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# THE 17 STEPS TO AND OUT OF FINANCIAL CRISES IN GHANA: lessons for the future

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# The 17 Steps To And Out Of Financial Crises in Ghana:

# Lessons for The Future

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## *Abstract*

***Historically, Ghana has had its fair share of financial crises with evolving natures and causes. For 17 times since independence, the country has faced financial challenges that have led to financial bailouts from the International Monetary Fund (IMF). The nature of these financial crises, the IMF solutions applied to them, and their implications for future recurrences have not been carefully addressed. Hence, the main objective of this study is to gain new insights into the risk factors and causes of the 17 financial crises in Ghana and recommend some permanent solutions. From the analyses, it can be concluded that worsening fiscal deficits and the external sector represented by sharp decline in international reserves, predate the occurrence of most of the early financial crises in Ghana (1966 to 1983). The financial crises during the 1980s and 1990s were responses to a mix of external (increasing external debts and global economic shocks) factors and internal macroeconomic factors. Within the first decade of the fourth republic, the accumulation of debt during the 1980s and 1990s created the first debt crisis of the country which led the government to seek the HIPC initiative for debt restructuring. Domestic economic challenges that have caused fiscal overruns and the associated increasing borrowing from the International Capital Market (ICM) created the next set of financial crises in 2005, 2009, 2015, and finally a full-blown debt crisis in 2022 that has required domestic and international debt restructuring. External shocks have also been clearly identified as part of the causes of the financial crises in 2009 and 2022. The only way forward for the country to achieve its developmental goals and avoid the recurrence of financial crises is to design and implement a long-term homegrown national development programme that is based on natural resource endowments and make the economy resilient to both internal and external shocks. The programme must also be capable of generating enough revenue to finance government spending and avoid excessive reliance on short-term borrowing from the ICM which normally creates unsustainable debt burden.***

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# 1. INTRODUCTION

Most developing countries have had financial crises due to policy missteps and their reliance on external financial resources to finance development programmes. This external dependence has created economic benefits and challenges. For most developing countries in Sub-Saharan Africa (SSA), especially those that are net oil importers, the 1980s was an extraordinarily difficult period because the two oil price crises of the 1970s finally resulted in a balance of payment crisis. They experienced high inflation, soaring budget deficits, unemployment, and slow (negative in some cases) economic growth. Though countries in Latin America and Southeast Asia benefited a lot from capital inflows from rich countries in the 1960s and 1970s, they eventually faced financial challenges due to sudden capital flow reversals. The debt crises that occurred in the early 1980s and mid-1990s in Latin America, and the Asian financial crisis that began in 1997, are examples of financial crises that led to currency instabilities, significant loss of wealth, and sharp decline in economic activities.

Historically, Ghana has had its fair share of financial crises with evolving natures and causes. Shortly after independence the country became dependent on external financial resources for economic development. This dependency has made the country vulnerable to external shocks that impact on the cost and ability to raise more credit. For 17 times, the country has faced financial challenges that have led to seeking International Monetary Fund (IMF) financial bailouts. The recent financial crisis in 2022, triggered by a series of downgrading by credit rating agencies, is the first of its kind in the history of the country. This is because, over the past 16 years, the dependence on external financial resources has shifted from reliance on loans from bilateral and multinational institutions with concessional terms to the International Capital Market (ICM) with commercial terms. In addition, the ability to earn foreign exchange in Ghana depends on export earnings from a few commodities (gold, cocoa crude oil, and timber). Changes in the prices of these commodities on the world market have significant implications on the country's ability to service its external debts.

The recent change in Ghana's external debt portfolio with increasing proportions coming from the ICM has made the country vulnerable to changes in the sentiments of the market participants that lead to sudden reversal of capital flows like those that caused financial crises in the Latin America and Southeast Asia regions. The fundamental lessons to be learnt from the current debt crisis is to be able to detect the root causes of all types of financial crises, be able to identify risk factors, and create plans and reform programmes to address the crises and reduce vulnerabilities. Hence, if policy makers can identify triggers, they can develop solutions to avoid the economic consequences. Amidst the discussion on the frequent financial crisis in Ghana, we must also take a critical look at Ghana's relationship with the IMF and assess how the implementation of the economic reforms prescribed by the IMF have impacted on Ghana's financial problems. The Ghana-IMF relationship has resulted in the implementation of many programmes such as the Stabilization and Structural Adjustment Programme (SAP) in the mid 1980's, Poverty Reduction Strategy Programmes in the 1990s and early 2000s, and Debts Forgiveness Programmes in the early 2000s and the one currently being negotiated. These programmes have been the outcome of Ghana's visit to the IMF for financial bailout 17 times since independence.

The nature of Ghana's financial crises, the IMF solutions applied to them, and their implications for future recurrences have not been carefully addressed. Hence, the main objective of this paper is to gain new insights into risk factors and causes of the 17 financial crises in Ghana since independence and recommend some permanent solutions. These solutions are intended to create the required macroeconomic stability, structural integrity, the productive base, and domestic financial resources to put the nation on sustainable growth and development path and avoid the recurrence of financial crises. The rest of the study is organized as follows. Section 2 outlines the background and discusses the literature on financial crises in the developing world. Section 3 presents the analyses of policy frameworks and development programmes in Ghana, designed to transform the economy, and reduce its vulnerabilities to the causes of financial crises. Section 4 presents comprehensive analyses of the causes of financial crises in Ghana. Section 5 presents the conclusions from the analyses and offers some policy recommendation to prevent future recurrence of financial crisis in Ghana.

## 2. BACKGROUND AND RELATED LITERATURE

Financial crises around the world have taken one of-or-a combination of four different forms: currency crisis, banking crisis, balance of payment crisis or debt crisis. However, debt crises, and its accompanying currency crises in the developing world have become a recurrence phenomenon since the oil price crises of the 1970s. The 1973-74 oil price crisis led to high inflation, soaring budget deficits, and unemployment which eventually morphed into balance of payment crises for many developing countries. Sub-Saharan African (SSA) countries were severely affected by the crises because they were mostly net oil importers. The second oil price crisis of 1979 occurred 6 years after the first one and had similar effect on SSA countries. To build their economies to withstand both internal and external shocks, SSA countries adopted the IMF/World Bank stabilization/Structural Adjustment programs in the 1980s and 1990s.

During the 1980s many Latin American countries were unable to service their debt which up to today is the worse of all crises in the region. In the lead up to the 1970s oil price crises, and in between them, many developing countries, especially those in the Latin America region (Mexico, Brazil, Argentina, and Venezuela) were experiencing increasing exports to the world market and economic boom with an average growth rate of 6.6% (Bacha and Diaz-Alejandro, 1982; Marichal, 1989; Stallings, 1987; and Devlin, 1989). Still facing high oil prices and world recession, these countries sought to sustain their high growth rates through increased borrowing. Because concessional sources were not sufficient, they sought other loans from non-concessional sources. As a result, the total external debt of developing countries more than doubled from $180 billion in 1975 to $406 billion in 1979, increasing over 20% annually (Todaro and Smith, 2015). An increasing proportion of the total debt was sourced from the international capital market on non-concessional terms with shorter maturities and market rates of interest. The surge in international borrowing between the two oil price shocks permitted oil exporting developing countries to maintain relatively high rates of growth with little debt servicing difficulties. It also became possible because of the recycling of the petrodollar from the Organization of the Petroleum Exporting Countries (OPEC) countries (including oil exporting developing countries) to oil importing developing countries through the lending activities of private international banks. This success was short-lived and laid the foundation for the debt problems in the 1980s. The United States and the developed world started fighting inflation at home by tightening monetary policy. Most big banks in the developed countries that had lent heavily to Latin American countries also stopped new loans. This led to increase in interest rates and recession in the world (Sachs, 1988). Most countries experienced increasing budgets and current account deficits and plunged into recession. In 1982, the Mexican government announced that it could not meet its regularly scheduled payments to international creditors (Suk and Mahfuzul, 2022). This was followed by Brazil and Argentina and later by many developing countries. These countries then plunged into deep recession and participated in one of the largest debts restructuring and IMF/World Bank bailout packages (stabilization and structural adjustment programmes) in the developing world ensued. Chile also suffered similar faith around the same period. Like other Latin American countries, Chile embarked on significant economic reforms including opening the economy to international trade in the late 1970s. The country also pegged its currency and seem to be doing well because for some time, a large flow of capital came into the country. When the capital flow slowed in 1981 and 1982, financial crisis ensued, and the country eventually devalued its currency. The 1970s crises caused balance of payments crises to many SSA countries. The crises dragged on for some time before they implemented the stabilization and structural adjustment policies in early 1980s. Beside ensuring macroeconomic stability for growth in the short run, the programs sought to implement structural reforms needed to consolidate short run gain and promote long run growth and development.

The next significant crisis in the developing world was also led by policy slippages in Mexico and other Latin American Countries starting from December 1994. After recovering from the 1982 crisis, the Mexican economy picked up and its fiscal policy appeared to be under control. However, the current account deficits were soaring, and many believed the deficits could only be corrected with devaluation of the Peso (Choueiri, 2002). The Mexican government insisted that the current account deficits are financed by private capital inflows that finances investment spending and not fiscal deficits. However, in December 1994, Mexico was forced into devaluing its currency by 15% and floated the currency after speculative attacks reduced its foreign exchange reserves significantly. Soon after, investors withdrew their funds from the Latin American region and the financial problems spread to Argentina, Venezuela, Peru, and Brazil. This became known as the Tequila effect. A few Asian countries-Thailand, Philippines, and Hong Kong- experienced a brief speculative attack too.

Though the two Latin American crises discussed above occurred mainly due to vulnerabilities caused by large fiscal deficits, increasing current account deficits, heavy public debt burden, rapid monetary expansion, and some structural problems, the causes of the Asian financial crises that started in 1997 offered different important lessons to other developing countries. The banking sector of the Southeast Asian countries received substantial foreign funds at relatively low interest rates due to international investors shifting their focus in search for new opportunities. Most of these funds were dollar dominated because borrowers (financial institutions) had some false sense of security because of the fixed exchange rates. However, the existing weaknesses in the banking system and poor corporate governance, meant that the lending of the borrowed foreign currencies was inefficient. Exports were also significantly weakened in the lead up to the crisis due to the creations of North American Free Trade Agreement (NAFTA) in 1994, the appreciation of the US dollar, and the devaluation of the Chinese Yuan (Aghevli, 1999). Due to the factors above the crisis manifested itself from devaluation of domestic currencies to asset price crashes, and to declining economic growth. The crisis began with Thailand which had surged its economy on financial flows. Due to the weaknesses listed above, both foreign and domestic investors started moving out of Thailand because they were not sure if the country could repay the loans. The central bank responded by using its reserve to buy the local currency and increased domestic interest rate. The response led to stock price crush and decline in land prices. The central bank finally stopped the pegged to the dollar and the Thai lost 16% in a day. Because countries in the region are linked through trade and investment, and are competitors in the international market, investors in South Korea, Malaysia and Indonesia also moved their funds out of the countries, setting into motion lost of value of those currencies. The spread of the crisis to other regions such as North Asia, Latin America, and Eastern Europe was also swift.

The common features of the financial crises discussed above are the international responses to them which included financial aid packages and requirement for some specific economic reforms (macroeconomic, structural, and institutional) to address vulnerabilities to both internal and external shocks. To cure the crisis of the LACs in the 70s caused by increasing budget deficits and debts, governments enforced harsh programmes of fiscal consolidation within the framework of stabilization and structural adjustment programme in the middle to late 1980s. In the aftermath of the 1994 Peso crisis, governments in the region embarked on significant economic reforms to restore investor's confidence and promote economic stability. These reforms included, fiscal consolidation, strengthening of the financial system, and greater transparency in economic policy making.

Since currency collapse was at the heart of the Asian financial crisis, exchange rate and monetary policy were important elements of the macroeconomic reforms. Monetary policy was tightened to defend the currency though the resulting interest rates hike was criticized to be bad for business. On the fiscal front, most of the crisis countries had initial strong budgetary positions with some surpluses. But as the crisis hit, governments adjusted some initial targets to allow for automatic stabilization which resulted in increased spending to cushion the poor. The IMF encouraged fiscal expansion (Aghevli, 1999). Since many believed that the main cause of the Asian crisis was structural, the reforms included policies to correct for the weakness of the financial and corporate sectors, inadequate governance, and lack of transparency. For SSA countries that experienced balance of payments and debt crises in the 1970s and 1980s, the orthodox stabilization and structural adjustment programmes were implemented well into the 1990s.

## 3. MACROECONOMIC POLICIES, DEVELOPMENT PROGRAMMES, AND FINANCIAL CRISES IN GHANA

Ghana's dependence on external financing for development purposes has its root in the immediate post-independence era when the government of the first republic embarked on massive infrastructure and industrial development programmes. After a lengthy period of political instabilities, Ghana saw its first decade of political stability between 1982 and 1992, though the country was under military rule. For three decades now, the country has also managed to build a stable democracy. This political and democratic stability have not led to economic stability and prosperity due to the macroeconomic policy failures, overdependence on external financial resources for development, and frequent financial crises. These financial crises have differed over time in terms of causes, nature, and magnitudes. In what follows, I carefully outline the evolving nature of macroeconomic policy frameworks and financial crises in Ghana. The analysis is organized into three sub periods: the pre-Economic Recovery Programme (ERP) and Structural Adjustment Programme (SAP) period; the ERP and Structural Adjustment Programme period; and the Democratization and Debts Cancellation period.

### 3.1 The Pre-ERP and SAP Period (1957-1982)

The immediate post-colonial government inherited significant foreign exchange reserves and sought to maintain the conservative monetary and fiscal policies of the colonial government for a brief period. Immediately the government shifted focus to a more nationalist approach which called for expansionist development programme with import substitution industrialization (ISI) strategy at its core. The first 5-year development plan in 1959 that initiated the government led industrialization led to massive increases in government expenditure. Though the plan was abandoned in 1961, it had already created increasing budget deficits and balance of payments deficits causing sharp decline in foreign exchange reserves. To solve these problems, the government resorted to a series of measures, prominent among which were austerity budgets, including both cutbacks in expenditures and tax increases. However, increased government capital expenditures on infrastructure, healthcare, and science and education to complement the industrialization efforts, led to an overall budget deficit of 7% of GDP in 1961. The deficit increased to 9.4% in 1962 and further to 9.9% in 1963. The seven-year development plan in 1963/64 continued with the general philosophy of ISI with further increases in government expenditures. Hence, total government expenditure increased by 36% between 1963 and 1965. The budget deficit as a percentage of GDP also increased to 6.4% in 1965. There was evidence of monetary accommodation of fiscal deficits. Between 1960 and 1964, borrowing from the Bank of Ghana and other commercial banks financed a considerable proportion of the budget deficits. Government credit as a percentage of total bank credit increased from a low of 6 % in 1960 to 49% in 1965. This led to a large increase in money supply, which more than doubled between 1960 and 1965, with the highest growth rate of 39.5 % occurring in 1964. Faced with these economic challenges, the government sought assistance from the IMF in 1965. The fund proposed some conditions including significant cut in expenditure. The Nkrumah government rejected the conditions because they would have meant diverting from the expansionist development programme. By that time, the nation's debt stock stood at $500 million and the reserves that stood at $277.93 million in 1957 had reduced to $111.13 million in 1966. Obviously, the build-up of debt has been used mainly to finance the import substitution industrialization strategy, which was intended to change the structure of the economy from a more agrarian one with significant import dependence to a more industrially diverse economy with less dependent on imports. Inflation increased from 0.2 in 1963 to 26.4% in 1965 while GDP growth rate declined from 4.4% in 1963 to 1.4% in 1965. This marked the first significant financial stress of Ghana which would lead to the overthrow of the government.

The National Liberation Council (NLC) government that took power in 1966 believed in a different economic development philosophy that emphasized the role of the private sector. Hence, they quickly shifted focus and pursued more liberal economic policies. The main economic and socio-political agenda of the government was to create an economy led by private sector growth. To achieve this, the government experimented with trade liberalization and in only three months after taking power, the military government took the *first step* in 1966 to seek financial bailout from the IMF and implemented an IMF/World Bank-supported-stabilization programme that required fiscal consolidation, prudent monetary policies, and devaluation of the currency. The government took *three more steps* to the IMF by renewing the initial in 1967, 1968, and 1969, with similar conditionalities. The agreements also required privatization of state-owned companies that were deemed unprofitable. As part of the IMF agreements, the government embarked on comprehensive tax reforms that led to reduction in some taxes and completely abolished some of them. The government reduced its expenditures by downsizing the public sector by 5 % and took initiatives to cut down on development expenditure through a 16 % reduction in government capital expenditures in 1969. As reported in table 3.1 below, budget deficits as a percentage of GDP improved between 1966 and 1969 when compared to the preceding three years. The aim of monetary policy throughout the years 1966 to 1969 was to contribute towards price stability without neglecting the specific needs of various sectors. At the start of each year, specific credit ceilings were prescribed for both the private and government sectors. This was done with the view to reducing growth in the money supply. Though growth in the money supply was initially controlled, it increased by 10.5% in 1969. Inflation initially reduced to -8.4% in 1967 and later increased to 7.3% in 1969. As an important adjunct to stabilization measures, as well as a means of solving the deterioration in the balance of payments, the currency was devalued by 43 % in 1967. The government also introduced price controls. The current account deficit reduced, and the balance of payments moved into surplus. However, due to the short period of the government, there was no significant attempt to either continue the structural change policies of the Nkrumah's government or significantly create its own structural change policies to create financial sustainability for the nation. The civilian government, which came to power in 1969, initially sought to continue with the earlier nationalistic approach to development but shifted to liberalization policies in 1971. The government also sought to implement the austerity measures that had been recommended by the IMF before they came to office. Though the 1970 budget introduced massive public capital projects, which led to increase in the government's capital expenditures by almost 50% between 1969 and 1970, and current expenditures, there were some fiscal achievements. This is because tax revenues increased substantially due to overall growth in the economy, and the overall budget deficit from 1969 to 1971 was much improved. The budget deficit as a percentage of GDP was 3.3% in 1969, and then fell to 2.2% in 1970, before increasing again to 3.5%. These figures are by far the lowest the country had seen since independence.

However, the achievements on the monetary front were less impressive. There was no effective credit control policy. Hence, bank credit to the private sector increased by 55% in 1970, though money supply only increased by 9.9% in 1970 and 11.1 % in 1971. Inflation also increased from 7.3% in 1969 to 9.6% in 1971. The government also devalued the currency in 1971. Though the government inherited total debt of $580 million from the military government, by 1971 the debt had been further increased by $72 million in accrued interest payments and $296 million in short-term commercial credits. There was also mounting domestic debt. The structure of the economy remained unchanged. Eventually, the increasing debt and internal economic difficulties due to the austerity measures that was part of the Busia's government structural adjustment efforts would be a reason for a military coup in 1972.

**Table 3.1: MACROECONOMIC DATA (1957-1982)**

| Year | Growth in Money | Inflation | Deficit to GDP | GDP growth rate | Current Account | Total Reserves* |
|---|---|---|---|---|---|---|
| **1957** | | | 0.4 | | | |
| **1958** | | | -1.7 | | | |
| **1959** | | | -4.2 | | | |
| **1960** | | | -6.5 | | -47.9 | 277.93 |
| **1961** | 8.82 | | -7 | 3.43 | -103.5 | 155.95 |
| **1962** | 15.17 | | -9.4 | 4.11 | -33.7 | 159.61 |
| **1963** | 7.29 | 0.2 | -9.9 | 4.41 | -80.1 | 122.11 |
| **1964** | 37.12 | | -8.4 | 2.21 | -55.4 | 122.72 |
| **1965** | 1.93 | 26.44 | -6.4 | 1.37 | -222.9 | 132.51 |
| **1966** | 4.93 | 13.24 | -5 | -4.26 | -127.8 | 111.13 |
| **1967** | 1.23 | -8.42 | -5.9 | 3.08 | -84.9 | 82.73 |
| **1968** | 10.19 | 7.89 | -6.1 | 0.37 | -56.1 | 97.00 |
| **1969** | 10.45 | 7.32 | -3.3 | 6.01 | -60.1 | 71.83 |
| **1970** | 9.95 | 3.03 | -2.2 | 9.72 | 67.7 | 42.58 |
| **1971** | 11.13 | 9.56 | -3.5 | 5.22 | -145.8 | 43.09 |
| **1972** | 40.66 | 10.07 | -5.7 | -2.49 | 108.2 | 104.04 |
| **1973** | 18.85 | 17.68 | -5.3 | 2.88 | 126.3 | 194.04 |
| **1974** | 26.66 | 18.13 | -4.2 | 6.85 | -171.5 | 101.33 |
| **1975** | 37.92 | 29.82 | -7.6 | -12.43 | 17.57 | 147.16 |
| **1976** | 37.07 | 56.08 | -11.3 | -3.53 | -74.04 | 113.30 |
| **1977** | 60.30 | 116.45 | -9.5 | 2.27 | -79.75 | 181.58 |
| **1978** | 68.53 | 73.09 | -9 | 8.48 | -45.94 | 326.66 |
| **1979** | 15.77 | 54.44 | -6.4 | -2.51 | 123.50 | 401.24 |
| **1980** | 33.80 | 50.07 | -4.9 | 0.47 | 30.20 | 329.58 |
| **1981** | 51.32 | 116.50 | -3.9 | -3.50 | -419.18 | 268.43 |
| **1982** | 23.35 | 22.30 | -2 | -6.92 | -107.28 | 314.34 |

**Source: IMF; International Financial Statistics.**
**World Bank, World Development Indicators**
*** in millions of USD**

The military government that came to power in 1972, led by Lt. Col. I. K. Acheampong, would be the only government after the first republic that focused primarily on homegrown economic reform programme that did not require IMF financing. Among the first actions taken by the government was debt repudiation to the tune of $94.4 million (Boafo-Arthur, 1999) and the shut-off of the international financial resources. They also reversed the devaluation of the cedi. Though initially the government did not roll out any long-term growth and development programme, it later returned to the controlled regime and increased participation of the state in economic activities. Initially, the self-reliance policy stance of the government performed well. Growth in GDP increased from -2.5 in 1972 to 2.9 in 1973 and later to 6.9 in 1974. These were achieved at the cost of rising inflation from 10.1% in 1972 to 18.1% in 1974. Later, the government initiated expansionary fiscal and monetary policy measures. Due to shortfall in revenue and lack of access to international borrowing, the expansionary fiscal policy stance of the 1975 budget resulted in the government once again resorting to the banking system for the financing of its expenditures. This led to increases in the money supply by 37.9 % in 1975. The government also faced significant constraints due to the oil price shock. Interest rate was raised from 6% to 8.5% to contain aggregate demand and control inflation. However, the growth in money supply continued with an average rate of 50% between 1976 and 1978. Certainly, the funding gap created by lack of external financing due to the debt repudiation led to growth in money supply and eventually increases in inflation to 29.8% in 1975 and eventually to 116.5% in 1977. Growth in GDP also slowed significantly to -12.4% in 1975 and -3.5% in 1976. The expansionary fiscal policy also created a situation where the budget deficit as a percentage of GDP was higher on average between 1975 and 1978 than under the previous two governments. It increased from 7.6% in 1975 to 11.3% in 1976. It fell to 9.5% in 1977 and further to 9% in 1978. However, the growth in the money supply increased throughout the period, peaking at 68.5% in 1978. To deal with the increasing balance of payments problems caused by the oil price shocks, the government in 1978 devalued the Cedi by over 100%. It is worth noting that the two significant self-reliance programmes: *Operation Feed Yourself* and *Operation Feed Your Industry* did not do well due to the oil price shock, the reduction of government revenue (revenue collapse), and the lack of external financial resources. The political climate between 1978 and 1981 was chaotic with three different governments taking turns to power (two military regimes, and one civilian regime). All three governments continued the control regime. There was also the second oil price crisis in 1979 which imposed significant negative impact on the external sector of the economy. The macroeconomic environment was equally unstable. After a decade of no access to IMF credit facilities, the Lt. Gen. F. W. K. Akuffo government took *the fifth step* to the IMF in 1979 to seek financial bailout to manage the economic difficulties created by the failing agriculture programme, general mismanagement of the economy, and increasing corruption. By the early 1980s, the economic environment was dominated by a general lack of confidence in the economy domestically and internationally. Its main causes were the maintenance of fixed and highly overvalued exchange rates that discouraged exports and encouraged imports, expansionary monetary and fiscal policies that led to inflationary pressures and further distorted the real exchange rate, and the imposition in 1971 of price controls on all commodities that discouraged production while providing excessive profits to the unregulated small-scale trading sector. There were also the effects of the two oil price shocks. The economic decline continued to 1982. The GDP growth rates were -2.5% in 1979, 0.47% in 1980, -3.5% in 1981 and worsened further to -6.9% in 1982. Inflation also worsened by increasing from 54.4% in 1979 to 116.5% in 1981 before improving to 22.3% in 1982.

### 3.2 The ERP and SAP (1983-1991)

The political era from 1983-1991 was relatively more stable than the previous period that comprise of all the military coups in Ghana. The economic turbulence of the previous period caused by shocks (external and internal) and inappropriate domestic policies that led to fiscal deterioration continued until 1983. Ghana was not spared from the balance of payment problems in the developing countries due to the earlier two oil price shocks. There was also expulsion of Ghanaians from Nigeria, and a severe drought which caused bush fires, shortage of basic food stuff, and hunger. The military government led by Flight Lieutenant Jerry John Rawlings had no choice than to take the *sixth step* to the IMF for financial bailout in 1983 to stabilize the economy. This became the first of six visits to the IMF over a period of eight years. Hence, the period became the most turbulent era in terms of financial bailouts and positioned Ghana as the first SSA country to implement broad economic and structural and institutional reforms. The main objective of the stabilization and reform programme was to lay the foundations for sustained economic growth and improving external payments position over the medium term. The pertinent question then is: did Ghana miss a great opportunity to structurally reform the economy for significant self reliance and avoidance of future incessant visits to the IMF? Obviously, the answer is "Yes". The remainder of this sub section will outline the reasons for my answer.

Fiscal, monetary and exchange rate policies were the main components of the ERP, which was designed to stimulate domestic aggregate supply by realigning relative prices in favour of the productive sectors. As earlier mentioned, the credit facility arrangement in 1983 would be renewed five more times till the last one in 1988 which lasted till 1992. This included the SAP implemented to correct structural imbalances in the economy. This included public sector retrenchment, significant liberalization of trade, privatization of nonperforming state-owned enterprises, and removal of subsidies on health, education, fuel, and other social services. The macroeconomic policies adopted during the period had a greater commitment to economic stabilization. During the period, the government of Ghana introduced a series of fiscal reforms to stimulate economic recovery. Inflation was stabilized and the fiscal account registered surpluses continuously for six years. The reforms focused on controlling the rate of growth of government expenditures, increasing government revenues, and reducing the size of the deficit on current accounts, thereby reducing government recourse to the banking system to finance deficits (Darku, 2007). Tax revenue as a percentage of GDP increased from a low level of 5.6% in 1983 to 14.4% in 1986 and further increased to 15.2 % by 1991. These increases were mainly due to the new measures adopted to improve the tax collection machinery and administration, as well as general improvement in the economy. Due to the confidence engendered by the ERP, foreign grants became an important part of government revenue. Available figures show a rising trend of foreign grants as a percentage of total government revenue from 4.01% in 1985 to 9.94% in 1989. Some discipline was also introduced into government expenditures. While government total expenditures as a percentage of GDP increased from 8.2% in 1983 to 14% in 1985, they remained almost constant from 1986 to 1991. From table 3.2, the overall budget deficit as a percentage of GDP improved from a 1.2% in 1983 to 1.0% in 1987, then to 0.9% in 1989 and worsened to 1.6% by 1991. Consequently, the government's recourse to the banking sector to finance its budget deficits was substantially reduced. The government also replaced the fixed exchange rate regime with that of flexible determination of the exchange rate. In the process of applying a flexible exchange rate regime, there was a series of devaluations between 1983 and 1986, the introduction of a foreign exchange auction in 1986, the introduction of foreign exchange bureau in 1988, and the establishment in 1992 of an interbank market. Due to the expansion of credit to the private sector, growth in the money supply accelerated between 1983 and 1989, with an average rate of 49 %. Though there were some controls on credit to the private sector, there were still some substantial increases of credit to that sector. In percentages, the annual increase in total bank credit to the private sector rose from 15.5 % in 1986 to 34.4 % in 1990. Growth in real GDP also rebounded significantly from a contraction of 4.6% in 1983 to an expansion of 8.6% in 1984 and achieved an average of 5% till the end of the period. Inflation also decreased significantly from 122% in 1983 to 40% in 1984 and fluctuated within the period but ended at 18% in 1991.

**Table 3.2: MACROECONOMIC DATA (1983-1991)**

| Year | Growth in Money | Inflation | Deficit to GDP | GDP growth rate | Current Account Balance* | Total Reserves* |
|---|---|---|---|---|---|---|
| **1983** | 40.21 | 122.87 | -1.2 | -4.56 | -172.16 | 291.31 |
| **1984** | 53.62 | 39.67 | -1 | 8.65 | -38.80 | 437.21 |
| **1985** | 46.17 | 10.31 | -1.2 | 5.09 | -133.90 | 552.08 |
| **1986** | 47.94 | 24.57 | -1.4 | 5.20 | -85.32 | 623.97 |
| **1987** | 53.33 | 39.82 | -1 | 4.79 | -97.90 | 331.65 |
| **1988** | 46.28 | 31.36 | -1.2 | 5.63 | -67.10 | 310.35 |
| **1989** | 54.67 | 25.22 | -0.9 | 5.09 | -93.90 | 435.93 |
| **1990** | 13.30 | 37.26 | -2.1 | 3.33 | -223.20 | 309.31 |
| **1991** | 39.08 | 18.03 | -1.6 | 5.28 | -252.05 | 644.30 |

**Source: IMF; International Financial Statistics.**
**World Bank, World Development Indicators**
*** in millions of USD**

## 3.3 The Democratization and Debt Cancellation Period (1992-2022)

The gains in macroeconomic policy management and the success of the structural adjustment reforms between 1983 and 1991 were reversed when economic policies took a sharp turn in 1992. Related to national elections to usher in a civilian government in 1992 (transition from military rule to a republic) to consolidate the political stability that begun in 1982, there were substantial increases in government expenditures. The negative effect on the economy was immediate. Data from table 3.3 indicate that the fiscal budget registered a deficit of 4.9 % of GDP in 1992, increased to 6.6% in 1997 before it fell to 2% in 2005. This fiscal indiscipline which creates excessive budget deficits in election year would become a permanent feature of Ghana's new democracy and fiscal management. Inflation also increased from 10.1% in 1992 to 59.5% in 1995. Growth in the money supply touched an all-time high of 52% in 1992. These would lay the foundation of the reason why the government went back to the IMF for an extended credit facility in 1995 *(the twelfth step)* and renewed in 1999 (*the thirteenth step*). These came with the usual conditionalities. Growth in real GDP over the period 1992-2000 averaged 4.5%, which is less than what it was over the previous period. The domestic currency also lost about half of its value between 1992 and 2000. Beside the macroeconomic instabilities on the domestic front, the country also faced deteriorating external economic conditions. Export price of main export commodities declined, and oil prices increased. There was also the global financial crisis caused by subprime mortgages in the United States. These two events led to unsustainable increase in Ghana's total debts with external debt increasing steadily from $4.51 billion in 1992 to $6.74 billion in 2000.

The next government led by John Agyekum Kufour inherited significant debt burden from the previous two governments due to their excessive borrowing to finance economic reforms. This is the first time that external debt started imposing important challenge to future economic

**Table 3.3: MACROECONOMIC DATA (1992-2006)**

| Year | Growth in Money | Inflation | Deficit to GDP | GDP growth Rate | Current Account Balance* | Total Reserves* |
|---|---|---|---|---|---|---|
| **1992** | 52.28 | 10.06 | -4.9 | 3.88 | -376.2 | 411.56 |
| **1993** | 33.50 | 24.96 | -5.9 | 4.85 | -558.8 | 516.97 |
| **1994** | 52.57 | 24.87 | -5.4 | 3.30 | -254.6 | 689.27 |
| **1995** | 43.17 | 59.46 | -4.9 | 4.11 | -143.8 | 803.82 |
| **1996** | 39.20 | 46.56 | -6 | 4.60 | -323.9 | 930.27 |
| **1997** | 44.09 | 27.89 | -6.6 | 4.20 | -549.7 | 617.63 |
| **1998** | 17.49 | 14.62 | -5.7 | 4.70 | -521.7 | 456.70 |
| **1999** | 25.42 | 4.87 | -6.1 | 4.40 | -964.5 | 534.75 |
| **2000** | 54.24 | 40.24 | -4.3 | 3.70 | -386.4 | 308.90 |
| **2001** | 56.53 | 41.51 | -3.9 | 4.00 | -427.5 | 375.94 |
| **2002** | 39.21 | 9.36 | -2.9 | 4.50 | -105.2 | 636.06 |
| **2003** | 23.24 | 29.77 | -2.1 | 5.20 | 101.7 | 1470.06 |
| **2004** | 27.28 | 18.04 | -2.2 | 5.60 | -590.2 | 1749.73 |
| **2005** | 19.47 | 15.44 | -2 | 5.90 | -1104.6 | 1897.06 |
| **2006** | 39.34 | 11.68 | -3.3 | 6.40 | -1056.1 | 2268.93 |

**Source: IMF; International Financial Statistics.**
**World Bank, World Development Indicators**
*** in millions of USD**

development in the country. Hence, one of the first thing the new government did was to enroll in the IMF/World Bank's Highly Indebted Poor Countries (HIPC) initiative in 2001 and the Multilateral Debt Relief initiative (MDRI) in 2005 to seek for external debt forgiveness from creditors. (*the fourteenth step)* The basic conditionalities associated with the initiative regarding the requirement of fiscal consolidation, reduction of credit to government, reduction of inflation to single digits, and increase foreign reserves, were like those of the previous visit to the IMF. To promote industrialization, the government embarked on several initiatives. These included the Presidential Special Initiatives to increase manufacturing activities in the country. The government also implemented the Ghana Growth and Poverty Reduction Strategy (GPRS) which is a medium to long term macroeconomic, structural, and social policies and programmes aimed at promoting broad based growth and reduce poverty. The programmes primarily focused on investment and services to promote private sector development and employment creation. It also involved helping the poor to increase their productivity and production (Tsekpo and Jebuni, 2008). The debt reduction initiatives were successful in reducing Ghana's debt from $6.6 billion in 2003 to $2.3 billion in 2006. The stabilization programme, the GPRS, and the earlier reforms implemented under the SAP by the previous governments became successful with economic growth picking up steadily from 4.0% in 2001 to 7.3% in 2008. The impressive growth was mainly driven by the secondary and tertiary sectors with an average growth rate of 7.2% and 6.2% respectively, compared to an average of 3.6% by agriculture which is the largest contributor to employment, output, and foreign exchange earnings (UNECA, 2010). Inflation also fell from 32.9% in 2001 to 18.1% in 2008. It must, however, be noted that Ghana exited from the IMF poverty reduction growth facility (PRGF) in 2006 to liberate itself from IMF conditionalities and to enable government to expand the scope and structure of financing the investments needed to accelerate growth. Immediately after exiting the programme the nation will take a turn in its strategy for external financing of development projects by successfully raising $750 million from the international capital market in 2007 when the global financial crisis had just started.

**Table 3.4: MACROECONOMIC DATA (2007-2022)**

| Year | Growth in Money | Inflation | Deficit to GDP | GDP growth rate | Current Account Balance* | Total Reserves* |
|---|---|---|---|---|---|---|
| **2007** | 36.83 | 10.73 | -5.3 | 4.35 | -2378.8 | 2218.31 |
| **2008** | 39.18 | 16.49 | -5.9 | 9.15 | -3327.4 | 2014.21 |
| **2009** | 24.74 | 19.25 | -5.3 | 4.84 | -1897.2 | 3691.82 |
| **2010** | 31.92 | 10.73 | -7.5 | 7.90 | -2747.3 | 5158.15 |
| **2011** | 33.99 | 8.73 | -5.5 | 14.05 | -3541.3 | 5913.60 |
| **2012** | 25.14 | 11.19 | -8.3 | 9.29 | -4911.7 | 5835.10 |
| **2013** | 19.50 | 11.67 | -9.1 | 7.31 | -5704 | 5587.74 |
| **2014** | 37.29 | 15.49 | -7.8 | 2.86 | -3694.6 | 5563.71 |
| **2015** | 25.57 | 17.15 | -4 | 2.12 | -2823.6 | 5742.65 |
| **2016** | 22.50 | 17.45 | -6.7 | 3.37 | -2832 | 5866.73 |
| **2017** | 16.07 | 12.37 | -4 | 8.13 | -2002.6 | 7015.19 |
| **2018** | 15.76 | 7.81 | -6.8 | 6.20 | -2044.6 | 6294.85 |
| **2019** | 21.35 | 7.14 | -7.5 | 6.51 | -1864 | 7563.21 |
| **2020** | 28.36 | 9.89 | -17.4 | 0.51 | -2134 | 7884.09 |
| **2021** | 12.44 | 9.97 | -12.1 | 5.36 | -2541.4 | 9916.92 |
| **2022** | 33.36 | 54.10 | -9.9 | 3.20 | -1517 | 6238.00 |

**Source: IMF; International Financial Statistics.**
**World Bank, World Development Indicators, * in millions of USD**

Economic policies of the next three governments would lead to significant increases in public debt in an unprecedented manner. The Prof. John Atta Mills' government came to power in 2009 and immediately took the *fifteenth step* to the IMF for an extended credit facility mainly due to the rise in fiscal deficits and the recent rise in debt to GDP ratio since 2006, after an extended period of reduction. Hence, this period marks the beginning of the gradual rise in the debt to GDP ratio. So why did the government return to the IMF only 3 years after exiting in 2006? The answer is that there was a combination of domestic and external factors that presented economic challenges to the country. On the domestic front, the economic fundamentals had started worsening. From table 3.4 fiscal deficits to GDP ratio rose from 5.3% in 2007 to 5.9% in 2008, and inflation was also on the rise. The domestic currency also lost about 30% of its value in 2007 and continued in that direction in 2008 despite Bank of Ghana's intervention. On the external front, Ghana's credit ratings were worsening, and the country faced limited access to the international financial market. The country was also facing fiscal and exchange rate challenges due to the global financial crises which reduced remittances and private capital inflows into the economy. Beside the IMF bailout money, Ghana also benefited from a general allocation of Special Drawing Rights (SDR) intended by the IMF to assist its member countries to rid off the negative impact of the Global Financial crisis. The financial bailout came with the usual conditionalities that required the reduction of fiscal deficit to GDP ratio and subsequently a reduction in debt accumulation, reduction in inflation and an increase in foreign reserves. There were also some structural change conditions. The macroeconomic policy stance of the government was geared towards meeting the conditionalities. As a result, deficit to GDP ratio recorded 14.9% in 2008 but improved to 4.3% in 2011 and then worsened to 11.6 % in 2012 due to the usual increase in government spending during election years. Inflation also decreased from 19.3% in 2009 to 8.7% in 2011. The currency stabilized and the international reserves also increased. However, these improvements were on the back of contracting economy, and debt accumulation started increasing after successfully reducing external debt from $8.3 in 2003 to $3.7 in 2006. GDP growth rate reduced from 9.1% in 2008 to 4.8% in 2009, and later rebounded to 9.3% in 2012. Over the four-year period from January 2009 to December 2012, the government increased debt by 30%. Beyond the macroeconomic stability front, the government recognized the need for a new development strategy to transform the economy through industrialization. Hence in 2010, the government launched a new medium term development programme known as the Ghana Shared Growth and Development Agenda (GSGDA) to address the challenges and vulnerabilities of the past few years and put the economy on sustainable growth path. The industrialization strategy was designed to create strong manufacturing sector through private sector driven approach. Government was to provide the enabling environment through the provision of efficient public sector, infrastructure, stable macroeconomic environment, and an efficient financial sector. These efforts did not yield any significant results over the medium term. As previously indicated, growth in real GDP was not impressive and according to data from Ghana Statistical Service, growth in the manufacturing sector was equally not impressive, as the average manufacturing value added as a percentage of GDP declined to 6.6% having attained the value of 9.5% during the previous administration.

The John Mahama government is essentially a continuation of the John Atta Mills government. Having assumed the presidency during the latter part of Atta Mills government, President Mahama's government already tasted the effect of declining economy. Being an election year, 2012 saw another episode of budget overrun coming from overspending associated with the general election. The impact of the increase in budget deficit and its associated borrowing on the economy was almost immediate. The budget deficit as a percentage of GDP increased significantly from 5.5% in 2011 to 8.3% in 2012 and stayed very high till the end of 2014. By the end of 2013, inflation started increasing at a higher rate and the currency also depreciated significantly. The growth rate of real GDP reduced from 9.3% in 2012 to 7.3% in 2013 and further to 2.8% in 2014. These macroeconomic instabilities were compounded by the power shortages, known as "*dumsor*", that started in 2012. The external environment was equally unfavourable with sharp drops in oil and commodity prices. Faced with these economic challenges, the government took *the sixteenth step* and secured an Extended Credit Facility in 2015 only two years after the credit facility signed by the previous government expired. The government also rolled out its long-term development programme, the Coordinated Programme of Economic and Social Development Policies-2014-2020 (dubbed the Coordinated Programme) aimed at transforming the economy through industrialization based on the country's natural resources, agricultural potential, and large human resources. Since the GSGDA I expired in 2013, the government launched GSGDA II as the medium-term implementation of the Coordinated Programme, and it became the anchor for the IMF Extended Credit Facility, in addition to the usual conditionalities. The implementation of the conditionalities brought some stability in the fiscal environment with the deficit to GDP ratio reducing from 7.8% in 2014 to 4.0% in 2015. However, due to poor revenue mobilization and the usual overspending in election years, the deficit to GDP ratio increased to 6.7% in 2016. Growth in GDP also fell from 7.31 in 2013 to as low as 2.1% in 2015 before picking up to 3.4% in 2016. Inflation picked up by increasing from 15.49% in 2014 to 17.45% in 2016. The currency also depreciated by 44.65% between 2013 and 2016. By the end of 2016, the government had added about 30% to the country's debt which was approaching unsustainable level. It is also worth stressing that most of the industrialization strategies, policies, and initiatives articulated in the Consolidated Programme were not implemented.

The hope of ending the visits to IMF at the 16th step engulfed the nation when the current government, let by Nana Addo Danquah Akufo-Addo, touted the slogan "*Ghana Beyond Aid*" during the 2016 general election campaign season and the early part of its ruling. The government had inherited an ailing economy with increasing fiscal deficits, mounting debts, increasing inflation, depreciation of the currency, and declining GDP growth rates. It also inherited an economy under IMF programme and its associated conditionality. Confident that it could implement its own home-grown reform programme without being stifled with IMF conditionalities, the government successfully exited the IMF programme in 2019 with some significant macroeconomic gains. The fiscal deficit to GDP ratio reduced significantly from 6.7% in 2016 to 4.0 % in 2017 but increased to 7.5% in 2019. Inflation also reduced from 17.46% in

2016 to 12.37% in 2017 and further to a single digit of 7.14% in 2019. GDP growth rebounded from a low level of 3.4% in 2016 to 8.13% in 2017 and later to 6.51% in 2019. The domestic currency also saw some stability by slowing the depreciation rate to only 9.64% between 2016 and 2019. This is significantly lower than the depreciation rate over the last three years of the Mahama's government. The government also rolled out the most ambitious industrialization programme (the one district one factory-1D1F programme) since the Nkrumah import substitution industrialization programme during the immediate post independent era. Like many administrations, the government sought to shift the paradigm from an economy based on the reliance of exports of a few commodities to one with strategic industrialization programme that serves as new economic building blocks for the development of other sectors. The 1D1F initiative, which is to be driven mainly by the private sector with a few public-private partnerships, became a key component of the government's transformation agenda. Accompanying the initiative is the one region one industrial park (1R1P) programme which is an ambitious programme to establish one industrial part in the then 10 regions of the country. The government also embarked on a programme to revamp distressed but viable industries that need financial assistance, business advise, and market access. The above ambitious industrialization programmes would not enjoy the initial stable macroeconomic environment created by the government when internal (domestic) and external (international) shocks hit the economy simultaneously. On the domestic front, the 2020 election year fiscal overrun, the financial sector cleanup that began in 2017, and the energy sector debts, led to sharp increase in budget deficits and borrowing. The fiscal deficit to GDP ratio increased from 7.5% in 2019 to 17.4% in 2020 and later to 12.1% in 2021. On the external front, the Covid-19 pandemic, and the Russia-Ukraine war which has impacted on the global supply chain, have exerted negative effects on the economy through increase in the price of food and refined petroleum product. Large domestic central bank financing of government spending pushed inflation up. Inflation rate increased from 7.14% in 2019 to 12.63% in 2021 and further to 54.1% 2022. Real GDP growth slowed from 8.13% in 2017 to 0.4% in 2020 before picking up to 4.7% in 2021. Total public debt has also increased unsustainable to 88.1% of GDP by end of 2022 with almost equal divide between domestic and external. There has also been increasing reliance on portfolio debt since 2007. Ghana lost access to international capital market late 2022 and suffered significant capital outflows. The currency came under severe pressure due to challenging external financing conditions and loss of international capital market access and it plummeted by more than

50% in 2022 compared to end of 2021. The government that had vowed never to go back to the IMF would eventually take the 17th step to the IMF for financial bailout to support its finances and service its mounting debts as debt servicing become increasingly significant expenditure item in the government budget in recent years. The visit to the IMF required domestic and international debt restructuring, structural reforms of the economy and the usual conditionalities (fiscal consolidation and monetary restraints). Hence, this would be the first time that a financial crisis in the country has led to significant Domestic Debt Exchange Programme (DDEP) that led to significant loss of wealth by the banking and institutional bond holders, as well as individual bond holders, to government. It is also the first time that a financial crisis was partly caused by credit downgrading by rating agencies because of the excessive borrowing from the international capital market and debt distress. The government is also in negotiations with its international creditors for debt forgiveness and restructuring.

# 4. THE STRUCTURE OF THE ECONOMY, DEFICITS, EXTERNAL DEBTS, AND FINANCIAL CRISES

The previous section has provided a comprehensive account of the link between macroeconomic policy choices and financial crises in Ghana since independence in 1957. The discussion revealed some evidence that the perennial financial crises in Ghana have been caused mainly by fiscal indiscipline, monetary accommodation, excessive borrowing, external shocks, and failure of government to structurally transform the economy to make it resilient to both internal and external shocks. In this section I present the anatomy of the structure of the economy by delving deeper into the various attempts to structurally transform the economy of Ghana and elucidate the reasons why they have not been successful. I will then link the frequent occurrence of financial crises in Ghana to the lack of significant change in the structure of the economy due to instabilities of economic reform programmes and present much clearer evidence of how frequent fiscal imbalances, and excessive external debt accumulation and its compositions have contributed to financial crises in Ghana.

## 4.1 Structure of the Economy

The structure of an economy refers to the characteristics that defines the various activities within an economy. The characteristics could define the internal production activities and actors (internal structure) or the nature and composition of the interaction between the economy and the rest of the world (external structure). The structure of the economy helps to track the proper functioning of the economy. It describes the changing balance of production, income, trade, and employment drawn from different sectors. In the analysis below, I will focus on the discussion of the evolution of the structure of the economy from the production side and the structure of international trade and demonstrate how that has impacted on the fiscal space of the national government and the size and structure of government debts.

### *4.1.1: Internal Structure*

At the time of independence, the Ghanaian economy was predominantly agrarian and had emerged as the largest producer and exporter of cocoa in the world. The economy was also a significant producer and exporter of gold. The agriculture sector was mainly comprised of subsistence farming with low productivity and provided employment to many Ghanaians. Many governments then implemented various sectoral initiatives to transform the agriculture sector to increase its productivity to support the development of the industrial sector and promote sustainable livelihood and development. The Nkrumah government chose the path of promoting state owned agriculture enterprises as a strategy to develop the sector and make it a significant source of employment. Various large state farms were set up to increase agriculture production and provide employment. Determined to create a manufacturing led economy, the government also embarked on an ambitious imports substitution industrialization programme which called for rapid development of industrial complexes complemented by infrastructure development which included harbours, roads and highways, educational facilities, and health facilities. Over the nine years that the government was in power, the structure of production in the economy did not change much. From table 4.1, data available in 1960 indicate that agriculture accounted for 40.8% of GDP, and by the end of 1966 it accounted for 43.3%. The average over the period is 38.3%. Industry also accounted for only 18.5% in 1966. Beside the state-led emphasis on agriculture, the overall performance of the sector was not impressive, with an average growth rate of only 1.6% over the period. However, manufacturing activities improved significantly. Manufacturing value added as a ratio of GDP was 11.2% in 1965, having increased from as low as 2% in 1957. The average growth rate of real manufacturing value added was 16.5%.

Because the next two governments believed in private sector led development strategy, they quickly shifted from state control economic development strategy to a more market oriented economic system. Hence, they moved away from state owned agriculture enterprises and emphasized on assisting private farmers to acquire machinery and other inputs from formerly state-owned farms for their own farming ventures. The government also emphasized on rural development as a way of developing the agricultural sector. Similarly, the governments shifted focus on state-led industrialization strategy to a private enterprise driving industrialization strategy. However, the government reserved the option to directly intervene in the strategy when it becomes necessary for the interest of the nation. A few industries that were initiated by the previous administration became operational in 1966 and 1967, and with much improvement in capacity utilization, the industrial sector initially performed well. The government also embarked on privatization of a few state-owned enterprises and encouraged local business start-ups as a strategy to develop the private sector as the engine of growth. The structure of production did not change much over this period. Data from table 4.1 indicate that on average, the agricultural sector accounted for 44.1% of GDP and industry accounted for 20% of GDP. These gains are obviously at the expense of the service sector which at this time was at the nascent level. Because of pickup in the overall economic performance, both the agricultural and the industrial sectors performed well compared to the previous administration. Manufacturing value added as a ratio of GDP increased to 13.1%, however, the average growth rate of real manufacturing value added was 11.3%.

**Table 4.1: Economic Structure Data (1957-1982)**

| | Agriculture | Industry | Services |
|---|---|---|---|
| | | **Nkrumah** | |
| **1957** | .. | .. | .. |
| **1966** | 43.2806 | 18.3794 | .. |
| **Average** | 38.8837 | 18.5008 | .. |
| | | **NLC** | |
| **1966** | 43.2806 | 18.3794 | .. |
| **1972** | 46.6430 | 17.7265 | .. |
| **Average** | 44.0752 | 19.9423 | .. |
| | | **SMC1 &SMC2** | |
| **1973** | 48.9860 | 18.5947 | .. |
| **1979** | 59.9674 | 12.2812 | .. |
| **Average** | 53.6051 | 16.7286 | .. |
| | | **Rawlings** | |
| **1979** | 59.9674 | 12.2812 | .. |
| **1982** | 57.3412 | 6.2475 | .. |
| **Average** | 57.0783 | 9.8899 | .. |

**Source: IMF; International Financial Statistics.**

The next two military governments returned to direct state involvement in economic development through agricultural and industrial initiatives. The government also believed in achieving economic development on both fronts through self reliance. The agricultural sector's importance in the economic development process in Ghana received its greatest boost. The "Operation Feed Yourself" program aimed at increasing local production of a wide variety of agriculture products for home consumption. Unfortunately, the program did not perform well and on the average the agriculture sector contracted between 1972 and 1978. On the industrial front, the objective of the government's programme, among other initiatives, was to achieve accelerated industrial development, achieve self sufficiency in the production of selected consumer products that uses local raw materials, and stimulate small scale manufacturing industries through government targeted assistance. However, the accompanying import controls made most industries become inefficient. Most industries were constrained with lack of imported intermediaries and operated at excess capacity. Hence, the contribution of industry to total GDP reduced to an average of 16.7%, and beside the dismal performance of the agricultural sector, its contribution to GDP increased to 53.6%. This failure of the industrial sector to lead in the economic development efforts after two decades of independence continued with the Liman and initial part of the Rawlings administrations up to 1982. Between 1979 and 1982, agriculture contribution to GDP increased further to an average of 57.1% and the industry contribution to GDP reduced further to 9.9%, the lowest it has been in the history of the nation. The annual manufacturing value added as a percentage of GDP reduced to 11.4% between 1972 and 1979, and to 6.8 from 1980 to 1981, before reducing further to 3.6% in 1982. These results meant that the average growth rates of real manufacturing value added were negatives (average of -1.9% for 1972-79 period: -10.5% for the 1980-81 period, and -20.5% in 1982. These performances in the manufacturing sub-sector are evident of significant reduction in industrial activities.

The next few decades will present another opportunity to change the structure of the economy for take-off. After the initial attempt to continue with the self-reliant strategy of development, the Rawlings led administration turned round and experimented with the Bretton Woods institution policy prescription and economic reform programme. The resulting ERP and SAP, as earlier outlined, presented a significant paradigm shift from the overprotected self reliant import substitution industrialization strategy to a private sector led outward oriented industrialization strategy that is expected to thrive on improved market conditions. The industrial policies and reforms also included privatization of nonperforming state-owned enterprises to bring efficiency to the industrial sector. There were also significant reforms in trade policies and the financial sector. The new outwards oriented industrial policies saw immediate results with the industrial sector in general and manufacturing sector showing positive results. Hence, the ERP and SAP reforms laid the foundation for industrial recovery after almost a decade of decline. The industrial sector grew on average by 11.2% annually, after several years of decline prior to the launch of the ERP. Manufacturing value added as a ratio of GDP also increased to 8.9%, with average growth rate of real manufacturing value added increasing to 6.29%. From table 4.2 the pickup in the industrial sector led to its average contribution to GDP rising to 14.9%, and the agricultural and services sectors contributing an average of 49% and 34.5% to GDP respectively. This pickup in the industrial sector was largely due to manufacturing sub-sector response to the significant reforms in trade policies and financial sector during the period.

**Table 4.2: Economic Structure Data (1983-1991)**

| | Agriculture | Industry | Services |
|---|---|---|---|
| **1983** | 59.7 | 6.6 | .. |
| **1984** | 49.2 | 10.6 | 35.0 |
| **1985** | 44.9 | 16.7 | 31.1 |
| **1986** | 47.8 | 17.2 | 34.5 |
| **1987** | 50.6 | 16.3 | 32.9 |
| **1988** | 49.6 | 16.6 | 33.6 |
| **1989** | 49.0 | 16.7 | 33.4 |
| **1990** | 44.8 | 16.8 | 37.9 |
| **1991** | 45.5 | 17.0 | 37.4 |
| **Average** | 49.0 | 14.9 | 34.5 |

**Source: IMF; International Financial Statistics.**
**World Bank, World Development Indicators**

A new democratic era was ushered in Ghana in 1993 to start a long period of democratic rule with unprecedented political stability in the history of the nation. The new democratically elected government (which was also the previous military government) continued with the earlier reforms in all major sectors of the economy. The government continued to create the enabling environment such as improvement of infrastructure and financial services to stimulate growth in the private sector led industrial activities. The continued liberalization of trade led to the establishment of export processing zones to promote processing and manufacturing of goods for exports. The government also introduced in 1994 a medium-term development program called the Ghana Vision 2020 which is designed to make the industrial sector in general and the manufacturing sub-sector in particular drive the growth in GDP while increasing their respective shares of GDP. However, the Vision 2020 was not implemented because of the implementation of an IMF programme that was sought in 1995. As a result of the industrial policies the average manufacturing value added as a percentage of GDP increased further to 10.1%. From table 4.3 below, the industrial sector contribution to GDP increased to 24% and the agricultural and services sector contributing on average 37% and 28.8% respectively.

**Table 4.3: Economic Structure Data (1992-2022)**

| | Agriculture | Industry | Services |
|---|---|---|---|
| | | **Rawlings** | |
| **1992** | 44.8 | 17.4 | 37.4 |
| **2000** | 35.3 | 25.4 | 28.8 |
| **Average** | 37.8 | 24.1 | 28.8 |
| | | **John A. Kufuor** | |
| **2000** | 35.3 | 25.4 | 28.8 |
| **2008** | 29.4 | 19.4 | 46.2 |
| **Average** | 33.7 | 23.3 | 34.8 |
| | | **John Atta Mills** | |
| **2008** | 29.4 | 19.4 | 46.2 |
| **2012** | 22.1 | 27.1 | 47.6 |
| **Average** | 26.8 | 21.4 | 47.1 |
| | | **John Mahama** | |
| **2012** | 22.1 | 27.1 | 47.6 |
| **2016** | 20.8 | 27.7 | 43.9 |
| **Average** | 20.6 | 30.8 | 42.0 |
| | | **Nana Akuffo-Addo** | |
| **2016** | 20.8 | 27.7 | 43.9 |
| **2022** | 22.1 | 32.1 | 45.8 |
| **Average** | 19.5 | 30.0 | 44.7 |

**Source: IMF; International Financial Statistics.**
**World Bank, World Development Indicators**

The next government that took power in January 2001 continued with the private sector led industrial and overall economic growth strategy. The government also continue with the privatization of non-performing state-owned enterprises to strengthen the private sector. The overall aim of the government was to transform the economy through industrialization. However, unlike the previous government, the current government sought to play a more active role in industrialization by initiating a series of targeted policy initiatives which became known as the

Presidential Special Initiatives (PSI) for the development and manufacturing of various products for exports. Through the Coordinated Programme for the Economic and Social Development of Ghana, the government emphasized agro-based industrial development and the development of information and communication technology (ICT). The agro-based industrialization strategy led to various reforms in agriculture to modernize the sector to complement industrial policies and ensure sufficient, low cost, and constant supply of agricultural raw materials to industry. Special infrastructure such as warehousing, haulage, inventory distribution, port facilities, and distribution outlets were developed to support the agro-based industrialization strategy. The government also designed the district industrialization programme that sought to establish at least one industrial enterprise in each district in the country. The Coordinated programme will suffer the same faith as the Ghana Vision 2020, as it was not implemented due to the implementation of the Ghana Poverty Reduction Strategy 1 (GPRS1), a medium-term strategic development programme required by the IMF for poor countries to prepare before getting approval of the Poverty Reduction Growth Facility (PRGF). The preparation and implementation of the GPRS1 was also required for Ghana to reach the completion point of the HIPC initiative that the government had signed on. However, the World Bank-IMF sponsored GPRS1 and later the GPRSII also contained private sector-led industrial strategy through the application of science and technology. The performance of the manufacturing sub-sector in terms of the average annual manufacturing valued added as a percentage of GDP reduced slightly to 9.5%. Both agricultural and industrial sectors contribution to GDP reduced slightly to 33.7% and 23.3% respectively. The service sector for the first time in the nation’s economic history became the leading contributor to GDP with an average of 34.8% from 2000 to 2018.

The next two NDC governments led by Professor Atta Mills and John Mahama respectively, inherited the GPRSII and since the Atta Mills government sought for an Extended Credit Facility (ECF) immediately after coming to office, it continued to manage the economy based on the GPRSII for the first year in office. Then because the need for a new development strategy to support the implementation of the conditions attached to the new ECF was eminent, the government came out with the Ghana Shared Growth and Development Agenda (GSGDA I). Under the agenda, the government sought to promote industrialization in general and manufacturing activities by providing the enabling environment, such as infrastructure, reformed financial sector, and general macroeconomic stability, for the private sector to lead. Essentially, the strategy did not change from that of the previous governments including the ERP era. The overall strategic direction of the agenda as stated by the government was to lay the foundation for the structural transformation of the economy through industrialization based on modernized agriculture and sustainable use of natural resources. The Mahama government initially continued the implementation of the GSGDA I, but the government in 2014 completed two programmes for implementation: the medium-term GSGDA II, and the Coordinated Program of Economic and Social Development Policies (CPESDP). Like the Kufour government, the Mahama's CPESDP included an ambitious programme aimed at transforming the economy through industrialization based on natural resource endowment, human resource, and agriculture modernization to accelerate economic development through value addition and exports. In the medium term the government focused on developing light industries that use agriculture inputs. The government also outlined special priority projects such as the Integrated Aluminium Industry project, the development of machine tool industry, and the establishment of the Industrial Development Fund (IDF) to assist indigenous agro-based and light industries with funding. Though the GSGDA did not prioritize industrial development, it contained most of the ambitious agro-based manufacturing included in the CPESDP. The combined effects of the two governments on the structure of the economy tilted in favour of the industrial and services sectors. By the end of the Mahama government, the average of the industrial sector contribution to GDP was 30.8%, the service sector contributed 42% of GDP. The average manufacturing value added as a percentage of GDP declined to 4.9 % and the average real manufacturing value added growth also declined significantly to 0.9%.

The Akuffo-Addo government came to power in January 2017 and inherited the ECF agreement from the previous government. This means that the new government continued with the implementation of the GSGDA II as it served as an anchor to the credit facility. However, before completing its Consolidated Programme, the government made public the most ambitious industrialization programme to date. The programme seeks to set up strategic industries in many manufacturing sub sectors that will transformation the economy. To implement the programme the government came up with several initiatives that include the One District One Factory (1D1F), the establishment of Industrial Parks and Special Economic Zones, and the National Industrial Revitalization Initiative. The 1D1F initiative is a key component of the government's industrialization programme to transform the country. The initiative seeks to establish at least one industrial enterprise in each district of the country by boosting private sector-led industrialization in Ghana which will equip communities in Ghana to use local agricultural products to manufacture products for the local and international markets. For the industrial parks and special economic zones, the government intended to establish one industrial part in each region of the country. This is also dubbed "One Region, One Industrial Park" (1R1P). These parks would be well equipped with the required infrastructure and utilities and would either be sector specific or multi-sectoral. The National Industrial Revitalization Programme also seeks to revamp distressed companies that are economically viable, by providing them financial, business support services, and marketing supports. As at 2022, these industrialization initiatives have not translated into significant improvement of the industrial sector because its average contribution to GDP has decreased slightly to 30% compared to the previous government. The service sector continued to increase its importance by contributing an average of 44.7% to GDP and the agriculture sector also reducing slightly to contribution an average of 19.5% to GDP.

In conclusion, the analyses above show that the various development and transformational programmes initiated and implemented by various governments since independence have not significantly changed the structure of the economy. This is because the various attempts by successive governments to transform the economy with reforms to improve agricultural productivity and promote industrialization initiatives have either been short-lived or not been implemented fully. For effective structural changes to occur when industrial and services sectors contributions to GDP increase over time, the agricultural contribution declines because of increases in productivity in agriculture which enables the sector to release significant labour to the growing industrial and services sectors. This is not the case in Ghana. Though the service sector has emerged as the leading contributor to GDP with industries closely following, the decline in agricultural contribution to GDP is not driven by significant productivity increases in agriculture. In fact, agriculture is still the major employer of labour in the country, and its productivity increases have been little. The significant improvement in the service sector activities is a combination of some pick-up in that sector and evidence of slow productivity growth in the agricultural sector and some industrial stagnation despite various attempt to industrialize during the fourth republic. With no significant change in the production structure of the economy, the nation has not been able to create fiscal space in terms of significant increase in revenue sources to pay for the excessive growth in government spending, especially during the democratization period. The natural consequence is over borrowing and its associated debt crises.

### 4.1.2: External Structure

The Ghanaian economy is highly integrated into the world market through trade, finance, and mobility of labour which presents great opportunity for growth and economic transformation. There is evidence that countries that have recently experienced rapid growth and development are those who successfully reformed their economies to promote growth in their exports. For instance, China, Singapore, Taiwan, Brazil, South Korea, and Malaysia have been able to grow rapidly by expanding their external sector through increase in exports of diverse value-added products to the rest of the world. The structure and performance of the external sector is normally analysed through the components of the balance of payments accounts. In this sub-section, I will discuss the effect of policies and programmes on the components of the balance of payments account and analyse the evolution of the external structure of Ghana and how that has contributed to financial crises episodes in Ghana. The discussion will be organized between two period based on the extent of globalization of the Ghanaian economy: the pre-ERP period (1957-1982) and the post-ERP period (1983-2022).

#### 4.2.1.1: Pre-ERP Period

Trade and payment regimes in Ghana during the pre-ERP varied significantly depending on the government in power. At independence, Ghana inherited a liberal trade regime, huge external reserves, and a fixed exchange rate system. After experiencing balance of payments problems almost immediately after independence, the government ushered in a controlled regime by introducing exchange controls as a policy package to control and conserve foreign exchange. This swing between liberal and controlled regimes continued till the end of the period.

As a result of the changes in the trade and payments regimes, the external sector of the economy witnessed large swings over the period. As table 3.1 shows that on the average current account balance as a percentage of GDP was negative. This was particularly due to substantial negative balances on the services account, which more than offset any positive trade balance. However, there were some remarkable differences in the current account and balance of payments across various trade and payment regimes. During the controlled regime period of 1961-1966, both the trade balance and current account were on average in deficit, with the current account deficit as a percentage of GDP ranging from -5% to -15%. The overall balance of payments was also in deficit for about half of the period. The liberalized regime that followed registered positive trade balances from 1967 to 1970, but in 1971 the trade balance became negative. But the current account deficits carried on beyond the control regime till 1970 when the first current account surplus in more than a decade was achieved. The overall balance of payments also, after registering deficits since 1966, first recorded a surplus in 1970 and continued with surpluses till the government was overthrown in 1972.

During the next control regime of 1972-1982, current account surpluses were achieved in five out of eleven years, with the last eight years registering relatively small current account deficits or surpluses as percentage of GDP. The services account during this period was always in deficit, with the size of the deficit in it increasing almost continuously throughout the period. On average, the overall balance of payments was in deficit; however, there were some improvements when compared with the previous regimes. The terms of trade, in general, improved until 1978. The oil price escalation and the decline in the world price of cocoa led to a decline in the terms of trade. By 1982, Ghana had suffered a fall of 59 % in her terms of trade relative to 1970. The general trend in the current account and the overall balance of payments led to some large swings in the external reserve position, with decreases in the external debt in some of the years between 1972 and 1982. Table 3.1 summarises the external financial position during the pre-ERP period. Total international reserves decreased almost continuously from 277.9 million dollars in 1960 to 43.1 million dollars in 1971, before increasing again till 1978. The flow of Foreign Direct Investment (FDI) reflected the economic ideology of the period and the confidence the international community had in the country. For instance, during the import substitution industrialization era of the 1960s, capital inflows increased substantially to take advantage of the incentives offered to domestic production of manufactured goods. From a low of 9.9 million dollars in 1962, foreign direct investment increased to 56.1 million dollars in 1966 but ended the period with only 16.3 million dollars in 1982. The increases in the international reserves between 1972 and 1982 were due to the improvements in the overall balance of payments surpluses, discussed earlier. In terms of total amount, the external debt increased from as low as 571.4 million dollars in 1970 to 1484.2 million dollars in 1982. However, the external debt to GDP ratio decreased almost continuously between 1971 (39.6 %) and 1982 (4.7 %). Due to the military coup in 1966 and its associated uncertainties, FDI decreased continuously for the next three years to reach as low as 10.2 million dollars in 1969. With a democratically elected government in power FDI increased again to 67.8 million dollars in 1970, then fell again to 11.5 million dollars in 1972 when another military government came into power by a military coup. This pattern continued till the end of 1982. Net Foreign Assets (NFA) decreased precipitously between 1960 and 1964 and became negative till the end of 1971. This item then became positive in 1972, fluctuated over the next eight years, before becoming negative once again in 1981 and 1982.

#### *4.1.2.1: Post Economic Recovery Program Period*

Liberalization of the external sector of the Ghanaian economy occurred in this period. The government gradually replaced the fixed exchange rate system with that of flexible determination of the exchange rate, international trade was liberalized, and the international movement of capital was also gradually liberalized. Hence the external structure of the economy was influenced by these events. I will first analyse the structure of the external sector before the country became part of the HIPC initiative in 2003. This will allow us to appreciate the events that led to the accumulation of the unsustainable external debts. Unlike the previous period, the entire post-ERP period, except for 2003, the current account registered deficits. This is mainly due to the liberalization process, including the gradual elimination of import restrictions as the economy moved towards a more liberal trade regime. Another important cause of the deficit is the almost continuous decline in the terms of trade after 1984, so that the trade balance deficits were mainly due to increases in import values and decline in export values. The fall in the price of cocoa by almost 50 % between 1987 and 1989 led to a loss of cocoa revenue of US$200 million in 1989, though cocoa exports nearly doubled in volume. Table 3.2 shows the developments in the balance of payments during the period. As a percentage of GDP, the current account deteriorated continuously from a low of 4 % in 1983 to 22.7 % in 1993, just a year after the commitment to the economic recovery program took a sharp turn. Thereafter, it varied around an average of 13 % and closed the period with 2%. The overall balance of payments performed very well due to the increased confidence the international financial community had in the recovery program, thereby leading to increases in capital inflows. These inflows overshadowed the worsening current account, allowing significant balance of payments surpluses. For instance, between 1987 and 2002 (except in 1992, 1996, 1999, 2000 and 2001), the balance of payments recorded surpluses. It is no surprise that these balance of payments deficits occurred in election years (1992, 1996, and 2000) when the trade and current account deficits increased significantly, at the time when the international financial community was pessimistic about the direction of the economy. Beside the improvements in the balance of payments, data from table 3.2 and 3.3 show that total international reserves continued to experience large swings during the post-ERP period. In millions of US dollars, they increased from 291.3 in 1983 to 624 in 1986, decreased to 310.3 in 1988 and then increased again to 930.3 by 1996. They fell to 308.9 million dollars in 2000 and finally increased to 636.1 in 2002. In terms of months of imports, the international reserve performed poorly in this period, falling to historical lows from 1998 to 2002 with an all-time minimum of 1.06 months occurring in 2000. The movements in foreign direct investment inflows indicate that foreign investors were initially cautiously optimistic about the success of the economic recovery programme. For almost four years after the implementation of the stabilization programme, foreign direct investment inflows only increased from 2.4 million dollars in 1984 to 4.7 million dollars in 1987. Once they were confident about the direction of the economy, foreign direct investment increased substantially, reaching 233 million dollars in 1994. By 2000, foreign direct investment was about 166 million dollars and further reduced to 50 million dollars in 2002. In addition to encouraging inflows of loans from official sources and foreign direct investment, the stabilization and liberalization programmes also encouraged the inflow of private transfers by Ghanaians resident abroad. Between 1983 and 1987, private transfers increased by more than 30 times (from $US 4.02 million in 1983 to $US 122.4 million in 1987). The increases continued up to 2002.

The period from 2003 to 2022 includes two significant debt crises episodes in Ghana. As earlier mentioned, the government realizing that the public debts had increased unsustainably the government enrolled in the IMF/World Bank's Highly Indebted Poor Countries (HIPC) initiate in 2001 and became successful to participate in the programme in 2003. Debt relief was part of the larger efforts of the initiative to address the developing needs of low-income courtiers like Ghana, which resulted in the cancellation of most of Ghana's debt. Early 2022, the Ghanaian economy faced series of challenges which included rising and unsustainable public debts and debt servicing, increasing depreciation of the currency, and rising inflation. These challenges made the government seek a $3 billion IMF bailout programme which required significant domestic and foreign debt restructuring to ensure debt sustainability. Though the earlier discussions have thrown light on how the external structure of the economy contributed to the mounting debt which required the HIPC debt restructuring, it is worth examining how the evolution of the external sector may have again contributed to the current debt crisis. Merchandised trade balance consistently registered deficits until 2017 when it first registered surplus before declining to deficit in 2022. Except for 2003, the current account as a percentage of GDP has also been in deficits throughout this sub-period. However, due to capital inflows, the balance of payments accounts registered surplus most of the time but trended downwards since 2016. These capital inflows are funds from multilateral, bilateral and international capital markets sources which adds to the external debts and must be paid in the future. The performance of foreign reserves has been checkered. After attaining its historic lowest level of 1.06 month of imports in 2000, it initially picked up to 4 months of imports in 2003 before falling continuously to 1.9 months in 2008. Thereafter, due to the increasing capital inflows from all sources, it hovered around an average of 3.3 months till the end of the period.

The dynamics of the external sector discussed above can be explained by the structure of exports and imports in Ghana. Recent available data show that before Ghana started exporting crude oil, the country relied mainly on the exports of gold, timber, and cocoa as major foreign currency earners. The three products constituted more than 70% of Ghana's total exports earnings. After the discovery and production of crude oil, the four commodities have accounted for an average of 78% of total exports earnings from 2011 to 2022, and an average of 82% for the last three years. These developments are not encouraging given the numerous policy initiatives to increase manufacturing production through industrialization strategies implemented by various governments since the beginning of the fourth republic. Beside the over reliance on only four major exports for foreign exchange, changes in their prices and production have also presented some challenges.

Gold production in Ghana has contributed significantly to exports earnings since independence. Since the 1980s gold mining has seen increased foreign investments, production, and exports. For instance, between 1987 and 1992, gold production increased by more than 200% and since 1999, gold has become the leading contributor to overall exports earnings. On the average, gold prices have performed well. There was a significant rise in gold price from as low as $300/oz in 2002 to $1400/oz in 2010 and later to $1500/oz in 2011. The impressive increase in prices over the period lead to increase in gold production by small, medium, and large-scale mining, and increased exports earnings from $931.38 million in 2005 to $5.64 billion in 2012. The impressive growth in production and exports earnings have continued for another decade and gold exports earnings increased to $6.23 billion in 2019 and further to $6.66 billion in 2022. Cocoa was the second largest foreign exchange earner in Ghana before the nation started exporting crude oil. Cocoa prices were very high between 1957 and early 1970s. Then prices started falling from the late 1970s to early 1990. These led to decline in production in late 1960s, 1970s, and nearly collapsed in the early 1980. In late 1990s prices started rising again and productivity and production picked up until prices fell to a new low in 1999. Then production and prices picked up again from 2000 to 2012 and continued till the highest level of production occurred in 2021. However, due to the Covid-19 pandemic, production reduced again in 2022. After production and exports in the Timber industry declined in the 1970s, the industry improved when it received substantial investments between 1985 and 1990. As a result, production and exports started increasing in the 1990s. From 2005 to 2015, the country recorded its highest exports revenue in 2008 ($316.8 million) and the lowest in 2012 ($131.02 million). This cyclical performance of the industry continued till 2022 when it earned $155.46 million. Though export of crude oil is a recent addition to the few foreign exchange earners in Ghana, it emerged as the country's second largest foreign exchange earner with its first exports revenue of $2.74 billion in 2011. Due to decline in world prices and production at home in 2015, 2016, and 2020, exports revenue declined significantly but the sector picked up quickly in 2021 with exports revenue of $3.95 billion and further to $5.43 billion in 2022. Against the background of the structure of exports, the trade balance, and the current accounts registered deficits for most of the post-ERP era due to growth in imports exceeding growth in exports. Amidst, the challenges faced by the country on the commodity mix of exports and their prices developments in the world market, the country continues to be import dependent.

### 4.2: Fiscal Regimes and External Debt Accumulation

The immediate post independent fiscal policy in Ghana shifted from the pre-independence fiscal discipline which often yielded fiscal surpluses, to expansionary fiscal regimes characterized by massive government spending with an unmatching revenue generation. The causes and nature of these fiscal expansions have changed over the years depending on the political regimes. For instance, the immediate post-independence, and the 1970s fiscal expansions were driven by massive government spending on infrastructure development, and the government led industrialization strategies based on agriculture productivity growth. However, fiscal expansions of the reforms period (1982 to 1992), and the renewed private sector led industrialization period (1993 to 2022) have been driven by increases in consumption spending, debt servicing, flagship programmes, and infrastructure development to support the private sector led industrialization strategies. In this section, I identify the association among the excessive fiscal deficits, the performance of the external sector, the accumulation of unsustainable external debts, and financial crises in Ghana. For discussions in this section, I define every visit to the IMF for bailout as financial challenges/crisis. However, I also define the period leading up to the HIPC programme in 2003, and the debt restructuring in 2022, as severe financial challenges/crises.

After inheriting a regime of fiscal discipline and budget surpluses, fiscal deficits started becoming a significant economic problem in 1960 when the deficits as a percentage of GDP increased to 6.5%. This continuously increased to 9.9% in 1963 but later fell to 5.0% in 1966. The next government introduced some fiscal discipline in the management of the economy and was able to reduce the fiscal deficit as a percentage of GDP to 3.5% in 1971. This fiscal discipline would not last as the next government increased it to 7.6% in 1975 and further to 11.3% in 1976 before settling at 6.4% in 1979. It reduced significantly during the 1980s attaining as low as 0.9% in 1989. The developments in the fiscal space during the fourth republic tell a compelling story of expenditure overruns in the presence of limited government revenue despite efforts to increase the revenue base of the economy through agricultural productivity growth and private led industrialization. The deficit as a percentage to GDP increased significantly to an average of 5.6% between 1992 and 2000. In the lead up to the HIPC initiative, the government demonstrated fiscal discipline and the ratio reduced from 4.3% in 2000 and to 2% in 2005. For the next 17 years, fiscal overruns worsened consistently and in proportions never seen in Ghana's history. Between 2002 and 2016, the average fiscal deficit to GDP ratio increased to 6.3% and worsened further to an average of 9.6% from 2017 to 2022.

Though total public debt in Ghana has increased unsustainably over the years, I will focus the discussion on only external debts because greater exposure to it and its composition renders Ghana vulnerable to the effects of capital flow reversals that has caused financial crises in many parts of the developing world. The accumulation of external debt in Ghana began in the 1960s and 1970s when the nation borrowed heavily from international lenders to finance post independent ambitious development projects. However, the global oil price crises in the 1970s coupled with declining commodity prices and rising world interest rates due to world recession, led to sharp increases in Ghana's external debt burden. External debts increased from $572.14 million in 1970 to $756.43 million in 1973 and later increased to $1.28 billion in 1979. By early 1980s Ghana was struggling to service its debt so the government in power sought financial bailout from the IMF and the World Bank which resulted in a series of stabilization programmes, liberalization of trade, and structural adjustment programmes. Despite the initial improvements in macroeconomic stability, the country continued to pile up external debts. Through the reform period till the beginning of the $4^{th}$ republic, Ghana continued to struggle with high level of debts. External debts increased by 265% from $1.7 billion in 1983 to $4.5 billion in 1992, and a little over a decade after, the external debt almost doubled to $8.3 billion in 2003. However, the HIPC debt relief helped to reduce the external debt significantly to $3.7 billion in 2006. What happened the next 16 years would lead to Ghana's worse debt crisis that required debt restructuring for both domestic and external debts. Though it is prudent to prioritize growth over deficit reduction once public debt has been stabilized, the growth in fiscal deficits over the period was more than what the growth performance required to make the debt accumulation sustainable. Hence, the increase in borrowing from external sources to fund increasing fiscal deficits led to the external debt increasing to $21.3 billion in 2016, and further to $28.9 billion in 2022. The composition of the external debt has also changed. After successfully offering her first Eurobond in 2007 to raise $750 million on the international capital market, Ghana made successive offerings in 2013, 2014, 2015, 2019 and 2021. These events have made Ghana overly reliant on ICM with market rates for external sources to fund development programmes. However, the greater integration with ICM, coupled with weaker domestic economic policies and outcomes rendered Ghana vulnerable to the effects of capital flow reversals which occurred during the early part of 2022.

The discussions above have revealed that in the presence of limited sources of internal revenue and domestic borrowing, the fiscal overruns for the past 17 years have been associated with significant increases in external borrowing. Also, within the menu of external borrowing, the government of Ghana has increased its borrowing from ICM given limited sources of bilateral and multilateral sources of external borrowing. This situation has increased the vulnerability of Ghana to the sentiments of private creditors. It has also changed the nature and determinants of financial crisis in Ghana from one mainly caused by domestic macroeconomic policy missteps and balance of payments challenges to one that is significantly determined by the international capital market sentiments and credit ratings.

#### *4.2.1: Financial Crises, Fiscal Deficits, External Debts, and External Shocks*

The dynamics of the fiscal deficits and external debts discussed above certainly provide some insights into the occurrence of financial crisis in Ghana. To identify that association, I calculate financial crises variables as the IMF bailout amount expressed as a percentage of GDP. This crude measure captures the amount of money relative to the size of economic activities needed to keep the economy running. The higher the variable, the more severe the financial crisis. To identify the effect of external shocks on Ghana's financial crises, I also account for the occurrence of significant external shocks.

Ghana visited the IMF only five times for financial bailout during the pre-ERP era. The size of the extra liquidity needed to make the economy function were relatively small during this era. Apart from the access to the IMF credit facility in 1966 for an amount equal to 2% of GDP, the amount reduced significantly throughout the visits till it became 0.3% of GDP in 1969 when Ghana accessed the IMF credit facility for the 4$^{th}$ time. It will take a decade later before the next financial crisis. The government in power accessed an IMF credit facility for 1.5% of GDP in 1979. Obviously, the extent of the financial challenges that required IMF bailouts during the era were relatively small. But then to what extent did macroeconomic policy slippages and its accompanying external debt accumulation contributed to those crises? From 1960 to 1965, the fiscal deficit to GDP was consistently higher than 6%, specifically the average over the period was 7.93%. Given that there is no available data on external debt over this period, we could still conclude that the excessive fiscal deficits caused the first financial bailout in 1966. It could also be argued that the deficits prior to 1966 and thereafter caused the subsequent financial bailouts in 1967, 1968, and 1969. There is no evidence that these financial problems were caused by any significant external shocks. The next financial crises occurred in 1979 when the government accessed an IMF credit facility of 1.5% of GDP. The fiscal developments leading up to the 1979 crisis reveal that fiscal indiscipline predated the crises. The fiscal deficit to GDP ratio improved in 1970 and 1971 with 2.2% and 3.5% respectively. Thereafter it increased to an average of 7.5% over the period 1972 -1978. Accumulation of external debts also contributed to the financial crisis because its growth accelerated after 1972. The annual growth rate of external debt between 1972 and 1978 was 8.8% which is the highest consistent growth in external debt in the post independent era. External shocks also contributed to the crisis. The ten-year period between the last two financial crises in Ghana witnessed two significant external shocks (the two oil price crises). These two oil price crises posed challenges to oil importing developing countries and set in motion a series of balance of payments crises in the early 1980s.

The post-ERP era (internationalization of development programmes) began in 1983 when developing countries were deep into the balance of payments crisis caused by the two oil price shocks and the world recession that followed. There was also the effect of the first Latin American debt crisis which affected borrowing rates on the world capital market. These world events posed significant economic challenges to developing nations including Ghana. On the domestic front, the period between 1980 and 1983 witnessed improvements in government finance. The fiscal deficit as a percentage of GDP improved continuously from 4.9% in 1980 to 1.2% in 1983. These improvements continued till the end of the decade. External debt accumulation also stabilized a bit. The average annual growth rate of external debt accumulation from 1980 to 1983 was 6.37%. However, other macroeconomic indicators worsened. For instance, inflation increased from 50% in 1980 to 116.5% in 1981, reduced significantly to 22.3% in 1982 before increasing again to an all time high of 122.9% in 1983. There was also deterioration in the external sector of the economy because the two oil price shocks in the 1970s and its associated world recession eventually led to increasing balance of payments deficits. Faced with these challenges, the government accessed IMF credit facilities six times within the decade. The first one in 1983 which introduced the Economic Recovery Programme, was for external liquidity injection of 6.2% of GDP, then it decreased to 4.1% of GDP in 1984, and later to 1.7% in 1986. After the economy stabilized with inflation dropping to 24.6% in 1986, the government sought further assistance from the IMF for 3.5% of GDP in 1987 to pursue the structural adjustment programme which later required additional credit facilities of 6.5% of GDP in 1987 and 10% of GDP in 1988. The black Monday stock market crash transmitted to developing countries in terms of rising interest rates that impacted negatively on their ability to service debt and raise new funds on the international capital market. These events and the series of credit facilities led to increase in the growth rates of external debt accumulation in the decade. The average annual growth rate of external debt between 1983 and 1990 was 13.2%.

The period between 1990 and 2006 was very significant to Ghana in terms of fiscal management, external debt accumulation, and financial challenges. The period also ushered in the fourth republic with the hope that once Ghana secures political stability through democracy, the democratic dividend will rake in economic stability, growth, and development. After a lengthy period of fiscal stability with fiscal deficit to GDP ratio averaging 1.3% between 1983 and 1991, the ratio began to rise again averaging 5% from 1992 to 1999. The rate of external debt accumulation also was also high with an annual average growth rate of 6.3% per annum from 1990 to 2003. The first three fourth republic visits to the IMF for financial bailout occurred in 1995, 1999, and 2003. In 1995 the government went to the IMF because of the fiscal overrun that started in 1992 and the resurgence of high inflation and growth in money supply. The credit facility accounted for only 4% of GDP. The visit to the IMF in 1999 for another 4% of GDP financial support was also for same reasons as those for 1995. However, there were also three global financial crises (the Asian financial crisis, the Russian financial crisis and the second Latin American financial crisis) prior to the 1999 IMF bailout. Because Ghana at the time relied significantly on multilateral and bilateral loan as external financing sources, the impacts of the three global financial crises on the Ghanaian economy was not significant because it did not induce any significant world recession beyond its effects on the availability of credits on the international financial market. Finally, in 2001, the continued debt accumulation in Ghana would reach a critical level that exerted significant economic constraints on the economy. This is the first time that the accumulation of external debt imposed significant challenges to future development of the country. Hence, one of the first things the new government did was to enroll in the IMF/World Bank's HIPC initiate in 2001 and access IMF bailout in 2003 which brought in external financing to the tune of 3% of GDP. The HIPC initiative significantly reduced the external debt of the country from $8.3 billion in 2003 to $3.7 billion in 2006.

The significant reduction of the external debts under the HIPC initiative was expected to give a fresh start to the nation to build on the political and democratic stability to transform its economy by diversifying and increasing the complexity of production and exports and improve social wellbeing of citizens. This did not happen for two reasons. First, immediately following the success of the HIPC debt reduction, Ghana successfully launched its first Eurobond in the international capital market to raise $750 million dollars. This became the first of a series of borrowings from the international capital market that made Ghana shift from the reliance on bilateral and multilateral concessional loans to international capital market funds with market rates as the main source of development funding. Debt servicing cost became significant expenditure item in the national budget. Second, fiscal deficits as a percentage of GDP started increasing unsustainably.

Though Ghana was still under the IMF programme in 2006, fiscal discipline did not improve and the deficits to GDP ratio increased significantly with an average of 5.45% up to 2009. Inflation also started increasing at a higher rate and the currency depreciated significantly. Whereas it took nine years for the external debt to increase from \$3.9 billion in 1990 to \$7.1 billion in 1999 (the highest in the nation's history up to that time), it took only 3 years after HIPC for the external debt to increase from \$3.7 billion in 2006 to \$6.6 billion 2009. Faced with increasing deficits, external debt pileup and other macroeconomic challenges coming from the global financial crisis and world recession, the government went to the IMF for a bailout of 2.3% of GDP in 2009. The 16$^{th}$ and 17$^{th}$ steps to financial crisis and the visit to IMF for bailout are classical examples of how a combination of fiscal overruns, increasing debts, and external shocks could present significant financial crisis to any nation. The 16$^{th}$ visit, like many others started with another episode of budget overruns posing challenges to macroeconomic stability immediately after 2009. The budget deficit as a percentage of GDP increased significantly from 5.3% in 2009 to 10.1% in 2013 and stayed very high till the end of 2014. By the end of 2013, inflation started increasing at a higher rate and the currency also depreciated significantly. External debts continued to increase significantly due to increasing borrowing from the international credit market to finance development programmes. Within a period of five years, external debts almost tripled from \$6.6 billion in 2009 to \$17.8 billion in 2014. These macroeconomic instabilities were compounded by the power shortages, known as "*dumsor*", which started in 2012. Faced with these economic challenges, the government successfully secured an IMF credit facility in 2015 for 1.9% of GDP. The 17$^{th}$ step took us to the most complex financial crisis and IMF bailout the nation had seen. It led to the nation's first domestic debt exchange programme (DDEP) that significantly transferred wealth from domestic bond holders to government. This currently threatens the stability of the financial market due to lost of revenue from coupon payments and value of assets on their balance sheets. The financial crisis has also led to default on interest and principal payments on the international bond market and required significant external debt restructuring. How did we get there? The fiscal overrun of the fourth republic continued after 2016. The deficit to GDP ratio reduced to 4% in 2017 and immediately rose to 7.4% in 2019 and later to 17.4% in 2020 before settling at 12.1% in 2021. Borrowing from the ICM continued and the external debt also ballooned from \$21.3 billion in 2016 to \$31.8 billion in 2020 and later to \$36.2 billion in 2021. It however fell to \$30.5 billion in 2022. It must be noted that the sharp increases in budget deficits and external debts also occurred during the Covid-19 pandemic period when the economy was partially shut down and government lost tax revenues from the lost of economic activities. By early 2022, inflation, money growth and exchange rates depreciation increased unsustainably, and the government finally sought IMF bailout in July 2022 for $3 billion which is 4% of GDP. In terms of fiscal space gained by government due to the domestic debt exchange, the foreign debt restructuring, and the IMF bailout, the current financial crisis becomes one of the largest the nation has faced.

#### *4.2.2: Financial Crises, Current Account Balances, and International Reserves*

In this subsection, I assess the effect of the external sector performance on the occurrence of financial crises in Ghana, either as causes or evidence of the inception of one. Hence, I use the bailout amount as a percentage of total foreign reserves as a crude measure of the foreign reserve requirement to ensure stability in the external sector of the economy. This variable is more relevant to investigating how the external sector performance may have contributed to financial crises in Ghana. The higher the percentage, the higher the reserve liquidity needed to ensure external stability, measured as stability in the exchange rate and the current account. It also measures the depth of the financial crisis in terms of the external sector.

Ghana inherited significant level of total reserves from the colonial masters at the time of independence. By 1960, total reserves stood at 8.68 months of imports. However, by the time of the first financial crisis in 1966 total reserves had decreased to 4.16 months of imports. The financial bailout from the IMF amounted to 38% of the total reserve. Though a series of IMF financial bailouts occurred in 1967, 1968, and 1969 with amounts constituting 35%, 14% and 8% of total reserve respectively, the decline in the total reserves continued till it hit a low of 1.36 of imports in 1970. The current account as a percentage of GDP remained low and below 1% throughout the period. The 1979 financial crisis occurred when international reserves in months of imports were increasing from a low level in 1976. In 1979, the second oil price shock and the emergence of the Latin American debt crisis served as the initiators of the balance of payments crisis among developing countries especially the oil importing countries in SSA. The reserves started falling until it started rising again from 1981 till the end of the period. The current account as a percentage of GDP also deteriorated from 1975 to 1978. Though it rose to a surplus in 1979, it deteriorated further till the end of the period due to the crisis.

The post-ERP era began with its first financial crisis in 1983 coming from the effects from the second oil price shock and its associated BOP crisis. Current account deficits as a percentage of GDP worsened. The financial bailout amount was about 86% of reserves at the time and that boosted reserves in terms of months of imports for the next three years. During the period, a series of bailouts occurred in 1986, twice in 1987 and 1988 to support the implementation of the Structural Adjustment Programme. Though the financial injections from the IMF in 1986, 1987, and 1988 were 16%, 153% and 160% of total foreign reserves respectively, total foreign reserves kept declining until it started rising in 1989. The current account deficits also stabilized a bit between 1986 and 1989.

The start of the fourth republic saw worsening current account deficits. Total international reserves were also low though it was rising slowly. Due to the worsening current account deficits coupled with general macroeconomic instability, the government to sought financial bailout from the IMF in 1995 for 32% of reserves. Despite the bailout, total international reserves declined sharply till it reached 1.58 months of imports in 1999 when the bailout was renewed for 58% of total reserves. The current account deficits also worsened between 1995 and 1999. The international reserves continued to decline sharply until it reached an all time low of 1.07 months of imports in 2000. Current account deficits were also high up to 2001. These events, coupled with increasing budget deficits and increasing external debts since the SAP period, led to unsustainable external debt which imposed challenges to future development of the country. As earlier mentioned, the government in 2001enrolled in the IMF/World Bank HIPC initiative and received significant debt reduction between 2003 and 2006. The government also received an IMF bailout of 18% of total foreign reserves in 2003. The next two financial crises in 2009 and 2015, with each bringing in bailout amount of 16% of total foreign reserves, are associated with high current account deficits, but much stabilized foreign reserves around an average of 3 months of imports. However, the 2022 financial crisis which received a bailout of 22% of total reserves, though was associated with much lower current account deficit and stabilized international reserves, showed the effects of continuous borrowing from commercial sources since 2007 to finance government projects and became the biggest debt crisis the nation has faced since independence.

## 5. CONCLUSION AND POLICY RECOMMENDATIONS

Financial crises within the developing world have had severe economic consequences on the countries involved. For instance, the oil price crisis of the 1970s and its associated balance of payments crises in the 1980s, severely affected sub-Saharan African (SSA) countries because they were mostly net oil importers. They experienced high inflation, soaring budget deficits, unemployment, and their overall economic activities took a significant turn for the worse. Similarly, the debt crisis that occurred in the early 1980s in Latin America, and the Asian financial crisis that started in 1997, led to currency instabilities, significant loss of wealth, and sharp decline in economic activities. Ghana has had its fair share of financial crises with evolving nature and causes. For instance, the recent financial crisis triggered by a series of downgrading by rating agencies is the first of its kind in the history of the country. The recent change in Ghana's external debt portfolio with increasing proportions coming from the ICM has made the country vulnerable to changes in the sentiments of the market participants that lead to sudden reversal of capital flows. The main objective of this paper is to gain new insights into risk factors and causes of the 17 financial crises in Ghana since independence and recommend some permanent solutions. These solutions are intended to create the required macroeconomic stability, structural integrity, the productive base, and domestic financial resources to put the nation on sustainable growth and development path and avoid the recurrence of financial crises.

From the analyses, it can be concluded that worsening fiscal deficits and the external sector represented by sharp decline in international reserves, seem to predate the occurrence of most of the early financial crises in Ghana (1966 to 1983). Then the ERP and SAP crises were responses to a mix of external (increasing external debts and global economic shocks) and internal macroeconomic factors. Within the first decade of the fourth republic, the accumulation of debt during the ERP-SAP created the first debt crisis of the country which led the government to seek the HIPC initiative for debt restructuring from 2001 to 2006. Domestic economic challenges that have caused fiscal overruns and its associated increasing ICM borrowings created the next set of financial crises in 2005, 2009, 2015, and finally a full-blown debt crisis in 2022 that has required domestic and international debt restructuring. External shocks have also been clearly identified as part of the causes of the financial crises in the 1980s, 2009, and 2022.

To build an economy resilience to both internal and external shocks and limit the occurrence of financial crises, various governments in Ghana have over the period attempted to change the structure of the economy to increase productivity in the agricultural and industrial sectors and diversify and increase the complexity of production in the economy. Though the nation has had political stability for more than four decades and democratic stability for three decades, the economic performances have not been encouraging. Hence, the democratic dividend, which is expected to promote economic prosperity and progress, has not occurred because Ghana has not had the stability and continuity of economic transformation programmes that is expected to accompany the political and democratic stability. In addition, successive governments have treated the various financial crises as temporal problems without any major and permanent macroeconomic and structural policy changes to transform the economy. Post crises structural policy priorities have been temporal in nature, only to satisfy donors' conditionalities. For instance, various attempts by successive governments to transform the economy with reforms to improve agricultural productivity and promote industrialization, have either been short-lived, or not implemented fully, or totally abandoned. These chaotic attempts have left the economy still highly depended on international financing from bilateral, multilateral institutions, and the international credit market sources. The recent shift from bilateral and multilateral loans with concessional terms, to international credit market funds with market terms, presents further international financing challenges such as debt service stress, and future financial crises based on swings of sentiments by private investors in the international capital market.

There is, therefore, the need for broad based national development programme to increase the complexity of production and exports while providing employment to the pool of well-educated unemployed youth. These solutions must be home grown and not a set of conditionality policies to bailout credit facilities. Ghana has gone through the Stabilization Programmes and SAP of the 1980s, the enhanced Structural Adjustment Programme of the 1990s and the Poverty Reduction Strategies, and the international debt forgiveness initiatives of the 2000s. These programmes have not contributed to the transformation of the economy of Ghana, though they seem to have achieved the macroeconomic stability and debt reduction they were designed for. Beside those programmes, Ghana has followed only two homegrown, and significantly government led programmes that have created some structural reforms without access to the IMF credit facilities. These are the Nkrumah's Import Substitution Industrialization drive (1957 to 1966) and the Acheampong and

Akuffo's Operation Feed Yourself and Operation Feed your Industry programmes (1972 to 1979). These programmes were also short-lived and could not deliver their medium term to long term benefits to the nation. The only way forward for the country to achieve its developmental goals, is by designing and implementing a long-term homegrown national development programme with the following recommendations:

- Implement complete structural reforms to make the economy resilient to both internal and external shocks. These reforms must be based on broad based national development plan that ensures sectoral realignments and interconnectivity to improve productivity and increase government revenue. This will reduce budget deficits, borrowing, and eliminate the chaotic development and implementation of industrialization programmes in Ghana.
- Within the overall reforms, there must be an industrialization strategy based on natural resources and agriculture transformation agenda. This calls for the change in the current natural resource fiscal regime to one that ensures that Ghana will obtain its fair share of revenues generated from natural resource activities.
- The industrialization strategy must also address the import dependency problem and increase the complexity of exports to earn more foreign exchange.
- To promote macroeconomic stability for growth and debt sustainability, government should follow some fiscal and monetary rules that will serve as anchors for the conduct of fiscal and monetary policies. This calls for the enforcement of the Fiscal Responsibility Act, 2018, which states that fiscal deficit shall not exceed 5% of GDP, and the BOG Act 2002 (Act. 612) amendment, which states that total loans to government shall not at any time exceed 5% of the total revenue of the previous fiscal year.
- Avoid making the current debt crisis to lead to banking crisis through the effect of the Domestic Debt Exchange Programme (DDEP). Bank of Ghana should allow banks and other financial institutions affected by the DDEP to delay recognizing the full extent of the losses in their loss provision to avoid insolvencies of banks and other financial institutions.
- It is always difficult to kick start growth in an economy overburdened by debt without restructuring it. Once the restructuring is successfully completed and public debt is reduced and stabilized, the government should prioritize growth over deficit to create the capacity

for more revenue once higher growth is sustained. This strategy must be carefully implemented within the Fiscal Responsibility Act 2018.

- Avoid excessive reliance on short-term borrowing because they depend significantly on swings in investors market sentiments.
- Set up special fund for the purpose of savings from boom periods and tax collections.
- Avoid unsustainable debt that will lead to downgrading and sudden stops of capital flows.
- The fundamental lessons to be learnt from the current debt crisis is to be able to detect the root causes of all types of financial crises, be able to identify risk factors, and create plans and reform programmes to address the crises and reduce vulnerabilities. Hence, if policy makers can identify triggers, they can develop solutions to avoid the economic consequences.

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