

Trade Policy Review Body

TRADE POLICY REVIEW

GHANA

Report by the Secretariat

This report, prepared for the second Trade Policy Review of Ghana, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from the Government of Ghana on its trade policies and practices.

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SUMMARY OBSERVATIONS

1. Since the early 1990's, the Republic of Ghana has sought extensive reforms, in an effort to reverse previous inward-looking policies. Trade and investment liberalization has been integral to reform, and has continued since Ghana's previous review in 1992. Government policies are now focused on making Ghana the Gateway to West Africa.

2. Ghana achieved real annual growth rates exceeding 4% during the 1990s. However, macroeconomic imbalances have again precipitated an economic crisis. This threatens economic growth and could endanger the continuation of trade and other structural reforms. Evidence of this danger is reflected in some backsliding on tariff reductions and slowed privatization.

(1) ECONOMIC ENVIRONMENT

3. The economy shows large budget deficits, the core of Ghana's present economic difficulties. Fiscal deficits re-escalated sharply during the mid 1990s to 10% of GDP. Funded mainly by central bank borrowings, these have severely strained public finances and the banking sector.

4. Excessive money supply growth fuelled inflation, which peaked at 60% in 1995, and exacerbated rising real interest rates. Business investment fell, and private sector growth, "crowded out" by the public sector, stagnated. Ghana's international competitiveness declined due to real appreciation of its currency (cedi), propped up by sizeable Central Bank intervention until late 1999. The cedi has since depreciated nominally against the U.S. dollar by some 100%.

5. The economy's fragility and vulnerability was exposed by recent external shocks, culminating in a critical balance-of-payments position. Sharply deteriorating terms of trade, reflecting falling world prices for Ghana's main exports - cocoa and gold - and rising oil prices, as well as

Central Bank intervention, drained foreign reserves to tenuous levels. Economic difficulties seem to have been compounded by problems of governance and weak institutions.

6. Faced with the looming economic crisis, the Government began implementing corrective measures in 1998. An annual monetary growth target of 18% was introduced to control inflation, which fell to 12% in 1999. Fiscal measures taken to reign in the deficit included the re-introduction of a broad-based 10% value-added tax, increased to 12.5% in 2000. Tighter spending controls were also applied. The budget deficit fell to 6% in 1999.

7. However, measures came too late to avert the economic crisis. The Government's economic outlook was revised downwards in the 2000 Budget. Large budget deficits are set to continue, and the target for achieving fiscal balance has been shifted beyond 2001. These deficits will strain the financial system, generating resurgent pressures on inflation, interest rates, and the external balance.

8. Ghana remains a highly indebted developing country (with a GDP per capita of US\$390 in 1998), heavily dependent on external concessional financing. External debt is equivalent to over 75% of GDP, but Ghana has serviced its debt, largely without rescheduling.

(2) TRADE AND FOREIGN DIRECT INVESTMENT

9. Trade and foreign direct investment (FDI) are essential to Ghana's economic development. Merchandise exports and imports as a share of GDP have expanded substantially, from 18% and 29% in 1993 to 28% and 39%, respectively, in 1998.

10. Trade is relatively concentrated, both in commodities and markets. Primary products, overwhelmingly gold and cocoa, account for most exports. Non-traditional exports, including, processed food, timber, and aluminium products, account for 20% of

exports, up from 3% in 1986. However, export diversification has slowed. Most manufactured products, along with machinery and other inputs, are imported. Ghana's main trading partner remains the European Union (EU), accounting for almost half of total exports – partly due to trade preferences – and imports. Within the EU, Italy has overtaken the United Kingdom and Germany as the main export market. Italy, the United Kingdom, and France are the main European source of imports.

11. Ghana's regional trade with members of the Economic Community of Western African States (ECOWAS) accounted for 17% of exports in 1999, up from 13% in 1994. Togo matched Italy as Ghana's main single export destination in 1999. The share of African imports also rose, from 23% in 1994 to 27% in 1999. Nigeria, the main regional source, lost ground, its share falling over this period from 17% to 14%.

12. Ghana is a net importer of services, especially of "freight and merchandise insurance". Travel exports increased substantially during the 1990s, and is currently by far Ghana's largest service export, accounting for 60% of the sector's exports in 1998.

13. Over half of Ghana's inward FDI is in services. Despite a more liberal investment regime, with new legislation aimed at extending national treatment to overseas investors, FDI remains erratic. Registered FDI from 1994-98 totalled US\$1.5 billion, mainly from the United Kingdom, China, United States, and Germany. Policy and economic uncertainties in Ghana have reduced investor confidence.

14. In the Government's view meeting its multilateral commitments is integral to Ghana's ongoing reforms. Its agricultural tariffs are fully bound, and steps are being taken to implement WTO-consistent policies on customs valuation and intellectual property protection. Ghana looks to bilateral and

multilateral donors for technical assistance and support in meeting these commitments.

(3) INSTITUTIONAL AND LEGISLATIVE FRAMEWORK

15. Ghana returned to parliamentary democracy in 1992. The new Constitution vests executive power with the President and legislative authority with the unicameral Parliament. The President is Head of State. As leader of the Government, he also appoints cabinet ministers.

16. The main ministries involved in setting and implementing trade-related policies are Trade and Industry, Finance, and Agriculture. Several agencies are also responsible for certain subsectors, such as cocoa, minerals, timber, fishing, and tourism. The Divestiture Implementation Committee handles privatization of state-owned enterprises. The Bank of Ghana, as Central Bank, manages monetary and exchange rate policies, determined in consultation with the Government.

17. The Government promotes public dialogue through periodic forums, such as the National Economic Forum and the Policy Forum Dialogue on Partnership for Economic Growth, both held in 1997. A public forum on Ghana's competitiveness is planned, based on a policy agenda set under the Trade and Investment Reform Programme (TIRP) overseen by the Inter-Ministerial Committee on Competitiveness. This will examine the adverse impact on Ghana's competitiveness of remaining trade barriers, including tariffs.

18. The Government's long-term economic development plan is for Ghana to become a middle-income country by 2020 – Ghana's Vision 2020. This is to be met via a series of five-year rolling medium-term plans aimed at achieving minimum real annual growth of 8%, based largely on exports. The current plan terminated at end 2000.

19. The Government's industrial development strategy is to remove bottlenecks

to private-sector development. Tariffs are to be structured to afford reasonable protection, including reduced duties on capital goods; the effectiveness of the duty drawback scheme is to be improved. Subsidized loans are viewed as desirable for viable industries. The strategy also stresses the need to establish fiscal and monetary controls, together with central bank independence and inflation targeting, as well as achieving a realistic market exchange rate.

(4) TRADE POLICY FEATURES AND TRENDS

20. Ghana, a founding member of the WTO, accords at least MFN treatment to all its trading partners. Around 15% of its tariff lines are bound, mostly in agriculture. Its GATS Schedule covers commitments on certain services, including tourism, maritime transport, construction, and education. Ghana also participates in the agreements on Basic Telecommunications and Financial Services. It is an observer to the Plurilateral Agreement on Trade in Civil Aircraft, and is neither a signatory, nor an observer, to the Agreement on Government Procurement.

21. Ghana is also committed to regional integration, and wishes to accelerate such initiatives. It grants tariff preferences on many products to other members of the Economic Community of West African States (ECOWAS), subject to rules of origin. Ghana eliminated tariffs on most trade with ECOWAS members by 1996, under the Community's Trade Liberalization Scheme. A customs union and common market among ECOWAS members are also planned. As a member of the Organization of African Unity, Ghana remains committed to the formation of the African Economic Community, including the creation of a pan-African economic and monetary union.

22. As a signatory to the ACP-EC Partnership Agreement (the successor to the Lomé Convention), Ghana receives non-reciprocal tariff and other preferences from the EU on many goods, as well as substantial financial assistance.

23. Ghana has bilateral arrangements with several trading partners, such as Malaysia, the Czech Republic, and Côte d'Ivoire, and is negotiating more, including with Romania, Greece, Burkina Faso, Zimbabwe, and Libya. Old bilateral agreements involving countertrade with former European centrally planned economies have been disbanded. Ghana receives GSP treatment from industrialized economies, and participates in the GSTP among developing countries. It is also eligible for enhanced access to the U.S. market until September 2008, under the U.S. African Growth and Opportunity Act of 2000, subject to Ghana meeting specified criteria, such as protecting workers' rights.

(i) Type and incidence of instruments

24. The tariff remains Ghana's main trade policy instrument. The simple average tariff had fallen from 17% in 1992 to 13% on January 2000, when the highest duty rate, levied on consumer goods, was reduced from 25% to 20%. However, the average tariff rose to its current level of 14.7% in February 2000 when a "special import tax" of 20% was re-introduced, covering some 7% of tariff lines. This raised tariffs on many, mostly consumer goods to 40%, well above their previous rate of 25%. This contradicts the Government's policy objective of lowering average tariffs to below 10% within the next three years.

25. Although "temporary", no time limits were specified for the removal of the import tax. Doing so would improve Ghana's tariff structure by reducing average duty levels and narrowing relatively wide disparities across rates; the standard deviation of tariffs is currently 12%.

26. Special import taxes have been a common feature of Ghana's tariff. The previous such duty of 17.5% had only been abolished in March 1999. The authorities are of the view that such taxes protect domestic industries from what they consider "unfair trading practices" by foreign traders.

27. Ghana's tariff structure, with rates of free, 5%, 10%, 20% and now 40% (with the special import tax), has "built-in" tariff escalation within certain manufacturing groups, especially textiles, leather, chemicals, basic metals, food, beverages, and tobacco. Lower, more uniform duties could improve the tariff structure.

28. All tariff duties are *ad valorem*, thus aiding transparency. But the widespread use of discretionary exemptions, often administered under poorly specified authority, is non-transparent and risks providing "tailor made" protection to some industries. Tariff concessions also apply to specific importers, such as the Volta Aluminium Company, and on inputs into nominated end-uses imported by approved manufacturers. These include the making of agricultural implements and machinery, fishing nets, pharmaceuticals, plastic pipes and bicycles. Their rationale and administration appear unclear. A duty drawback system operates inefficiently; refunds are slow. The Government is rationalizing such exemptions, including the common use of bonded warehouses, which may be contributing to duty evasion.

29. From April 2000, Ghana replaced mandatory pre-shipment inspection with destination inspection, performed by two private contractors. Documentation requirements were also simplified and more targeted inspections introduced to facilitate imports. The use of transaction value for customs valuation purposes was implemented from February 2000, except for second-hand motor vehicles, and minimum import prices were terminated, according to authorities. Price verification and risk-assessment procedures are aimed at preventing duty evasion from under-invoicing. Import clearance delays of up to seven days appear to occur. A 1% inspection fee on imports, and an ECOWAS customs levy of 0.5% apply.

30. Ghana applies few formal non-tariff trade barriers. Imported motor vehicles older than ten years – previously subject to penalty tariffs – were banned in 2000. Certain import

prohibitions and controls apply for environmental, health, public safety, and security reasons, and under international conventions.

31. Ghana applies no trade embargoes, nor any local-content requirements for domestic production. Mandatory standards, set by the Ghana Standards Board, mainly in line with international norms, do not discriminate against imports. The Government intends to move to voluntary standards. Test results from foreign countries are usually accepted. Quarantine requirements apply, but do not generally appear to be a major constraint on imports.

32. Ghana has no legislation on contingency protection measures, such as anti-dumping, countervailing, and safeguards. However, the special import tax appears to be used for these purposes. The Ministry of Trade and Industry monitors world markets and the impact of imports on domestic firms so that compensatory measures can be taken.

33. Government procurement is increasingly being decentralized away from the Ghana Supply Commission. Ministries and state-owned entities procure many goods directly, largely using non-transparent procedures. Government directives favour public procurement of "made in Ghana" goods. Domestic suppliers also receive a formal 12.5% price preference (since August 1999).

34. Export taxes are levied on cocoa and certain air-dried sawn timber. Gold and diamonds from small-scale mining are exported mainly by the Precious Minerals Marketing Corporation. Exports of logs were suspended in 1995, aimed mainly at promoting timber processing. Raw rattan and bamboo exports are also prohibited.

35. Ghana has no export quotas or voluntary export restraints, and no export subsidies *per se*. However, income tax concessions assist exporters of non-traditional products, who pay a company tax rate of 8%

instead of 35%. Exporters of traditional products are also eligible for company income tax rebates tied to their export share: the maximum rebate of 75% – for companies exporting at least 25% of their production – also lowers their income tax rate to 8%. More generous income tax incentives, including an additional ten-year tax holiday, now apply to designated free-zone enterprises, which must export at least 70% of production. Benefiting firms can be located outside the free zones. Substantial leakage of domestic sales above the 30% permitted share appear to be arbitrarily undermining tariff protection to domestic industries, and facilitating tax evasion.

36. Ghana has no production subsidies. Certain, mainly agricultural, activities are assisted by tax concessions, including on investment. Cocoa income is exempt from tax, and tax holidays of five years apply to most farm and fishing income, and of ten years for tree crops. Hotel income is taxed at a concessionary rate of 25%, and hotels receive duty concessions on certain imported inputs.

37. FDI, outside mining, fishing and forestry, is no longer screened, but monitored by the Ghana Investment Promotion Centre, formed in 1994. Only a few activities, including petty trading and taxi services, are reserved for Ghanaians. Joint ventures are optional. Foreign investors must have minimum capital levels of US\$10,000 for joint ventures and US\$50,000 for wholly foreign-owned enterprises, unless engaged solely in exporting Ghanaian goods. Foreign trading companies must have capital of US\$300,000, and employ at least ten Ghanaians. No performance requirements per se exist.

(ii) Sectoral policies

38. Ghana is heavily dependent on agriculture, especially cocoa, and on natural resources, notably minerals. Primary production accounts for almost half of GDP; agriculture, at 40%, is the most important

sector. Manufacturing contributes some 10% of GDP.

39. Cocoa production, a mainstay of the economy, is marketed by the statutory board, COCOBOD. Cocoa marketing is being further liberalized under the Government's efforts to revitalize the industry. The Government's cocoa strategy, adopted in April 1999, is to progressively increase the growers' price to at least 70% of the world price by 2004-05, by reducing taxation and further improving COCOBOD's efficiency. Its "single desk" export monopoly is to be partially relaxed, with quotas introduced for private sellers, and domestic sales further deregulated.

40. Exports of logs are suspended and exports of certain sawn timber are taxed to promote value-added activities and conserve forests. Logging rates exceed sustainable levels, accentuated by substantial illegal felling. Forest policies are being strengthened to promote sustainable management, including higher stumpage fees and enhanced monitoring of logging operators.

41. Offshore fishing licences are granted only to fully domestic-owned boats using mainly Ghanaian crew, except for tuna vessels where minimum domestic ownership of 25% is required. Licensed foreign vessels must also sell at least 10% of their catch to domestic processors, and transship all fish through Ghanaian ports. The fish import ban was terminated in 1997.

42. Large-scale mining is open to foreign participation. Joint ventures are not required, but the Government receives a 10% equity and can buy another 20% equity at "fair market prices". Royalty rates and foreign currency retention allowances are negotiated on a mine-by-mine basis. Mining companies receive generous capital and other tax allowances, but pay an "additional profits tax" of 25% for earnings above a negotiated threshold rate of return, currently set at 17.5%. Small-scale gold and diamond mining is reserved for Ghanaians.

43. *Deregulation of the petroleum subsector has included the termination, in 1996, of the oil import monopoly and the exclusive supply of locally refined products to oil marketing companies by the state-owned Ghana National Petroleum Corporation (GNPC). In 1998, prices were changed from "cost plus" to "import parity". The sector remains dominated by state-owned enterprises. Privatization of Ghana Oil Company, the largest oil marketer, and of the Tema Oil Refinery have been delayed, and the GNPC is no longer a priority for privatization.*

44. *Past policies promoted import substitution through widespread direct government participation, including State ownership. The Government has divested some of these interests, and intends to sell off more as part of its re-invigorated privatization programme. Outstanding divestments are, however, increasingly involving sensitive activities, and several proposals, such as on petroleum, have stalled since 1997. The Government's revised accelerated timetable covers mainly divestiture in the transport, energy, and banking sectors, including the State Insurance Company and the Ghana Electricity Company, by end-2003.*

45. *Services are the second largest component of GDP. Many basic infrastructure services, such as electricity, ports, and water, are provided by state-owned statutory monopolies. Basic telecommunication services are supplied by a statutory duopoly following licensing of a second national carrier in 1997. These arrangements have had only limited success in promoting telecommunication services: neither carrier has met its network expansion or service quality target. The Government will consider allowing additional carriers from March 2002. The market for value-added telecom services is open. The National Communications Authority was formed in 1997 as the independent legislative regulator to promote fair competition and enhanced efficiency.*

46. *Electricity, a "traditional" export, suffered major hydro-generation problems between 1996 and 1998, due to low water levels in the Volta Lake. The electricity crisis severely curtailed production, including of aluminium, which consumes over one third of Ghana's total power supply. To improve efficiency, the Government is taking steps to restructure the industry and increase private-sector participation. State-owned entities, including the Volta River Authority, are being separated into companies for the generation, transmission, and distribution of electricity, and a National Company Grid is to be established.*

47. *More efficient infrastructure services should improve the competitiveness of downstream industries, such as tourism, and encourage FDI. Private tourism development is a government priority. Air transport is being deregulated under the Government's "liberalized skies" regime. Ghana has no cabotage requirements protecting coastal shipping, but new legislation provides for their introduction.*

48. *The Bank of Ghana grants banking licences. The freeze on issuing new bank licences was removed in 1999. Banks must meet certain prudential requirements in accordance with the core principles of the Bank for International Settlements. Foreign banks may operate locally incorporated subsidiaries. Higher minimum capital levels are prescribed for foreign banks – defined as having below 60% Ghanaian equity.*

49. *The Government's Financial Sector Adjustment Programme has begun privatizing several large state-owned banks. In 1996, 42% of the Ghana Commercial Bank was sold, and another 40% is slated for sale, along with 30% of the National Investment Bank. Legislation to enhance the Central Bank's supervision and enforcement of prudential regulations is under way. Three licences were withdrawn in 2000 from banks repeatedly unable to meet the Bank's minimum capital adequacy ratio. Bank rationalization and*

restructuring have occurred through mergers and the closure of non-viable banks.

50. *Foreign insurance companies may enter Ghana as subsidiaries, subject to a maximum foreign-equity limit of 40%. Government equity of 20% is required, and Ghanaians must own another 40%. The National Insurance Commission regulates the industry. It sets certain prudential and reporting requirements, and must approve all premium increases; currently it only intervenes in setting motor insurance premiums. The Government intends to privatize the Ghana Reinsurance Company by 2003.*

**(5) TRADE POLICIES AND FOREIGN
TRADING PARTNERS**

51. *Ghana generally applies its trade policies and measures on a non-discriminatory basis, granting at least MFN treatment to all its trading partners. Pursuing MFN liberalization while expanding its bilateral arrangements and deepening regional integration, would maximize benefits, and help guard against any possible trade diversion.*

52. *Reliance on ad valorem tariffs, which are being rationalized, as the main trade instrument contributes to a more transparent trading regime. Extending the coverage of tariff bindings beyond agriculture would benefit Ghana and its trading partners by increasing the predictability of the tariff. Continued structural reforms, including further trade and investment liberalization, can improve the economy's flexibility and growth prospects.*

53. *However, the economy remains relatively weak and vulnerable to external commodity price movements and other shocks, such as weather conditions. Current economic difficulties, both internal – including the large budget deficit – and from abroad, are placing extra pressures on the economy which may weaken the Government's resolve for trade liberalization. Ghana's enhanced commitments to the WTO and compliance with its obligations can help sustain such unilateral reforms. However, Ghana's trading partners can greatly assist its reform efforts by ensuring stable, increased access to their markets, especially in agricultural products where Ghana's comparative advantage appears strongest.*

