Стопански факултет

Социално-икономически анализи

Книга 1/2023 (23)

DOI: 10.54664/OLWN2788

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A REFORM APPROACH TO THE TRANSFORMATION OF THE ECONOMY OF THE REPUBLIC OF GHANA

Abstract: For most of the 1970s and early 1980s, Ghana experienced economic instability characterized by declining yields, rapidly rising inflation, and increasing trade imbalances. Production declined due to migration of skilled labour, collapse of capital structures, and destruction of the entire infrastructure. These factors reflected a set of external factors and inappropriate internal policy indicators. Despite the policy of protectionism, most of the large state-owned enterprises caused huge losses to the government, and financing with bank loans became necessary. By 1983, the year in which the economic reform programme began, Ghana's economy was wrecked and destroyed. Signs of total collapse were everywhere. Wages were 13% below the 1975 real levels, and overall investment was less than 4% of its gross domesic product (GDP). The state of the economy improved in late 1984 as a result of government efforts to build and rehabilitate airports.

Keywords: Ghana; reforms; GDP; IMF.

Introduction

Thanks to the efficient use of its natural resources, relatively low corruption, diverse sources of export income, and large diaspora, Ghana has a much higher gross domestic product than most of the West African countries, but still only $1,500 per capita. Good macroeconomic management and high gold and cocoa prices have supported economic growth in recent years. Ghana has a number of important natural resources, such as gold, bauxite, diamonds, and manganese. In 2007, a large oil field was discovered, containing an estimated 3 billion barrels of oil. Public sector wage increases and regional commitments to maintain internal peace led to inflation, devaluation of the Cedi, and growing public discontent with the country's austerity measures.

Ghana's domestic economy continues to revolve around agriculture, which provides 40% of GDP and employs 60% of the workforce – mainly smallholders. In 1995–97, Ghana made solid progress under a three-year structural development programme in cooperation with the International Monetary Fund. According to IMF data, the GDP of the Republic of Ghana in 2018 was $65,191 billion and the GDP per capita was $1,600, while in 2022 the GDP rose to $81,625 billion with a GDP per capita of $2,374.

Ghana's economic reform programme began in 1983, following the decline and economic crisis of the 1970s, which affected the ability to restructure the economy. Unlike other countries such as Tanzania, Nigeria, and Côte d'Ivoire, whose reform programmes encountered obstacles, Ghana became the first African country to succeed in this programme.

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1. Reasons for and Inevitability of Economic Reform in the Republic of Ghana

For most of the 1970s and early 1980s, Ghana experienced economic instability characterized by declining yields, rapidly rising inflation, and increasing trade imbalances. At the beginning of 1983, the foreign exchange reserve was almost exhausted, and this led to an increase in the external debt of the state. As the population grew by an average of about 3% per year, per capita income during that period fell by roughly half. Production declined due to the migration of skilled labour, collapse of capital structures, and destruction of the entire infrastructure. These factors reflected a set of external factors and inappropriate internal policy indicators. These policies did not encourage production, exports, savings, and investments, but they promoted consumption, imports, and various methods of corruption, including the thriving secret economy. In terms of economic strategies, the policy of boosting industry through the unprofitable public sector led to Ghana's crisis, neglecting the traditional agricultural sector, which is the country's most important source of foreign exchange earnings. Industrial policy directed Ghana to be primarily self-reliant by creating alternative, income-generating industries with no very strict trade restrictions. These productions are protected by the license system for imported goods, and the customs tariffs have been increased respectively. This protection applied to almost all proceedings and ensured the emergence of new ones, regardless of their long-term nature. Despite the policy of protectionism, however, most of the large state-owned enterprises caused huge losses to the government, and financing with bank loans became necessary.

The financial situation in Ghana worsened because the government took on the task of being the employer. Bureaucracy covered a large number of unproductive and fictitious persons, and many false names appeared on the payroll.[1]

Meanwhile, the income from cocoa exports and the rest of the trade flow, which the tax system heavily relied on, were drastically reduced. The large deficit in the budget was refinanced by the banking system. Domestic demand increased at the expense of declining supply, leading to a widening balance of payment deficit and rising inflation. Thus, a vicious circle was reached. Successive governments tried to fix the mess by controlling prices without affecting fiscal and monetary policy, and by controlling imports. As a result of this policy of intervention, market mechanisms were liquidated and a large part of the economy was pushed into the shadows (becoming part of corruption and managerial incompetence).

External factors: These factors are generally favourable for Ghana except for the idea that oil prices and global interest rates are rising sharply. For example, in the second half of the 1970s, the global cocoa market flourished. The high prices of cocoa exports did not reach the plantations because of the cocoa marketing agency and the government, and in the second half of the 1970s, cocoa exports decreased as a result of a drop in the prices of raw materials on the world market.

By 1983, the year in which the economic reform programme began, Ghana's economy was wrecked and destroyed. Signs of total collapse were everywhere. Wages were 13% below the 1975 real levels, and overall investment was less than 4% of GDP.[2] However, this neither ensured the necessary capital, nor provided additional capital for the development of the economy.

Ghana's infrastructure was also not conducive to the functioning of the economy. Economic objects had no incentives for work and production, and due to the existing falsification of prices, market mechanisms were not taken into account.

As the fixing worsened, some impediments to the repayment of core revenue payments and external debt servicing emerged. External payments equal to the export earnings for a whole year were accumulating, and, in addition, there was a deficit in the budget. Thus, the government failed to preserve the basic economic and social structures.

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[1] **Kasem, M.** *The Role of Banks in the Process of Privatization and the Most Important World Trials*. Beirut, 1997.

[2] **World Bank.** *World Development Report 1985*. Washington: Oxford University Press, 1985 [online] [Accessed: 27 Jan. 2023]. https://openknowledge.worldbank.org/entities/publication/eef2ee93-df41-5ccf-a841-26dc487a4be6

2. Strategic Measures for Economic Reform in the Republic of Ghana

Faced with a situation of increasing seriousness, the new government introduced a programme of economic reforms, seeking the support of the IMF and the World Bank. The main elements of the rehabilitation programme are clear. The greatest difficulty was the requirement to make decisions on special policy actions spread over several years, the implementation of which would be monitored. They had to be in line with the political and social conditions, as well as with the requirements concerning the availability of effective economic apparatuses to overcome the lack of structures.

The strategic basis of the recovery programme was expressed in the implementation of substantial improvements in the balance of payments, so as to realize the main revenues and to restore normal relations with creditors. This necessitated a drastic fall in the real fixing to stimulate exports. It was also necessary to conduct a monetary and tax policy, as well as an income policy suitable for stimulating the fixing. At the same time, it was necessary to remove a large number of distortions that damaged the economy, and particularly to free the economy from the suffocating effects of the huge number of price, production, and distribution controls. Government management and investment needed this to eliminate infrastructure bottlenecks, to encourage rational allocation of resources, and to drive growth. At the beginning, efforts were aimed at stabilizing the national economy and at improving the balance of payments, and it was especially important to control inflation and liberalize some prices in order to achieve the necessary adjustment to them. As a result, domestic supply could not respond quickly to conditions, and reducing inflation depended on supply control. Thus, the budget deficit fell from 4.5% as a share of GDP in 1982 to 2.7% in 1983, which helped reduce the money supply ratio. Initially, the budget kept decreasing. The monetary changes were implemented through pressure to lower government spending to 8.6% of GDP instead of 10.2% as the previous year by freezing real wages, curbing government labour and support spending, and sharply cutting development spending. These actions, which were necessary for the economic stabilization of the country, required pressure on its economic activity.

The essence of the reforms in Ghana's foreign trade sector was a reduction in the exchange rate, which, accordingly, did not greatly affect the rise in the level of prices within the country. The reduction of fixing helped the foreign and government sectors, as for the first time, in most of the contracts, the internal exchange clauses were in favour of the goods that could be exchanged. The increase in producer prices stimulated cocoa production and exports. The improvement of tax legislation caused a strong reduction in the exchange rate against taxes in the commercial sphere. This allowed an increase in government spending without affecting the reduction of the cash deficit. The large increase in the volume of foreign aid enabled a rise in imports, providing at the same time an opportunity to reduce foreign trade obligations.

The state of Ghana's economy improved in late 1984 as a result of government efforts to build and rehabilitate airports. The rapid revival of agriculture encouraged exports and food supplies for the domestic market. Food prices were visibly falling.

Recent improvements have contributed to a strong slowdown in the rate of inflation, as food prices account for ½ of the consumer price index. These improvements take place in a state of inflation, despite the presence of a large increase in the money supply. And this is a reflection of the funding needs of the recovering economy.

The general monetary reform focused mainly on mobilizing resources, with revenues in the state budget rising significantly in relation to GDP. This was not done through new taxation or an increase in the amount of taxes, but by expanding the tax model by reducing tax rates. Progress has been made in the collection of direct taxes by restructuring the system of tax apparatuses and hiring skilled labour.

The tangible increase in revenues has reduced the overall deficit in the budget and even turned it into a surplus despite the increase in spending on public investments, especially in the field of social services and infrastructure.

The improvement of the state budget made it possible to conduct the monetary policy better than before the reform period. The management began plans for long-term stabilization and for an increase in excess money in circulation, which, at this stage, led to high rates of inflation. Interest rates were thus freed to improve the allocation of resources and the use of government securities through closed market operations to control monetary expansion rather than by imposing credit ceilings. Economic and monetary reform policies had an impact on Ghana, with the inflation rate falling from 66% in the 1970s to around 10% in 1992[3].

3. Export Promotion Policies

The foreign trade reform programme aimed at liberalization of fixing and at lowering foreign trade charges for rationalization of customs tariffs. This in turn aimed at the development of exports and at prevention of an increase in the economic price, shaped by high customs protection of local production, despite the gradual liberalization of fixing and the removal of some of the customs tariffs on exports and the requirements of resource exporters. The removal of export licenses in 1990 was aimed at its development. The share of Ghana's exports depended mainly on commodities. They were characterized by a sharp change in world market prices and increased the current deficit from 6.1% in 1983 to 8.6% in 1992 as a percentage of GDP. There were several factors that influenced the lack of export development: lack of financial incentives to activate the private export sector, the predominance of the public sector, marketing activity and bureaucratic procedures that limited export opportunities, as well as the organization of foreign investment in Ghana, which represented an obstacle to the opening of foreign markets for the country's products.

Strategic signs of success showed a constructive reform in early 1985 with the resumption of some more affected parts of the economy, particularly infrastructure, major export industries, and the state sector. With the support of the World Bank and creditors, steps were taken to launch the main reform projects in the infrastructure, communications, and water and sanitation sectors. These projects concerned the cocoa, gold, and timber sectors, and the strengthening of export regulations. Great achievements have been registered in these areas.

In the process of reform, a new law on investments was adopted to attract foreign and local investors. After many years of lowering real wage restraints, the first half of the economic programme gave a strong boost to real wage growth, which was central to improving conditions in the public sector.

Basic steps were also taken to liberalize the foreign sector, and a special system for import licenses was sought. The recognition of the high activity of the parallel market was the first step to prepare the integration between the official and unofficial economy until reaching a high value of the license for authorized official imports. Reducing import duties by applying a single tariff to a greater proportion of imports and a series of exchange rate adjustments in 1980 and 1984 resulted in a real cumulative and effective depreciation of the currency, amounting to about 90%. This was followed by the introduction of the system of weekly foreign exchange auctions in 1986. This policy of improving payments was supported by motivating exports, encouraging imports, and seeking the confidence of foreign investors.

4. Denationalization (Privatization) of Property in the Republic of Ghana

The economic reform programme in the Republic of Ghana ensured the improvement of the public sector's performance with sound funds and of its financing structures towards elimination of price distortions with a local price structure and with the pursuit of sound economic management for profit realization. However, no tangible success took place at this level, where the economic performance of unprofitable public sector units continued with major disruptions in financial structures until the end of the 1980s. When the authorities began to expand private ownership, some public sector companies were put up for sale in order to improve the efficiency of investments. Encouraging the public sector's contribution to production and development led to an increase in the ratio of investment to GDP, and thus the participation of the private sector in production and development increased the percentage of investments of GDP from 3.7% in 1983 to 12.6% in 1992. Market processes had the ultimate goal of prices and the allocation of resources, and this affected the rate of economic development, which actually amounted to 3.7% in 1992 and was negative in the first three years of the 1980s. The per capita

[3] **IMF.** *Annual Report 1994*. Washington: International Monetary Fund, 1994 [online] [Accessed: 18 Feb. 2023]. https://www.imf.org/external/pubs/ft/ar/archive/pdf/ar1994.pdf

share of GDP increased from $350 in 1983 to $440 in 1992 – some of the additional revenue was used to rehabilitate the government's administrative apparatus, which was on the verge of collapse. Making major improvements in the expenditure of major development budget projects led to an increase in budget expenditure in total by more than 2.5% of GDP to reach 12.8% in 1985 and 14.9% in 1987. As part of the policy to improve efficiency in the public sector, there was a redeployment of public sector employees, particularly in the cocoa sector, in proportion to revenue and expenditure trends – something that changed the budget deficit.

The economy of the Republic of Ghana grew from 3.6% in 2016 (the lowest in 22 years) to 7.9% in 2017. In 2019, we expected a growth of 8.3%, which would make Ghana's economy the fastest growing in the world. In fact, it grew at its fastest pace in a year in the third quarter of 2019.

Bach Wade, who is in charge of government statistics, told reporters in the capital of Accra that GDP rose with 7.4 percent from a year earlier. The annual growth rate was 5.4% in the previous quarter.

According to Bloomberg, the economy grew by 1.8% in the third quarter of 2019, compared to the previous quarter of 2018.

On 6 March 2018, Ghana's President Nana Akufo-Addo pledged to continue reforming the country's economy in order to make it less dependent on aid. He said it was working towards its goal of reducing the budget deficit to 4.5% of GDP that year. These figures show a remarkable jump and recovery of 5.9% from the previous year, surpassing the government's expectations. It was preceded by the global financial institutions and banks led by the World Bank and the International Monetary Fund, as well as by the African Development Bank and the Brookings institution.

These figures may be a bit strange for a country like Ghana where 53% of its population lived in extreme poverty in 1991, making this transformation a stark example of a country rising from deep poverty to the forefront of global growth, at a moment when it can be described. By 2012, the country managed to reduce this percentage to 21%, while in recent years it has dropped significantly.

In our view, thanks to the sensible reform approach, Ghana's economy grew by 4.8% year-on-year in the second quarter of 2022, compared to 4.2% in the same period in 2021.[4]

Government representatives in the country comment on the subsectors of production, culture, mining and quarries, information and communication technology, and education as the main drivers of GDP growth in the second quarter of 2022. The main subsectors with a growth above 10% this quarter were education (13.2%), healthcare (12.7%), and information and communication technology (12.4%).

The five subsectors declining in the first quarter of 2022 were professional, administrative, and auxiliary activities (-11.0%), real estate (-5.7%), water (-2.7%), electricity (-2.2%), forestry and logging (-0.2%). The growth rate of GDP excluding oil and gas contracted in the second quarter of 2022 to 6.2% from 6.6% in the same period in 2021. On the other hand, the services sector recorded the highest growth of 5.2%, followed by the agriculture sector with a growth of 4.6% and by the industry sector with a growth rate of 4.4%.

Conclusion

In conclusion, thanks to implemented reforms and legislative measures, GDP growth has been the main indicator of economic performance for the Republic of Ghana over the years of reforms implemented. Ghana's economic performance has been at the centre of attention since the new administration of President Nana Akufo-Addo took power in January 2017 and significantly reduced inflation. The previous rate of 15.4% in 2016 fell to 7.9% at the end of 2019 and remained single-digit until the end of the pandemic in May 2020.

Ghana's budget deficit, which was about 6.5% of the nation's annual GDP before Akufo-Addo's presidency, was reduced to less than 5% of GDP at the end of 2019. According to a release from the Ghana Statistical Service, the country's economy grew by 4.8% year-on-year in the second quarter of 2022, compared to 4.2% in the same period of 2021.

Ghana, a country designated as 'Africa's Rising Star' by the World Bank, had the fastest growing economy in the world in 2019. Today, however, the quote is different. Despite being a major exporter

[4] **Ghana Statistical Service** [online] [Accessed: 15 Jan. 2023]. https://statsghana.gov.gh/

of cocoa and gold, it is currently facing its worst financial crisis in decades, with an inflation reaching 50.3% – the highest since 21 years.

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