

Financial Intelligence

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IMF solutions not adequate-CEPA

Dr Joe Abbey, Executive Director for the Centre for Policy Analysis (CEPA), has said that the World Bank/IMF has given Ghana a raw deal by prescribing solutions that could solve only a part of Ghana's current crisis.

According to him, whilst the Bretton Woods institutions agree the current macro-economic imbalance resulted from local and external factors, they have only prescribed a remedy that tackles the problem half way.

“It is not just enough to be helped to deal with the home grown situation if the global challenge still persists”, he said, adding that “if the situation gets worse on the world stage, we have no answer to it”.

He calls for the need to put in place proper strategies to deal with our external sector, beginning with strengthening our local enterprises to become competitive on the West African Market and at the global market front.

Dr Abbey was speaking to the *Financial Intelligence* at the side lines of the launch of CEPA's Assessment and Critique of the 2009 Budget Statement and Economic Policy of the Government of Ghana which was held in Accra last week.

Speaking on the theme, "The Dilemma of Macroeconomic Policymaking: A Tale of Two Cities", the renowned economist bemoaned the country's precarious fiscal situation which peaked in 2008, describing it as a phenomenon of 'stubbornly high and widening fiscal deficits."

He quotes the World Bank Economic Governance and Poverty Reduction Credit (EGPRC) report as stating in part that "Lack of transparency and accountability has provided an enabling environment for the deterioration of fiscal management", but Dr Abbey insists that the Bretton Woods institutions cannot absolve itself from blame for the huge fiscal slippage that befell the country in the past year.

“ Indeed, poor access to information in a timely manner prevented large deviations from planned expenditures being brought to the public eye, and even to the notice of political parties, International Financial Institutions, and Development Partners...but CEPA had been warning against an over heating public purse since 2006. These warnings were however neglected”.

Making a comparison between 2000 and 2008 that recorded the worst slippage in recent years, the CEPA boss said, although the economic outcomes for the two years had several similarities there were important differences as well in terms of causes and severity.

"The crisis in 2000 was triggered by severe adverse price developments in the tradable sectors in 1999. The rate of inflation reached 40% by year-end and in the foreign exchange market the cedi went into a free fall, losing half its value against the dollar.

"In contrast, the realised terms of trade were generally favourable to Ghana over the period preceding 2008. As the global financial crisis unfolded in the second half of 2008, however, prices of the key export commodities, cocoa and gold, picked up and remained high in international commodity markets even as on the side of imports, the price of oil fell over the period.

To him, these favourable conditions served as a stimulus package for the country that was climaxed by the sovereign bond receipts.

These were however misused, with year 2008 witnessing massive election year spending excesses, he observed.

On foreign-financed expenditure, Dr Abbey said it was obvious there would be sharp increase in donor-dependence in 2009 and beyond, but expressed concern about whether accompanying conditionalities would allow the government to use such funds according to their own priorities.

He stressed the need to insist on value for money as the way forward, and to improve the quality and efficiency in public capital expenditures to enhance economic growth.

CEPA had concluded that the year on year inflation of 12.5% for December 2009 as projected in the budget was over-optimistic in view of the analysis of monetary policymaking framework over the past four years.

With a revision in the target to 14.6%, the policy institute still cautions government against the potential socio-political cost in terms of output and job losses.

Dr Abbey indicated that CEPA preferred other combinations of macroeconomic stability and short-run growth rates that could be socio-politically friendly to the current stabilisation programme handed over to the government.