

THE STATE OF OUR ECONOMY

Speech Delivered by:

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2012 NPP Vice-Presidential Candidate**

At the:

Ferdinand O. Ayim Memorial Lecture

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Accra

Mr. Chairman, H.E. John Agyekum Kufuor, Former President of the Republic of Ghana

H.E. Alhaji Aliu Mahama, Former Vice President of the Republic of Ghana

Presidential Candidate of the New Patriotic Party, Nana Addo Dankwa Akufo-Addo

Honourable Members of Parliament

Chiefs and Traditional Leaders

Members of the Diplomatic Corps

Representatives of other Political Parties

Members of the Media

Distinguished Invited Guests

Fellow Ghanaians

Ladies and Gentlemen

Good evening!

I would like to thank all of you for making the time from your busy schedules to be present at this year's Ferdinand Ayim Memorial Lecture.

This is my first major public statement since being selected by Nana Addo Dankwa Akufo-Addo (with the support of the National Council of the NPP) as his running mate for the December 2012 Presidential elections. I want to take this opportunity to express my profound gratitude and appreciation to Nana Akufo-Addo for the honour of reaching out again to select me to serve as his running mate, and Insha-Allah, as the Vice-President of the Republic, under an Akufo-Addo presidency.

Mr. Chairman, I believe that in selecting me as his running mate, Nana Akufo Addo is sending a message to the nation about his vision for the economic transformation of this country. I was

privileged to have served this country in my capacity as a technocrat and Deputy Governor of the Bank of Ghana between 2000 and 2008.

During this period, I was privileged to be part of a dynamic team of patriotic Ghanaians that implemented policies and economic reforms that succeeded in moving Ghana from a HIPC country to a lower middle income country in 8 years! You would recall that under the Vision 2020 agenda, Ghana was supposed to achieve middle income status by the year 2020. Initially the NPP directed its efforts at Ghana achieving middle income status by 2015. The fact that Ghana was able to do this after 8 years of NPP governance and economic management was truly remarkable and a credit to the leadership of H.E. John Agyekum Kufour, policies, commitment and focus of the team, and the hard work of all Ghanaians.

I would like to use this occasion to assure Ghanaians that economic transformation through dynamic and innovative economic management has been done before and I believe it can be done again under the leadership of Nana Addo Dankwa Akufo-Addo. And I am fully committed to Akufo-Addo's agenda and vision for the economic transformation of Ghana.

The selection of me, a Muslim from the north, to partner he a Christian from the South also a message to the nation on the need for unity and to build bridges to each other and to the future. We are one people. We should not allow anybody or group of people to tear us apart. We should all recognize that notwithstanding our differences, Ghana remains a shining example in this world of a country where people live in harmony notwithstanding our ethnic, cultural or religious differences. I believe that an opportunity to serve Ghana should not be turned into an opportunity to serve oneself or one's family, friends or your tribe. It is an opportunity and a privilege to serve all of Ghana, regardless of ethnicity, gender, religion, education, income, etc. It is an opportunity to make Ghana better for all! Not a Better Ghana for a privileged few. This is what Nana Akufo-Addo means by building a society of opportunities and aspirations in Ghana and I am privileged well-connected to partner him to serve Ghana if our party is given the mandate, Insha Allah.

When I was asked by the Trustees of the Ferdinand O. Ayim Foundation to deliver this Lecture on any subject of my choice, I found it appropriate to focus on a topic that is on the mind of many Ghanaians: **“What is the real state of our economy?”** In subsequent speeches during this campaign, I will have the opportunity to focus on Nana Akufo-Addo's vision and the specific

programmes and policies of the NPP to deliver this vision, Mr. Chairman, to be able to do anything substantial about the economy, you need to know what the real state of the economy is, and to understand the state of Ghana's economy today, we first have to understand where we are coming from, where we are and where we ought to be going.

Where are we coming from?

Mr. Chairman, for the most part since independence, Ghana's economy has been characterized by long periods of high and volatile inflation and macroeconomic instability which has reflected in high and variable interest rates and significant exchange rate volatility and depreciation.

The excessive fiscal expansion in the run-up to the 2000 Presidential and Parliamentary elections tipped our economy into a cycle of inflation and currency depreciation, and this coincided with a sharp deterioration in the commodity terms of trade (i.e. the price of our exports versus the price of our imports). In the short span of one year ending December 2000, the cedi, lost 50 percent of its value vis-à-vis the US dollar. The country's gross international reserves were so depleted that it could not cover a month's imports, and external payments arrears were building up. Headline inflation was running at 41 percent; the fiscal deficit had increased from some 6.0 percent of GDP in 1999 to 9.0 percent of GDP. Economic growth also declined significantly to 3.7% by 2000.

The debt burden of the economy increased dramatically during the structural adjustment period, with external debt as a proportion of our income (GDP) rising from 27 percent in 1984 to 103 percent by 1994 and rose further to 158 percent by 2000. The country was having difficulty servicing its debts. Ghana had become a highly indebted poor country (HIPC).

It was against this background that the New Patriotic Party (NPP), under the able leadership of President John Agyekum Kufuor opted to take advantage of the debt relief available under the IMF/World Bank's Highly Indebted Poor Country (HIPC) Initiative in March 2001. The HIPC initiative provided Ghana with debt relief of close to \$4 billion. At the time Ghana's external debt was \$6.1 billion.

The period between 2001 and 2008 saw the implementation of a remarkable number of structural reforms, policies and reforms that laid the foundation for a major expansion in economic activity, access to credit, and macroeconomic stability.

Many concrete policies were implemented to make sure that the private sector was enabled to drive growth and social safety nets were put in place to protect the poor and vulnerable in society. In the financial sector, the NPP also implemented a strategy aimed at repositioning Ghana as an International Financial Services Centre (IFSC) within the sub-region. The accomplishments were significant and included the following programs, policies, and interventions:

Policy Reforms & Interventions (2001- 2008)

1	• National Youth Employment Program	15	• Millenium Challenge Account
2	• National Health Insurance Scheme	16	• Single Spine Salary System
3	• School Feeding Programme	17	• Automating Fast Track Courts
4	• Capitation Grant	18	• Creating Commercial Courts
5	• Free Maternal Care	19	• Expansion of Energy Capacity -e.g Bui Dam
6	• Metro Mass Transport	20	• Refocusing of GNPC's Mandate - Oil Discovery
7	• Free Metro Mass Ride for children	21	• Stadia - Tamale, Sekondi, Kumasi Accra, Cape Coast
8	• Cocoa sector policies	22	• Water Supply and Roads Infrastructure
9	• Repeal of the Criminal Libel Law	23	• Debt Relief from the HIPC Initiative
10	• Public Procurement Act	24	• Bank of Ghana Act 2002
11	• Whistle Blower Act	25	• Monetary Policy Committee (MPC) process -
12	• Internal Audit Act	26	• Universal Banking
13	• National Identification Authority	27	• MASLOC
14	• Livelihood Empowerment Against Poverty (LEAP)	28	• Schools, Universities; Hospitals and Clinics

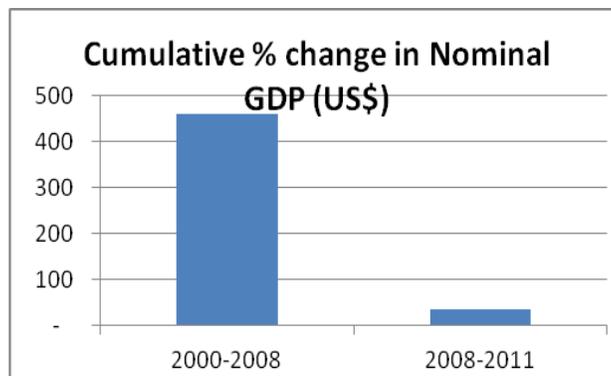
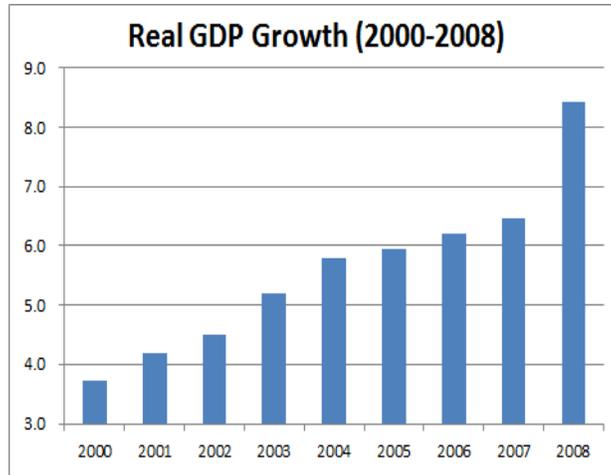
Policy Reforms & Interventions (2001- 2008) continued

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| 29 • Abolishing Secondary Reserve Requirements | |
| 30 • Banking Act 2004 | 43 • Non-Bank Financial Institutions Act 2008 |
| 31 • Banking Amendment Act 2007 – Offshore Banking | 44 • Central Securities Depository Act 2007 |
| 32 • Long Term Savings Act 2004 | 45 • Insurance Act 2006 (Act 724) |
| 33 • Venture Capital Trust Fund Act 2004 | 46 • National Pensions Act 2008 |
| 34 • Payment System Act, 2003 | 47 • Treasury Single Account |
| 35 • Foreign Exchange Act 2006 | 48 o ARB Apex Regulations 2006 (L.I. 1825) |
| 36 • Anti-Money Laundering Act 2008 | 49 o Real Time Gross Settlement System (RTGS) |
| 37 • Credit Reporting Act 2008 | 50 o Central Securities Depository (CSD) |
| 38 • Licensing of first Credit Reference Bureau | 51 o Automated Clearing House (ACH) |
| 39 • Establishment of a Collateral Registry | 52 o Cheque Codeline Clearing (CCC) |
| 40 • Borrowers and Lenders Act 2008 | 53 o National payment system - (ezwich) |
| 41 • Insolvency Act, 2003 | 54 • Redenomination of the Currency |
| 42 • Home Finance Act 2008 | 55 • Increase in minimum capital requirements |
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This is a phenomenal record of reform. The wide ranging reforms that were implemented in the 2001-2008 period resulted in a major economic recovery with macroeconomic stability and significant deepening of the financial sector.

I would like to note that:

- Between 2000 and 2008, without oil, economic growth increased from 3.7% to 8.4%. In the process, the size of Ghana's economy increased from some \$5.1 billion to \$28.5 billion, a six-fold increase (see graph below), Now that is what can be described as unprecedented! Even in the face of a global economic and financial crisis in 2007/8 (with oil prices reaching a record high of \$147/barrel) economic growth in 2008 rose to 8.4%.



- In that crisis year (2008) the agriculture, industry and service sectors registered 7.4%, 15.1% and 8.0% respectively (without oil).
- Average Income per person (GDP per capita) was increased from \$370 in 2000 to over \$1000 by 2008
- The government budget deficit as a percentage of our total income (GDP), was reduced from 9% in 2000 to 1.9% in 2005, but subsequently increased to 4.8% in 2006, 4.9% in 2007 and 6.5% in 2008 in the face of the synchronized global financial crisis and commodity price shocks. Note, Ghana's fiscal deficit as a percentage of our total income (GDP) in 2008 was 6.5% - not 14.5%. In that same year, the fiscal deficit in Botswana was 15%, 8.5% in Japan, and 7.1% in the United Kingdom.

- Single digit inflation was obtained in April and May of 2006 but as a result of the global financial and economic crisis and increased government expenditure on wages and infrastructure especially, inflation increased to 18.1 % by the end of 2008, compared to 40.5% in 2000.
- Total Debt was reduced from an unsustainable 189% of of our total income (GDP) in 2000 to 29% by 2008.
- Bank deposits/GDP reached a record level 36.0 percent by 2008 compared with 16% in 2000. Private Sector Credit/GDP increased significantly from 14.0 per cent in 2000 to 30.0 percent by 2008. I probably do not need to remind anybody that Banks were chasing customers to offer loans during this period.
- Average Bank lending rates were reduced from some 44% to 27.3% by 2008.
- The Exchange rate was largely stabilized in the 2001-2008 period, even though it came under pressure during the crisis year of 2008. Nonetheless, for the 8 year period between 2001 and 2008, the total exchange rate depreciation of the cedi was 43%, moving from GHC 0.688 at the end of 2000 to GGHC1.10 at the end of 2008.
- Poverty declined from some 40% of the population to 28% by 2008 along with significant increases in access to healthcare and education enrollment.

Mr. Chairman, what is undeniable is that Ghana was transformed during the period of the NPP's tenure (2001-2008) from a low income HIPC economy to a lower middle income economy on the frontiers of emerging market status. In this regard I am very amused when I hear our political opponents on the NDC side try to argue that they would like to compare the first three years of the this government with the first three years of the NPP. How can one even suggest such a comparison? By analogy if you hand over to me an inefficient Tico car and a few years later I work hard to buy an efficient Mass Transit vehicle, which I then hand over to you, how can you turn around to say that you want to compare the performance of the efficient Mass Transit vehicle with that of the Tico you originally handed over to me? The NDC inherited a very different economy from the NPP. The raft of reforms, including the single spine salary system

which we will implement fully as designed, an inflation targeting monetary policy framework, etc moved the economy from low income to lower middle income status. In comparison, what are the new policy initiatives implemented by this government since 2009? Unfortunately, as I am about to point out, the efficient Mass Transit Vehicle the NPP handed over is breaking down slowly and the earlier we take it back the better.

So where are we today?

Mr. Chairman, the worst form of financial crisis to have hit the global economy since the great depression of the 1930s is largely over and the global economy is on a path to recovery. This is particularly strong in the emerging market economies and the developing world. Crude oil prices have fallen significantly below the July 2008 highs of \$147/barrel while the prices of other primary commodities like gold and cocoa have increased. Ghana has been particularly lucky in this regard.

**Terms of Trade improved after financial crisis
in 2008**

	<i>Average prices & TOT</i>			
	<i>Cocoa</i>	<i>Gold</i>	<i>Crude oil</i>	<i>TOT</i>
1997-2000	1,512	296	19	158
2001-2004	1,108	337	29	87
2005-2008	1,032	652	74	48
2009-2011	1,987	1,240	83	83
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% Change ('05-08 & '09-11)	93	90	13	73

Ghana has benefited from the following developments on the resource and external front since 2009:

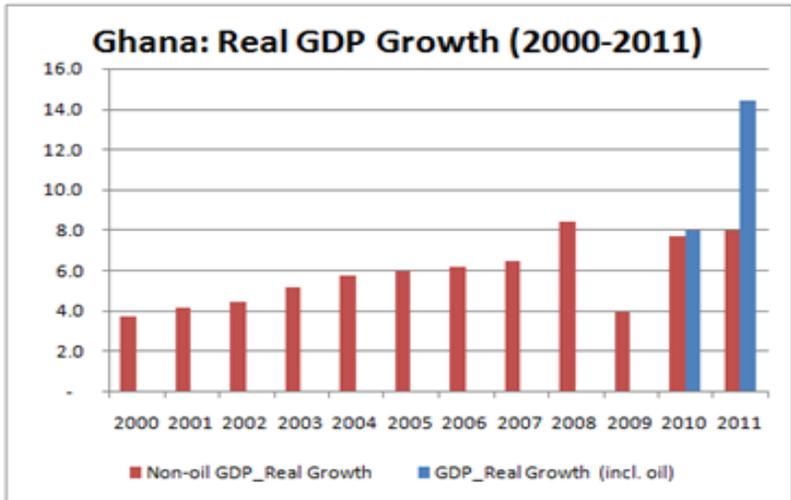
- The discovery of oil (in commercial quantities) by the Kufuor Administration in 2007 has boosted Ghana's economic growth significantly, as reflected in our recent real GDP growth data, indicating that real GDP growth has increased from 8.4% in 2008 (without oil) to 14.4% in 2011 following the onset of oil production.

- Oil prices (for which Ghana is now an exporter) increased by 13% between 2009 and 2011.
- Gold prices are around the highest in our history. On average gold prices increased from US\$652/fine ounce (between 2005 and 2008) to US\$1240/fine ounce between 2009 and 2011. An increase of 90%!
- Cocoa prices are also at an all-time high. Increasing from GBP1032/tonne between 2005 and 2008 to GBP1987/tonne between 2009 and 2011. An increase of some 93%.
- Ghana's core terms of trade (i.e. the price of our main exports versus the price of our main imports) has therefore seen an improvement of some 73.0 percent between 2009 and 2011.

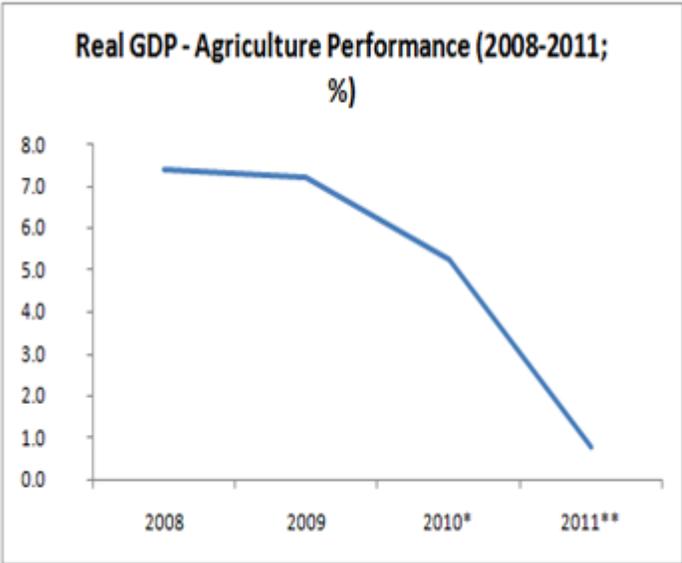
Ladies and Gentlemen, this Government inherited oil, and at the same time cocoa and gold prices have virtually doubled in the last three years. It has also borrowed so much money on our behalf and in the process has more than doubled Ghana's total public debt (I would say more on this shortly). With this set of economic opportunities, Ghanaians should as a matter of right expect a much better Ghana.

But what are we experiencing today?

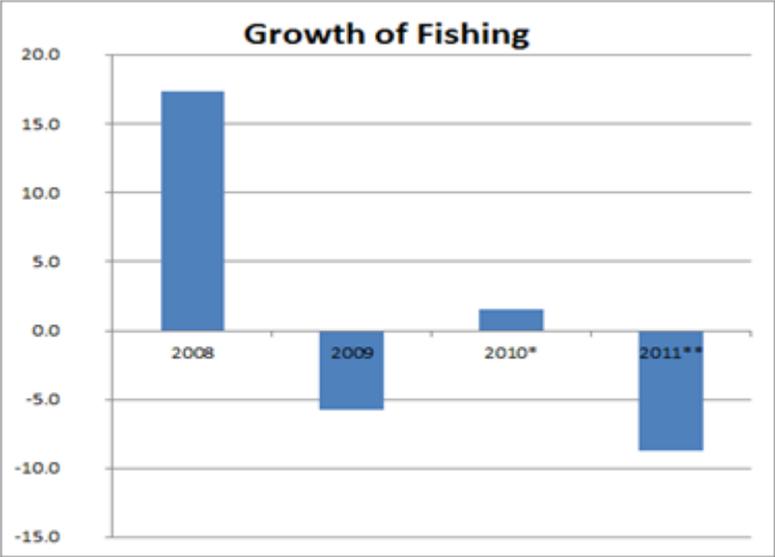
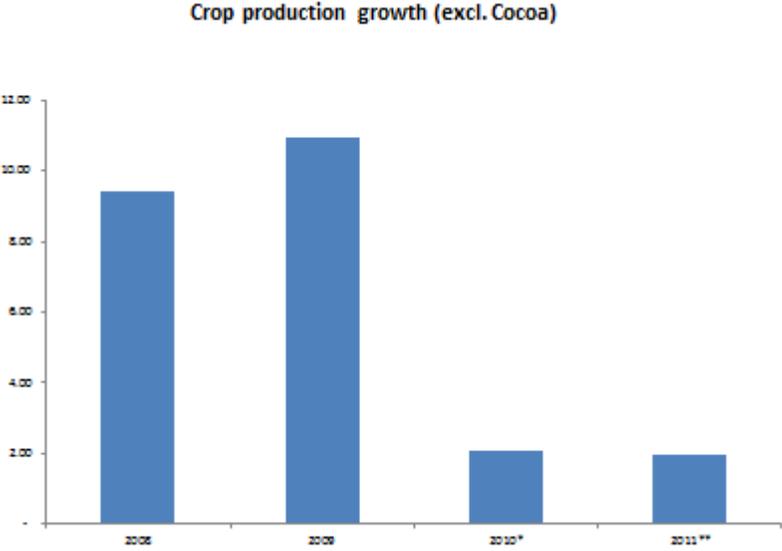
Mr. Chairman, the supposedly rosy picture painted by an oil driven GDP growth rate in 2011 masks some worrying underlying developments in the real sector of the economy.



With all the favorable resource and external sector developments, GDP growth for 2011 (excluding oil) is actually 8.7 percent. This is not much different from the 8.4% growth achieved in 2008 in the face of a severe global financial crisis and without oil. The performance of the agriculture sector since 2009 is very worrying because of its importance in our economy and in particular the number of livelihoods that depend on this sector. The data shows that rather than expanding, the agriculture sector of the economy has seen steadily declining growth from 7.4% in 2008 to 0.8% by 2011.

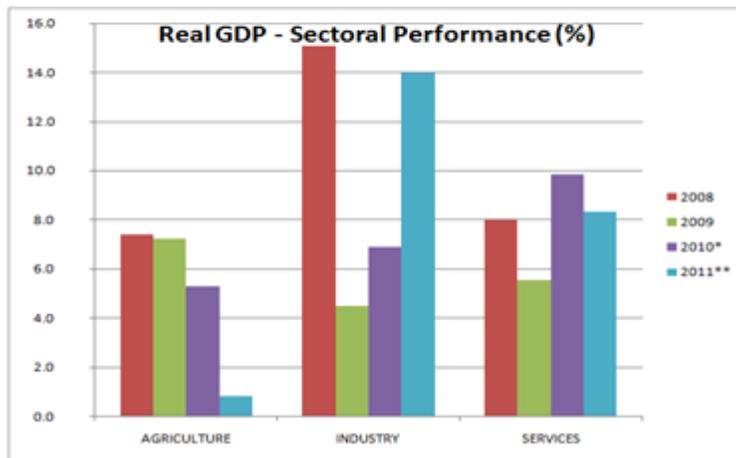


Excluding cocoa, crop production has registered less than 2.0 growth in the last two years, while the fisheries sector has also seen a significant decline in growth from 17.4% in 2008 to -8.7% in 2011. The growth in the fisheries sector is now negative!



Industry growth (excluding oil) has not fared much better, with a decline from 15.1% in 2008 to 4.5% in 2009, 6.9% in 2010 and 14.1% in 2011. Electricity and construction sector growth have slowed down. The growth in electricity production has slowed down from 19.4% in 2008 to -0.8% in 2011.

Excluding oil, agric and industry growth rates have declined while the service sector is relatively stagnant



Growth in the construction sector has also slowed down from 39.0 percent in 2008 to 2.5% by 2010, and increased to 20% by 2011. Services sector growth has also remained relatively static, marginally improving from 8.0% in 2008 to 8.3% by 2011. Persistent electricity blackouts, water and gas shortages have also increased the cost of doing business. There has also not been a policy framework targeted at supporting the private sector to become competitive globally.

What is clear from the performance of the real sector since 2008 is that growth rates in agriculture (where most people depend on for their livelihood) and industry have declined. The question that we should ask as Ghanaians is why aren't these sectors growing at much faster rates than they were when we had no oil and following the significant increase in cocoa and gold prices? How are we going to create jobs when critical sectors of the economy like agriculture are not growing? At yesterday's May Day celebrations, the Secretary General of the TUC bemoaned the fact that Ghana appeared to have a booming economy that is not creating jobs to address the major challenge of unemployment in general and youth unemployment in particular. Well, it is clear from the evidence so far that in fact, the economy is not booming outside of the oil sector but rather what we are seeing is declining growth in the agriculture and industry. The jobless growth we are seeing in Ghana under this government is therefore not a mystery. You cannot create jobs when critical sectors are significantly declining.

Single Digit Inflation

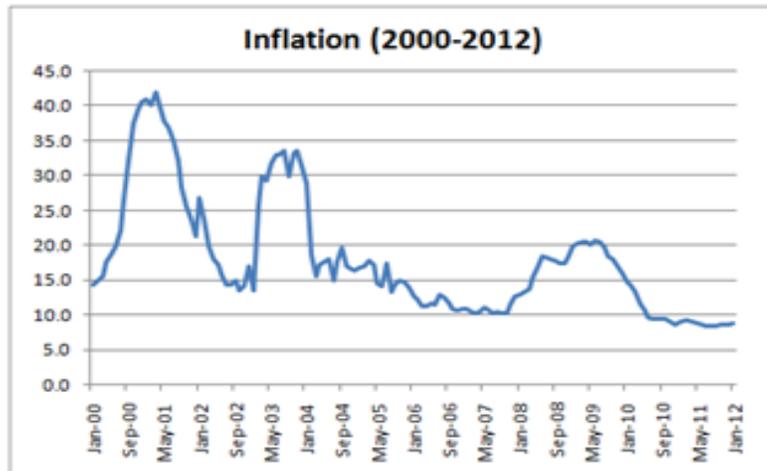
Mr. Chairman, I would now like to turn my attention to the issue of inflation in Ghana. All countries would prefer to have a low and stable inflation in the context of economic growth and job creation. This is because inflation represents a fall in the value of money. It is a tax on the poor and makes it difficult for businesses and investors to plan. Inflation results in an increase in interest rates as lenders seek to protect the value of their money and also results in exchange rate depreciation. Under these circumstances inflation tends to hamper sustained growth and job creation. It is for this reason that governments and economic managers set their eyes to reduce inflation to low single digits because it would inter alia:

- reduce the cost of living
- reduce interest rates
- stabilize the exchange rate

Low and stable inflation is only meaningful if it can translate into these tangible benefits for our people. The prevalence of these conditions would in turn, reduce the cost of doing business, reduce uncertainty, increase private sector investment, and enhance economic growth and job creation.

Mr. Chairman, on the issue of inflation in Ghana, official statistics indicate that inflation has been reduced from 18.1% in 2008 to 8.8% in March 2012. By the way, this is not the first time in our history that we have had inflation in single digits. In 1958 for example inflation was **zero**, and we also had single digit inflation between 1959 and 1963 (a four year period!) under Kwame Nkrumah. Single-digit inflation was also attained between 1970 and 1971 under K.A. Busia, as well as in 1992 under J.J. Rawlings and 2006 under J.A. Kufuor. There is therefore nothing unprecedented about achieving single digit inflation in Ghana.

The case of SINGLE DIGIT INFLATION



The key question that is on the minds of many Ghanaians is: “**Do we really have single-digit inflation in Ghana today?**” While I do not want to argue with or question the integrity of our hard working officials at the Ghana Statistical Service who do a good job under very difficult circumstances, and should indeed be resourced (and given more independence) to do the work they do, I will like to state that the available evidence indicates that statistically reported single digit inflation is not consistent with the economic fundamentals and developments in some key economic indicators relating to the cost of living, interest rates and exchange rates. It could be a measurement issue, but the established relationships between inflation and key economic variables appear to have gone missing for now.

Inflation and the Cost of Living

Mr. Chairman, we do not seek to achieve single digit inflation just for the sake of beautiful statistics. The statistic must have meaning in people’s lives. Unfortunately, most people in Ghana cannot relate to the talk about single digit inflation when they get to the market. I was in Malata market last week and it is clear that prices are increasing at a faster rate than what the official statistics may be capturing.

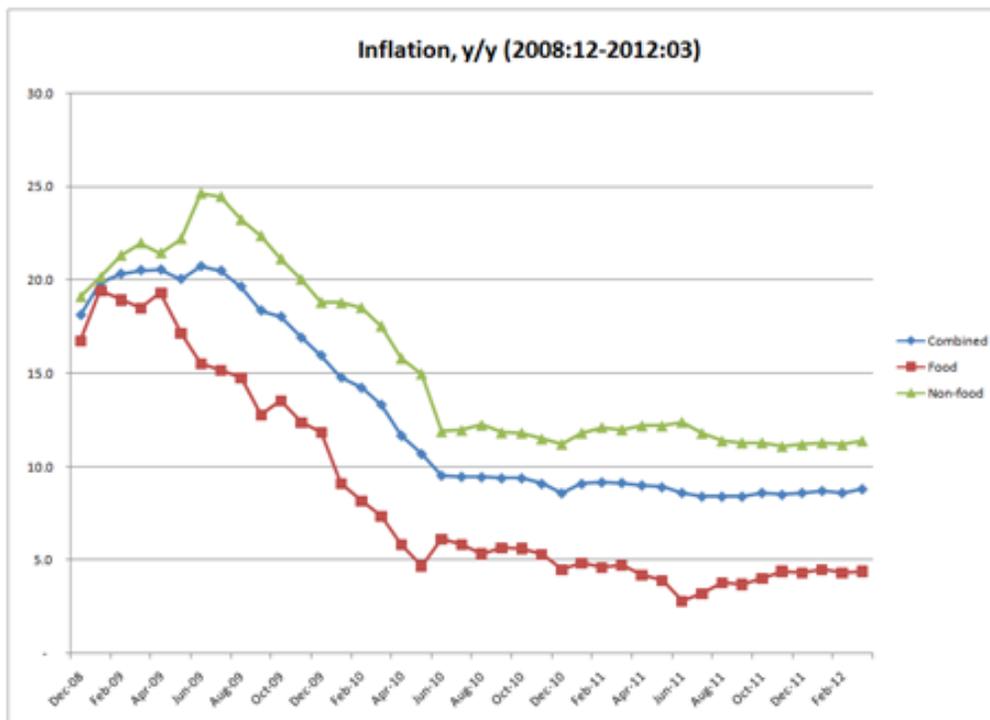
A few examples will suffice: In the last three years the following price increases have taken place:

Commodity	End 2008 Price (GHC)	April 2012 Price (GHC)	% Change
Pure Water	0.03	0.10	233
Cement	8.5	17	100
Gari Olonka	1	2.8	180
Ideal Milk	0.6	1.5	150
Maize (1 bag)	20	150	650
Rice (1 bag)	33	95	187

It is clear that the cost of living as measured by the prices of these items and others such as petroleum products, school fees, road tolls, and electricity bills, has increased by triple digits! I should add that these price changes do not necessarily mean that single digit inflation is not possible. It would depend on what is being measured and over what period. What we see of price increases for basic commodities in our markets over the last year is that they are increasingly volatile and definitely at rates beyond single digits. In Bolgatanga market for example, the price of a bag of maize between 2011 and 2012 has increased by over 60%.

Mr. Chairman, How many Ghanaians have seen a single digit increase in the prices of what they normally buy in the markets and shops over the past year? I can testify that if you try to give your spouse a single digit increase in chop money, she would not be amused.

What is interesting is the claim that Ghana's recent single-digit inflation is being driven by food prices.



It is rather curious that in the face of declining growth in crop production and increased demand for food (including the demand for buffer stocks), statistically recorded food price inflation continues to decline. Just last week Ghana received food aid from Japan of 17000 tonnes of rice to augment our shortfall in domestic rice production. Is the decline in food price inflation therefore coming from certain imported foods that do not respond to exchange rate depreciation or is it food aid? Something does not add up.

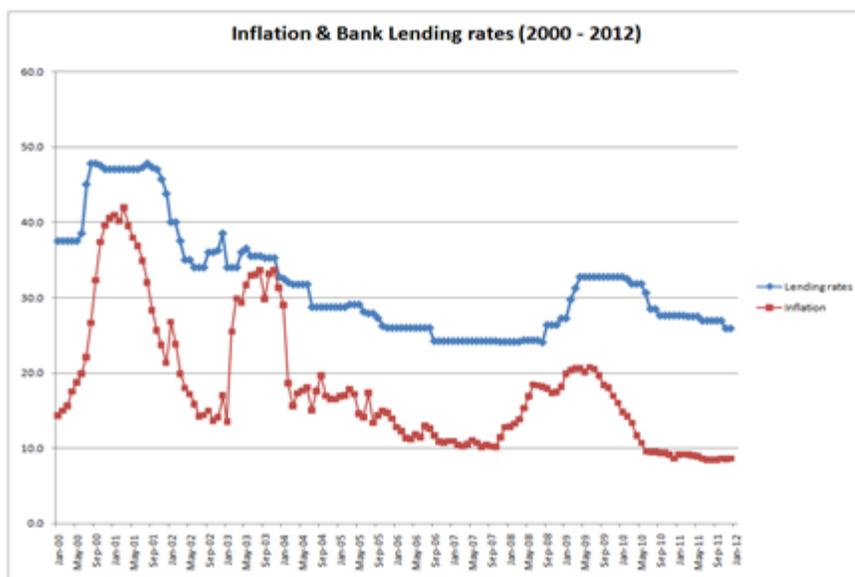
Most Ghanaians would attest to the fact that life in Ghana has gotten harder and harder over the last three years. Single digit inflation has not reflected in a reduction in the cost of living and in this regard has been rendered practically meaningless. Ghanaians are in fact, experiencing triple digit “inflation” in our pain and suffering.

Single-Digit Inflation and Interest Rates

Ladies and Gentlemen, as I have noted, one area in which the attainment of reduced inflation to single-digit levels should reflect is reduced bank interest rates for loans. Between 2001 and 2008 for example, inflation was cut by more than half from 40.5% to 18.1%. In the process,

average bank lending rates were reduced by almost half (from 44% to 27%) by 2008, a reduction of 17 percentage points.

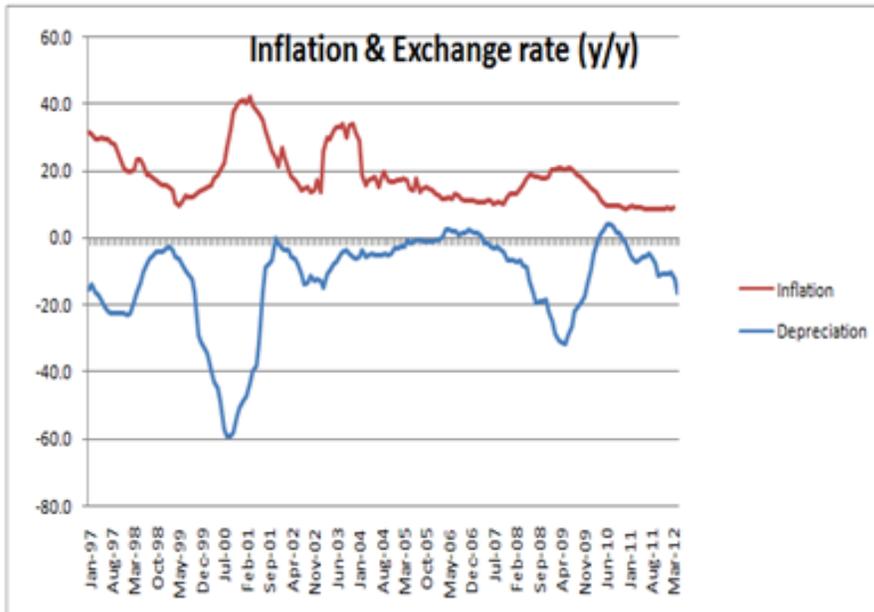
Widening interest rate spreads



Between 2009 and 2011, inflation has also been cut in half from 18.1% to some 8.8% currently. Average bank lending rates have however only declined marginally from 27% in 2008 to 26% currently, a reduction of 1 percentage point. Why the missing link now? Why have interest rates become suddenly so sticky downwards? Could it be that banks, like the suppliers of goods in Malata market have not quite bought into single digit inflation pricing? The financial services market (like our traders in Makola and Malata) appear oblivious to the fact that we have single-digit inflation prevailing in the economy. So where are we collecting our price data for the computation of inflation? Which markets are we visiting?

Single-Digit Inflation and the Exchange Rate

Mr. Chairman, the exchange rate is a measure of the relative price of goods between two countries. In this regard movements in prices tend to reflect in exchange rate movements, with room for short term deviations. Simply put higher inflation in one country results in the depreciation of its currency. Low and stable inflation tends to result in exchange rate stability. This relationship has held in the case of Ghana for many years.



What the chart above shows is the observed relationship between inflation and exchange rates. What we are however seeing is that there is a sudden break in this relationship under this government. The exchange rate is rapidly depreciating while inflation is in single digits and stable. Ladies and Gentlemen, something does not add up. The rapid exchange rate depreciation observed suggests that inflation could be higher than what is being captured by the official data.

Mr. Chairman, it is clear that when it comes to established relationships between the cost of living, interest rates and exchange rates, the single digit inflation in Ghana is not consistent with what we expect to see. If single digit inflation is meaningless for cost of living, interest rates, exchange rates, and jobs, what is it for? To put it another way, if single digit inflation does not help with respect to the prices of the things you buy, the cost of borrowing money for your business, the value of the cedi to the dollar, or help the youth to get jobs, then what is the point? I would however leave the judgment on whether we actually have single digit inflation to Ghanaians who shop in our markets every day. Nevertheless I think it is time for Ghana to have a truly independent and well-resourced statistical service.

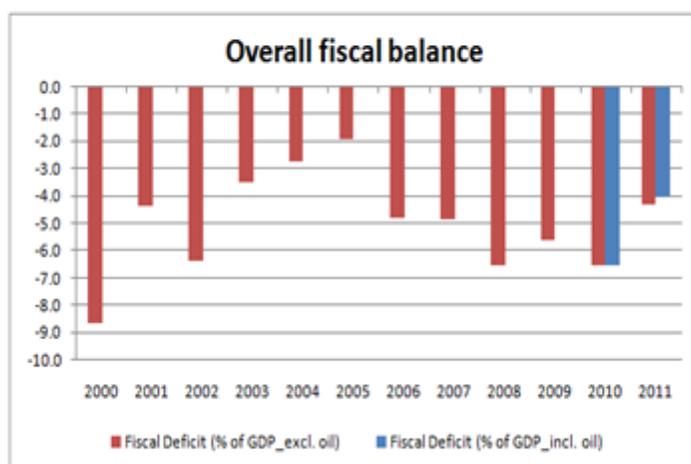
Fiscal Developments and Public Debt

Mr. Chairman in the area of fiscal policy and public debt, the assessment of the prudence of fiscal management of our economy needs to be placed in context. First, it should be noted that Ghana's GDP was retrospectively rebased from 2006. In simple terms, this resulted in a 60% increase in statistically recorded GDP from 2006. It should however be noted that the rebasing of Ghana's GDP that has taken place is purely statistical. Statistically increasing Ghana's GDP from 2006 by 60% was not accompanied by an increase in Ghana's foreign exchange reserves or cash flows by 60%. That money was assumed to have been already reflecting in our cash flows prior to the rebasing. Nonetheless the rebasing makes our debt/GDP as well as our deficit/GDP numbers look better.

The rebasing of our GDP, along with the discovery of oil and increases in cocoa and gold prices have together relaxed the borrowing and foreign exchange constraints that have historically faced the Ghanaian economy. In this regard, policy makers if not cognizant or prudent can be tempted to increase government borrowing significantly without an accompanying increase in the liquidity and capacity to service such borrowing. Should this happen, as it appears to have, it will place pressures on the country's foreign exchange reserves and would likely lead to a depreciation of the currency.

With regards to government finances, we recall that at the end of 2008, as a result of the global financial crisis the government budget deficit to GDP ratio stood at 6.5% (after the rebasing of GDP) or 11.2% (before the rebasing of GDP). This outcome was described by the NDC as bad fiscal management. By 2010, with improved external economic conditions, after claiming that the economic fundamentals had been restored, the government budget deficit to GDP ratio stood at 6.5% (after the rebasing of GDP) or 11.7% (before the rebasing of GDP), slightly higher than it was in 2008). So where was the improved fiscal performance? Or as we say in Ghana, did we come or did we go?

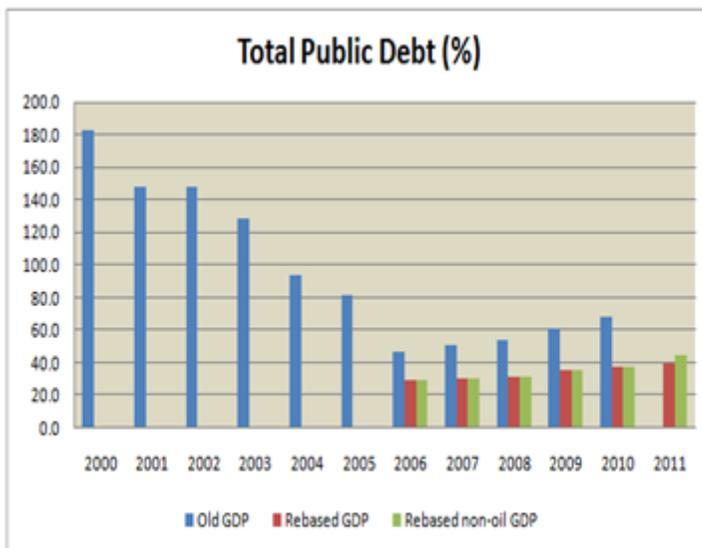
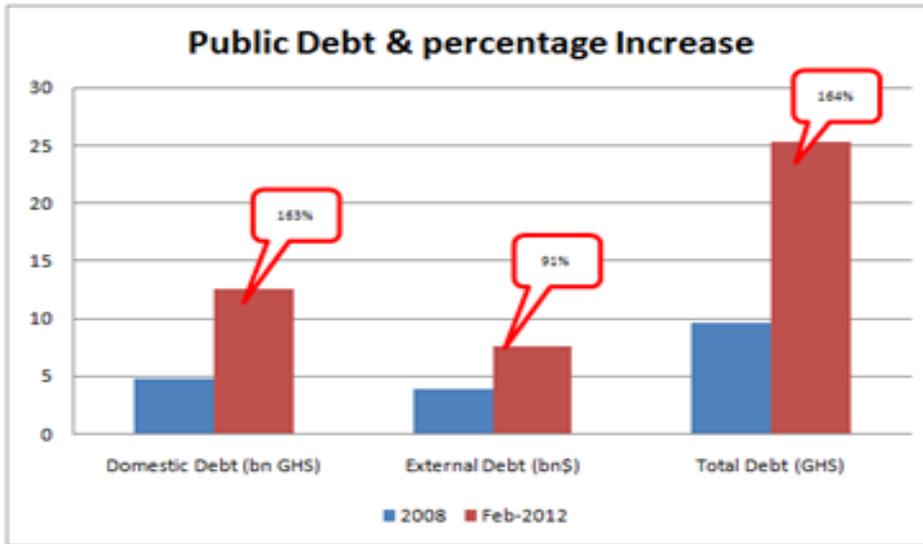
Overall fiscal balance has not significantly improve even with relatively improved external conditions



If the fiscal management of the economy during the period of a global financial crisis to register a deficit/GDP ratio (before rebasing) of 6.5% was described as bad fiscal management, how would you describe a 6.5% deficit/GDP ratio in a period of favorable economic conditions? At the end of 2011, with the help of oil, the ratio has declined to 4% of GDP. What is clear however is that notwithstanding the claims of unprecedented achievements, there has not been a significant fiscal adjustment since 2008. Even with oil, our economy has not performed better than the levels of fiscal adjustment registered in the years 2003-2007.

Mr. Chairman, the rate of growth of public debt is a matter of concern. Ghana's total external debt has increased from \$3.9 billion in 2008 to \$7.1 billion by 2011, an increase of 82%. This does not include the \$3 billion loan being contracted from the China Development Bank and others in the pipeline. Ghana's total public debt has increased from GHC 9.6bn in 2008 to GHC25.3 billion as at 2011 (an increase of 164% in just three years)!

Significant increase in public debt



What is mindboggling is that even after adjusting for HIPC debt relief, the stock of public debt that has been accumulated over the last three years alone is higher than the total stock of public debt accumulated by all other governments since independence through to 2008! I repeat that this government has borrowed more in 3 years than the total stock of public debt on our books in 52 years! But for the rebasing of the GDP, Ghana's debt burden would have currently been above the 60% of GDP level deemed to be unsustainable. The debt stock, with a significant

proportion of 3-year bonds patronized by foreign investors, has to be serviced and this places additional pressures on the exchange rate.

The question is “What has all this borrowed money been used for?” I suppose that is what can be described as a gargantuan question. Shouldn’t we be seeing tangible evidence of this money all over the country? This is especially so when one considers that the increased economic opportunities in terms of oil, cocoa and gold prices as well as heavy borrowing has not resulted in an improvement in health or education.

Mr. Chairman, we are seeing a weakening of the social safety nets that were provided to protect the poor and vulnerable in society. Key amongst these is the National Health Insurance Scheme (NHIS). Currently the NHIS is in a state of disrepair and at the verge of collapse. In campaigning for power, the current government promised a one-time premium but this we believe will further compound the current financial weakness of the scheme. The situation on the ground today indicates a virtual return to the “cash and carry” system which was replaced by the NHIS. Many Ghanaians registered under the NHIS are compelled to pay for simple medical procedures. There are countless complaints: of prescriptions not getting filled; diagnostic tests not done; discrimination by service providers who tend to favor cash-paying patients, defeating the very purpose of the NHIS.

In the area of education, the current policy enacted by the government emphasizes on hastening the completion process instead of marrying an increase in intake with quality. As a result, numerous challenges that the education reforms of 2007 sought to remedy have resurfaced or have been aggravated. These include:

- 180,000 poorly educated youngsters are thrown onto the streets with no employable skills. In 2011, 372,836 candidates took the BECE and barely 50% went on to SHS.
- 64% of those who do not gain admission into second cycle schools, can neither read nor write. They are functionally illiterate, with substandard numeracy, literacy and life skills
- The dropout rate is rising in some parts of the country (e.g. in the northern regions) and gender parity, mainly in the North
- Our tertiary institutions are plagued with infrastructure constraints, falling standards, and many graduates are faced with unemployment. In fact, in what is truly unprecedented,

we have seen the formation in our country of a Graduate Unemployed Association in Ghana for the first time in our history.

Corruption

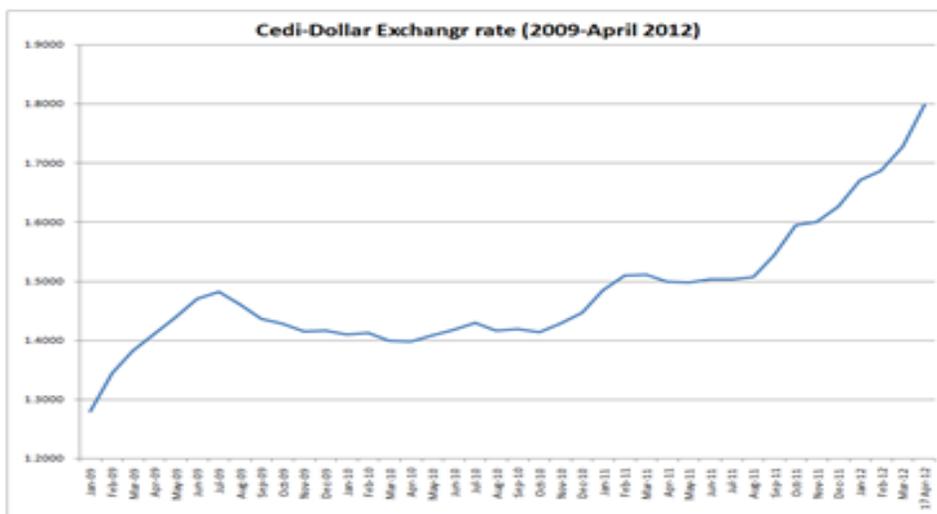
Mr. Chairman, what is increasingly clear is that corruption in Ghana is on the increase, as documented by the worsening performance in the Corruption Perception Index published by Transparency International. The overpricing of supplies contracts in areas such as health, education, infrastructure, etc. as well as judgment debts paid for work not done is a major area of concern. Government is not getting value for money and is paying monies for no work done. The increasing resort to single-source procurement compromises the transparency of the procurement process. When monies are paid for no work done, as is the case of some judgment debts, it creates a liquidity overhang (i.e. too much money relative to output), which finds its way into prices and ultimately results in the depreciation of the cedi.

It is also costly to the country in terms of the work that could have been done. You would recall for example that some banks in this country are struggling to meet the Bank of Ghana's capital requirement of GHC 60 million. Some are in merger talks to meet this requirement. Some of the judgment debts paid for no work done could have set up two or more fully capitalized banks to provide support to the small and medium scale enterprises for example. In the case of two such payments of such judgment debts, the total amount could easily have constructed 750 six-unit class room blocks even at the currently inflated prices or 1500 six-unit class room blocks at more realistic prices. These payments were also more than the total amount of money (excluding wages) allocated to the Ministry of Education and the Ministry of Health combined (i.e. GHC 96 million) in the 2012 budget.

Exchange Rate Depreciation

Mr. Chairman, the Ghana cedi is currently in free fall and depreciating virtually on a daily basis. The Ghana cedi has obtained the dubious distinction of being the weakest performing currency in Africa at this point in time. Interestingly, the NDC Green Book claims exchange rate stability as one of its unprecedented achievements!

Rapidly depreciating cedi



In an open economy such as ours with market determination of prices, exchange rate movement is probably the most important indicator of underlying macroeconomic fundamentals. As the saying goes, Ladies and Gentlemen: “When in doubt, observe the exchange rate”. The lesson from history for governments is that you cannot manage the economy with propaganda. In fact, you can engage in all the propaganda you want but if the macroeconomic fundamentals are weak, the exchange rate will expose you.

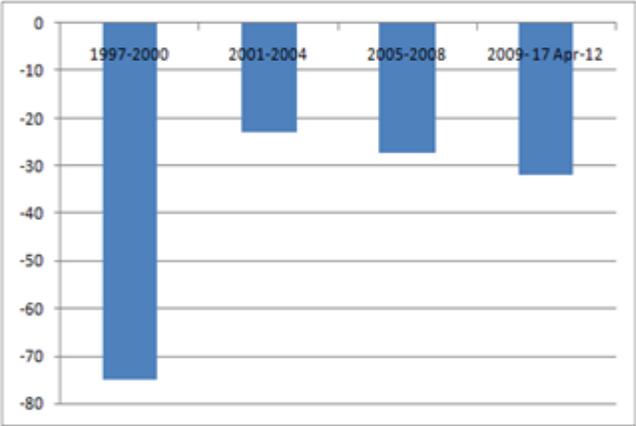
The current rapid depreciation of the cedi is a sign that the fiscal/monetary policy stance is inappropriate. It is in fact likely that fiscal policy is more expansionary than it appears (factoring in the rebasing) or monetary policy is not as tight. Monetary policy decisions over the last year for example have been based on the assumption of single digit inflation as reported by the Statistical Service. If, as I have argued, this may not actually be the case, then it would mean that monetary policy could have been based on the wrong information, which resulted in a premature reduction of interest rates. This made cedi-denominated assets less attractive and encouraged the holding of foreign currency.

Unfortunately, rather than tackling the fundamental causes of exchange rate depreciation, there is an attempt to blame speculators for the rapid exchange rate depreciation we are seeing. With all due respect, this is not a good explanation. Where have the speculators always been? Were the speculators also responsible for the depreciation observed for 1997-2000? Why did the

speculators disappear between 2001-2008? Why are the speculators suddenly back in 2012? Unfortunately, a wrong diagnosis of the underlying reason for exchange rate depreciation would result in policy errors that could worsen the rate of depreciation.

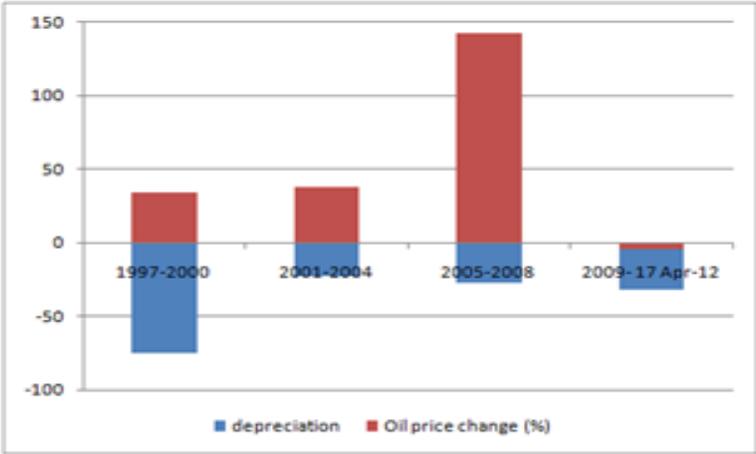
The type of free fall that we are seeing with the cedi exchange rate is a vote of no confidence by market players in the management of the economy. Indeed many market players are pricing goods currently with the expectation that the rate of the cedi to the dollar will reach GHC 2:1 soon. The scary part of this is that we are only just past the first quarter and we have three more quarters to go and the situation could therefore get much worse. This is not fair to the private sector, and to Ghanaians as a whole.

Comparative GHS performance



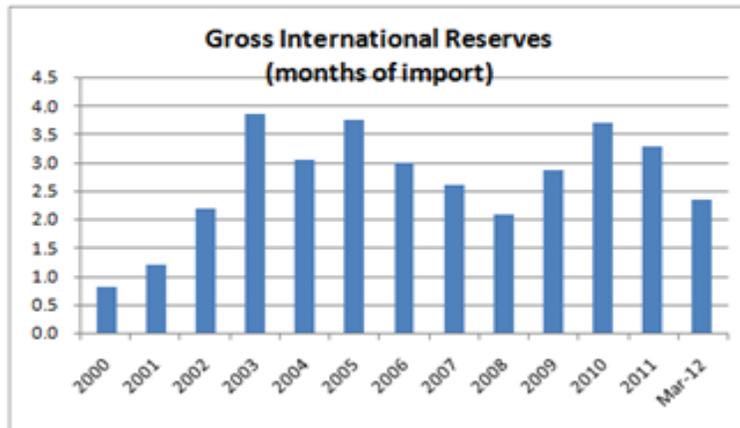
This depreciation of the cedi is occurring notwithstanding generally favourable external sector conditions. It is clear that during the period of the NPP's management of the economy the depreciation of the exchange rate was the smallest even though the external shocks were the largest. This demonstrates that the economic fundamentals have been weaker during the period the NDC has been in charge of economic management and small shocks (positive or negative) can easily destabilize the economy.

Significant depreciation notwithstanding generally favourable external sector



Mr. Chairman, what is amazing about the state of our economy is that notwithstanding the economic boom in the last three years Ghana's gross international reserves are currently not sufficient to cover three months of imports!

External reserves dwindling to less than 3 months of import cover



Yes ladies and gentlemen, this is the story that is not being told. If imports in 2012 are going to increase at the pace they have in the first quarter of 2012 (19.3%) then our gross international reserves can presently cover only 2.4 months of imports! Unfortunately the Bank of Ghana has not released this statistic for some time now as has been the case previously. It is amusing that the NDC again claims in their Green Book of achievements that it has accumulated an unprecedented amount of Gross International Reserves when they know or should know that this does not amount to scratch as far as import cover (which is what matters) is concerned.

Ladies and Gentlemen, the decline in our import cover of our Gross International Reserves further explains why the cedi exchange rate is currently at an 18 year low. Indeed, given the underlying weak fundamentals of our economy, the current rapid depreciation of the cedi should not come as a surprise to anyone.

However, for many, it would come as a surprise because the government has continually touted major achievements not based in fact. As I have said, economic management is very much about influencing expectations of the market. Credibility and transparency are therefore key to success. You cannot manage an economy by propaganda. You cannot claim to have created 1.6 million jobs and your Minister for Employment would say he cannot vouch for that. You cannot ask government officials that when they see a small goat, they are supposed to tell us that it is a big fat cow! and expect the markets to consider you credible. You cannot claim that all the gold reserves in the Bank of Ghana have disappeared and expect the markets to consider you as credible. Today, we have a Green Book touting “unprecedented” achievements!

Hyperbole has its place but certainly does not belong in the realm of economic management. The best response Ghanaians can give to the Green book is to show the NDC a red card in the December 2012 elections.

Ghanaians Deserve Better!

Moving Forward

Mr. Chairman, moving forward, we have to ask ourselves some tough questions. Why is it that after 55 years of independence we are still struggling with the provision of basic services like water and sanitation and power to our citizens? These are problems many other countries resolved hundreds of years ago. For example, two-thirds of the main water pipes that serve the city of London (UK) today were put in place over 100 years ago!

The technology is not a secret and we have abundant resources. So why are we not outraged by this state of affairs? Why is this not the focus of our politics? What other countries have done, we should be able to do. It is a shame that in the 21st century many people in our capital city (let alone the other towns and villages) do not have access to water and toilet facilities. There really is no excuse for this. It is a problem that must be SOLVED without further delay! We have to do it ourselves. No one is going to do it for us. God has given Ghana all the natural resources we need. It is now time to apply our ingenuity, innovation, attitude, vision, integrity, discipline, self-reliance, honesty, transparency and a scientific approach to resolving our problems. We have the SOLUTIONS to our own problems, Together, we can change this country for the benefit of all.

Mr. Chairman, there is therefore a need for a paradigm shift because we cannot continue doing things the same way and expect different results. The paradigm shift that Nana Akufo-Addo and the NPP are seeking the mandate of Ghanaians to implement is one of focusing on SOLUTIONS and RESULTS underpinned by a mindset change and the inculcation of a can-do spirit in Ghanaians.

In moving to this new paradigm it is important that we understand that in the context of a global economy, our competition (as team Ghana) is with other countries and not primarily with each other. Our competition is China, Malaysia, Thailand, South Africa, Brazil, India, Singapore, South Korea, the United States, etc. Our businessmen and women, our contractors, our teachers, nurses, engineers, etc. are our players on the field of international competition. They

are our Black Stars. We should support them and provide them opportunities regardless of which party they may happen to support. While we engage in healthy political competition as part of our democratic process, we should always remember that ultimately our competition is not with each other. It is with other countries in the global economic space.

We have to plan long term and be prepared to take long term decisions for the benefit of Ghana and not decisions driven by short term political advantage. We should be prepared to tap into the talents of Ghanaians within and outside Ghana regardless of political affiliation for the economic transformation of Ghana.

We have to build a country in which none will be denied the opportunities for maximizing his or her God-given potential. A Ghana where access to quality healthcare and education shall no longer be a luxury for the privileged few, but a right for every citizen. A Ghana where every young person desirous of working will find the skills and employment with a decent wage. A Ghana where we do not only build a future for our youth, but also build our youth for the future. A Ghana where our hard-working entrepreneurs can easily access capital. A Ghana where our young people will be well-educated and empowered to better compete in the global economy. A Ghana where each will be his brother's keeper. A Ghana where the elderly will spend their last years in dignity. A Ghana where our flourishing wave of freedom of expression will be guarded, respected and deepened. And, a Ghana where the safety and security of every individual and community are well assured. This Ghana that we all desire for ourselves and for our children's future, can only be attained when we guard the freedoms that enable us to unleash our potentials, and manage our resources with competence and integrity. This is the Ghana that the NPP has on offer under the leadership of Nana Akufo-Addo.

With hard work and the support of Ghanaians, I believe we can achieve this and move Ghana forward together.

Thank you for your attention.