The Global Economic Downturn: Challenges for Ghana

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The G7 Finance Ministers have expressed their concerns on the global economic downturn. The US is slipping into recessionary territory, the EU and Japan remain tepid, and China and India are also projecting lower growth. The extremely favorable global economic environment that Ghana, and other developing countries, have enjoyed over the last six years is turning around, and greater risks face us. In this article, three questions are addressed: (1)What challenges does the end of the "Goldilocks" global era pose for Ghana? (2) How might these challenges begin to be addressed in an election year? (3) What is the single most important implied action that the new President will have to deal with early in 2009?

1. The Challenges

For Ghana, the global downturn comes at a difficult time: fiscal deficits have risen in 2006/7, breaking a downward trend since 2000; the benefits of the debt reduction schemes have all been fully absorbed; oil prices are not falling significantly as economies slow down; additional external bond issues are likely to be difficult as global credit markets shrink; and we are in an election year, and the scope for economic reforms tends to be limited in such periods. On the other hand, Ghana's success in finding oil, though limited at up to 1.3 billion barrels or 4 years of Nigeria's exports, provides a possible instrument to shore up Ghana's hopes to reach middle income status and double per capita income by 2015.

The immediate challenges of the downturn are the risks it poses for Ghana's growth. In particular, export demand and prices, tax revenues, import prices, foreign investments, access to external resources and possibly remittances are all at risk. The historical peaks for the prices of cocoa, timber, minerals are likely to taper off or decline, especially given the lower growth expected in China and India. There is likely to be little respite in oil prices, given the security and refinery capacity factors that also underlie its high prices. The global investment climate has suffered a set back given the credit crunch and the uncertainty of demand. Access to external borrowing such as through the recent bond issue will be greatly diminished. And remittances may also be affected as Ghanaians abroad face difficult times. **In short, the growth rates of 6% we have had over the last few years will, unless other factors come into play, decline, perhaps by 1% and possibly by as much as 2%. The goal of keeping inflation below 10% will be threatened as these difficult conditions interact with an underlying fiscal deficit in the 2 to 4% range (after allowing for the recent energy price pass through). Sustained high growth and low inflation are essential if Ghanaians are to sense that their lives are improving.**

2. Policy Options in an Election Year

The need to design policy responses to the global downturn is complicated by the electoral timetable. Political business cycles, with expenditure levels rising and reform efforts slacking in election years are now acknowledged by politicians and analysts, including the international organizations. All concerned have learnt that the challenge is to manage this cycle to minimize its negative economic fallout, rather than to pretend that it can be completely avoided. In Ghana's case, the political business cycle comes on top of an already tepid economic reform effort over the last few years. While macroeconomic performance has been strong until 2005, growth has picked up in 2005-7, and the investment climate and governance dimensions of reform have been strong, micro economic reforms in sectors such as energy, water and other infrastructure, have been particularly slow. The benign international environment, oil prices notwithstanding, has helped prop up Ghana's growth rate as much as reforms have. **With both now at risk, Ghana needs both an election year economic strategy, and more importantly, the new President needs a bold economic strategy for implementation immediately in early 2009**.

Three policy areas deserve utmost attention this year. First, fiscal pressures must be managed with discipline, which means that likely revenue shortfalls must not be allowed to raise the fiscal deficit. This is essential for protecting the gains made in reducing inflation. The big risk in an election year is a wage and salary increase that is out of line with underlying fiscal and economic fundamentals.. This will be difficult to manage, but there is no choice. A public debate on the global downturn and the risks it poses for Ghana will be essential. Its external source, is in a sense, an easy out for today's politicians. Second, on the public investment program, the emphasis has to be on completing projects that will increase productivity this year or as soon as possible.. The temptation, in an election year, to initiate new projects across the country is especially ill advised given the risks of a downturn. Productivity growth is what ultimately makes an economy grow. In Ghana's case today, productivity is particularly hindered by poor infrastructure. Every effort must be made to complete infrastructure projects that are nearing completion, and to give priority to maintenance where this is holding back effective operation. This is particularly true for transportation, including rural roads. Further, no effort must be spared to take decisions relating to the infrastructural sectors that will facilitate private activity currently held up by government procedures. This is especially the case for the energy and water sectors. The water sector is the next sector at greatest risk, and again, decisions that are holding back reforms in water need immediate attention. Third, the Government's focus on improving the investment climate and the costs of doing business has been admirable. Even so, Ghana's investment climate remains inferior to that of many comparable countries. This focus must be sharpened, to offset the higher costs that the downturn will have on exporters and on services. Ghana's benchmark here should be countries like Chile, Singapore etc. and not just other African countries.

(3) The Implied Challenge for the next President

There is a large unfinished economic agenda for the next President. The Presidential debates and rallies will hopefully bring to the fore how each of the aspirants plans to approach this agenda. It is almost certain that the benign international economic environment of the last 6 years will be behind us, and the scope for muddling along or muddling through will be limited. In all scenarios, one fundamental issue will need special focus by the new President: **the use of Ghana's oil wealth, and the management of the economic and political challenges this opportunity brings along**.

It would be ideal indeed if all presidential candidates committed themselves to a Code of Conduct surrounding the use of Ghana's potential oil resources. The code would emphasize three principles.

First, full transparency on all oil contracts, all revenues received and all expenditures made from oil revenues. This means publishing this data on websites, in the media and in all local languages. It means every ministry's, region's and district's share of these resources will be published. It means that any citizen wanting this information has full access to it. It also means that every citizen has access to the analysis that preceded the decision to spend on every public project, and data on how much is being spent on each public project.

Second, passage of the Law of Fiscal Responsibility, referred to in the 2008 Budget statement, becomes essential. This Law binds every government to being fiscally responsible, a problem that needs special attention especially in oil exporting countries. This should be complemented by a Law of Fiscal Crimes, which would make it a criminal offence for the Law of Fiscal Responsibility to be broken. Brazil, for example, has both laws, and the latter has been used to prosecute government officials and politicians who have been fiscally irresponsible. These laws would have to be carefully crafted so as to define fiscal irresponsibility with some degree of precision, so that they do not lead to a paralysis of public decision making.

Third, it is essential that a Resource Stabilization Fund be established even before oil revenues begin to be collected, to capture funds when prices are higher than some predetermined average, and to draw down from in times of lower prices. There is much experience from countries such as Botswana (for diamonds), Norway, Chile, and more recently even Nigeria, to draw from in designing Ghana's own fund.

Conclusion

The global economy is fast losing its momentum. The emerging economies, including China and India, are also affected. The outlook for Ghana's economy, as indeed for all developing economies, is for lower growth, with downside risks on lower revenues, higher inflation, lower exports, lower access to global finance and remittances. This requires strong economic management this year. It also requires adherence to a Code of Conduct by the next administration on the management of Ghana's oil resources. The presidential debates must seek to get all presidential aspirants to sign to such a common

Code of Conduct on the use of Ghana's oil resources. There are many examples of oil economies that have been left poorer, with weaker governance institutions and higher inequality by the discovery of oil. The next President, with complementary roles by civil society, the media, Parliament and other institutions for the protection of public resources, will need to rise up to the challenge, and render oil a blessing, not a curse, for Ghana. Our children and grandchildren will expect nothing less from us.