

CONSULTATIVE GROUP
(CG)
MEETING ON GHANA

JUNE 30, 2008

ACCRA, GHANA

OPENING STATEMENT

BY

KWADWO BAAH WIREDU, MP

Hon. Minister of Finance and Economic Planning

**My Co-Chairman,
Colleague Ministers and Members of Parliament,
Excellencies, Members of the Diplomatic Corp,
Development Partners,
Distinguished Ladies and Gentlemen**

I feel honoured to welcome you all to the 15th Consultative Group meeting for Ghana.

2. Indeed, this year's theme reflects the new thinking for Africa's development and creates an avenue for us to re-examine the kind of partnership we have had over the past several years. It calls on all eminent leaders of our time to assess their role in partnering other stakeholders to develop our Continent. I am convinced that we are all poised to contribute to the current need to pool our resources towards efficient public investments that have the potential of accelerating development in Ghana.

3. As we reflect on our shared partnership, I would like to state that in Ghana, the anchor of our shared zeal of pushing this country from the throes of poverty

to accelerated growth and wealth creation , since 2001, has been positive cooperation thus the choice of the theme, **‘Ghana’s Aid Policy- A Joint Approach To Accelerated Development’**.

Economic Management: Past and Present

4. Our path to accelerated development has not been without challenges but these challenges have served to prove our mettle and competence in maintaining a sound social and economic environment.

5. In 2001, the Government was tasked with the responsibility of salvaging this economy from its state of persistent deterioration. We took the bold decisions, stood the challenge of accepting the Highly Indebted Poor Countries Initiative (HIPC) programme and exited it within three years. The Government at the same time strengthened the institutions of good governance through continuous and structured economic reforms to uphold our macroeconomic stabilization policies.

6. The Government has additionally introduced various schemes aimed at mitigating the plight of the poor in society and directly taking the burden of under development from the populace.

7. Some of these measures include:

- The introduction of the national health insurance scheme which currently has a membership of about 55 percent of the population;
- The Micro-Finance and Small Loan Scheme (MASLOC), which has so far benefited 83,509 persons with an amount of GH¢25 million;
- The School Feeding Programme which has benefited about 477,714 school children;
- The Capitation Grant;
- The National Youth Employment Programme which has employed about 108,339; and
- The Livelihood Empowerment Against the Poor (LEAP)- a programme which is directed at the very poor in society

We believe that these programmes have positively impacted on the lives of many Ghanaians and will continue to be implemented in the medium term with a more sharpened focus.

8. It is evident that our shared efforts have resulted in economic growth increasing from 3.7 percent in 2000 to 6.2 percent in 2007, and a reduction in inflation from 40.5 percent end 2000 to about 12.7 percent in December 2007. Tax revenue as a percentage of GDP has also increased from 16.3 percent in 2000 to about 22.9 percent in 2007. The impressive growth performance was indeed poverty reducing and it is evident in the results of the GLSS VI which indicated that poverty has reduced from 39.5 percent in 1999 to 28.5 percent in 2005/06.

9. Consistent with Ghana's penchant for chalking firsts, Ghana was the first Sub-Saharan country after South Africa and the first post HIPC country to access the international capital market with the debut Eurobond which was highly oversubscribed. This bold step has been described in current development literature as an 'unparallel achievement.' Most of the resources from the bond issue were used to fix the energy problem in 2007. The remaining funds will be

used to construct some of the major strategic roads, railways rehabilitation and ports improvements.

10. The policies of the Government have yielded positive dividends as many businesses have sprung up in the commercial capitals of the Country. Incomes have increased and Ghanaians have understood the need to save and invest for a better future through the stock market, acquisition of mutual funds and undertaking of productive businesses.

11. The economic transformation between 2001 and 2005 focused attention on poverty reduction and therefore much of the external resources, especially, the HIPC funds were directed towards poverty reducing activities. GPRS II raised the bar with a sharper focus on growth, with the aim of achieving the levels of tangible growth required to minimize poverty.

12. Today, we are being called to align our aid and resources to one primary target. Seven years from now, we want Ghana to achieve 'middle income status.' Thus, we are reprioritizing all investments towards this goal.

13. We undoubtedly require huge resource inflows, intensive capacity building, adequate monitoring of the process and the support of all stakeholders to achieve this goal. Recent projections suggest that Ghana needs to grow between 9 to 10 percent from 2009 and 2015 if we are to enter the big league.

Economic Shocks

14. The Ghanaian Economy stood resilient to economic shocks between 2001 and 2006 with the country maintaining high international reserves and a stable exchange rate. With the appropriate fiscal stance we achieved high economic growth rates.

15. However, between 2006 and now, we have experienced additional shocks such as the domestic power supply shock, higher crude oil prices and escalating food prices that staled our resistance potential.

16. The pressures from these shocks could potentially wipe away a country's foreign reserves, cause inflationary pressure and compromise its growth efforts.

For instance, Ghana's crude oil import bill has risen from US\$500 million in 2005 to US\$2.1 billion as at the end of 2007, and is moving to US\$2.5 billion for the same quantity of oil.

17. Government has used both price and tariff adjustments, restructuring of normal government business and tightened fiscal stance to address the problems.

18. We are implementing new measures to ensure that these developments are sustained. For instance, at the request of the VRA and ECG, the PURC on June 16 2008, announced some adjustments in electricity Special Load Tariffs – High Voltage (SLT-HV) customers, comprising high voltage consumers of electricity, such as the mining companies and steel mills.

19. Consequently, with effect from July 1, 2008, this category of consumers will pay a Bulk Generation Tariff of 16.91 Ghana pesewas per kWh, which will translate into an End-User Tariff of 22.31 Ghana pesewas per kWh.

20. In addition to the increase in tariffs for the high voltage users, the use of the hydro component for generation will be increased, while the emergency power plants will be shut down.

The President's Announcement

21. It will be recalled that on May 22, 2008, H. E. President John Agyekum Kufuor announced measures to enable Ghanaians cope with the rising cost of living resulting from the rising prices of petroleum products and food. H. E. the President indicated that a taskforce had been constituted to study the situation on a continual basis so as to recommend such actions as would be necessary from time to time, until stabilization and normalcy are achieved. The immediate and direct cost of the removal of taxes and duties is about GH¢92.47 million.

22. These measures are meant to be temporary and are targeted at providing some relief and partly to foster local food production. The implementation of these measures is being supported by other revenue enhancing measures by the appropriate agencies and a cut in some government expenditures.

23. I can assure all partners that, government is committed to ensuring that the economy remains robust during and after the 2008 elections.

Fiscal Stance and the Way Forward

24. The overall fiscal deficit for 2007 rose from 7.8 percent of GDP in 2006 to 8.1 percent reflecting to some degree, investments to address energy supply bottlenecks and some one-off expenditures. The high fiscal slippage in 2007 was due in part to rising crude oil and food prices, as well as wage overrun equivalent to 0.7 percent of GDP. As a way forward, government is strengthening the control mechanism with respect to the recruitment of public sector workers.

25. Some part of the deficit, we recall was just one off expenditures that would not be repeated in 2008, such as the hosting of GHANA 2008. Again, government had to support the purchase of crude oil for VRA and emergency plants to a tune of about - GH¢192.5million. Currently, the management of VRA is going to be audited and reviewed to ensure that VRA and ECG become viable to pay back resources injected into their operations from the bond market.

26. In the current period, we have seen the negative impact of the external shocks, particularly the rising prices of crude oil on the economy. We have put in place other mitigating policies based on our priorities to minimize the expected impact in 2008. The lag effects of the shocks will persist till the end of the second quarter but the third quarter will take into consideration the impact of our policy response. It is expected that all the macroeconomic policy variables will respond accordingly.

27. Within the short to medium term, there is a high demand for economic growth which requires huge investments in the railways, roads, water and energy sectors. The investment requirements pose a high financial challenge for Ghana.

28. We recognize that if Ghana is to integrate effectively regionally, then, we must ensure that our infrastructure is up to scratch to ease trade and assist Ghana accelerate its Development. Government appreciates the potential challenges and risks lying on the road to achieving the middle income status by

2015. I wish to assure all that we are taking all necessary measures towards the achievement of our set goals in a sustainable manner.

Conclusion

29. Let me at this point thank you all for your commitment towards Ghana's agenda of employing a joint approach through accelerated development for the single goal of attaining a middle income status by 2015. The future looks challenging but bright, and, I strongly believe that collectively we could propel the country to the heights to which Ghana truly belongs.

30. Thank you for your attention.