

TRADES UNION CONGRESS (GHANA)



COMMENTS ON THE 2023 BUDGET STATEMENT AND ECONOMIC POLICY

Submitted to the Minister for Finance

December, 2022

INTRODUCTION

On November 24, 2022, the 2023 Budget Statement and Economic Policy of Government was presented to Parliament, in accordance with the Constitution. As usual, TUC followed the 2023 Budget process with keen interest because of the current state of the national economy and the impact this budget will have on the lives of workers and Ghanaians, in general.

The following are our comments on the 2023 Budget Statement and Economic Policy. The key areas covered by this submission include the macroeconomic situation, employment, revenues and expenditure performance, taxation, public sector pay, social protection and pensions.

MACROECONOMIC SITUATION

It was clear from the Budget Statement that Ghana's macroeconomic situation is very precarious. Economic growth has slowed considerably from the trend growth before the pandemic; government revenues have fallen along with high expenditures leading to high budget deficits; national debt has reached unsustainable levels; inflation is at 22-year high and still rising; interest rates (cost of borrowing) are high and rising; the cedi has suffered massive depreciation never seen in recent times; high balance of payment deficit; declining international reserves; high fuel prices; and declining real incomes. The resulting costs of living increases has imposed excessive burden on workers and Ghanaians in general and pushed many Ghanaians into severe poverty. The economic outlook is gloomy.

The Budget Statement also affirmed government's plan to seek IMF bailout.

Government has blamed the dire macroeconomic situation mainly on the COVID pandemic and the war in Ukraine. But we hold the view that other internal factors may have contributed significantly to the economic and cost of living crisis leading to a severe decline in the standard of living of the people of Ghana. These factors relate to extremely hostile partisan politics, failures in economic management, unfavourable trade, investment, and tax policies, failures in monetary and fiscal policy management, poor performance in revenue collection, excessive expenditure on non-priority projects (including high expenditures on a cathedral), abuse of procurement processes, among other factors.

We are, therefore, calling on government to initiate an independent investigation into the root causes of the economic crisis in order to avoid such crises in future.

REVENUE MOBILISATION

Government announced various measures to increase tax revenues in 2023. Most of the increase will come from an additional Value Added Tax (VAT) rate of 2.5 percent. Government also announced an increase in the highest personal income tax margin from 30 to 35 percent, and removal of E-Levy threshold.

These taxes (especially the additional 2.5% VAT) will hurt poor people and workers on fixed and low incomes because businesses will pass-on their share of the additional tax burden to consumers.

We vehemently oppose these tax measures because they will increase the tax burden on workers and poor Ghanaians further while preserving the privileges for the rich. Rather than increasing tax rates, government must fix the leakages and improve the efficiency of the tax system.

However, we welcome the moratorium on the granting of new tax exemptions. We encourage government to implement the Exemptions Act and end all harmful exemptions that deprive the state billions of Ghana Cedis.

The decision to fast-track the implementation of Unified Property Rate Platform programme in 2023 is also welcome.

As part of the implementation of 2023 Budget, we expect government to overhaul the fiscal regime in the natural resource sector to ensure that Ghana earns more revenues from its natural resources. It is unacceptable that Ghana makes less than 10 percent in taxes and royalties from gold export while imposing a 35 percent tax on personal incomes including wages and salaries. The mineral wealth of this country belongs to the people of Ghana and so we must earn more from it.

The decision to review key government programmes to reflect relevance, promote efficiency, and ensure value for money is a step in the right direction.

We also welcome the decision to review the operations of State-Owned Enterprises (SOEs). But more clarity is needed on these decisions in the context of the current crisis and the long-term aspirations of the country.

As government prepares to implement the 2023 Budget Statement and Economic Policy, immediate measures are needed to assure the people of Ghana that government is doing its part to reduce expenditures. First, government must boldly deal with the serial infractions reported by the Auditor-General. Second, we demand immediate and radical downsizing of government before the end of the year. This must include a substantial reduction in the number of ministries and ministerial portfolios.

We believe that a significant reduction in the size of government can galvanize support for government's measures announced in the 2023 Budget Statement and Economic Policy. Failure to act decisively will contribute to strengthen resistance to governmental initiatives.

EMPLOYMENT

Joblessness has been our greatest challenge for a long time. The COVID-19 pandemic only came to worsen the situation. Thousands of workers are still losing their jobs as businesses suffer from the uncertainties caused by the macroeconomic instability. In this precarious economic situation, having a job and a regular source of income make a lot of difference. This is the reason why government must protect and not destroy opportunities for job creation, particularly in the public sector.

Government's decision to implement a hiring freeze in the public sector is wrong. We had thought that protecting employment would have been at the heart of the recovery process. Employment freeze in the public sector at this time has several implications. It will be adding to the pain of Ghanaians especially young graduates struggling to secure employment. Already too many workers are losing their jobs in the private sector. To close the public sector to new entrants is a stab in the back of young Ghanaians who have been educated at great costs to their families and the nation. What is the point of free SHS if graduates cannot secure jobs? Moreover, employment freeze will negatively affect public service delivery. As thousands of workers retire every year and government fails to replace them, existing workers will be overburdened. This will negatively affect their performance.

We urge government to reverse the decision to freeze employment in the public sector. This is not the time to destroy jobs. This is the time to protect jobs.

PUBLIC SECTOR PAY

The surge in inflation has completely eroded the purchasing power of workers, especially those in the public service. The value of the cost-of-living-allowance (COLA) granted in July 2022 has been completely wiped out. The National Daily Minimum Wage has now fallen below US\$1.00 per day due to the massive depreciation of the Ghana Cedi.

Public sector workers on the Single Spine Salary Structure (SSSS) continue to receive far lower pay, compared to their counterparts on other pay structures in the public sector.

It is time for a substantial increase in salaries for workers, especially those on the Single Spine Salary Structure. A substantial increase in pay for workers who are providing important public services such as health, education, security and other public/civil services will motivate them to improve service delivery. That is why public sector unions and government must agree on pay that reflects current inflationary trends. Anything short of that will push many public sector workers and their families into severe poverty and destitution.

We have taken note of government's decision to impose "a cap on salary adjustment of SOEs to be lower than negotiated base pay increase...".

We hold the view that the problem is not with the salaries for workers in the SOEs. The fact is that salaries on the Single Spine Salary Structure are unjustifiably low. *Therefore, the single spine structure should not be the standard for resetting salaries in the public sector. A more realistic approach is to raise salaries on the single spine structure to match salaries on the structures being implemented by the SOEs for their staff.*

We further remind government that salaries in the SOEs are determined within collective bargaining framework. Government cannot unilaterally impose salary caps in unionized workplaces. Unions in the SOEs will and should resist any attempt to take away the bargaining right of their members in the SOEs.

A major source of pay inequality in the public sector has to do with salaries for chief executives and management staff of the SOEs. As we have pointed out time and again some of these CEOs of SOEs are earning multiple times the salary of the President of the Republic of Ghana who appointed them. Any cap on salary adjustment in the SOEs should be directed to the salaries and allowances of the Chief Executive Officers (CEOs) and management staff as well as other political appointees. These are the people whose large salaries and allowances are impossible to reconcile with their outputs. This is particularly true for the SOEs that are making perennial losses.

SOCIAL PROTECTION AND PENSIONS

The pensions reform of 2010 has run into difficulties on several fronts. Workers who retired in 2020 received less lump sum than they would have received if they had retired under the old pension law - PNDCL 247. This trend will likely continue into the later part of the 2020s. In spite the economic hardship pensioners

are facing, government has failed to honour the promise to top-up the lump-sum for affected retirees.

A recent study has revealed additional challenges. For example, 80 percent of employers contributing to the first tier under SSNIT are not paying the mandatory 5.5 percent second tier on behalf of their workers. The National Pension Regulatory Authority lacks the capacity to enforce the payment of second tier contribution to the various second tier schemes. The full impact of this non-compliance will be felt in a few years from now when affected workers retire.

More than 12 years into the implementation of the pension reforms transitional bottlenecks persist. Several important aspects of the reforms have not been implemented. The pension unification is one of such important reform initiatives that has not been implemented. Pension in Ghana is like a caste system where top public officials who do not contribute to pensions are the ones earning highest pensions. These are the top officials who retire on their consolidated salaries and the enclave institutions hooked on CAP 30 unfunded pensions. The ordinary workers on the SSNIT pension scheme earn the least pensions. This is unfair by any measure and it must change as part of efforts to build a fair and inclusive Ghanaian society. Beside the unfairness, unfunded pension has negative fiscal implications for the budget.

Once again, we would like to remind government to honour its promise to top up lumpsum benefits to all those whose lumpsum payments were lower than what they would have earned on PNDC Law 247.

The adverse impact of the high inflation on the standard of living of pensioners is obvious. We urge SSNIT Board to take into account the adverse impact of the prevailing high inflation on the living standards of pensioners and increase the minimum pension substantially.

We reiterate our call for a national conference on pensions. This must be held sooner than later because the challenges are mounting and pensioners in Ghana are suffering unnecessarily.

NATIONAL UNEMPLOYMENT INSURANCE SCHEME

In 2020, as part of the review of the budget, government announced a decision to establish a National Unemployment Insurance Scheme (NUIS). When established, the NUIS will be expected to provide income support and employment services to workers who become unemployed. Government further announced plans to provide training and retraining services to workers whose jobs have been negatively impacted by the COVID-19 pandemic.

We urge government to speed up the processes for the passage of the NUIS bill and the eventual rollout of the scheme.

CONCLUSION

The national economic situation is very precarious. The outlook is equally grim. It is time for all stakeholders to work with government to reverse the declining trend. The comments contained in this submission are our contribution towards the stability of the economy and peace at the labour front. We urge government to pay utmost attention to the issues raised in this submission in order to avoid a worse situation where the economic crisis degenerates into socio-political crisis.

We stand ready to work with all stakeholders in the spirit of social partnership and social dialogue based on mutual respect and commitment to the ideals of good governance and growth and development of Ghana.

The challenges we are facing are daunting, but we believe that they can be surmounted if we work together as partners.