Ghana Trade Brief

Trade Policy

As a member of the Economic Community of West African States (ECOWAS), Ghana adopted the group's Common External Tariff (CET) in 2008. The country's current MFN Tariff Trade Restrictiveness Index (TTRI)[1] of 9.0 percent is below both the Sub-Saharan Africa (SSA) and low-income country group averages of 11.3 percent and 11.6 percent, respectively, reflecting a relatively more open trade regime. It ranks 89th of 125 countries (where 1st is least restrictive). The agricultural sector, in particular the cocoa sector, is the driving sector of Ghana's economy, and as such, agricultural products are given a high level of tariff protection at 14.8 percent compared to the tariff protection of 8.1 percent for the non-agricultural sector, with cocoa and cocoa products being subject to the country's maximum MFN tariff. With the adoption of the ECOWAS CET, this maximum MFN applied tariff (excluding alcohol and tobacco) was 20 percent, whereas in the mid-2000s it was well over 200 percent. However, the ECOWAS CET was revised in June 2009 to include a fifth band of 35 percent, primarily at the behest of Nigeria. Ghana's average MFN applied tariff has also remained stable over the past couple of years at 13 percent. The country's trade policy space, as measured by the wedge between bound and applied tariffs (the overhang), is 76.3 percent. Regarding its commitment to services trade liberalization, Ghana ranks 84th out of 148 countries on the GATS Commitments Index.

Import duties on rice, wheat, yellow corn, and vegetable oil were suspended in 2008 when global food prices were rising but these duties have now been reinstated.

Unless otherwise indicated, all data are as of August 2009 and are drawn from the World Trade Indicators 2009/10 Database. The database, Country Trade Briefs and Trade-at-a-Glance Tables, are available at http://www.worldbank.org/wti.

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External Environment

As judged by its Market Access TTRI[2] including preferences of 3.1 percent, Ghana's exports face a relatively favorable trading environment, compared to the averages of 3.9 percent for SSA and 5.6 percent for low-income countries. Also reflecting its favorable market access, the weighted average rest of the world tariff, including preferences, faced by the country's exports is low at 0.5 percent, with agricultural and non-agricultural exports facing similar tariff barriers (0.6 percent and 0.4 percent, respectively). A large current-account deficit due to high prices of fuel imports and demand for capital imports caused the Ghanaian cedi, which was redenominated in 2007 (one new Ghanaian cedi is equivalent to 10,000 old Ghanaian cedis) to lose value in 2008. The depreciation of the cedi also resulted from a large contraction of the financial account surplus which suffered from the sudden closure of access to financial markets and some liquidation of foreign investors' assets. The cedi depreciated by 2.5 percent in real, trade-weighted terms in 2008, making the country's exports more competitive.

Ghana initialed an interim Economic Partnership Agreement (EPA) with the EU at the end of 2007 which extended its preferences to the EU market under the Cotonou Agreement, which were due to expire in December 2007, but has not yet signed the agreement. Together with the other members of the ECOWAS, the country is currently in negotiations to sign a comprehensive EPA with the EU.

Behind the Border Constraints

Ghana's position on the Ease of Doing Business Index, which ranks the business environment of 183 countries, dropped slightly to 92nd in 2009 from 87th in 2008. Reflecting significant improvements in its business environment, Ghana earned a position on the top 10 reformers list for the 2007 Ease of Doing Business Index when it improved its ranking from 109th out of 178 countries in 2006 to 82nd out of 181 countries in 2007. With respect to the extent of trade facilitation in the country, Ghana does not fare well, with a score of 2.16 out of 5 on the Logistics Performance Index (LPI), lagging behind the SSA

(2.35) and low-income country (2.29) averages. Among the LPI subcategories, the country is doing well in ensuring the timeliness of shipments in reaching their destination but it needs to significantly improve the competence of the local logistics industry.

Trade finance would be boosted by recently established requirements that commercial banks raise their capital reserves from 7 million cedis to 60 million cedis (by 2010 for foreign banks and by 2012 for local banks) to reduce banking sector risks and encourage mergers. Trade finance would also be helped by the successful completion of the (ongoing since 2005) merger of Eximguaranty Company Ghana Limited (which provides guarantees and insurance) and Export Finance Company Limited (which provides trade credits) to create a one-stop shop for trade finance, with a special focus on small and medium enterprises (SMEs).

Trade Outcomes

Despite the global recession, Ghana managed to register robust real (in constant 2000 U.S. dollars) trade growth of 7.4 percent in 2008, only marginally lower than the average real growth rate of 7.9 percent over the 2005–07 period, although growth is expected to slow down to 0.3 percent in 2009 as the country begins to feel the effects of the recession. The growth in trade in 2008 was primarily driven by imports which maintained their 8.9 percent growth rate, while export growth decelerated from 7.4 percent during 2005–07 to 4.7 percent in 2008. Export growth is projected to continue to decelerate in 2009 to 3.2 percent, while imports are expected to fall by 1.3 percent, hurt by the global economic downturn which is likely to reduce foreign investment and hence demand for capital imports.

In nominal terms, trade growth of goods and services remained stable at an estimated rate of 23.2 percent in 2008, driven by strong performance in both exports and imports which both maintained stable growth rates of 23.8 percent and 22.9 percent, respectively. The country's trade value, which has consistently been over 100 percent of GDP in the past few years, was 142 percent of GDP in 2008. Goods exports increased by an estimated 29.8 percent in 2008, compared to 12 percent in 2007, primarily as a result of the increase in the production of gold and cocoa, the country's dominant exports. Gold production was boosted by continued investment in the industry due to the favorable price of gold on the world market, while cocoa production was driven up by an increase in the domestic producer price paid by the government.[3] Goods exports growth is however expected to decline sharply to 2.1 percent in 2009, and in the first half of 2009 recorded a growth of 5.6 percent. Although tourism was boosted by several major sporting and cultural events in the country, including the African Cup of Nations football tournament, services exports growth is estimated to have slowed down from 31.2 percent in 2007 to 6.5 percent in 2008, and this downward trend is expected to continue in 2009 with a projected growth rate of 3.7 percent. However, imports of goods recorded a steep decline in the first half of 2009 contracting by 19.4 percent.

An emerging market, FDI flows into Ghana have been increasing over the past few years, rising from an average of 1.8 percent of exports during 2000–05 to 6.5 percent of GDP in 2007, although these flows are expected to decrease due to the tightening of global credit. Following the recent discovery of oil reserves, the country is also expected to start exporting oil in late 2010 or 2011.

Notes

1. TTRI calculates the equivalent uniform tariff that would keep domestic welfare constant. It is weighted by import shares and import demand elasticity.
2. MA-TTRI calculates the equivalent uniform tariff of trading partners that would keep their level of imports constant. It is weighted by import values and import demand elasticities of trading partners.
3. African Economic Outlook, 2009.

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