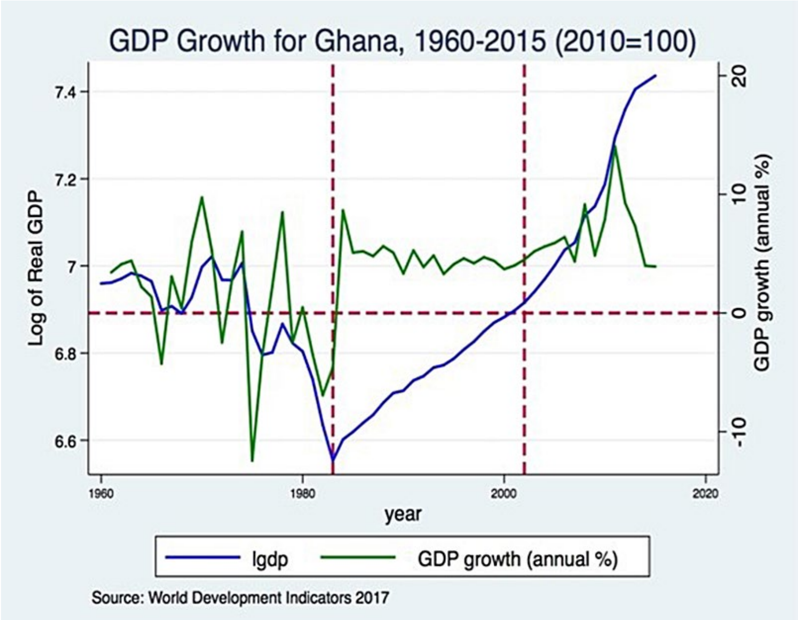
Editorial

The Economy of Ghana @ 60: Is the 2017 Budget Statement Business as Usual?



From independence in 1957 to the early 1980s, the GDP growth of Ghana was anything but stable. From the adjustment period to date, the growth fortunes have improved markedly and averaged around 5 percent per annum. The tail-end of the sample has seen increased volatility in growth, albeit being positive and high. In 2016, Ghana recorded a GDP growth rate which was as low as 3.6 %, against a revised projection of 4.1%. The sector contributions to this 2016 growth rate were respectively 3.6, 5.9 and -1.2% for the Agricultural, Services and Industry sectors respectively. Consequently the poor performance of the GDP growth was in large part due to the poor performance of the manufacturing sector.

Fiscal management have also been characterised by persistent deficits and slippages. This is particularly problematic in election years. The 2016 was no exception. On a cash basis overall target was 5% of GDP but the realized was 8.7 % - 3.7 % points difference. On a commitment basis the slippage was higher, given that the target was 3.7 % of GDP as against the realized of 10.3 % of GDP, which is 6.6 % points difference. The missed targets for the fiscal deficits was a result of both expenditure and revenue slippages. Indeed this feature of the fiscals has been described by some as structural. Statistical tests suggest that deficits have hampered economic growth in Ghana over the independence period (Osei & Teli, 2017).

The growth and fiscal policy management over the years has meant that, at the end of 2016 Ghana had structural deficits with a looming debt problem; interest rates remained high though they assumed a decreasing trend over the past 12 months; exchange rates remained largely volatile; there was a constrained SME growth; there was a persistent energy sector problem; and a citizenry that had been unrepentant in their demand for public goods.

The 2017 budget, which is themed "Sowing the Seeds for Growth and Jobs" recognises these problems and attempts to address them by placing the private sector at the centre of the growth and development agenda. In order to achieve the broad goal of improving the business environment a number of initiatives are outlined in the budget, some of which we discuss here.

First, there is the popular policy of various tax incentives aimed at providing relief for businesses and reenergizing the private sector. Second there is the National Industrial Revitalisation Programme (NIRP) which is to be closely intertwined with the One District, One Factory policy. This aims to industrialise the country and create youth employment especially in rural and peri-urban areas, add value to natural resources of each district, promote export and increase foreign exchange earnings, among others. Third, there is the policy of free public senior high school education including technical and vocational institutions. This is aimed at making secondary education readily available for the average Ghanaian. Forth, is the policy of Infrastructure for Poverty Eradication Programme (IPEP).This is supposed to be an inclusive development programme, aimed at radically improving the state of basic infrastructure at the constituency level especially in rural and deprived communities. As part of the IPEP, government will pursue programmes such as the One Village One Dam, One District One Factory, "Water for All" project and Small Businesses Development.

Indeed, this list does not exhaust all the policies in the 2017 budget. However it is indicative of the intent of the budget. The question is whether this budget qualifies as a new dawn for our growth and development agenda at sixty years.

There are two key elements needed for any significant increase in private investments to happen for Ghana. First, an improvement in the business and economic environment is a must. Second, the deals environment must become more open to make the costs of starting a business less daunting. Generally, one notes that the budget initiatives and signals are positive in this regard. In particular, tax reductions, improvement in fiscal management, and the political commitment to put the private sector at the heart of the development agenda are key if we are serious about encouraging nascent entrepreneurs to grow the economy whilst creating jobs.

We conclude by noting that although the budget has very good intentions and signals, its success depends on implementation. We outline two key constraints that will determine whether the objectives may be achieved.

First, it is important that government keeps to its commitment to be fiscally disciplined. Post-election years are used to solve the problems left from the election years. Unfortunately we have not been able to keep this momentum 2-3 years after the election or 1 to 2 years before another election. Commitment to fiscal discipline must be sustained for appreciable gains to be made on the macroeconomic stability front.

Second, sustained growth and employment creation require a private sector that believes in the signals from the budget. In other words the challenge remains as to whether the private sector believes in the budget so much that they respond to the incentives. This degree of credibility (or the improvement in it) does not happen just because people like the budget. Rather it happens over time as government implements its policies in a way that is consistent with the budget.