

## IT'S THE ECONOMY, MR. PRESIDENT!

(Dr. Gobind Nankani)

The election is over. Ghanaians have spoken, and our institutions have withstood the strains and stresses of the last week. Congratulations to you, Mr. President! You have captured the wave of the moment, and the people of Ghana have entrusted you to lead our Government for the next four years. You have to repair the social and moral fabric of our society, after the tribulations of the run-off. You have to inspire Ghanaians with your vision of our future. And you have to turn your immediate attention to our biggest challenge. It's the economy, Mr. President!

You are taking over the reins of Government at a time when the global economy is slipping into the Great Recession, worse than anything since the Great Depression. Ghana's economy has begun to show some of the effects of this Recession, but worse is to come for the rest of the world and for Ghana. 2009 promises more pain than 2008. The impact on Ghana's export earnings, remittances, investment flows, access to international capital and even aid flows, are all projected to be negative, after 6% growth over the 2001-07 period.

Ghanaians have voted for change. At the root of Ghanaians' concerns is one dream: that their leadership will provide the basis for a sustainable improvement in their lives and in their sense of overall wellbeing. The foundation for this will need to come from shared and sustainable growth. Three economic challenges stand in the way of this dream, as you take office, and need to be addressed:

**First, the paradox of "joyless growth"**. Like the rest of the world, between 2002 and 2007, Ghana has had her highest level of growth in 40 years. The numbers indicate that poverty has been reduced. Yet people feel dissatisfied with their economic situation. This has to do perhaps with high expectations, with a perception of growing inequality, and the sense that there needs to be greater transparency and accountability in public life. Incomes must be earned through efforts and merit and not through access to decision-makers. ***Your first challenge, Mr. President, is to harness the nation's economic institutions so that the right policies are chosen and then implemented effectively. This would help people believe that there is fairness, transparency and accountability. This will help foster the belief that there are no special deals for any groups.*** As Nobel Laureate Amartya Sen has argued: "development can be seen as a process of expanding the real freedoms that people enjoy...but freedoms depend also on...social and economic arrangements as well as political and civil rights." Patronage-driven decisions must be seen to give way to decisions based on institutions and agreed processes. ***Ghanaians are looking for shared and sustainable growth based on strong institutions. Special attention is needed on small scale agriculture (including land, rural infrastructure and extension) and on the small scale private sector to impart a pro-poor growth bias.***

**Second, the dire macroeconomic situation.** Our macroeconomic situation is worse than it was in 2000. This is best captured by reviewing the fiscal and balance of payments situation.

The size of the fiscal deficit, which is a measure of the excess of Government spending over resources is higher for 2008 than it was in 2000: it was 10% of GDP in 2000, fell to 3% in 2005 and rose again to 10% in 2007. It will be at around 12-14% as you take office! Some of the parallels between the 1992-2000 period and the 2001-2008 period are striking. In both periods, the international economy boomed initially (1994-1998, 2002-2007), and then tanked (1999-2000 and 2008). Global conditions were far more favorable in 2002-7. In addition, the HIPC debt deal and the low cost of Ghana's sovereign bonds abroad were supplementary bonuses. Like many other countries, Ghana spent all of these additional resources and more, not saving adequately for the unavoidable crisis. Expenditure levels set in 2008 are not sustainable, since they were financed in part by drawing down on the proceeds of the sovereign bond, by the sale of GT, and other once-off sources of "revenues". If not immediately addressed, the fiscal deficit threatens to increase the national debt to unsustainable levels. From the current level of about 55%, the debt to GDP ratio could rise to three digit levels, with serious consequences for inflation, which hits poor people the most. The foreign exchange reserve situation and the balance of payments are also under severe stress. Ghana's creditworthiness has deteriorated severely in the last few months with the implied borrowing rate having risen from 8.5% in late 2007, when the Ghana Bonds were issued, to over 20% currently. Policies are needed that will reassure external partners and lenders that Ghana's medium term creditworthiness is sound. ***The second challenge is to implement credible fiscal policies, with a human face. This has to be within a framework of reforms that will both promote shared and sustainable growth and re-establish Ghana's creditworthiness and external credibility. These measures will help put Ghana back on a path of progress towards the longer term goal of East Asian-like growth. After the "joyless growth" of the last few years, the human face will need to reach poor Ghanaians everywhere, and especially in the rural areas and the northern savannah.***

**Third, the absence of a clear socio-economic vision.** Ghanaians need to be working towards a vision in which their living standards as well as their "capabilities" are improving. This implies growing productivity and jobs; it implies greater equity; it implies credible institutions; and it implies policies in place that will help manage the ups and downs of the global economy, rather than having them translate directly into stop-go policies at home. This mega-challenge is a long term job for our leadership. As another Nobel Laureate Mike Spence, Chairperson of the Growth Commission, has recently written: leadership is central to sustained growth because it entails a long-term commitment, and a bargain between the present and future generations. Leadership must be trusted, must be patient and must work with long time horizons. ***The third challenge, Mr. President, is to use your leadership to rally the entire nation, in an inclusive way, to begin to build the bridge between our current situation and our vision of shared and sustainable growth.***

These three challenges—strengthening economic institutions to overcome joyless growth; adopting a credible, pro-social and pro-growth fiscal package; and providing the leadership to unify Ghanaians towards our vision of shared and sustainable growth — now confront you and your team, Mr. President. You face an Obama-like challenge in our context. You have been given the mandate with which you can mobilize Ghanaians, and put together the right national team to address these. Ghanaians will be ready to serve this agenda. Your assets include your

unquestioned integrity, inclusiveness and humility. These permit you to call on the nation for the commitments and sacrifices that we need to make now. You can confidently work to put Ghana above partisan politics. You can strive to lead Ghana to fulfill her dream of improving the lives and the sense of well-being of *all* Ghanaians, and of being an example for all of Africa.