

CEPA ARTICLE FROM THE DAILY DISPATCH

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2000 AND 2008 ELECTION YEARS ACCOUNT FOR GHANA'S PRESENT ECONOMIC DOWN SURGE

The 2000 and 2008 election years have accounted for Ghana's economic down surge as both years significantly recorded large fiscal deficits.

These large fiscal deficits occurred on account of spending excesses that have become a characteristics feature of hotly contested presidential and parliamentary elections in Ghana's fourth republic. High private consumption and investment expenditures in these years-result in accelerated depreciation of the cedi, rising inflationary expectations and large depletion of international reserves among others.

The Centre for Policy Analysis (CEPA), Executive Director, Dr. Joe Abbey made this assertion in Accra at the launch of CEPA Assessment and Critique of the 2009 Budget Statement and Economic Policy of the Government of Ghana.

He explained that the earlier crisis in year 2000 was triggered by severe adverse previous developments in the tradable sector in 1999 as the realized core terms of trade based on world market prices of the three principal commodities in Ghana's international trade of cocoa, gold and oil declined sharply.

"Prices of the export commodities-cocoa and gold, plummeted while the price of the import, oil, sky rocketed. This marked an about turn of the beginning to mildly positive development that had occurred the year before in 1998", he said.

Dr. Abbey said perhaps, reflecting the sharpness of the deterioration in the core terms of trade, the financial crisis of the year 2000 was the more severe of the two. The rate of inflation reached 40% by year-end and in the foreign exchange market, the cedi went into a free fall losing half of its value in relation to the US dollar. Thus depreciating from the equivalent of GH¢0.35/US dollar at the end of December, 1999 to GH¢0.70/US dollar at the end of December 2000, a year later.

He observed that comparatively, macro-economic instability in election year 2008 was primarily due to election year spending excesses. The difference was that the spending excesses of 2008 exacerbated a persistent deterioration of fiscal discipline noticeable from 2006-what CEPA described as a phenomenon of stability high and widening fiscal deficits.

Official statistics, however, had masked the phenomenon by a practice of relying on incomplete returns to project optimistic provisions expenditure outturns in the Budget Statements presented to parliament.

"Be that as it may, the official optimistic projections caused the so-called 'fiscal surprises' as the Fitch Ratings Agency (FRA) called them when the full facts on expenditure outcomes for the year subsequently became available", he asserted.

Ghana, therefore, currently has the unenviable distinction of being in a home-grown financial crisis of her own in the midst of the global financial crisis and recession. As a result, Ghana must reduce spending at a time when others are providing fiscal stimuli in their economies considering that the impact of the global recession is already evident in the export markets in both volumes and prices in the Non Traditional Export (NTE) sector. For instance, VALCO aluminum has shut down and Benso Oil Palm Plantation has reported a sustained fall in profits in the first quarter of this year.