

Business Week

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CEPA forecasts 20.9% end-of-year inflation

The Centre for Policy Analysis (CEPA), a civil society organization, has forecast the government will miss its inflation target of 14.5% for 2009. The centre has forecast an end-of-year inflation of 20.9%.

CEPA has forecast the inflationary trend for the next couple of months, saying inflation for August will be 20.5% September, 20.3%, October, and 20.5% in November for 2009.

This was included in the CEPA's Assessment and Critique of the 2009 Budget Statement and Economic Policy of the Government of Ghana document launched in Accra last week. It was presented by the Executive Director, Dr. Joe Abbey.

According to Dr. Abbey, CEPA finds it difficult to see the government making success in its deal with the International Monetary Fund (IMF) about borrowing millions of dollars, looking at the trend of inflation for this year.

He emphasized that one of the IMF conditions for Ghana is that it must record a central rate of inflation of 16.5% in September, this year.

According to CEPA, this is impossible for Ghana to achieve looking at the current trend of inflation. This he said will affect the government's borrowing from IMF.

Dr. Abbey said the government has to take a second look at its decision and strengthen the local economy in order to generate more fund to finance its activities rather than focusing on external parties.

Meanwhile, CEPA says it would appear that the resurgence of end-period inflation in the fourth quarter of 2008, coming soon after the deceleration of inflation on account of the post-harvest effect from June to September 2008, was totally unanticipated by the Bank of Ghana and might have posed early challenges for the inflation target regime.

It stated that IMF considers that this may be due to the rigidity in the disinflation path.

It observed that "the current straight-line disinflation path and communication strategy seem too rigid to respond well."

CEPA strongly recommends that the Bank of Ghana should consider publishing together with its forecasts of inflation on its own assessment of the extent of deviations of inflation rates from the target; on the period within which it expects inflation to return to the target; on the policy action

that it is taking to deal with deviations; and how this approach is meeting the broader monetary policy objectives, but should not heed to the IMF directions.

“Such forward-looking considerations of inflation and inflationary expectations are necessary for creating a continuous flow of information about the monetary policy committee’s (MPC’s) reactions to macroeconomic developments, as well as its effectiveness in monetary policy management,” the CEPA document stated.

However, it stated that the standard model works reasonably well for countries that have already achieved low inflation rates. Ghana is yet to achieve that and would have to go through a disinflation phase.

Consequently, the standard model “is less appropriate for Ghana because during disinflation periods credibility is likely to change over time, which is not endogenously captured in the standard model.”