

Enquirer

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CEPA Warns Against Domestic Borrowing

The Executive Director of the Centre for Policy Analysis (CEPA), Dr. Joe Abbey, has noted that domestic borrowing by government could lead to inflationary pressures if accommodated by increased supply of credit from the banking system.

“Ultimately, the government has the power to incur an unlimited deficit because it has the power to simply print up the money needed to buy back its own obligations,” he noted.

He noted that the nature of the collective bargaining process and the pay structure is characterized by large inequities.

“These inequities are the result of, and are made worse by, the constant competition between different professions to move ahead and consequently of others to then catch up,” he said.

He added that the timing of wage negotiations, after the budget has been approved by parliament only magnifies the risk.

Dr. Abbey made the statement at the launch of the CEPA Assessment and Critique of the 2009 Budget Statement and Economic Policy of the government, under the theme: The Dilemma of Macroeconomic Policymaking: “A tale of Two Cities.”

He noted that over the period, 2006-to-2008, all macroeconomic targets, both fiscal and monetary, were missed and in some instances by considerable margins.

“Yet the analyses and warnings of the impending crisis by civil society organizations with experience in conducting independent budget analysis, like CEPA, were ignored most of all by the international financial institutions and development partners,” he stressed.

“We spent a lot of money and when it happens like that and it doesn’t produce anything we get increase inflation.”

Touching on its Assessment and Critique of the 2009 Budget Statement and Economic Policy, Dr. Abbey pointed out that the budget being supported by GH¢42 Million and approved by government was consistent with a strategy of growth with macroeconomic stability.

He observed that additional foreign borrowing is excessively expensive and large foreign direct investment unlikely.

On the macroeconomic instability, Dr. Abbey noted that it was due to excessive spending largely on the elections.

He said that spending excesses of 2008 exacerbated a persistent trend deterioration of fiscal discipline noticeable from 2006.

“External demand for Ghana’s non-traditional exports and remittances are expected to suffer in 2009, as a result of the ongoing global recession, in spite of the global financial crisis, some African countries can even unaided by the international donor community, spend their way out of the looming recession,” he added.

He noted that any expenditure over-runs or domestic revenue shortfalls that would lead to an increase in the deficit must be adjusted for by “appropriate measures” agreed with the International Monetary Fund to ensure that the targeted ceiling is respected.

He added that data from the first quarter of 2009 suggest that with Treasury bill interest rates remaining high through May 2009, interest costs are projected to exceed earlier estimates for 2009.

“To achieve the targeted fiscal deficit of 9.4 per cent of GDP, additional fiscal savings totaling the equivalent of one per cent of GDP (GH¢209 million) have had to be made,” he said.