

BoG, IMF, CEPA debate economy

By Leslie Dwight MENSAH

Monday 31st May, 2010

The Head of Research of the Bank of Ghana (BoG), Dr. Ernest Addison, has challenged the assertion by the Centre for Policy Analysis (CEPA) that the reduction in inflation from 20% in December 2008 to 16% in December 2009 cost the economy 4 percentage points of GDP.

He disputed that the consecutive declines in year-on-year inflation since the year began, reaching 11.66 percent in April, had resulted in the same percentage point declines in the growth rate of GDP this year - with its attendant loss of jobs that would otherwise have been created.

He indicated that the evidence from the past did not support the claim, and also defended the Central Bank's conduct of monetary policy over the period.

According to him, between 2001 and 2007, even as the bank took the economy on a path of disinflation, it was able to grow consistently - reaching a peak of 7.3% in 2008. "The sacrifice ratio over the period according to our estimates was negligible," he added.

He also pointed out that the bank's tightening of monetary policy in 2009 was to correct for the fiscal imbalances the economy experienced in 2008, which had fuelled the rate of inflation. The bank's response has therefore led to the current price stability in the economy.

He also acknowledged the threat to exports of a very strong domestic currency, but insisted that the current level of appreciation was warranted in order to offset the currency's severe plunge against the major trading currencies between 2008 and 2009.

Indeed, according to a recent report from the Ecobank Development Corporation, the cedi has recorded a year-to-date appreciation of 0.83% against the US dollar, making it the most stable currency in the African region so far. All other African currencies have depreciated against the US dollar, or recorded insignificant appreciations in comparison to the cedi.

Criticism of CEPA's claims also came from the IMF's Resident Representative in Ghana, Wayne Mitchell, who argued that the Centre's reference to a sacrifice ratio of 1% of GDP for a 1% drop in inflation found in an IMF paper was misleading.

He said the figure illustrated only a single scenario in the analysis found in the said IMF paper, which included another scenario in which the ratio was 0.1% of GDP, and stressed that the 1% was not defined for all scenarios.

These observations were made at the launch, in Accra, of CEPA's recent policy document titled: *The Year 2010 - from a Cocoa Economy to an Oil Economy*, in which CEPA raised concerns about the threats of disinflation and the "Dutch Disease" to growth and job-creation.

In a response, Dr. Joe Abbey, the Executive Director of CEPA, mentioned that the scenario CEPA relied on for its analysis fitted the nature of the economy's state in late 2008 which was a condition of excess aggregate demand that was fuelling inflationary pressures, and that this had led to the policy action taken by the Central Bank.

He therefore challenged the Central Bank to call a forum between CEPA, the IMF, and the bank to analyse and compare statistics on the economy in order to reach an agreement on what figures presented the best picture of the state of affairs.

"Statistics can always differ, and we can find time to analyse them carefully. But our work is to point out to policymakers the consequences of policy actions on the people," he said.

He stated that the principle behind the Centre's claims could not be faulted, since the fact remained that some measure of growth must always be sacrificed during a process of disinflation.

Reiterating the concerns raised by CEPA in the policy document, Dr. Abbey cautioned that the socio-economic impacts of policy decisions must never be overlooked, emphasising that there were already signs of the social effects of the fiscal austerity measures started by the government in 2009.

He cited increasing signs of joblessness and the dampening of business confidence as some important indicators of the impact of recent policy decisions related to government spending, inflation and exchange rates management in the country.

These developments, he felt, need to be factored into upcoming reviews of the economy's performance so that policymakers will be better guided in their actions.

FIN

B&FT