

**ADDRESS BY THE MINISTER FOR FINANCE & ECONOMIC PLANNING,
HON KWADWO BAAH-WIREDU AT THE MEET THE PRESS SESSION
ON THE 12TH APRIL 2006**

1. **Ladies and Gentlemen**, I speak to you at today's session of the Meet the Press Series with pleasure. Thank you for being present. I intend, if I may, to address the following matters briefly: State of the Ghanaian Economy Tax Exemptions this Year The Flat-rate Value Added Taxation Control of Delays in Pension Payments Removal of Penalties on the Price of Forfeited Vehicles Capacity Building of our Revenue Collection Agencies The Setting up of a Financial Intelligence Unit

2. **The State of the Economy**: Ladies and Gentlemen, Ghana's economy has shown remarkable strength in the face of record-high crude oil prices. It has been a vindication of the prudent manner in which the resources of this country have been managed in the last five years. This positive picture of our economy is also reflected by the findings of various surveys and studies by reputable international authorities, which have designated Ghana as an attractive destination for investment.

3. It is the confidence government derives from this healthy state of our economy that has made it possible to invest in such human-centred projects like the recent tax reliefs for all workers, employment-creating Venture Capital Scheme, the abolishing of basic school fees, the introduction of feeding programmes in our basic schools, and the abolishing of tax on the minimum wage, among many others.

4. We are grateful to Ghanaians for their patience and the cooperation that have made these achievements possible.

5. **Fiscal Performance**: Fiscal outturn for 2005 indicates that the 2005 budget performance was good. Not only did we achieve the main fiscal targets and balances, we actually exceeded some of them. Overall budget balance showed a deficit of 2.1 percent of GDP, against the projected budget deficit of 2.2 percent. Domestic primary balance recorded a surplus of 3.4 percent of GDP against the budget target of 2.5 percent. Net Domestic Financing of the budget showed a repayment of ₵1,574.4 billion, which was higher than the budget repayment target of ₵996.2 billion. Thus, Government was able to reduce the domestic debt by ₵1,574.4 billion, that is, ₵578.2 billion more than the budget target.

6. **On Receipts and Payments**, total revenue and grants for the period under review amounted to ₦28,256.4 billion representing 29.1 percent of GDP and over 96 percent of budget target. And total payments was lower than the budget target of ₦35,801.3 billion by ₦872 billion.

7. Provisional figures indicate that a total of ₦938.9 billion was paid into the District Assembly Common Fund. Payments into the GETFund were also transferred on schedule with total transfers amounting to ₦980.2 billion. In addition to the current payments for 2005, a total amount of ₦97 billion was transferred to the District Assembly Common Fund and the GETFund in respect of arrears that were ringfenced. The Road Fund and other petroleum-related funds also received a total of ₦967.3 billion, of which the Road Fund received ₦926.9 billion.

8. **On the External Sector**, the current macroeconomic statistics reflect major policy reforms, and they speak for themselves. The economy has shown significant resilience in 2005 despite deterioration in the terms of trade due to high crude oil prices. At the end of 2005, external liquidity conditions showed that the external sector remained viable with Gross International Reserves at \$1.874 billion enough to provide about 3.7 months of import cover. This strong performance has been held to date.

9. The external payments position has grown increasingly favourable, and has withstood the hikes in oil prices on the international market. The improvement is consistent with trends over the last four years, with significantly increased volume of trade. Over this period, exports have increased by 56.5 percent, -oil imports have increased by 59.0 percent, and net private transfers (remittances) have doubled. The external payments position is expected to continue to strengthen through 2006.

10. The supportive external conditions in 2005 with sustained demand for commodities impacted positively on the domestic economy and the economic indicators show that real sector economic activities have increased.

11. **Money Growth:** Indicators on monetary aggregates suggest that there has been a slowdown in growth of money supply, while at the same time, credit to the private sector has increased. Annual growth of reserve money slowed considerably from 21.8 percent in December 2004 to 13.0 percent in December

2005, the lowest in a decade. The reserve money growth of 13.0 per cent at the end of December 2005 compares with a budget target of 18.2 per cent.

12. Similar to the trends in reserve money growth, money supply through December 2005 registered significant slowdown. At the end of December 2005 broad money (M2) growth stood at 13.7 percent (compared with a target of 21.5 percent) down from 26.6 percent in December 2004.

13. **On Credit to the Private Sector**, credit by the Deposit Money Banks to the private sector continued on a rising path, reaching 14.9 per cent of GDP by December 2005 from 13.1 per cent over the same period in 2004. The distribution of credit flow over the period was fairly broadbased, but with continued utilization in the services, manufacturing, commerce and the import trade sub-sectors.

14. **And on inflation developments**, the latest Consumer Price Indices point to a steadily diminishing inflation pressures. Headline inflation which stood at 40.9 per cent in January 2001, was cut to 14.8 percent at the end of December 2005. It further reduced to 12.1 percent last February. Ladies and Gentlemen, inflation today, March 2006 has dropped to 9.9 percent.

15. **Now, what is the Outlook?** The improved economic conditions should serve to underpin a positive outlook, moving forward to accelerated growth based on the investment strategy and reforms underlying the Ghana Poverty Reduction Strategy II. It is expected that with the efficient use of the fiscal space created by debt relief, and the continued implementation of prudent policies, GDP growth could be raised into the range of seven to eight percent per annum, which is what is needed to achieve the Millennium Development Goals (MDGs).

16. Monetary policy will continue to be geared towards lowering inflation to single digit by the end of 2006. Financial sector policy will focus on the exchange and payments system to give clarity to the existing rules on foreign exchange transactions, and provide assurance that the economy is open for capital flows.

17. **On the Multilateral Debt Relief initiative (MDRI)**, Ghana has benefited from the MDRI which will cancel Ghana's debt owed to the World Bank, the IMF and the African Development Bank. Of course, there have been enough public discussions about this already. Ghana qualified for this debt relief on the strength of our recent overall macroeconomic performance, efforts at poverty

reduction, and improvement in public expenditure management as earlier mentioned.

18. The debt relief will go a long way to meet our resource requirements for the Millennium Development Goals (MDGs). The resources will be used to further enhance the realisation of our development objectives by increasing the level of public investment and providing for key poverty sectors.

19. **In conclusion**, the fiscal and monetary policy framework initiated in 2001, and which have so far brought about significant progress in stabilizing the economy with improved fundamentals and outlook will be strengthened. The economy is poised to make the transition from stability to high growth.

20. So much on the macro economy. Now, I come to **tax exemptions this year**. Two weeks ago, the President gave his assent to various amendments to the Internal Revenue Act, 2000 (Act 592). These amendments paved the way for different tax exemptions and provided other incentives for companies within the Venture Capital Industry. Ladies and Gentlemen, as a government, we are sustained in our continued support for a vibrant Venture Capital Industry by our recognition of the private sector as an avenue for employment creation, and our desire to equip such an industry.

21. Further, the Presidential assent has given legal force to the income tax exemptions for all workers and the complete abolishing of tax on the Minimum Wage. Actually, these exemptions preceded the presidential assent, and have been in force since January this year. In total, the income tax reliefs being implemented this year would cost the state 293 billion cedis. The aim of government in granting these reliefs is to leave more money in the pockets of Ghanaian workers and to increase their purchasing power.

22. In the 2005 budget, the Ministry also promised our operators in the informal sector that we would introduce **flat-rate value-added taxation**. We are currently in close consultations with the leadership of Ghana Union Traders Association (GUTA) and other stakeholders to provide a scheme with which informal traders in the distributive sector would be comfortable.

23. There is a Consultative Committee made up of experts on the scheme, the leadership of GUTA and other stakeholders at work. It is our projection, and one we are determined to achieve, that the flatrate scheme will take off by the 1st of August 2006.

24. Ladies and Gentlemen, **Pensions**. The Presidential Commission on Pensions completed its work and submitted its report to the President last year. The government has already indicated its intention to respond favourably to the Commission's recommendations. The Commission has also been charged to work out in more detail the cost and other financial implications of its proposals.

25. But even before government responds fully to the Commission's work at the presidential level, our Ministry is taking some steps to correct delays in pension payments. The Controller & Accountant-General's Department has been restructured, and the procedures for accessing pension benefits streamlined to remove causes of delays in payments. Additionally, the process of issuing pensioners' ID cards has been decentralised to the regions to relieve pensioners of the burden to travel to the national capital for the purpose.

26. Another change that received presidential assent recently was the **abolishing of the penalty component of the price at which vehicles forfeited to the state are disposed off**. Previously, the reserve price at which a forfeited vehicle was disposed off included the duties and taxes plus other penalties chargeable on the vehicle. By the amendment, the penalty component has been abolished.

27. This price reduction is intended to make such cars more affordable to lower income earners. Our Ministry is working out ways of facilitating the purchase of these forfeited vehicles by people in the less urban communities and in lower income brackets.

28. But such efforts to help the less privileged sections of the citizenry come as loss of revenue to government. So, we have to improve our **revenue mobilisation and cost control systems** to keep the momentum of our development programmes. In line with this, our Ministry is currently building the capacity of our revenue collection agencies and that of the Controller and Accountant General's Department. We have confidence in the personnel in these agencies, and are confident that they will deliver the expected improvements in our revenue mobilisation.

29. Finally, let me pay some attention to recent revelations about **financial improprieties** in certain areas of both public and private sector finances. Last month, substantial debts standing in the name of La Palm Beach Hotel and other operators in our hospitality industry came to public attention. But these

were not ordinary debts. They are fallouts of a sophisticated network of shady transactions that have cost some of our state-owned financial institutions considerable losses.

30. Our Ministry has taken note of the improper actions and inactions that have contributed to this mess. Government will perform its motherly responsibility of ensuring that the smooth operations of the affected hospitality companies remain undisturbed. But also, steps will be taken to unveil the perpetrators behind these improprieties and the law applied accordingly.

31. Still on **financial institutional building**, we may recall that in March 2001, government expressed its intention to conduct management and financial audits into operations of several public institutions. Firstly, the audits sought to ascertain the authenticity of payment demands made by certain suppliers and contractors, some of whom were threatening legal actions. Secondly, these audits aimed at discovering ways through which transparency and accountability in financial management of public institutions could be improved.

32. The findings of these audits revealed a complete breakdown of corporate governance procedures in most of the institutions audited, leading to the abuse of the procurement processes and misuse of public funds. For the twenty-one public institutions audited, a total of over ten trillion cedis was discovered to have been lost to the state. In every case the auditors had a reason to do forensic audit, their suspicions were confirmed.

33. These developments vindicate this Ministry's earlier commitment to set up a **Financial Intelligence Unit** in the country to assist in the protection of the public purse. I am happy to disclose that the Ministry does this with the support of our international development partners.

34. I have sent word to the Legal Drafting Unit of the Attorney-General's Department that our Ministry will make available to them the required support once they have presented budget estimates for the associated work. I have already directed that two additional offices be created under in the Ministry and personnel of the requisite competence appointed on a temporary basis as a start up 'incubator' of the proposed Unit.

35. As the drafters of the proposed law proceed with their work, it would be useful to legislate on some relevant sections of the Law now. For example, a

Legislative Instrument on Reporting of Suspicious Activity by the banks as well as Know-Your-Customer Legislative Instrument with the associated regulations can be tabled for enactment by Parliament.

36. Through such an approach, it may be reasonable to assume that before the end of this year, a comprehensive legal regime against financial crimes would have evolved.

37. **Ladies and Gentlemen, we have to build a strong nation.** We have to do it because nobody will do it for us. There is no nobility in retreat. Let us stay focused, and we can and will achieve the desired results for the benefit of ourselves and that of our unborn generations.

Thank you for your audience. But before I take my seat, may I mention that there will be a supplementary budget presentation in July 2006. Thank you.