

WHAT IS DRIVING INFLATION DOWN?

Ghana has recorded a further decrease in inflation, down from the single digit figure recorded in June 2010 (9.52%) to 9.46% for the month of July, “despite the over 50 per cent increase in government expenditure in 2010,” the Ministry of Finance and Economic Planning claimed.

When Government announced last month that it had achieved single digit inflation for June, it came under a barrage of criticisms that it was due to its lack of spending.

Most of the critics argued that if government stopped spending, increase taxes, put embargo on employment, increase utility bills, then it is likely to curb inflation.

Others made references to Domestic capital expenditure which reduced from GH¢1 billion in 2008 to GH¢260 million in 2009 (reduction of 74), to buttress the fact that government was indeed not spending enough on some productive sectors of the economy.

But the Ministry of Finance says such arguments are a total misrepresentation of the facts. “The notion that government is holding back payments to creditors, which has caused the inflation rate to decline, and is also starving commercial banks of cash inflow, thereby making it difficult for the banks to reduce their lending rate is not only false, but a complete misrepresentation of the facts,” The Ministry of finance said in statement issued yesterday.

The facts as presented by the Ministry indicated that total government expenditure in 2008 was GH¢8.2 billion, compared to GH¢9.1 billion spent in 2009, representing an increase of 11% over the 2008 expenditure. Again, it added that total government expenditure in the first half of 2008 was GH¢4.2 billion and GH¢5.4 billion for 2010, representing an increase of 16.7% in 2009 and 50% in 2010 over the 2008 level.

Additionally, it said Government capital expenditure in 2008 was GH¢1.9 billion. The corresponding figure for 2009 was GH¢2.1 billion. Government capital spending in the first half of 2008, it said, amounted to GH¢855.7 million, while the expenditure for the corresponding period in 2009 was GH¢1.0 billion and in this year also GH¢1.0 billion.

The Ministry further noted that spending on goods and services totaled GH¢648 million in 2008 compared to the GH¢621 million in 2009. “For the first half of this year a total of GH¢428 million has been spent on goods and services” it added.

The Ministry contended that “government has been ingenious by front-loading certain expenditures not only to alleviate the hardships in the economy, but also to promote growth. For example, the government brought forward the disbursement of agriculture investment budget to fund agricultural activities which usually end by May-June every year, something that

has never been done before. Arrears amounting to GH¢160 million owed to road contractors and dating back in 2008 was also paid en-block in January this year”.

The facts as provided by the MOF indicate that in 2009, total arrears relating to 2008 that were paid amounted to GH¢626 million, bringing together a total of GH¢786 million of 2008 arrears since January 2009.

Additionally, it said the government also paid GH¢445 million out of the total GH¢848.4 million of the Tema Oil Refinery debt owed to Ghana Commercial Bank in April this year. “In addition, debt servicing costs amounting to GH¢1,749 million have been paid since January 2009,” it added. “In all, the current government has spent GH¢2,980 million since January 2009 to liquidate part of the huge debts left by the previous government.

It however attributed the steady decline in the inflation rate to what it termed as the much touted “prudent fiscal management by the current government, good agricultural policies (causing good food harvest), continued monetary restraint, and declining world oil prices”.

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