

14TH CONSULTATIVE GROUP MEETING

STATEMENT BY DR. PAUL A. ACQUAH, GOVERNOR, BANK OF GHANA

ACCRA, JUNE 18, 2007

Mr. Chairman, Your
Excellencies,
Invited Guests,
Ladies and gentlemen.

1. Let me (also) welcome you all to this year's Consultative Group Annual Partnership Meeting.
2. Ladies and gentlemen, this 14th Consultative Group Meeting is taking place against the background of strong macroeconomic indicators. The economy is now in its 7th consecutive year of sustained and broad-based expansion in an environment of relatively subdued inflation expectations and currency stability. GDP growth reached 6.2 percent in 2006. Early forecasts for 2007, suggest that there could be an even faster pace of growth of 6.5 percent this year.
3. The external current account position (including official transfers) moved from a deficit of 6.1 percent of GDP in 2001 to a deficit of 2.5 percent of GDP at the end of 2006. This, with the benefit of debt relief and with sizable capital inflows has enabled us to build a good cushion of external reserves.

4. This macroeconomic picture is underlined by strong anti-inflation focus on monetary policy. And, on the fiscal side, the domestic debt to GDP ratio has been cut from about 24 percent in 2002 to 13.5 percent in 2006, thus reducing the pressure on the money market, and freeing resources for the private sector.

5. The financial sector has grown more competitive liquid and sound with strong capital adequacy levels; and banks have become more dynamic in mobilizing savings for on-lending to the private sector instead of investing primarily in government paper (in fact, credit to the private sector grew by 56.2% in the year to March 2007 on top of a 32.9% growth a year earlier. And deposits show a similar growth pattern. The non-performing loans ratio of banks declined to 6.9 percent at the end of March 2007 from 12.9 percent recorded a year ago. There is evidence of considerable financial deepening and improved intermediation and diversification of financial products (including mortgages and consumer loans) in the industry.

6. Looking ahead, Co-chairs, our objective is to focus policy on developing the financial sector to create an efficient financial services industry and market which is key in emerging market economies. In this direction, we see the legal and regulatory reforms as well as institutional and payments system infrastructure development as essential.

7. The measures introduced to promote financial market reforms, include the new financial laws that have been passed (e.g. the new Banking Act and its recent amendment, Payments System Act,

Foreign Exchange Act, etc.) and others that are currently in the pipeline including the Anti-Money Laundering Bill and Proceeds from Crime Bill; changes in the regulatory ratios and the removal of restrictions on the investment portfolio of banks; and the entry of new financial institutions to promote competition and innovation etc.

8. The Bank of Ghana is embarking on an ambitious project to implement a National Electronic Payments and Settlement System which will comprise Electronic Funds Transfer, a domestic Switch, a Wide Area Network, Automated Clearing House, Codeline Cheque Truncation and a smartcard payment system accessible to the unbanked. This together with the recently established RTGS and the Central Securities Depository will constitute a modern integrated payment system to serve as a platform for developing the financial industry (the penetration rate currently is estimated to be less than 10 percent). Moreover, as part of the Millennium Challenge Account Compact, all rural banks will be computerized and integrated into the national payments system through a Wide Area Network.

9. In the area of financial laws reforms, let me single out three key legislations passed most recently.

- The Banking Act has been amended to establish a framework to admit internationally active banks as market players to serve as the banking component of the International Financial Services Centre.

- The Credit Reporting Act (Act 726) is intended to resolve the gaps in information flows in credit assessment and allow better pricing of risks in the delivery of credit.
- Finally, the new Foreign Exchange Law, passed at the close of the year, 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 has allowed us to simplify the documentation and approval procedures that burdened the system under the Exchange Control Act, liberalise "de jure" the exchange and payments system, effectively opening the economy to the global markets.

10. Another key policy action undertaken in the context of payments system reforms and which has implications for the entire economy - is the impending redenomination of the cedi which is to start in July. We should note that the prevailing currency regime is not adequately supportive of business transactions. High transaction costs, general inconvenience and high risks involved in carrying loads of currency for transaction purposes, increasing difficulties in maintaining bookkeeping and statistical records and ensuring compatibility with data processing software, and the strain on the payments system, particularly the A TMs are but a few of the many sources of inefficiency that characterize the current note regime in an economy that is growing increasingly complex.

11. The re-denomination exercise is therefore aimed at removing the deadweight burden or costs on the economy and improving the role of the cedi as a means of exchange, as an integral part of reforming the payments system to provide a basis for enhanced productivity and better growth performance.

The Outlook

12. Ladies and gentlemen, our assessment of developments over the first five months of this year indicates that the macroeconomic outlook remains favourable even in the midst of the energy crisis. The Bank of Ghana's Composite Index, which gauges economic activity, grew by 21.8 percent a little above trend growth of 20.9 percent. The Bank's survey of business confidence however showed a dip from highly favourable levels in preceding quarters. Obviously the energy situation and the load shedding programme played a significant role in shaping business sentiment.

13. The high pace of economic expansion has certainly come with an increased demand for energy, estimated to have been growing at around 7 percent annually. And, this coupled with supply shocks has an economic impact that is expected to be uneven across sectors, with the energy sensitive sectors (mining and manufacturing) most affected. In the aggregate the risks to GDP growth may be on the up-side, given the ongoing momentum of economic expansion. Clearly a long-term energy sufficiency is essential for sustained acceleration of growth.

14. On the outlook for inflation, the energy situation continues to pose some risks and the policy focus is to ensure that the cost price increases associated with it do not become embedded in inflationary expectations. Monetary policy will thus continue to be committed to the single digit goal with fiscal policy and maintaining the fiscal anchor to underpin macro-stability. The Bank of Ghana's commitment is underlined by the formal adoption of an inflation targeting framework for monetary policy operations. This is expected to help anchor inflation expectations further over the medium term, and to deliver on price stability and financial stability to complement the accelerated investment strategy of government.

15. To conclude, we see the macroeconomic outlook favourably and expect continued robust economic growth within a relatively low inflation environment. In spite of the positive outlook and resilience the economy, there remain some risks including risks from the supply side as well as terms of trade that could slow the growth momentum. Scaling up resources to support higher investment would play a significant role in the growth acceleration strategy designed to achieve the Millennium Development Goals and an emerging market economy status.

Thank you.