

## Abstract

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**tytuł rozprawy: Foreign Direct Investment, Financial Sector Development and Economic Growth in the Republic of Ghana**

The policy dilemma of most developing, emerging and frontier economies emanates from the choices there are faced with in their developmental agenda and the Republic of Ghana, a middle-income economy is not an exception. After years of Political Independence in 1957 and gaining a Republican Status in 1960 under the Kwame Nkrumah Government, the policy direction of Ghana has changed several times. After independence, Ghana had several long-term Development Plans with several pro-growth economic policies to spur economic growth, but this grand design of Economic Policies were all interrupted and abandoned with series of Military Interventions that distorted and slowed down the pattern of growth trajectory projected. For some better perspective, through 1960 to 1983, Ghana witnessed about 5 Successful Coup d'états, accounting for some of the major economic structural breakpoints policies and political cycles the economy went through. To restore macroeconomic growth and investor confidence in the economy, the Provisional National Defence Council (PNDC) Government, started and implemented Ghana's Economic Transformation Agenda through the Structural Adjustment Program under the International Monetary Fund, World bank and other Doner Assistance. These set of policies were more of stabilisation mechanism policies and later revamped into more pro-growth set of economic policies to maintain the gains made earlier. As mentioned in the thesis, the economic recovery of Ghana gathered pace through the 1990s, together with return to multiparty democracy rule.

Against the backdrop of the highlighted issues, the objective of this dissertation is a focused study on the plausible causal relationship between foreign direct investment, financial sector development and Economic growth between 1975 to 2019. Chapter One gives begins with an overview of Economic Growth and Reforms in Ghana, discusses the concept of Economic Growth, its definition and measurement tools, the chapter also discusses the determinants of economic growth in the context of this work. It further examines and reviews some selected theories of economic growth models. The concluding part of Chapter One deals with the macroeconomic analysis and nature of economic growth in Ghana, through the lens of the macro indicators, and argues for the importance or relevance of institutional reforms and finally ends with the research overall research objectives, the methodology employed, structure of the study and formulated research hypothesis to ascertain whether there exists any form of relationship between the selected variables.

Chapter two presents and illustrates some theoretical considerations on foreign direct investment in Ghana. This includes the theoretical conception of foreign direct investment, selected determinates of foreign direct investment, the current global trend and Ghana's perspective respectively. The political economy of foreign direct investment in Ghana is discussed into detailed considering, institutional and legal frameworks established to enhance the proper functioning of the sectors which falls under the Ghana Investment Promotion Council and the Ministry of Trade. The third chapter of the dissertation ,analysis the numerous and valid discussion surrounding the very crucial subject matter of financial sector development and economic performance in Ghana. The various definitions and explanations of financial development, the levels of classifying financial development, some selected measures, and indicators of financial sector development is also elaborated on. As a result of numerous financial sector reforms in Ghana in the 1980s and 90s, the work discusses the possible impact

of financial liberalization in the financial developmental process in Ghana and several selected African economies for comparative analysis purposes. As most part of the financial sector reforms was designed inline with the provisions of the Washington Consensus, especially trade liberalisation policies are also mentioned in this chapter. The final chapter investigates the relationship between foreign direct investment, financial Sector development and economic growth in Ghana, including the review of pertinent literature on Foreign direct investment, economic growth, and financial sector development. Each of these relations discussed separately in subsections. The chapter equally reviews and mentions some selected empirical studies on foreign direct investment, economic growth, financial development. The final part of the dissertation includes a selected econometric model and chosen technique of i.e., the Autoregressive-distributed lag models (ARDL) and performs the bound test for cointegration as required to establish the linkage between the selected variables under study. The work concludes with the discussion of empirical results and the various challenges to the growth and developmental process in Ghana.

Generally, as a major finding, money as a variable appears twice in the models that shows a co-integration, which yields promising results for that variable possessing explanatory power. Evidence shows that FDI is the variable that holds the most explanatory power as it appears in all the model specifications. The formulated hypothesis of 1b, stating that “there is a long-term relationship between economic growth measured as GDP dynamics and net FDI inflow in Ghana is verified and accepted as true in the Ghanaian economy.

The results also indicate that the relationship between FDI and GDP seems to be stronger when we consider the GDP growth rate as opposed to GDP per capita. All the three models with breakpoints, no matter if we control for Credit, money, or savings, indicates a strong level relationship. It indicates that the FDI seems to be more strongly linked to the long-run economic growth rather than the level of economic development even though the two concepts are related. The Ghanaian case shows that economic growth is impacted by FDI but not strongly enough to influence the level of development approximated by GDP per capita. Another plausible feature of the obtained results is that the choice of the control variables does not seem to matter for the main results. Our results imply that if it were not for the inflows of FDI, the Ghanaian economic growth would be significantly lower. On the other hand, the fact that we do not find a level relationship for the models that include GDP per capita can be interpreted in the following way. Even though there is some role of FDI in driving economic growth, this influence is not strong enough to significantly shift the overall level of development of the Ghanaian economy. As such foreign direct investment cannot be treated as a major factor in Ghana’s economic convergence to the advanced economies.

**Keywords:**

Economic Growth, Ghana, SAP, FDI ARDL Bounds Testing, Co-integration