

CEPA calls for right balance between growth and stability

By Charles K. Amoah, Financial Intelligence Newspaper

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Joseph Abbey, Executive Director of the Centre for Policy Analysis (CEPA), has urged government to seek ways of spurring growth, whilst pursuing macro-stability.

This, he said, called for the right balance between growth objectives and efforts at bringing down inflation in such a way that the burden on society could be lessened.

Speaking at the launch of his outfit's Ghana Economic Review and Outlook 2009 in Accra last week, Dr Abbey lauded government for its ability to calm inflationary pressures but warned of a possible overcooling of the domestic economy that could translate into collapse of businesses, loss of jobs and high levels of unemployment.

Giving an overview of developments in the current year, Dr Abbey underscored the fact that the current administration assumed power at a time of serious challenges in the macro-economic environment, which manifested in a high deficit estimated at 14.5 per cent of Gross Domestic Product (GDP) by the end of 2008.

He said although the macro-economic challenges of 2008 were primarily due to election year spending excesses, they climaxed an underlining continuous deterioration of fiscal discipline which CEPA had noticed and drawn attention to since 2006.

"The policy response in the midst of this dilemma had been to cut down on government spending drastically which has worsened the unemployment situation," the CEPA boss observed.

On the way forward, Dr Abbey suggested that government should pursue growth alongside stabilization efforts to achieve the optimal results.

Dr Nii Noi Ashong, a Research Fellow of CEPA, said the self inflicted financial crisis had called for a reduction in government spending, but the global financial crisis required the provision of government support to ignite the ailing economy.

"This puzzling situation Ghana finds itself in is what CEPA in its earlier review this year referred to as 'a tale of two cities,'" he stated.

Dr Nii Noi Ashong said Ghana has continued to face protracted trade and current account deficits on her balance of payments. These twin deficits, he said, widened in 2008 in spite of the country benefiting from continuing favourable terms of trade gains.

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 per cent 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, namely gold and cocoa beans seemed to have benefited in 2008 from a more favourable external environment even in the midst of the global financial crisis and recession.

The corresponding steady crude prices for most periods in 2008, the Institute noted, had offered the country better trade terms in 2008, supporting incomes and growth, with the domestic financial system appearing relatively insulated from the global financial storm.

This situation, according to CEPA, 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 the world market continue to rise.

In the outlook, CEPA projected a further easing of inflation through year end, saying that government's targeted 14.5 per cent year-end inflation could be achieved.

CEPA's projection has however come under serious challenge from several analysts who say increased spending during the Christmas festivities might cause consumer prices to soar in towards year end.