

Appreciating Cedi not good for Ghana Says CEPA

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The Centre for Policy Analysis (CEPA) has cautioned that the current appreciations in the value of the Ghana Cedi is not necessarily good for the country's development, saying that there may be dire consequences especially for the price competitiveness of made-in-Ghana goods in international trade.

CEPA's fear has heightened due to the nominal and real appreciation of the exchange value of the cedi recorded in the past two quarters, a trend the policy institute predicts, will likely continue for the rest of the year on expectations from the production of oil and the subsequent inflows of the large foreign exchange earnings from the export of oil.

“This steady and creeping appreciation of the cedi comes with associated risks of choking off the growth and employment potentials of non-oil sectors, in particular, agriculture and manufacturing. The lessons from the experiences of other African oil producers, in which windfalls in foreign exchange earnings have had a number of negative economic repercussions, need to be fully learnt”.

“Effective management of the exchange rate will therefore be critical, if oil is to enhance our growth prospects and if Ghana is to avoid the ills of the Dutch Disease”, CEPA observed.

CEPA sounded this warning at a press briefing last week, prior to the launch of the centre's new publication in Accra, titled, *"The Year 2010: From a Cocoa Economy to an Oil Economy."*

According to Dr Joseph Abbey, Executive Director of the Centre for Policy Analysis (CEPA),

there is ‘Anecdotal evidence’ which shows that some Ghanaians desire that the exchange rate of the cedi reverts to parity with the US dollar. ‘‘In CEPA’s view that would be the onset of the Dutch Disease’’, he stated.

Dr Abbey advised Ghana to learn from China when it comes to current developments and tendencies on the foreign exchange market.

He noted that whilst the Chinese appear willing to ‘‘sacrifice a measure of current well-being in exchange for jobs, Ghana, a much poorer country, even if unconsciously so, appears bent on choosing the opposite — a preference for current well-being even at the expense of having less jobs’’.

‘‘Chinese policymakers do not use the Yuan as a tool for managing inflation. They use it instead as a tool to maximize exports and employment — a tool they appear not yet ready to give up’’.

China has in recent times been having diplomatic row with the US over their currency because China is seen to have kept the value of its currency artificially cheap, thus implicitly subsidizing its exports while taxing its imports.

Another area of the economy where CEPA called on policy makers to watch keenly as Ghana awaits oil is the rate at which inflation is falling, questioning the rationale behind a single digit inflation and the associated issues of sustainability and the socio-political consequences.

According to the Centre, the inflation targets set by the IMF in the country’s stabilization programme and the pace of disinflation are in their view too fast.

‘‘Consequently, the required sacrifice in output and jobs are also inordinately high,’’ CEPA observes and call on policy makers to adopt alternative inflation targets which are more flexible and forward looking.’’