Economy

Inflation is not only the problem; address weak structural fundamentals of economy – IEA to government

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The Institute of Economic Affairs (IEA) is calling for a durable solution to address the weak structural fundamentals of the economy which have become recurring problem.

In its response to the recent policy rate hike and the rising inflation rate, the economic think tank said inflation is not the only macroeconomic problem facing the economy, but also the high fiscal deficits, high public debt, exchange rate instability, high rate of employment, large external imbalances, among others.

on low-value added primary export products and high import dependency.

It therefore expects the durable solution through transformation of the colonial-type economy to a vibrant industrialised economy.

“The only way to find a durable solution to these recurrent problems is to address the economy’s weak structural fundamentals. This should be done through transformation of the colonial-type economy to a vibrant industrialised economy. This cannot, however, be achieved by relying on our narrow tax base and borrowing but rather by leveraging our vast natural resource wealth by taking ownership of it.”

We didn’t call for scrapping of Inflation Targeting Framework

The IEA also dismissed earlier publications calling for the scrapping of the Inflation Targeting (IT) framework.

It rather said the framework is less effective in the Ghanaian context and therefore called for a more comprehensive approach, whereby the Inflation Targeting framework would be complemented with interventions directly targeting the entrenched supply and cost factors.

“The IEA wishes it to be known that, contrary to some of the reports circulating around, the IEA never called for the IT framework to be abandoned. The IEA only said that the framework is less effective in the Ghanaian context where transmission of the PR impulses is slow and inflation has strong supply and cost undercurrents.”

“While the IEA recognises that inflation has been brought down progressively under IT, it has to be noted that, along with inflation, almost all key macroeconomic indicators have improved during the period in question, in line with the generally improved macroeconomic management of the economy. Regarding the inflation target, it is the case that the (8+/-2)% has been in place almost forever, which, in a way, seems to suggest a lack of sufficient ambition on the part of the MPC to lower inflation further to levels comparable to those of Ghana’s peers or trading partners”, it added.

IE… esses satisfaction with policy rate increment

saying, it will balance the risks between inflation and growth.

Ahead of the policy rate announcement, the IEA projected 200 basis points increase in the policy rate

“The IEA is pleased to note that the MPC came to the same conclusion when it declared that: “…with the strong rebound in growth……, the balance of risks is clearly on inflation.”

“As to by how much the PR was to be raised, the IEA posited that consideration should be given to the wide gap between the policy rate (17.0%) and inflation (23.6%); the policy tightening by major central banks, which increases the risk of foreign currency outflows from developing and emerging market economies and which could put renewed pressure on the cedi and the increase in the PR by as much as 250 basis points at the last MPC meeting, an increase that might not have exerted its full impact. Taking all of these factors into consideration, the IEA suggested that the MPC should increase the PR by another 200 basis, an increase that might not have exerted its full impact. Taking all of these factors into consideration, the IEA suggested that the MPC should increase the PR by another 200 basis”, it posited.

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