MPRA

The State of Ghana's Economy: A Comparative Analysis

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INTRODUCTION

1.0   Background Study

Ghana, a sovereign nation, is located on the west coast of Africa and shares its boards with Togo on the east; Cote d'Ivoire on the west, Burkina Faso on the north and the Atlantic Ocean on the south. It is the first sub-Saharan African country to obtain independence from British colonial rule in 1957. The current population of the country is estimated to be 31.07 million and its ranked 47th on the 2020 population rank.

In the last two decades, Ghana has taken major strides toward democracy under a multi-party system with its independent judiciary winning public trust. Ghana consistently ranks in the top three countries in Africa for freedom of speech and press freedom with strong broadcast media with radio being the medium with the greatest reach (World Bank, 2020).

According to the World Bank Outlook 2013, Ghana is now a lower middle income earning country after the country's economy rebased in November 2010 with base year change from 1993 to 2006, yielding in a 63 percent increase change with debt-to-GDP ratio (Alagidede, Baah-Boateng, & Nketiah-Amponsah, 2013).

In 2019, Ghana was among the world's 10 fastest-growing economies with growth from 6.3 percent to 7.1 percent (African Development Bank, 2020). Ghana's economy continued to expand in 2019 as the first-quarter gross domestic product (GDP) growth was estimated at 6.7% compared to 5.4% in the same period of last year (World Bank, 2020). According to Sowa (1993), many economic reforms and programs were initiated to fight macroeconomic instability of which inflation is central of all but no solution was found within ten years (Sowa, 1993).

However, in the early 2000s, Ghana signed onto the HIPC1 Initiative to reduce the country's external debt ratios to a sustainable level. Ghana signed out from HIPC in 2004 after making impressive progress on the implementation of most of the conditions for reaching the floating completion point (Asiama, Akosah, & Owusu-Afriyie, 2014). More so in 2015, Ghana joined the IMF Extended Credit Facility (ECF)-supported program with aim of restoring macroeconomic stability of the country by August 30, 2017, but the program was further extended to April 2, 2019, after the last two reviews of the ECF program by IMF (I M F, 2019).

More so, the Ministry of Finance in 2018 introduced a new rebase with base year change from 2006 to 2013 to accommodate some sectors that had not appropriately accounted for since the previous rebase and this increased the 2017 nominal GDP by 25 percent (I M F, 2019). Bank of Ghana (BoG) in 2007 implemented an inflation targeting regime under the Bank of Ghana Act, 2002 (Act 612) with aim of attaining a single-digit inflation rate as well as maintaining exchange rate stability.

The main purpose of this paper is to review the state of the Ghanaian economy by putting the searchlight on key areas that contribute to the growth of the economy. The paper also adduces key sectors that contribute to the development of the economy.

LITERATURE

2.0   Introduction

This section is keen on reviewing some literature that is pertinent to understanding the state of Ghana's economy and as such, intended to review the theoretical and empirical literature on some of the key macroeconomic indicators.

2.1   Theoretical Review

This subsection talks about a series of theories on economic growth, inflation, interest rate, and fiscal policy. Theories to be considered include; Classical theory, Keynesian theory; Neo-classical theory; Monetarism theory, and others.

2.2   Economic Growth

2.2.1   The Early Theory of Economic Growth

Growth theories originate from representatives of mercantilism (15th - 17th centuries). Mercantilists considered the accumulation of wealth as the main source of economic growth and the main purpose of economic activities of traders and the state (McDermott, 1999). Also within the 18th century, physiocrats came to replace the mercantilists and they stipulate that the wealth of nations was derived solely from the value of "land agriculture" or "land development" and that agricultural products should be highly-priced (Marx, 2000).

2.2.2   The classical theory of Economic Growth

Adam Smith, a pioneer of classical economics, stipulates that the wealth of nations is not based on gold but rather on trade (Smith, 1776). Also, Adam Smith related the increase in wealth of people with the improvement of the output on the factors of production (land, labor, and capital), which

is reflected in the growth of labor productivity and an increase in the size of functioning capital (Reid, 1989). Also, David Ricardo premised economic growth on his theory of comparative advantage, which states that economic growth realized when countries channel their scarce resources in a particular line of production to have an international advantage in that sector and trade with other countries to obtain products no longer produced nationally (Rostow & Kennedy, 1990).

2.2.3 Keynesian Theory Economic Growth

Keynesian growth theories are rooted in the development and critical processing of Keynesian macroeconomic equilibrium which grounded on economic indicators such as national income, consumption, savings, and investments (Keynes J. M., 2015). According to John Keynes, in an environment where there is no market leverage to increase the aggregate demand for reviving business activity in the economy, the government should intervene by implementing macroeconomic, namely, fiscal policy, using measures such as tax cuts or increases in government spending (Vines, 2003).

Evsey Domar elucidated and complemented Keynes's theory of growth by introducing investment as a factor of growth not only of income but also serves as a factor in the creation of production capacities (Domar, 1946). Domar's theory determines the tempo at which investment should grow to ensure the growth of revenue. This tempo is directly dependent on the share of savings in national income (the marginal propensity to savings) and the average efficiency of investments (Piętak, 2014). Also, Roy Harrod's argued that the expectation of entrepreneurs is not a key factor of growth apart from the functional relationship between income, savings, and investments. However, he further apprised that the actual growth rate is determined by the growth rates of labor and capital productivity (Harrod, 1939).

2.2.4 The Neoclassical Growth Theory

The Neoclassical Growth Theory is an economic model of growth that outlines how a steady economic growth rate results when three economic forces come into play: labor, capital, and technology. The premise of neo-classical growth theory is based on the aggregate production function which relates the total output of an economy to the aggregate amounts of labor, human capital and physical capital in the economy, and some simple measure of the level of technology in the economy as a whole (Piętak, 2014).

R. Solow's theory of growth is grounded on the assumption that a necessary condition for an equilibrium of the economic system is the equality of aggregate demand and aggregate supply (Solow, 1957). He further asserts that aggregate supply is determined based on the production function which expresses the functional dependence between production volumes on the one hand, and the factors used and their combinations, on the other (Piętak, 2014).

2.3 Inflation

2.3.1 The Monetarism Theory on Inflation

The Monetarism theory of inflation is premised on the supply of money in circulation at a particular time and that they assumed that money is a principal cause of inflation (demand-pull) (Friedman & Schwartz, 1963). According to Dornbusch and Fischer (1987), the price of goods will increase when the supply of goods is lower than its demand and the opposite is also true (Dornbusch & Fischer, 2003). Also, Mishkin (2004) stated that the velocity of money and the level of real output are constant and therefore an increase in money supply will then create excess demand (oversupply), which will translate to higher prices and thus inflation (Mishkin, 2004).

2.3.2 Demand-Pull Theory of Inflation

The demand-pull theory is premised on an increase in aggregate demand as the source of demand-pull inflation (Keynes J. M., 1960). The aggregate demand comprises consumption, investment, and government expenditure. When the value of aggregate demand exceeds the value of aggregate supply at the full employment level, the inflationary gap arises (Totonchi, 2011). Keynes (1960) argued that the larger the gap between aggregate demand and aggregate supply, the more rapid is the inflation. One of the reductions in government expenditure is a tax increase and to control the volume of money alone or together, can be effective in reducing effective demand and inflation control (Keynes J. M., 1960).

2.2.3 Cost-Push Theory of Inflation

Aggregate supply is the total volume of goods and services produced by an economy at a given price level. Cost-push inflation means prices have been "pushed up" by increases in the costs of any of the four factors of production—labor, capital, land, or entrepreneurship—when companies are already running at full production capacity. Companies cannot maintain profit margins by producing the same amounts of goods and services when their costs are higher and their productivity is maximized (Humphrey, 1998).

2.4 Interest Rate

2.4.1 The classical theory of Interest Rate

The classical theory of interest emphasized that interest rate is determined by investments and saving, which is the traditional theory of interest in western economics. Interest is the price of investment because firms borrow money for investment. The interest rate can automatically

regulate the economy to equilibrium (Pal, 2018). When the interest rate is higher than the equilibrium level, saving is greater than investment, and the oversupply will lead to the decrease of interest rate that results in less saving and more investment until an equilibrium achieved, and vice versa (Huang & Zhang, 2015).

2.4.2 The Keynesian theory of interest rate

According to Keynes, the market interest rate depends on the demand and supply of money. It is the price which brings into balance the willingness to hold wealth in the form of cash with the supply of cash The interest rate is "a measure of the unwillingness of those who possess the money to part with their liquid control over it" (Keynes J. M., 1960, p. 167). Keynes also asserted that the rate of interest determines the level of employment and that in a system in which the rate of interest is shaped by a central monetary institution, it appears as a powerful tool to influence the allocation of resources, including production (Appelt, 2016).

2.5 Fiscal Policy

2.5.1 The Neo-Classical Theory on Fiscal Policy

The neo-classical theory argues that Government dissaving caused by a deficit in the budget will have a detrimental effect on the growth rate. Any increase in Government borrowing raises the interest rate, which adversely affects private investment, which in turn affects the growth rate. Higher external borrowing to fill the investment gap adversely affects the exchange rate and trade account, which again affects the growth rate unfavourable (Ramu & Gayithri, 2016).

2.5.2 Keynesian perspective on Fiscal Policy

In the Keynesian perspective, Government expenditure will have a multiplier effect on output and employment. Increased expenditure will augment aggregate demand in the economy, which improves the profitability of private investment and leads to higher investment (Ramu & Gayithri, 2016). He also asserted that deficit spending is necessary during times of depression and in developing countries; many policymakers have argued that deficit financing would be an effective tool to promote economic growth given a large number of underutilized resources (Nelson & Singh, 1994).

2.5.3 Monetarists' Perspective on Fiscal Policy

Monetarists argue that fiscal policy is impotent. Fiscal policy unaccompanied by an accommodating monetary policy is powerless to influence real output (Blinder & Solow, 1974). Monetarists have built a single equation model to study the behaviour of the economy. The model is as follows:

$$Yt = f (Gt, Tt, Mt, Zt)$$

Where Y is GDP or output, G summarises government expenditure actions, T includes tax variables, M combines monetary policy actions and Z includes all other factors which influence total spending (Ramu & Gayithri, 2016).

2.6   Empirical Review

This subsection review series of empirical studies on some macroeconomic indicators such as economic growth, inflation, interest rate, fiscal policy, unemployment, etc which are pertinent to this study.

Chiaraah and Nkegbe (2014) studied the GDP growth, exchange rate, and inflation rate in Ghana by using the co-integration and error correction model in their analysis. The findings revealed a long-run relationship between money growth and inflation while there is no long-run relationship between inflation and the exchange rate in Ghana.

Johnson (2014) apprised that there is a positive short-run relationship between fiscal deficits and inflation in there her analysis on fiscal Deficit, Money Growth, and Inflation Dynamics in Ghana used Autoregressive Distributed Lagged model (ARDL) from 1960 to 2012 intending to find the causal relationship between fiscal deficit, money growth, and inflation.

Also, Mahamadu and Abradu-Otoo (2003), investigated the relationship between money growth, exchange rate, and inflation in Ghana by employing co-integration and error correction mechanisms. Their results showed that in the long run there exists a correlation between inflation, money supply, exchange rate, and real income in Ghana.

According to Narayan et al (2006) money supply and inflation are co-integrated and also both money supply and deficit Granger cause inflation in their studies on the relationship between fiscal deficit, money supply, and inflation in Fiji using annual data from 1970-2004 by employing the ARDL and Granger causality test framework.

Özel, Sezgin, & Topkaya (2013) conducted a study to investigate the fiscal growth, productivity, and unemployment data for seven industrial nations (G7) from the year 2000 to 2011. The findings of the studies revealed that there is a strong significant negative relationship between economic development and unemployment within the period 2000-2007 which is marked the pre-crisis period.

Gyang, Anzaku, and Iyakwari (2018) used Augmented Dickey-Fuller Test (ADF) to examine the stationary properties of unemployment, inflation, and economic in Nigeria for the period 1986 to 2015 and also used Johansen co-integration Test as well as Granger Causality Tests to check for cointegration in the long-term and short-term and also test for the causality between the rate of unemployment, inflation rate, and economic progress respectively. However, the findings showed that there is a short-term and long-term relationship between the rate of unemployment, inflation rate, and economic progress rate.

Martin R & Fardmanesh (1990) tried to assess the impact of different fiscal variables on economic growth for a cross-section of 76 developed & developing countries for the period 1972-81. Using cross-sectional linear regression, the authors found that deficit and tax revenue have a negative relationship with growth whereas total expenditure has a positive relation.

2.7   Conclusion

The above-reviewed works show focuses on theoretical perspectives and empirical studies on economic growth, inflation, interest rate, and fiscal policy in different countries including Ghana.

DISCUSSIONS ON MACROECONOMIC PERFORMANCE

3.1   Gross Domestic Product (GDP)

The Overall Real Gross Domestic Product (GDP), a macroeconomic measure of the value of economic output adjusted for price changes, of Ghana grew by 7.0 percent in 2019 compared to 6.3 percent in 2018. This growth rate was higher than the 3.8% rate of the whole Sub-Sahara Africa (SSA) registered in 2019 as shown in Table 1.

Table 1: ECOWAS Growth Rate (% annual)

Country	2017	2018	2019	2020
ECOWAS Average	2.8	3.4	3.8	3.8
Ghana	8.1	6.3	7.0	6.8
Cote d'Ivoire	7.7	7.4	7.5	7.3
Senegal	7.1	6.7	6.0	6.8
Guinea	10.0	5.8	5.9	6.0
Burkina Faso	6.3	6.8	6.0	6.0
Benin	5.7	6.7	6.6	6.7
Guinea Bissau	5.9	3.8	4.6	4.9
Mali	5.4	4.7	5.0	5.0
Niger	4.9	6.5	6.3	6.0
Togo	4.4	4.9	5.1	5.3
Cape Verde	3.7	5.1	5.0	5.0
Gambia	4.8	6.5	6.5	6.4
Sierra Leone	3.8	3.5	5.0	7.4
Liberia	2.5	1.2	0.4	1.6
Nigeria	0.8	1.9	2.3	2.5

Source: IMF, AfDB, GSS, Mof Finance, World Bank

The overall real GDP (Oil) growth was 6.7 percent for the first quarter of 2019, and 5.7 percent for the second quarter. The Non-Oil real GDP grew at an average of 5.2 percent in the first half-year of 2019 (6.0 percent in quarter one and 4.3 percent in quarter two) compared to 4.6 percent in the same period in 2018 as shown in Figure 1.

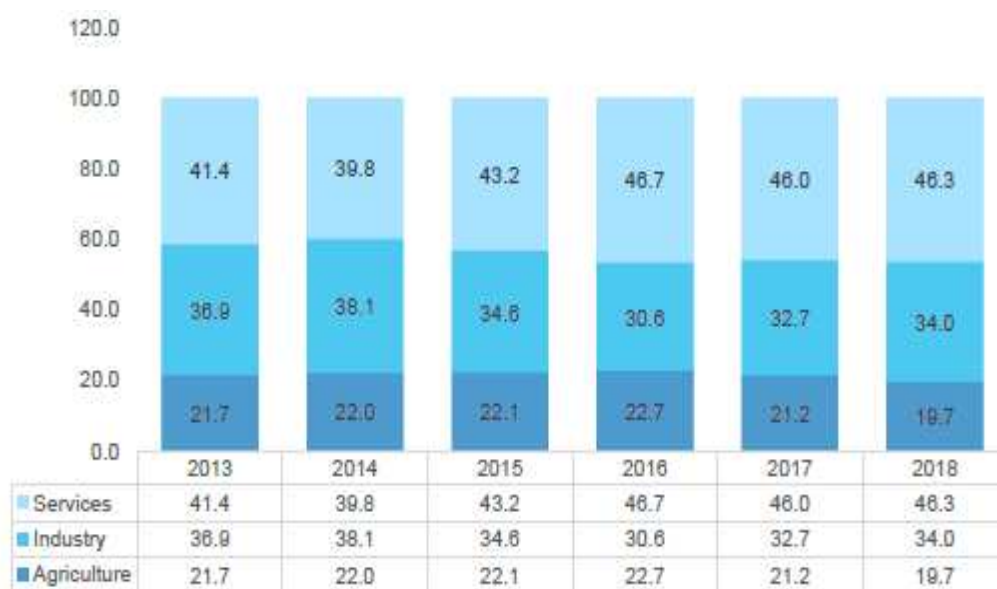**Figure 1: Real GDP Growth in Ghana (Oil and Non-Oil)**
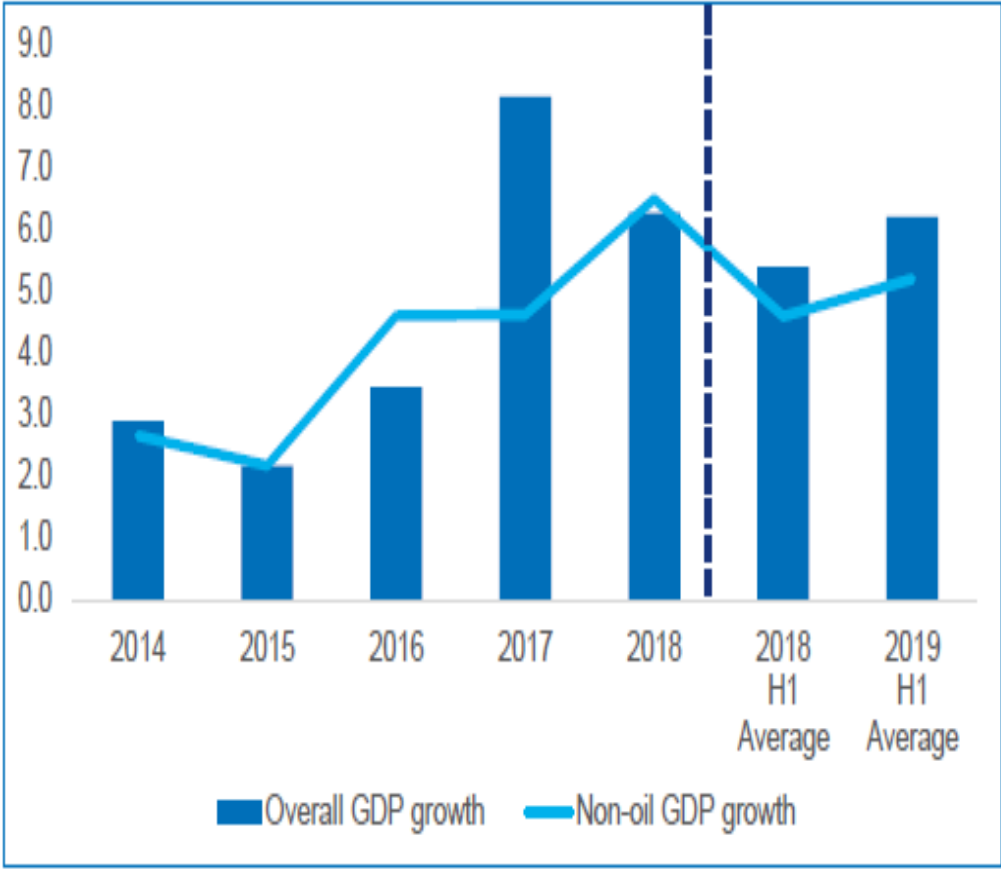
Source: GSS, 2019

3.2　Sectorial Distribution of Nominal GDP

Sectorial contributions to GDP in 2018 largely follow the pattern observed in recent years. Despite the service sector exhibiting the lowest growth, its dominance in terms of size continues. Services, the largest sector since 2013, contributed 46.3% of GDP in 2018, marginally above the 46.0% share the previous year.

Meanwhile, industry, the second-largest sector, improved its share to 34.0% of GDP in 2018, from a 32.7% share in 2017. The share of agriculture in GDP decreased slightly from 21.2% in 2017 to 19.7% in 2018. This trend has largely resulted from the rapid expansion in the oil and service sectors as shown in Figure 2.

Figure 2: Sectorial Distribution of Nominal GDP

|	2013	2014	2015	2016	2017	2018
Services	41.4	39.8	43.2	46.7	46.0	46.3
Industry	36.9	38.1	34.6	30.6	32.7	34.0
Agriculture	21.7	22.0	22.1	22.7	21.2	19.7

Source: GSS, 2019

3.3   Sectorial and Sub-Sectorial Growth to GDP

The GDP is centered around the three sectors of the economy namely Agriculture, Industrial, and services sectors. The contribution to GDP by these sectors in 2019 is discussed below.

3.3.1   The Agriculture Sector

Growth in the Agriculture Sector was 2.2 percent and 3.1 percent in the first and second quarters respectively, compared with 4.7 percent and 4.8 percent in the corresponding quarters in 2018. In the first quarter, the Livestock subsector had the best growth performance of 5.5 percent, followed by the Crops subsector with 2.4 percent. This trend continued in the second quarter with the Livestock subsector growing at 5.7 percent, and Crops at 4.0 percent. However, the Forestry and Logging and Fishing subsectors contracted in both periods as shown in Figure 3.

Figure 3: Growth in Agriculture and Agriculture Sub- Sectors
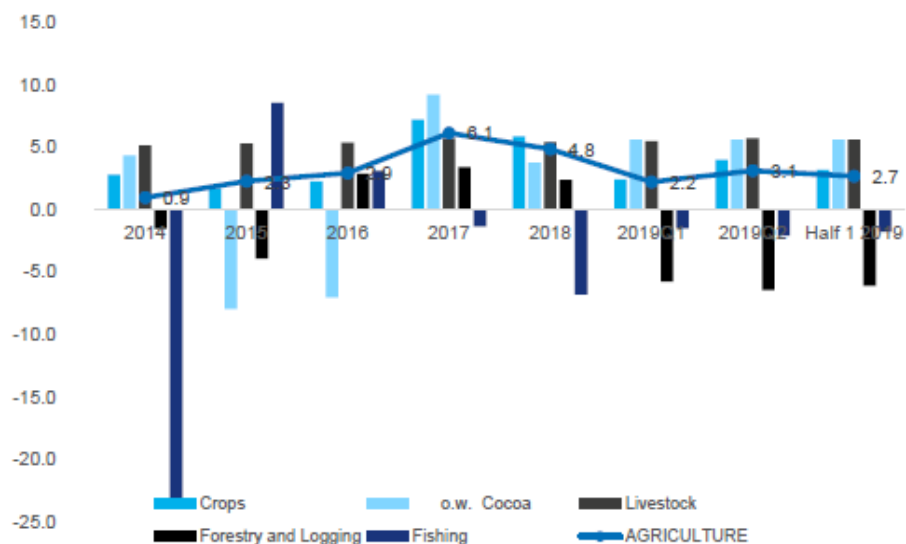
Source: GSS, 2019

3.3.2 The Industry Sector

The industry sector recorded an average growth of 7.2 percent in the first half of 2019 compared with 10.8 percent in the first half of 2018. The Industry sector grew by 8.4 percent and 6.1 percent in the first and second quarters respectively, compared with 10.4 percent and 11.1 percent in the corresponding periods in 2018. In the first quarter, the leading growth performer was Mining and Quarrying which grew by 20.9 percent, followed by Electricity with a growth rate of 11.1 percent. In the second quarter Mining and Quarrying was again the best performing subsector with a growth rate of 14.0 percent, followed by Manufacturing with 7.4 percent as shown in Table 2.

Table 2: Growth in Industrial Sectors and Sub- Sectors

Sector/Sub-Sectors	2014	2015	2016	2017	2018	2018 H1 Ave	2019 H1 Ave
INDUSTRY	1.1	1.1	4.3	15.7	10.6	10.8	7.2
Mining and Quarrying	5.4	-8.3	-0.2	30.8	23.3	24.7	17.3
o.w. Oil/***	6.8	2	-15.6	80.3	3.6	18.0	19.6
Manufacturing	-2.6	3.7	7.9	9.5	4.1	4.0	6.5
Electricity	1.3	17.7	-5.8	19.4	5.5	5.1	1.8
Water and Sewerage	5.9	13.9	-11.8	6.1	-3.6	-1.0	-7.1
Construction	-0.4	9.5	8.4	5.1	1.1	0.6	-8.5

Source: GSS, 2019

3.3.3 The Services Sector

The Services Sector, in the first half of the year, recorded an average growth rate of 6. 9 percent compared with 0.9 percent recorded in the same period of the preceding year as shown in Table 5. The Sector recorded an increase in growth from 1.4 percent and 0.5 percent in the first and second quarters respectively in 2018, to 7.2 percent and 6.5 percent for the same period in 2019. Growth was largely driven by performance in the Information and Communication (37.0 percent) and Health and Social Work (22.1 percent) sub-sectors in the first quarter, and Information and Communication (52.8 percent) and Real Estate (14.9 percent) in the second quarter as shown in Table 3.

Table 3: Growth in Service Sectors and Sub- Sectors

Sector/Sub-Sectors	2014	2015	2016	2017	2018	2018 H1 Ave	2019 H1 Ave
SERVICES	5.4	3.0	2.8	3.3	2.7	0.9	6.8
Trade; Repair of Vehicles Household Goods	2.0	0.5	-0.4	8.2	2.8	0.1	2.4
Hotels and Restaurants	1.5	4.1	2.3	7.6	3.2	3.2	7.6
Transport and Storage	5.8	2.6	1.1	8.9	1.1	-1.1	3.4
Information and communication	29.7	11.9	5.6	4.2	13.1	15.4	44.9
Financial and Insurance Activities	21.4	12.9	8	-17.7	-8.2	-12.6	1.8
Real Estate	-0.3	3.1	3.2	3.8	-6.5	-1.7	12.1
Professional, Administrative & Support Service activities	6.8	1.4	-4.2	2.9	0.3	-5.8	6.4
Public Administration & Defence; Social Security	-3.5	-2.6	8.9	4.2	4.3	4.1	0.2
Education	-0.3	-0.5	2.3	6.3	3.9	3.0	8.7
Health and Social Work	2.7	-4.4	4	14.1	22.6	25.8	16.2
Other Service Activities	1.4	2.7	-0.1	5.3	3.1	3.0	1.6

Source: GSS, 2019

3.4 Monetary and Financial Developments

3.4.1 Inflation Rate

Bank of Ghana (BoG) adopted an inflation targeting regime under the Bank of Ghana Act, 2002 (Act 612). This policy was fully implemented in 2007 with the main aim of attaining a single-digit inflation rate as well as maintaining exchange rate stability.

The Bank of Ghana's main core measure of inflation, which excludes energy and utility prices, declined to 6.3 percent in September 2019 compared to 10.8 percent in September. The headline inflation, which includes movements in energy and utility prices, also dropped from 9.8 in September 2018 to 7.6 percent in September 2019. The decline in the inflation rate in 2019 was mainly driven by the rebased Consumer Price Index series released by the GSS in August 2019 and non-food prices on account of relatively stable exchange rate developments.

3.4.2 Monetary Aggregates and Credit Developments

The annual growth of broad money supply (M2+) generally reflected a downward trend over the review period, consistent with the tight monetary policy stance. The growth in M2+ moderated from 24.09 percent in September 2018 to 16.51 percent in September 2019. The observed moderation was mainly on account of a slower pace of growth of Net Domestic Assets (NDA) which was moderated by increased growth in the Net Foreign Assets (NFA).

The annual growth in banks' outstanding credit to public and private institutions in September 2019 increased marginally, relative to that of the comparative period in 2018. The nominal annual growth rate of outstanding credit increased from 13.01 percent in September 2018 to 14.88 percent in September 2019. As of end-September 2019, total outstanding credit stood at GH¢47,247.04 million compared with GH¢41,126.62 million in September 2018.

The increase in the total outstanding credit was on account of significant expansion in public sector credit. Growth in private sector credit, however, moderated from 17.24 percent in September 2018 to 12.62 percent in September 2019. In real terms, bank credit expanded by 6.77 percent from 2.9 percent over the same comparative period.

3.4.3   Interest Rate Developments

The interest rate remained unchanged since the beginning of the year with the 91-day Treasury bill rate remaining steady at 14.7 percent since January 2019. Likewise, the 182-day Treasury bill rate has also stabilized at around 14.1 percent. Rates on the secondary bond market remained stable for the 7-year, 15-year bonds have remained steady at 16.3 percent and 19.8 percent respectively. However, the rate on the 10-year bond increased to 19.8 percent from 17.5 percent at the beginning of the year.

The average lending rates of banks have moved in line with the Monetary Policy Rate with lending rates moved within a range of 22.0 percent and 24.0 percent in the first nine months of the year. The Ghana Reference Rate, which serves as the base rate of the commercial banks, was virtually flat over the review period remaining at 16.1 percent at end-September 2019 as shown in Figure 4.

Figure 4: Trends in Average Lending Rate
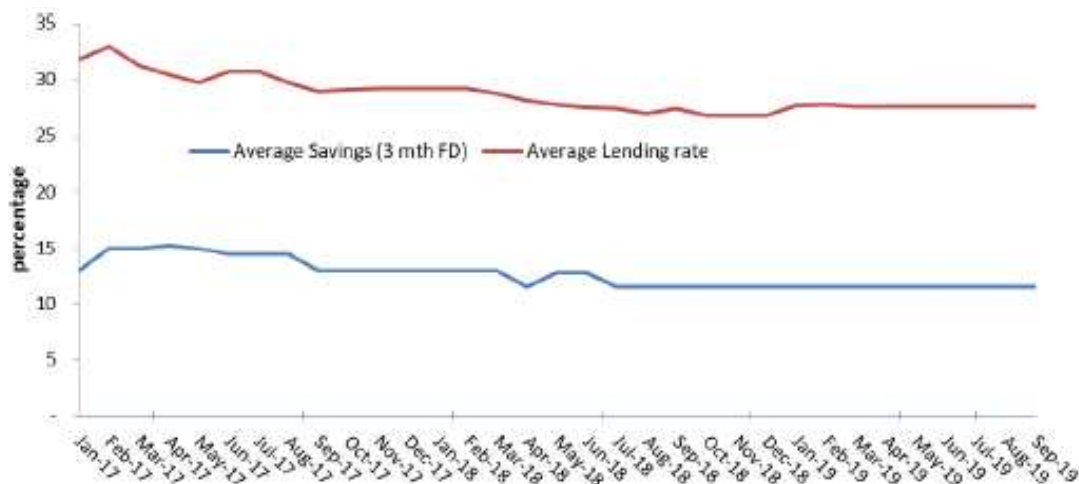
Source: BoG, 2019

3.5 GSE Composite Index Performance

The Ghana Stock Exchange's (GSE's) Composite Index (GSE-CI), trended downwards, contracting by 26.53 percent (796.22 points) in September 2019, compared with a growth of 29.02 percent (674.92 points) in the corresponding period of 2018.

The contraction was mainly on account of a decline in stock values in some sectors including finance, agriculture, distribution, and information technology, as well as the food and brewery subsectors. The decline in the GSE-CI resulted in a 14.87 percent decrease in market capitalization on a year-on-year basis, as a significant number of stocks recorded losses. The GSE-CI is expected to recover in the ensuing months on account of waning financial sector uncertainties and easing pressures on the domestic currency.

CONCLUSION AND RECOMMENDATIONS

4.1 Recommendations

Ghana's GDP grew by 7.0 percent in 2019 compared to 6.3 percent in 2018, the growth in 2020 would increase if measures are placed to increase the Service Sector growth since it constitutes the largest sector in the economy. Also, the Government should concentrate on improving the Agriculture Sector and industry sector since its contribution to GDP decline in 2019. Furthermore, pertinent policies that will reduce the prices of commodities (both food and non-food commodities) should be implemented by the government. Lastly, the Interest rate should be reasonably lower to enable individuals and investors to borrow and invest and span the economy through industrialization to enhance trade balance and economic growth through the increase in aggregate demand or income.

4.2 Conclusion

In conclusion, this study concentrated on reviewing the state of the Ghanaian economy as of December 2019 by putting the searchlight on key areas that contribute to the growth of the economy. The study also adduces key sectors that contribute to the development of the economy and their actual contribution to the perspective in 2019.

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