

DEALING WITH CERTAIN FUNDAMENTAL ECONOMIC ANOMALIES IN GHANA

Hon. Dr. Stephen Amoah- MP,
Nhyiaeso Constituency (29th January, 2025)

Right Honorable Speaker, I am extremely thankful to you and your noble outfit for according me this prestigious opportunity to make this important statement in this august house.

Mr. Speaker, I am making this statement on certain fundamental financial economic anomalies in Ghana which need to be rectified. One of such policies is the management of our monetary policy with respect to the periodical adjustment of Ghana's policy rate. Monetary policy is simply about decisions made by central banks such as the bank of Ghana make on the money supply and interest rates. Normally, policy rates are determined to optimize the amount of money in circulation.

The strategic technique of adopting inflationary targeted monetary policy in Ghana has not really yielded the expected results. It has rather been a strategic drift.

Mr. Speaker, policy rate increased from 12.92% in 2011 to 25% in 2016 with their respective inflationary rates increasing from 8.73% to 17.51%. Policy rate decreased from 22.5% in 2017 to 16.00% in 2019 with their corresponding inflationary rates of 12.39% to 7.17%. GDP growth reduced from 13.90% to 3.4% in the same period. Between 2021 and 2023, GDP reduced from 5.10% to 2.90%.

Mr. Speaker, policy rates in 2020, 2021, 2022, and 2023 were 14.75%, 14.00%, 20.21%, and 29.50% and inflationary rates were 9.94%, 9.96%, 31.49% and 40.28% respectively. In inflationary targeted monetary policy, the policy rate is increased to reduce inflation so that the economy can be stabilized. The above trend illustrates the opposite. Increases in the policy rates rather increases inflation generally. *most of the time.*

Mr. Speaker, this policy anomaly must be checked by the relevant stakeholders to stop its dysfunctional contribution to our unstable economic performance. It erodes the purchasing power of Ghanaians. It increases the cost of doing business and lowers standard of living. It is only when inflation ~~like~~ ^{increases as} is as result of demand pull, that is when people are buying and selling and there is a high circulation of money on the market that one can adjust the policy rate upwards and vice versa. *Typically* Most of the times, Ghana's inflation is induced by cost push, *ie.* from the supplier's side. Interest rate has been a very strong element in the aggregate cost of doing business, as most investors in Ghana rely on debt financing. (I mean loans) Cost push inflation does not profoundly induce economic growth. In the trends analyzed above, the corresponding GDP growths were not generally rather following the expected trends.

Mr. Speaker, my maiden statement during the 8th Parliament also unraveled another important anomaly. That was the pricing of treasury bills (government securities, risk free) and the comparable risky assets on the market. It is making Ghana's market or economy deviate from the global standard. In fact, all the traditional models for computing the returns from investing in risky assets are not effectively applicable in Ghana. It defeats the fundamental principle of risk-return policy in investment. Examples are the Capital Assets Pricing Model (CAPM) and the Arbitrage Pricing Theorem (APT). It is introducing the element of arbitrariness in the decision making processes of capital assets' pricing in Ghana. Some schools of thoughts have it that it is as a result of governments' high demand for funds. We are dealing with a dysfunctional policy decision and its adverse impact on our economy. All these comments are welcome as they may assist in dealing with the inimical policy. It is indeed, dysfunctional to the performance of the republic of Ghana. It calls for a policy shift as well as regulatory reforms by the relevant stakeholders.

Mr. Speaker, being hungry does not necessitate intake of pathogenic materials, ~~or~~ ^{toxins}.

These anomalies contribute not only to the high cost of doing business but also high exchange rates, low productivity, high unemployment and banks' risk exposure. Ghanaian companies can not produce to meet aggregate demand and therefore resort to importation. Ghana's economy can be accordingly described as double digit interest rate economy and it is basically, among other factors, caused by these financial economic anomalies. There are other policies that we need to critically look at. For instance, ~~complete~~ ^{absolute} free market economy and even specific policy tools for managing our fiscal space as a developing economy. A country in which we have a weak entrepreneurial ecosystem and profiteering culture, we should begin a conversation as to whether we need a mixed market economy to provide specific price cap policies for monopoly, oligopoly and the cartels. For controlled market economy, Mr. Speaker, I will not advise for a capitalistic economy to be exercised.

Mr. Speaker, I would like to propose that a committee is set up by the Finance Committee, ~~the~~ Economy and Development Committee and Budget Committee to engage the Bank of Ghana and possibly the Finance Ministry on these important policies.

We need to remedy these fundamental anomalies to enable us build a resilient economy for the purposes of attaining the needed long term economic growth and stability. Without that, our quest for economic independence, national import substitution, strong and stable currency, and high employment rate will never be realized.

Mr. Speaking, I would like to end with a plea. Please, I pray that some of these critical issues will be accorded the needed attention and action.

I thank you, Mr. Speaker, once again in anticipation.