

Daily Graphic

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Gov't inflation target unachievable

THE Centre for Policy Analysis (CEPA) says the government's end-year inflation target of 14.5 per cent cannot be achieved considering the economic challenges facing the country. It rather predicted an end-year inflation target of 20.9 per cent.

CEPA blamed the excessive spending on the part of the government last year and the failure of the Bretton Woods Institutions (BWIs) to draw the government's attention to its overspending for the country's economic challenges.

The Executive Director of CEPA, Dr Joseph Abbey, who was presenting CEPA's Assessment and Critique of the 2009 Budget Statement and Economic Policy, in Accra yesterday, therefore, called for more resources from the international donor community and a greater growth-enhancement and efficiency in public expenditures than in the stabilisation package.

The publication touched on public capital, foreign-financed and pro-poor expenditures, Public Sector Wage Bill, energy subsidies and consultation mechanism on inflation. It contended that the economic programme for 2009 presented to and approved by Parliament with its social democratic principles was consistent with a strategy of Growth with Macroeconomic Stability.

Dr Abbey said CEPA's review of performance record over the last four years and analysis of the monetary policy-making framework led to the conclusion that "the year-on-year inflation target of 12.5 per cent for December 2009 was over optimistic and that like its predecessors would be missed by a considerable margin".

That view, he said, was affirmed in the International Monetary Funds' (IMF) stabilisation programme which revised upward the end-December 2009 to 14.6 per cent - an increase of 2.1 per cent.

"In CEPA's view the targets set in the stabilisation programme are ambitious and would prove difficult to achieve given what could be

achieved,” he stressed.

Dr Abbey said the inability to achieve the inflation target would have socio-political cost in terms of output and job losses and the additional poverty burden that would be placed on those least able to bear it, namely the already poor.

He said available evidence pointed to a slowdown in the tempo of economic activity and the continued increase in poverty indicators. He quoted the World Bank document which states that: “The impact of the current macro-economic difficulties in Ghana comes at a time when many of the poor have not yet recovered from the impact of a series of shocks starting with floods and drought in [northern Ghana] during 2007, and the food and fuel crisis during 2008” to support his claim.

Dr Abbey said given the tight planned budget deficit target of 9.4 per cent of Gross Domestic Product (GDP), total expenditure was projected to decline from 42 per cent in 2008 to 36.6 per cent this year, representing a reduction of 5.4 percentage points.

He mentioned Public Sector Wage Bill, energy subsidies, interest payments and the public debt, public capital and poverty-related expenditures as some of the critical expenditure items identified for the implementation of the budget.

Dr Abbey said the BWIs had introduced a consultation mechanism on inflation, which involves quarterly reviews for 2009 followed by semi-annual reviews starting in 2010.

Dr Abbey said whenever the realised year-on-year inflation rate fell outside the specified band, the government would have to complete consultation with the Executive Board of the IMF on the proposed policy response before requesting further disbursements under the stabilisation programme.

He said CEPA’s forecast for September 2009 is 20.5 per cent while the central target is 16.5 per cent with an inner band upper limit of 18.5 per cent and an outer band upper limit of 19.5 per cent. “Thus, should the CEPA forecast for September prove as accurate as

those in the earlier months, the Government of Ghana would be obliged to immediately enter into and complete consultation with the Executive Board of the IMF on an appropriate policy response — most likely an interest rate hike — failing which there would be no further disbursement under the stabilisation programme,” he said.

Dr Abbey said should the IMF cease further disbursements, the government would have to fall on the Bank of Ghana for funds. That, he said, would result in a competition between the government and the private sector for loans, which would consequently raise the interest rate and the cost of doing business.

Dr Abbey, therefore, called for the inclusion of civil society organisations in the negotiation between the government and the IMF on the stabilisation programme.

He said the civil society organisations, such as CEPA, could offer policy options in order to prevent the situation where the IMF could stop further disbursements.

On government's overspending last year, Dr Abbey said "due to the lack of transparency and accountability on the part of the government the truth did not come out". Besides, he said, there were excessive use of money by politicians.

"Donors managed to cocoon the government from taking note. The World Bank cannot absolve itself from blame and leave Ghana to fend for itself," he said.

He said CEPA raised the red flag but lamented that "somewhere along the line our voices did not go far".

A member of the Council of CEPA, Mrs Matilda Obeng-Ansong, who launched the publication, asked the G-20 nations to make funds available for Ghana to achieve her target for the year.