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## **Balance of Payment Deteriorates Into Deficit – CEPA**



Ghana's overall balance of payment has deteriorated sharply in the last five years, plunging into a huge deficit of US\$940.8 million — the equivalent of 5.8 percent of GDP in 2008, according to the Think Tank, Centre for Economic Policy Analysis (CEPA).

CEPA will launch the Ghana Economic Review and Outlook 2009 Wednesday November 11, 2009 at the British Council Hall in Accra.

And in an invitation letter to ghanabusinessnews which contains the Executive Summary of the Outlook, CEPA said Ghana has continued to face protracted trade and current account deficits on her balance of payments. These twin deficits, it said, widened in 2008 in spite of the country benefiting from continuing terms of trade gains.

“The empirical evidence is that, for the first time in the last five years, the overall balance of payments situation deteriorated sharply, plunging into a huge deficit of US\$940.8 million — the equivalent of 5.8 percent of GDP in 2008,” it said.

CEPA attributed the worsening of the external payments position in 2008 mainly to policy adjustment failures to contain domestic demand pressures on the external accounts.

It is of the view that a highly expansionary fiscal policy as a result of election-year spending led to an increased demand for imports, and high inflation and inflationary expectations. At the same time, the inability to pass-on the effects of changes in world market prices of crude oil and petroleum products and the depreciation of the cedi compounded the situation.

The country's imports amounted to US\$10,261 million at the end of 2008 compared to US\$8,069.2 million in 2007, with almost 33 percent increase in the non-oil imports component.

The huge increase in imports according to CEPA was driven by strong domestic demand on account of increasing public expenditure and continuing appreciation of the real

effective exchange rate of the cedi vis-à-vis currencies of major trading-partner countries.

On the supply side, CEPA observed, Ghana's major export commodities — gold, cocoa beans and products — seemed to have benefited in 2008 from a more favourable external environment even in the midst of the global financial crisis and recession.

Ghana's terms of trade — the relative price of imported goods (mainly crude oil) to that of major exports (cocoa beans and gold) on world markets — generally strengthened in 2008, supporting incomes and growth, while the domestic financial system proved to be relatively insulated from the global financial storm.

This situation, CEPA observed appeared to have been reversed since the first quarter of 2009, with the core terms of trade sharply deteriorating against Ghana as the average price of crude oil on world markets continue to rise.

CEPA estimates that by the close of the year, the average price of crude oil will be within a range of US\$78 and US\$80 per barrel. Being a net crude oil-importing country, and dependent largely on imports of petroleum products, any further rise in the average price of crude oil beyond the upper limit of US\$80 per barrel will adversely affect Ghana's import bill with ominous consequences for the economy.

**Source:**  
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