

**Monday January 9, 2012**

## **CEPA predicts rise in BoG policy rate**

The Centre for Policy Analysis (CEPA) has predicted a minimal rise in the Bank of Ghana's policy rate within the first half of this year.

The Executive Secretary of the centre, Dr Joe Abbey, told the Daily Graphic that the rise would be in response to pressures mounting on the various indicators used in determining the quarterly review of the rate.

"The Monetary Policy Committee (MPC) of the BoG is really under pressure to review the rate upward gauging from the quarter four MPC report that was released after that sitting," he said

The policy rate is mostly used by Central Banks to regulate the supply of money in an economy.

It is normally set based on inflationary pressures, prevailing exchange rate, government reserves and the general performance of the economy within the period under review. The rate, in Ghana, is reviewed on quarterly bases by the MPC.

The committee maintained the rate at 2.50 after the fourth quarter review last year.

But with inflation set to rise as a result of the 15 to 30 per cent adjustment in prices of petroleum products, the current pressure on the cedi and a speculated rise in government expenditure this year, Dr Abbey said "unless the BoG is well-cushioned (build up international reserves) enough to offset these pressures, a rise in the policy rate should be expected soon."

He, however, sees the rate moving up minimally so as not to signal a significant rise in the lending rates of commercial banks and a general squeeze in credit to the economy.

Dr Abbey feared that a rise in the rate would directly signal a rise

in the already tightening lending rates in the country to the displeasure of the borrowing community.

A substantial jump in the policy rate would normally cause commercial banks in the country to raise their lending rates, leading to a squeeze in credit to businesses and a slow down of economic activities in general.

The CEPA Executive Director, thus, advised the Central Bank to, if need be, revise the rate upward now "instead of waiting to increase it substantially after the pressures have built up."

**Source: Daily Graphic**