fallen considerably, and until recently the Cedi had stabilized against the major currencies. After a decade of persistent near 5% growth, the value of goods and services produced by the economy, according to the IMF, grew about 14% in 2011. But for recent headwinds facing the Cedi, and concerns about fiscal challenges, economic momentum for growth would have been slightly firmer in 2011.



A revaluation of the national accounts in 2010 has raised Ghana's national income measures by some 65%, moving Ghana from a low income country to a lower-middle-status.

Adjusted for inflation, the value of goods and services produced in the economy (real GDP) all together grew by about 20% between 2009 and 2011, and by 26% with the additional stimulus from oil. Real GDP grew by 4% in

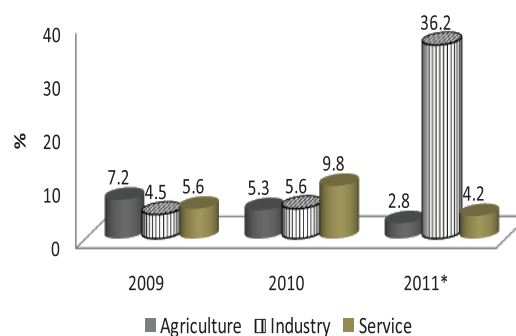
2009, increased sharply to 14% in 2011, and is predicted to grow by about 9% in 2012.

The Drivers of Growth of National Output

The revaluation and rebasing of the national accounts has also revealed a gradual structural transformation of the economy marked by a decreasing share of agriculture and modest but increasing share of services and industry in the value of national output.

In 2011, non-oil real GDP grew by 8%, implying that the oil sector contributed about 6% of the growth of the economy. If we isolate the oil sector, real GDP increased on average every year by 6.6% from 2009 to 2011, ahead of annual population growth of about 2.5%. The result is a rising per capita income of about 3% every year.

How the Sectors have been growing

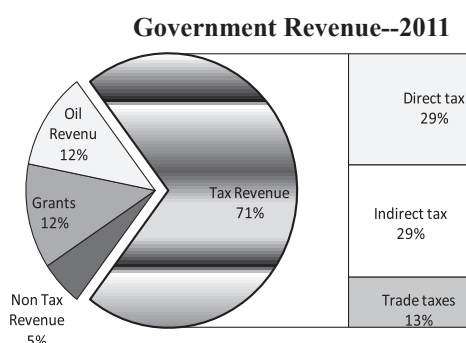


Highlights of Fiscal developments

- Domestic revenue increased by 51% to 20.5% of GDP, of which tax revenue was 17.2% and on-tax revenue 3.2%.
- Total public expenditure increased by 16.0% over 2010 to 23.6% of GDP. This was dominated by the recurrent component, which was 17.1% of GDP, while the capital component was 6.5% of GDP.
- The (cash) budget deficit was 4.4% of GDP and it was financed largely from domestic resources.
- The total public debt increased by 34.2% to 39.9% of GDP, of which the domestic and external components constituted 20.0 and 19.9% respectively.

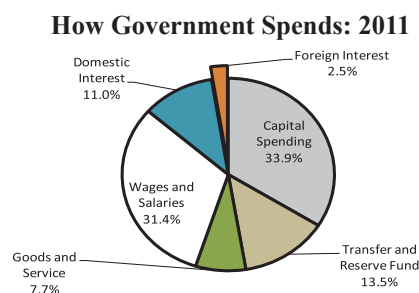
Revenues

Compared to the size of the economy, the total government revenue envelope has increased from 16% in 2008/2009 to about 22% in 2011. Conventional revenues come from three principal sources: tax revenue, non-tax revenue and grants. Oil revenue contributed nearly 12% of revenue and is expected to rise with increased production. Direct income and profit tax and indirect consumption tax together form the backbone of government revenue, accounting for nearly 58% of total revenue in 2011.



Spending

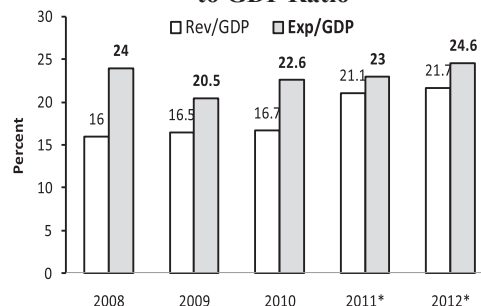
Expenditures on non-capital and non-interest obligations of government constitute about 52% of all government spending. This includes spending on wages and salaries, purchases of goods and services and transfer payments to households and firms. Capital spending has averaged 34% of total spending and includes statutory transfers for education, health and district assemblies.



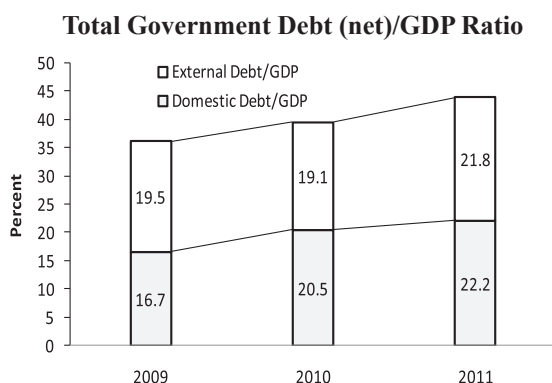
Fiscal Sector and Debt Situation

Despite the continuing strong revenue performance, budget imbalance remains a persistent feature of Ghana's fiscal management. Expenditures continue to outpace the growth in revenues. While the revenue-expenditure gap is expected to shrink from nearly 8% in 2008 to about 3% in 2011/2012, public savings – the excess of public revenues on current spending remains weak. The result is the growth of public debt. Ghana's domestic debt stood at 22.2% of GDP as of year-end 2011 compared to about 17% in 2009. Total public debt rose from 37% in 2009 to 44% in 2011. Domestic debt represented 50.2% of the total public debt with external debt accounting for 49.8%.

Total Revenue & Grants, Total Expenditure to GDP Ratio



Increased domestic public debt has implications for the ease of access and cost of credit to the private sector. Rising external public debt increases the vulnerability of public finances to currency depreciation. Despite the prospects of growth, the risk of over indebtedness cannot be ruled out.



Monetary sector

- Monetary policy aimed to achieve price stability as a basis for sustained growth.
- Broad money supply (M2+) increased by 33.2%, while reserve money also increased by 31.1%.
- Both year-on-year and average inflation were in single digits at 8.6 and 8.7% respectively. The prices of many consumer goods and services, however, increased by higher rates, which seemed to suggest that the official measure of inflation was not adequately capturing the true cost of living.
- Led by a reduction in the Policy Rate, other interest rates generally declined. Bank lending rates and spreads, however, remained high, thereby continuing to stifle financial intermediation.
- Banking sector activity continued its strong upward trend, as evidenced by a sharp increase in industry assets/liabilities.
- Bank credit increased by 13.3%, with the manufacturing, commerce and financing, and services sectors being the key beneficiaries.
- The Ghana Stock Exchange saw its market capitalization more than doubling due to the listing of Tullow Oil.

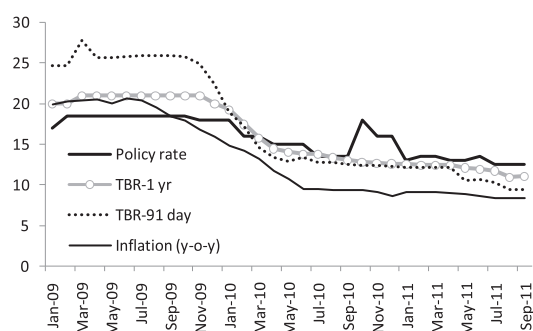
Overall, the monetary sector expanded in the last three years. Broad money (M2 grew from 27% in 2009 to 40% in the second quarter of 2011. This growth signals the increased financial intermediation and the flow of funds within the country's financial system. Despite the growth in total liquidity in the economy, credit to the private sector or the supply of funds for private sector activity has lagged behind.

Credit and financial market conditions have been weak over the period. In real terms, growth of commercial banks' credit to the private sector has been slow since the last quarter of 2010, suggesting that recent increase in government borrowing on the domestic market may be crowding out private sector access to credit.

The Price Trends – Inflation, Interest rates

Interest rate trends have followed inflationary trends, even if slowly and less predictably. Interest on 91-day and 1 year treasury bills declined from 19.3% and 18.9% in January 2010 to 11.3% and 9.6% in 2011 respectively. Although trends in the nominal policy rate are expected to translate into lower base and lending rates, this has not always been the case. Interest rates have continued to decline but only slightly in response to reductions in the policy rates. This sluggish response means high real interest rates.

Interest rate trends have followed inflation



External Sector

Ghana's external payments position shows robust performance since the adoption and implementation of the IMF's Extended Credit Facility program in mid-2009. However, current account and trade balance deficits persist largely on account of the country's continuous over-dependence on imports, making the economy susceptible to external shocks.

Exchange rate

In 2010, the performance of the Cedi on the interbank forex market was impressive recovering from a depreciation of 17.7% in 2009 to 3.2% against the US dollar. It also appreciated against the Pound Sterling and the Euro from the background of massive depreciation of the Cedi against both currencies in 2009. However, the robust performance could not be sustained in 2011, as the Cedi depreciated by 3.3%, 7% and 9.6% against the Dollar, Pound and Euro respectively, by the 3rd quarter of 2011.

The emerging oil economy

Drawing on the experiences of countries such as Nigeria and Angola, whose oil boom plunged them into the resource curse, Ghana moved quickly to develop legislation to guide the development of the petroleum industry. The most significant achievements are the design and promulgation of the Petroleum Revenue Management Law (Act 815) and the Petroleum Commission Law (Act 861) to guide the collection, management and use of petroleum revenue. Local Content legislation is currently in the making to strengthen the linkages between the oil and non-oil sectors of the economy and to optimize the contribution of the oil industry to the development of the economy.

Receipts of oil revenues amounted to GH¢506 million in 2011. This is composed of royalties (5% of production) of GH¢140.1 million whilst the remaining GH¢365.9 million represents the state's Carried and Participation interest of 13.75%. Also to ensure that full benefits accrue to the country, work has begun on the construction of a gas processing plant in the Western Region.

Despite these developments, controversy rages over the transparency and accountability of the receipt of oil revenues and over the prudent use of the revenues. Reporting and compliance by the Bank of Ghana remain a concern.

While the Bank presented the semi-annual report to Parliament, it failed, however, to publish same in the dailies as required by Act 815. Moreover, for both 2011 and 2012, the Ministry of Finance appears to have overestimated the benchmark revenue which provides the basis for the allocation of revenues to the budget and for saving.

Best practice is to use a conservative price and quantity forecasts to determine the oil revenue resource envelope for the budget. Most worrying, not providing financing for the Public Interest Accountability Committee in the budget effectively cripples the implementation of an essential component of Act 815 of public accountability and transparency.

Outlook

Ghana has made progress towards achieving macroeconomic stability, which is necessary for stimulating growth. The focus of monetary management has been to maintain low inflation while responding to any volatility in the foreign exchange market. The focus of fiscal policy according to the 2012 Budget statement is to strengthen revenue mobilization and to balance development needs with expenditure controls.

The experience in recent years suggests that macroeconomic management, however, is vulnerable to external shocks that may arise from unfavourable global economic slowdown and the risk of volatility of major commodity prices. Internally, despite falling inflation, overall expectations appear volatile as we have seen in the recent downward pressure on the external value of the Cedi against major currencies. For that reason, it is important to improve policy credibility that will be required in the medium to long term to enhance confidence and to stimulate investment which is also required to stimulate growth.

The economy remains vulnerable to the threat of an uncontrollable wage bill, renewed rise in domestic arrears in quasi-financing, weak budgetary controls and rising public debt. The persistent high real interest rate and intermediation costs act as a drag on household spending, private sector investment, and growth. Growth on the back of government spending in the face of fiscal deficits and rising public debt is unlikely to be sustainable.

Ghana's overarching economic management challenges are on two fronts. First, is the consistency and quality of fiscal adjustment which has so far relied more on increased revenue mobilization than on retrenchment of spending commitments.

The second challenge is in tackling the paradox of jobless growth. In the short-term, the adoption of labour intensive initiatives through public work programmes – from constructing culverts and bridge building to renovations of public schools, clinics and sanitation – is one way of stemming the rise in youth unemployment.

Medium and long-term solutions should focus on how to use public investments for growth in agriculture and manufacturing to leverage private sector job creation in the long run. The problem of skills mismatch can find solutions through the design of appropriate curricula that meet the requirements of a growing economy and of industry. Education must re-orient the youth from “job-seeking” to “job creation”. The mission and objectives of polytechnics and vocational institutes are matters of serious public debate if the nation is to stem the tide of producing jobless graduates.

CHAPTER 1

GLOBAL TRENDS IN THE FINANCIAL CRISIS AND THE AFTERMATH

The world economy was in financial crisis in 2008-2010. And even as the world begun to see some signs of recovery, the after-effects of the global recession lingered on in 2011 with high levels of unemployment, falling incomes and huge fiscal deficits especially among the developed economies. For most developing economies the effects have been felt through reduced exports, lower inflow of aid and private investment capital, falling remittances, and limited access to trade credit. Global economic trends and what they mean for Ghana are summarized below.

1.1 Trends in Growth and Trade

The recovery of the global economy from the global financial crises remained slow in 2011. Unanticipated events such as the devastating earthquake and tsunami in Japan, unrest in some oil-producing countries such as Libya in particular, adversely affected global growth and significantly weakened overall economic prospects (WEO, 2012). More so, recent developments in the euro zone and the Arab-spring that engulfed countries in North Africa and the Middle East also contributed to the slow growth of the world economy. As a result, the global economy grew by 3.9% (Figure 1.1) while the United States and the Euro-zone grew by 1.7% and 1.4%.

However, the economies of emerging and developing countries recorded robust growth averaging 6.2%. China recorded an impressive growth of 9.2%, whilst Sub-Saharan Africa recorded modest growth of 5.1%.

Despite the global economic downturn, world trade remains relatively high growing at 5.8% (Figure 1.2). However, the data shows that much of the growth in world trade was propelled by emerging economies such as China, India, Brazil and Sub-Saharan Africa.

Comparatively, growth in both imports and exports in emerging economies were higher (8.3% and 6.7% respectively) than the advanced economies (4.3% and 5.3% respectively). The slower growth in trade in advanced economies is explained largely by the impact of the euro-zone crises and the financial crises which has resulted in falling aggregate consumption.

Figure 1.1: Trends in Economic Growth

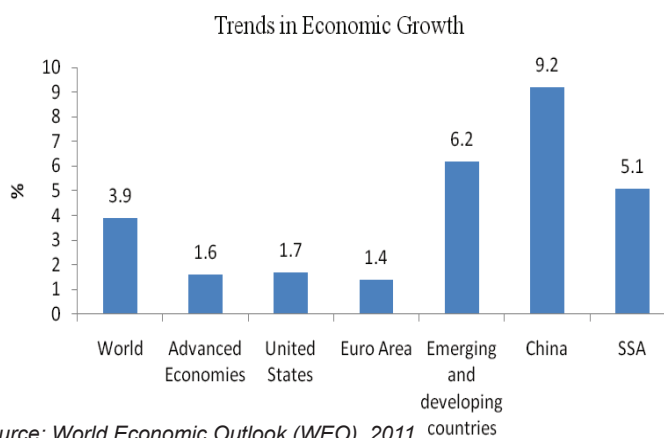
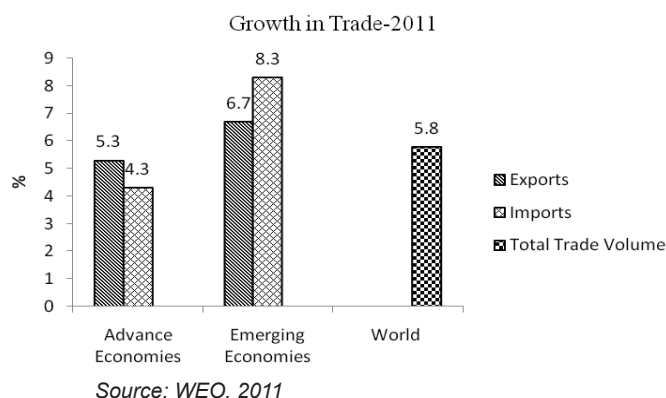


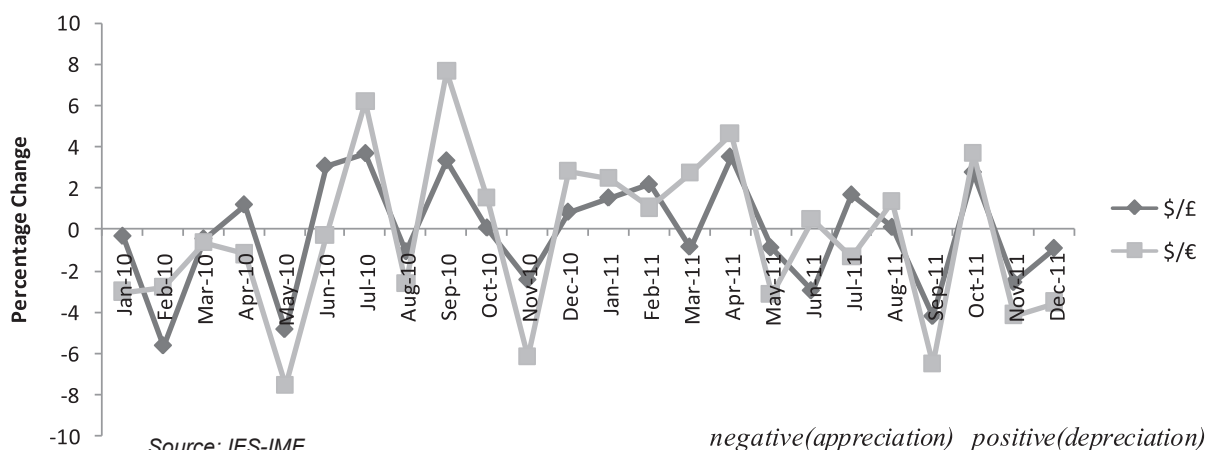
Figure 1.2: Growth in Trade



1.2 Trends in financial markets and exchange rates

The US Dollar remained relatively unstable against two major currencies—the Pound Sterling and the Euro—between 2010 and 2011 (Figure 1.3). Comparatively, the Dollar was much more stable against the Pound Sterling than the Euro. The US Dollar however, fared better in 2011 than in 2010, recording the highest depreciation (7.6% in September 2010) against the Euro over the two year period.

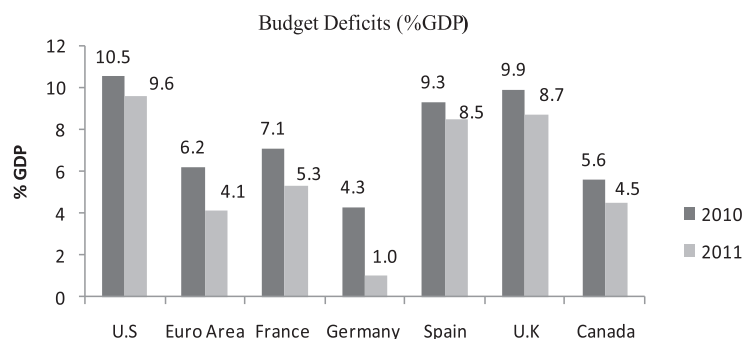
Figure 1.3: Trends in Foreign Exchange Markets



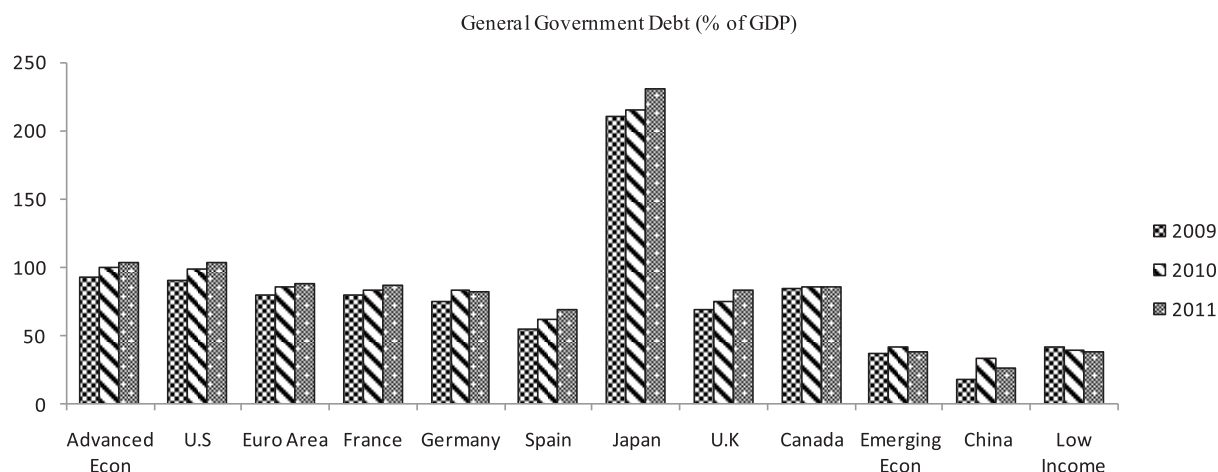
1.3 Fiscal Picture of Major Western Economies

Following the recession in the major economies of the West, the fiscal stance of most governments worsened. However, 2011 appeared to have been a favorable year for most of these economies with modest improvements in public finances (Figure 1.4). The United States reduced its budget deficits by 0.9% from 10.5% of GDP in 2010 to 9.6% of GDP in 2011. Despite its current social and economic challenges, the Euro area also reduced its budget deficit to 4.1% of GDP from 6.2% of GDP. The best performer was Germany which reduced its deficit by 3.3% of GDP to a low 1% of GDP. However, economies such as Spain and the U.K are still saddled with high deficits of 8.5% and 8.7% of GDP. The fall in fiscal deficits among the key western economies has been as a result of tightening fiscal spending which is expected to continue in 2012.

Figure 1.4: Budget Deficits as percent of GDP



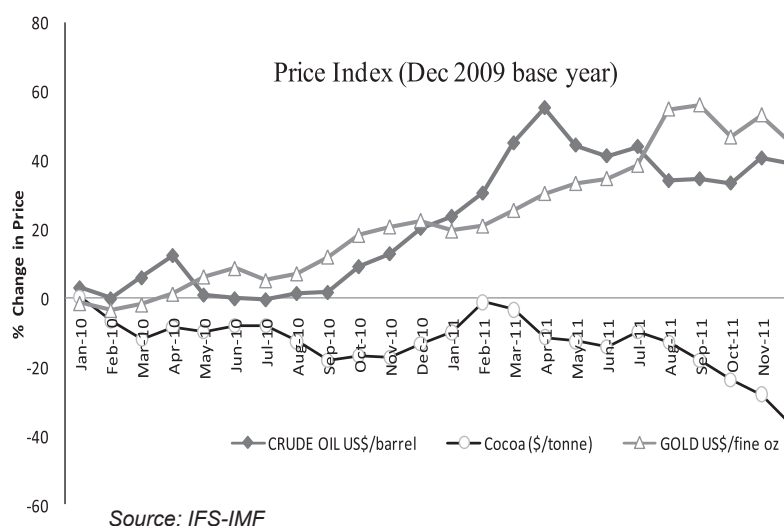
Debt ratios (Figure 1.5) across the major economies of the world remain high and rising. Between 2009 and 2011, general government debt as a percentage of GDP in the advanced economies increased from 93% to 103% respectively whilst decreasing in low income economies from 41% to 38% over the same period. Japan had the highest debt ratio of 229% of GDP in 2011. The debt situation in the United States continues to worsen, exceeding 100% of GDP in 2011. China on the other hand, has the lowest Debt-GDP ratio of 25.8% in 2011.

Figure 1.5 Government Debt as Percent of GDP

Source: IMF-Fiscal Outlook, 2012

While the OECD Secretary-General Angel Gurría encouraged donors not to give in to their fiscal pressures and to stand by their aid commitments, the OECD Development Assistance News of April 2012 reported that aid to developing countries fell in 2011 by 2.7% in real terms. Falling aid, lower investment flows to developing countries and lower exports due to lower demand in several developed economies is a source of concern.

1.4 Trends in major commodity prices – minerals, oil, cocoa, and major non-traditional exports

Figure 1.6: Indexes of Gold, Crude Oil and Cocoa Prices

Source: IFS-IMF

Prices of cocoa on the international market declined sharply to US\$ 2200.61 per tonne by the end of 2011 after peaking at US\$ 3522.10 per tonne in December 2009. The price index shows that cocoa prices declined by 37% between 2009 and 2010.

Dwindling confidence in the global financial markets have resulted in renewed interest in the demand for precious metals such as gold, diamonds, etc. Unlike cocoa, the price of gold has performed creditably, rising by 44% between December 2009 and December 2011.

Again, the slowdown of economic activities in the advanced economies especially in the Euro zone did not have a significant impact on demand for crude oil, for the simple reason that the downturn was offset by economic boom in emerging economies mainly, China. As a result, crude oil prices remained fairly high averaging \$111.5 per barrel. There was, however, an unforeseen oil

price spike in April 2011 of \$123.13 per barrel due to fears of supply disruptions stemming from social and political unrest in the Middle East and North Africa¹.

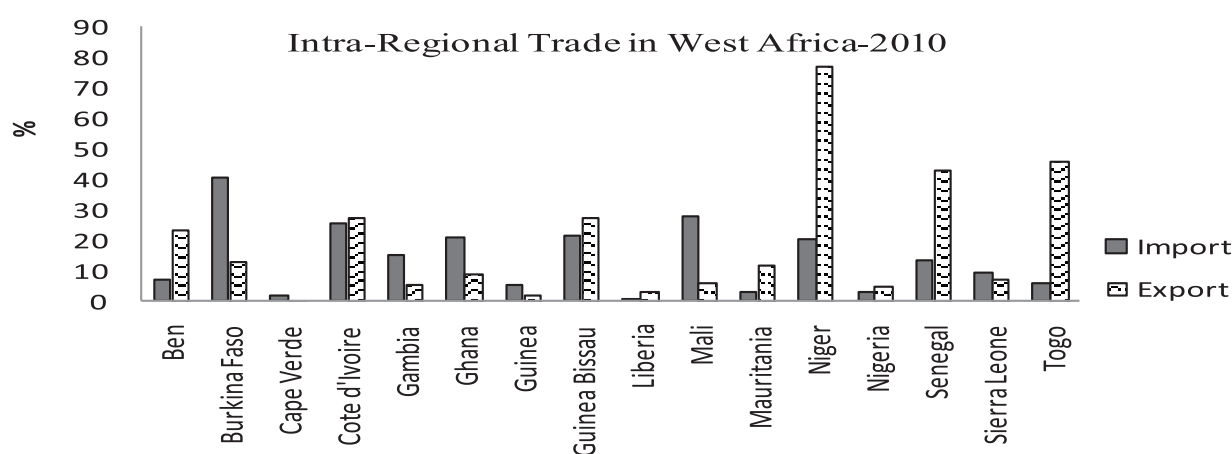
1.5 The world economy and China, Europe and North America

In response to the slump in growth in the major economies of the world, namely the United States, the European Union and China, growth in the world economy also fell between 2010 and 2011. The slow growth in Europe and the United States has been attributed to the slow recovery of these economies from the 2008/09 economic recession. Despite the recession, the Chinese economy has remained robust recording high growth rates of 9.2% in 2011, propelled largely by its manufacturing sector and its burgeoning trade with Sub-Saharan Africa. In Europe, the euro-crisis [mainly in Greece and Spain] has plunged the union further into recession. In the United States, rising public debt (largely owned by China) is thwarting efforts of a recovery from the recession.

1.6 Developments in West Africa – Trade and Fiscal Balances

Development in the West African sub-region continues to be inundated with political and social unrest in many countries, mainly in Cote d'Ivoire, Guinea Bissau, Mali and recently, Nigeria. However, the performance of the economies in the sub-region was modest in 2011, registering

Figure 1.7: Intra-Regional Trade in West Africa



Source: Direction of Statistics - IMF

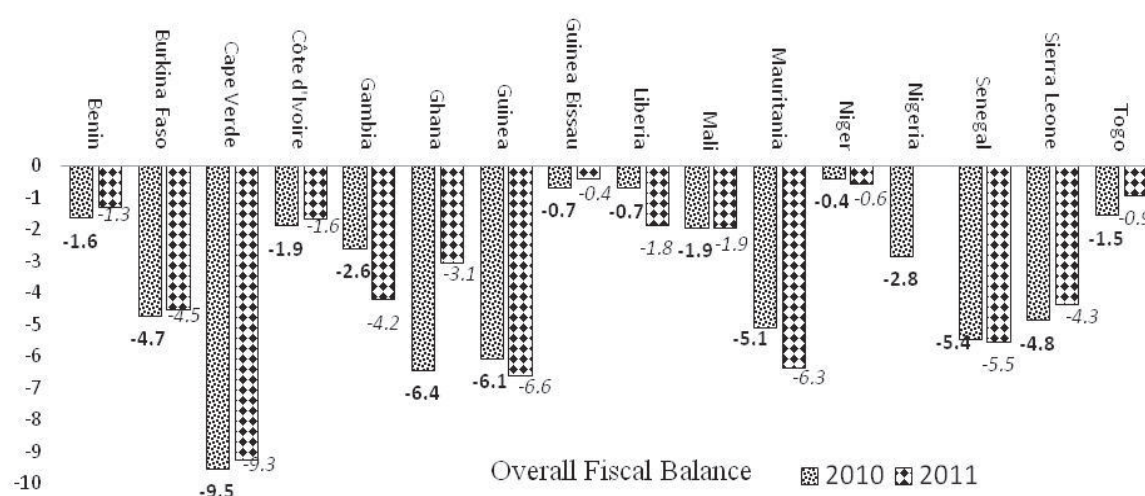
an average growth rate of 6.2% (AEO, 2012). The discovery of the massive crude oil deposits along the West African coast—Gulf of Guinea—continues following the announcement of some discoveries in commercial quantities off the coast of Liberia and Sierra Leone.

These discoveries are expected to significantly increase foreign investment into the sub-region and propel economic growth and development.

¹ Special Report: 2011 World Economy in Review. Euromonitor International

Trade within the West African sub-region remains a key developmental challenge, despite several efforts by ECOWAS to stimulate and sustain trade within the sub-region. Efforts aimed at boosting regional integration via trade have been beset with a myriad of trade barriers such as excessive control and checks at various ports and the threat of the inundation of the sub-regional market with Chinese imports. Overall, Niger tops the chart of countries with an impressive sub-regional trade record. In 2010, Niger's trade within West Africa stood at 20% and 77% of imports and exports respectively. Togo, Senegal, Burkina Faso and Cote d'Ivoire made progress in their engagement in trade in the sub-region. It must be emphasized that Nigeria's, -the largest economy the West Africa—trade in West Africa is very marginal. In 2010, Nigeria's import and exports in the sub-region represented 2.7% and 5% of its total trade volumes. Much of this export has largely been crude oil.

Figure 1.8: Overall Fiscal Balances: West Africa



Source: WEO, 2011

For the most part, the fiscal balances of governments in the sub-region improved marginally in 2011 over 2010. The average deficit fell from 3.5% to 3.3% of GDP. The best performer in this regard was Ghana with deficit falling from 6.4% to 3.1% of GDP. Fiscal deficit remains high for Burkina Faso, Cape Verde, Guinea, Mauritania, Senegal and Sierra Leone.

1.7 Implications for Ghana

Developments in the world economy, especially in the advanced economies, have varied implications for the Ghanaian economy in 2012. The following are notable expected impacts on the economy.

- **Reduction in Aid:** Given the high and unfavorable fiscal stance of most western economies and the increasing need for tightening their fiscal stance, it is expected that aid will continue to fall.
- **Export revenue from cocoa, gold and oil exports and Non-traditional-Exports (NTE):** Given the slow growth of the major economies in Europe and North America, it is expected that aggregate demand will continue to be low and imports are not expected to recover quickly in the short term. For Ghana, this means that the prospects of the growth of exports into traditional markets may be low and prices of cocoa and non-traditional exports are not expected to show any appreciable rise in the near term. Nonetheless, growth in some emerging economies especially the BRICS (notably China) has been robust and given the increasing interest

of China in African trade, it is expected that exports of especially raw materials such as cocoa and minerals may rise slowly.

- Reduction in remittances: Developments in the Euro Zone and other western economies will obviously affect remittances to most developing economies including Ghana. Over the years, remittances have become a key developmental tool in most developing and lower-middle income economies, but rising unemployment and budget cuts in western economies (host countries) have reduced significantly remittance flows to the former.

CHAPTER 2:

AN ANALYSIS OF THE REAL SECTOR

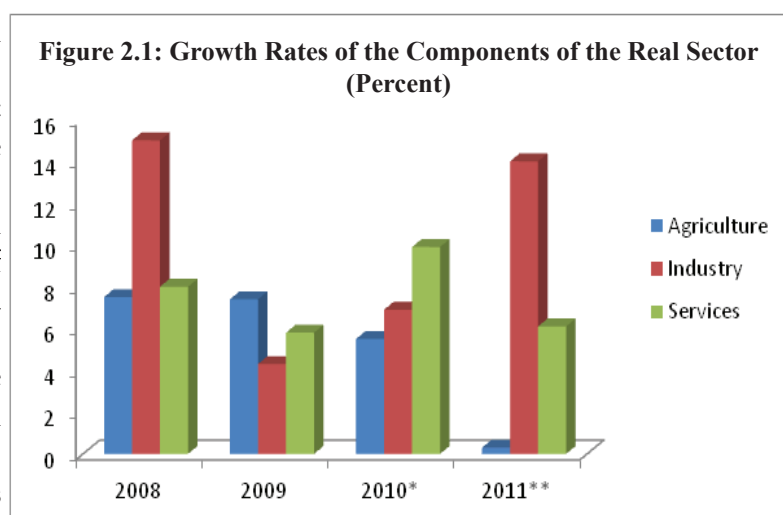
2.1 Agricultural Sector

Agriculture still dominates much of the country's economic life. It remains the largest employer, and contributes about 36% to national output (or GDP). Agriculture remains largely rain-fed with limited mechanized farming. While cocoa remains the dominant exportable cash crop, non-traditional products like cola, pineapple, mango and shea-butter have increasingly gained some recognition as export products. According to the Ghana Statistical Service (GSS), agriculture has at the turn of the millennium ceded its position as the largest contributor to the real sector of the economy to the service sector.

Despite its historical dominance of the economy, the agricultural sector faces several known challenges, including poor road networks and access to markets in much of the major food growing areas, particularly in the Western, Ashanti and Brong Ahafo Regions; the overall lack of storage and freezing facilities for farm produce; ageing farming population; relatively low levels of education of farmers and related low managerial capability; lack of capital and lack of access to credit; high interest rates even when financing is available; inability to service foreign markets because of quality restrictions in those foreign markets; competition from cheaper imported agricultural products; limited and inconsistent power supply and a lack of access to supporting extension services. These problems remain despite governments' pledges to expand and improve the agricultural sector.

Growth Rates and Trends in Agriculture

Recent data shows that the agricultural and industrial growth rates have fallen significantly despite the government's pro-agric policy stance. Prior to 2010, the agricultural sector was the largest contributor to GDP, with an average contribution to GDP of 36% (GSS). This was followed by the service sector which contributed roughly 29.4%, and the manufacturing sector which contributed about 25.2%. Recently the service sector has emerged as the largest contributor to GDP and continues to grow more robustly than the agricultural sector (Figure 2.1). Agriculture grew by 4.8% in 2010 but fell below 2.8% in 2011 against a target growth rate of 5.6%. Historically the performance of the agricultural sector has been mixed: fluctuating between 1994 and 2007.



Source: Ghana Statistical Service (2012).

Box 1: Agricultural Policy in the Short and Medium Term

The ruling National Democratic Congress (NDC) has stated that a key agricultural policy is to transform the sector into a vibrant and modern one. The Medium Term Growth Strategy seeks to position the country for sustained growth through the modernization of agriculture. The governments' short-term agricultural policy was captured in the 2011 budget statement as follows: Government will:

- *continue to import subsidized fertilizers to enable farmers improve upon their yields;*
- *intensify the promotion of crops, such as mango, pineapples, cashew, shea-nuts and soya beans through large-scale commercial farming;*
- *promote large scale public-private commercial farming;*
- *provide agricultural machinery and equipment and enhance their distribution;*
- *provide resources to rehabilitate irrigation schemes;*
- *support the standardization and improvement in the quality of seeds;*
- *support fish production by constructing fishing landing sites and cold stores in the main fishing towns along the coast, in addition to supplying high-powered outboard motors to fishermen*
- *levy duties to cut down imports of poultry and fish into the country and to support local production*

A downward trend has persisted since 2008, falling from about 7% in 2008 to as low as about 1% in 2011 (Figure 2.2). This condition requires serious attention given the recent discovery of oil. Experts caution how easy it is for new oil rich countries to abandon their agricultural sectors as dependence on oil revenues increase. Ghana will do well to avoid losing its agricultural sector to this resource curse phenomenon.

Figure 2.2: Agricultural Sector Growth Rate (Percent)



Source: Ghana Statistical Service (2012).

Components of the Agriculture Sector: 2005 -2011

The Agricultural sector comprises mainly crop production, fishing/fisheries, livestock production, forestry and cocoa production. The trends in the components are presented below.

Crop Production

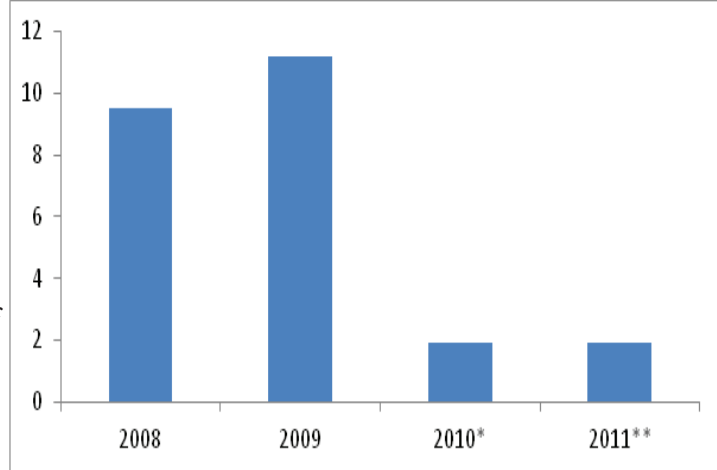
Crop production improved markedly in 2008/09 growing at roughly 9.5% annually, but dropped

off sharply from 10.5% in 2009 to about 2% in 2010 and 2011 (Figure 2.3). The absence of any prolonged dry weather in recent years makes this declining trend in crop production alarming. The crop sector is dominated by major tree crops such as shea and palm which are supposed to remain productive for years. Declining growth means ageing farms and declining replacement of farms or dwindling interest in the cultivation of tree crops in general.

Cocoa Production

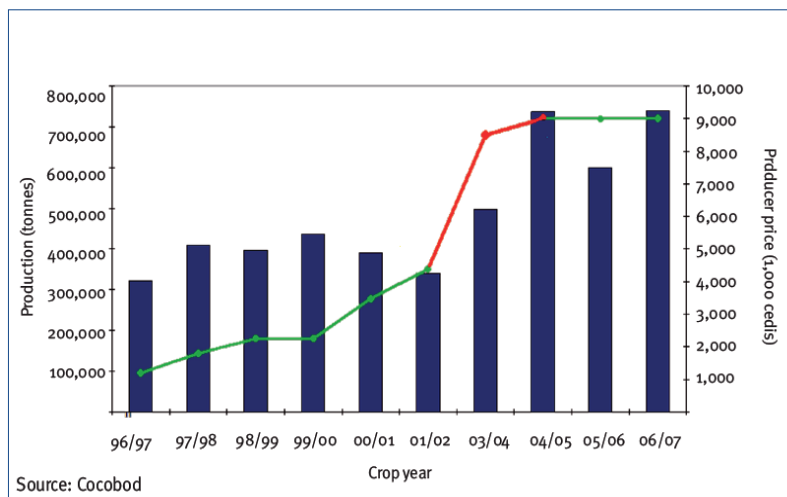
As the largest contributor to, and the driver of the agricultural sector, cocoa is essential to Ghana's economy. Cocoa production and exports grew strongly in the 2008-2010 period largely on account of strong world prices, absence of competition from warring neighboring Ivory Coast and a laudable government policy to pay close to 70% of the FOB price to farmers. Cocoa production finally hit 1 million tons in 2011 ahead of the 2012 schedule with a robust growth rate of 14% (Budget Statement, 2011).

Figure 2.3: Growth Rate of Crop Production (Percent)



Source: Ghana Statistical Service (2012)

Figure 2.4: Cocoa Production and Real Producer Prices

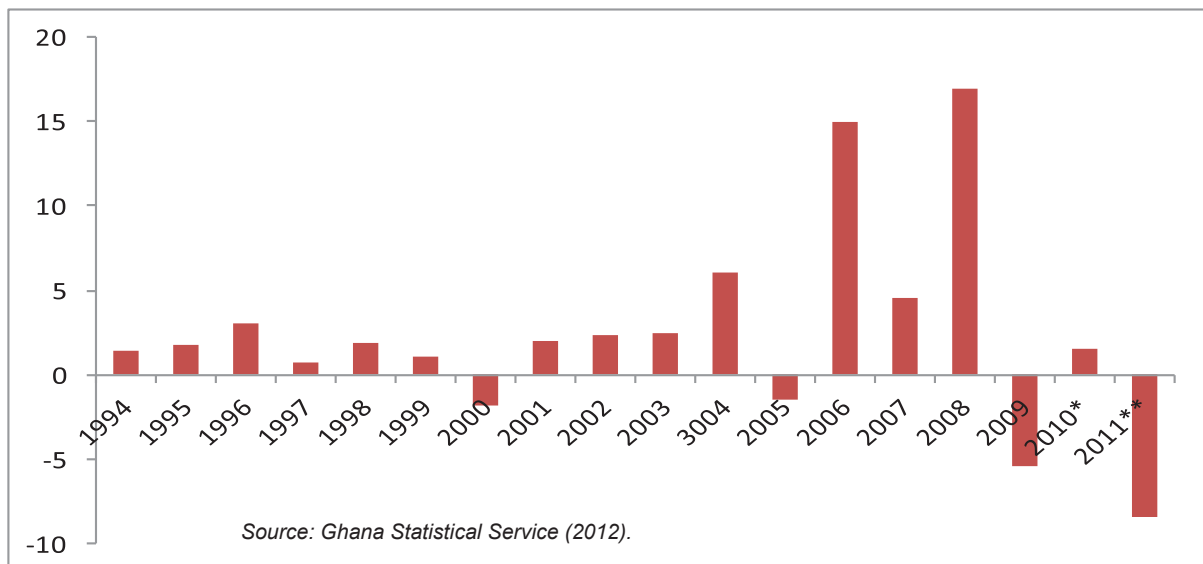


Source: Cocobod

Source: Vigneri (2007)

Despite the encouraging performance of cocoa, there are some significant risks in the sector as processing of cocoa is still not a significant portion of output. This is important because COCO-

Figure 2.5: GDP Growth Rate of the Fisheries Sector (Percent)



Source: Ghana Statistical Service (2012).

BOD has declared that its policy is to move from production for export to production for processing. Processed cocoa attracts a higher margin of the profit in the cocoa value chain. Further the high-value manufacturing job opportunities created through the establishment of processing plants will augment the purchasing power of citizens and generate multiplier effects that will ripple through the economy.

Fisheries/ Fishing

The growth of fishing has generally been low, ranging between 0 and 4% from 1994 to 2003. In 2004, this situation improved and fishing grew to about 6.1%. In 2005, there was negative growth. However, the situation improved again in 2006 when fishing peaked to about 15%. Growth declined to about 5% in 2007 and later peaked again to about 17% in 2008. However, since then, the industry has been declining sharply, increasing slightly to a positive figure in 2010, and then declining again to a negative figure in 2011 (Figure 2.5 above). The growth (and implied productivity) of the fisheries sector is not encouraging, and needs serious attention. In particular the issue of high cost of pre-mix fuel for outboard motors needs to be addressed. Government can also facilitate the acquisition of outboard motors through small scale loans to fishermen. Government has put in place subsidies to help in the purchase of pre-mix fuel but more has to be done. There are also opportunities for farming fish species such as tilapia but the huge start-up capital required constrains many potential fish-farmers. Again government can help with a loan scheme for fish farmers to acquire training and purchase equipment to start their farms.

Forestry

Forestry seems to be on the rebound (Figure 2.6). The sector's growth improved slightly from -4% to about -3% in 2008, improved further to a positive figure of about 0.5% in 2009, and then rose sharply to about 10% in 2010.

Figure 2.7: Growth Rate of the Forestry Sector (Percent)

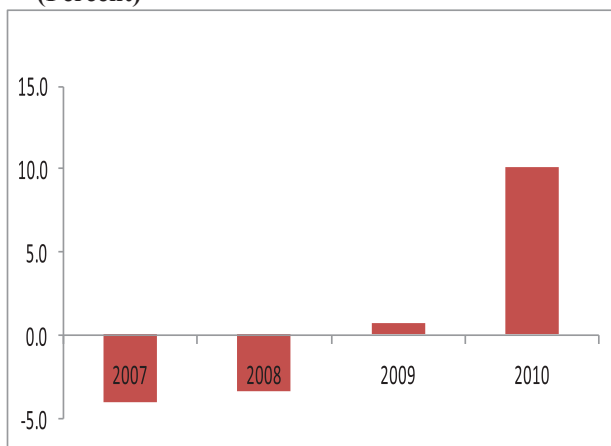
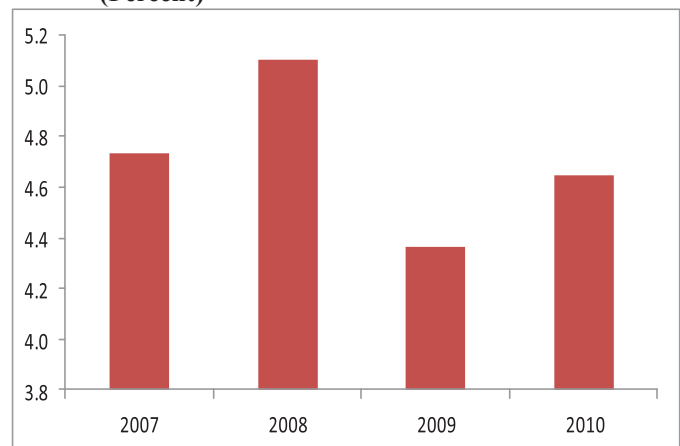


Figure 2.6: Growth Rate of the Livestock Sector (Percent)



Source: Ghana Statistical Service (2012)

Livestock

Livestock growth is also doing quite well (Figure 2.7). Livestock production increased from about 4.7% in 2007 to about 5.1% in 2008, declined to about 4.35% again in 2009 but recovered again to about 4.65% in 2010.

2.2 Food Production and What it Means for Inflation and Poverty Incidence

From Figure 2.3 it is clear that food crop production growth (excluding cocoa) has stagnated at 2% since 2010. In comparison, growth in the fisheries sector has disappeared (Figure 2.5) in the past few years while the livestock sector has re-bounded slightly (Figure 2.7). With the population expected to grow due to in-migration from less stable African countries and a healthy domestic population growth rate, the slowdown in the growth of food production is ominous in a Malthusian sense. In other words, there is a risk that population growth rate will exceed the capacity of the economy to provide adequate food to feed all the hungry mouths.

While some agricultural land is coming under pressure from illegal mining, factors such as rural-urban migration; a seeming shift in preference away from farming to small-scale commercial activities among rural dwellers; oil-related activities and low prices of food crops in the rural areas compared to the urban areas are eating away at the stock of labor and capital dedicated to farming. This of course, undermines Ghana's attempt to achieve food security and may heighten food inflation worries as supplies dwindle. Food inflation is especially harmful to the poor who experience deterioration in health and quality of life. During severe food inflation, the poor suffer a higher rate of malnutrition, undernourishment and stunting. On the positive side competition from cheap food imports is putting downward pressure on food prices and ameliorating the food inflation risk, but the quality of these cheap import alternatives often leaves much to be desired.

2.3 Dutch Disease: Risks and Challenges for the Agricultural Sector

Experts have explained that when a country discovers a natural resource like oil, the new wealth can cause its currency to appreciate. The currency appreciation can negatively affect the country's exports because its exports are now relatively more expensive. In addition, as the country's production focus shifts from agriculture to oil, the agricultural sector declines as labor migrates out in the hope of finding oil-related jobs. Land formerly used for agriculture may also be sold to oil-sector related investors or workers. Experience elsewhere suggest that this phenomenon can pose a real risk to agriculture in a newly oil rich country like Ghana.

At the moment, however, because of Ghana's import bill, the Cedi has not appreciated against major currencies. It has in fact lost almost 30% of its value during the first half of 2012. There is, however, evidence of loss of agricultural land to oil-related activities in the Western and Central Regions. In fact it could be argued that agricultural land is under attack from three main fronts: (a) from the activities of illegal indigenes and Chinese miners in the food growing Ashanti, Brong-Ahafo Eastern and Western Regions; (ii) from the threat of oil-related activities in the Western and Central Regions and (iii) across the country from currency depreciation effects.

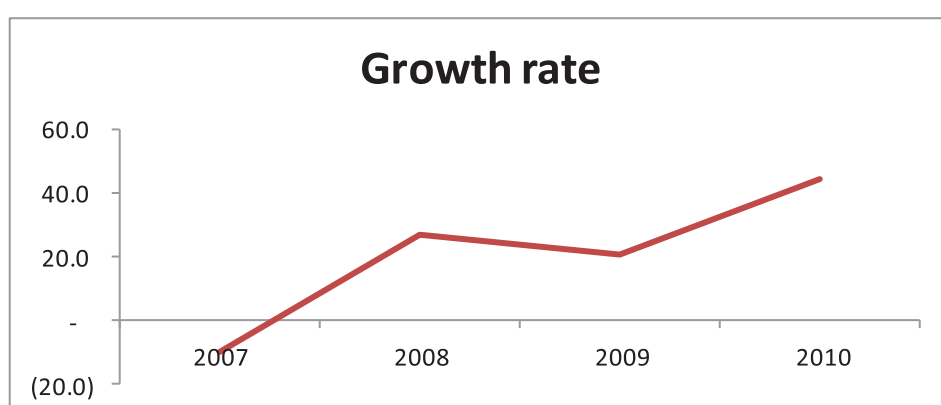
It is imperative that government policies be used to prop up the agricultural sector. Given the need to speed up growth in the agricultural sector, helpful policies could come in several forms. For example in the form of subsidies for agriculture, the development of an effective extension service, the provision of storage facilities (for example, grain elevators) for surplus produce, the rehabilitation of roads and the encouragement of agricultural processing in the farming regions.

2.4 Industrial Sector

Trends in the Industrial Sector

Although it pays relatively high wages, the industrial sector is historically the smallest contributor to Ghana's overall GDP (Ghana Statistical service, 2012). Yet this sector performed relatively better than the agricultural sector from 2008 to 2011. We see from Figure 2.1 above, that while the agricultural sector declined from 2008 to 2011, the industrial sector actually rebounded between 2008 and 2011. The sector performed better than the agricultural sector. Figure 2.8 below, shows the industrial sector's growth rate from 2007 to 2010 and clearly suggests a positive recent performance of the sector.

Figure 2.8: Industrial Sector GDP Growth Rate



Source: Ghana Statistical Service (2012)

Components of the Industrial Sector

Table 2.1: Sectorial Make-Up of Industrial Sector (2007-2012 Average)

Sub-sector	%
Mining and Quarrying	43.2
Electricity	27.3
Water and Sewage	18.6
Manufacturing	10.9

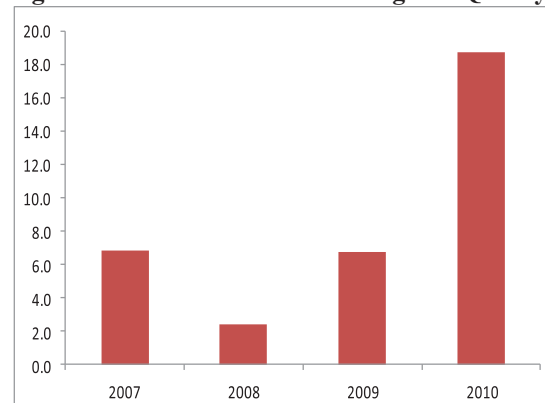
Source: Ghana Statistical Service (2012)

The industrial sector comprises Mining and Quarrying, Manufacturing, Water & Sewage and Electricity. The shares of the various components as a proportion of the industrial sector are listed in Table 2.1 above in descending order.

Mining and Quarrying

Mining and Quarrying and Electricity are the two dominant components of the industrial sector and they seem to be both growing robustly, masking the relatively weaker performance of the manufacturing sector. Mining and Quarrying which dominate the industrial sector seems to be doing quite well. Its growth rate moved from about 6% to about 2% in 2008 and has since seen an upward trend from 2009 to 2010 becoming the growth driver in the industrial sector.

Figure 2.9: Growth Rate of Mining and Quarrying

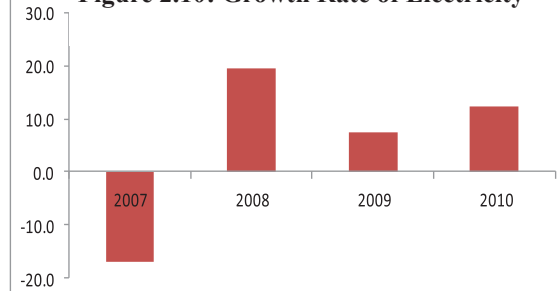


Source: Ghana Statistical Service (2012)

Electricity

Electricity, the second largest contributor to the industrial sector has seen some improvements. From a negative growth in 2007, electricity rose sharply in 2008, fell again in 2009 and rose again in 2010. Generally, it appears that the growth of electricity is quite encouraging.

Figure 2.10: Growth Rate of Electricity

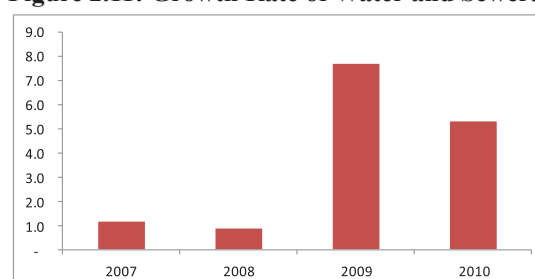


Source: Ghana Statistical Service (2012)

Water and Sewage

Water and Sewage has also seen some convincing improvement. From a growth rate of about 1.1 in 2007, it fell slightly to about 0.9 in 2008 and rose to about 7.5% after which it fell to about 5.2 in 2010. Generally, water and sewage has not been doing badly.

Figure 2.11: Growth Rate of Water and Sewerage

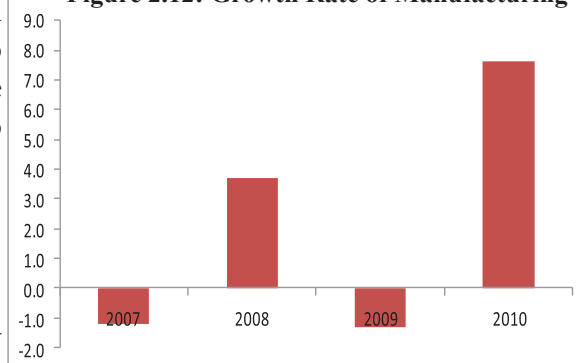


Source: Ghana Statistical Service (2012)

Manufacturing

Manufacturing has not performed well historically, although it has seen some recent improvements (Figure 2.12). In 2007, the growth rate was -1.0%, but it improved to 4.0% in 2008. It fell again in 2009 to -1.0% and rose again in 2010 to 8.0%. With serious bottlenecks to manufacturing such as lack of sustainable power, good roads and no effective rail and barge system, the performance of the manufacturing sector is especially hard to predict.

Figure 2.12: Growth Rate of Manufacturing



Source: Ghana Statistical Service (2012)

2.5 Service Sector

Historically the service sector has been the second highest contributor to Ghana's overall GDP but in 2010 the service sector overtook the agricultural sector as the dominant sector in Ghana's real sector (Ghana Statistical Service1, 2012). This sector has been relatively stable compared to both the agricultural and industrial sectors from 2008 to 2011.

Components of the Service Sector

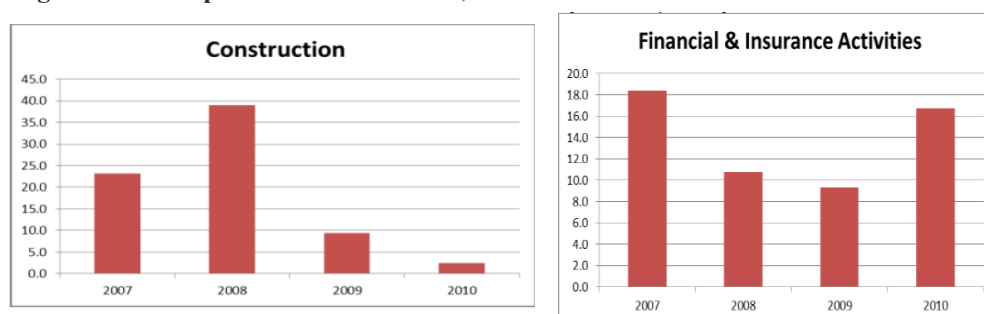
The service sector comprises the Construction, Financial and Insurance Activities, Information & Communication, Education, Public Administration, Health, Trade, Repair of vehicles, Household goods, Transport and Storage and Hotels and Restaurants sectors. The contribution of the various components of the service sector is shown in descending order in Table 2.2.

Table 2.2: Contributions of Different Components of the Service Sector

Construction	17.4
Financial & Insurance activities	12.9
Information & Communication	12.2
Education	9.5
Public administration	9.2
Health	8.1
Trade, repair of vehicles, household goods	7.9
Transport and storage	5.9
Hotels and restaurants	2.4

Source: Ghana Statistical Service (2012)

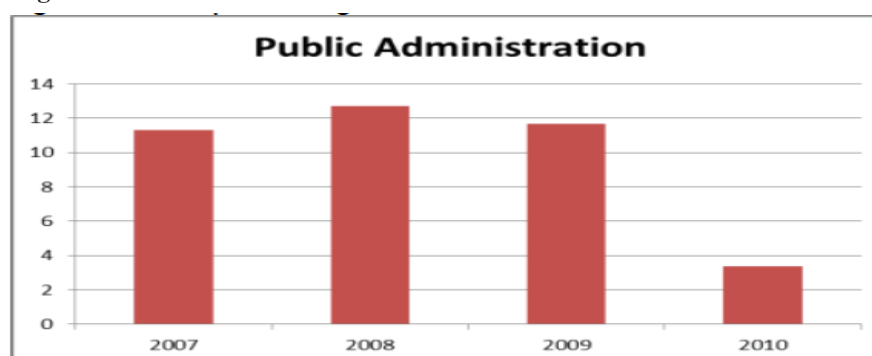
Figure 2.13: Graph of the Construction, Finance & Insurance Sub-Sectors



Source: Ghana Statistical Service (2012)

Growth of construction rose to a peak from 2007 to 2008, and has since seen a decline. Financial and Insurance activities seem to be the growth drivers of the service sector. With a sector share of 12.9% (second only to construction) and a 2010 growth rate of more than 17%, it is the main reason the service sector is performing well. Growth of the sector fell from 2007 to 2009 and rose quite highly in 2010.

Figure 2.14: Growth Rate of Public Administration



Source: Ghana Statistical Service (2012)

Public Administration performed well from 2007 to 2009 but seems not to have done that well in 2010, since its growth fell drastically that year. Education and Health which are the two remaining significant components of the service sector seem to have switched roles. While the education sector performed well in the mid 2000s and has now slowed down, the opposite is true of the Health sector. In summary the Finance and Health sub-sectors of the service industry appear to be the growth drivers with Hotel and Restaurants experiencing the least growth.

CHAPTER 3:

FISCAL DEVELOPMENTS

This section of the review discusses fiscal developments in 2011, covering fiscal policy and developments in revenue, expenditure, the fiscal balance and its financing, and public debt. The following were the key fiscal developments:

- Fiscal policy aimed to consolidate fiscal sustainability and macroeconomic stability.
- Domestic revenue increased by 51% to 20.5% of GDP, of which tax revenue was 17.2% and on-tax revenue 3.2%.
- Expenditure increased by 16.0% over 2010 to 23.6% of GDP. This was dominated by the recurrent component, which was 17.1% of GDP, while the capital component was 6.5% of GDP.
- The (cash) budget deficit was 4.4% of GDP and it was financed largely from domestic resources.
- The total public debt increased by 34.2% to 39.9% of GDP, with the domestic and external components constituting 20.0 and 19.9% respectively.

Box 2: Fiscal Policy

The 2011 budget stated that fiscal policy was aimed at continuing the progress made in restoring fiscal sustainability and macroeconomic stability. The budget therefore targeted a further reduction in the deficit from 7.4% of GDP in 2010 to 4.3% in 2011. Tax collections were to be stepped up, including through reduction in the scope of import tax exemptions and strengthened tax administration. The Government's medium-term development strategy, the Ghana Shared Growth and Development Agenda (GSGDA), 2010-13, provided further insight into the thrust of fiscal policy. Key actions planned to achieve the objectives of fiscal policy included:

- Introducing programs to strengthen revenue agencies;
- Ensuring prudent management of oil and gas revenue for the benefit of all;
- Managing the public sector wage bill in such a way that it does not become a burden on the economy;
- Monitoring state-owned industries to ensure that their activities do not become a burden on government.

3.1. Government Revenue

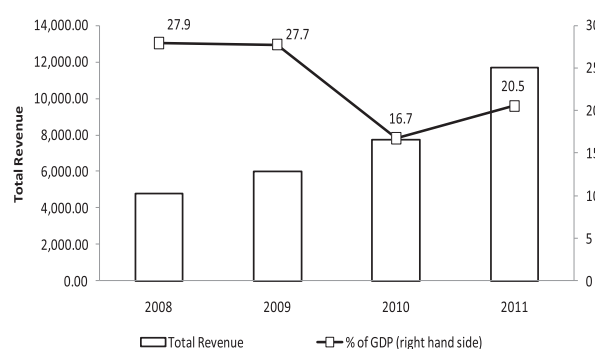
In 2011, total domestic revenue, which includes tax and non-tax revenue, amounted to GH¢11,676.6 million (or 20.5% of GDP) (Table 3.1). This was GH¢3,946.0 million (or 51%) higher than GH¢7,730.6 million (16.7% of GDP) recorded for the previous year. The figure for 2011 also exceeded the budget amount by 10%.

Table 3.1: Government Domestic Revenue (GH¢m)

Indicator	2008	2009	2010	2011 Outturn	2011 Rev. Budget	Absolute change 2010/2011
REVENUES						
Total Revenue	4,802.4	5,998.2	7,730.6	11,676.6	10,620.9	3,946.0
(% of GDP)	27.9	27.7	16.7	20.5		

Source: 2009 & 2011 Budget, Bank of Ghana Statistical Bulletin

The tax component of domestic revenue amounted to GH¢9,776.1 million in 2011. This was 55.3% higher than the 2010 budget out-turn and also 14.6% higher than the budget estimates (Table 3.1). As a ratio of GDP, tax revenue was 17.2% in 2011. Following the rebasing of GDP in 2010, tax revenue fell from 22.2% in 2009 to as low as 13.6% of the enlarged GDP before rising to 17.2% in 2011 (Table 3.3). The rebasing has revealed Ghana's low tax effort, which, in large measure, is the result of the narrow tax base in the face of a large untaxed informal sector. The high rate of tax evasion, weak enforcement and the high level of exemptions are also factors contributing to the low tax effort.

Figure 3.1: Government Domestic Revenue (GH¢m)**Table 3.2: Tax Revenue (GH¢m)**

Indicator	2008 Prov. Outturn	2009 Prov. Outturn	2010 Prov. Outturn	2011 Prov. Outturn	2011 Rev. Budget	Absolute change 2010/2011
Tax Revenue	4,368.5	4,803.7	6,294.7	9,776.1	8,527.1	3,481.4
Direct Tax	1,253.2	1,716.9	2,454.0	4,036.6	3,935.4	1,582.6
Income	594.9	846.3	1,114.8	1,493.3	1,510.7	378.5
Personal	526.5	773.5	1,014.6	1,360.9	1,364.9	346.3
Self employed	68.4	72.8	100.2	132.4	145.8	32.2
Companies	539.1	661.9	987.7	1,568.0	1,178.9	580.3
Others	119.2	208.8	351.5	975.3	642.0	623.8
Other direct taxes	107.2	156.6	222.3	794.8	504.1	572.5
Airport tax	11.2	22.0	36.7	49.1	40.5	12.4
Indirect Tax	1,532.9	1,598.6	1,992.7	2,982.3	2,500.9	989.6
Value Added Tax	1,088.0	1,268.4	1,618.3	2,376.1	2,028.2	757.8
Domestic	417.2	472.5	648.6	987.4	870.4	338.8
External	670.8	795.9	969.7	1,388.6	1,157.8	418.9
Taxes on Domestic Goods	444.9	330.2	374.4	606.2	472.7	231.8
Excise Duty	58.7	51.5	117.9	167.7	142.7	49.8
Petroleum tax	386.2	278.7	256.5	438.5	330.0	182.0
o/w Debt recovery levy	81.2	80.2	35.6	31.9	0.0	-3.7
Taxes On International Trade	716.4	762.7	1,146.1	1,516.0	1,411.3	369.9
Imports (Import duty)	679.4	745.9	1,051.5	1,511.0	1,349.1	459.5
Exports (Cocoa)	40.0	16.8	94.7	5.0	62.2	-89.7
National Health Insurance Levy	318.3	319.0	388.0	550.2	495.4	162.2
Other Revenue Measures	69.0	88.0	137.3	135.0	158.6	-2.3

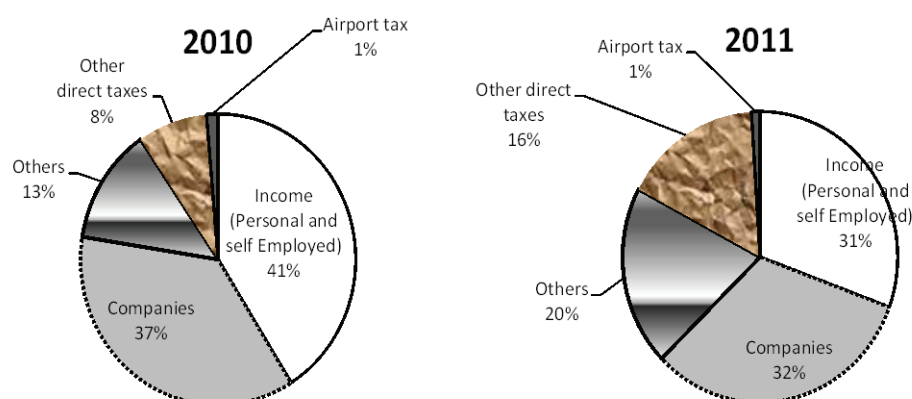
Source: 2009 & 2011 Budget, Bank of Ghana Statistical Bulletin

Table 3.3: Tax Revenue as Percent of GDP

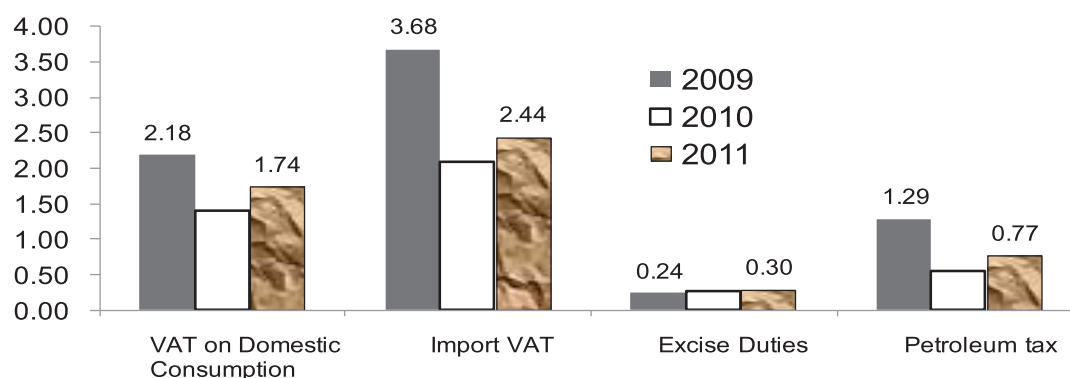
Indicator	2009 (% of GDP)	2010 (% of GDP)	2011 (% of GDP)
Tax Revenue	22.2	13.6	17.2
Direct Tax	7.9	5.3	7.1
Income	3.9	2.4	2.6
Personal	3.6	2.2	2.4
Self employed	0.3	0.2	0.2
Companies	3.1	2.1	2.8
Others	1.0	0.8	1.7
Other direct taxes	0.7	0.5	1.4
Airport tax	0.1	0.1	0.1
Indirect Tax	7.4	4.3	5.2
Value Added Tax	5.9	3.5	4.2
Domestic	2.2	1.4	1.7
External	3.7	2.1	2.4
Taxes on Domestic Goods	1.5	0.8	1.1
Excise Duty	0.2	0.3	0.3
Petroleum tax	1.3	0.6	0.8
o/w Debt recovery levy	0.4	0.1	0.1
Taxes On International Trade	3.5	2.5	2.7
Imports (Import duty)	3.4	2.3	2.7
Exports (Cocoa)	0.1	0.2	0.0
National Health Insurance Levy	1.5	0.8	1.0
Other revenue measures	0.4	0.3	0.2
Nominal GDP	21,630.0	46,232.0	56,828.0

Source: 2009 & 2011 Budget, Bank of Ghana Statistical Bulletin

Figure 3.2: Direct Tax Revenues (2010 and 2011)



Of tax revenue collection in 2011, direct taxes amounted to GH¢4,036.6 million, compared to GH¢2,454.0 in 2010, showing an increase of GH¢1,582.6 (64.5%). Direct taxes contributed 41.3% of tax revenue in 2011 compared with 39.0% in 2010. As a ratio of GDP, direct tax collection increased from 5.3% in 2010 to 7.1% in 2011. Both income tax (2.6%) and company tax (2.8%) contributed to the increase as well as other, unidentified, direct taxes (Table 3.3 and Figure 3.2).

Figure 3.3: Indirect Tax Revenue (GH¢ m)

Indirect taxes, defined to include VAT and taxes on domestic goods, but excluding international trade taxes, amounted to GH¢2,982.3 million in 2011. This was 49.7% higher than the corresponding collection in 2010 (Table 3.2) and also exceeded the budget amount by 19.2%. Of the components, VAT showed the higher increase of GH¢757.8 million, while excise and petroleum tax increased by GH¢231.8 million. As a ratio of GDP, indirect taxes increased from 4.3% in 2010 to 5.2% in 2011 (Table 3.3). Thus, as defined, indirect tax-to-GDP- ratio (5.2%) was lower than direct tax-to-GDP ratio (7.1%).

In 2011, international trade taxes, comprising import and export duties, amounted to GH¢1,516.0 million. This was GH¢369.9 million (or 32.3%) higher than the figure in 2010 and also GH¢104.7 million (or 7.4%) higher than the budget amount (Table 3.2). The increase in 2011 was contributed entirely by import duty, which dominates indirect taxes, with export duties actually decreasing. As a ratio of GDP, international trade taxes amounted to only 2.7%. Import tax contributed the entire amount, with export tax, almost exclusively cocoa tax, being negligible in terms of GDP (Table 3.3).

In 2011, non-tax revenue amounted to GH¢1,822.0 million. This was GH¢595.9 million (or 48.6%) higher than the corresponding collection in 2010. It was, however, 1.3% lower than the budget amount (Table 3.4). As a ratio of GDP, non-tax revenue in 2011 was 3.2% compared with 2.7% in 2010. In terms of share of total tax revenue, non-tax revenue accounted for 15.6% in 2011, down from 15.9% in 2010.

Table 3.4: Non-Tax Revenue (GH¢ m)

Indicator	2008	2009	2010	2011	2011 Rev. Budget	Absolute change 2010/2011
Non-tax revenue	433.9	870.3	1,226.1	1,822.0	1,845.4	595.9
% of GDP	2.5	4.0	2.7	3.2		-
% of Total Revenue	9.0	14.5	15.9	15.6		-

Source: 2009 & 2011 Budget

In 2011, grants from multilateral and bilateral sources in support of the budget increased by GH¢94.8 million to GH¢1,175.0 million. This was, however, GH¢171.5 million lower than the budget amount (Table 2.5). Project grants remained the dominant source of budget support.

Both in terms of GDP and as a share of total revenue, grants seem to have been on the decline from 2009. With Ghana attaining middle-income status and also becoming an oil producer, it is expected that the country's access to concessional financing, particularly from the traditional multilateral and bilateral sources, will decline over time. This will have to be replaced by her internally-generated resources, supplemented by commercial borrowing as needed. Diversification of the sources of financing, including from the BRICS will also be helpful.

Table 3.5: Grants (GH¢ m)

Indicator	2008	2009	2010	2011	2011 Rev. Budget	Absolute change 2010/2011
Grants	820.8	1,101.2	1,080.2	1,175.0	1,346.5	94.8
% of GDP	4.8	5.1	2.3	2.1		-0.2
% of Revenue	17.1	18.4	14.0	10.1		
Project grants	398.0	543.9	591.4	688.1	811.2	96.7
Programme grants	257.2	398.9	288.3	244.4	291.1	-43.9
HIPC Assistance (multilaterals)	95.2	96.2	122.6	131.5	133.2	8.9
Multilateral Debt Relief Initiative (MDRI)	66.9	62.2	78.0	110.8	111	32.8

Source: 2009 & 2011 Budget, Bank of Ghana Statistical Bulletin

3.2 Government Expenditure

Table 3.6: Government Expenditure (GH¢ m)

Indicator	2008	2009	2010	2011	2011 Rev. Budget
Recurrent	5,259.6	5,631.8	8,045.8	9,705.0	9,222.5
% of Total Expenditure	65.7	67.5	69.8	72.5	
Non-Interest Expenditure	4,580.5	4,599.5	6,606.5	8,093.8	7,534.1
Personal emoluments	1,987.7	2,478.7	3,182.5	4,534.9	3,910.4
Goods & Services	647.9	621.2	961.8	723.9	836.4
Transfers	1,477.3	1,331.3	1,991.4	2,504.6	2,383.4
Interest Payments	679.2	1,032.3	1,439.4	1,611.2	1,688.4
Domestic	481.9	750.1	1,124.3	1,307.9	1,372.2
External	197.3	317.2	315	303.3	316.2
Capital Expenditure (total)	2,471.3	2,425.7	3,168.6	3,675.0	4,311.5
Domestic financed	1,564.8	991.5	1,136.0	1,962.8	2,078.7
Foreign financed	906.5	1,440.8	2,032.7	1,712.2	2,232.8
Total Expenditure	8,009.8	8,345.5	11,532.2	13,380.0	13,534.0

Source: 2009 & 2011 Budget, Bank of Ghana Statistical Bulletin

In 2011, total government expenditure was GH¢13,380.0 million or 23.6% of GDP. This was 16.0% higher than the figure for 2010 but 1.1% below the budget amount (Table 3.6). Both recurrent expenditure and capital expenditure increased in the year in absolute terms, the former more so than the latter. As a result, the relative share of recurrent expenditure has continued to increase from 65.7% in 2008 to 72.5% in 2011.

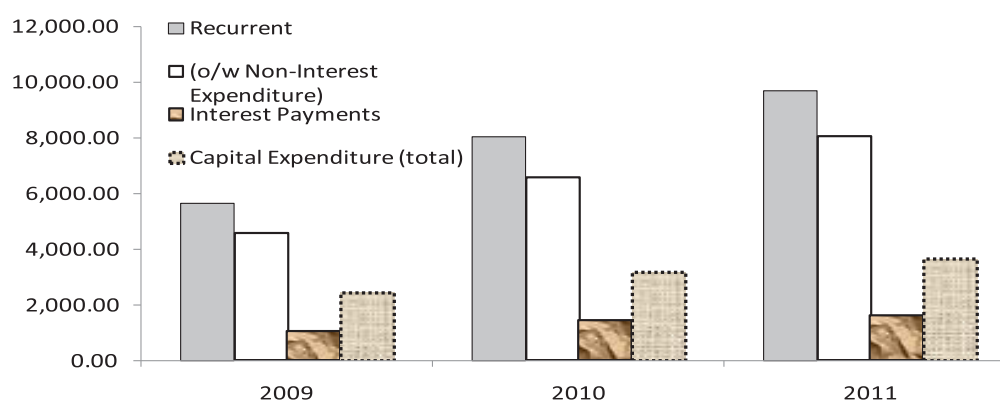
Total expenditure as a ratio of GDP was 23.8% in 2011 compared to 24.9% for 2010 (Table 3.7). Both ratios for recurrent expenditure and capital expenditure decreased. Within recurrent expenditure, however, the ratios for personal emoluments and transfers, which include payments to public entities that provide subsidized goods and services both increased in 2011. Between them, these two items accounted for 12.4% of GDP in 2011, while capital expenditure accounted for only 6.5% of GDP (Table 3.7). This shows the skewed nature of expenditure which needs to be rebalanced in order to provide more support to economic growth. This will require reforms to right-size the large public sector and to reduce the scope and scale of universal subsidies to be replaced by social interventions targeted to more vulnerable groups.

Table 3.7: Government Expenditure as Percent of GDP

Indicator	2009 (% of GDP)	2010 (% of GDP)	2011 (% of GDP)
Recurrent	26.0	17.4	17.1
Non-Interest Expenditure	21.3	14.3	14.2
Personal emoluments	11.5	6.9	8.0
Goods & Services	2.9	2.1	1.3
Transfers	6.2	4.3	4.4
Interest Payments	4.8	3.1	2.8
Domestic	3.5	2.4	2.3
External	1.5	0.7	0.5
Capital Expenditure (total)	11.2	6.9	6.5
Domestic financed	4.6	2.5	3.5
Foreign financed	6.7	4.4	3.0
Total Expenditure	38.6	24.9	23.6

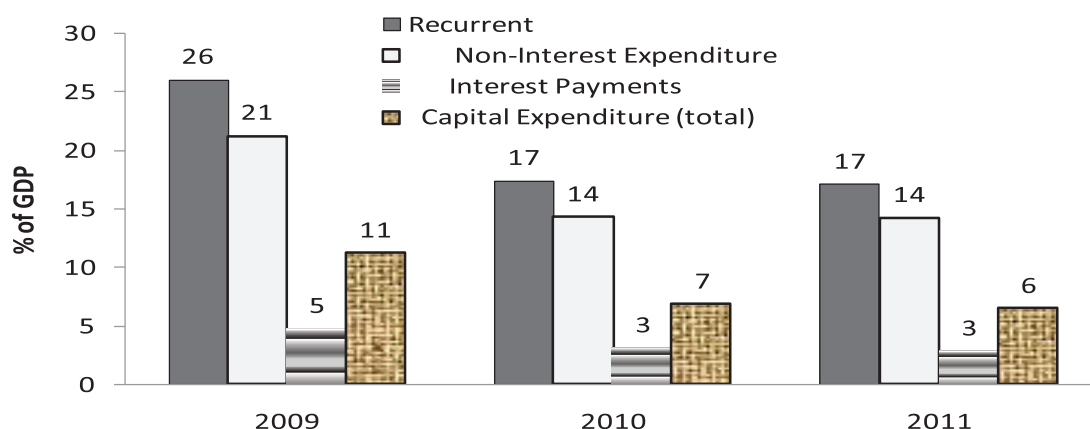
Source: 2009 & 2011 Budget

Figure 3.4: Recurrent and Current Expenditure (GH¢ m)



Source: 2009 & 2011 Budget

Figure 3.5: Recurrent and Capital Expenditure as Percent of GDP



3.3 Fiscal Deficit and Financing

In 2011, overall budgetary operations resulted in a (cash) deficit of GH¢2,466.2 million (4.4% of GDP). This was lower than the GH¢3,408.5 million (7.4% of GDP) deficit registered for 2010 but slightly higher than the budget figure of GH¢2,430.0 (4.3% of GDP) (Table 3.8).

Table 3.8: Fiscal Balance and Financing (GH¢ m)

Indicator	2008	2009	2010	2011	2011 Rev. Budget	Absolute Changes 2010/2011
Overall balance (cash)	-2,558.5	-2,130.7	-3,408.5	-2,466.2	-2,430.0	942.3
(% of GDP)	-14.9	-9.9	-7.4	-4.4	-4.3	
Overall balance (incl. Divestiture and Discrepancy)	-1,976.5	-2,056.2	-2,999.9	-2,395.4	-2,919.0	604.5
Financing	1,976.5	2,056.2	2,999.9	2,395.4	2,919.0	-604.5
Foreign (net)	241.9	1,014.2	1,302.3	863.4	1,373.5	-438.9
Borrowing	661.8	1,413.2	1,711.1	1,447.6	1,997.0	-263.5
Project loans	508.5	1,082.7	1,441.3	1,024.1	1,421.6	-417.2
Programme loans	153.3	330.5	269.9	423.6	575.4	153.7
Amortisation	-497.4	-437.7	-502.3	-584.3	-623.5	-82.0
Domestic financing (net)	1,152.7	1,042.1	2,142.6	1,988.1	1,545.3	-154.5
Banking	673.2	766.7	972.9	315.6	1,545.3	-657.3
Bank of Ghana	572.3	-92.9	-182.6	661.2	0.0	843.8
Comm. Banks	100.9	859.6	1,155.6	-241.8	1,822.3	-1,397.4
Non-banks	245.2	275.4	1,169.6	1,672.6	0.0	503.0
Other Domestic Financing	581.9	0.0	-445.0	-456.1	0.2	
Exceptional financing	77.5	58.7	93.5	115.9	122.3	22.4
Nominal GDP	17,211.7	21,630.0	46,232.0	56,828.0	56,828.0	10,596.0

Source: 2009 & 2011 Budget, Bank of Ghana Statistical Bulletin

The deficit was financed largely from domestic sources, of which the nonbank sector contributed the most. This source of financing is known to contain a large non-resident component, which raises the issue of potential capital reversal with attendant pressure on the exchange rate. Bank financing also came entirely from the Bank of Ghana, ostensibly by default, with commercial banks actually de-financing the budget (Table 3.9). Commercial Banks' lack of appetite for financing the budget suggests availability of more lucrative investment avenues, particularly lending to the private sector, at a time when Treasury Bill rates had tumbled.

3.4 Public Debt

In 2011, Ghana's total domestic debt increased by GH¢3,561.0 million (or 43%) to GH¢11,841.1 million. As a ratio of GDP, the domestic debt increased from 17.9% to 20.8%. (Table 2.9). The shares of medium- (1-2 year maturity) and long-term (greater than 2-year maturity) debt increased from 46% and 15% to 47% and 16% respectively, while the share of short-term debt (up to 1-year maturity) decreased from 39% to 37%. The increase in the shares of the longer-dated debt, though marginal, is always welcome as it usually signifies a positive shift in investor sentiment.

Table 3.9: Size and Composition of Domestic Debt (GH¢ m)

Component (GH¢ m)	2005	2006	2007	2008	2009	2010	2011
A. Short-Term	529.9	793.3	880.2	2,022.6	2,643.1	3,214.5	4,353.3
B. Medium-Term	734.1	1,096.1	1,823.8	1,752.5	2,107.5	3,788.3	5,601.1
C. Long-Term	495.2	1,004.2	1,004.2	1,025.1	1,352.3	1,277.3	1,886.7
Total (A+B+C)	1,759.2	2,893.5	3,708.2	4,800.2	6,102.9	8,280.1	11,841.1
Memorandum Items							
Nominal GDP (GH¢ m)	9,701.8	11,490.3	14,046.1	17,211.70	21,630.00	46,232.00	56,828.00
Domestic Debt/GDP(%)	18.1	25.2	26.4	27.9	28.2	17.9	20.8

Source: Bank of Ghana

Figure 3.6: Total Domestic Debt & as Percent of GDP

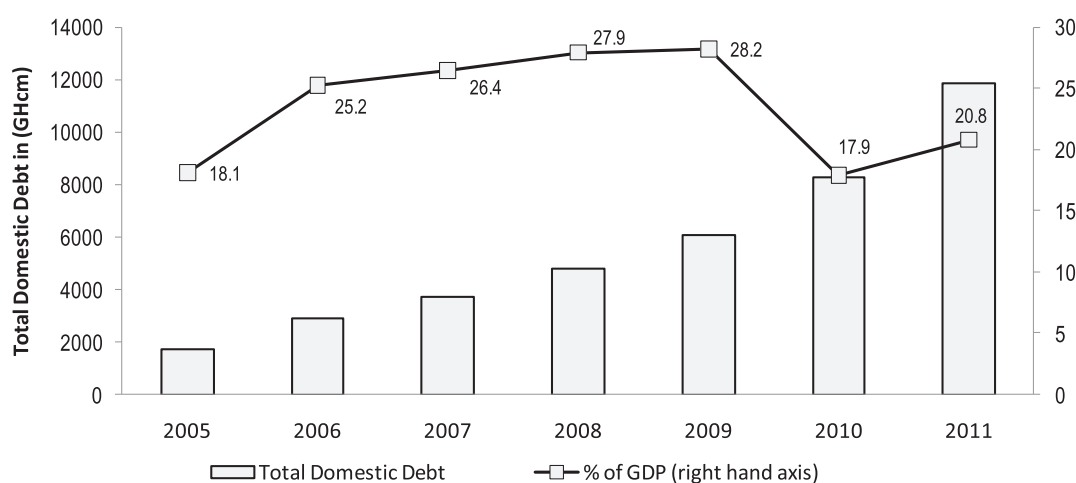


Figure 3.7: Composition of Domestic Debt by Maturity (Percent)

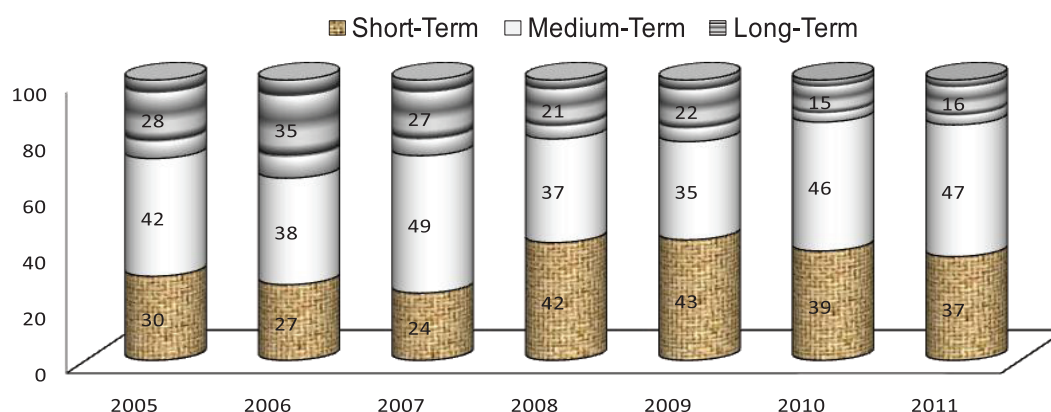


Table 3.10: Absolute Change in the Composition of Domestic Debt (GH¢ m)

	Absolute Change 2005/2006	Absolute Change 2006/2007	Absolute Change 2007/2008	Absolute Change 2008/2009	Absolute Change 2009/2010	Absolute Change 2010/2011
A. Short-Term	263.3	87.0	1,142.4	620.5	571.4	1,138.8
B. Medium-Term	362.0	727.7	-71.3	355.0	1,680.8	1,812.8
C. Long-Term	509.0	0.0	20.9	327.2	-75.0	609.4
Total	1,134.3	814.7	1,092.0	1,302.7	2,177.2	3,561.0

Source: Bank of Ghana

In terms of holders of the domestic debt, the banking system decreased its share from 64% to 59%, while the nonbank sector increased its share from 36% to 41%. As Table 3.11 shows, the banking sector's relative share of the domestic debt has followed a generally declining trend, while the nonbank sector's share has been on the rise. It appears the banks have found it less lucrative to finance the budget than to undertake other investments, including lending to the private sector. That said, the Bank of Ghana rather increased its relative financing of the budget in 2011, apparently by default. Within the nonbank sector, the relative financing from nonresidents more than doubled to 19% in 2011. While this may signify confidence in the fiscal system, the potential for capital reversal is also real and may be contributing to recent run on the cedi.

Table 3.11: Holdings of Domestic Debt (GH¢ m)

Holder	2005		2006		2007		2008		2009		2010		2011	
	GH¢ m	%	GH¢ m	%	GH¢ m	%	GH¢ m	%	GH¢ m	%	GH¢ m	%	GH¢ m	%
A. Banking System	1,537.9	87	2,244.7	78	2,522.1	68	3,255.5	68	4,247.6	70	5,289.1	64	7,004.6	59
o/w Bank of Ghana	630.4	36	118.2	4	1,371.0	37	1,872.1	39	2147.7	35	1,533.3	19	2,702.3	23
B. Nonbank Sector	221.4	13	649.0	22	1,186.1	32	1,544.7	32	1,855.4	30	2,991.1	36	4,836.6	41
o/w Non-Residents	-	-	-	-	-	-	433.5	9	483.6	8	1,565.0	19	2,268.1	19
TOTAL (A+B)	1,759.3		2,893.7		3,708.2		4,800.2		6,103.0		8,280.1		11,841.2	

Source: Bank of Ghana

In 2011, Ghana's external debt increased by US\$1,268.8 million (or 20.1%) to US\$7,589.5 million (Table 3.12). As a ratio to GDP, the external debt increased slightly from 20.1% to 20.7%. Looking back to 2005, the external debt-to-GDP ratio was as high as 71.7%, but was reduced to 20.5% in 2006 as a result of debt relief under the Multilateral Debt Relief Initiative (MDRI). Subsequently, the external debt-to-GDP ratios have been influenced by both the rebasing of GDP and new borrowings.

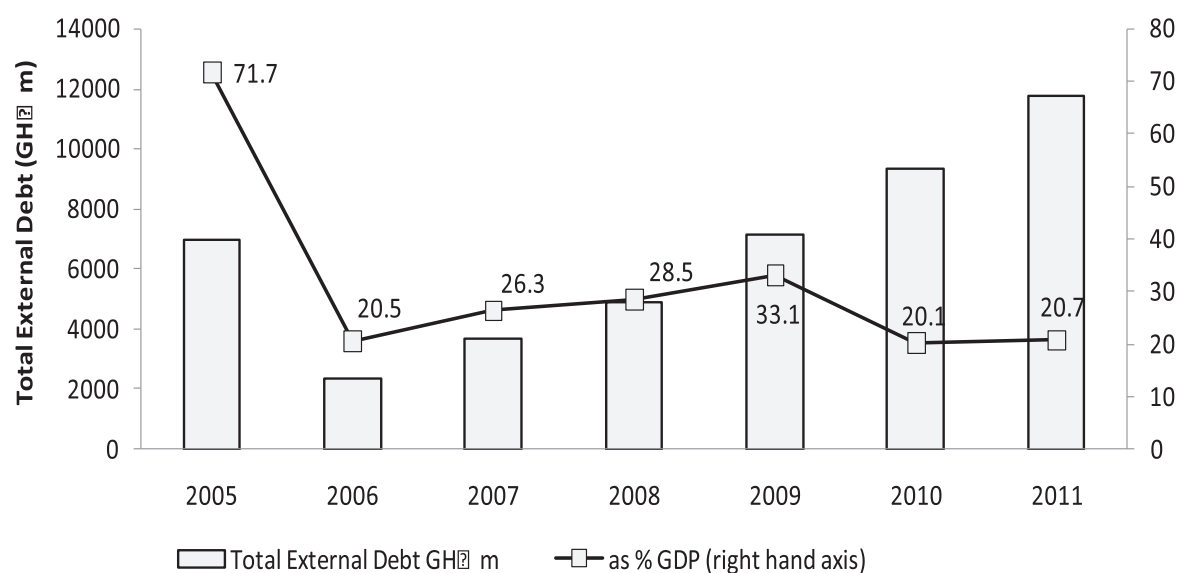
Table 3.12: Size and Composition of External Debt

Component	2005		2006		2007		2008		2009		2010		2011	
	US\$ m	%	US\$ m	%	US\$ m	%	US\$ m	%	US\$ m	%	US\$ m	%	US\$ m	%
Multilateral	5,565.1	88	1,326.9	61	1,667.9	46	2,028.3	50	2,461.8	49	3,081.9	49	3,891.8	51
Bilateral	602.5	9	732.0	34	992.6	28	1,168.2	29	1,687.2	34	2,211.1	35	2,712.3	36
Commercial	180.2	3	118.4	5	929.8	26	838.5	21	858.9	17	1,027.7	16	985.4	13
Total (US\$m)	6,347.8		2,177.2		3,590.4		4,035.1		5,007.9		6,320.7		7,589.5	
Total GH¢ m	6,951.9		2,357.6		3,699.9		4,899.0		7,154.8		9,315.4		11,767.4	
Memorandum Items														
Nominal GDP (GH¢ m)	9,701.8		11,490.3		14,046.1		17,211.7		21,630.0		46,232.0		56,828.0	
External Debt/GDP (%)	71.7		20.5		26.3		28.5		33.1		20.1		20.7	

Source: Bank of Ghana

The share of multilateral debt rose from 49% to 51% and that of bilateral debt from 35% to 36%. On the other hand, the share of commercial debt decreased from 16% to 13% (Table 3.12). Looking back to 2005, the share of multilateral debt was as high as 88%, but was reduced significantly by the MDRI. Comparatively, the shares of bilateral and commercial debt have gone up significantly over the period, both quadrupling.

Figure 3.8: Ghana's External Debt - Absolute Levels (US\$ m) and Shares in GDP (%)



Source: Bank of Ghana

Figure 3.9: Shares of External Debt by Holders (Percent)

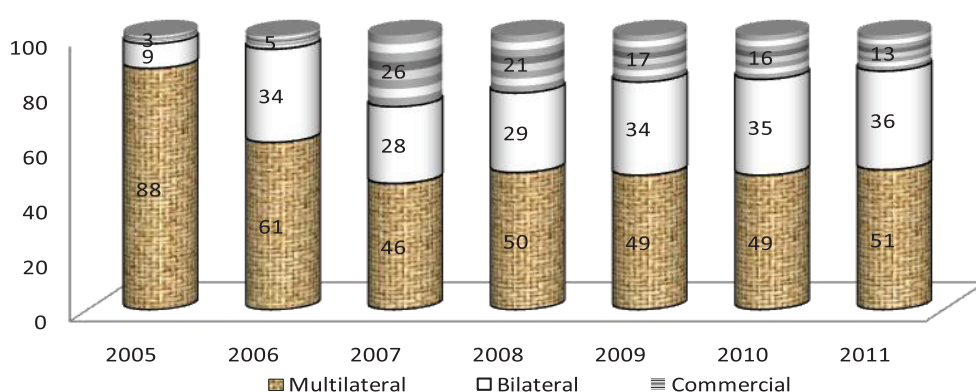


Table 3.13: Percentage Changes in Ghana's External Debt Components

Component	% Change 2005/2006	% Change 2006/2007	% Change 2007/2008	% Change 2008/2009	% Change 2009/2010	% Change 2010/2011
Multilateral	-76.2	25.7	21.6	21.4	25.2	26.3
Bilateral	21.5	35.6	17.7	44.4	31.1	22.7
Commercial	-34.3	685.3	-9.8	2.4	19.7	-4.1
Total in US\$m	-65.7	64.9	12.4	24.1	26.2	20.1
Total in GH¢ m	-66.1	56.9	32.4	46.0	30.2	26.3

Source: Bank of Ghana

Ghana's total public debt increased by GH¢6,013.0 million (or 34.2%) in 2010 to GH¢23,608.5 billion (Table 3.14). As a ratio of GDP, the debt rose from 38.0% to 41.5%. Total debt in 2011 was split almost equally between the domestic debt (20.8%) and the external debt (20.7%). This compared with 20% for the domestic debt and 80% for the external debt in 2005.

Table 3.14: Total Public Debt and its Components (GH¢ m)

	2005		2006		2007		2008		2009		2010		2011	
	GH¢ m	%	GH¢ m	%	GH¢ m	%	GH¢ m	%	GH¢ m	%	GH¢ m	%	GH¢ m	%
External Debt	6,951.9	80	2,357.6	45	3,699.9	50	4,899.0	51	7,154.8	54	9,315.4	53	11,767.4	50
Domestic Debt	1,759.2	20	2,893.5	55	3,708.2	50	4,800.2	49	6,103.0	46	8,280.1	47	11,841.1	50
Total Public Debt	8,711.1		5,251.1		7,408.1		9,699.2		13,257.7		17,595.5		23,608.5	
Memorandum Items														
Nominal GDP	9,701.8		11,490.3		23,154.0		30,179.0		36,598.0		46,042.0		59,264.0	
Public Debt / GDP	89.8		45.7		52.7		56.4		51.3		38.0		41.5	
External Debt / GDP	71.7		20.5		26.3		28.5		33.1		20.1		20.7	
Domestic Debt / GDP	18.1		25.2		26.4		27.9		28.2		17.9		20.8	

Source: Bank of Ghana

Figure 3.10: Shares of Total Public Debt (Percent)

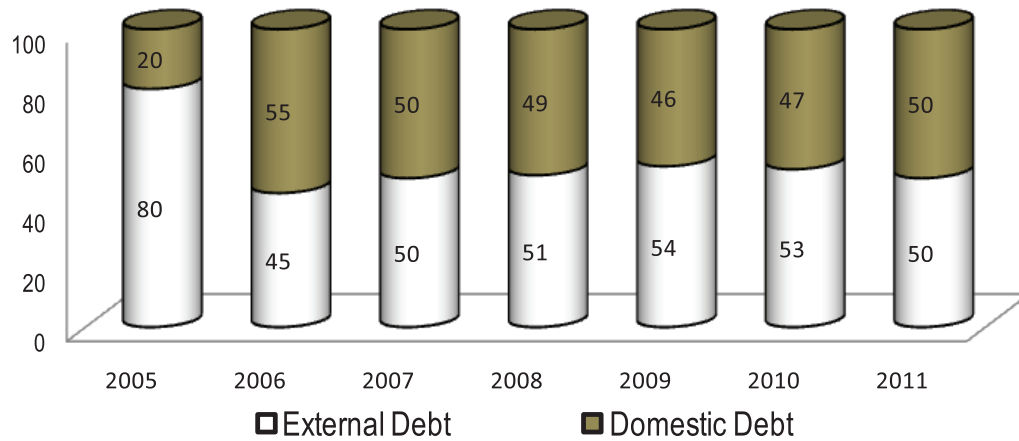


Table 3.15: Percentage Changes in Total Debt

Component		%Change 2005/2006	%Change 2006/2007	%Change 2007/2008	%Change 2008/2009	%Change 2009/2010	% Change 2010/2011
External Debt		-66.1	56.9	32.4	46.0	30.2	26.3
Domestic Debt		64.5	28.2	29.4	27.1	35.7	43.0
Total Public Debt		-39.7	41.1	30.9	36.7	32.7	34.2

Source: Bank of Ghana

CHAPTER 4:

MONETARY AND FINANCIAL DEVELOPMENTS

This section of the review covers monetary policy, developments in key monetary aggregates, inflation, interest rates, developments in the banking sector and the Ghana Stock Exchange. The key monetary and financial developments were as follows:

- Monetary policy aimed to achieve price stability as a basis for sustained growth.
- Broad money supply (M2+) increased by 33.2%, while reserve money also increased by 31.1 percent.
- Both year-on-year and average inflation were in single digits at 8.6 and 8.7% respectively. The prices of many consumer goods and services, however, increased by higher rates, which seemed to suggest that the official measure of inflation was not adequately capturing the true cost of living.
- Led by a reduction in the Policy rate, other interest rates generally declined. Bank lending rates and spreads, however, remained high, thereby continuing to stifle financial intermediation.
- Banking sector activity continued its strong upward trend, as evidenced by a sharp increase in industry assets/liabilities.
- Bank credit increased by 13.3%, with the manufacturing, commerce and financing, and services sectors being the key beneficiaries.
- The Ghana Stock Exchange saw its market capitalization more than doubling due to the listing of Tullow Oil.

Box 3: Monetary Policy

In the 2011 Budget, the Bank of Ghana indicated that it was committed to pursuing policies that would lead to further reduction in the rate of inflation and that would sustain the level of inflation at single digit without compromising growth. Towards this end, the Bank would strengthen its inflation targeting framework and intensify its engagement with the fiscal authorities to ensure better co-ordination between fiscal and monetary policies. The end-2011 inflation target was set at 8.5% on the expectation that oil and food prices would remain stable. The Bank stated that it intended to engage major stakeholders—banks and non-bank financial institutions, borrowers and investors—on ways of improving the interest rate transmission mechanism and getting the existing tight credit conditions relaxed. The measures were aimed at improving efficiency of the transmission from the policy rate to retail rates. They were also intended to improve access to credit in the economy to boost real sector activity.

4.1. Key Monetary Aggregates

In 2011, broad money supply (M2+) (defined to include cash with the nonbank financial institutions, domestic currency deposits, and foreign currency deposits) increased by GH¢4,532.1 or 33.2% to GH¢18,195.1 million (Table 4.1). After slowing down in 2009, ostensibly in line with the brief fiscal retrenchment in that year, the pace of monetary growth picked up in 2010 and 2011, as the fiscal brakes were relaxed.

Table 4.1: Money Supply M2+ (GH¢ m)

Indicator/year	2008	2009	2010	2011
Money Supply(M2+)	8,190.6	10,211.3	13,663.0	18,195.1
Absolute Changes	-	2,020.7	3,451.7	4,532.1
Growth Rate (%)**	42.4	24.7	33.8	33.2

**Year-on-year. Source: Bank of Ghana.

Figure 4.1: Money Supply M2+ (GH¢ m)

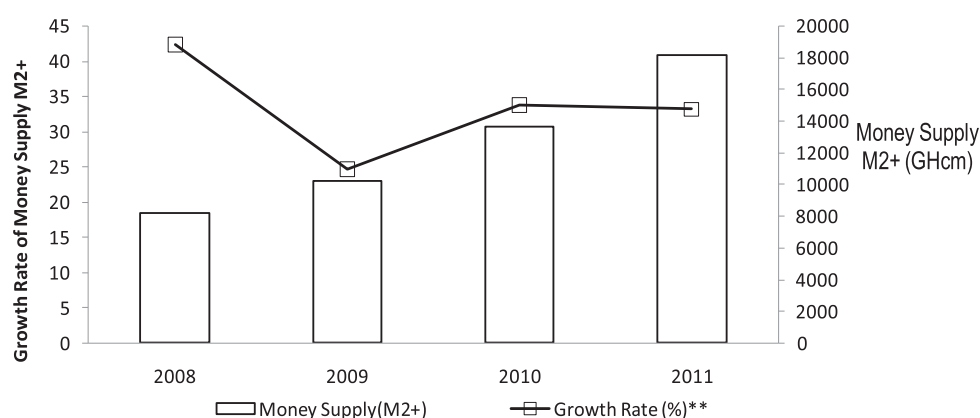


Table 4.2: The Sources of Money Supply (GH¢ m)

Indicator	2009	2010	2011	Percentage Change 2010/2011	Absolute Change 2010/2011
Money Supply (M2+)	10,211.0	13,663.0	18,195.0	33.2	4,532.0
Sources					
Net Foreign Assets (NFA)	3933.0	5754.0	7880.0	37.0	2126.0
Net Domestic Assts (NDA)	6278.0	7909.0	10315.0	30.4	2406.0

Source: Bank of Ghana

The increase of GH¢4,532.0 million in money supply in 2011 was split as GH¢2,406.0 million and GH¢2,126.0 million respectively between the two broad sources, Net Domestic Assets (NDA) and Net Foreign Assets (NFA). In growth terms NDA increased by 30.4%, largely driven by credit from the banking system to Government and to the private sector. NFA also increased by 37.0%, driven by foreign inflows. Ghana has traditionally had high rates of monetary growth, suggesting limited effectiveness of monetary-control instruments. In the past, this has contributed to high inflation. In recent years however, inflation rates have come down even as monetary growth rates have remained high, although not as high as in the more distant past. The monetary authorities have explained this apparent disconnect between monetary growth and inflation to increased money demand in the rapidly transforming economy.

In 2011, reserve money (or high-powered money), which comprises currency in circulation and banks' re-serves, increased by GH¢1,370 million or 31.1% to GH¢5,780 million; (Table 4.3). The increase was driven entirely by Net Foreign Assets (NFA), which increased by GH¢1,429 million, with a partly-offsetting decrease of GH¢59 million in Net Domestic Assets (NDA).

During the period 2009-11, reserve money growth was driven entirely by NFA, with NDA exerting a partly offsetting effect; (Table 4.4).

Table 4.3: Reserve Money and Sources (GH¢ m)

Indicator	2009	2010	2011	Absolute Change 2010/2011	Percentage Change 2010/2011
Net Foreign Assets (NFA)	3,271	5,241	6,670	1,429	32.4
Net Domestic Assets (NDA)	-230	-831	-890	-59	-1.3
Reserve Money (RM)	3,041	4,410	5,780	1,370	31.1

Source: Bank of Ghana

Table 4.4: Sources of Growth of Reserve Money (Percent)

Indicator/year	2009	2010	2011
Net Foreign Assets (NFA)	55.1	64.8	32.4
Net Domestic Assets (NDA)	-30.1	-19.8	-1.3
Reserve Money (RM)	25.0	45.0	31.1

Source: Bank of Ghana

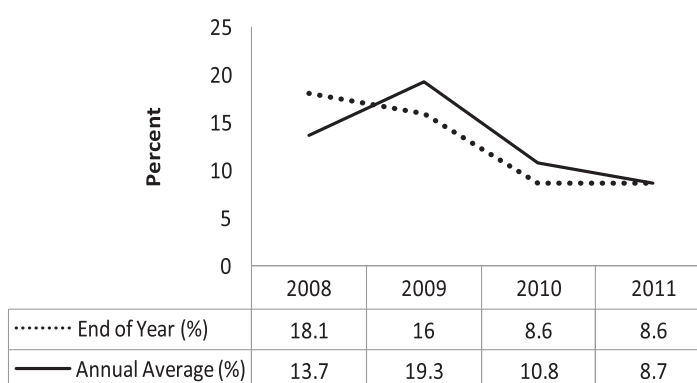
4.2 Inflation

In 2011, both year-on-year and average headline inflation were in single digits at 8.6% and 8.7% respectively (Figure 4.2). The year-on-year rate was the same as in 2010, while the average rate in 2010 was 10.8% (Table 4.5). Over the last few years, inflation has come down significantly. Single-digit year-on year inflation was reached in June 2010 and has since been sustained.

The recent decline in inflation has been helped by improved food supply that has allowed food inflation to be in the low single-digits since January 2010, while non-food inflation has remained in the low teens (Figure 4.3). Ghana has also benefited from low global inflation due to weak demand, particularly in the industrialized world. Further, until recently, the exchange rate had been relatively stable while fuel and utility prices had been somewhat controlled, all contributing to ease pressure on the general price level.

Paradoxically, for many market observers, the recent decline in inflation has not reflected in the general cost of living. The prices of several consumer items purchased by the average Ghanaian household have registered much higher increases than the official inflation figures suggest. This apparent dichotomy between the official rate of inflation and the actual cost of living has prompted debate in the country, with some people raising questions about the genuineness of the offi-

Figure 4.2: Headline Inflation



Source: Ghana Statistical Service

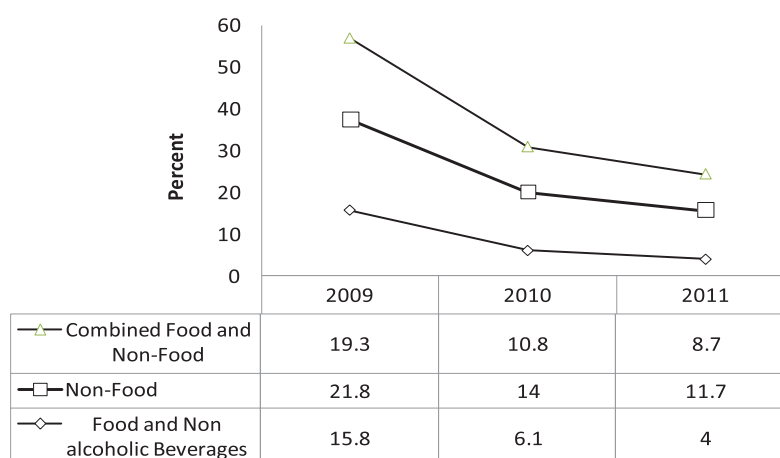
cial inflation figures. The Ghana Statistical Service (GSS) has subsequently initiated public discussions about rebasing the CPI and re-weighting the component items based on current consumption patterns.

4.3 Interest Rates

In line with declining inflation, the Bank of Ghana led the way in reducing its Policy Rate from 13.5 % in 2010 to 12.5% in 2011. Other rates generally followed

suit, with the banks' average lending rate declining from 27.6% to 27.0%, the average savings rate from 5.9% to 4.4%, and the 91-day Treasury Bill rate from 14.4% to 9.4% (Table 4.5).

Figure 4.3: Food and Non-Inflation, Averages



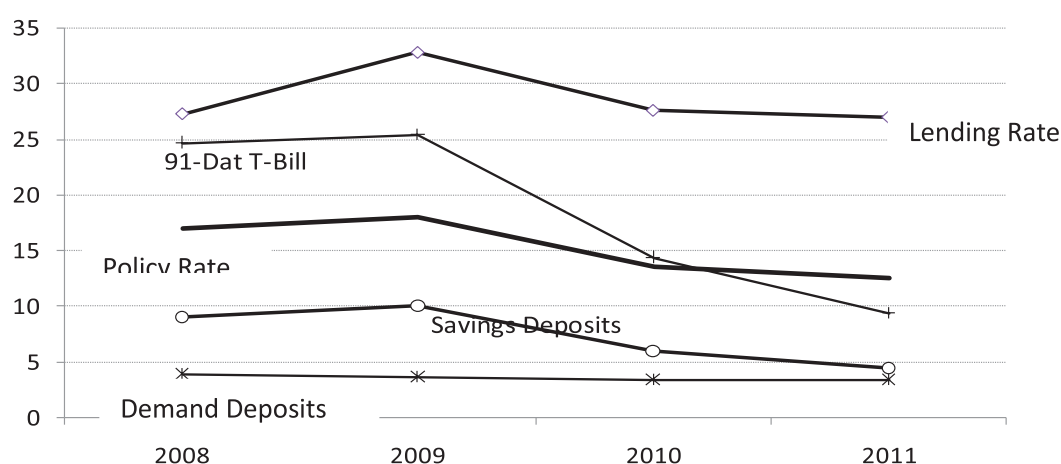
Source: Ghana Statistical Service

Table 4.5: Trends in Interest Rates

Interest Rate (%):	2008	2009	2010	2011
- Bank of Ghana Policy Rate	17.0	18.0	13.5	12.5
- Demand Deposits (annual av.)	3.9	3.6	3.4	3.4
- Savings Deposits (annual Av.)	9.0	10.0	5.9	4.4
- Lending Rates (Annual Av.)	27.3	32.8	27.6	27.0
- 91-Day Treasury Bill (Annual Av.)	24.7	25.4	14.4	9.4

Source: Bank of Ghana

Figure 4.4: Trends in Nominal Interest Rates



While interest rates have been on the decline, lending rates remain high. This sluggish decline has been attributed to the high operational costs of banks and high lending risks. As Table 4.6 shows, real lending rates and spreads have remained high. The high cost of credit generally has been a source of concern because of its potential paralysing effect on economic activity. Finding a solution to the problem should be a national priority. The banks, on their part, have a duty to reduce their operational costs so that they can reduce their lending rates accordingly. The authorities, on

the other hand, should take measures to reduce lending risks, including through introduction of borrower identification and credit reference systems.

Table 4.6: Implicit Real Interest Rates

Rate		2008	2009	2010	2011
Lending Rates (Annual Av.)	Nominal	27.3	32.8	27.6	27.0
	Real	9.2	16.8	19	18.4
Prime Rate (Policy Rate)	Nominal	17.0	18.0	13.5	12.5
	Real	(1.1)	9.4	4.9	3.9
Treasury Bill Rate (91-Day)	Nominal	24.7	25.4	14.4	9.4
	Real	6.6	9.4	5.8	0.8
Demand Deposit (Annual Ave.)	Nominal	3.9	3.6	3.4	3.4
	Real	-14.2	-12.4	-5.2	-5.2
Saving Deposit (Annual Average)	Nominal	9.0	10.0	5.9	4.4
	Real	-9.1	-6.0	-2.7	-4.2
Interest Rate Spreads					
<i>Average Lending Rate – Demand Deposit Rate</i>		23.4	29.2	24.2	23.6
<i>Average Lending Rate – Savings Deposit Rate</i>		18.3	22.8	21.7	22.6
<i>Average Lending Rate – Policy Rate</i>		10.3	14.8	14.1	14.5
Average Lending Rate – T' Bill Rate		2.6	7.4	13.2	17.6
Inflation Rate		18.1	16.0	8.6	8.6

Source: Bank of Ghana

4.4. Developments in the Banking Sector

In 2011, banking sector activity continued its strong upward trend. The assets and liabilities of banks each increased by GH¢4,365.8 million or 25.3 %to GH¢21, 609.5 million (Tables 4.7 and 4.8). This followed a similar increase of 22.7% in 2010. On the assets side, claims on the private sector (GH¢8,752.4 million) and on Government (GH¢4,243.9 million) remained the dominant items. The liabilities, on the other hand, were dominated by private sector deposits (GH¢13,366.4 million) and paid-up capital and reserves (GH¢3,048.2 million). Within the private sector deposits, it is noted that foreign currency deposits have grown rapidly during 2005-11. Even discounting the exchange rate effect, the increase is still significant and seems to signify an increasing propensity to maintain these deposits as a safe haven against possible cedi depreciation. It also seems to signify the increasing dollarization in the economy.

Table 4.7: Assets of Deposit Money Banks (GH¢ m)

	2005	2006	2007	2008	2009	2010	2011
Cash Reserves							
Cash in Till	48.8	71.2	168.4	208.4	261.4	335.5	481.0
Balance at Bank of Ghana	241.0	385.8	617.7	862.6	1,151.9	1,583.9	2,280.8
Total	289.9	456.9	786.1	1,071.0	1,413.3	1,919.4	2,761.8
Foreign Assets	349.2	496.2	631.8	978.8	1,541.2	1,327.6	1,953.8
Claims on Government							
Government Stocks	568.7	689.3	841.9	528.1	819.4	2,417.4	2,615.5
Treasury Bills	116.9	162.7	115.2	577.9	1,254.1	1,062.8	946.4
GCILBS	19.3	0.8	0.0	0.0	0.0	0.0	0.0
TOR Bonds	193.2	193.2	193.2	193.2	193.2	193.2	682.0
Total	898.0	1,045.9	1,150.3	1,299.1	2,266.7	3,673.4	4,243.9
Claims on Public Corporations							
Other Bills	0.4	8.8	7.1	24.5	21.6	60.8	297.2
Loans & Advances	347.9	455.7	850.8	1,082.5	1,274.7	1,218.1	791.5
Total	348.3	464.5	857.9	1,106.9	1,296.3	1,253.1	1,088.7
Claims on Private Sector	1,445.5	2,064.0	3,295.6	4,884.3	5,654.0	6,697.8	8,752.4
Other Assets	412.1	575.4	898.5	1,075.5	1,886.9	2,267.9	2,808.5
Total Assets	3,743.0	5,103.0	7,620.2	10,415.8	14,058.3	17,243.7	21,609.5

Source: Bank of Ghana

Table 4.8: Liabilities of Deposit Money Banks (GH¢ m)

	2005	2006	2007	2008	2009	2010	2011
PRIVATE SECTOR DEPOSITS							
Demand Deposits	570.9	803.1	1,412.7	1,686.6	1,648.4	2,963.7	4,337.1
Foreign Currency Deposits	653.3	902.4	992.9	1,816.8	2,664.2	2,727.9	3,954.2
Savings Deposits	484.2	694.3	849.6	964.1	1,256.5	1,875.2	2,554.5
Time Deposits	292.7	466.8	837.6	1,246.1	1,825.9	2,284.2	2,520.6
Total	2,001.0	2,866.6	4,092.9	5,713.6	7,395.0	9,851.1	13,366.4
% of GDP	20.6	24.9	17.7	18.9	20.2	21.4	
PUBLIC SECTOR DEPOSITS							
Demand Deposits	173.0	251.1	208.8	406.2	351.1	348.6	437.9
Savings Deposits	0.8	1.4	1.1	1.3	1.2	2.3	3.3
Time Deposits	52.7	70.5	138.3	231.2	325.7	371.5	448.2
Total	226.5	323.0	348.1	638.7	678.0	722.4	889.4
% of GDP	2.3	2.8	1.5	2.1	1.9	1.6	
GOVERNMENT DEPOSITS	76.6	57.7	301.5	349.4	452.5	795.9	1,006.4
FOREIGN LIABILITIES	83.1	203.2	569.4	724.0	877.2	814.6	743.4
CREDITS FROM BANK OF GHANA	50.3	42.4	52.7	12.5	443.9	134.8	80.6
PAID-UP CAPITAL & RESERVES	490.7	616.9	833.9	1,195.8	1,789.6	2,336.3	3,048.2
OTHER LIABILITIES	814.8	993.2	1,421.6	1,781.7	2,422.3	2,588.6	2,475.1
TOTAL LIABILITIES	3,743.0	5,103.0	7,620.2	10,415.8	14,058.3	17,243.7	21,609.5
% of GDP	38.6	44.4	32.9	34.5	38.4	37.5	

Source: Bank of Ghana

During 2011, deposit money banks' credit to public institutions and the private sector together increased by GH¢1,066.1 million (or 13.3%) to GH¢9,352.4 million. Credit to the private sector increased by GH¢1,122.6 million (or 16.5%), while credit to public institutions declined by GH¢56.6 million (or 4.6%); (Table 4.9). With average inflation of 8.7% in 2011, credit to the private sector, therefore, increased by 7.8% in real terms. Access to credit is known to be one of the major obstacles to doing business in Ghana. This is particularly the case with small- and medium-sized enterprises (SMEs) and informal businesses, which are rated as having higher credit risk than prime, large-sized enterprises. For the SMEs and informal businesses, the nonbank financial institutions could help in closing the credit gap, although their rates tend to be even higher.

Table 4.9: Developments in Deposit Money Banks' Credit to Private and Public Sector

	2009		2010		2011		Absolute Change (2009/2010)	Absolute Change (2010/2011)
	GH¢ m	%	GH¢ m	%	GH¢ m	%		
A. Public Institutions	1,274.7	18.4	1,218.1	15.2	791.5	8.5	(426.6)	(56.6)
B. Private Sector	5,654.0	81.6	6,776.6	84.8	8,560.9	91.5	1,784.3	1,122.6
Agric., Forest & Fishing	305.7	5.4	456.2	6.7	501.0	5.4	44.8	150.5
Export Trade	90.5	1.6	136.9	2	108.3	1.2	(28.6)	46.4
Manufacturing	767.3	13.6	1,054.1	15.6	822.7	8.8	(231.4)	286.8
Trans., Storage, Comm.	262.7	4.6	297	4.4	376.9	4.0	79.9	34.3
Mining & Quarrying	178	3.1	201.9	3	395.3	4.2	193.4	23.9
Import Trade	367.9	6.5	461	6.8	860.8	9.2	399.8	93.1
Construction	526.2	9.3	581.6	8.6	735.1	7.9	153.5	55.4
Commerce and Finance	837.7	14.8	1,089.1	16.1	1333.7	14.3	244.6	251.4
Electricity, Water & Gas	274.3	4.9	323.7	4.8	427.7	4.6	104.0	49.4
Services	1,353.0	23.9	1,565.8	23.1	2247.1	24.0	681.3	212.8
Miscellaneous	690.6	12.2	609.1	9	752.3	8.0	143.2	(81.5)
C. Grand Total(A+B)	6,928.6	100	7,994.7	100	9,352.4	100	1,357.7	1,066.1

Source: Bank of Ghana

Figure 4.5: Deposit Money Banks Credit (GH¢ m)

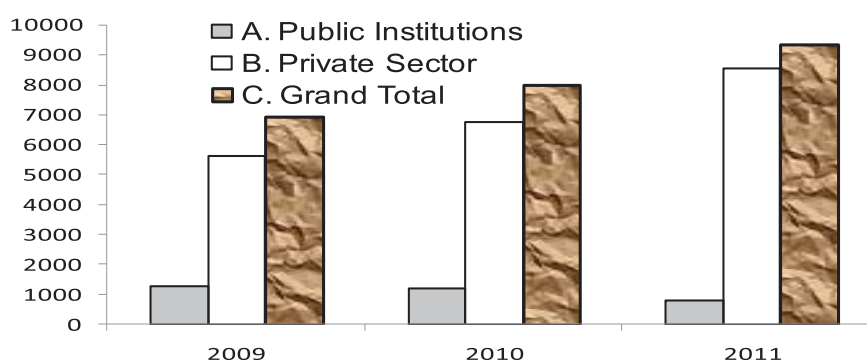
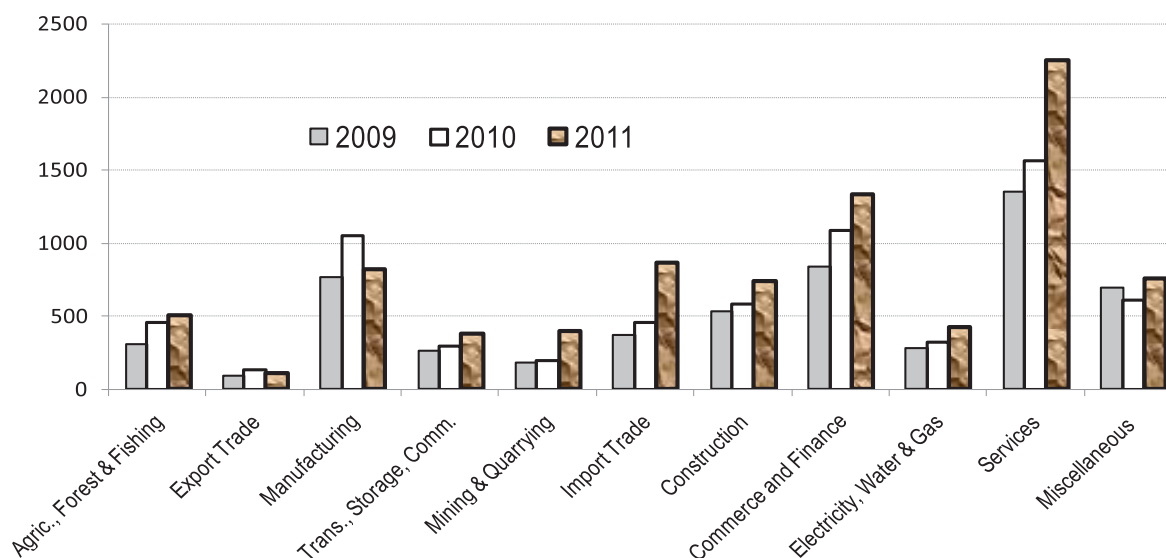


Figure 4.6: Sectorial Distribution of Bank Credit (GH¢ m)



Source: Bank of Ghana

In terms of sectoral allocation of credit in 2011, manufacturing received the biggest allocation of GH¢286.8 million, followed by commerce and finance (GH¢251.4 million), and then services (GH¢212.8 million). Mining and quarrying received the lowest credit increase of GH¢23.9 million. In terms of total credit outstanding at the end of 2011, services had the biggest share of 24.0%, followed by commerce & finance with 14.3%, and then import trade with 9.2%. Export trade had the lowest share of 1.2%, while agriculture had 5.4%.

Considering the broad sectors of the economy, services has a commanding share of outstanding credit of over 50 percent, while industry has about 20 percent, and agriculture, about 5 percent. This skewed pattern of credit distribution has long prevailed. It appears banks find it more lucrative and less risky to lend to services rather than to industry and agriculture. The denial of industry and agriculture of their share of credit however stifles growth of these vital sectors. This is an obvious market failure that needs to be mitigated through direct intervention policies. It may probably require well-managed and resourced specialized financial institutions to provide affordable credit to support these sectors.

4.5. Developments in the Ghana Stock Exchange

In 2011, the market capitalization of the Ghana Stock Exchange (GSE) more than doubled from GH¢20,116.7 million in 2010 to GH¢47,350.2 million. This was due to the listing of Tullow Oil on the Exchange (Table 4.10). The number of listed companies declined by 1; to 34 at the end of 2011. The GSE All Share Index (GSEASI), which measures the aggregate performance of the share values, was reduced to almost half of its value in 2009 before rebounding somewhat in 2010. From 2011, the GSEASI was discontinued and split into the Composite Index and the Financial Sector Index, which cannot therefore be directly compared with the GSEASI.

Table 4.10: Key Stock Exchange Indicators

Year	2008	2009	2010	2011	Absolute Change (2010/2011)
Market Capitalization (GSE) GHcm	17,895.1	15,941.9	20,116.7	47,350.2	27,233.3
GSE All Share Index	10,431.6	5,572.3	7,369.2	-	
Composite Index	-	-	-	969.0	
Financial Sector Index	-	-	-	863.1	
Number of Listed Companies	35	35	35	34	

Source: Bank of Ghana

CHAPTER 5:

EXTERNAL SECTOR DEVELOPMENTS 2005-2011

By all standards Ghana remains an open economy. The ratio of trade (exports and imports) to Gross Domestic Product (GDP) exceeds 50%. For that reason, the structure of incentives associated with trade and exchange rate policies are important for growth and employment. This section reviews the developments in the trade and exchange rate policies since 2005 and the trends in merchandise exports and imports, followed by a review of Ghana's external debt. The section concludes with remarks on Ghana's recent trade policy experience.

5.1. Export Trends: 2005-2011

Export values have risen continuously since 2005. As a share of Gross Domestic Product (GDP) however, there was a decline in 2006 and even though this was reversed in 2008, by 2010 the ratio of exports to GDP remained lower than its 2005 level (Table 5.1).

Table 5.1: Trends in Merchandise Exports 2005-2011

	Total Exports \$m	Cocoa Beans \$m	Gold \$m	Crude Oil \$m	Exports/GDP (%)	Cocoa Export Share (%)	Gold Export Share (%)	Crude Oil Share (%)
2005	2802.21	818.45	945.82	0	26.1	29.2	33.8	
2006	3735.08	1041.05	1277.26	0	18.3	27.9	34.2	
2007	4222.97	975.67	1733.8	0	17.1	23.1	41.1	
2008	5269.73	1225.11	2246.3	0	18.5	23.2	42.6	
2009	5839.71	1422.38	2551.4	0	22.5	24.4	43.7	
2010	7896.25	1660.01	3803.5	0	24.4	21.0	48.2	
2011*	12785.3	2027.94	4920.21	2780.7		15.9	38.5	21.7

Source: Bank of Ghana Statistical Bulletin, various issues, Accra.

Notes: * Provisional

Between 2005 and 2010 Ghana's exports were dominated by two commodities, i.e. cocoa beans and gold. These two commodities accounted for about 63% of the merchandise trade, rising to about 69% in 2010 (Table 5.1). Gold's share of export earnings rose from about 34% in 2005 to 48% in 2010. Cocoa's share dropped almost continuously from about 29% to 21% in the same period. Gold's increasing dominance in Ghana's merchandise exports can be explained largely by rising export volumes and world prices. Exports increased from 2.12 million fine ounces in 2005 to 3.12 million fine ounces in 2010. The price of gold increased from \$821.49 per fine ounce in December 2008 to \$1,126.83 in December 2009 and to \$1391.16 in December 2010.²

Cocoa bean export volumes on the other hand have followed a cyclical downward pattern. In 2010 export volumes of 547,421 metric tonnes were almost 12% below their 2005 levels. In 2011, with the introduction of crude oil exports, the contribution of gold and cocoa to total merchandise exports dropped to about 54% despite the increase in their export volumes and rise in export prices. With the introduction of oil exports in 2011 about 76% of Ghana's export earnings come from the three primary commodities, increasing the vulnerability of the economy to commodity price volatility.

² Bank of Ghana Statistical Bulletin, March 2012, Accra.

Box 4 Export Trade Regime

Ghana provides no export subsidies. The export promotion package dates back to 1969. Elements of the package include the customs duty draw back scheme. Local cocoa processors are granted 20% discount on the purchase of light crop beans.

Export processing zones were introduced in 1996 under the authority of the Ghana Free Zones Board. Firms that benefit from this initiative must export at least 70% of their total output, among other requirements. In return, the firms are entitled to some benefits including the following: exemption from all import tariffs, value added tax, excise duties, and other duties and charges; exemption from income tax on profits for ten years, and a maximum income tax of 8% after the ten years. Currently, there are 299 enterprises in the export processing zones, from a variety of industries including agro-processing and textile and garments production, and four sites designated as export processing zones - Tema, Ejisu, Sekondi and Shama. However, not all firms under the free zones programme are physically located in these sites. Firms not physically located in a designated site are called a free point. Requirements and procedure for licensing, however, are the same irrespective of the whether the firm is a free point or located in a designated free zone site. In 2007, there were 150 free points under the programme.

There are export taxes on cocoa and hydrocarbon products. Export taxes on timber products were removed in 2005. Restrictions on export of round logs, unprocessed logs, bamboo, and raw rattan canes, however, remain. The producer price of cocoa has been increased consistently since 2005 (see Table 1). In the 2004/5 crop year, farmers received a producer price of GH¢900 per metric tonne. By the 2010/2011 crop year, the producer price had increased to GH¢3,200, a growth of 256%. In the 2004/5 crop season, the producer price as percentage of the F.O.B. price was 70%. By the 2010/11 crop season, it had increased to 75.2% of the F.O.B price (Table 1).

Table 1: Producer Price and World Price for Cocoa

Years	Producer Price (GH¢ per tonne) ¹	World Price (\$ per tonne)	Share of net FOB price (%) ²
2004/5	900	1,571	70.0
2005/6	900	1,557	72.9
2006/7	915	1,715	-
2007/8	1,200	2,516	71.0
2008/9	1,632	2,599	74.6
2009/10	2,400	3,246	71.1
2010/11	3,200	2,105	75.2

Source: 1. Cocoa Marketing Company, Ghana, 2. Various budget statements of the Government of Ghana

The proportion of exports to the European Union market declined from about 46% in 2005 to 40% in 2009. The proportion of exports going to African countries ranged between about 9% in 2005 and about 10% in 2009. The large share of cocoa beans and gold exports can partly explain the direction of trade and in particular the low share of exports going to other African countries. Very few African countries have cocoa processing plants or facilities to process gold bullion.

Export diversification is one of Ghana's policy goals. Most notable success in this direction has been the rising share of non-traditional exports in total merchandise exports in the past three decades. Non-traditional exports, defined as all exports except cocoa beans, minerals, timber and electricity, more than doubled in value from \$1,164.51 million in 2007 to \$2,423.34 million in 2011 (Table 5.2), even if less than the growth in export values of cocoa beans or gold during the same period. Processed and semi-processed products dominate, accounting for about 83% of non-traditional exports in 2007 and rising to about 88% in 2011. Of these, cocoa products (cocoa paste and butter) make up about 35% of the non-traditional export earnings in 2011 (Table 5.3),

and has expanded quite rapidly since 2005. Cocoa product export volumes almost doubled between 2005 and 2008 from 42,876 metric tonnes to 83,967 metric tonnes. They have risen steadily since then to 226,232 metric tonnes in 2011, an increase of 169%.³

Table 5.2: Trends in Non-Traditional Exports (\$m)

Year	Non-Traditional Exports	Handicrafts	Agriculture	Processing/Semi-Processing
2007	1,164.51	3.79	197.24	963.48
2008	1,340.94	3.32	187.62	1,149.99
2009	1,215.04	2.27	150.86	1,061.91
2010	1,629.20	2.78	164.93	1,461.48
2011	2,423.34	3.57	296.97	2,122.79

Source: Ghana Export Promotion Council

Table 5.3: Ten leading Non-Traditional Export Products

No.	Product	2011	2010	Growth	Contribution To Non-Traditional Exports in 2011
		US \$	US \$		
1	Cocoa Paste	673,625,392	539,099,694	24.9%	27.8%
2	Canned Tuna	220,696,705	116,418,648	89.6%	9.1%
3	Cocoa Butter	178,626,495	127,140,067	40.5%	7.4%
4	Cashew nuts	149,714,740	24,435,354	512.7%	6.2%
5	Articles of Plastics (nes)	130,994,663	86,421,187	51.6%	5.4%
6	Natural Rubber Sheets	72,533,608	42,182,655	71.9%	2.9%
7	Veneers	50,238,897	46,001,268	9.2%	2.1%
8	Fruit, preserved nes	36,699,123	24,410,404	50.3%	1.5%
9	Plywood	35,789,182	32,618,272	9.7%	1.5%
10	Fertilizers	31,411,044	13,220,145	137.6%	1.3%
	TOTAL	1,580,329,849	1,038,727,549	52.1%	65.2%

Source: Ghana Export Promotion Council

³ Bank of Ghana Statistical Bulletin, various years.

Table 5.4: Ten Leading Destination of Non-Traditional Exports

COUNTRY	2011 (US\$ MILLION)	2010 (US\$ MILLION)	% GROWTH RATE 2011/2010	% CONTRIBUTION 2011 NTE's	LEAD PRODUCTS IN 2011
NETHERLANDS	403,444,065	250,184,848	61.26%	16.65%	Cocoa Paste (62.17%) Cocoa Butter (24.76%)
UNITED KINGDOM	208,739,577	130,534,073	59.91%	8.61%	Canned Tuna (70.03%) Cut Pineapples (9.03%)
FRANCE	185,569,281	182,560,520	1.65%	7.66%	Cocoa Paste (45.43%) Canned Tuna (30.38%)
TOGO	168,041,929	118,279,773	42.07%	6.93%	Articles of Plastics (28.93%) Vegetable Oil (11.30%) Soap (6.19%) Aluminium Household Utensils (5.22%) Palm Oil (4.41%)
NIGERIA	148,538,837	96,295,041	54.25%	6.13%	Plywood (17.65%) Margarine (16.12%) Alcoholic beverages (7.02%) Palm Oil (6.02%)
BURKINA FASO	142,731,872	83,416,084	71.11%	5.89%	Articles of Plastics (30.34%) Fertilizers (12.68%) Limestone (12.26%)
INDIA	137,623,255	46,001,001	199.17%	5.68%	Cashew Nuts (74.85%)
GERMANY	123,069,224	86,742,986	41.88%	5.08%	Cocoa Paste (49.71%) Cocoa Butter (25.09%)
UNITED STATES	97,654,373	107,242,493	-8.94%	4.03%	Cocoa Paste (40.33%) Natural Rubber Sheets (23.36%)
SPAIN	71,221,221	60,036,332	18.63%	2.94%	Cocoa Paste (43.24%) Cocoa Butter (19.44%)
TOTAL	1,686,633,634	1,161,293,151	45.24%	69.60%	

Source: Ghana Export Promotion Council

Although the share of total exports to African countries remained below 10%, the share of non-traditional exports to African countries is significantly higher at almost 20% (Table 5.4). It is interesting to note that whereas the industrialised countries (Netherlands, United Kingdom, Spain, France and Germany) are destinations for the 'traditional' non-traditional exports of cocoa products, African countries and other developing countries are more likely to be destinations of other non-traditional exports such as plastic articles and soap (Table 5.4).

5.2. Import Trends

Each year since 2005, with the exception of 2007, has registered a rising trend in import values (Table 5.4). As a ratio of GDP, after a sharp drop in 2006 from about 50% in 2005, the ratio ranged between 31% and 35% over the period 2006 and 2010. Crude oil imports comprise on average about 20% of imports. The exception is 2007 when crude oil's share of imports was more than 25%, largely the result of an increase in world prices.

Box 5 Import Trade Policy

Ghana is generally perceived as having a liberalised trade regime. Tariff rates are generally low and Ghana does not rely on quantitative restrictions. Protection to domestic industry can be provided using instruments designed to influence trade flows, relying, for example on tariffs and quantitative restrictions on imports. There are four tariff rates: 0% for basic goods, 5% for raw materials, 10% for intermediate goods and 20% for finished goods. The average tariff rate declined from 14.3% in 2000 to 13.2% in 2004 and to 13% in 2007 and has remained fairly constant since then. Ad valorem tariffs are applied to all products with the exception of petroleum products. There are no tariff quotas or quantitative restrictions. Permits or certificates are required from the relevant government agency for the import of a selected list of items including arms and ammunition, pharmaceuticals and live animals and plants.

The import trade regime has conferred protection on some import-substituting sectors and penalised others. Coupled with the appreciating real exchange rate, those sectors have suffered a double setback since an appreciating real exchange rate also creates disincentives to the import substituting sector by making the cedi value of imported final goods cheaper than they otherwise should be. The ratio of imports to GDP is about 33%. For a country that is relatively import dependent and does not have a comparatively large export sector it is no surprise that there is a clamour for a stable nominal exchange rate within the context of rising inflation. However, if the objectives of commodity export diversification and expansion of manufacturing are to be achieved, policy makers must make a careful assessment of the exchange rate policy and the import tariff structure. Export diversification is unlikely to be successful within a context of an appreciating real exchange rate.

The establishment of the Tariff Advisory Board is a first positive step to address the concerns about dumping. We recommend that the timeline for the creation of the Ghana International Trade Commission in 2013 is maintained and not derailed. The effective operation of this institution will make it possible for Ghana to take advantage of remedies provided in the Agreements of the World Trade Organisation.

Table 5.5: Trends in Merchandise Imports 2005-2011

	Total Imports (f.o.b) \$m	Crude Oil \$m	Imports/GDP (%)	Crude Oil share (%)
2005	5,347.3	1,129.4	49.9	21.1
2006	6,523.6	1,416.1	34.9	21.7
2007	8,073.6	2,105.3	32.8	26.1
2008	9,734.3	1,835.0	34.1	18.9
2009	8,046.3	1,489.0	31.0	18.5
2010	10,769.8	2,083.6	33.3	19.3
2011*	15,968.3	3,296.2		20.6

Source: Bank of Ghana Statistical Bulletin, various issues, Accra.

In 2005, 31% of Ghana's imports were sourced from Nigeria (17%) for crude oil and China (14%) for its growing importance in the world economy. In 2009 these two countries remained the top single largest country exporters to Ghana accounting for about 36% of total Ghana imports. Imports from China accounted for 22% of total imports.

5.3. The Balance of Payments

The trade balance (the value of exports minus imports) and current account balance have been in deficit in each year during the period 2005-2011. The current account has been in deficit the entire period under review (Table 5.6). The current account deficit ratio registered an increase from 2005, peaking at 21.3% in 2008. The absolute size of the deficit declined in 2009 but rose in 2010 to \$2,769.7 million and \$3675.1 million in 2011, equivalent to 9.9% of GDP.

Balance of payments surpluses were recorded in all years except 2008, largely on account of capital and financial inflows. In 2008, the capital and financial inflows were not enough to match the current account deficit of \$3,543.12 million.

Table 5.6: The Balance of Payments

Year	2005	2006	2007	2008	2009	2010	2011
Trade Balance (\$m)	-2,545.1	-3,027.0	-3,893.98	-4,998.77	-2,206.56	-2,962.0	-3,183.0
Current account balance (\$m)	-773.4	-812.7	-2151.47	-3,543.12	-1,687.4	-2,769.7	-3,675.1
Current Account/GDP (%)	-4.4	-6.5	-12.9	-21.3	-7.9	-9.3	-9.9
Capital & financial Account (\$m)	1,165.7	1,484.9	2,591.43	2,806.48	4327.6	4,289.5	4,479.3
FDI (net) (\$m)	144.97	636.01	855.38	1,220.40	1,684.74	2,527.35	3,222.2
FDI Flows/ GDP (%)	1.4	3.1	5.6	9.5	5.5	7.9	
Balance of Payments (\$m)	84.34	415.12	413.11	-940.75	1,158.8	1,462.7	546.5

Source: Bank of Ghana Annual Reports 2007, 2009, 2011 and IMF www.imf.org/external/pubs/ft/weo

5.4. Foreign Direct Investment

Net foreign direct investment flows increased quite rapidly over the period 2005-2011. The net inflow in 2011 is more than twenty times the 2005 value. Investments in the mining sector and particularly in the oil industry, can explain the rapid rise in investments inflows during the period. As a share of GDP, net foreign direct investment flows increased steadily peaking at 9.5% in 2008.

5.5. Developments in the Exchange Rate

The Foreign Exchange Act 2006 (Act 723) replaced the Exchange Control, 1961 (Act 71) and its amendments. It outlines the procedures for dealing in foreign exchange. The Bank of Ghana is responsible for issuing licenses to foreign exchange dealers. Prior approval is not required for the transfer of foreign currency. However where a transfer is perceived to contravene the laws of Ghana, permission is required from the Bank of Ghana. Temporary exchange controls can be imposed when the "Governor determines that the country is experiencing or has experienced a severe deterioration in its balance of payments."⁴

⁴ Foreign Exchange Act, 2006 (Act 723) Section 20, paragraph 1.

The nominal cedi-dollar exchange rate depreciated each year between 2005 and 2010. The rate of depreciation accelerated between 2005 and 2008. In 2009 the rate of depreciation declined to about 19% and further to 1.5% in 2010 (Table 5.6). The low rate of change in the nominal exchange rate despite the rising inflation differential between Ghana and the United States resulted in an appreciation of the real exchange rate. The surge in the nominal depreciation rate in 2008 was accompanied by a real depreciation of 10% (Table 8). The rate of nominal depreciation in 2009 of 19% was not enough to offset the higher domestic rate of inflation compared to inflation in the United States, and there was a slight appreciation in the real exchange rate. This appreciation in the real exchange rate was maintained in 2010 when the nominal exchange rate depreciated by 1.5%. Appreciation of the real exchange rate is a disincentive towards exporters and can adversely affect producers in the import-substituting sector.

Table 5.7: Trends in Nominal and Real Exchange Rates Cedis per US dollar (Period Average)

	Nominal Exchange Rate (Cedis per US dollar)	Rate of Change in Nominal Rate over previous year (%)	Rate of Change in Real Exchange Rate over previous year (%)
2005	0.911	0.7	-9.5
2006	0.9234	1.4	-5.0
2007	0.968	4.8	-2.6
2008	1.1993	23.9	10.4
2009	1.4295	19.2	-0.4
2010	1.451	1.5	-3.9

Source: Calculated by the author using data from Bank of Ghana Statistical Bulletin and IMF www.imf.org/external/pubs/ft/weo. An increase is a depreciation.

5.6. Developments in External Debt Management

In 2010 the Debt Management Department of the Ministry of Finance and Economic Planning produced guidelines for borrowing and project selection for the public sector. Prior to the publication of this document, the existing pieces of legislation (for example, the Loans Act 1970 (Act 335), the Procurement Act, 2003 (Act 665) and the Financial Administration Act, 2003 (Act 654)) did not provide clear guidelines for borrowing by the public sector.

Ghana reached HIPC completion point in 2004 and is expected to have saved \$230 million each year between 2004 and 2013 in debt service.⁵ The external debt to GDP ratio recorded a sharp decline in 2006 but began to increase in 2007. Despite the increase, the ratio is below the critical benchmark of 50% (Table 5.8). The ratio of debt service to the export of goods and services remains below the critical 25% level (Table 5.8).

⁵ www.imf.org/external/np/sec/pr/2004 accessed 31 July 2012.

The sharp decline in Ghana's stock of external debt in 2006 can be explained by the debt relief it received. However the stock of debt began to increase in 2007 and in 2011 the stock of nominal debt exceeded its 2005 figure. There has been a significant increase in the stock of commercial debt which has risen from \$180.19 million in 2005 to \$985.35 in 2011. About a quarter of the stock of debt in 2007 was commercial debt having risen from less than 3% in 2005. By 2011, Ghana's commercial debt's share of the total stood at 13% (Table 5.8). The terms of commercial loans are more stringent than official loans, in particular concessional loans. The increase in the stock of debt and borrowing from commercial sources notwithstanding the debt sustainability indicators remain below critical benchmark levels.

Table 5.8: External Debt Indicators

YEAR	2005	2006	2007	2008	2009	2010	2011
External Debt Stock (US\$m)	6,347.80	2,177.24	3,590.37	4,035.1	5,007.90	6,118.30	7,589.5
Commercial Debt (US\$m)	180.19	251.04	929.80	838.54	858.87	1,027.67	985.35
Commercial Debt (% of total)	2.8	11.5	25.9	20.8	17.2	16.8	13.0
Debt Service/Export of goods and services (%)	5.5	3.3	3.2	4.3	7.4	3.3	2.9
External Debt/GDP (%)	59.6	10.7	15.0	16.0	19.4	20.5	20.8

Source: Bank of Ghana Annual Report 2009, 2010, 2011

5.9. Conclusion

The export sector recorded positive growth rates during the entire period under review. However, progress in the diversification of the export base towards manufactured goods remains limited. Rather, Ghana has become more dependent on the earnings from primary commodities with the discovery and export of crude oil. Although it is no longer as dependent on export tax revenue as it was in the pre-1983 period, the country is vulnerable to changes in the world prices of cocoa, gold and crude oil. Export's share of GDP is more than 20%. A decline in export earnings will therefore have significant implications for growth. The appreciation of the real exchange rate in each year, except 2008 during the period under review is one explanation for the failure to successfully diversify the export base. An appreciating real exchange rate acts as a tax on the export sector.

SPECIAL TOPICS

- **ASSESSMENT OF GHANA'S OIL AND GAS SECTOR**
- **THE MATTER OF YOUTH UNEMPLOYMENT IN GHANA**
- **GHANA'S PROGRESS ON THE MILLENIUM DEVELOPMENT GOALS (MDGs)**

TOPIC ONE:

ASSESSMENT OF GHANA'S OIL AND GAS SECTOR

The Petroleum Revenue Management Act, Act 815, provides guidelines as to how petroleum revenues should be managed. Thus far, government has done well by complying with the provisions of the Act, save a few unforeseen implementation challenges. In another development, the Ghana National Gas Company has been established and resourced to develop infrastructure for the transportation of gas from the Jubilee Fields for processing for domestic and commercial use. Furthermore, a Legislative Instrument for local content and participation has been drafted by the Ministry of Energy to ensure that Ghanaians play an active role in the oil and gas industry.

The pricing of petroleum products in Ghana is informed by at least four variables: crude oil price, exchange rate, tax and margins. Subsidies continue to play an important role in the final price of petroleum products. Inasmuch as they are not well targeted, the abolition of subsidies could create problems for the poor in society and have adverse consequences on general macroeconomic stabilization.

6.1 Developments in Production and Receipts: Trends and Production Challenges

Oil was discovered in commercial quantities off the western coast of Ghana in July 2007 and actual production commenced three years later in December 2010. The period between discovery and production was spent on intense field development work by the Government of Ghana and the Jubilee partners. Prior to the commencement of production, the Minister of Energy had in July 2009 formally approved the Jubilee Field Phase 1 Development Plan on behalf of the Government of Ghana. This development plan was expected to involve the drilling of 17 wells, comprising nine production wells, six water and two gas injection wells to re-inject water and gas into the reservoir for the maintenance of pressure balance and to enhance the performance of the nine production wells (Tullow Ghana, 2009). Another key feature of the development plan was that development activities would be done in phases. For the first phase, it was planned that wells drilled will deliver a plateau daily oil production rate of 120,000 barrels. Phase I was completed in October 2011 when all 17 wells were drilled and brought on stream. During the second phase, it is projected that average daily production will increase to 250,000 barrels of oil per day (GNPC, 2008).

Actual gross production levels in 2011 averaged 66,000 bopd, rising to 88,000 bopd before declining to 70,000 bopd at the end of 2011. When compared to the initial target production levels in the region of 120,000 bopd, the actual production levels in 2011 fell short by nearly 50,000 bopd. The shortfall is attributed to reduced productivity in a number of wells related to problems with the original well completion design. However, this reduced productivity is not expected to affect the overall level of field reserves or resources and a remedial work programme has been initiated by the Jubilee partners to regain well productivity lost to date. In its interim management statement of May 2012, Tullow oil noted that remedial work has been successful but expects average production in 2012 to be in the region of 70,000 to 90,000 bopd still short of the initial projections of 120,000 bopd. The plateau production rate of 120,000 bopd is now expected in 2013.

6.2 Assessment of Accountability and Compliance with Revenue Management Legislation (Act 815)

The Petroleum Revenue Management Act (PRMA) Act 815, which provides the framework for the collection, allocation and use of petroleum revenue was passed by Parliament and assented to by the President in April 2011. This law required the establishment of a number of accountability mechanisms, reporting requirements and the determination of the annual budget funding amount from petroleum. This section looks at compliance with key provisions of the law namely: reporting, determination of the benchmark revenue, governance and auditing.

Reporting

For purposes of transparency and accountability, the Act requires that information on petroleum receipts must be published by the Minister of Finance in at least two state owned daily newspapers and in the Gazette on a quarterly basis. The reports must also be made available on the website of the Ministry of Finance and Economic Planning.

The Ministry of Finance and Economic Planning has shown consistency in publishing this report. Petroleum Receipts and Distribution Reports were published for the period ending 30th September 2011, 31st December 2011 and 31st March 2012, representing the first three quarters since the passage of the bill in April 2011. At the time of writing, copies of the reports for September and December 2011 had been placed on the Ministry of Finance's website although the one for March 2012 was not seen.

The Bank of Ghana is also obligated by the law to publish quarterly reports on the performance and activities of the Ghana Petroleum Funds and to publish semi-annual reports on the Funds, which must be submitted to Parliament, published in two state owned daily newspapers and put on the website of the Bank. The Bank of Ghana presented the semi-annual report to Parliament but did not publish it in the national dailies as prescribed by the law. A check on the Bank's website showed that it had complied with the provision of publishing the semi-annual report on its website; December 2011.

Governance

Apart from Parliamentary oversight of the management of petroleum revenue, a key governance provision in the PRMA is the establishment of an eleven-member Public Interest and Accountability Committee (PIAC) to monitor and evaluate compliance with Act 815 by government and other relevant institutions. This committee has been set up in accordance with the Act, and the Minister of Finance and Economic Planning inaugurated the PIAC in September 2011. Another governance provision is the appointment of a seven member Investment Advisory Committee (IAC) to advise the Minister and to monitor the management of the Ghana Petroleum Funds. This IAC was established in January 2012. There is evidence that both of these committees are functional, meeting on a regular basis and discharging the duties imposed on them by the PRMA. Notably, the PIAC published its first annual report on petroleum revenue management in March 2011.

Determination of Benchmark Revenue

In Section (5) of Schedule 1, Benchmark Revenue is defined as "the sum of the expected revenue from crude oil, expected gas royalties and the expected dividends from the national oil company". The benchmark revenue refers to the estimated revenue from petroleum operations expected by the Government for the corresponding financial year. Act 815 provides explicitly for the deter-

mination of the benchmark revenue. In schedule 1 of the Act, the expected revenue from crude oil is the product of unit prices and quantity data of crude oil. The Act calls for the use of historical data on prices and quantity as well as the use of forecasted values of prices and quantity to be used in the determination of revenues for any given financial year. In addition to this formula, the Act provides that any underlying assumptions used in the estimation of the benchmark revenue should be fully disclosed and explained and the forecasts derived certified by a reputable independent expert.

Since the passage of Act 815, the benchmark revenue has been estimated for two financial years: 2011 and 2012.⁶ For both the 2012 and 2011 forecasts, although the figures were included in the respective annual budget statements, there is no evidence that the forecasts were certified by an independent expert, nor is there any evidence to suggest that the formulae prescribed in Act 815 were followed.

Whilst the non-compliance with the formulae in the Act is enough cause for concern, a more worrying consequence is that the estimated benchmark revenues for both years appear to have been overstated, particularly in the projections for corporate taxes. Table 1 shows that the 2011 actual outturns were only 46.7% of the projections for the benchmark revenue were realized. Within the context of Act 815, reliable petroleum revenue estimates is key in determining how much is spent in the annual budget and how much is saved every year. The benchmark revenue as determined by the formulae prescribed is to be shared between the Annual Budget Funding Amount (spent through the annual budget), the Stabilization Fund and the Heritage Fund (collectively known as the Ghana Petroleum Funds). If the forecasted benchmark revenue is high, the annual budget funding amount will also be correspondingly high and Section 12 (2) specifies that the Ghana Petroleum Funds will receive revenues in excess of the Annual Budget Funding Amount. Based on this provision, if the actual revenues fall short of the estimates, the ABFA will receive what was approved by Parliament whilst the flows predicted to go into the Petroleum Funds will not be fully realized. The overestimation in 2011 had this effect and the 2012 half year outturns suggest that actual revenues may again fall short of the projections and adversely affect the growth of the Ghana Petroleum Funds.

Table 6.1: Oil Revenues: Forecast Versus Actual

	Actual (GH¢ mil)	Forecast (GH¢ mil)	Variance (GH¢ mil)	Variance (%)
Total Oil Revenue	666.2	1,250.00	(583.80)	-46.704
<i>Royalties</i>	184.4	201.25	(16.85)	-8.372
<i>Carried and Participating Interest</i>	481.8	445.77	36.03	8.082
<i>Corporate Taxes</i>	0	603.76	(603.76)	-100

⁶ Although oil revenue estimates for 2011 had already been estimated in October 2010, subsequent to the passing of Act 815 in April 2011 another estimate was done in July 2011 for the 2011 supplementary budget

Auditing

With regards to auditing of the Petroleum Funds, the Act gives the Bank of Ghana three months after the close of the financial year to submit financial statements on the Funds to the Auditor-General. Section 46 requires the Auditor-General to audit the Petroleum Funds and to submit the audited report to Parliament not later than three months after receiving financial statements on the Petroleum Funds from the Bank of Ghana. This procedure gives a period of about six months after the end of the financial year for an audit report to be submitted to Parliament. At the time of writing, the Auditor-General was yet to conduct this assignment for the 2011 financial year.

6.3 Update on petroleum legislation and regulatory framework

The development of petroleum legislation in Ghana dates back to the early 1980s when three important pieces of legislation were promulgated alongside the establishment of petroleum institutions. PNDC Law 64 (1983) set up the Ghana National Petroleum Corporation, PNDC Law 84 (1984) provided a legal framework for petroleum exploration and production and a model petroleum agreement and PNDC Law 188 (1987) set up the tax regime for petroleum production. From this period up to 2007 when oil was discovered in commercial quantities, additional legislations setting up regulatory institutions were passed. These included the Energy Commission (Act 541), the Public Utilities Regulatory Commission (Act 538) both in 1997 and the National Petroleum Authority (Act 691) in 2005. The Energy Foundation was also set up in 1997.

The priority for the legislations after 2007 was to lay the ground rules that would govern the exploration, development and production as well as the regulatory oversight for the sector to reflect the country's new status as an oil producer. The initial consultations and drafting process however ended with a change in government in 2009.

Apart from the Petroleum Revenue Management legislation which the Ministry of Finance and Economic Planning went ahead with and which was passed in April 2011, the new government set up a fresh process to rewrite the regulatory framework to govern exploration and production. From this new process, an Exploration and Production Bill was presented to Parliament in 2010. However, the failure to introduce a separate regulatory law meant that there was no real separation of the regulatory functions from the commercial functions of the National Oil Company – GNPC. This among other reasons led to the withdrawal of the first version of the Exploration and Production Bill from Parliament in late 2010. Subsequently a new Petroleum Commission Act was enacted in July 2011 to set up the Petroleum Commission as the regulator for the petroleum sector, effectively taking away the regulatory and advisory functions of the GNPC. It is now far from certain when parliamentary debate on the latest version of the Exploration and Production Bill will resume and when it would become law.

Other key policy documents published since the discovery of commercial oil are the Energy Strategy and the Energy Policy in February 2010 as well as the Local Content and Local Participation Framework in January 2011.

6.4 Update on Gas Developments

Since the formal commissioning of the Jubilee field on 15th December 2010, it has produced on average an estimated 70,000 bbls of crude oil and 90 MMscf of gas per day. An estimated 10 MMscf of the gas produced is used daily to power the FPSO, with the remaining re-injected or flared. Two challenges have arisen out of the current system in place in handling the associated

gas produced from the Jubilee field. The first is that, the Government of Ghana in its Oil and Gas Policy document has a no flaring restriction, and the second is that the continued flaring of gas not only poses a significant hurdle to the smooth operation of the FPSO, but that the re-injection of gas beyond what is technically feasible could potentially have some negative impact on the productivity of the reservoirs.

Accounting for these challenges is the unavailability of a gas infrastructure to transport and process gas from the field for domestic and commercial consumption. Many industry experts point in part to the fast track development and production of the Jubilee field, with immediate infrastructural plans not in place to handle the associated gas. The government in September 2010 established a National Gas Task force (NGTF) to among others, review the various aspects of the proposed commercialization of gas from the Jubilee field. The final report was presented to government and subsequently approved with special emphasis on the swift implementation of the early stage of the gas infrastructure system (as per the recommendation by the NGTF), in order to address the above challenges posed by the flaring and reinjection of associated gas from the Jubilee field.

The commitment and drive to move the process forward is further demonstrated through the setting up of The Ghana National Gas Company (GNGC), with the responsibility to provide oversight in the building of a national gas infrastructure with an overall goal of ensuring that natural gas, associated gas and NGLs produced in Ghana are effectively and efficiently processed into clean fuels for domestic use and export. GNGC is also required to promote the development of petrochemical industries, and substantially reduce and/or eliminate flaring of gas. It is expected that these will stimulate the development of the Western Region as a new economic growth pole for the country in the long term.

Government provided GH¢20 million in 2011 to help capitalize the GNGC. It is estimated that GNGC requires about \$1billion to build the Gas infrastructure base of Ghana. Further financing support estimated at about \$850million is expected to come from the \$3 billion China Development Bank (CDB) loan facility being procured by the Government of Ghana, with the GoG contributing the remaining \$150 million towards the gas infrastructure project. Construction works on a gas processing plant at Atuabu in the Elembelle District of the Western Region has commenced.

6.5 Update on Local Content and Participation

The development and more importantly effective implementation of a local content and local participation policy is seen potentially as one of the most important policy options available to government in advancing the stake of Ghanaians and realizing maximum benefits from the oil and gas industry in a sustainable manner. The Ministry of Energy has spearheaded the development of a local content and local participation policy framework for Ghana. Cabinet approved the draft local content and participation policy framework in February 2010, after consultations with other major stakeholders including the IOC's. This was followed by a nationwide road show in all the ten regions of Ghana, aimed at sensitizing Ghanaians about the policy.

To ensure that the local content policy is backed by regulations, a Legislative Instrument (LI) for local content has been drafted and is currently being reviewed by the Ministry of Energy. The newly created Petroleum Commission is the agency charged with oversight responsibility of ensuring that all directives set forth in the local content and participation policy and regulations are

adhered to. The Ministry of Energy has recruited experts to develop an implementation strategy to move the country forward.

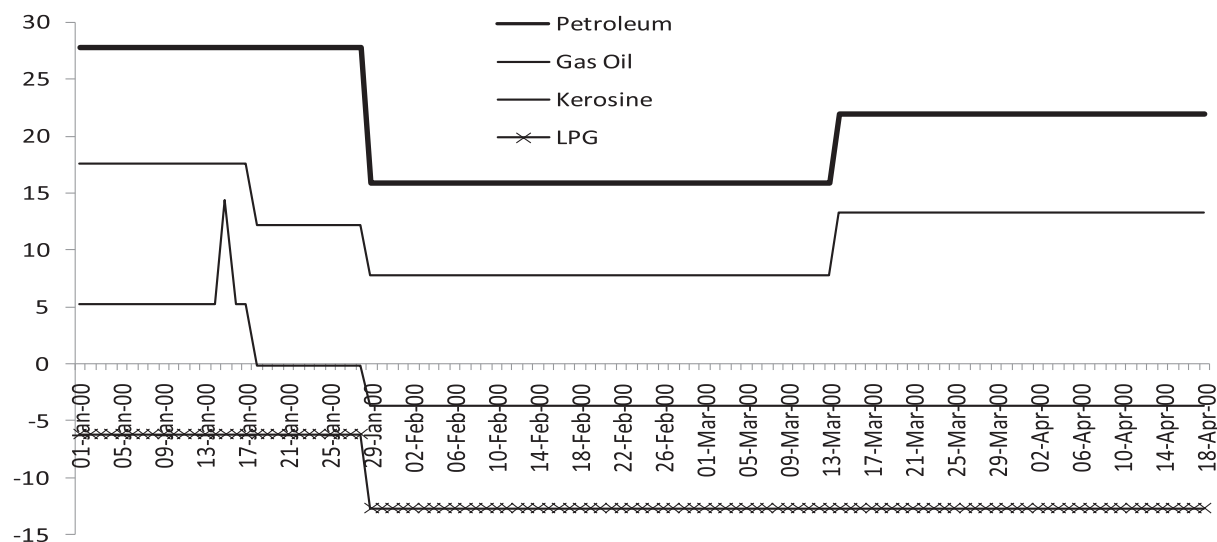
However, successful implementation of the country's local content and participation policy is constrained by our current technological, financial and human resource base. A key reason for the minimal participation of Ghanaians within the newly emerging oil and gas industry is the lack of direct connection between the needs of the industry and the nation's output of trained technicians. There is the need to reorient and further improve the nation's Technical/Vocational Education and Training institutes.

Government, in realizing these challenges, has instituted concrete measures which includes collaboration between the Ministry of Trade and Tullow Oil Ghana to establish a Small and Medium Enterprise (SME) Development Centre in the Western Region to develop the skills and capabilities of local suppliers in order to meet international procurement standards and enable them win more contracts and be active players within the industry. Government in its efforts to meet the targets outlined in its local content policy framework has partnered the World Bank to design an Oil and Gas Capacity Building Program housed within the Ministry of Energy to strengthen local technical skills in Ghana's emerging oil and gas sector and improve public management and regulatory capacity while enhancing transparency. The program has provided invaluable support to the newly established Petroleum Commission. Specifically, the educational support provides assistance to vocational training institutions including two technical institutes in the Western Region (i.e. the Takoradi Technical Training Institute and Kikam Technical Institute) and the Regional Maritime University in Tema.

6.6 Assessment of Domestic Pricing of Petroleum Products and Subsidies Policies

Over the years, one of the ways by which government has shown sensitivity to the plight of the ordinary Ghanaian has been to subsidize the prices of petroleum products or reduce petroleum taxes or both. As can be seen in Figure 1 below, the tax component of premium gas oil (i.e. super) which stood at 27.76Gp (i.e. GH¢0.2776) per litre in August 2007 was reduced to 15.93Gp per litre in March 2009. The price of diesel (i.e. gas oil) was reduced on two occasions from 17.55Gp in August 2007 to 12.15Gp in May 2008 and further to 7.75Gp in March 2009.

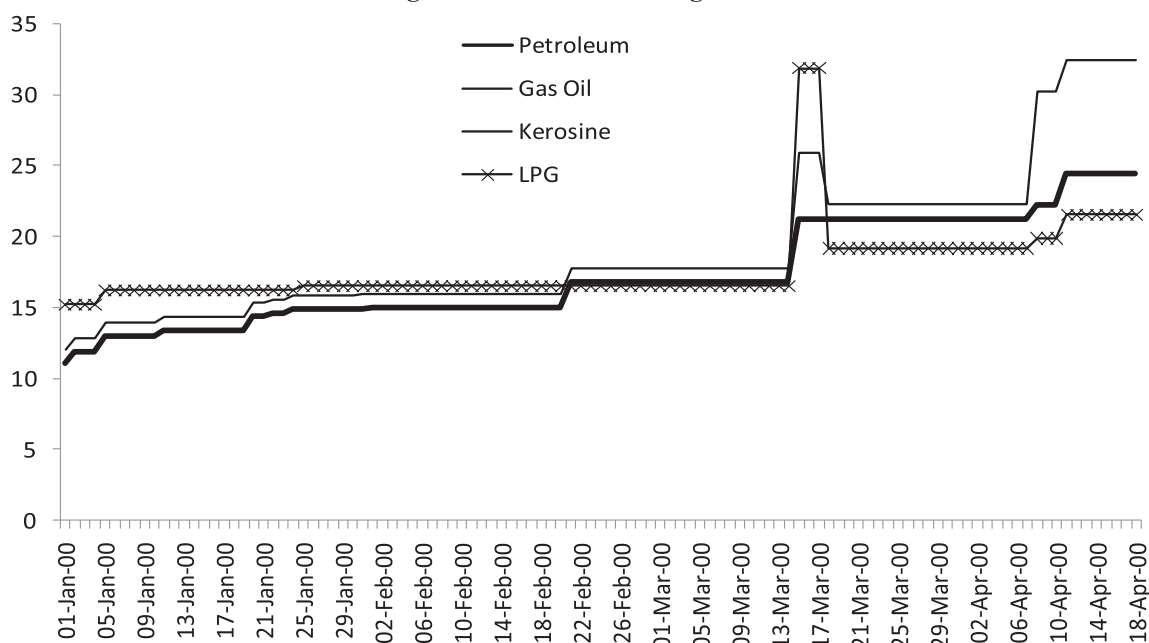
Figure 6.1: Petroleum Taxes



Source: National Petroleum Authority

Until May 2008 when a subsidy was instituted (i.e. 0.1574Gp per litre), kerosene attracted an average tax of 5.29Gp per litre. This subsidy would later rise to 3.66Gp per litre in March 2009. Liquefied Petroleum Gas (LPG) was already being subsidized at 6.18Gp per kilogram in August 2007. However, the subsidy was more than doubled to 12.68Gp per litre in March 2008 with the view to encourage the use of the product and reduce the felling of trees for fuel.

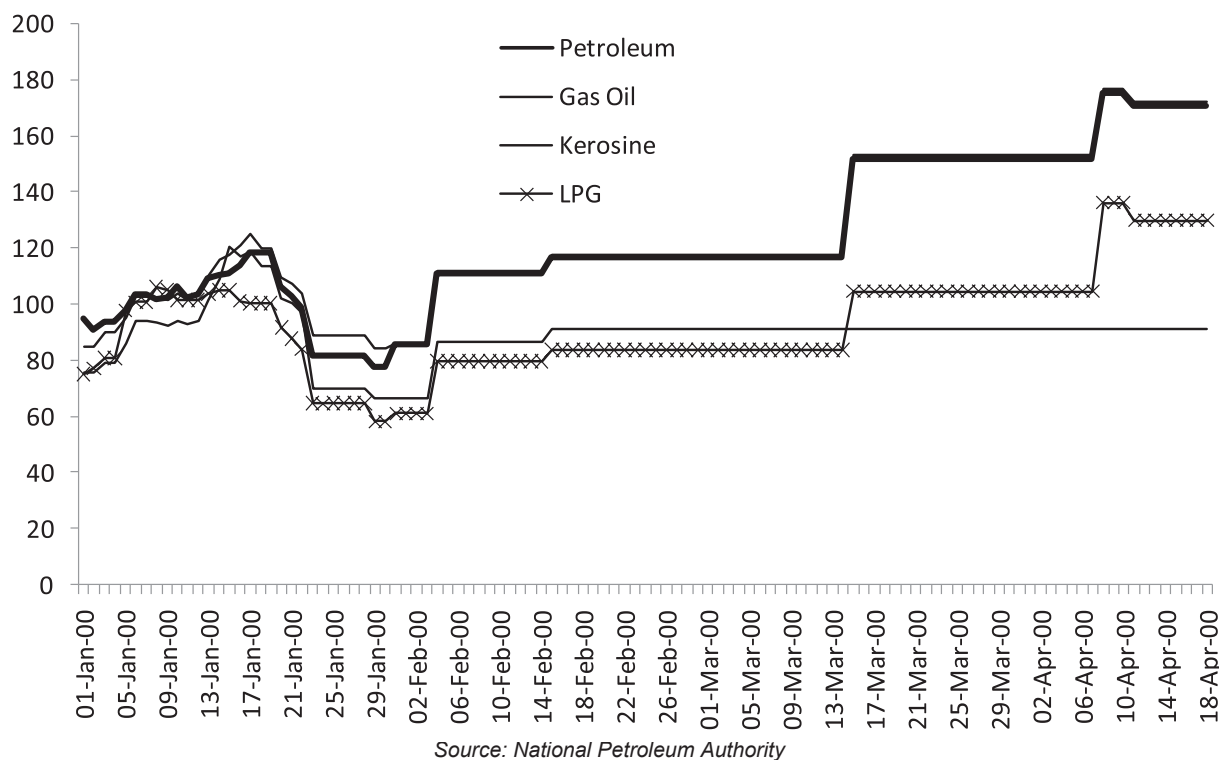
Figure 6.2: Petroleum Margins



Source: National Petroleum Authority

Petroleum margins experienced an upward spiral over the same period, as indicated in Figure 2, peaking in February 2012, except for LPG which peaked in February 2011 at 31.92Gp per kilogram.

The weak Cedi, together with rising crude oil prices, pushed up the ex-refinery prices of the four products over the August 2007-June 2012 period. As earlier indicated, petroleum margins were revised upward as the tax component declined on average whilst subsidies increased. That notwithstanding, the influence of the tax component was too strong, thus, dragging the ex-pump price along, as can be seen in Figure 3.

Figure 6.3: Ex-Pump Prices

6.7 Assessment of Pricing Strategy

As already indicated above, four factors influence the pricing of petroleum products: crude oil prices, exchange rate, taxes/subsidies and margins. Crude oil prices rose significantly over the past 4 years, the exchange rate appreciated and margins increased. Even though taxes on premium and diesel fuel (gas oil) were reduced, and the subsidies on kerosene and LPG increased, these could not counter the combined effects of the depreciating cedi, increasing margins and the rising crude oil prices.

In order to forestall serious under-recoveries, the National Petroleum Authority (NPA) increased petroleum prices. Government, however, responded by absorbing the increased prices by increasing the subsidies on kerosene and LPG and reducing the tax component of the price formula for premium and gas oil. This has led to increased under-recoveries over the years. Kerosene subsidies directly benefit the poor since they use the commodity the most. It is unclear however how LPG subsidies affect this group since it is used mostly in middle class homes with the poor still largely dependent on firewood.

The notion that subsidizing petroleum products in an economy like ours benefits the rich rather than the poor is not entirely accurate given the pass through effect petroleum prices have on other prices in the economy. Petroleum price increases have an immediate impact on the economy and this is evidenced by transportation and food price increases. With the poor spending a greater part of their incomes on food, they are more affected than the rich. Following from this, even though petroleum price subsidies benefit the rich, increasing it would be more detrimental to the poor than the rich. However, there must be a system in place to facilitate proper targeting of subsidies so they do not end up in the wrong hands. Once this is done, government would not be subsidizing everyone's consumption, thus, reducing the occurrence of under-recoveries.

The issue of under-recoveries is quite worrisome and must be addressed to forestall budget overruns. Part of the under-recoveries can be traced to smuggling while others are due to the use of LPG in commercial transportation, notably taxis. Due to the fact that the prices of petroleum products in Ghana are among the lowest in the ECOWAS sub-region, some Ghanaians and non-Ghanaians smuggle the products to neighbouring countries to sell. What this means is that government subsidizes the consumption of non-resident foreign nationals, thus, leading to serious under-recoveries. This issue of smuggling undermines the cushion government seeks to give Ghanaians from increased fuel prices.

Government subsidizes LPG with the intention of making it affordable to the average Ghanaian household and pre-empting the continuous felling of trees for fuel. However, commercial drivers have taken to the use of LPG since it is more cost-effective. This has been blamed partly for the occasional shortage of LPG in the country and more importantly defeats the purpose of the subsidy on the product. The increased consumption of the product means that more would have to be imported which also means government has to pay more for subsidies. Since this is unanticipated most of the time, government finds it difficult to pay for them in any given fiscal year.

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TOPIC TWO:

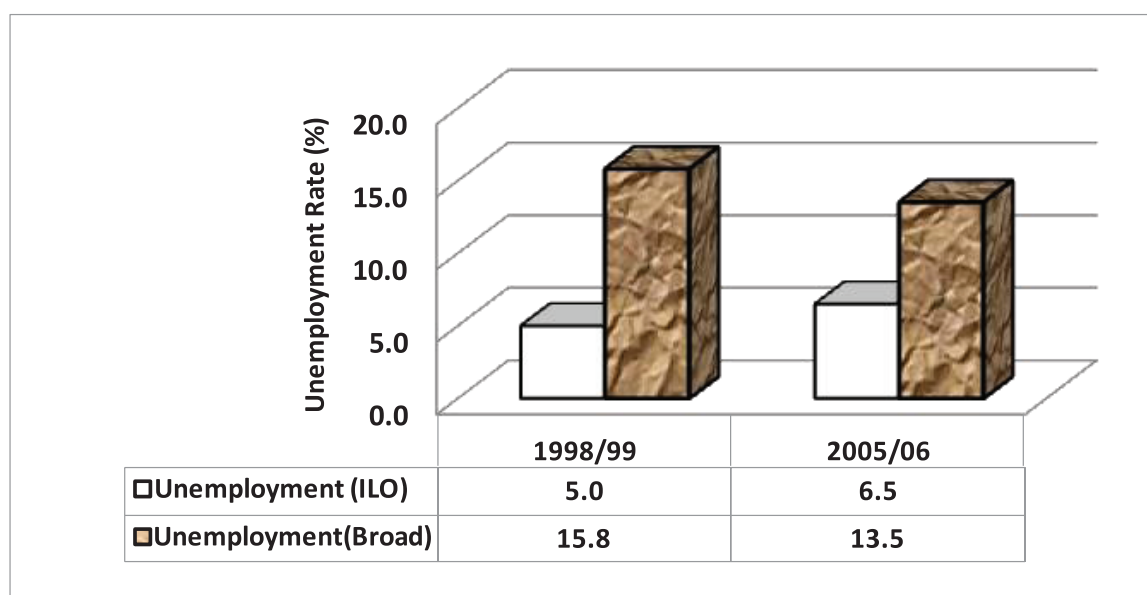
THE MATTER OF YOUTH UNEMPLOYMENT IN GHANA

7.1 Youth employment and unemployment in Ghana

Lack of regular employment data continues to constrain any in-depth trend analysis of youth unemployment and employment challenges in Ghana. With the analysis of the 2010 Population and Housing Census still underway, the dataset of the fifth round of the Ghana Living Standards Survey (GLSS5) conducted in 2005/06 remains the most recent and reliable data source for labour market analysis in the country. Available evidence indicates that the youth face bigger challenges in the labour market than adults do. The youth are highly vulnerable to joblessness and have poor or low quality of employment relative to the adults. According to the International Labour Organization (ILO), about 6.5% of young people in the labour force were unemployed in 2006 compared with 2.8% and 1.3% of adults aged 25-44 and 45-64 years respectively. Similarly, 5.0% of the youth were estimated to be unemployed in the country in 1998/99 as against 2.9% and 1.5% of adults aged 25-44 and 45-64.

But the ILO definition of unemployment (job-seeking borne out of idleness on account of jobless) tends to underestimate the unemployment phenomenon in developing countries. Indeed, many jobless people in Ghana who are available for work in many instances fail to seek work because of the absence of employment or labour centres to register the unemployed, or because of the perception that there are no jobs. The result is a high rate of hidden unemployment and a persistent large discouraged worker effect. For Ghana, a broader definition of unemployment (that is, jobless and available for work but not necessarily seeking work) puts the youth unemployment rate at 15.8% and 13.5% in 1998/99 and 2005/06 as against the narrow ILO unemployment rate of 5.0% and 6.5% respectively (Figure 7.1).

Figure 7.1: Unemployment Rate 1988/89 and 2005/06



Source: Computed from GLSS 3, 4 & 5 Dataset, Ghana Statistical Service

The unemployment rate is almost 4 times higher among urban youth than their counterparts in the rural areas. A broader measure of unemployment puts the youth unemployment rate in urban areas at 22.8% as against 8.9% in the rural areas. Two reasons account for the disparity in the rural-urban youth unemployment. There is substantial underutilization of the rural youth labour force which is largely engaged in agricultural activities. This disguises rural unemployment. Second is the tendency of the rural youth to drift into the urban centres in search of elusive jobs partly because of the relatively low earnings in agriculture and partly because of the unattractiveness of rural life to the youth.

By gender, youth unemployment is higher for males at 6.9% than females at 6.1% in 2006 based on the ILO definition. The broader definition puts the rate at 13.9% for young females compared with 13.2% for males. This suggests that a larger proportion of jobless females than males who are available for work do not seek work indicating a larger hidden unemployment rate for females than males.

An ironic and disturbing phenomenon in Ghana in recent years is that the youth unemployment rate also increases with education. Table 7.1 reports a higher rate of youth unemployment rate among the educated than among the uneducated. This gives credence to the plight of graduate unemployment in the country of late. Indeed, 33% of young people in the labour force with tertiary education were reported to be unemployed in 2006. The rate is estimated to be higher at about 50% if we count the hidden unemployed. The rate stood at 18.5% and 14.8% for the youth with technical, vocational or commercial education and secondary education respectively. In contrast, only 3.0% and 6.1% of young people without formal education and those with basic education were observed to be unemployed respectively in 2006.

Table 7.1: Unemployment Rates by Demographic Groups

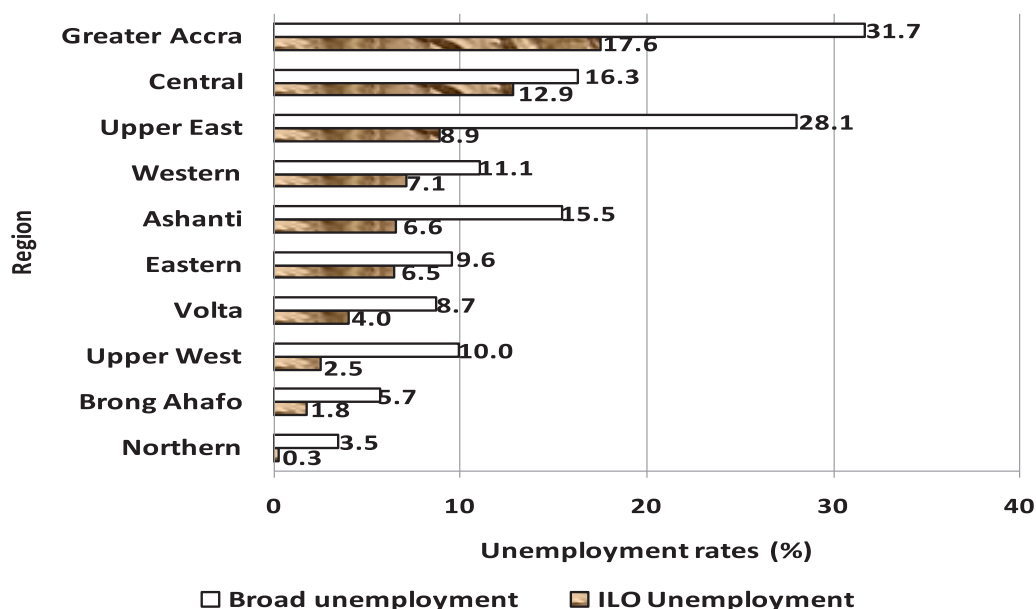
Demographic Classification	ILO Definition	Broader Definition
Sex		
Male	6.9	13.2
Female	6.1	13.9
Location		
Urban	13.2	22.8
Rural	3.4	8.9
Education		
No education	3.0	9.7
Basic	6.1	12.7
Secondary	14.8	23.1
Voc/Tech/Commercial	18.5	29.3
Tertiary	33.0	49.9

Source: Computed from GLSS 5 Dataset, Ghana Statistical Service

With limited or no employable skills to enable them access formal sector employment, young people with basic or no education have no option than to take refuge in the informal sector to earn a living rather than remain unemployed. This largely explains the lower youth unemployment rate among the uneducated or those with low education. On the other hand, the limited

employment opportunities in the formal sector coupled with the unattractiveness of the informal sector to young people with at least secondary education explains to a greater extent the higher youth unemployment rate among this group of people. With over 50 universities and 10 polytechnics offering similar programmes in the country and the slow growth of the formal sector, the problem of youth unemployment among the educated will continue to be an albatross for the country.

Figure 7.2: Unemployment Rates by Region



Source: Computed from GLSS 5 Dataset, Ghana Statistical Service

By regions, youth unemployment is highest in Greater Accra Region at 17.6% followed by the Central Region with 12.9% rate in 2006 (Figure 5.3). The Northern Region is reported as the region with the lowest youth unemployment rate of 0.3% followed by Brong Ahafo Region with 1.8%. But, the three northern regions and Brong Ahafo Region reported over three times higher broad youth unemployment rates than the rate based on the conventional ILO definition of unemployment. Three other regions, Ashanti, Volta and Greater Accra regions also saw broader unemployment rates among the youth to be twice higher than the rate based on the ILOs narrow definition.

Table 7.2: Type and Sector Employment and Earnings by Age Group, 2006

Indicator	Youth (15-24 years)	Adults (25-44 years)	Adults (45+ years)
Type of Employment			
Paid employment	13.3	20.5	15.3
Self-employed with employees	1.0	4.9	5.9
Self-employed without employees	25.2	57.2	68.4
Contributing family work	50.4	16.0	10.2
Other	10.1	1.4	0.2
Employment Sector			
Public	1.5	7.9	9.4
Private Formal	4.3	12.6	11.7
Informal	94.2	79.5	78.9
Average monthly earnings (old Cedis)	114,125.60	182,093.80	249,505.30
Working poverty rate (%)	33.1	23.6	24.3

Source: Computed from GLSS 5 Dataset, Ghana Statistical Service

Ghanaian youth do not only suffer from a higher rate of unemployment relative to their adult counterparts, but are also engaged in poor or low quality employment. Indeed, over half of young people were engaged in contributing to family work mostly in agriculture earning virtually nothing compared with 16% and 10.2% of adults aged 25-44 and 45+ years in 2006 (Table 7.2). Only 13.3% of the employed youth as against 20.5% and 15.3% of adults (25-44 years) and 45+ years respectively) were engaged in paid jobs.

Similarly, only 1.0% of employed youth are employers (i.e. self-employed with employees) compared with 4.9% and 5.9% of younger and older adults employed respectively. The outcome of the poor quality of employment of young people in Ghana is reflected in their lower average monthly earnings relative to that of adults. Average monthly earnings of the youth is estimated at about 63% of that of adults aged 25-44 years and 46% of that of adults aged 45+ years. Consequently, 1 out of every 3 employed youth is a working poor compared with every 1 out of every 4 employed adult being poor.

7.2 Sources of Youth Employment Challenges

Labour market challenges facing the youth in the form of high incidence of unemployment and their engagement in poor quality jobs emanate from the demand and supply side of the labour market. Labour demand depends largely on the pattern and sources of economic growth. Although, the country has recorded a consistent strong growth over the past decade and a half, job creation has been skewed in favour of low labour absorption sectors of mining, finance and telecommunication. The growth of high labour absorption sectors of manufacturing and agriculture has been slow and are judged to be among the weak performing sectors in recent years. Infrastructural and institutional bottlenecks that hamper growth and expansion of the private sector may also be blamed for the slow growth of employment-oriented sectors for job creation.

In effect, the employment content of Ghana's economic growth has been quite weak and this is reflected in an estimated 0.4 employment elasticity of output between 2004 and 2008 by the ILO (ILO, 2008).

On the supply side, the lack of appropriate skills produced by academic and training institutions for the labour market is one major source of youth unemployment particularly among the educated. There is a growing concern that programmes pursued at tertiary and second cycle institutions in Ghana are biased towards humanities and social science as against physical sciences, engineering and technology. Currently, there are about 50 public and private universities and 10 polytechnics in the country, few of which are running courses in medicine, science, engineering and technology where skills are in short supply. In contrast, increasing supply of human resource in business administration, arts and social sciences are in excess of what the economy requires, thereby contributing to the problem of educated joblessness.

In addition, the curricula design of most educational and training institutions appears not to take into account the changing needs of the job market and hence the demands of industry. There is also very little opportunity if any, for trainers or instructors to retool through practical attachment in industries to be in tune with changing demands in the labour market. This makes instructors ill-equipped to be able to deliver effectively in class to the detriment of students. Moreover, the emphasis on examination as the main tool for assessing students and trainees, plus the emphasis on certificates rather than the ability to deliver in the labour market, undermines the ability of the youth to cope with the changing dynamics of the labour market.

The inherent weakness in the current education system also tends to contribute to employment generation challenges in the country. A considerable number of Junior High School (JHS) leavers fail to make the grade to move up the education ladder and therefore enter the labour market with no employable skills. Estimates from the Ghana Education Service indicate that between 2008 and 2011, over 675,000 Basic Education Certificate Examination (BECE) leavers failed to make the grade to enter any Senior High School (SHS). Similarly, less than 50% of SHS leavers are found to secure admission into tertiary institutions. In 2010, out of about 351,000 pupils who sat for the BECE, about 49% obtained the required grades to enter SHS with about 179,000 entering the labour market as new entrants with little or no employable skills. About half of 157,500 SHS leavers in 2010 could not obtain the required pass to gain admission into any tertiary education and were thrown into the labour market with limited employable skills. Furthermore, public tertiary institutions produced nearly 40,000 tertiary graduates in the same year, suggesting that at least 300,000 new labour market entrants overall were recorded in 2010 with limited job opportunities and thus creating high incidence of joblessness particularly among the youth.

7.3 Implication for Labour Force Capacity Building and National Security

The phenomenon of unemployment constitutes under-utilisation or waste of a nation's human resources with far reaching implications for the country. Undoubtedly, the youth constitute a very important source of human resource for growth and development of a nation if they are gainfully and productively engaged. However, if their useful skills remained untapped, they become a major source of civil conflict and social tension with implications for social cohesion and national security.

Young people with little or no education and faced with bleak prospects of a meaningful future, often become disillusioned and may be used as an instrument to fuel instability, radicalisation and violent conflict. To a considerable extent, the longstanding civil conflict in Bawku, and the pockets of tension in other parts of the country as well as election related conflict, have always seen a deep involvement of these jobless youth. Social vices including commercial sex, armed robbery, HIV/AIDs, drug abuse, and violent conflict, among others, prevalent particularly among the youth are often blamed on labour market challenges. The increasing incidence of street hawking and migration of the youth in Ghana across the Mediterranean with its attendant risks, are not only symptoms of labour market challenges facing these people, but also a reflection of a sense of hopelessness.

The high rate of youth unemployment and their involvement in low quality jobs are partly a reflection of labour market barriers. Specific labour demand barriers include discrimination by employers on the grounds of lack of job experience, insufficient exposure to working environment and bad stereotypes. Information gaps between jobseekers and potential employers and barriers to the creation and development of businesses, particularly in gaining access to financial, physical and social capital are other sources of labour market barriers confronting the youth. Limited labour market experience of the youth has often constrained their entry into the formal segment of the labour market and has become a source of high incidence and long duration of youth unemployment. Estimates from the GLSS5 indicate that about 45% of unemployed youth spend at least one year seeking employment out of which more than half spend at least two years battling with unemployment. Quality job and associated higher earnings are the obvious return to education and skill training. Consequently, the inability of educated youth to secure decent and gainful employment could have a discouraging effect on future education and skill training, exacerbate their labour market challenges, can have adverse implications for the training of future generation and become a source of intergenerational poverty.

7.4 Assessment of Employment Specific Policy

The absence of a well coordinated and harmonised national development strategy geared towards employment oriented growth has been the bane of the country's economic management. The role of government in the labour market is often necessitated by the failure of the market to ensure a reasonable and sustainable growth of productive employment in the economy. Although, there are concerns about the distortions and rigidities in the labour market arising out of government intervention, there is no doubt that the formulation and implementation of public policy targeted at protecting the vulnerable and the weak in the labour market could help address inequality.

Ghana is yet to have any comprehensive national strategy that focuses primarily on employment. A draft employment policy presented to Cabinet in 2008 is yet to be approved and adopted for implementation. Historically, employment issues have often been treated as residual or passive outcomes of sectoral and macroeconomic policies. In Ghana, policies on employment in particular and labour market issues in general have been mostly uncoordinated. Government's economic policies prior to the economic reform in 1983 were characterised by direct state involvement and control of economic activity which resulted in expansion of public sector employment in the 1960s and 1970s.

A change in economic policy strategy from direct state involvement to private sector led economic strategy under the Breton Wood's sponsored economic reform spurred labour movement from public to the private sector, particularly, the informal sector. Public sector retrenchment

exercise, pursued as part of the reform, resulted in the layoff of many public sector employees. Indeed, between 1985 and 1991, employment in the public sector declined by 59.7% with about a third of this decline emanating from the public sector retrenchment programme. In addition, youth unemployment rate surged from about 5% in 1987/88 to 17% in 1991/92. Most of the affected public sector workers were at the lowest end of the job ladder without the appropriate skills to enable them secure alternative placement in the private formal sector. Consequently, most of these people took refuge in the informal sector resulting in a surge in informal sector employment from 83.8% in 1984 to 88.4% in 1991 (Baah-Boateng, 2005).

The adverse implications of the reform measures in the labour market prompted the introduction of a number of programmes in the 1990s to reverse the employment challenges in the economy. This includes the Programme of Action to Mitigate the Social Cost of Adjustment (PAMSCAD), Alternative Employment Programme (AEP), and some programmes in the agricultural sector. Under the PAMSCAD a number of community projects were set up to generate employment for rural households particularly in northern Ghana. These projects were targeted largely at low income households, unemployed and underemployed urban households and retrenched workers. The AEP was also introduced in the 1990s to accommodate displaced public sector workers who were affected by the Public Sector Management Reform Programme (PSMRP). The agricultural sector also initiated a programme towards achieving food security and also generates employment and incomes in the rural areas through agricultural research and extension, smallholder credits, and provision of other services.

A number of projects have also been carried out at different times over the past two decades to promote employment generation. These include Priority Public Works projects, Food for Work projects, Labour Based Feeder Road Rehabilitation and Maintenance project, Feeder Road project, Priority Public Works projects and Special Employment Schemes. The government in 2002 also undertook the Skill Training and Employment Placement (STEP) programme for the unemployed who were registered in 2001. The main weakness of these projects in terms of employment generation is that jobs created from these projects were not sustainable because they were largely limited to the life of the projects.

In 1995, the government initiated a 25-year long term economic development strategy called “Vision 2020”. The Vision which was designed to propel the country to achieving a middle income status by the year 2020 introduced some employment generation considerations into all macro-economic and production policies to address the problem of unemployment and underemployment. It was, however, short-lived and was aborted in 2001 on the grounds that it was ad hoc.⁷ Subsequently in 2003, Ghana put in place two 3-year medium term strategy framework (GPRS I and GPRS II) and a 4-year Ghana Shared Growth and Development Agenda (GSGDA) 2010-2013 to promote growth and poverty reduction. In all these medium term policy frameworks, employment generation was not seen to be the main focus of the strategies. This is reflected in the absence of any initiative to generate regular labour market data to monitor the employment generation response to the policies pursued on the basis of these policy frameworks.

⁷ The absence of legal backing to the Vision provided no legal restraint on the new government to truncate it.

The National Service Scheme, in existence for over 3 decades, has also been used to provide a one-year opportunity for tertiary school leavers to render service to the nation. The Scheme provides a platform for tertiary graduates to facilitate their transition from school to work. The National Youth Employment Programme (NYEP) was also introduced in 2006 to address youth employment challenges facing the country. This was in response to the increased agitation of young people for jobs at the time. The programme is meant to provide opportunity for young people to be engaged temporarily and acquire skills to facilitate their transition into permanent work. A major criticism against the programme is the dominance of management of the programme by political appointees of the ruling government. In addition, delays in the payment of monthly allowance to the youth engaged in the programme and the absence of any proper exit plan have remained major concerns for the viability of the programme.

7.5 Remedies – Short-term, medium-term and long-term measures

Effective employment policies involve measures to stimulate the desire of enterprises to engage jobseekers through employment-oriented economic growth and to enhance the productivity of job seekers through effective and efficient human resource development and control of population growth. The first step towards addressing employment generation challenges is to mainstream employment in all policy initiatives. Assessing job creation impacts should be an integral part of all policy initiatives at the sectoral and macroeconomic levels.

In the short-term, the adoption of labour intensive initiatives through public works programmes targeted at the youth with limited or no formal education and skills is one major way of absorbing the uneducated youth. Public works programmes from culverts and bridge building to renovation of public schools and sanitation programmes are a useful means of creating employment opportunities for new labour market entrants to “taste” work and gain some experience in the labour market. The youth in agriculture and road maintenance module under the NYEP should be reviewed and enhanced to serve this purpose.

In the medium to long term:

- Public investment that aims at facilitating the growth and expansion of agriculture and manufacturing that are more employment friendly sectors is one major way of creating jobs and addressing unemployment challenges. Investment in infrastructure, effective agricultural marketing strategy, affordable credit support and deepening of sectoral linkages can do the trick of creating productive and quality jobs for the growing labour force, particularly the youth.
- The problem of skill mismatch needs to be tackled through the design of appropriate curricula that meet the requirements of industry.
- Review and enhance vocational and technical skill training in line with demands of the economy.
- Re-orient the youth from “job-seeking” to “job provision”. With the right combination of motivation, opportunities and ideas, the youth are capable of establishing productive and creative enterprises that would shift them from being “job seekers” to “job creators”. Many young people tend to shy away from entrepreneurship due to a number of factors including: absence of business support, physical infrastructure and regulatory framework conditions; poor access to finance; lack of entrepreneurial training in school curricula as well as socio-cultural attitudes towards youth entrepreneurship.

7.6 Agenda for the future

One important area that requires the particular attention of policy makers and all stakeholders is training and skill development. Ghana's quest to achieving high school enrolment at all levels and to ensure high completion rate seems to have compromised quality of skill training and education. The proliferation of tertiary institutions over the past decade with limited diversity of programmes and weak enforcement of standards of training and knowledge acquisition, raise concern about the relevance of skills and the competitiveness of the Ghanaian youth in the global job market.

Currently, there are over 50 universities and 10 polytechnics accredited to run diploma and degree programmes with bias in arts, social science and business to the detriment of science, technology, engineering and medicine. These are serious concerns that must engage the attention of the National Accreditation Board in issuing accreditation and the enforcement of high quality of education and enforcement of standards to ensure that the nation does not continue to produce jobless graduates.

In addition, an effective collaboration between industry and academic and training institutions must be harnessed to address the problem of skill mismatch in the country. This takes the form of the involvement of industrial practitioners in curricula design and teaching, opportunities for internship for trainees and retooling of skills of trainers in industry, especially at the polytechnic and vocational training levels. Teaching methods and assessment of students through classroom examination also needs to be reviewed at all levels to infuse practical oriented assessment and to avoid examination-focused rote learning and training.

The rapidly rising new labour market entrants, ill-prepared for the labour market particularly after the Senior High School level raises concern about the need to review the current education system. It is evident that the three-year high school education does not provide sufficient time for students to develop their talents through extra curricula activities outside the classroom including sports, music and craft. Consequently, students who do not have what it takes to cope with classroom work but have other talents that could be developed for the future are not able to pursue them. In addition, many schools are unable to extensively cover the syllabus before the Senior Secondary School Certificate Examination (SSSCE), thereby contributing to the abysmal performance of some of the candidates. These and other concerns provide sufficient grounds to holistically review the entire education system particularly the duration of the JHS and SHS that will produce graduates better prepared for the labour market or progress to the tertiary level.

TOPIC THREE:

ASSESSMENT OF GHANA'S PROGRESS ON MDG'S

Goal 1: Eradicate extreme poverty and hunger

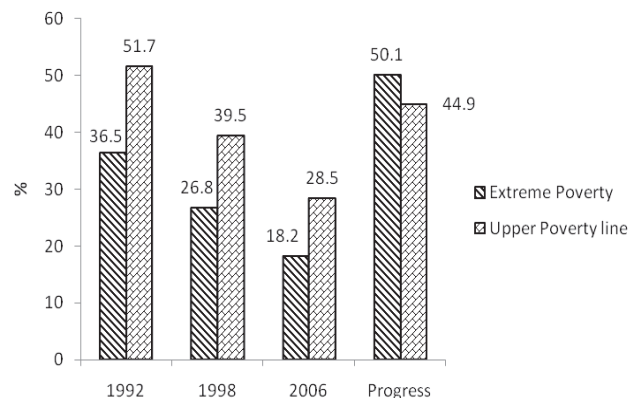
Target 1A: Halve the proportion of those in extreme poverty

The goal of poverty reduction has been rigorously pursued over the years since 1990, as evidenced in many development policies, even if with different emphasis. These include the Vision 2020, Ghana Poverty Reduction Strategies (GPRS I&II), and the Ghana Shared Growth and Accelerated Agenda.

Results of these policies have been fruitful as Ghana achieved the target of reducing extreme poverty in 2006. Available data from the Ghana Living Standards Survey reveal that the incidence of extreme poverty fell from 36.5% to 18.2% between 1992 and 2006 respectively. This suggests a reduction of about 50% in the number of people living in extreme poverty. Similarly, the overall poverty incidence fell from 51.7% in 1992 to 28.5% in 2006, indicating a reduction of 44.9% in the number of poor people in Ghana. Even though, recent data are not available⁸ the trend suggest that Ghana is poised to achieving the target of reducing overall poverty by 50% by the 2012 deadline.

These results notwithstanding, there are indications of widening inequality in terms of the distribution and incidence of poverty in Ghana. In particular, the three northern regions did not show any improvement in the incidence of poverty. Over 70% of people whose incomes are below the poverty line can be found in the Savannah areas (Ghana MDG Report, 2010).

Figure 8.1: Poverty Measures



Source: Ghana Statistical Service

⁸ The sixth round of the GLSS is expected to begin in the 2nd half of 2012.

Table 8.1: Poverty Level and Inequality Measures

	Poverty Level Headcount Ratio	Poverty Gap Ratio	Inequality Measures	
			Gini Coefficient	Std Deviation of logs
GLSS3 (1991/92)	0.552	0.206	0.384	0.674
GLSS4 (1998/99)	0.404	0.145	0.388	0.725
GLSS5 (2005/06)	0.362	0.129	0.438	0.759

Computed from Ghana Living Standards Survey. In general higher values of the Gini coefficient, standard deviation mean rising inequality. Poverty indicators are based on lower poverty line of \$1 a day threshold.

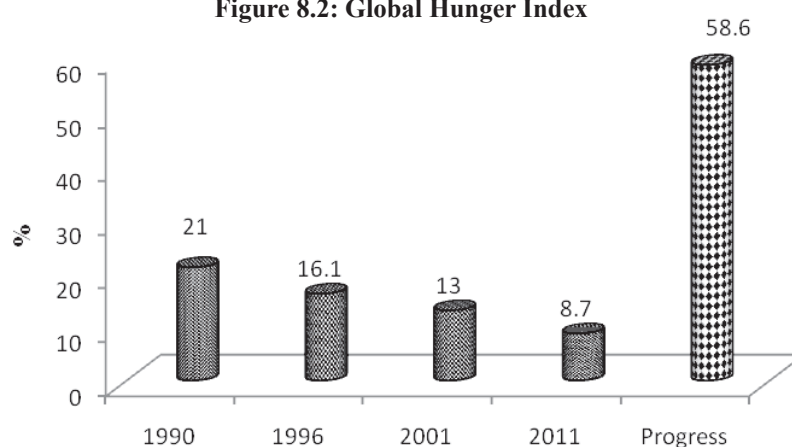
The evidence in the fight against poverty captured in Table 8.1, underscores Ghana's challenges on this front. We see that growth has contributed to the decline in overall poverty by the headcount ratio.

About 55 in 100 in 1991/92 and 36 in 100 in 2005/06 lived below the national lower poverty line. By its own historical standards, it is all too easy to conclude that Ghana has come a long way in addressing poverty and that oil revenues will accelerate poverty alleviation. However, by international standards Ghana's performance is still dismal if we consider that about 28.5% of the population (or about 7 million) live below the global lower poverty index in 2006, and, worse, about 50.1% of the population (or nearly 12.6 million) lived below the \$2.00 a day conventional poverty line.⁹ No less worrisome, judging by the two inequality measures in Table 8.1, is the increase in the level of inequality by 14% according to the Gini measure between 1991/92 and 2005/06.

Target 1B: Halve the proportion of people who suffer from extreme hunger by 2015

According to IFPRI (2011) Ghana—the only country in Sub-Saharan Africa— was ranked among the 10 best performers in improving their Global Hunger Index (GHI) score from 21% in 1990 to 8.7% in 2011.

Ghana therefore reduced its GHI score by 58.6% between 1990 and 2011 indicating that the country has also achieved the target of reducing the proportion of the population suffering from extreme hunger ahead of the deadline in 2015.

Figure 8.2: Global Hunger Index

Source: UN Human Development Report, 2009

⁹ UNDP Human Development Report, 2009.

The success recorded was achieved on the back of myriad “investments in agriculture, rural development, education, and health, including strong increases in the rate of immunization against common childhood diseases” (GSS¹⁰, GHS, and ICF Macro 2009).

Reducing Malnutrition

Overall, Ghana has made some progress in reducing the prevalence of malnutrition among children under 5 years. The prevalence rate fell by 43% from 25.1% in 1994 to 14.3% in 2008. However, it must be emphasized that the country performed poorly between 2006 and 2008 when the prevalence rate rose from 13.9% to 14.3%. This dip in progress can be attributed to the global food crises in 2007 which led to rising food prices.

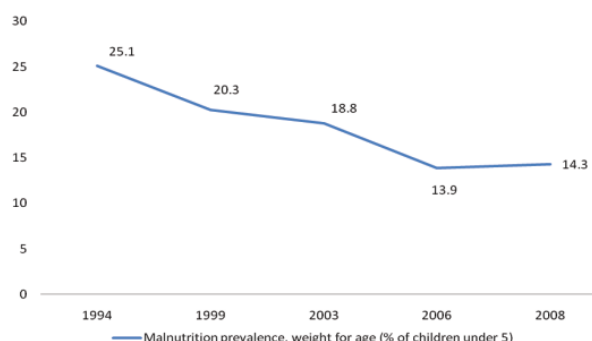
Analyzing the various indicators of child malnutrition shows that Ghana is on course to achieving two (underweight and wasting) out of three child malnutrition indicators under target 2 of MDG 1 ahead of 2015. The proportion of underweight children declined from 27.4% in 1993 to 13.9% in 2008 representing a progress rate of 49.3%. The incidence of wasting also declined from 11.4% in 1993 to 5.3% in 2008 indicating a progress rate of 53.5%. The crucial challenge, however, is how these trends could be sustained amidst the rising food prices. The performance of the country in the third indicator—stunting—however has been unimpressive and requires more effort if the target is to be achieved by 2015.

Despite this progress, nutritional challenges still exist among some socio-economic groups and geographical areas. “The proportion of children with stunted growth in the Eastern, Upper East and Northern Regions were estimated to be 38%, 36% and 32% respectively in 2008, compared to a national average of 28% (MOH, 2008). The proportion of children with wasting was estimated to be highest in the three northern regions, while the cases of underweight children was highest in the Upper East, Northern and Central Regions in that order” (Ghana MDG Report, 2010).

Success Factors:

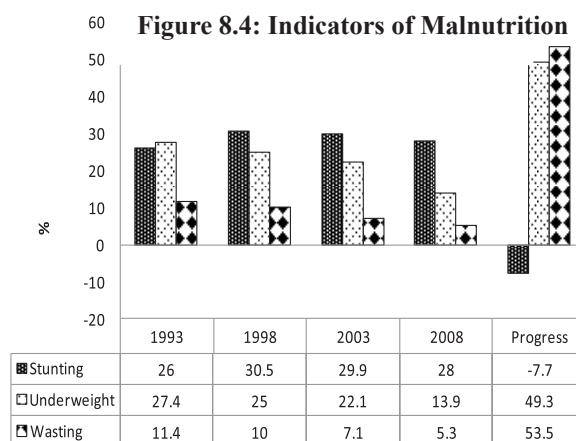
Ghana’s performance in achieving the target of halving extreme poverty ahead of the 2015 deadline can be largely attributed to the sustained growth experienced between 2000 and 2006 on ac-

Figure 8.3: Prevalence of Malnutrition



Source: Ghana MDG Report, 2010

Figure 8.4: Indicators of Malnutrition



Source: Ghana MDG Report, 2010

¹⁰ GSS (Ghana Statistical Service), GHS (Ghana Health Service), and ICF Macro. 2009. Ghana Demographic and Health Survey 2008. Accra, Ghana. <http://www.measuredhs.com/pubs/pdf/FR221/FR221.pdf>.

count of increased foreign investment inflows, debt relief and targeted government expenditure on pro-poor policies. Specifically the following factors accounted for the progress:

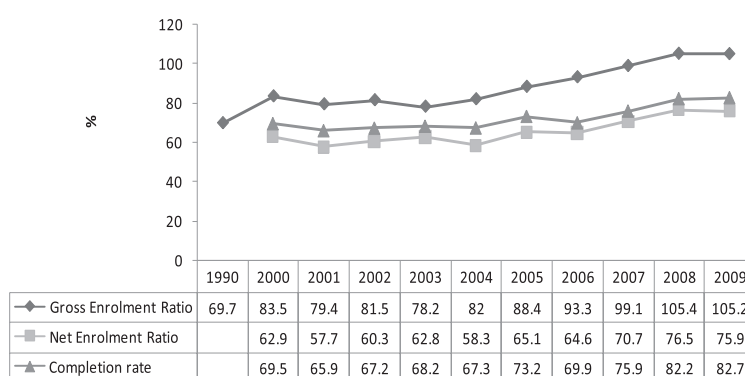
- High and sustained real GDP growth rate over the period 2000—2006. During the period, real GDP growth averaged 5.1%. Given the continued growth of the economy since then, it is expected that poverty and hunger will continue on a declining trend.
- Political and macroeconomic stability have contributed to improving the investment climate;
- Safety nets such as the Livelihood Empowerment Against Poverty (LEAP), Capitation Grant, the Ghana School Feeding and other supplementary programs have contributed to increased income and dietary needs of Ghanaians. The School Feeding Program for instance has reduced the level of food insecurity among school children especially in deprived communities. Thus with the continuous sustenance of the programs, it is expected that the progress attained will be sustained by 2015.
- A total of 39,146 households received Livelihood Empowerment Against Poverty (LEAP) grants during 2010, at a total cost of GH¢6 million. Beneficiary households increased to 44,784 households during the second half of 2011.

GOAL 2: Achieve Universal Primary Education

Target 2.1: Net enrolment ratio in primary education

Enrolment in basic education recorded significant gains over the years especially between 2007 and 2008. Gross enrolment surged from 69.7% in 1990 to 105.2% in 2009. Interestingly, much of the increase in gross enrolment occurred in the two — Upper West and Upper East Regions—poorest regions. These regions recorded the most significant increase in the Gross Enrolment Ratio (GER) between 1998-2008, while Ashanti and Volta Regions recorded the least improvements in GER over the same period (Ghana MDG Report, 2010).

Figure 8.5: Universal Primary Education Enrolment



More importantly, net enrolment ratio has been modest between 2000 and 2009, rising from 62.9% to 75.9%. This progress indicates that extra efforts are needed to ensure that the country achieves a 100% net enrolment rate.

Completion rate shows similar trends with the gross and net enrolment rate. By 2009, the completion rate at the primary school level was 82.7%. This shows that repetition rates are still high even if on a declining trend.

Target 2.2: Proportion of pupils starting Grade 1 who reach last grade of primary school

The survival (persistence) rate measures the percentage of children enrolled in the first grade of primary school who eventually reach the last grade of primary education. However, trends in the survival rate do not show good performance and raise questions about the country's ability to achieve this target.

The survival rates at the primary school level recorded the highest performance of 89% in 2001 from its lowest level of 59.4% in 2000. However, the rate fell again to 73.2% in 2008 (Table 8.2). The up and down trend poses a serious challenge towards the attainment of a 100% target in the survival rate of primary education.

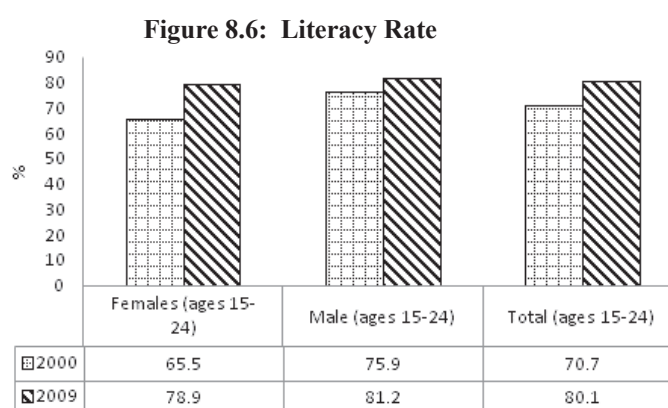
Table 8.2: Survival (Persistent) Rate-Primary Education

	2000	2001	2002	2008	Target	Progress
Total	59.4	89.0	59.5	73.2	100%	Good
Female	58.0	84.6	64.7	70.9		
Male	60.7	93.2	54.9	75.4		

Source: Ghana MDG Report, 2010

Target 2.3: Literacy rate of 15 -24 year olds (women and men)

Literacy rates especially among the youth (ages 15-24) have shown modest improvement from 70.7% to 80.1% between 2000 and 2009. Given the rate of progress over the ten year period, it seems unlikely that this target of ensuring that every youth between the ages of 15 and 24 becomes literate will be attainable in Ghana by 2015 without any concerted policy intervention.



Ghana MDG Report, 2010

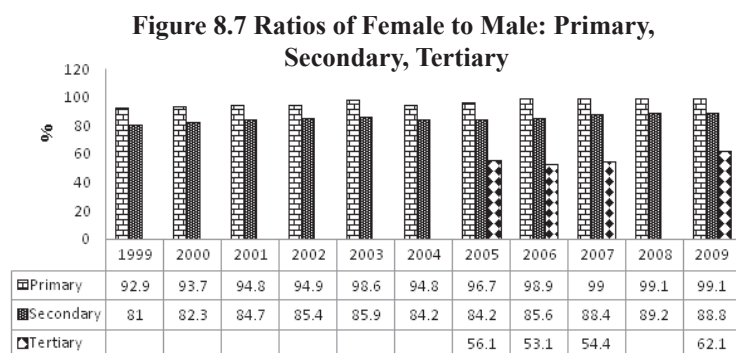
Success Factors:

- The implementation of the Capitation Grant to pupils in all public schools in 2004 in addition to subsidies in the Basic Education Certificate Examination (BECE). The capitation grant provided the needed impetus for parents to send their wards to school as the fees which hitherto would have been paid has been absorbed.
- The Ghana School Feeding Program initiated in 2005 contributed to increasing enrolment as it helped to ease the burden on parents and also boosted the nutritional requirements of pupils. By 2008, the program was expanded to cover 596,089 pupils nationwide up from 408,989 in 2007
- About, 230 classroom blocks and 147 three-Unit classroom blocks under the School Under Trees Project were completed and furnished at the cost of GH¢10 million (Ghana MDG Report, 2010)
- In order to reduce the regional imbalance in teacher supply and improve on educational quality, incentive packages including bicycles were given to teachers in deprived schools. Also, the quota system of postings was enforced with greater consideration given to deprived districts.
- Non-formal literacy programs continued to receive support with the recruitment and deployment of 1,822 facilitators.
- Funds were made available to expand and equip science laboratories in tertiary institutions in order to ensure that the government's policy of 60:40 enrolment ratio in favour of science education is achieved (Ghana MDG Report, 2010).

Goal 3 Promote gender equality and empower women

Target 3.A: Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015.

Gender parity in terms of enrolment has improved significantly at the primary level to 99% in 2009. The proportion of females to males at the tertiary level in 2009 was 88.1% compared with 62.1% for tertiary education in 2009.



Ghana MDG Report, 2010

Women Participation in Decision Making: The progress towards increasing the number of women in public life suffered a setback with the reduction of the number of women elected into Parliament during the 2008 elections. The number of women MPs fell from 25 to

20 reducing the proportion to below 10%. This puts Ghana under the international average of 13% (Ghana MDG Report, 2010). Nonetheless, key positions such as Chief Justice and the Speaker of Parliament are still held by women.

Goal 4: Reduce child mortality

Target 4.A: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate

The Infant Mortality Rate (IMR) – deaths of infants under one-year-old per 1,000 live births in the same year – has registered a downward trend in Ghana. It declined 64 in 2003 to 50 in 2008. Under-5 mortality has also declined by about 28% from 111 per 1,000 live births in 2003 to 80 per 1,000 live births, albeit stagnating over several years. The proportion of under –one-year olds immunized against measles has progressed marginally by approximately 10% to 79.9% in 2008. This shows that the country is very close to the 2015 target pegged at 83%.

Table 8.3: Mortality rates

Indicator (%)	2003	2008	Target-2015
Under-5 Mortality	111	80	39.8
Infant Mortality	64	50	21.5
Proportion of 1year-old Children immunized against measles	68.8	79.9	83

Source: Ghana MDG Report, 2010

Even though this evidence suggests a significant reduction in both infant and under-five mortality rates in recent times, it remains unlikely that the 2015 target of reducing the child mortality rates will be achieved unless there are efforts to scale-up and sustain the recent child survival interventions which have brought about the current improvement in these indicators (Ghana MDG Report, 2010).

Success Factors

The improvement in under-five and infant mortality rates are largely the result of policies, strategies and a number of interventions that have been put in place over the years. Key among them include: implementation of Child Health Policy and Strategy; Infant and Young Child Feeding Strategy; Prevention of Mother-to-Child Transmission (PMTCT) policy and strategy; De-coupling children from their parents for NHIS coverage; Developing guidelines for neonatal care; Establishment of at least one fully operational and furnished hospital in every district to deal with complications from maternal health delivery; result-oriented strategies for under-five, maternal health care and malnutrition; Increased access to health services under the national health insurance scheme; High vaccination coverage; Increased use of ITNs (Ghana MDG Report, 2010).

Goal 5: Improve maternal health

Target 5.A: Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio

Maternal Mortality in 2008 was estimated at 451 maternal deaths per 100,000 births. Since annual updates of this indicator are not available, two proxy indicators are monitored. These include, Institutional Maternal Mortality Ratio (IMMR) which measures maternal deaths occurring in health facilities only, and percentage of deliveries attended by skilled health personnel.

The Ghana Demographic and Health Survey and the Ghana Maternal Mortality Survey of 2008 showed that maternal deaths in the country declined marginally from 503 per 100,000 live births in 2005 to 451 per 100,000 live births in 2008. Given the lack of annualized data, institutional data on Maternal Mortality Ratio (IMMR)¹¹ are used to depict the trends in maternal mortality rates. Available data from the IMMR shows that maternal deaths per 100,000 live births increased from 187 in 2004 to 197 in 2006, and declining thereafter from 224 in 2007 to 201 in 2008. The IMMR witnessed a further improvement from 170/100,000 in 2009, to 164/100,000 by 2010 (ISSER 2011; Ghana MDG Report)

Nonetheless, given the MDG target of 185 per 100,000 by 2015, it seems unlikely that Ghana can achieve the target unless concrete steps are taken to accelerate the pace of maternal health interventions. Forecasts suggest that if the current trends continue, Ghana can only reduce its maternal mortality rates to 340 per 100,000 by 2015.

The percentage of deliveries attended by skilled personnel also improved marginally between 2005 and 2010 from 46% to 48.2%. This suggests that a greater proportion of deliveries in the country are still done by unskilled persons thereby endangering the lives of most prospective mothers. Again, the slow progress in the number of deliveries attended by skilled personnel shows that the country is clearly not on track to achieving the target of 77% by 2015.

Target 5.B: Achieve by 2015, universal access to reproductive health

Progress made in the coverage of antenatal care has been mixed. While improving from 88.7% in 2005 to 97.4% in 2008, it dipped significantly thereafter to 90.6% in 2010. In the area of contraceptives, the performance has been very poor. Family planning acceptance rate fell from 31.1% in 2009 to 23.5% in 2010 (ISSER, 2011)

¹¹ Measures maternal deaths occurring in health facilities.

Despite the low progress, some efforts are being made to tackle the situation. Government is implementing some intervention programs such as providing Emergency Obstetric and Neonatal Care (EmONC) equipment for most health facilities, Safe-Motherhood Initiative, Ghana VAST Survival Program, Prevention of Maternal Mortality Program (PMMP), Making Pregnancy Safer Initiative, Prevention and Management of Safe Abortion Programme, Intermittent Preventive Treatment (IPT), Maternal and Neonatal Health Programme and Roll Back Malaria Programme (GOG Budget 2012 and Ghana MDG Report, 2010).

Goal 6: Combat HIV/AIDS, malaria and other diseases

Target 6.A: Have halted by 2015 and begun to reverse the spread of HIV/AIDS

Ghana's performance in halting and reversing trends in the spread of HIV/AIDS appears to have yielded some moderate progress.

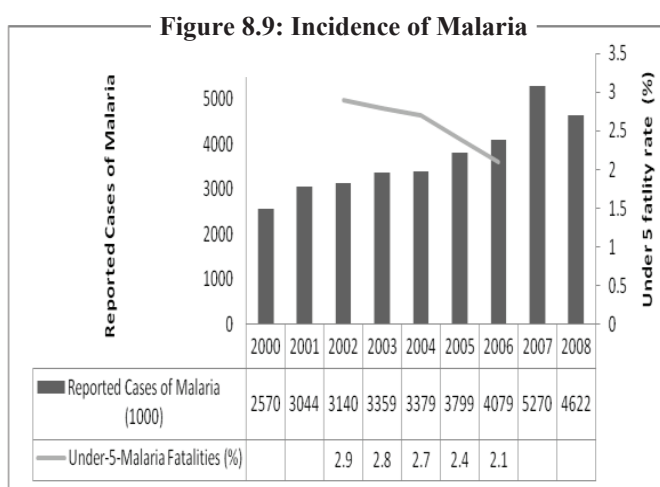
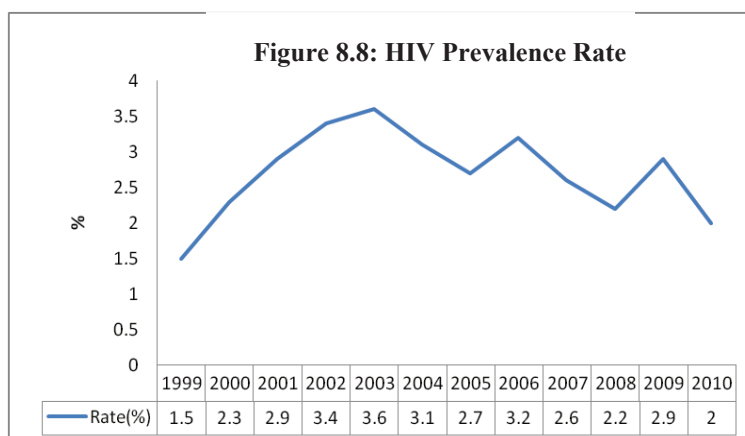
Even though the country performed poorly between 1999 and 2003 as the HIV prevalence rate among pregnant women rose from 1.5% to 3.6% respectively, since 2003 however, the prevalence rate has declined generally to 2% in 2010, albeit, some increases in 2007 and 2009. Given the erratic nature of the prevalence rate, the country's ability to achieve the target remains unclear.

Target 6.C: Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases

The incidence of malaria increased by about 79% between 2000 and 2008, as the number of reported cases of malaria rose from 2,570 to 4,622 respectively, after peaking at 5,270 cases in 2007. This trend suggests a relatively poor performance of the country, in its attempt to reduce the incidence of malaria by 2015. However, some marginal progress was recorded rate of under 5 malaria fatalities. It reduced from 2.9% in 2002 to 2.1% in 2006.

Perhaps the reduction in fatalities despite the increase in reported cases of malaria can be attributed to the adoption and use of Insecticide Treated Nets (ITN) especially by pregnant women and infants.

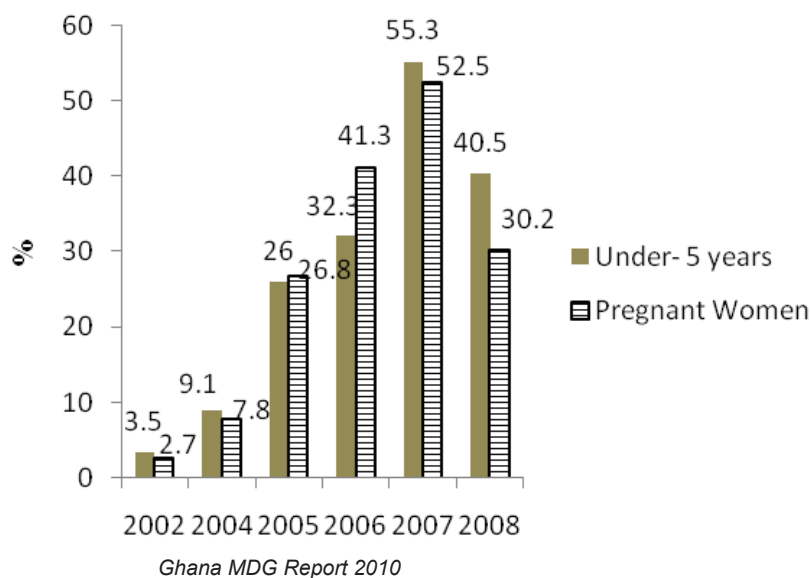
Between 2002 and 2007, ITN usage by pregnant women increased sharply from 2.7% to 52.5% respectively (Figure 8.10). Similarly, ITN use among children under 5 years rose from 3.5% to 55.3% over the same period. However, in 2008, the rising trends in the use of ITNs by both



Ghana MDG Report 2010

pregnant women and children under 5 years reversed, reducing to 30.2% and 40.5% respectively.

Figure 8.10 ITN Use by High Risk Category

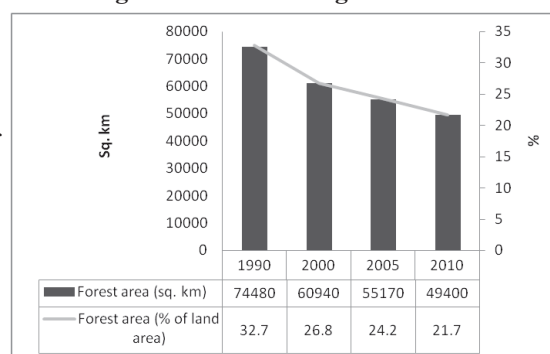


Goal 7: Ensure environmental sustainability

Target 7.A: Integrate the principles of sustainable development into country policies and programs and reverse loss of environment resources by 2015

Ghana has over the years lost a greater portion of its forest cover mainly due to deforestation practices such as illegal logging of trees (timber), surface mining and unsustainable agricultural practices, inter alia. Over the past two decades, Ghana has lost about 23,000 sq. km of its forest cover from; 74,480sq.km in 1990 to 49,400 in 2010. As a result, forest area as a percentage of total land area has declined from 32.7% to 21.7 over the same period.

Figure 8.11 Forest Degradation

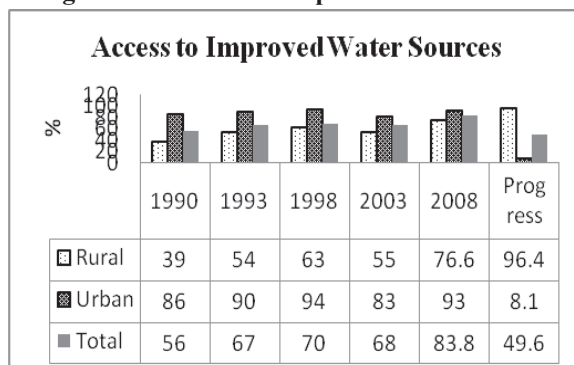


Thus, given the high rate of deforestation, the country faces a huge challenge towards sustainable development and the MDG goal as well.

Target 7.C: Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation

Available data from 1990 to 2008 clearly show that Ghana is on track to achieving the MDG target of reducing the proportion of the population without access to improved water sources. Rural water supply has improved significantly by 96.4% during the period from 39% to 96.4%. Urban wa-

Figure 8.12 Access to Improved Water Sources

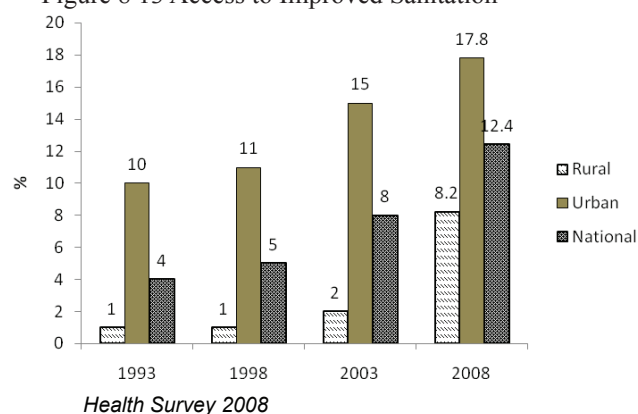


Health Survey 2008

ter supply however, improved marginally from 86% to 93% representing a progress rate of 8.1%. Overall, the national performance averaged 49.6%.

Access to improved sanitation however remains a daunting challenge to the attainment of the MDG goals by 2015. Available data reveal that as at 2008, less than 13% of the population had access to improved sanitation. The situation is even severer in the rural areas where only 8.2% of rural dwellers have access to improved sanitation.

Figure 8 13 Access to Improved Sanitation



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