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CEPA Cautions Govt on Money Printing

In its half-year review and critique of the 2009 Budget, the Centre for Policy Analysis (CEPA) has cautioned government on the option of printing money as a way of meeting the financing of the budget. Presenting the view of the Centre on the budget and its management, the Executive Director of CEPA, Joe Abbey, also expressed their disapproval of government's monetary policy and inflation target setting frameworks.

Currently facing the challenge of finding resources to finance the budget for the second half of the year, Joe Abbey identified three obvious areas from which the government could source for resources; one of these areas was domestic borrowing which always presented an easy attraction to governments in want of quick fixes for lack of immediate solutions. Abbey advised that government should not go near there.

“Domestic borrowing by government could lead to inflationary pressures if accommodated by increased supply of credit from the banking system,” he explained and further pointed out that, of course, government had the power to incur an unlimited deficit because it had the power to print the money needed to meet its obligations. But, he warned, “This course of action...is a cure that might as well be worse than the disease.”

Figures from the Minister of Finance's recent half-year review of the budget showed a decline in overall deficit to 4.5 percent of GDP over the period reviewed. The overall budget deficit was financed domestically to the tune of 2.9 percent of GDP. Considering that government's year-end target is 9.4 percent, it would seem they are on the way to meeting that target, if logic worked in economics dynamics.

In their commentary on the performance of the budget within the first half of the year, Databank Research had expressed their expectation that it is this second half of the year that the real challenges will confront the government because that is “when the execution of the budget intensifies.” Consequently, they anticipated that domestic borrowing would be high.

This is why, when the story recently broke from the Statesman newspaper that government was already putting pressure on the Central Bank to print extra money, the temptation to take the story as credible was strong.

According to the newspaper which, by the way, is considered NPP (leading opposition party) biased, government is putting pressure on the Bank of Ghana to print extra money “in excess of GHc2 billion. This was contained in an unusual letter from the Minister of Finance to the Governor of the Bank of Ghana.

” The letter, requesting for the money, explains that the government is under pressure to pay off arrears owed to contractors and money is urgently sought for that purpose.”

The paper reported that while Paul Acquah, the Bank of Ghana Governor whose term in office is expiring in at the end of September 2009, is resisting “every pressure to print such high amounts of cedis to worsen the country’s already bad inflationary pressures.”

With inflation currently at 20.5 percent in July and CEPA not seeing government’s expectation of bringing it down to the revised end-of-year target of 14.5 percent, difficult times seem to lie ahead. Indeed, CEPA forecasts an end-of-year inflation of 20.9 percent.

The think-tank acknowledged the government faces a daunting challenge pulling the economy out of its recent down-turn. It noted: “The difficulties of the domestic situation are compounded by an extraordinarily challenging external environment. Additional foreign borrowing is excessively expensive and large foreign direct investment (FDI) unlikely. External demand for Ghana’s non-

traditional exports and remittances are expected to suffer in 2009 as a result of the ongoing global recession.”

And having classified Ghana amongst the group of countries that are “most exposed to the global crises”, the IMF had transformed the Poverty Reduction and Growth Facility (PRGF) into a “comprehensive program of macroeconomic stabilization and reform” which the WB got the Mills administration to “convert a strategy of Growth with Macroeconomic Stability (discernible in the 2009 budget) into a Macroeconomic Stability with Growth strategy over the three –year period, July 2009 to June 2012.” CEPA found this regrettable.

Rather, it thinks that, if the socio-political costs of stabilization (in terms of poverty and social distress) are properly assessed and fully taken into account in the design of the stabilization program - of course, factoring in “other combinations of macroeconomic stability and short-run growth rates” – then the outcome would be more in line with the economic growth with Macroeconomic Stability strategy discernible in the 2009 Budget Statement and Economic Policy. However, the choice of this belongs to the government, Joe Abbey said.