

## SUSTAINING CONFIDENCE IN THE FUTURE OF THE GHANAIAN ECONOMY

The theme of the 2013 budget, *Sustaining Confidence in the Future of the Ghanaian Economy*, is indeed very refreshing. This is because it highlights government's realization that there is the need to reassure the business community about its commitment to pursue credible policies to promote sustainable growth. The question that one needs to ask, however, is whether actions or inactions of the policy outcomes has in any way compromised the confidence of the business community.

There were two major events in the year 2012 that had implications for the confidence of business actors as well as others interested in Ghana. The first was the very unfortunate demise of the late president, Professor John Evans Atta Mills. In more fragile states, the vacuum that is created with such a loss can create power struggles within the ruling elite and can sometimes have far reaching consequences for private sector investments. Fortunately for Ghana, the immediate swearing in of the then vice president made the whole transition process seamless. As a result, very little investment, if any, would have been lost due to this rather unfortunate event.

The second major event in the year was the political elections. Typically, election years are characterized by very large imbalances in the macroeconomy emanating from fiscal indiscipline. Indeed, following concerns raised about fiscal slippages, which follow electoral cycles, at a workshop organized by the Centre for Policy Analysis, a 'Communique on National Principles for Fiscal Responsibility' was issued on the 25<sup>th</sup> of May 2012. The communique, among others, called on political leaders in the country to demonstrate commitment to the principle of fiscal responsibility. Indeed, the government did recognize the problems associated with fiscal slippages that tend to be particularly acute in

election years. The Minister of Finance and Economic Planning at the time is reported to have allayed the fears of industry players by assuring them that the government would keep public spending in check (Citi FM, 2012)<sup>1</sup>.

Outcomes for 2012 show that the country could not meet most of its macroeconomic targets. For instance, the 2012 budget targets of 9.4%, 6.7%, and 8.6% for GDP growth, budget deficits, and inflation respectively were all not met. The actual outcomes in 2012 for these indicators were respectively 7.1%, 12% and 8.8%. It is therefore not surprising that the 2013 budget seeks to restore (or sustain) confidence among the business community. In line with sustaining confidence in the economy, the broad objectives set out in the Budget for 2013 include meeting GDP growth, fiscal deficits and average inflation targets of 8%, 9% and 8.9% respectively. While these targets are an improvement over the levels achieved for 2012, the fiscal situation continues to worry many. Unfortunately a 9% fiscal deficit target cannot in any way be considered ideal. This means for instance that government borrowing will be high in 2013 with the consequence that interest rates remain sticky downwards.

Balancing the need to deal with the fiscal challenges versus the need to address the large

infrastructure gap in the country is the challenge of this budget. Unfortunately, the country's current middle income status plus being an oil producer means that there are no easy pickings from external sources. The budget attempts to address the problem from both the expenditure as well as the revenue sides. The budget talks about the realignment of expenditures on non-funded projects, personnel emoluments, and infrastructure developments. Unfortunately, improving general efficiency of spending may take a while to materialize. This is because public expenditures in Ghana are fairly rigid as a result of all the statutory funds plus the very high public sector wage bill. On the revenue side, the area that has the most potential of making a significant dent in the fiscal deficit is to increase the VAT rate. However, this will be politically a difficult policy to push through.

The 2013 Budget is about restoring (and to some extent sustaining) the macroeconomic fundamentals of the nation. Of course it is not enough to sustain confidence if that level of confidence is low. Rather there is the need to build and grow confidence for the future. This will be greatly helped if political leaders demonstrate strong and sustained commitment to the principle of fiscal responsibility at all times, including during election years.

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<sup>1</sup>Citi FM. (2012, April 12). Government Cautions Public Institutions on Overspending. Retrieved June 6, 2013, from CitiFM Online: <http://www.citifmonline.com>