



SEIGNIORAGE REVENUE AND INFLATION IN THE GHANAIAN ECONOMY

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ABSTRACT

Governments may finance their budget deficits through aid, debt or borrowing from domestic and external sources. One of the reliable sources of government financing is the creation of base money. Meanwhile, the amount of money governments collect through money creation does not grow monotonically with monetary expansion over time. Also, higher monetary growth leads to higher expected future inflation and (through the Fisher effect) to higher nominal interest rates. This study therefore investigated the seigniorage maximizing level of inflation and confirmed the existence of seigniorage Laffer curve in Ghana. A quadratic estimation technique following Samimi-Jafari (2009) was used for the estimation. Interestingly, the high seigniorage maximizing level of inflation suggests that the economy of Ghana is far below the threshold of declining seigniorage revenue. Therefore, seigniorage as a financing source remains viable for the Ghanaian economy.

Keywords: Inflation Tax, Seigniorage Laffer Curve, Budget Constraint, Ghana.

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