Paul A Acquah: Overview of the economy in Ghana

Opening remarks by Dr Paul A Acquah, Governor of the Bank of Ghana, at the Consultative Group Meeting, Accra, 21 June 2006.

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The economy is in its fifth year of deepening macroeconomic stability. Indeed, it is significant that the Fund staff have characterized it as a 'mature stabilizer'. And the logical policy thrust is to extend this record of economic performance in the coming years and to accelerate growth.

It is fair to say that this round of discussions of the Consultative Group is taking place against the backdrop of significantly changed economic outlook, reflecting strong fundamentals underpinned by anti-inflation focus of monetary policy and fiscal consolidation over the past five years. There is evidence that the private sector is responding positively. Banks are restructuring their portfolios to increase lending to the private sector; with inflation expectations subdued, business planning horizons are being stretched out and the rising capital inflows suggest an increasing investor appetite for risk in the domestic market. The economy seems to be at the cusp of developing in the pattern of emerging market economies.

Looking ahead, monetary policy and prudential supervision, along with the accompanying fiscal policy and public expenditure management, are being formulated with a commitment to maintaining financial stability to support an accelerated growth that would be broad based. And this should lock in hard-won economic gains and preserve domestic and external debt sustainability, secure good sovereign credit ratings, and the confidence of the markets and development partners.

To develop an economic system for an efficient allocation of resources, there are proposed modifications to the legal and regulatory framework governing the financial system and the domestic money and capital markets. Much of the necessary payments systems infrastructure are already in place, which will serve to develop efficient financial services industry and markets, which is key in emerging market economies. These structural changes will help to maintain the health and stability of the financial system. They will also improve the transmission mechanism of monetary policy actions (e.g. the speed with which banks and the markets react to interest rate movements).

To be specific, let me indicate some of the legislation that will hopefully pass through Parliament this year. These have major significance for developing a market for financial services and an economy well integrated into the global market. These include, the Foreign Exchange Bill, which will give a *de jure* effect and recognition to the liberal external trade and payments regime operating in the country and remove the documentation and bureaucratic requirements associated with the Exchange Control Act 1961 (Act 71). The second is the Credit Reporting Bill that would mitigate a good deal of the credit risks associated with lack of information on borrowers and that is an important factor in credit defaults and non-performing loans. The third is the Central Depository System Bill, which ensures certainty and safety of title to equities and government debt instruments – it should foster the development of the stock market. And finally, the Anti-Money Laundering Bill, which will protect the integrity of the financial system.

I have dwelled on the policy commitment to financial stability and efficient domestic capital markets for good reasons. We have seen the economy grow in resilience. We have used the strong external current account position and capital flows, including debt relief under HIPC initiative, to fund a substantial build-up of reserves. This provides cushion against rising oil prices and other shocks. The significant reductions in the stock of external debt and the domestic public debt over the last few years have improved the savings-investment and growth dynamics and there are signs of growing investor interest in taking risks in the domestic market. We are therefore making these changes to set the stage for the domestic capital market to play a central role in resource intermediation and the growth process.

On the side of fiscal policy, the objective of accelerating growth to high and sustainable levels demands that the budget moves beyond the low consolidation threshold of managing tight cashflows and liquidity, towards levels where public expenditure policy provides the vehicle for growth-critical investments to create synergies with the private sector to lead the growth process. Obviously, underlying macroeconomic policy should continue to give confidence to the markets that the fiscal space created through consolidation and debt relief will be used productively without risks to macroeconomic stability.

The Government's investment strategy establishes the way forward. It identifies a huge infrastructure deficit which must be addressed to reduce barriers and other bottlenecks to growth, while pulling on all the levers to develop the productive capacity of the economy.

Distinguished Ladies and Gentlemen, a comprehensive investment plan has been put together to move forward the public sector growth agenda under the GPRS II. The plan requires fresh resources to scale up investments. This is the core of the growth and poverty reduction agenda which development partners will be considering for support at this meeting.

Thank you.