PBBS 206: Economy of Ghana

Lecture 1

Overview of the Ghanaian Economy

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Learning Objectives

After completing this lecture, you will:

- Outline and explain the basic characteristics of the Ghanaian economy
- Compare Ghana with other developed economies and determine whether or not Ghana is a Developed or Less Developed Country (LDC)
- Distinguish between economic growth and economic development
- Outline the various resources of the country and economic history of Ghana from earliest time and discuss the obstacles that have thwarted Ghana’s effort to economic development

Preamble

- This lecture provides discussion on the general overview of the economic and social development in the country over the years as well as the structural development of the economy as the benchmark against which the future progress can be made
- The purpose of this topic is discuss how the country started and the stages of development the country has gone through and the various development options adopted in the past

Brief Economic History of Ghana:1957-2014

- The historical development of Ghana has been partitioned into phases
- We will then look at the characteristics of each of these phases
- These partitioning are made primarily on trade regimes and not necessarily on government regimes

First Phase – Nkrumah Regime

- The first phase is from 1957 – 1961
- This period was characterized by relative economic prosperity
- Ghana had an open economy with the private sector as the main engine of growth and the public sector was concerned basically with public administration
- No restrictions on foreign account transactions including imports of goods and services by all and sundry
- A period of liberalization and unrestricted international trade

First Phase – Nkrumah Regime Cont……

- This was a period of rapid economic growth averaging about 5% annually
- There was remarkable price stability

Second Phase

- In Ghana's quest to rapidly develop social and economic infrastructure, it led to a quick drain of its foreign exchange reserves
- This compelled the government in 1961 to resort to foreign exchange and imports controls
- This phase was the period 1961 – 1966
- This was a period of restricted trade; a system of import controls i.e. tariffs and quota systems and sometimes outright bans on certain imports.
- The productive and distributive sectors of the economy were shifted from private sector to the public sector

Second Phase Cont……

- As a result the public sector became the engine of growth
- Heavy public investment especially in physical capital and infrastructure
- This resulted in huge budget deficits, overvalued currency and balance of payment difficulties
- By the end of the second stage phase, the economy had stagnated
- Inflation rate stood at 26% in 1965

Third Phase

- This is the period 1967 – 1971
- This phase begun with strict adherence to controls which was thought to be the solution to Ghana’s problems
- At the same time there was a gradual shift from controlled regime to an attempt at liberalization and stabilization of the economy
- This involved devaluing of the currency with attempts at reducing governmental expenditures which was blamed for the woes of the economy

Third Phase Cont……

- An IMF recommendation was implemented which led to 43% devaluation of the cedi in 1967
- At the time \$1.00 was exchanged for ₵1.02
- This phase ended with another devaluation in December 1971
- The cedi was devalued by 44%
- This time \$1.00 was exchanged for ₵1.82
- The pace of liberalization was heightened in 1969
- Some public sector productive and trading activities were streamlined and abolished –employees retrench

Fourth Phase – Acheampong Regime inclu

- This is the period 1972 – 1982
- This phase witnessed a return to strict import controls
- The currency was revalued by 42%
- $1.00 was exchanged for Ȼ1.28
- A crash agricultural programme code-named Operation Feed Yourself was introduced
- The programme in effect diverted resources to non-existent projects
- Inflation rose rapidly and by 1976, the CPI registered an inflation rate of 54%

Fourth Phase Cont……..

- The inflation problem deteriorated for subsequent years reaching a peak of 73% in 1978
- There was stagnation and a virtual collapse of the economy
- Between 1978 and 1982, $1.00 was exchanged for ₵2.75
- The cedi was clearly over-valued and this resulted in a flourishing illegal economic activity – black market rates increased

Fifth Phase

- This is the period 1983 to date
- This is the period of economic reforms
- The problems of the 1970s and early 1980s, following economic mismanagement and poor policies was very "visible and explosive"
- Economic activities in general declined, there was low level of investment
- General macroeconomic instability, inflation rates were in triple digits
- There was also problem of environmental degradation, increase in rent seeking activities and unemployment

Fifth Phase Cont……

- Many state owned enterprises were inefficient, creating wastages and a/cing for huge budget deficit
- These problems led to the search for a new approach to development and accounted for the full realization and implementation of the "Washington consensus"
- Emphasis shifted from state-dominated planning models to a decentralized decision-making with the market as the invisible hand
- There was economic and trade liberalization, privatisation, divestiture of state-owned enterprises and de-emphasising the govt role in direct prod. activit

Fifth Phase Cont……

- The Enhanced Structural Adjustment Programme born out of the first phase of vision 2020 (1996–2000) sought to consolidate gains made under the stabilization programme and SAP
- It also sought to accelerate economic growth with the objective of creating a middle-income country status by year 2020
- HIPC/GPRS I &II
- GSGDA (2010-2013)
- In this, the role of government in development is to create an enabling environment for the private sector-led growth and development. Also Public-Private Partnerships(PPP) in recent years.

Features of the Ghanaian Economy

- Ghana is principally a developing country
- Ghana earned this tag because of certain features it exhibits or possesses
- We will examine these features or characteristics, then we will be in a better position to appreciate why Ghana is tagged as a developing country or Less Developed Country (LDC)

Income Levels in Ghana

- Income levels in Ghana are relatively low as compared to levels in the developed world
- The per capita income of Ghana was $3,113 in 2011 (*Assignment: What is the current per capita income of Ghana? Find out!*) Compare to Nigeria, South Africa, USA, China, Malaysia and Brazil.
- The distribution of GNP is also severally unequal
- There is also a small elite group that is very rich and normally based in the urban centres.

Dependence on Agriculture

- The vast majority of Ghanaians live and work in the rural areas
- Over 68% of Ghanaians live in the rural areas and work principally as farmers
- The proportion of labour force engaged in agriculture in Ghana have averaged 60% since 1999
- This figure compared poorly with an average of 17% for developed nations
- The contribution of agriculture to Ghana's GDP has averaged 35% since 1995

Production Technology

The current structure of production reflects the ff:

- A large peasant based agricultural sector contributing about 36% of aggregate output
- A small modern sector involving manufacturing and mining which accounts for about 15% of overall economic activity measured by aggregate output
- Tertiary sector comprising commerce and services contributing about 51.1% (2010) of aggregate output
- About 50-60% of the economically active are engaged in primary production whilst in the developed nation, about 5-10% are in the primary production

Dependence on Primary Products for Exports

- The external sector comprises Imports and Exports
- Ghana has continuously shown dependence on a single crop which is Cocoa for export
- Major exports including cocoa accounts for about 60% of the total foreign exchange earnings
- Normally primary products in LDCs accounts for between 80-90% of exports earnings but in developed countries, it accounts for about 35%
- Ghana’s primary sector accounts for on average 80% of foreign exchange earnings signifying that Ghana is indeed a developing country

Dominance, Dependence and Vulnerability in International Relations

- Greater volume of Ghana’s exports comes from primary commodities like cocoa, timber and gold
- The contribution of other sectors like manufacturing to export is relatively insignificant
- Since exports are mainly primary products, it is quite apparent that income from export will fluctuate
- This is cuz prices of primary raw materials fluctuate more than manufactured goods in the world market
- It is therefore inevitable that Ghana’s revenue from export will fall which will lead to unfavourable terms of trade which will lead to adverse effect on BOP