CEPA worried about direction of Ghana's economy

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The Centre for Policy Analyses (CEPA) has warned that if government does not make a conscious effort to reign in the spate of excessive borrowing and improve upon its fiscal policy regime the country's debt sustainability will be likened to the pre HIPC situation.

This was the outcome of a three day roundtable at Greenhill near Accra on Effective Economic Management and Governance. At the roundtable it was clear that monetary policy has been constrained by fiscal excesses culminating in high inflation, and difficulties in maintaining stable foreign exchange rate.

The meeting believed that implementation of the current IMF supported programme could help resolve the issue.

The full statement is as follows:

Under the auspices of the Greenhill Roundtable for Effective Economic Management and Governance (GREEMG) a three day workshop was organized, from Monday the 22nd to the 24th of June, under the theme 'From Home-grown Through Senchi to IMF Bail-out'.

The workshop focused on our legacy of supply driven aid and inability to effectively manage our resources which have resulted in an economy that is characterized by high government spending, high fiscal deficit, high external merchandise trade (and current account) deficit, low domestic savings and heavy public (external) debt - which CEPA refers to as the 'HIPC syndrome'.

Despite the discovery of oil our performance as measured by the key macroeconomic indicators are worse than the pre-oil era leading to the need for an 'IMF bailout'.

Growth performance has been on a downward trend despite two periods of growth spurts – the first in 2012 attributable to the commencement of oil production in commercial quantities ('Jubilee effect') and the second in 2013 attributable to seemingly high cocoa purchases ('Gbagbo effect').

The meeting expressed concern about the lack of access to and high cost of credit to SMEs. The meeting concluded that the large size of the fiscal deficit is responsible for the high lending rate charged to the private sector and recommended that better governance structures and improved transparency in the operations and financial transactions of SMEs (e.g. proper book keeping) can improve the risk perceptions about them and hence their access to credit.

Monetary policy has been constrained by fiscal excesses. This has also led to high inflation and difficulties in maintaining a stable exchange rate. The meeting believes that the implementation of fiscal consolidation under the current IMF supported program could help resolve the issue.

The meeting observed that the government has very little if any fiscal policy space - the capacity to deal with events of economic downturns – and fiscal space – room to maneuver. As such it has the tendency even to violate the country's laws relating to the transfers to these statutory funds.

Ghana's debt situation has worsened in recent years due to larger than projected depreciation of the cedi and expansive borrowing. The Debt Sustainability Analysis (DSA) conducted by the IMF and the World Bank concludes that Ghana is at high risk of debt distress. Moving into debt distress is usually an exceptionally costly experience that can halt development for extended periods.

The meeting noted that Ghana has been characterized by the Dutch Disease since cocoa production and the emergence of mineral exports. Nonetheless, the meeting agreed that Ghana seems to have one of the best models for managing natural resources in the oil era (including the Heritage and Stabilization fund) but improper implementation and lack of transparency have been the main issues.

Supply side issues, due to challenges in the energy sector, also play a role in Ghana's economic problems. Fixing the problems noted above will therefore also depend on a supply response. An emergency power supply system which the government is pursuing (that should not last for more than two years and for which the state of play must be known) may require financing and adequate budgetary provision if a credible full cost pass through is not desirable. The GREEMG suggests that this should be accommodated in the budget using the windfall from oil.

Source: IFEJ