Bill could have stabilised Ghana's political business cycle

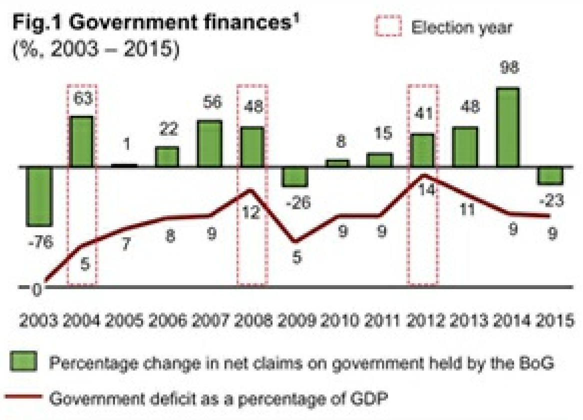
With the 2016 Ghanaian general election fast approaching, the Bank of Ghana (BoG) sought to limit the government's borrowing with the BoG Amendment Bill. The bill, which was blocked by the parliamentary finance committee last week, was an attempt to break Ghana's past cycle of election induced spending, inflation surges and currency collapses.

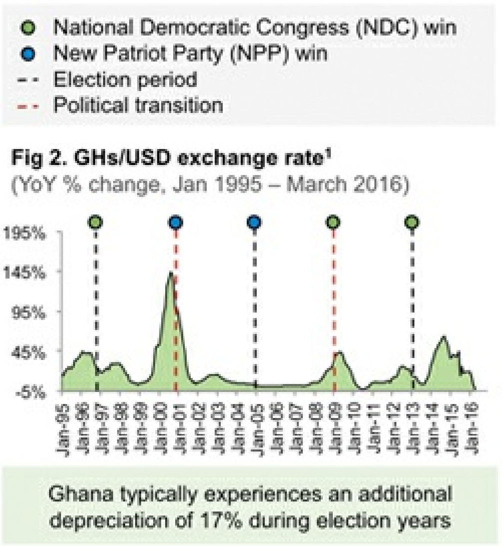
Ghana's otherwise great economic prospects have long been hostage to what economists call a political business cycle in which an incumbent, thought to be losing popularity, undertakes expansionary fiscal policy in the run-up to the elections (See Figure 1).

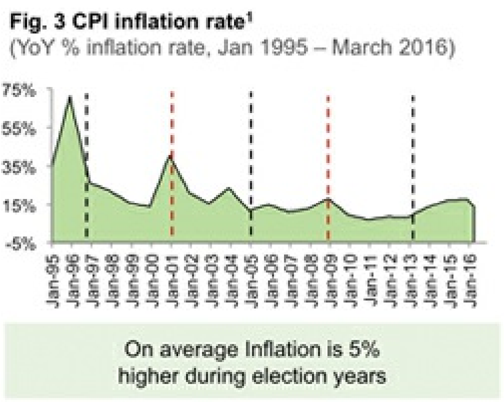
The distortionary effects of such spending in the run-up to elections are felt across the economy. These have a profound and negative impact on bank lending through high interest rates, crowding out private credit extension (lending to the private sector) and foreign investment.

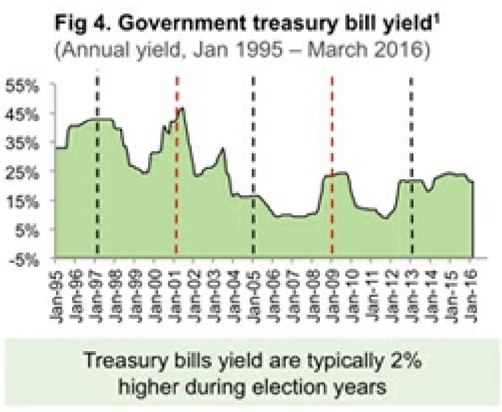
The bill, if enacted, could have encouraged fiscal restraint and reduced policy uncertainty, or at least made the consequences of fiscal indiscipline more immediately visible.

An election free of fiscal slippage could also see Ghana return to the status of a rising African star that it briefly enjoyed in 2013 and 2014.









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