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Duffuor, you got it wrong - CEPA

The Centre for Policy Analysis (CEPA) has lambasted government's macroeconomic stabilisation programme that targets a 4.5 GDP growth as inappropriate for lifting Ghanaians out of the poverty trap.

Slamming the stabilisation pact between government and the IMF that saw a revision of government's earlier growth target downward from 5.9 percent, CEPA's Executive Director, Dr. Joe Abbey, said "the near to medium-term forecasts of inflation, incorporated in the 2009 Budget Statement, is over-optimistic and unlikely to be realised."

The 2009 Budget Statement indicates that the Bank of Ghana will focus on reducing the rate of inflation to 12.5 percent by the end of the year. July's inflation rate is 20.5 percent, down from the June figure of 20.74.

CEPA calculates that given what it terms "the lingering effects of the stubbornly high and widening fiscal deficits of the last three years", its forecast of annual year-on-year rate of inflation for December 2009 is 20.9 percent, while the annual average end-year rate is 20.6 percent.

Dr. Joe Abbey, presenting a CEPA assessment and critique of the 2009 Budget Statement and economic policy of government last week, said the revised 2009 Budget, presented to and approved by Parliament the previous week, has essentially transformed the strategy of growth with macroeconomic stability into an orthodox stabilisation programme, where growth is accorded a distant second in prominence.

He notes that the stabilisation pact places tremendous constraints on government spending, saying: "the burden of adjustment is placed squarely on the shoulders of government expenditure."

The 2009 Budget Statement makes a strong commitment to the restoration of fiscal discipline, with a target of 9.4 percent fiscal deficit to budget as compared to high government spending in the previous year that racked deficit up to 14.5 percent of budget.

The CEPA assessment observes that prudent though this may be, it nonetheless leaves open serious questions about whether the deficit target is realistic and achievable, noting that any policy that ignores the socio-political dimensions of its impact poses serious implementation risks – and this stabilisation programme is one of such policy packages, as acknowledged by the World Bank.

"Now a government that rode to power on the ideology of social democracy is handicapped to pursue programmes addressing the challenges faced by the poorest, such as the National Health Insurance Scheme, the school feeding programme, and the National Youth Employment Programme," said Dr. Abbey.

CEPA finds the constraints on government spending due to IMF conditionalities rather dubious.

According to the Highlights of 2009 Budget booklet that accompanied the Budget Statement, there was a review downwards of 50 percent of “non-development expenditures including vehicles and computers”, items about which Dr. Abbey wondered how they could be considered non-developmental.

Dr. Abbey notes that a more prudent policy would be one that targets an economic growth rate of around six percent with end of year inflation just above 20 percent, and a budget deficit significantly higher than the projected 9.4 percent in the Budget Statement.

The CEPA assessment cautions that with Ghana’s current situation, government finds it hard to issue debt at reasonable interest rates in domestic as well as international markets, and therefore the temptation to pressure the central bank to finance it directly might become overwhelming.

If that should happen, the central bank would jack up interest rates to match up the increased demand, and that action would have the dual adverse impact of raising the cost of doing business as well as crowding out the private sector for financing.

“Unrestricted hikes in interest rates will not only fail to prevent resource outflows, but it will also be damaging to economic growth,” said Dr. Abbey who added that there were already signs of low intensity capital flight from the country.

CEPA concludes that for a low-income country like Ghana, faced with twin financial crises - one home-grown and calling for fiscal retrenchment and the restoration of fiscal discipline, and the other a global financial crisis and recession requiring fiscal and monetary stimuli - the challenge is how to avoid the curse of stagflation: the phenomenon of low or even negative economic growth, rising unemployment and high inflation.