CONSULTATIVE GROUP (CG) MEETING ON GHANA

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WELCOME REMARKS

BY

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My co-Chairman, Mr. Mats Karlson, Country Director of the World Bank,
Colleague Ministers and Members of Parliament,
Excellencies, Members of the Diplomatic Corp,
Development Partners,
Distinguished Ladies and Gentlemen,

Welcome

It gives me great pleasure to welcome you all to the 14th Consultative Group/Annual Partnership Meeting.

Last year, around this time, we met at the Accra International Conference Centre for the 13th Consultative Group/Annual Partnership Meeting under the theme, **"Results and Resources: A Partnership for Shared Accelerated Growth"**. There is no doubt at all that this regular annual dialogue on Ghana's development is helping us address the challenges that confront us in our effort to move this nation towards a middle income status and, thereby, attain the Millennium Development Goals by 2015.

Theme

The theme for this meeting, ***"Human Resource Development for Accelerated and Shared Growth"***, is chosen to reflect the on-going effort Government is making to increase the capacity of the nation's human resource to the level that will drive and sustain the private sector- led growth agenda.

Overview of the Ghanaian Economy

The focus of our economic policy is to deepen and consolidate the overall macroeconomic stability that has been achieved over the past six years, as reflected in rising GDP growth, declining inflationary trends, low interest rate regime, stability of the cedi against foreign currencies, and the build-up of our external reserves. The economy has remained resilient even in the wake of the increased world crude oil prices and the energy crises being experienced currently.

Medium-Term Macroeconomic Framework

Government policies for the medium term are designed to raise the current growth rate of 6.2 percent to 8 percent by 2009 and maintain it around that level over the medium term, to achieve an inflation target of 5 percent by 2009, and preserve relative exchange rate stability, within a stable macroeconomic environment. The external current account deficit of 8.2 percent of GDP in 2006 is expected to narrow to about 7 percent of GDP by 2009. Pursuit of continued consolidation of public finances will hold the overall fiscal deficit down to an average of 5 percent of GDP, and the public domestic and external debt will be maintained within sustainable levels.

Fiscal Policy

Fiscal consolidation over the past few years has entailed reforms with significant improvement in the tax system. These include:

- Introduction of NHIS tax on a value added basis
- Reducing corporate income tax, and raising the minimum income tax threshold to the level of the annual minimum wage.
- Eliminating a number of distorting special taxes and levies.
- Maintaining external tariffs within relatively low dispersions (between 5-20 percent).
- Improving efficiency of the tax administration to enhance the yield of the existing tax system (eg. establishment of Large Taxpayer Unit).
- Review of the import duty exemptions regime; and
- Further rationalization of expenditures, including transfers to public entities.

Improved administration of the tax system will enhance the revenue mobilization effort. Revenue as percentage of GDP, which has averaged about 23 percent is projected to be maintained over the medium term. The fiscal deficit which is estimated to fall from the 7.8% of GDP in 2006 to 4.2 percent by 2009, will be maintained over the medium term.

Government has committed to implement a *Growth with Stability Compact.* This is aimed at ensuring that stability is not compromised while scaling up investment in the critical growth areas.

Under this compact, Government will introduce:

- A fiscal rule using total public debt to GDP ratio as an anchor;
- A high level Value-For-Money Unit to ensure proper selection of projects for inclusion in the public investment budget, and efficient use of funds.
- An enhanced public debt management regime for debt sustainability analysis.
- An enhanced Public Private Partnership policy to encourage the private sector to participate in key infrastructure aspects of the accelerated growth agenda.

Monetary Policy

I believe the Governor of the Bank of Ghana will give some insight into the monetary policy issues when he presents his opening remarks. I will, therefore, leave that for him.

Investment Strategy

The medium term framework has an estimated set of investment required to achieve the MDGs (The Investment Plan presented to the Consultative Group Meetings in June 2006). They are designed to remove bottlenecks constraining output in the short-run and build the infrastructural foundation to facilitate private sector investment, and increase economic capacity and productivity.

At the same time, Government will continue to pursue the established policy priority of investing in human resource development, promoting the private sector, and deepening good governance, as anchors of social and political stability.

Structural Policy

Let me highlight a little bit, the institutional reforms that have been put in place to further deepen the financial sector and safeguard the safety and soundness of the financial system. Over the past years, the following legal and regulatory framework and policies have been put in place:

- Credit Reporting bill to allow for the setting up of credit referencing agencies to enhance the pricing of risks and delivery of credit especially to the private sector.
- An amendment to the Banking Law that strengthens the regulatory powers of the Bank of Ghana and provides for “off-shore” international banking with non-residents.
- A new foreign exchange law has been passed which overhauls the Exchange Control Act, removes the uncertainty about the rules governing transactions in the foreign exchange market, and investment and capital flows into the country. It simplifies the documentation and approval procedures that burdened the system under the Exchange Control Act, liberalizing the exchange and payments system and effectively opening the economy to global markets. It will also serve to deepen the domestic financial markets.
- An Anti-Money Laundering Bill to give statutory underpinnings to existing procedures and practices for countering illicit and suspicious financial transactions.
- Listing of government securities on the GSE as well as the non-resident participation in domestic government securities to facilitate the development of the domestic capital market.

To remove identified bottlenecks to facilitate growth, Government is committed to further reforms and institutional set-ups to underpin the growth strategy.

Challenges to the Economy

The energy crisis that hit the country has forced many manufacturing enterprises to acquire their own power generating plants at great cost. Government is aware of the effect the crisis is having on businesses in the country, given the increase in fuel prices in recent times.

The high crude oil prices on the world market has compelled the National Petroleum Authority to adjust ex-pump prices of petroleum products in line with the movements in world crude prices. This, obviously, poses a major threat to the accelerated growth strategy as the effects permeate all sectors of the economy.

Government, however, is taking major steps to close the infrastructure gap in the energy sector, by increasing investment in the sector. As a short term measure, thermal plants will continue to be installed.

The medium and the long-term measures include the construction of the Bui dam and the utilization of gas through the West African Gas Pipeline which will soon become operational.

Let me conclude by indicating that, Government has designed and intends to pursue consistent and predictable macroeconomic policies to provide the underpinnings for a private sector led growth of the Ghanaian economy. These policies will build on the foundation created over the past years by investing in growth catalytic infrastructure to create space and improve incentives for private sector development in a competitive market economy. These policies and structural reforms will induce investments needed to boost productivity and expand output in line with the objectives of becoming a middle income country.

I believe that this country is moving in the right direction, and with hard work, and the support of our development partners, we will transform the economy into the middle income one that we have targeted for 2015.

May I once again welcome all of you and wish you very fruitful deliberations and stay throughout the period.

Thank you for your attention.