
Country Report

Ghana

Ghana at a glance: 2003-04

OVERVIEW

The political scene will be shaped by the presidential and parliamentary polls, due in December 2004, which are expected to be won by the incumbent president, John Kufuor and his New Patriotic Party. Continued high prices and production of gold and cocoa will lift real GDP growth to 4.7% in 2003 and 4.8% in 2004. The near doubling of the price of petroleum products in January will cause inflation to jump to an average of 27.7% in 2003. When this drops out of the annual comparison in 2004, average inflation is forecast to fall to 13.9%. The current account will deteriorate to a deficit of 0.2% of GDP in 2003, owing to higher imports and associated services debits. Lower exports will cause the current-account deficit to widen to 5.9% of GDP in 2004.

Key changes from last month

Political outlook

- The political outlook remains unchanged.

Economic policy outlook

- The Bank of Ghana (the central bank) reduced the prime rate by 150 basis points in July, to 26%, owing to improved fiscal performance, a slowdown in money supply growth and easing inflationary pressure. Inflation is likely to fall over the remainder of the year and, although it is expected to exceed the central bank's target of 22%, there is scope for a further interest-rate cut as the bank is concerned that high interest rates are harming the private sector.
- A budget deficit of only 0.2% of GDP was recorded in the first six months of 2003, owing to higher revenue collection and reduced expenditure. The Economist Intelligence Unit expects a deterioration in fiscal performance in the second half of the year as much of the lower expenditure was caused by the government holding back development spending. The government will now attempt to accelerate spending in this area to meet its ambitious electoral promises ahead of the 2004 polls.

Economic forecast

- As expected, tight monetary policy has continued to cause a further easing in year-on-year inflation, which fell from 29.8% in May to 29.6% in June. The government's relatively tight monetary and fiscal stance will cause inflation to remain on a lower trend during the rest of 2003, when it is forecast to average 27.7%.

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Outlook for 2003-04

Political outlook

Domestic politics Political activity will be increasingly shaped by the presidential and parliamentary elections, which are due in December 2004. The two main political parties, the ruling New Patriotic Party (NPP) and the National Democratic Congress (NDC), have already selected their candidates for the presidential election. The NPP has chosen the president, John Agyekum Kufuor, and the NDC has chosen John Atta Mills, so the 2004 election will be a re-run of the 2000 poll. The elections will be fought mainly on the economy. The NPP will claim credit for stabilising the economy—the jump in inflation caused by a fuel price increase in early 2003 will have fallen out of the annual comparison well before the elections. Mr Kufuor's electoral prospects will be further enhanced by the introduction of the National Health Insurance Scheme—a major campaign promise—and the implementation of a number of crucial infrastructure projects, particularly the construction of major roads. The NDC, however, will attempt to exploit the impact of the fuel price rise on the less well-off—such as commuters, many of whom are now forced to walk to work—and the lack of a visible improvement in living standards.

Popular disenchantment with the final years of the presidency of Jerry Rawlings, with whom Mr Atta Mills was (and remains) very closely associated, cost the NDC the last election. These feelings are likely to linger, given the allegations being made against Mr Rawlings at the National Reconciliation Commission (NRC), which is conducting a judicial enquiry into wrongdoing by previous military regimes. The NPP's success in recent by-elections—it has won all six contested since its election (gaining four seats from the NDC)—also points to the likelihood of electoral victory for Mr Kufuor in 2004. The NDC's chances have been further weakened by the decision of its former electoral allies in the Progressive Alliance—the Every Ghanaian Living Everywhere party and the Democratic People's Party—to contest the 2004 election independently. The smaller political parties are struggling to reposition themselves for the elections, although the handful of seats that they are expected to win may give them an important role if the results are close. The Economist Intelligence Unit believes that Mr Kufuor and the NPP will be returned to power.

The NRC is due to complete its hearings in January 2004, although it is possible that they will be extended. As several witnesses, possibly motivated by personal grudges, have directly accused Mr Rawlings of human rights violations, there is a danger that the commission's credibility will be eroded. However, Mr Rawlings has pledged to co-operate with the NRC. Any tension caused by the NRC's activities will be limited by the fact that the judges conducting the investigations are considered to be independent and the commission has no power to punish any offender—it can only recommend compensation for victims. Another source of tension between the two big parties will be the conclusion in the Fast Track High Court of several corruption cases involving former NDC ministers. The NDC is aggrieved over the sentences given to three former ministers at the conclusion of the Quality Grain

scandal in April, and realises that its electoral prospects will be further damaged if more formerly high-ranking party officials suffer a similar fate.

International relations

As Mr Kufuor is chairman of the Economic Community of West African States and Mohammed Ibn Chambas is the organisation's executive secretary, Ghana has a leading role in regional affairs. The president has hosted talks on the crisis in Liberia and played a crucial role in pushing ahead the process of reconciliation in neighbouring Côte d'Ivoire. The importance Mr Kufuor places on maintaining his credibility as a mediator was shown in June, when he allowed the Liberian president, Charles Taylor, to leave Ghana before he could be served with a UN warrant for his arrest. The government is expected to maintain its neutrality with regard to both Côte d'Ivoire and Liberia, while being actively involved in attempts to resolve the crises; this will strengthen Ghana's international image. Mr Kufuor will maintain good relations with the West and will be a leading proponent of the New Partnership for Africa's Development (NEPAD) and of adherence to its underlying principles, including good governance and peer review.

Economic policy outlook

Policy trends

Economic policy will broadly follow the guidelines laid out in the three-year, US\$258m poverty reduction and growth facility (PRGF) agreed with the IMF in May. The new PRGF demands tough measures to strengthen public-expenditure management and increase revenue in order to reduce the fiscal deficit and increase poverty-related spending. Cost recovery pricing for water, electricity and petroleum products, the acceleration of the privatisation programme, the modernisation of the financial sector and the implementation of the 2002-04 Ghana Poverty Reduction Strategy (GPRS) are other important requirements. The GPRS prioritises infrastructure development, the modernisation of agriculture and rural development, the improvement of social services (with particular emphasis on health and education), good governance, and private-sector development. The poor capacity of the civil service, the approaching election—previous governments have let fiscal discipline slip ahead of elections—and difficulties in mobilising resources will limit progress in these areas. Little headway has been made with civil-service reforms because of the resistance of senior civil servants to changes that would affect their privileged position; this will remain a problem.

Fiscal policy

The 2003 budget projects a reduction in the fiscal deficit to 3.1% of GDP from 5.3% of GDP in 2002. By reducing the deficit to this level, the government hopes to eliminate the need for domestic financing, the stated goal of the budget. (Budgeted donor support will finance the reduced deficit). The government plans to reduce the deficit by taking a more vigorous approach to revenue mobilisation from domestic sources—programme and project loans from donors were only one-half of the budgeted total in 2002. A number of revenue-raising measures have also been introduced. In line with the GPRS, the budget proposes substantial increases in spending on education and healthcare and a number of new projects including the establishment of a National Health

Insurance Scheme. So far this year performance has been good. The fiscal deficit was C114.6bn (US\$13.3m, 0.2% of GDP) in the first half of the year, owing to higher than projected value-added tax revenue and lower than projected expenditure. The latter, however, was the result of a 38% shortfall in development expenditure, as donor inflows were less than half the projected level. Despite this good performance in the first half of 2003, we feel that the government will have difficulty achieving its deficit target, as the new revenue-raising initiatives introduced in the budget are likely to be hindered by capacity constraints in the civil service. Furthermore, the government will have to withstand pressure for higher public-sector pay. Although the minimum wage was recently increased by 28% to compensate for the rise in fuel prices, in real terms the minimum wage has declined over the past year, and the government is likely to be tempted to increase public-sector pay again, particularly with elections due next year. Nonetheless, continued high cocoa prices will ensure strong revenue growth. We therefore forecast a fiscal deficit of 3.6% of GDP in 2003.

The 2003 budget also contained the government's spending and revenue projections for the next three years under a medium-term expenditure framework (MTEF). Social services are projected to account for about 40% of total expenditure over the three years, further emphasising the government's commitment to healthcare, education and poverty alleviation. The MTEF projects a rapid increase in revenue, which would allow the fiscal deficit to fall to 1% of GDP in 2004. We feel that this projection is unrealistic. The fiscal deficit averaged 7% of GDP over the five years to 2002 and, with elections due in 2004, we believe that the deficit will widen to 5.5% of GDP. As it is doubtful that the government will attain its projection for privatisation receipts and because donor inflows are likely to be uneven and uncertain—particularly if the government does not adhere to its fiscal and divestiture targets—the target of zero net domestic financing will not be achieved in either 2003 or 2004. Instead, the government will continue to build up domestic debt, which stood at C14.4trn (US\$1.68bn) at the end of March 2003.

Monetary policy

The Bank of Ghana (the central bank) is expected to keep monetary policy tight in an attempt to reduce inflation. Central to its success will be its willingness to enforce the statutory limit whereby the government is only permitted to borrow the equivalent of 10% of its revenue from the central bank. In the past, domestic interest rates have remained high because of inflationary pressure caused by the government's high level of domestic borrowing. Although the government projects that net domestic financing will be zero in 2003, which would help to reduce interest rates, we feel that this is unlikely to be achieved and do not expect a fall in interest rates, as the government still has to refinance all of its maturing obligations. Surprisingly, the central bank cut the prime rate by 150 basis points to 26% in July on the basis of improved fiscal performance, a slowdown in money supply growth and easing underlying inflationary pressure. Only four months earlier the central bank increased the prime rate by 200 basis points owing to concerns over the increase in fuel prices and compensating wage rises. The move in July thus appears to be a tacit acknowledgement by the bank that it had over-estimated the inflationary

pressures caused by the fuel-price hike. The bank remains concerned that high interest rates are hurting the private sector and we therefore expect a further prime-rate cut later this year. However, because fiscal performance is expected to deteriorate over the remainder of the year, such a move would raise doubts over the bank's seriousness about hitting its year-end inflation target of 22%. As inflation is expected to maintain a downward trend for most of 2004, the prime rate may be cut further. However, the prime rate is likely to be raised towards the end of the year as fiscal discipline slips ahead of the elections.

Economic forecast

International assumptions

International assumptions summary

(% unless otherwise indicated)

	2001	2002	2003	2004
Real GDP growth				
World	2.2	2.9	2.9	3.7
OECD	0.9	1.8	1.6	2.2
EU	1.5	1.0	0.7	1.8
Exchange rates				
¥:US\$	121.5	125.3	117.1	115.5
US\$:€	0.896	0.945	1.123	1.183
SDR:US\$	0.785	0.772	0.717	0.701
Financial indicators				
¥ 2-month private bill rate	0.17	0.10	0.07	0.10
US\$ 3-month commercial paper rate	3.61	1.70	1.01	1.33
Commodity prices				
Oil (Brent; US\$/b)	24.5	25.0	26.8	18.9
Cocoa (US cents/lb)	49.4	80.8	79.0	63.0
Gold (US\$/troy oz)	271.1	310.3	338.8	315.0
Food, feedstuffs & beverages (% change in US\$ terms)	-1.9	12.7	2.1	1.8
Industrial raw materials (% change in US\$ terms)	13.4	-9.8	5.5	10.8

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

The Economist Intelligence Unit expects the world economy to remain extremely sluggish until late 2003. The situation will then start to improve, but only gradually, as lower interest rates and fiscal stimulus revive growth in the US. Continued uncertainty over the US dollar and the strength of the global economic recovery have caused the gold price to rally this year and we are forecasting an average gold price of US\$338.8/troy oz in 2003. As the global economic recovery gathers pace, speculative demand for gold will fall and the gold price will ease to an average of US\$315/troy oz in 2004. Low global stocks of cocoa and uncertainty in Côte d'Ivoire, the world's largest producer, have pushed up prices this year and we are forecasting an average cocoa price of 79 US cents/lb in 2003. Bumper production in West Africa, Asia and Latin America will boost stocks, and, with greater stability expected in Côte d'Ivoire, we expect prices to fall to 63 US cents/lb in 2004.

Economic growth

Real GDP growth is expected to strengthen over the forecast period, owing to increased production of, and high international prices for, gold and cocoa. Cocoa production in crop year 2002/03 (October-September) is forecast to

increase to 450,000 tonnes from just over 300,000 tonnes in 2001/02, owing to favourable weather conditions, improved spraying against black-pod disease and higher producer prices. The performance of the cocoa sector will be aided by the political crisis in Côte d'Ivoire, which will keep world prices firm and reduce crossborder smuggling (producer prices are generally higher in Côte d'Ivoire). High, although falling, cocoa prices are likely to encourage production in 2003/04, although erratic weather has hit the early part of the growing season. High prices, combined with the government's plans to increase smallholder production of rice, cassava and other food staples will sustain strong growth rates in the agricultural sector. Gold production is expected to increase over the forecast period, as producers respond to expected changes in the regulatory regime which will offer more generous terms to mining companies. If the proposed merger between Ashanti Goldfields, Ghana's largest gold producer, and AngloGold of South Africa goes ahead this will also boost the mining sector through increased investment and synergies between the two companies.

Manufacturing will benefit from the government's plans to promote the domestic processing of cocoa and cassava. However, the near doubling of fuel prices in January will cause manufacturing growth to slow in 2003. Construction growth will be supported by the government's efforts to boost infrastructure spending as part of its poverty reduction strategy. Services revenue will benefit from an increase in trade owing to political tension in Côte d'Ivoire and from reforms in the financial sector, including the establishment of a variety of tax-efficient, long-term savings schemes to be mediated by local financial institutions. However, growth in government services will slow in 2003, as a result of improved fiscal discipline, leading to a slight slowdown in overall services growth. Government spending will increase ahead of the elections in 2004, boosting services growth, although the uncertainty generated by the elections will affect investor confidence. Real GDP growth is forecast to rise to 4.7% in 2003 and 4.8% in 2004, owing to the continued strong performance of cocoa and gold.

Inflation Year-on-year inflation slowed to 29.6% in June, from 29.8% in May, as the tightening of monetary policy has offset the effects of the fuel price rise and food prices have eased. Although the easing of monetary policy in July may have been premature, monetary policy remains relatively tight and, together with the government's tougher fiscal stance, this should cause inflation to decline modestly over the second half of the year, although we do not expect the central bank to achieve its year-end target of 22%. Instead, we are forecasting year-end inflation of 26.5% and average inflation of 27.7% in 2003. Once the rise in the fuel price has dropped out of the annual comparison in February 2004, inflation will fall back to around 14%—where it stood at the end of 2002. During the first half of 2004 relatively tight monetary and fiscal policy will allow inflation to ease. Inflation will pick up towards the end of 2004, as government spending increases ahead of the elections, and is forecast to average 13.9% for the year as a whole.

Exchange rates An increase in revenue from exports of gold and cocoa, tight liquidity conditions and a weakening of the US dollar have caused the cedi to depreciate by a modest 3.1% against the US dollar so far this year. The favourable prospects for exports will continue to provide some support for the currency over the forecast period. However, we expect the cedi to depreciate further, owing to high inflation, lack of confidence in the currency and because of the central bank's limited ability to intervene in the foreign-exchange market owing to low reserves. We are therefore forecasting that the exchange rate will fall to an average of C8,686:US\$1 in 2003 and C9,169:US\$1 in 2004. The cedi will remain vulnerable to any sudden deterioration in the terms of trade.

External sector After a strong performance in 2002, receipts from gold and cocoa, the two main sources of export revenue, are expected to remain high over the forecast period. Gold prices and production are both forecast to increase in 2003. Better weather conditions, improved disease control and reduced smuggling to Côte d'Ivoire will cause cocoa production to surge in 2003, more than offsetting a small decline in price. In 2004 cocoa prices and production are expected to fall from the previous year's exceptional level and, as gold prices are also forecast to fall, total exports are expected to be lower than in 2003. Nonetheless, a number of initiatives to boost production of cassava, textiles and palm oil should increase non-traditional exports, particularly in 2004. Ghana's strong performance will release more foreign exchange on to the local market, which will be used to satisfy the high demand for imports—shortages of foreign exchange contributed to the fall in imports in 2002. Therefore, the trade deficit is forecast to widen to US\$698m in 2003 and US\$1.03bn in 2004. Services debits will increase in line with the volume of imports, while services credits will pick up in 2003 because of the increased use of Ghana's ports owing to the unrest in Côte d'Ivoire, before falling in 2004 as the situation over the border stabilises. As the growth in services debits will outweigh the growth in credits, the services balance is forecast to worsen in 2003-04. The deficit on the income account will widen slightly as debt-service payments increase, despite debt relief under the heavily indebted poor countries (HIPC) initiative. Strong inflows of migrant remittances and donor support will ensure a healthy surplus on the current-transfers account. The overall current-account balance is forecast to deteriorate from a surplus of US\$30m (0.5% of GDP) in 2002 to a deficit of US\$15m (0.2% of GDP) in 2003, as imports and services debits increase, and US\$447m (5.9% of GDP) in 2004, as exports decline. This still represents an exceptionally strong performance for Ghana, owing to high gold and cocoa prices.

Forecast summary

(% unless otherwise indicated)

	2001 ^a	2002 ^a	2003 ^b	2004 ^b
Real GDP growth	4.2	4.5	4.7	4.8
Gross agricultural production growth	4.0	4.3	6.0	5.3
Consumer price inflation (av)	32.9	14.8	27.7	13.9
Consumer price inflation (year-end)	21.3	15.2	26.5	13.4
Short-term interbank rate	41.0	25.1	33.7	26.4
Government balance (% of GDP)	-7.3 ^c	-5.6 ^c	-3.6	-5.5

Exports of goods fob (US\$ bn)	1.9 ^c	2.1 ^c	2.5	2.3
Imports of goods fob (US\$ bn)	3.0 ^c	2.7 ^c	3.2	3.4
Current-account balance (US\$ bn)	-0.5 ^c	0.0 ^c	0.0	-0.4
Current-account balance (% of GDP)	-8.9 ^c	0.5 ^c	-0.2	-5.9
External debt (year-end; US\$ bn)	6.8	7.0 ^c	7.4	7.1
Exchange rate C:US\$ (av)	7,170.8	7,932.7	8,686.5	9,169.3
Exchange rate C:¥100 (av)	5,900.4	6,328.4	7,418.0	7,938.8
Exchange rate C:€ (year-end)	6,452.8	8,849.8	10,426.5	11,143.2
Exchange rate C:SDR (year-end)	9,201.7	11,472.7	12,633.8	13,591.3

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Economist Intelligence Unit estimates.

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