

Overview: Global Economic Developments and Ghana's Economic Performance

Introduction

Ghana achieved a record high growth of 15% in 2011 (IMF, 2014a), but this could not be sustained in the subsequent years. The country's growth has, however, been consistently above the average (median) for the sub-Saharan Africa region. In 2013 Ghana's growth rate was 5.4%, against the target of 8.8% (IMF, 2014a; GSS, 2014) and much lower than the rate in 2011, or even the 7.9% rate in 2012. Since it may be argued that the phenomenal growth achievement in 2011 was primarily the result of the oncoming petroleum exploitation, the more appropriate comparison over time is the non-oil real GDP growth rate, which also fell from 9.4% in 2011 to 7.8% in 2012 and to 3.9% in 2013 (IMF, 2014a).

The inability of the Ghanaian economy to sustain the growth momentum is an issue of concern. The falling growth rates are however not exclusive to Ghana. In fact, the world economy continues to suffer from the global economic and financial crisis with far-reaching consequences, especially for emerging and middle-income economies. The Middle East continues to be the most unstable region geopolitically as the world emerges from the financial and economic crisis. The global economic and financial crisis, together with rising social inequality and economic imbalances, may be reducing the potential gains from globalization. Generally though, developing countries seem to be adjusting slowly toward focusing on internal mechanisms for improving their economic conditions, rather than on international institutions and global powers for their economic growth and sustainability (IMF, 2014a).

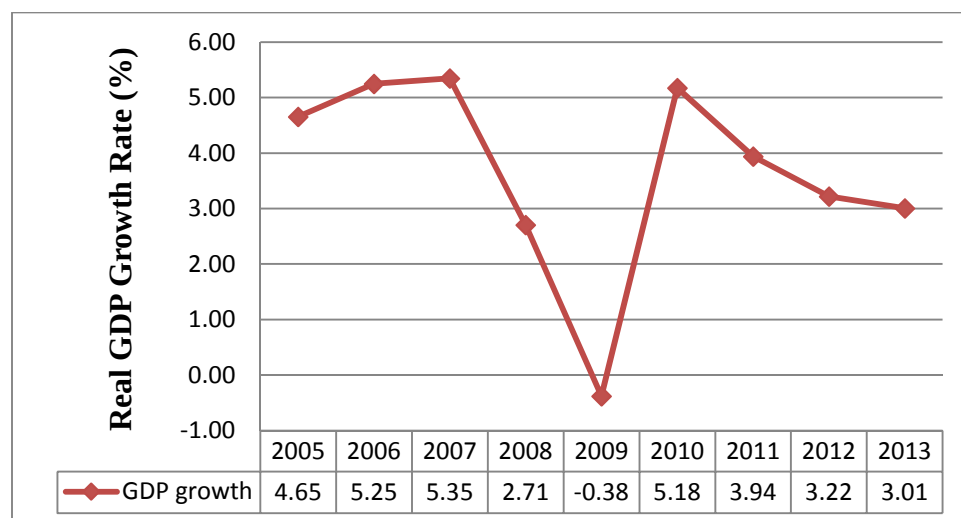
Global Economic Performance

Although the global economy is emerging from the economic and financial crisis, world output growth continues to slow down, falling further from 3.2% in 2012 to 3.0% in 2013 (**Figure 1.1**). The decline appears to have moderated, however.

Growth rates of most regions of the world have continued to trend downward since 2010, including Emerging and Developing Asia, and Latin America and the Caribbean (**Figure 1.2**). The European Union (EU), as a region, appears to have been recovering in 2013, however, following a steep growth decline of 2.0 percentage points between 2011 and 2012 (from 1.7% in 2011 to -0.3% in 2012). The EU growth rate rose slightly from -0.3% in 2012 to 0.2% in 2013. This moderate

recovery mirrors that of the Euro zone, which experienced a slightly lower decline in GDP of 0.5% in 2013 compared to a fall by 0.7% in 2012, following 1.6% positive growth in 2011.

Figure 1.1: World Output Growth, 2005–2013

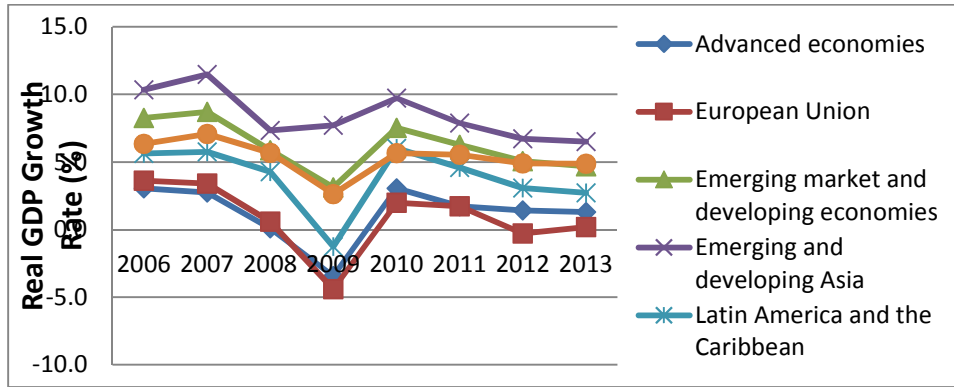


Source: IMF, 2014b

Overall, growth in the advanced countries as a group declined only slightly, from 1.4% in 2012 to 1.3% in 2013. Growth performance in emerging markets and developing economies also fell from 5.1% in 2012 to 4.7% in 2013. Large emerging market economies such as Brazil, India, Russia, South Africa and Turkey continue to experience declining growth rates attributed to domestic policy weaknesses, tight domestic and external financial conditions, as well as investment and supply constraints. This is a worrying scenario as these economies enjoyed rapid growth rates prior to the global economic meltdown in 2008, and managed to recover rapidly by 2010.

As in advanced economies, Emerging and Developing Asia (EDA) experienced a further slight decline in growth, from 6.7% in 2012 to 6.5% in 2013. This has been the trend since growth peaked at 9.7% in 2010. The falling growth of the region is largely attributed to low growth performance of China, India and Japan, though China's growth rate stabilized at 7.7% between 2012 and 2013, while India's growth fell from 4.7% to 4.4% over the same period. This outcome may be particularly troubling for African economies, given the importance of especially China, and to a lesser extent, India, in Africa's export trade. EDA's growth is however projected to bounce back to 6.7% in 2014, with India's projected to increase by a full percentage point, while China's is expected to fall only slightly. Indeed, on the whole, global economic activity is anticipated to improve in the coming years. World output growth is projected to increase from 3.0% in 2013 to 3.6% in 2014 and 3.9% in 2015 (IMF, 2014b).

Figure 1.2: Trends in Growth Performance of Regions of the World, 2006–2013



Source: IMF, 2014b

World Employment Trends

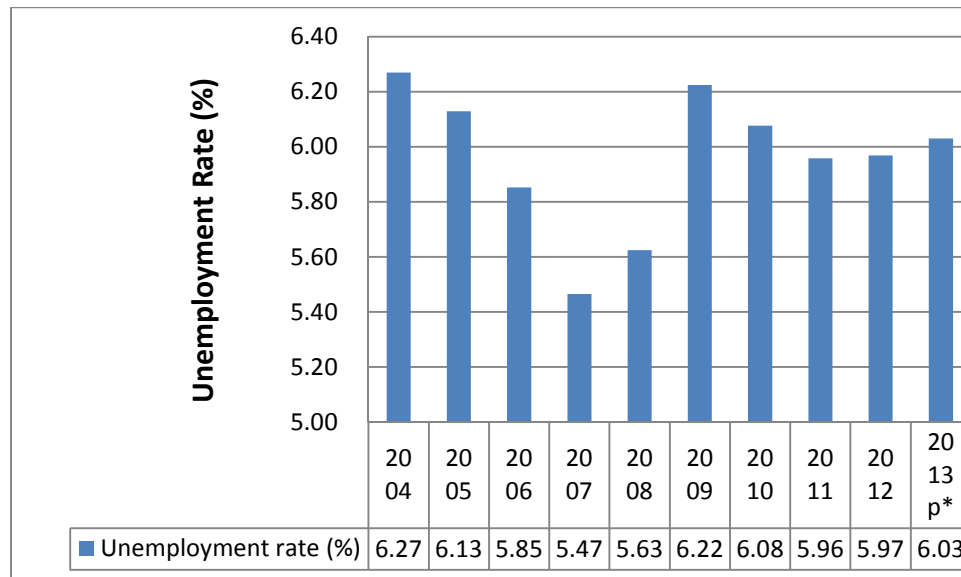
The weak global economic recovery largely failed to improve the conditions of the labour market in 2013. The global unemployment rate increased slightly from 5.9% in 2012 to 6.0% in 2013, well above the pre-economic-crisis rate (**Figure 1.3**). Unemployment increased by a further 5 million people worldwide in the course of the year under review (ILO, 2014).

The developed world has been particularly vulnerable, with the 2013 unemployment rate averaging 8.6% in developed countries and in the EU, well above the pre-crisis level of 5.8% in 2007. Compared to the developed world, the unemployment picture for developing countries has not been as bleak, largely due to the relatively quicker recovery from the economic crisis, coupled, in some countries, with benefits from targeted stimulus packages initiated to mitigate the adverse labour-market impact of the crisis. However, the problems of underemployment, low wages, poor working conditions, and the lack of adequate social protection schemes continue to worsen the plight of the workforce in the developing world.

The Global Employment Trends Report (ILO, 2014) reveals that unemployment rates among the youth (persons 15-24 years of age) remain much higher than among other cohorts of the labour force in most economies, a situation worsened by the slow growth in the global economy. The rate of youth unemployment increased from 12.6% in 2012 to 13.1% in 2013, resulting in about 74.5 million young people unemployed globally. An increasingly worrying trend in the labour market, in the face of a growing global youth population, is the gradual withdrawal of young people from the labour market due to discouragement (ILO, 2014).

Figure 1.3: Trends in World Unemployment Rates, 2004–2013

Overview: Global Economic Developments and Ghana's Economic Performance



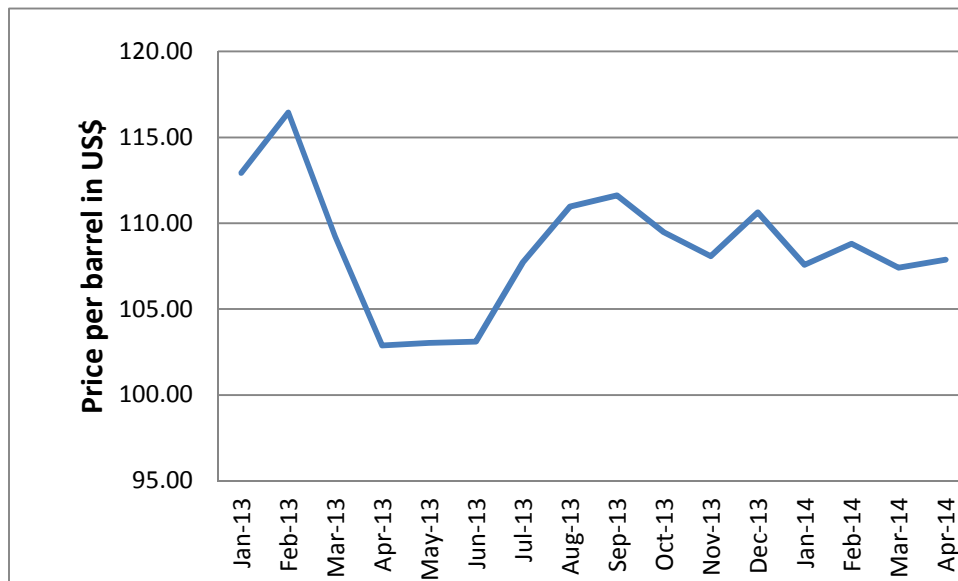
Source: ILO, 2014
P* = Projected

Developments in Crude and Food Prices

World oil prices fell from an annual average of US\$ 111.96 per barrel in 2012 to US\$ 108.84 per barrel in 2013 (U.S., 2014). After hitting a peak of US\$111.62 in September 2013, the price has been trending downward, hovering just above US\$100.00 since the beginning of 2014, and closing at US\$107.88 in April 2014 (**Figure 1.4**). The slightly downward trend in crude oil prices recently is largely explained by the supply surge in North America as well as an increase in non-Organisation of Petroleum Exporting Countries (OPEC) supplies, coupled with relatively weak global demand due to the increased use of alternatives such as natural gas. Oil prices are projected to decline further in 2014 due to increasing supply globally. Correspondingly, energy prices have been generally flat, with falling prices from crude oil offset by rising prices of natural gas and coal since October 2013 (ibid.).

There is a historical link between energy and agricultural products, with both prices moving well together. However, there appears to be departures currently; food prices have been trending down rather steeply from March 2013 onward, and rising sharply most recently since the beginning of 2014 (**Figure 1.5**), despite the recent moderation in energy prices. This dramatic apparent short-term departure is likely the result of supply shocks in the food market unrelated to energy prices.

Figure 1.4: Trends in World Monthly Crude Oil Prices,¹ January 2013 – April 2014



Source: US, 2014

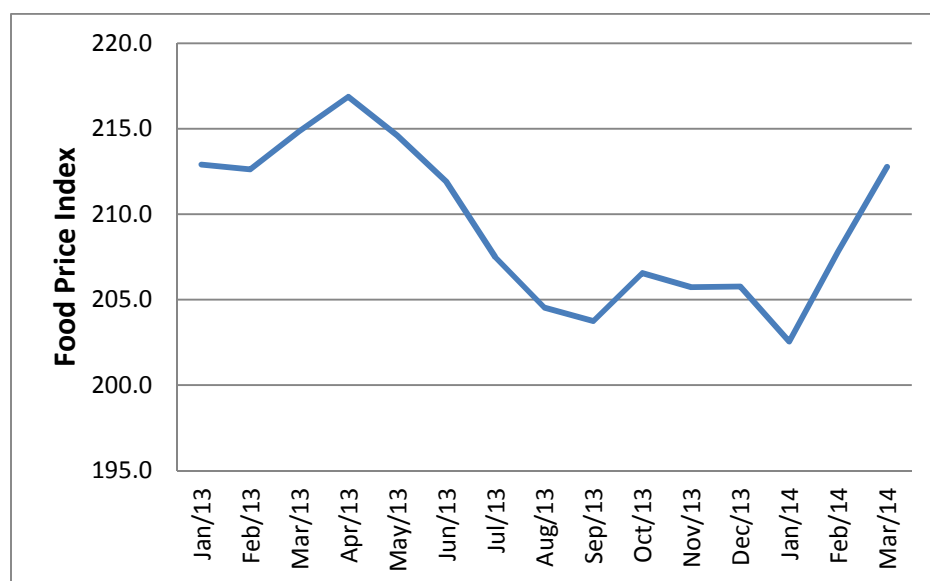
Food prices may moderate in the near future from its apparent spurt in the first quarter of 2014. However, markets are very tight and prices are quite vulnerable to supply shocks. Indeed, climate change, commodity speculation, and a likely rise in the demand for meat and dairy products point to higher food prices in the longer term if measures are not taken to mitigate their impacts. (FAO, 2014)

Economic Performance in Sub-Saharan Africa

The SSA region has weathered the 2008 financial crisis relatively well. Its growth performance during the pre-crisis period is below only that of the Emerging and Developing Asia (**Figure 1.2**). Indeed, it is the only region, except for the EU, whose growth rate remained buoyant between 2012 and 2013. Although, the region is yet to return to its pre-crisis growth level, many of the economies are growing at rates close to their pre-crisis averages. Real GDP growth in SSA remains robust at 4.9 %; virtually unchanged from the 2012 rate of 4.8% (**Figure 1.6**). Such resilience, due in considerable part to improved governance, is a departure from the region's responses to previous crises, (Fosu, 2013a). Growth in 2013 for SSA is largely underpinned by improvements in agricultural production and investments in natural resources and infrastructure.

¹Europe Brent Spot Price, which is estimated from Weekly All Countries Spot Price FOB, weighted by the export volume (dollars per barrel).

Figure 1.5: Trends in Monthly FAO Food Price Index², January 2013 - April 2014



Source: FAO, 2014.

Restricted global financing conditions and a general slowdown in emerging markets may however exert downside pressures on SSA economies, especially those highly dependent on the exports of natural resources and with huge external linkages. (IMF, 2014a)

Economic growth has been robust in the low-income and fragile states³. The post-crisis growth performance of this group of countries has actually generally surpassed that of their middle-income counterparts (Fosu, 2013a). Considering the two largest SSA economies (Nigeria and South Africa), growth in Nigeria has been very strong, largely due to relatively stable oil prices recorded in the 2013, despite the security conditions in the northern states of the country. South Africa however experienced a slight decline in growth from 2.5% in 2012 to 2.0% in 2013, partly as an outcome of the heightened industrial tensions in the country, especially in the country's mining sector. Also attributable to the slight decline is the appreciable linkages between the South African economy and countries in the Euro zone, tight electricity supply, falling private investment and declining consumer and investor confidence in the economy. (IMF, 2014a)

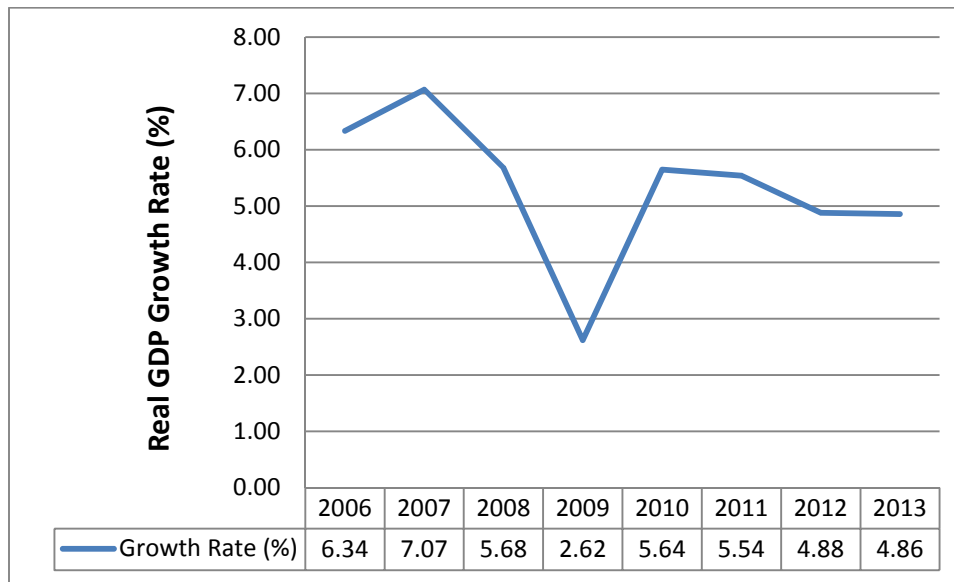
Countries in the SSA region are projected to experience fairly higher growth rates in 2014, with the region's growth projected up from 4.9% in 2013 to 5.4% in 2014. This projection is

²Food Price Index: consists of the average of commodity group price indices (meat, dairy, cereals, oils and fats and sugar) weighted respectively by the 2002-2004 average export shares.

³Fragile states include: Burundi, Central African Republic, Comoros, Democratic Republic of the Congo, Côte d'Ivoire, Eritrea, Guinea, Guinea-Bissau, Liberia, São Tomé and Príncipe, Togo and Zimbabwe. This list does not include certain fragile countries where oil sales account for a major share of exports and government revenue, which are classified as oil exporters.

underpinned by such factors as the expected strong performance of the oil-exporting economies, increasing expenditure on infrastructure, and the region's growing ties with Asia. The major threats likely to hinder progress include armed conflicts in parts of the region, growing youth unemployment, and limited structural transformation and diversification of production and exports. (IMF, 2014a)

Figure 1.6: Trends in Real GDP Growth Rate (%) for SSA, 2006 – 2013



Source: IMF, World Economic Outlook, 2014

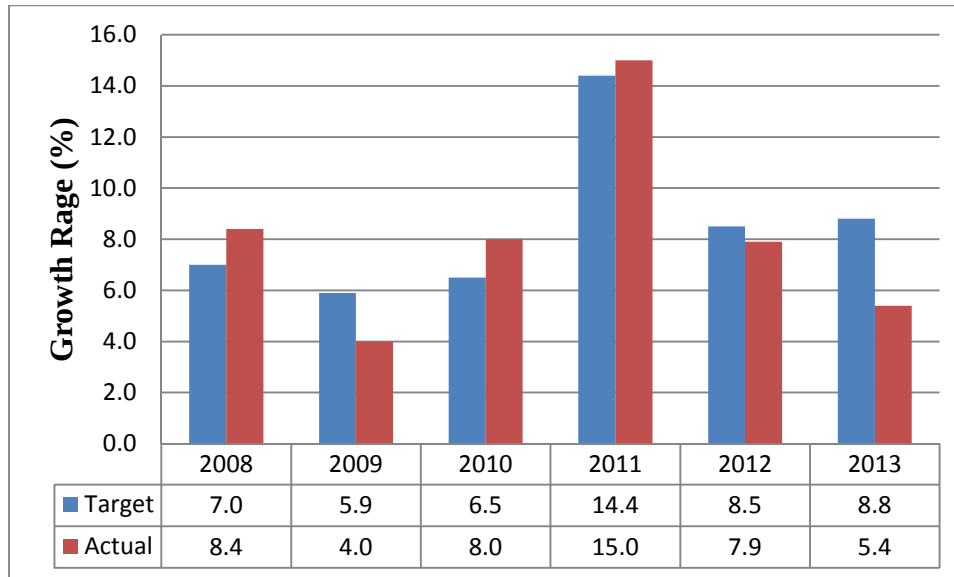
Economic Performance in Ghana

Ghana's economic growth remains fairly resilient in the face of the global recession, though the rate has been declining since 2011. The economy's real GDP growth rate of 5.4% in 2013, however, is short of the targeted rate of 8.8% (**Figure 1.7**). This negative outturn is the largest since 2008. For instance, in 2012, the shortfall was 0.6%, compared to the 3.4% in 2013.

Ghana's growth in 2013 was buoyed particularly by oil exports, with the non-oil GDP growth rate of 3.9%, compared with 5.4% growth for the overall GDP (**Figure 1.8**). Furthermore, the oil sector accounted for a much larger proportion of GDP growth in 2013 than in 2012, when the overall GDP and non-oil GDP growth rates were 7.9% and 7.8%, respectively. Might the increased importance of oil in GDP signal the risk of the Ghanaian economy becoming oil-dependent? This important question is worthy of future investigation, especially given the potential for 'oil curse' associated with such economies.

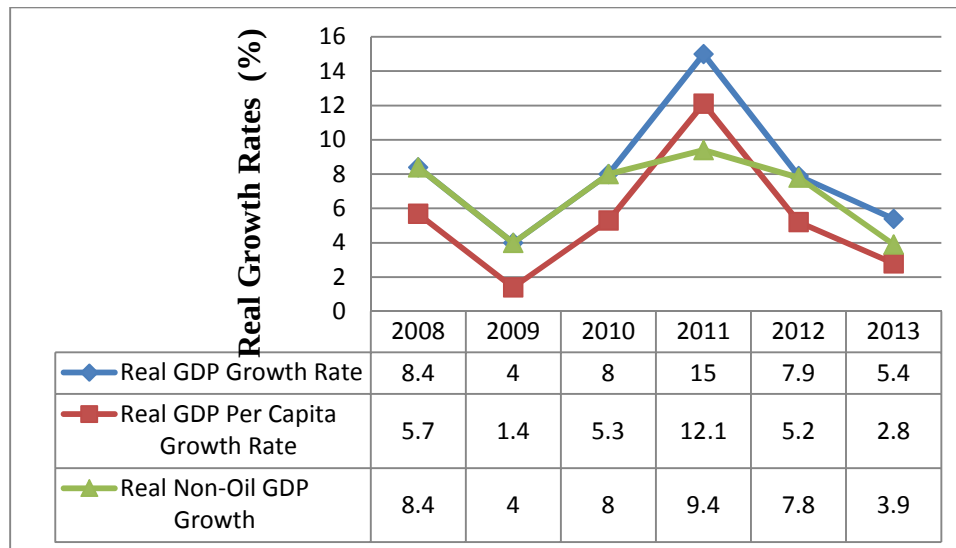
Figure 1.7: Trends in Target and Real GDP Growth Rates, 2008–2013

Overview: Global Economic Developments and Ghana's Economic Performance



Source: ISSER, SGER 2012; IMF, 2014a

Figure 1.8: Trends in Real GDP, Non-oil GDP and Per Capita GDP Growth Rates, 2008–2013



Sources: IMF, 2014a

Per capita GDP growth tracks GDP growth quite closely (**Figure 1.8**). This is not surprising, since population growth seldom changes significantly in the short run. Correspondingly, therefore, real per capita GDP growth fell from 5.2 % in 2012 to 2.8% in 2013, compared with a GDP growth

decline from 7.9% to 5.4% growth over the same period. Thus population growth was between 2.6% and 2.7% during this period.

Disaggregating growth, the largest sector, service, was also the fastest growing sector in 2013 with a growth rate of 8.9%. This was followed by industry, the second largest sector, at 7.0%, and finally by agriculture at 5.2% (**Table 1.1**). While the growth of industry remained unchanged between 2012 and 2013, the growth of service fell from its 2012 value of 10.2%. Finally, agricultural growth rose substantially from 2012 rate of 1.3%. Nonetheless, this sector's share actually decreased slightly from 23.0% of GDP in 2012 to 22.0% in 2013. Thus, despite the major improvement in its performance, agriculture continues to perform relatively poorly, and to assume less and less prominence within the Ghanaian economy.

Table 1.1: Selected Economic Performance Indicators, 2011–2013

<i>Indicator</i> (% unless otherwise stated)				2012 <i>Actual</i> (C1)	2013 <i>Target</i> (C2)	2013* <i>Actual</i> (C3)	<i>Difference</i> (C3-C1)	<i>Difference</i> (C3-C2)
National	Nominal	GDP	(GH¢ million)	73,109.0	67,321.0	86,596.0	13,487.0	19,275.0
Real GDP growth				7.9	8.8	5.4	-2.5	-3.4
Real per capita GDP growth				5.2	7.6	2.8	-2.4	-4.8
Sectoral growth rates (%)								
Agriculture				1.3	4.9	5.2	3.9	0.3
Industry				7.0	8.7	7.0	0.0	-1.7
Services				10.2	8.5	8.9	-1.3	0.4
Fiscal Indicators (%)								
Domestic primary revenue/GDP				21.6		22.4	0.8	
Domestic expenditure/GDP				23.8		28.8	5.0	
Tax revenue/GDP				17.2		17.4	0.2	
Primary balance/GDP				-2.2		-0.3	1.9	
Overall balance/GDP				-12.1		-9.8	2.3	
Monetary/Financial Indicators (%)								
Broad money supply (M2+) growth (year-on-year)				24.3		19.1	-5.2	
Reserve money growth				36.0		15.2	-20.9	

Table 1.1: Selected Economic Performance Indicators, 2011–2013 (Cont'd)

Indicator	2012	2013	2013*	Difference	Difference
-----------	------	------	-------	------------	------------

Overview: Global Economic Developments and Ghana's Economic Performance

(% unless otherwise stated)	Actual (C1)	Target (C2)	Actual (C3)	(C3-C1)	(C3-C2)
Inflation (year-on-year)	8.8		13.5	4.9	
Inflation (yearly average)	9.2		11.7	2.9	
Interest Rates					
Demand deposits (annual av.)	3.4		3.4	0.0	
Savings deposits (annual av.)	5.3		5.8	0.5	
Time deposits (annual av.)	12.5		12.5	0.0	
Lending rates (annual av.)	25.7		25.6	-0.2	
91-day bills (end period)	21.9		23.1	1.2	
Exchange Rates					
Inter-bank rate	1.8		2.2		
Forex bureau rate	1.9		2.4		

*Provisional

Source: Government of Ghana Budget Statement for 2013; Ghana Statistical Service (2014); Bank of Ghana (2014); ISSER, SGER (2012); IMF, Regional Economic Outlook (2014)

The Inflation Picture

The end-of-year inflation rate in 2013 was 13.5% compared to 8.8% in 2012. This figure also far exceeds the targeted rate of 9.0%. Broad money supply including foreign currency deposits (M2+) grew by 19.1% in 2013 compared to 24.3% in 2012, thus rationalizing the higher inflation rate. However, interest rates changed little from their 2012 values, while the cedi depreciated by over 20%. (**Table 1.1**)

Detailed Sectoral Performance

As already observed, the service sector remains the largest and the fastest growing sector of the economy in 2013, even though growth of the sector fell from 10.2% in 2012 to 9.0% in 2013, against a targeted rate of 8.5% (**Table 1.2**). The top three fastest growing service sub-sectors in 2013 are Information and Communication (24.7%), Hotels and Restaurants (13.7%), and Financial Intermediation (12.1%). Sub-sectors experiencing falling growth between 2012 and 2013 include: Financial Intermediation; Trade, Repair of Vehicles, and Household Goods; and Business, Real Estate, and Other Service Activities. The sub-sectors exhibiting appreciable increases in growth are Health and Social Work, as well as Other Community, Social and Personal Service (**Table 1.2**).

The industrial sector is the second largest and second fastest growing sector of the economy in 2013. Growth in the sector remained at 7% in 2013, against the 2013 target of 8.7%. Performance in the sector over the years was underpinned primarily by growth in Mining and Quarrying, with

Petroleum the main contributor. Except for the Manufacturing and Construction sub-sectors which experienced growth declines, all other sub-sectors recorded higher growth rates above those of 2012 (**Table 1.2**). The falling growth of the Manufacturing sub-sector over the years has been attributed to factors including dampened competitiveness of local manufacturing companies, high utility prices, and substantial costs of inputs and raw materials (e.g., ISSER, 2013).

Agriculture recorded a growth rate of 5.2% in 2013 (against the 2013 target of 4.9%), up from the 1.3% dismal growth in 2012 (**Table 1.2**). The sector seems to be making some gains recently, with its growth having earlier increased from 0.8% in 2011. All the sub-sectors experienced higher growth rates in 2013 over the respective 2012 values. Fishing has been experiencing phenomenal growth since 2011 largely due to recent investments in aquaculture. The sub-sector grew by 8.9% in 2013, up from 4.7% in 2012. The Cocoa sub-sector also grew by 3.7% in 2013, up from a 6.9% decline in the previous year.

Table 1.2: Sectoral and Sub-Sectoral Growth Rates

<i>Sector</i>	<i>2012*</i>	<i>2013</i>	<i>2013**</i>	<i>Difference</i>	<i>Difference</i>
	<i>Actual</i>	<i>Target</i>	<i>Actual</i>	<i>(C3-C1)</i>	<i>(C3-C2)</i>
	<i>(C1)</i>	<i>(C2)</i>	<i>(C3)</i>		
AGRICULTURE	1.3	4.9	5.2	2.1	-1.5
Crops	1.0	5.0	3.0	2.0	-2.0
O/W Cocoa	-6.9	5.0	3.7	10.6	-1.3
Livestock	5.0	5.0	5.3	0.3	0.3
Forestry and Logging	-1.4	6.0	0.8	2.2	-5.2
Fishing	4.7	2.3	8.9	4.2	6.6
INDUSTRY	7.0	8.7	7.0	0.0	0.4
Mining and quarrying	5.0	8	17.6	12.6	9.6
o/w Petroleum	9.1	-	37.5	28.4	37.5
Manufacturing	5.0	5.0	2.5	-2.5	-2.5
Electricity	11.1	15	13.3	2.2	-1.7
Water & Sewage	2.0	4.0	2.4	0.4	-1.6
Construction	11.2	12.5	8.4	-2.8	-4.1
SERVICES	10.2	8.5	8.9	-1.3	0.7
Trade, Repair of Vehicles, Household Goods	5.8	7.0	1.5	-4.3	-5.5

Table 1.2: Sectoral and Sub-Sectoral Growth Rates (Cont'd)

<i>Sector</i>	<i>2012*</i>	<i>2013</i>	<i>2013**</i>	<i>Difference</i>	<i>Difference</i>
---------------	--------------	-------------	---------------	-------------------	-------------------

Overview: Global Economic Developments and Ghana's Economic Performance

	<i>Actual (C1)</i>	<i>Target (C2)</i>	<i>Actual (C3)</i>	<i>(C3-C1)</i>	<i>(C3-C2)</i>
Hotels and Restaurants	13	10	13.7	0.7	3.7
Transport and storage	9.8	8.5	9.5	-0.3	1.0
Information and Communication	23.4	12	24.7	1.3	12.7
Financial Intermediation, Business, Real Estate, other service activities	23	13	12.1	-10.9	-0.9
Public Administration and Defence, Social Sec.	13.1	13	7.6	-5.5	-5.4
Education	4.2	7.0	4.9	0.7	-2.1
Health and Social Work	6.7	4.0	4.6	-2.1	0.6
Other Community, Social and Personal Service	7.9	6.0	11.2	3.3	5.2
	4.0	5.0	9.1	5.1	4.1

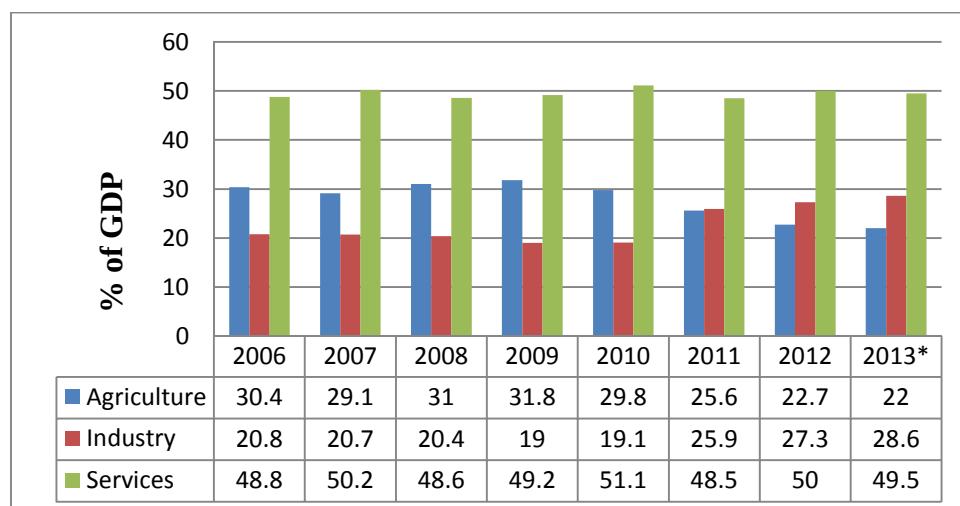
**Revised*

***Provisional Source: ISSER, 2013; GSS, 2014.*

Sectoral contribution to GDP in 2013 largely follows the pattern observed in 2012 (**Figure 1.9**). The importance of the service sector continues. Meanwhile, the second largest, the industrial sector constituted 28.6% of GDP in 2013, a higher share in comparison to 27.3% in 2012, thanks mainly to the growing prominence of petroleum. Though agriculture is experiencing gains in annual growth rate, its contribution to national output continues to decline. This has been the trend since the sector peaked at 31.8% share of GDP in 2009, with the sector again experiencing a slight decline in its share of GDP, from 22.7% in 2012 to 22.0% in 2013. This is largely due to the rapid expansion in the oil sector, which shrinks the contribution of the agriculture sector in relative terms, even though the sector is experiencing some expansion in absolute terms.

Figure 1.9: Sectoral Contributions to National Output, 2006 – 2013, (% of GDP; 2006 Constant Prices)*

The State of the Ghanaian Economy in 2013



* Revised Source: Ghana Statistical Service, 2014

Fiscal Developments

Macroeconomic stability through prudent fiscal policies has been at the forefront of the government's agenda to ensure economic growth. Efforts to increase the tax base and mobilize more revenue to offset the huge wage bill as a result of the implementation of the Single Spine Pay Policy were paramount in 2012 and have been high on the agenda in 2013. The objective was to reduce the fiscal deficit to 5% of GDP; however, this objective was missed by a significant margin. The overall fiscal balance (including grants) in 2013 shows a lower deficit (10.1% of GDP) than for 2012 (12.1% of GDP), but then this 2012 deficit is the worst ever⁴ (**Table 1.3**).

Government's total revenue, comprising tax and non-tax revenues as a percentage of GDP increased from 21.6% in 2012 to 22.4% in 2013. Tax revenues as proportions of GDP also increased slightly from 17.2% in 2012 to 17.4% in 2013. Indeed as a proportion of GDP, total tax revenues increased steadily for the period 2009-2013. Both tax and non-tax revenues have indeed been on the rise since 2009: from 12.7% in 2009 to 17.4% in 2013 and 2.4% in 2009 to 4.6% in 2013, respectively (**Table 1.3**).

Government expenditure, according to the Medium-Term Expenditure Framework (MTEF), is divided into discretionary and statutory components. Discretionary expenditure rose in 2013 to GH¢19,858 million from GH¢18,512 million in 2012, representing a 7.3% increase (**Table 1.4**). Regarding the components of discretionary expenditure, the largest items were: personal emoluments, total investment, and arrears clearance. Personal emoluments have been consistently rising since 2009, increasing from GH¢2,478 million in 2009 to GH¢4,323 million in 2011; and further to GH¢6,665 in 2012. Personal emoluments increased to GH¢8,115.4 in 2013, indicating

⁴This stylized fact holds for the fiscal balance that includes grants; however, when grants are excluded, the deficit of about 15% of GDP in 2001 is higher than the 2012 value of 14%.

a 21.8% increase from the 2012 figure. In contrast, total investment expenditure declined between 2012 and 2013 by GH¢673.8 million, representing a decrease of 5.8% (Table 1.4).

TABLE 1.3: Selected Government Fiscal Indicators, 2007–2013 (% GDP)

<i>Indicator</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>	<i>2011</i>	<i>2012</i>	<i>2013*</i>
Total Receipts	26.3	31.6	25.4	28.8	24.3	23.2**	23.9
Total Revenue	15.8	15.9	15.5	16.8	20.8	21.6	22.4
Tax Revenue	14.3	14.3	12.7	13.7	17.4	17.2	17.4
Direct Taxes	4.1	4.2	4.7	5.3	7.2	7.7	6.7
Indirect Taxes	5.7	5.1	4.4	4.3	5.5	4.9	5.2
International Trade taxes	2.5	2.4	2.1	2.5	2.7	2.8	3.4
Non -Tax Revenue	1.5	1.4	2.4	2.7	3.2	4.0	4.6
Grants	3.7	2.7	3.0	2.4	2.1	1.6	0.2
Other Receipts	6.8	11.5	6.9	8.6	5.4	12.2	0.0
Divestiture	0.5	3.3	0.0	0.0	0.0	0.0	0.0
Project Loans	1.6	1.7	3.0	3.1	1.2	2.3	2.8
Programme Loans	0.4	0.5	0.9	0.6	0.4	0.3	0.0
Exceptional Financing	0.4	0.3	0.2	0.2	0.2	0.1	0.0
Net Domestic Financing	3.1	5.3	2.9	4.7	3.5	9.6	7.6
Total Payments	26.3	31.6	25.4	28.8	24.3	32.9	23.6
Statutory Payments	7.5	7.8	6.7	7.6	7.9	7.1	8.8
Discretionary Payments	18.8	23.8	18.7	21.2	16.4	25.8	21.3
Overall Budget Balance	-4.9	6.6	-5.6	-6.5	-4.3	-12.2	-10.1
Primary Budget Balance	-3.7	-5.9	0.3	0.1	2.9	-2.2	-0.7

**Note that the figure of 32.91 recorded in ISSER (2013) differs substantially from the present one.
Source: ISSER, 2013; GSS, 2014; and GOG, 2013.

Expenditure on HIPC-related projects and programmes and Multilateral Debt Relief Initiative (MDRI) financed investment ceased in 2011. Allocation to the Ghana Education Trust Fund (GETFund) decreased by 58.4% between 2012 and 2013, whilst allocation to the National Health Fund rose by 28.2% over the same period. The Petroleum Fund also saw a reduction of 5.2% 2013 after experiencing a slight increase of 2.4% in 2012 (Table 1.4).

TABLE 1.4: Composition of Government Discretionary Expenditure Framework (MTEF) Format, 2011 - 2013 (GH¢ million)

The State of the Ghanaian Economy in 2013

Component	2011	2012	2013*	Difference	%	Difference	%
	(C1)	(C2)	(C3)	(C3-C1)	Change	(C3-C2)	Change
Discretionary	9,229.0	18,512.0	19,858.0	10,629.0	115.2	1,346.0	7.3
Personal Emoluments	4,323.0	6,665.0	8,115.4	3,792.4	87.7	1,450.4	21.8
Administration & Service	723.0	1,321.0	938.5	215.5	29.8	-382.5	-29.0
Total Investments	3,674.0	4,616.0	4,347.8	673.8	18.3	-268.2	-5.8
Domestic Financed	1,962.0	2,436.0	1,691.2	-270.8	-13.8	-744.8	-30.6
Other Cash Expenditure	558.0	1,049.0	***	***	***	***	***
Net Lending	-	-2,179.0	-2,656.6	-944.6	55.2	-477.6	21.9
Foreign Financed	1,712.0						
VAT Refunds	-89.0	-163.0	-181.6	-92.6	104.1	-18.6	11.4
Arrears Clearance	1,639.0	3,829.0	2,138.2	499.2	30.5	-1,690.8	-44.2
Utility Price Subsidies	-	185.0	1,079.1	-	-	894.1	483.3
HIPC Financed	-	-	-	-	-	-	-
Expenditure							
MDRI Financed	-	-	-	-	-	-	-
Investment							
Outstanding	-	-3,666.0	***	***	***	***	***
Commitments	1,848.0						
Reserve Fund	330.0	1,072.0	797.7	467.7	141.7	-274.3	-25.6
Other Transfers	1,356.0	2,383.0	***	***	***	***	***
Repayment of Domestic Debt	1,988.0	6,897.0	3,588.4	1,600.4	80.5	-3,308.6	-48.0

TABLE 1.4: Composition of Government Discretionary Expenditure Framework (MTEF) Format, 2011 - 2013 (GH¢ million) (Cont'd)

Component	2011	2012	2013*	Difference	%	Difference	%
					Change		Change

Overview: Global Economic Developments and Ghana's Economic Performance

	(C1)	(C2)	(C3)	(C3-C1)		(C3-C2)	
Statutory Payments	4,435.0	5,133.0	8,265.4	3,830.4	86.4	3,132.4	61.0
External Debt	888.0	1,180.0	1,448.9	560.9	63.2	268.9	22.8
Principal	584.0	624.0	817.1	233.1	39.9	193.1	30.9
Interest	303.0	556.0	608.7	305.7	100.9	52.7	9.5
Domestic Interest	1,308.0	1,880.0	3,788.3	2,480.3	189.6	1,908.3	101.5
DACF	622.0	407.0	498.9	-123.1	-19.8	91.9	22.6
Transfers to Households	771.0	512.0	***	***	***	***	***
Education Trust Fund	321.0	363.0	151.1	-169.9	-52.9	-211.9	-58.4
Road Fund	141.0	195.7	191.0	50.0	35.4	-4.7	-2.4
Petroleum Related Fund	9.0	9.0	8.5	-0.5	-5.2	-0.5	-5.2
National Health Fund	377.0	587.0	752.8	375.8	99.7	165.8	28.2

Source: ISSER, SGER (2012) and GOG, 2013.

* Provisional

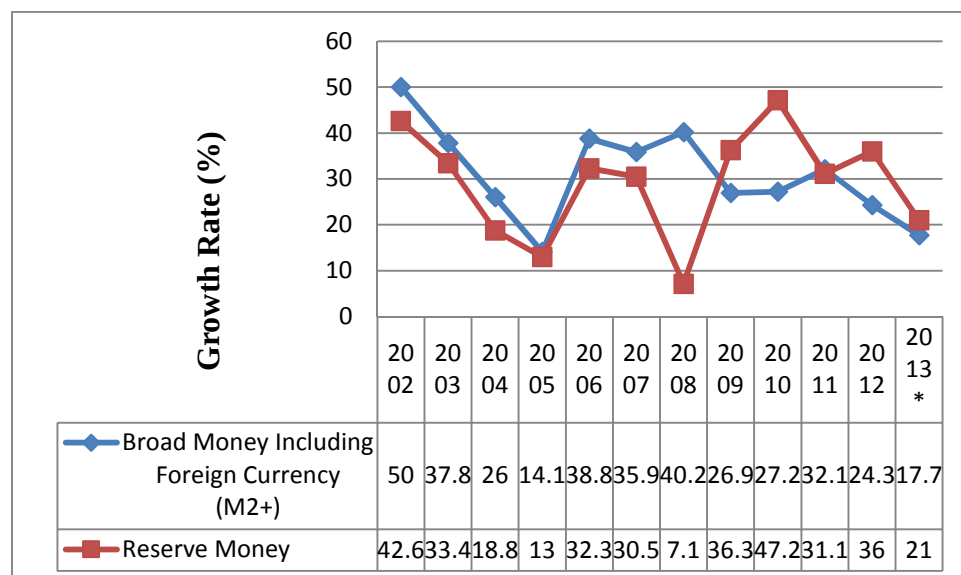
*** Not available

Monetary and Financial Developments

The inflation targeting regime of the Bank of Ghana (BoG) has been largely sustained over the past few years with policies aimed at keeping inflation within a single digit as well as maintaining exchange rate stability. This year however recorded a double digit annual average inflation rate of 11.7% %, up from the 8.8% recorded in 2012. The end-of-year inflation rate for 2013 was 13.5%, as compared to 8.6% in 2012. The inflation performance in 2013 was mainly driven by movements in non-food prices. Food inflation increased at an annualized rate of 7.3% in July 2013 but declined slightly to 7.2% at the end of the year, while non-food inflation increased to 15.4% in July, and further rose to 18.1% at the end of 2013. The trend in food inflation during the year was partly explained by the good harvest recorded as a result of good rainfall.

Growth in broad money supply (M2+), which includes foreign currency deposits, grew by 17.7% in 2013 compared to the 24.3% growth recorded by end December 2012; and reserve money growth also fell to 21.0% in 2013 from 36.0% in 2012 (**Figure 1.10**). The slowdown in the growth of M2+ was attributed to the negative growth rate recorded in the Net Foreign Assets (NFA). The Net Domestic Assets (NDA) of the banking system grew by 19.1% whilst the Net Foreign Assets fell by 14.8%, from US\$3,172.2 million in 2012 to US\$2,701.0 million in 2013. (BOG, 2014)

Figure 1.10: Developments in Monetary Aggregates, 2002 – 2013*



*provisional

Source:BOG, 2014; and GOG, 2013.

The year 2013 experienced an upward trend in interest rates following the adjustment of the policy rate to 16.0% in April 2013 from 13.5% in February 2012 by the Monetary Policy Committee (MPC). The interest rate on 91-day Treasury Bills increased from 21.9% in 2012 to 23.1% in 2013 whilst interest on demand deposits again remained unchanged at 3.4% in 2013. The interest on savings deposits increased marginally from 5.3% in 2012 to 5.8% in 2013. It was expected that the increase in the prime rate would be followed by an increase in the average lending rate; however, that was not the case. The average lending rate instead held virtually steady between 2012 and 2013, perhaps reflecting the lagging nature of banking-sector decisions. (Table 1.5)

Note that in real terms, interest rates have declined steeply. For example, interest on the 91-day Treasury bill fell from 13.1% in 2012 to 9.6% in 2013. The real saving rate became even more negative in 2013 at -7.8% compared to -3.6% in 2012. In addition, the real lending rate declined to 12.1% from 16.9% over the same period, though this level still remains too high for investment purposes. (Table 1.5)

The Central Bank continued with its policy to smoothen out the fluctuation of the cedi against the major trading currencies. However, the exchange rate of the domestic currency came under intense pressure against all the major currencies in 2013. The cumulative depreciation of the cedi to the Euro in 2013 was 20.8% compared to 16.4% in the year 2012. Also, the cumulative depreciation was 16.8% against the US dollar and 21.4% against the pound in 2013.(BOG, 2014) This outcome

is not surprising, given that the current account deficit increased by a full percentage point from its already record-huge level of 12.2% of GDP in 2012 (IMF, 2014a).

Table 1.5: Money Market Instrument (Real and Nominal Rates) 2010 – 2013

<i>Instruments</i>	<i>Nominal Rates</i>			<i>Real Rates</i>		
	<i>2011</i>	<i>2012</i>	<i>2013*</i>	<i>2011</i>	<i>2012</i>	<i>2013*</i>
91-day	10.40	21.86	23.10	1.82	13.06	9.60
182-day	10.66	20.62	22.90	2.08	11.82	9.40
1-year	11.30	22.90	22.50	2.72	14.10	9.00
2-year fixed	12.40	23.00	23.00	3.82	14.20	9.50
3-year fixed	14.00	21.00	19.20	5.42	12.20	5.70
Savings Rate	4.05	5.25	5.75	-4.53	-3.55	-7.75
Lending rates	25.93	25.72	25.56	17.35	16.92	12.06

**Provisional*

Source: ISSER, SGER (2012); BOG, 2014

External Sector Developments

Ghana's exports continue to be dominated by primary commodities, predominantly gold and cocoa. During the year under review, gold exports recorded US\$ 4,965.7 million and cocoa exports amounted to US\$ 2,267.3 million, together accounting for 52.6% of total export receipts in 2013. The country's main export destinations are the Netherlands, Burkina Faso, South Africa and United Kingdom; whilst China, United States, Belgium, United Kingdom and France are the main import partners. Ghana's imports are mostly industrial supplies, capital and consumer goods, oil and foodstuffs. (GSS, 2014)

Merchandise export receipts declined from US\$13,541.4 million in 2012 to US\$13,017.8 million in 2013, representing 36.3% of GDP in 2013 compared to 41.63% of GDP in 2012 (**Table 1.6**). This decline may be partly attributed to the fall in export revenue from cocoa and gold in 2013. Cocoa exports decreased by 19.8% in total value from US\$2,828.62 million in 2012 to US\$2,267.29 million in 2013, while total earnings from gold exports declined by 12.0%, from US\$5,643.27 million in 2012 to US\$4,965.71 million in 2013. (GSS, 2014)

The year 2013 recorded a slightly lower balance of trade deficit of US\$3,848.32 million (9.0% of GDP) against the huge trade deficit of US\$4,210.82 million (10.4% of GDP) recorded in 2012. This reduction in the trade deficit is largely underpinned by an appreciable decrease in the import bill, from US\$17,762.8 (54.4% of GDP) in 2012 to US\$17,064.1 (50.9% of GDP). The current account deficit, however, continued to worsen from US\$4,921.5 million (12.2% of GDP) to US\$5,704.0 million (13.2% of GDP) in 2013. This outturn suggests a decreasing trend in net income inflows (remittances relative to income from foreign assets in Ghana) and/or ODA

receipts. Indeed, the 2013 deficit is the largest in recent years.⁵Correspondingly, there was a decline in the level of Gross International Reserves (GIR), from US\$5,348.9 million (2.9 months of import cover) in 2012 to US\$5,212.1 (2.4 months of import cover) in 2013. (**Table 1.6**) Against the recommended 3.0 months of import cover, this reserve level signals a precarious foreign-exchange position for the country, with adverse implications for the value of the cedi.

Table 1.6: Summary of External Sector Performance, 2011–2013

<i>Indicators (US\$ million unless otherwise stated)</i>	<i>2011</i>	<i>2012</i>	<i>2013*</i>
Merchandise Exports	12,785.4	13,541.4	13,017.8
% of GDP	37.7	41.6	36.3
Merchandise Imports	-15,837.7	-17,762.8	-17,064.1
% of GDP	50.3	54.4	50.9
Trade Balance	-3,052.3	-4,221.4	-4,046.3
% of GDP	-7.9	-10.4	-9.0
Current account	-3,675.1	-4,921.5	-5,704.0
% of GDP	-9.1	-12.2	-13.2
Gross International Reserves (GIR)	5,400.0	5,348.9	5,212.1
GIR in Months of Imports (Goods and Services)	3.0	2.9	2.4

**Provisional in the case of the dollar values*

Source: ISSER, 2013; BOG, 2014; and IMF, 2014a.

Note: Figures in millions of Ghana cedis are taken from ISSER, 2013 and BOG, 2014; percent figures and Months of Imports are from IMF, 2014a.

Outlook for the Global Economy

Global growth is projected to gradually improve through 2014. Across the advanced economies, GDP growth is projected to reach 2.2% in 2014, compared to 1.2% in 2013. The Euro area is expected to grow by 1.2% in 2014, after a contraction of -0.5% in 2013. This situation is far from a regular, cyclical downturn that would correct itself automatically. It would require certain targeted policies. There has been some progress in an EU-wide policy response to the Euro area

⁵The current account deficit averaged 8.1% of GDP during 2004–2008. It has indeed been worsening since attaining a respectable level of 5.4% in 2009. In recent years (since 2005), the second largest deficit was recorded in 2012 at 12.2%, followed by 11.9% earlier in 2008. (IMF, 2014a)

crisis, especially in improving financial conditions for countries on the periphery. However, there is the need for more decisive corrective action to support recovery and reduce downside risks.

Developing countries and economies in transition remain vulnerable to the economic woes of the developed countries. For instance, though it has held up reasonably well so far, Africa is not entirely immune to the Euro crisis. A continuous slowdown of the world economy may decrease demand for its commodity exports, lower prices, and thus reduce its export earnings and economic growth.

There will be less external financing as social development assistance declines in the face of greater fiscal austerity in donor countries. This means a much slower pace of poverty reduction and retardation in social sector investments, such as in education, health, basic sanitation and other critical areas needed for accelerating the progress toward achieving the Millennium Development Goals (MDGs). Nonetheless, assuming that the current market turmoil in developed countries passes without serious consequences for Africa, prospects for the coming decade will be favorable.

The persistent problems in employment generation pose severe challenges. Unemployment and underemployment are on the rise. Current projections for the unemployment rate show little change between 2013 and 2014. The global number of the unemployed is expected to rise further to some 210.6 million over the next five years.

Weak private consumption and low consumer confidence further add to the unwillingness of firms to expand capacity. Structural change is an important driver of labour market improvements in developing and emerging economies. Reallocation of workers from lower to higher productive activities across broad economic sectors is needed to improve standards of living and reduce poverty.

Outlook for Ghana's Economy and a Way Forward

Structural limitations in infrastructure, labour markets and declining commodity prices contribute greatly to the slow-down in the growth momentum in many emerging and developing economies including Ghana. Nevertheless, the near-term outlook for Ghana is positive, with growth projected at 8.0% (6.5% non-oil) in 2014. Backed by strong investment in the oil and gas sectors, as well as by public infrastructure and favourable commodity prices, Ghana can sustain continuous economic growth well into the future, *provided* the country improves its macroeconomic management which requires bold efforts to reduce its budget imbalance. Unemployment remains a key challenge, however, and opportunities for employment in the industrial sector remain limited and highly specialized.

The composition of Ghana's trade continues to be dominated by the primary commodity exports, gold and cocoa. The reliance on a narrow range of commodities as well as a narrow range of export markets makes Ghana's export earnings extremely vulnerable to volatility in these markets. Trade with the rest of Africa continues to be minimal. There is an urgent need to diversify exports in terms of products as well as markets. In order to ensure that medium-term growth targets are met,

there is the need for massive investment in the agricultural sector as a whole and in infrastructure in particular; there is also the need to prioritize non-traditional exports.

On the other hand, the advent of oil production seems to be changing the pattern of the country's exports, however. Is Ghana teetering toward an oil-dominated economy, or might the proceeds from oil exports be employed wisely to diversify the economy?

On the fiscal side, there is the urgent need for prudent management of government resources. While increased efforts to mobilize revenue through an expanded tax base should be pursued, the main culprit for recent huge deficits is expenditure by government, which should be reined in, in the short-to-medium term. Indeed the budget's credibility, particularly with respect to the overall fiscal targets, will improve if there are more concrete steps to reduce expenditure. The rigidities in government expenditures can only be matched by increasing the limited fiscal space the country has. In fact, unless revenues are able to match potential expenditure slippages that might occur, the overall fiscal target may be missed. There is no doubt that the IMF programme will help in the stabilisation effort for 2014, but it is unrealistic to expect it to change the potential fiscal slippage that is likely to occur in 2014.

Key risks to monetary policy include adverse developments in world commodity prices and foreign investment inflows. The Bank of Ghana has scaled up its policy rate in 2013, prompting slight increases in the money market and bank rates, with average base rates increasing marginally. The risk is that these rates may go even higher as the inflation rate seems to be picking up, raising inflationary expectations even further. Such a development would likely adversely affect private sector investment. Ghana's weak infrastructural systems, especially in the energy and transportation sectors, and ineffective public administration structures undermine efforts to make investing in Ghana a worthwhile venture. In order to ensure the growth of industry, the challenge of shortages of electricity energy needs to be tackled with robust efficiency by the government.

With respect to Ghana's broader development, the implementation of the Ghana Shared Growth and Development Agenda (GSGDA) ended in 2013. The next development strategy for Ghana from 2014 onward should focus on the following, as suggested in Asante and Owusu (2013) and in Fosu (2013b), *inter alia*:

- Policies of inclusive growth with the objective of ensuring sustainable economic growth and human development. These would entail heightened focus on the equitable participation of all, including women, the youth and persons with disabilities in the economic growth process. There is also the need to tackle spatial inequality;
- Pursuit of an employment-centered economic growth strategy that will ensure that employment expands along with production and that the benefits of growth will be widely shared through better job opportunities and enhanced incomes, particularly for the growing unemployed youth. Labour productivity must also rise, commensurately with higher wages, especially for public employees under the Single Spine Pay Policy;
- Ensure sustainability in the exploitation of Ghana's natural resource endowments, including agriculture, minerals, as well as oil and gas, supported by strategic investments in human capital, infrastructure, science, technology and innovation;

Overview: Global Economic Developments and Ghana's Economic Performance

- Engagement in strategic infrastructural (physical, human and institutional) development as well as the application of science, technology and innovation to enhance the creation of employment and income earning opportunities for rapid and sustained poverty reduction. Priority should be accorded physical infrastructural and human-quality development, *rather than the continuing expansion of public institutions*, in order to substantially increase absorption of the apparent oversupply of graduates from the various tertiary institutions.