REPUBLIC OF GHANA

MINISTRY OF FINANCE

SPEECH ON THE STATE OF THE GHANAIAN ECONOMY

DELIVERED BY:

HON. MINISTER FOR FINANCE
(KEN OFORI-ATTA)

NATIONAL LABOUR CONFERENCE

Monday, 28th February – Tuesday, 1st March, 2022

Rock City Hotel, Kwahu

- ***His Excellency, Nana Addo Dankwa Akufo-Addo, President of the Republic of Ghana***
- ***The Chairman, Nana Akuamoah Agyapong II, Daasebre Kwahuhene and President of the Kwahu Traditional Council***
- ***The Honorable Minister for Employment and Labor Relations,***
- ***The Honorable Minister for Education,***
- ***The Honorable Minister for Public Enterprises,***
- ***The Honorable Regional Minister for the Eastern Region,***
- ***Deputy Ministers Present,***
- ***Chairman of the Trade Union Congress,***
- ***Secretary General of the Trade Union Congress (TUC),***
- ***President of the Ghana Employers Association,***
- ***Distinguished Members of the Tripartite,***
- ***Director, ILO Anglophone West Africa and Liaison Officer for ECOWAS***
- ***Invited Guests***
- ***Members of the Media***
- ***Ladies and Gentlemen***

1. Nana Chairman, it is a pleasure to honour the invitation to speak on the sub-theme ***"The State of the Economy"*** at the National Labour Conference under the overall theme "***Strengthening Tripartism for Building Peaceful Labour Relations and Resilient Economy"***.

2. Nana Chairman, this conference couldn't have been held at a better time as the times we found ourselves in today need all-hands-on-deck to contribute towards a sustainable recovery from the devastating impact of the Covid-19

pandemic. At the end of the day, the various roles we all play in national development culminates into what happens in the economy. The bottom line is to improve the economy and provide opportunities for the people, including employment opportunities, to better their lives. It is for this reason that the link between peaceful labour relations and resilient economy in the theme is most appropriate.

3. Nana Chairman, promoting this kind of dialogue amongst the Tripartite Partners is a critical part of economic policy management and especially so at this time when we find ourselves amid a number of labour agitations in the process of recovering from the scaring effect of the Covid-19 pandemic. Even though there are existing platforms (including the National Tripartite Committee and the Social Partnership Council) to address labour issues for national development, I am confident that a national labour conference of this kind will afford us the opportunity to properly and honestly dialogue on these issues and find a common approach to addressing them. As we dialogue at this forum on ways to address and resolve these challenges, we need to ensure that the solutions we proffer will promote sustainability of public finances and macroeconomic stability which are necessary for the development that we are all looking for.

4. Nana Chairman, there are great models of social partnership across the globe which have indeed supported national dialogues on the socio-economic issues towards enhanced economic development. The Irish case is a good example to cite. Through a carefully planned and well-phased programmes (6 of them between 1988 and 2006), the Irish Social Partners comprising government, employers, trade unions, farming bodies and representatives from community and voluntary sector worked together to increase economic growth, reduce unemployment, improve income

inequality, and reduce the national debt. A critical component of the Irish Model was the reaching of agreement on wage adjustments within sustainable levels over a medium-term period.

5. As part of measures to ensure irreversibility of macroeconomic gains post the IMF ECF Programme which ended in 2019, H.E. President Nana Addo Dankwa Akufo-Addo, in 2019, inaugurated the Ghana's Social Partnership Council with membership from Organised Labour & Associations, Employers Associations, and Government to, among others, provide a mechanism for building and reaching consensus on transformation and development issues with MOU backing the operations of the Council. The council has been very useful in providing advise, recommendations and inputs into national socio-economic matters including the annual budget, mid-year reviews of fiscal policy, the Covid-19 pandemic, Pay and Compensations matters, etc. I will like to call on the social partners to strengthen this important Social Partnership mechanism we have to addressing socio-economic issues.

6. Nana Chairman, the world has changed dramatically since the COVID-19 pandemic struck in 2020. The impact of the pandemic on the global economy and specifically on the Ghanaian economy has been dire. The global economy plunged into a recession in 2020 with global output contracting by 3.1%. Within the Sub Saharan Africa (SSA) region, growth contracted by 1.7% in 2020 including an estimated 30+ million people falling into extreme poverty due to job losses and a fall in income levels.

7. Nana Chairman, despite the global recession in 2020 due to the pandemic, Ghana's economy held up comparatively well with a Real GDP growth of +0.4 percent. This, however, came at huge cost to public finances as there were significant shortfalls in revenues but additional expenditures had to be incurred to save lives and livelihoods. The fiscal deficit, therefore rose to

11.7 percent of GDP compared to the original target of 4.7 percent. In addition, the public debt rose to 76.1 percent of GDP from 61.2 percent in 2019. These expenditures which were reported in the 2021 Budget included expenditures for:

i. Provision of PPEs, Medical Equipment, Testing Kits & other Logistics, Testing & Treatment;

ii. Community Engagements, Communications, and Quarantine;

iii. Relief for Health Workers including payment of allowances of 50% of basic salaries for front line health workers, waiver of income tax payments for all health workers;

iv. Support to households through provision of cooked food packages, dry food packages, and hot meals in Accra, Tema & Kumasi during the lock-downs;

v. Payment for the provision of free water and relief for payment of electricity bills;

vi. Provision of health infrastructure (Agenda 111 and isolation Centres);

vii. Security operations, evacuation, and coordination;

viii. Soft loans for micro, small and medium-size businesses through the CAPBUS Programme; and

ix. Provision for the Stabilization Phase of the Ghana CARES Programme

8. Whiles we protected public sector jobs and ensured that salaries were paid and on time, nonetheless, jobs were lost, and some worker incomes were reduced in the private sector. The GLSS Business Tracker Survey conducted

between May 26 and June 17, 2020, showed that of the 4,311 enterprises surveyed, 35.7% closed their businesses during the partial lockdown whilst 16% remained closed even after the lock-down. The survey showed that about 41,952 workers were laid off whilst 770,124 workers suffered reduced wages.

9. Nana Chairman, fortunately, we are beginning to see a post pandemic economic recovery with strong rebound to real GDP in 2021 in response to the implementation of the measures we put in place for economic recovery including the Ghana CARES Programme. For the first three quarters of the 2021, real GDP growth averaged 5.2%. High frequency indicators including the Bank of Ghana Composite Index of Economic Activity (CIEA) point to continued momentum in Q4 2021 and this suggests the high likelihood of real GDP growth in 2021 outperforming the projected outturn of 4.4%.

10. Nana Chairman, the fiscal deficit for 2021 narrowed from the 11.7% of GDP in 2020 to a provisional 9.6%. Similarly, the primary balance narrowed to a deficit of 2.0% down from a deficit of 5.5% in 2020.

11. After falling to 7.5 percent in May 2021, inflation increased throughout the second half of the 2021, ending the year at 12.6 percent and increased to 13.9% at the end of January, 2022. Global supply disruptions, global inflation, rising crude oil prices, high fiscal deficits, and some pass-through effects of exchange rate depreciation have contributed to the upward trajectory of inflation.

12. Nana Chairman, the Trade Balance in 2021 remained positive (1.5 percent of GDP), though smaller than the 2020 position of (2.0 percent of GDP). The Ghana cedi depreciated against the US dollar by 4.1% at the end of 2021 up from 3.9% despite the impact of the pandemic. As at 23rd February 2022,

the Ghana Cedi cumulatively depreciated by 6.9% against the US Dollar. We still posted a healthy Gross International Reserves (GIR) at US$9.7 billion, sufficient to cover 4.4 months of imports at the end of 2021.

13. Nana Chairman, despite the progress made since 2020, several domestic and external factors threaten our economic recovery efforts, particularly:

    i. On the **global front**, we have high inflation, interest rate hikes, high crude oil prices, geopolitical tensions including the Russia invasion of Ukraine all working to increase our external vulnerabilities. Crude oil prices surged above the US$100 mark for the first time since 2014.

    ii. **Elevated Debt Burden and High Debt Service**. The debt stock has increased from 61.2% of GDP in 2019 to 79.7 percent at the end of 2021. Debt service at the end of 2021 stood at Ghs46.6 billion (Interest payment of Ghs33.5 billion and amortisation of Ghs13.0 billion) representing 82.4% of Tax Revenue;

    iii. **Significant Budget Rigidities**. Interest payments, Compensation, and Earmarked Funds constituted about 144% of Tax Revenue in 2021, up from 130% in 2017. This implies that these three items of expenditures alone eat up all our tax revenues and we have to raise additional 44% from other sources to meet these expenditures;

    iv. **Labour agitations**. There are a number of labour agitations by labour unions which have the potential of impacting negatively on productivity and making compensation payments unsustainable if not well managed. This conference will certainly provide the platform for addressing all of these concerns;

v. **Regional and National Security Concerns** which require additional resources to protect national territories against any form of insurgency. This could derail fiscal consolidation efforts unless other expenditures are curtailed;

vi. **Delay in passage of the E-Levy**. The impasse in Parliament regarding the passage of the E-Levy and other revenue bills does not auger well for the credibility of the 2022 Budget. In addition, the low tax mobilisation effort with Tax to GDP ratio at 12.2 percent in 2021 is much lower than the Ghana Beyond Aid/Ghana CARES target of 18-20 percent;

vii. **Credit Rating Downgrade from Fitch and Moody's**. Fitch downgraded our credit from B with a Negative Outlook to B- with a Negative Outlook on 22nd January 2022. Moody's also downgraded Ghana's credit rating from B3 with a negative outlook to Caa1 with stable outlook on 4th February 2022, although S&P affirmed Ghana's credit ratings at B- with Stable Outlook also on the same day.

14. We must all admit that we have a severe problem on our hands that we must resolve. For this reason, burden-sharing must be the order of the day. The government is doing its best to strike a delicate balance. We must march strides together with Labour Unions and Employers to attain this delicate balance. We, the Unions and Employers must be in partnership to address the challenge of creating a resilient post-COVID economy. I say to you with all the condor I can muster that meeting this challenge will require sacrifice. We have to make certain sacrifices now to restore our Economy and position ourselves well in a post-COVID landscape.

15. Nana Chairman, to address these challenges, we have deployed some mitigation measures. These measures include a 20% expenditure cut

announced by Government in January as part of measures to achieve Government's fiscal consolidation objectives for 2022, as was echoed in the President’s speech. This intervention is aimed at ensuring that the fiscal consolidation is expenditure-led even before revenue performs or otherwise, towards ensuring that we meet our fiscal deficit target even if we encounter revenue shortfalls.

16. To this effect, the 2022 Q1 expenditure allotment ceilings for MDAs have been issued to reflect the 20% expenditure cut. In addition, an expenditure committee that meets weekly to monitor expenditure performance towards set targets has been institutionalized and operationalised.

17. The Ministry of Finance has also adopted a more frequent investor/key stakeholder engagements on the economy, including with Labour Unions and Employers to ensure that more information and data on the economy is shared with stakeholders.

18. Nana Chairman, let me now touch on the recent developments in our labour space and its potential impact on macroeconomic stability and fiscal sustainability. As you may be aware, some labour unions in recent times have embarked on strike actions to demand better conditions of service.

19. Nana Chairman, it is not the wish of Government that issues of this nature linger on in our economy. In addition, I will be the first to admit that conditions of service in the wider public service needs improvement. However, these should be done within budgetary constraints to ensure that we do not put excessive pressure on our public finances.

20. Nana Chairman, let me share a few statistics on Compensation payments in Ghana:

i. In 2021, Government Spent Ghs31.7 billion to pay for compensation of employees which is made up of wages & salaries, pensions, gratuities, and social security. This was paid out of a Tax Revenue of Ghs56.5 billion.

ii. The payment for Compensation of Employees absorbed 56.0% of Tax Revenues in 2021. This ratio is well above the ECOWAS threshold of 35% and above the Sub-Saharan Africa average of 42.7%;

iii. This compensation payment of Ghs31.7 billion was made for about 700,000 public sector workers out of a population of 31 million;

iv. The fiscal impact becomes worse when we consider the three largest expenditure items, namely, Compensation of Employees, Interest Payments and Statutory Funds. In 2021, these three items altogether amounted to Ghs81.3 billion representing 144.0% of Tax Revenue. This means that the total tax revenue is not enough to meet our commitments on compensation, interest payments, and statutory funds as we have to resort to non-tax revenue and borrowing to be able to meet these obligations. This shows how rigid the budget is and how fiscal space is non-existent or limited.

21. I will, therefore, like to call on organized labour and associations to be guided by these data on compensation as we negotiate wage adjustments. We need to collectively work together to increase domestic revenue and grow the economy to provide the fiscal space to improve salaries and monetary conditions of service of workers. At the same time, we need to link salary and compensation demand to productivity. I'm glad that there is a whole thematic area on salaries, allowances, conditions of services and productivity which will examine and discuss the nexus among these items.

22. I will like to use this opportunity to call on the National Tripartite Committee and the Public Sector Joint Standing Negotiating Committee to ensure that negotiations of pay and compensations are based on not just the cost of living and productivity indicators but also the ability-to-pay indicators such as domestic revenue performance and budget constraints.

23. Nana Chairman, that the NTC and PSJSNC negotiated a multi-year salary adjustment for 2021 and 2022 was a good thing and is within the spirit of the Communique of the Ho Labour Forum in 2013 which advocated for multi-year wage negotiations. I will also like to commend organized labour and the rest of the social partners for the levels agreed on wage rise for 2021 and 2022 following the impact of the Covid-19 pandemic on the economy. I will like to encourage the NTC and the PSJSNC to continue with the practice of multi-year wage negations and subjecting wage demands to budget constraints, thereby contributing to fiscal consolidation in particular and macroeconomic stability in general. These are necessary to protect worker incomes and promote the right business environment for wealth and job creation.

24. Nana Chairman, I am hopeful that the ongoing negotiations with the Labour unions together with the outcome of this National Labour Conference will bring us to the point where we find a good balance that enables us to meet the demands of labour without compromising macroeconomic stability, growth and social protection.

25. Of course, there is much more to do. Hospitals need to be built under Agenda 111, social welfare programmes need to be expanded, affordable housing units must be developed, and roads should be constructed. We cannot do all these without the support of Labour and Employers.

26. The Social Partners should therefore partner with Government to pursue our vision, our vision of an enterprise-driven economy, where the government will:

i. Strengthen the links between education and job market stakeholders;
ii. Provide access to finance, skills, and markets for our young entrepreneurs;
iii. Resource state institutions to support the ambitions of those who want to pursue enterprise; and
iv. Grow the capacity of the private sector to create jobs.

28. That is the vision all of us can be a part of. An economy and a country that:

i. Praises entrepreneurship and promotes opportunity for everyone to realise their ambitions;
ii. Promotes social justice;
iii. Makes the way clear for hardworking Ghanaians and their businesses to do well; and crucially
iv. Ensures that our Ghanaian workers are not just "well-compensated" but also possess the skills and productivity to make us competitive in the modern world.

29. Nana Chairman, let me emphasize that despite a forceful policy response at the onset of the pandemic, the socio-economic impact remains significant. Fortunately, there are strong signs of recovery which we must all together to sustain as we maneuver this post-pandemic era.

30. Before I conclude, I will like us to, within the spirit of tripartism, work together to ensure and sustain macro-economic stability for the much

needed growth and development to better the lives of the people. In this regard, we need to:

a. Strengthen the current Social Partnership Council as a platform for building consensus on transformation and development issues;

b. Support the implementation of a National Fiscal Consolidation Plan to enhance and sustain macroeconomic stability for the promotion of growth and development;

c. Support government to eliminate wastage in government expenditures including placing a focus on completing existing projects and enforcing sanctions in the PFM Act;

d. The Social Partners to support Government to enhance domestic revenue mobilization including through broadening of the tax base;

e. Government should continue to pursue positive primary balance and embark on other debt management programmes to promote debt sustainability;

f. The social partners should support Government to create descent jobs through its entrepreneurship programmes especially the Ghs10 billion and 1 million jobs YouStart Programme (3 year programme). In addition, the GSS and MELR should be supported to produce quarterly employment data to track the success of employment programmes;

g. Government should continue to create the necessary environment to support private sector transformation and development. In this regard, government should undertake trade reforms and take steps to optimize the gains from AfCFTA. Government's programme to support SME financing and skills development should continue. Thus the establishment of the Development Bank Ghana will provide long-term affordable financing to businesses;

h. The Social Partners should support Government to speed up the establishment and implementation of the National Unemployment Insurance Scheme;

i. The social partners should support government to enhance productivity and reduce the cost of doing business. In this regard, Government will strive to provide enablers such as technology, attitude programmes, access to power, energy, water and roads, efficient transportation, and training and retraining programmes. The National Tripartite Committee should establish an annual national productivity week to promote productivity in both the private and public sectors;

j. The social partners should strive to promote the sustainability of compensation payments. In this regard, Government's plan to increase the Tax to GDP from 12.2% to 20% in the medium-term should be supported to enable Government create the fiscal for salary adjustment in the medium term.

k. The social partners should also support Government in its drive to link pay to productivity;

l. The social partners should strive to negotiate a pay band for salary adjustments for an agreed multi-year period;

m. The social partners should support government rationalize conditions of service across the public service;

n. Social partners should work together to ensure that salary negotiations by the end of April for the subsequent year, in line with the PFM Act;

o. Social Partners should support Government to expedite the implementation of the Training & Retraining Programme;

p. Government will programme to resource FWSC, Labour Department and the National Labour Commission to perform their functions more effectively.

31. Thank you, God bless!