

Inflation to go up?

The consumer price index has eased down further to 16.92 percent in November from the October figure of 18.04 percent.

However, analysts are worried that the declining of inflationary pressures will be short lived.

This is an account of re-introduction of taxes on food staples announced in the 2010 budget statement to parliament in November.

The government reintroduced import taxes on food staples such as rice, wheat and corn in the 2010 budget statement.

The re-introduction of the taxes which is expected to begin next year January is expected to bring along some hikes in food staple as result of imported inflation.

Experts say the importers will pass on the cost of taxes on the final consumer. Again considering the near inelastic demand for foreign staples such as rice on the local scene and also the lack of local capacity to meet the market demand in the very short term, the taxes would help push prices upon the market.

The worry again is that given the seasonal dry nature of the early months of January to April, where food prices are high, the food component of the CPI basket was expected to increase.

Another reason is that crude oil prices have not abated on the international oil market. As the winter approaches in certain continents there is the likelihood that demand for the commodity will go up and this is likely to push prices up.

Currently crude oil prices hover around USdollars74 per barrel.

The Bank of Ghana has projected an end of year inflation target of between 14.5 percent and 17.5 percent and the inflation easing further down was therefore within the range of the forecast.

In November 2009 inflation rate for non-food group was 20.05 percent as against 12.38 percent for food group” she said.

The Government Statistician, Dr Grace Bediako, however was optimistic that inflation will ease further down. “We expect inflation to ease further down”, she said.

The Minister of Finance and Economic Planning, Dr Kwabena Duffour attributed the decline in inflation to the sound macro economic and fiscal stabilization measures implemented by the government.

That, he said, had led to significant reduction in the fiscal and external deficits and sharply built-up the stock the country's stock gross foreign reserves.

"Together, these have also had significant positive impact on the cedi" he stated.

Experts argue that the depreciation of the cedi observed in the first half of the year has been reserved in the second half of the year. The rate of depreciation of the cedi to the dollar at the interbank market declined sharply from 5.4 percent in January this year to 0.9 percent in July.

The cedi has since appreciated in each month against the dollar; 1.7 percent in August; 0.7 percent in September, 0.6 percent in November.

According to the Finance Minister, the depreciation of the cedi had contributed significantly in lowering inflation, causing the consumer price index to drop in four conservative months", Dr Duffour stated.

The minister said the expectation was that inflation would further decline by the end of the year as the appreciation of the cedi was expected to keep imported inflation low.

Source: Graphic Business, Dec 15-21, 2009.