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Deficit Financing in Ghana and Its Impact on the Economy

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Abstract Deficit financing in Ghana has become an annual phenomenon mainly as a result of the country's inability to raise enough revenue to finance its budget. This situation has prompted the researcher to assess its impact on the economy. Analysis from the research indicates that Ghana's budget deficit financing and economic growth are negatively correlated. This implies that deficit financing has had negative impact on Ghana's economic growth over the research period. The research also showed that budget deficit financing increased in political election years of the country; indicating that over ambitious agenda of politicians is one of the contributing factors of budget deficits in Ghana.

Keywords: *budget deficit, surplus, economic growth, gross national product, coefficient of correlation*

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1. Introduction

According to Lipsey [1] broadly, there are three elements in public finance. These are expenditure, income, and borrowing. Ghana's economy, as a developing one is characterised by deficit financing. This has been perpetuated since independence and has brought in its wake positive and negative effects. Deficit financing occurs when a country's expenditure exceeds its revenue over a specific period, usually a year, in Ghana. The difference between these two variables i.e. revenue and expenditure is known as the 'deficit' when the latter is more than the former. The act of financing this difference (deficit) is called deficit financing. Nonetheless, if the revenue is more than the national expenditure then it is called 'surplus'.

According to wikipedia.org/wiki/Deficit_spending [2], deficit spending is the amount by which spending exceeds revenue over a particular period of time, also called simply deficit, or budget deficit;

According to Ritika Muley [3] Deficit financing in advanced countries is used to mean an excess of expenditure over revenue—the gap being covered by borrowing from the public by the sale of bonds and by creating new money. In India, and in other developing countries, the term deficit financing is interpreted in a restricted sense.

Ghana's budget deficits are mainly as a result of the inability of the state to collect adequate taxes to finance its projects. Consequently, these deficits are eventually financed through excessive borrowings. This assertion is confirmed by Yusuf [4] that data shows that in Sub Saharan Africa, untapped tax revenues are monumental. The level of compliance is so low that even if it were bumped up by just a few percentage points, it would have a huge impact on the economies of these countries.

The negative effects of Ghana's deficit financing are enormous. These include increase in the interest rates as the government competes with the public sector for the same funds to run the economy; and eventually 'crowding out' the public sector [5]**;** and inflation. Little, however, can be said of its positive effects on the economy. This therefore, has prompted the researcher to delve into the impact of deficit financing on the economic growth of Ghana. It is envisaged that the result of this research will enable the state know the level of deficit financing that will be beneficial to the country, in order to move the economy to a better level.

2. Empirical Review

According to ACCA [6] a budget is a quantitative plan prepared for a specific period. It is normally expressed in financial terms and prepared for one year. It asserts that budget among other things comprises planning, control, communication, co-ordination and evaluation. Drury Collin [7] also asserts that various activities within a company should be coordinated by the preparation of plans of actions for future periods. According to Terence Lucey and Terey Lucey [8] planning precedes control and planning without consideration of the type, frequency and method of control will largely be a waste. It follows from this that part of the planning involves the design of an appropriate control system. Many a time, the eventual lack of appropriate control in the implementation of national budgets and absence of effective evaluation of the budgets result in the creation of deficits also known as budget deficits. These deficits are therefore, as a result of the national expenditure outweighing its revenue.

According to Lee [9], sometimes deficits do matter for various economic reasons. When the economy is at substantially less than full employment; 'a tax cut or spending increase can produce some small stimulus in aggregate demand. However, it is important to note that this stimulus is much less than textbook Keynesian models predict. This is because we live in an economy very open to both trade and capital flows. This in turn severely limits the possibility of substantial fiscal stimulus, as deficits produce pressure on interest rates, attracts foreign capital, appreciates the currency, curtails exports and stimulates imports (decline in trade position).

Lee [9] again asserts that some economist's hold that deficits will be offset by increased private saving. Thus:

1. The rise in interest rates should increase savings, and that this effect is important but neither large nor rapid enough to offset the effects noted above.
2. It has been argued that the prospect of future taxes to pay higher future interest on the larger debt will lead to increased savings to pay those future taxes. This analysis however, is quite intriguing.
3. If GNP expands, savings should increase. But to offset the deficit, this would require both marginal propensity to save and an expansion in GNP many times our historical experience.

At full employment, continuing substantial primary deficits (deficit net of interest payments) eventually will lead to monetisation by the Federal Reserve and hence to inflation. This requires substantial deficits run over many years to guarantee an inflationary outcome. There is no necessary short-term relationship between deficits and inflation, whether through monetisation by the Federal Reserve or otherwise [9].

2.1. The Federal Government Debt

According to Hubbard and O'brien [10], every time the federal government runs a budget deficit, the Treasury must borrow funds from investors by selling Treasury securities / bonds. When the federal government runs a budget surplus, the Treasury pays off some existing bonds. The total value of Treasury bonds outstanding is referred to as federal government debt or sometimes referred to as the national debt.

Hubbard and O'brien [10] further assert that when GDP increases, rising household incomes and firms' profits result in higher tax revenues. Increasing GDP also usually means falling unemployment which reduces government spending on unemployment insurance and other transfer payments. This phenomenon, therefore, causes budget deficit to decline automatically.

According to Ritika Muley [3], the National Planning Commission of India has defined deficit financing in the following way. The term 'deficit financing' is used to denote the direct addition to gross national expenditure through budget deficits, whether the deficits are on revenue or on capital account. The essence of such policy lies in government spending in excess of the revenue it receives. The government may cover this deficit either by running down its accumulated balances or by borrowing from the banking system (mainly from the central bank of the country).

2.2. The 'Why' of Deficit Financing

According to Ritika Muley [3] there are some situations when deficit financing becomes absolutely essential. In other words, there are various purposes of deficit financing.

Developing countries aim at achieving higher economic growth. A higher economic growth requires finances. But private sector is shy of making huge expenditure. Therefore, the responsibility of drawing financial resources to finance economic development rests on the government. Taxes are one of such instruments of raising resources.

Being poor, these countries fail to mobilize large resources through taxes. Thus, taxation has a narrow coverage due to mass poverty. A very little is saved by people because of poverty. In order to collect financial resources, government relies on profits of public sector enterprises. But these enterprises yield almost negative profit. Further, there is a limit to public borrowing. In view of this, the easy as well as the short-cut method of marshaling resources is the deficit financing. According to Jadhav and Neelankavil [11] however, some of the causes of deficit financing include the following:

i. Some components of government spending have a built-in growth multiplier that is much higher than the rate of growth of tax receipts
ii. Fraud in government run programs that often leads to unintended excess government expenditure

2.3. Deficit Financing as a Result of Low Tax Collection

According to Yusuf ([4]; 32) data shows that in Sub Saharan Africa, untapped tax revenues are monumental. The level of compliance is so low that even if it were bumped up by just a few percentage points, it would have a huge impact on the economies of these countries. He asserts that Heritage Foundation reports that tax revenue as a percentage of Nigeria's GDP is 3.1%; this is very low for a country considered to be a major hub of commercial activity in Sub-Saharan Africa and the biggest economy on the continent. He compared this to the US (25.4%), the UK (32.9%) and Canada (30.6%) and it becomes evident that there is a huge pot of gold lying untouched. He further states that apart from South Africa (24.7%) and Botswana (31.3%) an Organisation for Economic and Co-operation and Development (OECD) report on tax and development states that half the countries in Sub Saharan Africa raise less than 17% of their GDP in tax revenue. This he concludes hinders their ability to fight poverty, build infrastructure and raise the standard of living. And this, Miller [12] opines that when the tax base declines so much, the total tax revenue decreases. Since the tax base of most Sub Saharan African states including Ghana decline, the total tax revenue also decreases. Ghana's average tax revenue as a percentage of GDP between 1990 and 2015 is 14.58% [13].

2.4. Effects of Deficit Financing

According to Ritika Muley [3] Deficit financing has several economic effects which are interrelated in many ways:

i. Deficit financing and inflation

ii. Deficit financing and capital formation and economic development

iii. Deficit financing and income distribution.

2.4.1. Deficit Financing and Inflation

It is said that deficit financing is inherently inflationary. Since deficit financing raises aggregate expenditure and, hence, increases aggregate demand, the danger of inflation looms large. This is particularly true when deficit financing is made for the persecution of war.

However, whether deficit financing is inflationary or not depends on the nature of deficit financing. Being unproductive in character, war expenditure made through deficit financing is definitely inflationary. But if a developmental expenditure is made, deficit financing may not be inflationary although it results in an increase in money supply.

It is the deficit financing that meets the liquidity requirements of growing economies. Above all, a mild dose of inflation following deficit financing is conducive to the whole process of development.

Some amount of inflation is inevitable under the following circumstances:

(a) When the economy is fully employed, increased money supply increases aggregate money income through multiplier effect. As there is no excess capacity in the economy, such increased money income results in an increased aggregate expenditure— thereby fuelling inflationary rise in prices.

(b) One cannot escape from the vicious circle of deficit financing once this popular method of financing is adopted. Governments usually resort to this technique since public hardly opposes it. The inflationary impact becomes stronger once the continuous deficit financing is adopted.

If the government fails to stabilize the price level, rising prices lead to increased costs which compel the government to mobilize additional revenues through deficit financing. This surely threatens the price stability. Thus a vicious circle of rising price level and increased cost sets in.

Thus, deficit financing has a great potentiality of fanning out demand-pull and cost-push inflationary forces.

(c) We have already said that some amount of inflation is inevitable in Least Developed Countries (LDCs). In these countries, not all aggregate demand can be met because of the low production. It is due to lack of complementary resources and various types of bottlenecks that actual production falls short of potential output.

Above all, pattern of consumption fuels inflationary price rise in these countries. For instance, demand for food grains is comparatively higher in these countries. When there is an increase in aggregate demand consequent upon deficit financing, demand for food grains rise.

But its price rises due to the inelasticity in supply. Consequently, prices of non-agricultural goods rise. Thus, deficit financing is inflationary in LDCs—whether the economies remain at the state of full employment or not.

2.4.2. Deficit Financing and Capital Formation and Economic Development

The technique of deficit financing may be used to promote economic development in several ways. Nobody denies the role of deficit financing in garnering resources required for economic development, though the method is an inflationary one.

Economic development largely depends on capital formation. The basic source of capital formation is savings. But, LDCs are characterized by low saving-income ratio. In these low-saving countries, deficit finance-led inflation becomes an important source of capital accumulation.

During inflation, producers are largely benefited compared to the poor fixed-income earners. Saving propensities of the former are considerably higher. As a result, aggregate savings of the community becomes larger which can be used for capital formation to accelerate the level of economic development.

In developed countries, deficit financing is made to boost effective demand. But in LDCs, deficit financing is made for mobilization of savings. Savings thus collected encourages to increase capital. The technique of deficit financing results in an increase in government expenditure which produces a favourable multiplier effect on national income, saving, employment, etc.

However, the multiplier effect of deficit financing in poor countries must be weaker even if these countries exhibit underemployment of resources.

In other words, national income does not rise enough due to deficit financing since these countries suffer from shortage of capital equipment and other complementary resources, lack of technical knowledge and entrepreneurship, lack of communications, market imperfections, etc.

Due to all these obstacles these countries suffer from deficiency in effective supply rather than deficiency in effective demand. This causes low productivity and low output. Thus, deficit financing becomes anti-developmental in the long run.

However, this conclusion is too hard to digest. It helps economic development, although not in a great way. It is true that deficit financing is self-defeating in nature as it tends to generate inflationary forces in the economy. But it must not be forgotten that it is self-destructive in nature since it has the potentiality of raising output level to counter the inflationary threat.

According to Sam Malhotra [14], deficit financing can play a useful role during the phase of depression in a developed economy. During this phase, the level of expenditure and demand falls down to a very low level and the banks and the general public are in no mood to undertake the risk of investment.

They prefer to accumulate idle cash balances instead. The machinery and capital equipment are all there, what lacks is the incentive to produce due to deficiency in aggregate demand. If the government, pumps in additional purchasing power in the economy (through deficit financing), the level of effective demand is likely to increase to meet this demand, the machinery and capital equipment lying hitherto unused will be pressed into operation. The level of production will accordingly increase. If this increase is able to match the increase in aggregate spending level, inflationary tendencies will not be generated.

However, conditions in under-developed countries are different. This is on account of the fact that in these countries, the adequate capital stock does not exist but has to be built up. Thus, while newly created money (as a result of deficit financing) leads to an immediate increase in the purchasing power in the hands of the people, the production of goods does not increase simultaneously. In fact, there is likely to be a considerable time-lag in the generation of extra purchasing power and the availability of additional consumer goods. In the meantime, the level of prices increases.

2.4.3. Deficit Financing and Income Distribution

The author further asserts that, it is said that deficit financing tends to widen income inequality. This is because of the fact that it creates excess purchasing power. But due to inelasticity in the supply of essential goods, excess purchasing power of the general public acts as an incentive to price rise. During inflation, it is said that rich becomes richer and the poor becomes poorer. Thus, social injustice becomes prominent. However, all types of deficit expenditure, not necessarily tend to disturb existing social justice.

If money collected through deficit financing is spent on public good or in public welfare programs, some sort of favourable distribution of income and wealth may be made. Ultimately, excess dose of deficit financing leading to inflationary rise in prices will exacerbate income inequality. Anyway, much depends on the volume of deficit financing. According to Abdallah [15], among other things taxation is meant to reduce inequalities arising from the distribution of wealth; therefore taxation could be used as a deficit financing tool to address income distribution such that the poor should not be at disadvantage.

According to Eze and Ogiji [16] who wrote on impact of deficit financing on economic stability in Nigeria: Analysis of economic growth, their findings revealed that external source deficit financing, non-public source of deficit financing and exchange rate has significant positive implications on economic stability proxy for gross domestic product.

According to Moheeth [17], in modern fiscal policy on account of consistent increase in public expenditure of various layers of government, deficit financing assumes important role as a method of finance. According to him, in the case of developing economies deficit financing has been proved to be a tonic to economic development, if used prudently. However, it may generate all ill effects if it is used without any limit. The application of the tool of deficit financing is justifiable only under unavoidable circumstances. It should be applied only when the advantages derived from deficit finance far outweigh the disadvantages generated to the economy.

Moheeth's assertion was corroborated by Fitzegerald and Florez [18] who indicated that Canada resorted to running a budget deficit in 2016 to stimulate its economy without breaking the bank. This was as a result of years of responsible fiscal policy. The federal government net debt for example was just over 25% of GDP; which is roughly a third of the 73% average for advanced countries.

Boariu and Bilau [19] tried to analyze the relations existing between the different ways of financing budget deficit and inflation underlining the terms of these relations and the involved social and economic effects. According to them, an important source of inflation is considered to be the financing of budget deficits by direct appeal to the central bank's resources, nowadays forbidden by law in most countries for tis negative impact.

2.5. Limitations of the Study

The study was limited to Ghana. It is recommended that funding should be sought for next research to be conducted on deficit financing in Sub Saharan Africa and its impact on their economies. This will bring to light benefits that some countries in the region derive from deficit financing.

3. Methodology

Data for the research was obtained mainly from secondary sources such as data from the Ghana Statistical Service [20], the Central Bank of Ghana [21], and other journals.

The research design for the project was quantitative method and comprised tables depicting the budget deficits and their corresponding growth rates of Ghana within the survey period, 2007 to 2016.

Correlation method was adopted in establishing the relationship between the annual budget deficits and the annual economic growth rates for the period under consideration. Nonetheless, the researcher realised that the budget deficit for the year 2008 (i.e. 24.2%) was an exceptional figure such that if that figure is included in the computation of the Mean for the period, it would not show a true and fair view of the average deficit for the period. This figure therefore, was excluded from the calculation of the mean. Subsequently, the corresponding growth rate figure was also excluded from the calculation of the mean for the growth rates. Regression analysis was also done to establish the relationship between these two variables.

3.1. Dependent Variable

The economic growth rate over the period was considered the dependent variable.

3.2. Independent Variables

The budget deficits over the survey period were considered the independent variable.

4. Results

In Table 1, the budget deficit as a percentage of GDP was 8.1% in 2007 while economic growth was 7.0%. In 2008 the budget deficit as a percentage of GDP was 24.2% while economic growth was 6.5%. In 2009 the budget deficit as a percentage of GDP was 9.5% while economic growth was 5.0%.

In 2010 the budget deficit as a percentage of GDP was 7.5% while economic growth was 9.0%.

In 2011 the budget deficit as a percentage of GDP was 4.0% while economic growth was 11.0%.

In 2012 the budget deficit as a percentage of GDP was 11.5% while economic growth was 8.0%.

In 2013 the budget deficit as a percentage of GDP was 9.2% while economic growth was 5.5%.

In 2014 the budget deficit as a percentage of GDP was 10.2% while economic growth was 4.5%.

In 2015 the budget deficit as a percentage of GDP was 6.7% while economic growth was 4.2%.

In 2016 the budget deficit as a percentage of GDP was 8.7% while economic growth was 3.9%.

It can be inferred from the 10-year survey that in years where the budget deficit as a percentage of GDP was high Ghana recorded low economic growth rate. Conversely, whenever the budget deficit as a percentage of GDP was low Ghana recorded a high economic growth rate. The highest budget deficit during the period was 24.1% of GDP in 2008, whereas the economic growth rate of that year was 6.5%. However, the lowest budget deficit during the period was 4% of GDP in 2011 whereas the corresponding economic growth rate was 11%. The lowest economic growth rate for the period was 3.9% in 2016 with a corresponding budget deficit of 8.9%. It is worth noting that 2016 is a general election year in Ghana and can be inferred that during electioneering period government spending becomes very high hence, resulting in lower growth rate. This can also be said about 2008 another election year where government spending went as high as 24.2% whereas the growth rate for the period was 6.5%.

In Table 2, the mean of the budget deficit as a percentage of GDP was 8.37%, the variance was 4.207% and the standard deviation was 2.051%. The mean of the economic growth rate was 6.45%, the variance was 5.362% and the standard deviation was 2.316%. The standard deviations for both variables showed that the data distributions were normal since the abnormal budget deficit figure of 24.2% of 2008 and its corresponding growth rate were excluded from the computations.

The coefficient of correlation between the deficit financing and economic growth rates for the period 2007-2016 was negative 0.5%. This shows that the two variables were strongly negatively correlated. This implies that high deficit financing in Ghana during the survey period resulted in low economic growth rate and low deficit financing resulted in high economic growth rate. The most desirable deficit financing for the period was 4% which resulted in the highest growth rate of 11.0%. Regression analysis conducted on these two variables showed that the regression equation was y =10.982 - 0.540x. This also implies that the slope of the equation is -0.54 which is in agreement with the coefficient of correlation figure of -0.5. Deficit financing in Ghana therefore is negatively related to economic growth rates. In other words, higher deficit financing results in lower economic growth rates and lower deficit financing results in higher economic growth rates.

Table 1. Determining the coefficient of correlation between deficit financing and economic growth - 2007-2016

YEAR	BUDGET DEFICIT as % of GDP	Deviation from mean	Economic Growth Rate	Deviation from mean
2007	8.1	0.27	7.0	(0.55)
2008	24.2	N/A	6.5	N/A
2009	9.5	(1.13)	5.0	1.45
2010	7.5	0.87	9.0	(2.55)
2011	4.0	4.37	11.0	(4.55)
2012	11.5	(3.13)	8.0	(1.55)
2013	9.2	(0.83)	5.5	0.95
2014	10.2	(1.83)	4.5	1.95
2015	6.7	1.67	4.2	2.25
2016	8.7	(0.33)	3.9	2.55
MEAN for the period	**8.37**		**6.45**	

Table 2. Correlation analysis of the results

BUDGET DEFICIT as % of GDP (x_i)	Economic Growth Rate (y_i)	$U_i =$ $X_i - 8.37$	$V_i =$ $Y_i - 6.45$	$u_i v_i$	U_i^2	V^2
8.1	7.0	0.27	(0.55)	(0.14)	0.07	0.30
9.5	5.0	(1.13)	1.45	(1.63)	1.27	2.10
7.5	9.0	0.87	(2.55)	**(2.21)**	0.75	6.50
4.0	11.0	4.37	(4.55)	(19.88)	19.09	20.70
11.5	8.0	(3.13)	(1.55)	4.85	9.79	2.40
9.2	5.5	(0.83)	0.95	(0.78)	0.68	0.90
10.2	4.5	(1.83)	1.95	(3.56)	3.34	3.80
6.7	4.2	1.67	2.25	3.75	2.78	5.06
8.7	3.9	(0.33)	2.55	(0.84)	0.10	6.50
TOTALS						
75.4	**58.1**	**-0.07**	**-0.05**	**-20.44**	**37.87**	**48.26**

$$u = \frac{-0.07}{9} = -0.0077,\ v = \frac{-0.05}{9} = -0.0055$$

$$\sum u_i v_i - 9uv = -20.44 - 0.00038 = -20.4404$$

$$\sum U_i^{2} - 9u^2 = 37.87 - 0.0005 = 37.8695$$

$$\sum V^2 - 9v^2 = 48.26 - 0.0002 = 48.2598$$

$$r = \frac{-20.4404}{\sqrt{(37.8695x48.2598)}} = \frac{-20.4404}{42.7501}$$

r = - 0.48 (approx.) **- 0.5**

4.1. Regression Analysis

Y= a + bx
$\sum x = 75.4$, $\sum y = 58.1$, $\sum xy = 466.27$,
$\sum x^2 = 669.58$, $\sum y^2 = 423.35$

$$a = \frac{(\sum y)\left(\sum x^2\right) - (\sum x)(\sum xy)}{n(\sum x^2) - (\sum x)^2}$$

$$= \frac{(58.1)(669.58) - (75.4)(466.27)}{9(669.58) - (75.4)^2} = 10.982$$

$$b = \frac{n(\sum xy) - (\sum x)(\sum y)}{n\left(\sum x^2\right) - (\sum x)^2}$$

$$= \frac{9(466.27) - (75.4)(58.1)}{9(669.58) - (75.4)^2} = -0.540.$$

Therefore, regression equation is: y =10.982 - 0.540x

4.2. Standard Deviation of Budget Deficits

$$\sqrt{\frac{37.87}{9}} = \sqrt{4.207} ?= 2.051$$

Variance = 4.207

Mean ± Std. Deviation = 8.37± 2.051 = 10.428, 6.319

77.777 % of the budget deficits fall within the Mean± Std. Deviation range.

Mean± 2 x Std. Deviation = 8.37± 4.102 = 12.472, 4.268.

88.888% of the budget deficits data fall within the Mean± 2Std. Deviation range.

This implies that the standard deviation for the data distribution is low. The data distribution is therefore normal.

4.3. Standard Deviation of Economic Growth Rates

$$\sqrt{\frac{48.26}{9}} = \sqrt{5.362} = 2.316$$

Variance = 5.362

Mean ± Std. Deviation = 6.45±2.316 = 8.766, 4.134

66.666% of the economic growth rates fall within the Mean±Std. Deviation range.

Mean±2 x Std. Deviation = 6.45±2(2.316) = 11.082, 1.818

100% % of the economic growth rates data fall within the Mean±2Std. Deviation range.

This implies that the standard deviation for the data distribution is low. The data distribution is therefore normal.

5. Conclusions

The research findings indicate that high deficit financing in Ghana negatively impacts the country's economic growth. This finding defeats the assertion of Lee [9] which states that sometimes deficits do matter for various economic reasons. When the economy is at substantially less than full employment; 'a tax cut or spending increase can produce some small stimulus in aggregate demand.

The researcher feels the finding defeats the assertion of Lee [9] because the Ghanaian cannot be said to be at full employment but deficit financing in Ghana within the period under review has had negative impact on its economic growth. Deficit refinancing, therefore, does not necessarily engender economic growth when the economy is at substantially less than full employment. Nonetheless, Ghana's inability to translate deficit financing into higher economic growth despite the fact that it is not at full employment can be ascribed to the fact that the country's productivity is low, therefore, increase in spending by the state only results in more money 'chasing the same quantity of goods and services'. This increase in spending instead of producing small stimulus in aggregate demand to boost the economy; rather results in inflation since it promotes increase in aggregate demand without corresponding increase in supply.

Deficit financing in the view of the researcher in Ghana is as a result of low revenue mobilisation by the state. Since the revenue side of the national budget is often lower than the expenditure side, government is compelled to source funds from other means especially through borrowing. The writer's research in other work shows that governments tax revenue as a percentage of GDP is 14.58 % [13]. This amount is woefully inadequate to support an economy that has room for expansion.

Ghana's deficit financing is from both local and foreign sources. The country floats bonds and bills on the local market to enable it obtain funds to meet the deficit in its budgets. However, in recent times the state also raises funds for deficit financing through Eurobonds. Although, these two methods eventually enable the state obtain the required funds to run its budgets, financing per Eurobonds results in weakening the value of the local currency aside other negative effects of deficit financing. This is because servicing of foreign debts becomes more expensive as the state has to struggle to obtain the scarce foreign currency to service its debts emanating from deficit financing per foreign debt; thereby raising demand for the foreign currency and weakening the local currency.

5.1. Recommendations

i Earlier writers like Lee [9] have asserted that deficit financing leads to inflation when the economy is at full employment level. However, Ghana's economy cannot be said to be at full employment level, hence, its deficit financing results in inflation because the country's productivity is low. It is therefore recommended that the state should raise its productivity level so that financing budget deficit should stimulate aggregate demand and cause appreciable economic growth.

ii Ghana's budget should be void of partisan politics; it should be drawn by the National Planning and Development Commission in collaboration with the Ministry of Finance. There should be a ceiling on the level of budget deficit within each year and these two institutions involved should be charged to adhere strictly to that ceiling so that financing budget deficit should bring desirable economic growth to the country.

iii. Since a budget deficit of 4% in 2011 resulted in substantial growth rate of 11%, although this growth rate included Ghana's first oil revenue, it is recommended that budget deficit a little below 4% (3.5- 4%) will be beneficial to the state.

iv. Governments in Ghana should be compelled to eschew over ambitious budgets especially in election years since such budgets have the tendency of producing deficits; hence culminating into budget deficit financing.

v. Since low revenue mobilisation also accounts for the nation's deficit financing, the Ghana Revenue Authority should be tasked to maximise revenue generation for the state by raking in the untaxed taxable majority of residents. When the revenue side of the budget is enhanced, apparently deficits will be minimised.

vi. Since deficit financing through obtaining foreign loans has adverse effect on the local currency apart its negative effect on economic growth. It is advisable that the state should avoid contracting foreign loans to finance its budget deficits since most of those expenditures are not for capital projects but consumption.

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