
The Global Financial Crisis - Implications for Ghana

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Introduction

- Until quite recently, Ghana had no doubt been enjoying a period of relatively strong economic performance over the past few years.
- The last 20 years have seen real GDP growing at a steady state of about 5 per cent per year.
- The periods after 2003 were particularly spectacular with GDP growth rates averaging about 5.9 per cent annually over the last five years, from 2003 to 2007.
- This is certainly an encouraging change from the previous decades when economic growth was either negative or stagnating.
- The impressive performance in recent years is principally attributable to relative macroeconomic stability, substantial inflows of external financing and debt relief and rising prices of primary commodities.

Introduction

- Looking ahead, the long-term growth prospects for the Ghanaian economy seem favorable although recent developments cloud the near-term growth prospects.
- Among these developments are widely held expectations of recessionary tendencies in the economies of Ghana's trading and investment partners.
- There is some degree of growing uncertainty as to how long Ghana can maintain a strong pace of economic growth in the face of sluggish demand in the major developed markets emanating from the rapidly evolving global financial crisis.
- The global financial crisis is already beginning to have a direct and indirect impact on the economy of Ghana. The short to medium term effects on the real sector have begun to be visible.

Actual and expected effects of the crisis

Four Concerns (Transmission channels)

- **The concern that exports will decline** due to slow growth or a possible recession in the US and some European countries.
 - Falling exports and the associated fall in government revenue and foreign exchange earnings will worsen government fiscal position and external balance.
 - The external sector has already been reported to be experiencing remarkable deterioration.
 - Therefore, Ghana's recent growth performance in the last decade is likely to be truncated beginning 2009/2010.

2. The concern that remittances will decline. There is strong concern about the impact of the crisis on remittances.

- In a country like Ghana, where remittances account for a large share of total household incomes and a very important source of foreign currency, there is concern that planned investments and social spending may be postponed or cancelled.
- slowdown of remittances will more likely hurt relatively unskilled migrants and recipient households.

3. The concern that foreign direct investment (FDI) will decline.

- In a country like Ghana, where FDI accounts for over a fifth of total investment, there is concern that planned investments may be postponed or cancelled.

4. The concern that aid will decline. Analysts anticipate a fall in aid receipts from donor countries as they reprioritise expenditure.

- A particular concern is that slower growth and recession in rich countries like the US will result in a slow down of overseas aid.
- Ghana is heavily dependent on aid flows. A significant reduction in these flows would compound the shocks from other pathways forcing the country to contract sharply.

Other Concerns

- ❑ **The concern that local investor confidence in equities and bonds on the Ghana Stock Exchange will weaken.**
- ❑ **The concern that financial institutions would return to ultraconservative lending practices.**
- ❑ **The concern that access to finance will be difficult:**
 - Lenders are becoming more risk averse
 - Credit squeeze on SMEs that generate jobs

Policy Responses

- Whether Ghana can avoid a crisis depends on the ability to use monetary and fiscal policy to avoid being pro-cyclical and cushion the effects of the crisis.
 - Monetary policy
 - ✓ Can Central Banks carry out a more flexible monetary policy without endangering their inflation targets.
 - Fiscal policy
 - ✓ Does the government have the capacity to undertake counter-cyclical fiscal policy without running into financial constraints and or the external constraints.
 - ✓ Does the government have the execution capacity.

Policy Responses

- Some attention may be paid to access to finance of SMEs and the poor. Interests of the poor should be represented in immediate macro stabilization programs.
- There are calls for the introduction and some expansion of social safety net spending.
- Domestic sources to boost economic growth
 - Sustain macroeconomic reforms to make the economy more resilient
 - Strengthen domestic resource mobilization to support domestic investment as external support weakens
 - Begin thinking now about appropriate macroeconomic responses
- Deepen integration to boost domestic market
 - (invest in infrastructure) economic and financial reforms

Methodology for identifying the shock

- The study team is still collecting data to enable an investigation of the following possible transmission mechanisms among others:
 - Trade openness and current account balance
 - Export products and destinations
 - Import products and sources
 - Exchange rate developments
 - Migration and remittances
 - External financial flows; FDI, official Aid
 - External debt
 - The **stock price index**
 - Growth performance and growth outlook

Methodology for identifying the shock

- Other areas being looked at include:
 - The financial sector. Has the sector been insulated thanks to the non-dependence on foreign lines of credit, very low loan-to-deposit ratio and a small total mortgage exposure?
- The methodological approach:
 - We use both the “before/after” approach and some modeling to be able to define the country-specific shock.

END OF PRESENTATION

THANK YOU