EDITORIAL

Investing In a Better Ghana:

Does the 2009 Budget Address the Current Global Economic Crisis?

Understandably, there has been a lot of interest in the 2009 budget of the government of Ghana. This can be attributed to two complementary factors. First, there has been a change in government and many people have been eager to see the extent to which promises made on the electioneering campaigns have been translated into actual plans of the new government. The second reason has to do with the current world financial crisis. Many governments in both the developed and developing countries have taken significant policy measures to try to mitigate the effects of the crisis on their economies by stimulating demand. The question that one needs to ask is whether Ghana's 2009 budget adequately responds to the financial crisis. Even though both these factors seem to be interesting in their own right, the second has received much more attention by economists and business associations that have discussed the budget.

There are four main concerns relating to how the financial crisis is likely to impact the Ghanaian economy. First, it is expected that private investments will decline as investors' confidence waver in the light of the crisis. Already, there are signs that the Ghanaian stock market is not performing as well as it has in the past, particularly looking at quarterly data over the two years. Second, financial intermediaries are likely to cut down on their lending as their aversion to risk increases. In the context of their Ghanaian economy, Small and Medium Enterprises, who are the most important source of employment, will be most affected with this increased aversion to risks by banks. A third concern has to do with the expected decline in export earnings and remittances as a result of the crisis. This is expected to put pressure on the Ghanaian currency to depreciate and consequently impact adversely on inflation and interest rates. Fourth, the financial crisis is expected to adversely affect the government's revenue. This is expected to be felt through the reduction in export revenue (particularly from the cocoa sector) and also from a reduction in foreign aid which constitutes a significant part of revenues to Ghana – in 2008 total loans and grants was about 16% of total government expenditures. The question therefore is how the 2009 budget tries to rectify or mitigate some of these effects on the Ghanaian economy in 2009 and beyond.

We discuss here three broad sets of policy measures in the 2009 budget and ask whether these adequately address the concerns discussed above. First, there are a number of social policy measures in this budget, some of which are the following: *the abolition of all extra fees and provision of free school uniforms and textbooks for pupils from deprived communities; an increase in the capitation grant from GHC3 to GHC4.50 per pupil; a reduction in petroleum taxes to ease the burden on households.* In view of the financial crisis and the fact that one major direct line of impact on households (and poverty), is through remittances and the reduction exports, social policies are usually desirable. However, it is questionable, given the choices that we have as a nation plus the constraints imposed by our limited resources, whether some of these policies constitute the best choices. One example is the policy of the free school uniforms. Of the critical factors needed to improve both the quality and quantity of education, it is difficult to see school uniforms among the top of the priority list. A second example is the reduction in petroleum taxes. Again the reason given in the budget is that it is to help alleviate the hardships faced by people in the country. Research done with respect to the incidence of petroleum taxes suggests that petroleum taxes are generally progressive. A reduction in petroleum taxes is therefore more beneficial to non-poor households in Ghana. Maintaining the petroleum taxes and using the resources to finance either social programmes or investment projects that increase productivity of the poor would have been a good alternative policy.

A second set of policies in the budget seeks to increase production incentives and consequently productivity in the economy. Some of these policies include the following: *Government to support the setting up of an integrated sugar manufacturing firm to produce sugar and ethanol in the Savelugu-Nanton District of the Northern Region; the government to help reactivate the Aveyime rice project; the restoration of duties on imports of rice, wheat, and cooking oil which were removed last year as a result of the food crisis; the imposition of a minimum threshold of 30 percent local content in construction contracts*. These policies are among other things, aimed at increasing domestic production. They may have good intentions as they tilt the incentive structure in favour of domestic producers. However it is important that these policies do not discourage trade and foreign investments. For instance tying foreign construction firms to local ones can increase the overall cost of production as in some cases the local firms may have less expertise and therefore higher cost of operations. This can have the effect of discouraging some foreign investors.

A last set of policies in the budget relates to improving the management of government's fiscal plans. Increasingly, government budget balance targets have not been met and have worsened over the last 3 years. This has had adverse effects on the macroeconomic stability. Some of the policies aimed at arresting this situation include the following: *airport tax has been increased from US$50 to US$75; Government intends to merge the three revenue agencies under an Office of Commissioner-General of Revenues to improve the efficiency and effectiveness of taxation; Review of the management of statutory funds such as the DACF, GETFund, Road fund, NHIF and the communications service tax to make them more flexible and improve fiscal management; Government to institute a rewards and sanctions regime so that MDAs are either rewarded for good performance or punished for bad performance*.

Generally one can say that the policies which aim at improving the fiscal discipline and outcomes are in the right direction. There remains some discomfort as to whether a policy such as that, which increases the airport tax, is consistent with some of the other development objectives of the country. Take for instances the policy of improving tourism and making Ghana the hub of West Africa. Other lingering issues with respect to the fiscal policies in the 2009 budget relates to the fiscal deficit target. Whilst some believe it is too high, others are of the opinion that in the presence of the current financial crisis, we cannot afford to be too conservative with fiscal policy, at least for 2009. The jury is still out on this.

The 2009 budget is a reasonably good response to the current global financial crisis. However its ability to more adequately respond to the crisis is compromised by the two other objectives that the budget had. These were the need to restore fiscal discipline as a result of the very large overruns in 2008 and also to fulfil political promises. On the whole, government's ability to maintain fiscal discipline will be one of the surest ways of minimising the long term impact of the financial crisis. To this end, the 2009 budget seem to have the right vibes. However, it needs to overcome the political economic pressures.