MINORITY BREAKFAST MEETING WITH STAKEHOLDERS ON 2018 BUDGET AND ECONOMIC POLICY

Good morning distinguished invited guests and members of the press. Let us start off by thanking you sincerely for honouring our invitation to this important interaction.

On Wednesday, 15th November, 2017, the Finance Minister, Hon Ken Ofori Atta, will present the 2018 budget statement and financial and economic policy of the Akufo Addo government.

We have invited you here to share with you some perspectives on the direction of the economy since the presentation of the 2017 budget and what we expect of the 2018 budget.

We will in this presentation review the performance of the economy on the basis of the 2017 budget and proceed to indicate our expectations and predictions for the 2018 budget.

Ladies and gentlemen, it is fair to state that the 2017 budget statement was filled with sloganeering mostly derived from the NPP 2016 manifesto. Government in the budget statement promised to undertake the following:

1. Provide a stimulus package to distressed industries

2. Implement the Planting for food and jobs programme

3. Offer support to small businesses in rural and deprived areas

4. Ensure entrepreneurship development

5. Establish a Zongo development fund

6. Construct a factory in each District (One district, one factory)

7. Construct a dam in every village of the Northern, Upper East and Upper West Regions (One village, one dam)

8. Small business development

9. Give US$ 275 million to a total of 275 constituency (US$1million per Constituency)

10. Free SHS

A review of the 2017 budget therefore would have to be carried out within the context of these promises as well as other fiscal initiatives.

We would begin however by assessing the macro-economic performance in the year under review.

ON GROWTH

Available data from the 2017 article (IV) consultation, projects an overall GDP growth of about 5.9 percent in 2017, driven by a 42.5 percent growth in the oil and gas component of the GDP (oil and gas GDP), with non-oil GDP projected to grow at 4 percent. The data also projects an overall GDP growth of 8.9 percent in 2018, again driven by 64.9 percent growth in the oil and gas GDP, with non-oil GDP growth projected at 5 percent.

On the other hand, the boost in projected growth levels of 42.5 percent in 2017 and 64.9 percent in 2018 is the result of the personal commitment of H.E John Dramani Mahama to restore energy supply (emergency power) as well as revamp and direct investments to the sector during his reign as President of the Republic. H.E John Dramani Mahama's administration secured the World Bank Partial Risk Guarantee (PRG) that enabled ENI to consummate the commercial production of oil and gas from the Sankofa fields. The PRG made it possible to attract about $7 billion of potential mid-to-downstream investments from Independent Power Producers (IPPs) and other investors. Besides Senegal that used it for a bridge and highway project, Ghana holds the record of negotiating the PRG for the largest single investment.

Table 1: Rates of GDP growth

Year	Non-oil GDP	oil and gas GDP	Overall
2016:	4.8	-16.9	3.5
2017:	4	42.5	5.9
2018:	5	64.9	8.9

It should be noted that boasting of 5.9 percent GDP growth in 2017 and 8.9 percent GDP growth in 2018 could be misleading when the projected non-oil GDP growth of 4 percent in 2017 is lower than the realized non-oil GDP growth of 4.8 percent in 2016, whilst the projected non-oil GDP growth of 5 percent in 2018 is only 0.2 percent higher than the realized non-oil GDP growth in 2016. Thus, growth in the employment generating sector of the economy, the non-oil sector or the real sector is projected to decline in 2017 and improve marginally in 2018, relative to the realized growth in 2016.

We note from the table above that even with the difficulties of gas supply leading to power outages, the NDC grew the non-oil GDP at 4.8% which is higher than the NPP's 4% in 2017 under favorable conditions that can be attributed to investments made by the Mahama administration. We should also note that President Mahama's administration did well to prevent Ghana from going into a recession, as was the fate of some major SSA countries.

The dismal performance in non-oil GDP shows the bankrupt in the NPP's major economic policy stance. It is clear that the NPP government's policies that profess to shift the focus of the Ghanaian economy from taxation to production, as was stated in the 2017 Budget Statement, is reckless, regressive, and backfiring. This is because they have resulted in serious tax evasion and non-compliance in VAT revenues and shortfalls in revenue performance. Ghanaians are still waiting patiently to see the manifestation of the prosperity.

The NDC before leaving office in 2016 commissioned the Ghana Statistical Service to start the process to rebase the Ghanaian economy. The process is ongoing and it our hope that by end of

2018 the process will be complete. Again, let me caution that the government should not be quick in filling the fiscal space that will be created as a result of rebasing with reckless expenditures that will not be growth enhancing.

We also urge the Ministry of Finance to ensure the involvement of our Development Partners to enhance policy credibility.

ON REVENUE

The national fiscal stabilization levy was established in September 2013 to serve as an anchor to stabilize the economy as at the time of stress in the economy. It is also a temporary tax with a sunset clause and is due to expire in December 2017. The intention was to encourage specific sectors of the economy to contribute to the economic stabilization program under the home grown policies.

Today, the fiscal stabilization levy has achieved its purpose. Let me use this opportunity to thank the various sectors that contributed to the realization of this objective. When we introduce temporary taxes and other fiscal measures to correct misalignments in the economy—not one that is as self-inflicted as the Free SHS (obviously, without learning from the SSSS that the same party inflicted on the economy in 2007/8)—we must dutifully honour our promise to Ghanaians, as we did with the National Stabilization Levy in the late 1990s.

Therefore, we would kindly ask the government to act accordingly, as stated in the sunset clause; we do not expect them to remain silent, in the event they choose to extend the levy beyond 2017 under the current budget or fiscal stress.

On Page 17 of the NPP manifesto, the NPP promised to abolish the special import levy. The special import levy and fiscal stabilization levy were introduced in September 2013 to stabilize the economy when it experienced some set-backs. In fact, they were a temporary taxes with proposed sunset clauses and, therefore, due to expire in December 2017 (quote NDC budget). The Special Import Levy has two components; a 1% component and a 2% component. The 1% component was expected to yield total revenue of about GHS 70 million in 2017 while the 2% component was expected to yield about GHC 500 million. The NPP government’s removal of only the 1% component of the special import levy was on selected products only in the tariff, not for all affected imports.

Ladies and gentlemen, let me state emphatically that, despite the hype, the 2% component is still active and contrary to the NPP manifesto promise as well as the impression given in the 2017 Budget. May I take this opportunity again to remind the NPP that, under the original sunset plan, the 2% component is expected to expire entirely in December 2017. We are therefore calling on the government and the Minister for Finance to effect the removal of the 2% component of the special import levy in the impending 2018 Budget. The minority will not support any attempts by government of keep the said tax handles. They have effectively achieved their purpose and so cannot be treated as a permanent tax handle.

Ladies and Gentlemen, you will also recall with reference to page 17 of the NPP manifesto that, the NPP promised to reduce corporate tax rate from 25 percent to 20 percent. The 2017 Budget Statement did not propose any reduction in corporate tax rate from 25 percent to 20 percent. However, the Finance Minister and the Minister for Trade and Industry have, at different times, reassured Ghanaians that government will propose a reduction in corporate income tax from 25 percent to 20 percent in the 2018 Budget Statement. We wish to remind the Minister for Finance that Ghanaians expect a reduction in corporate income tax rate from 25 percent to 20 percent to be included in the 2018 Budget Statement. We repeat the caution by the immediate past Minister for Finance that this must be done in a fiscally sustainable manner, especially with full provision made for free SHS and other arrears for 2017 and commitments for 2 school years starting in 2018). It is our expectation that government will follow through with this firm promise and that we are not going to see another “419” or “matrickwo” scenario.

We note that huge gaps have emerged between projected tax revenue and what has actually been collected. In more specific terms, a shortfall of about GHs 3 billion in revenue was recorded in the third quarter of this year. We were told by the Vice President on the 12th of September, 2017 that customs revenue at the port has increased by 56% after the implementation of the paperless system. Unsurprisingly, this claim has proven to be untrue. As at 30th September, 2017, customs revenue was projected to be GHC 1,192.23 million but the actual outturn was GHC 1,179.41 million, representing a deviation of GHC 12.8 million (an equivalence of 1.1 percent).
The revenue shortfall has severely compromised government’s ability to meet critical expenditure and commitments without heavy borrowing. The underperformance is attributable to exaggerated and overambitious revenue targets which were not accompanied by practical measures to achieve them. We expect government to learn from this practice of over-projection of tax revenue because of the desire to fund frivolous campaign promises.

This poor performance which is self-inflicted should however not become a pretext for government to impose additional nuisance taxes that will further burden Ghanaians especially the poor.

The intention to tax mobile money transactions, as we are reliably informed, must be aborted immediately since it constitutes a serious threat to financial inclusion and economic growth in Ghana. It is also regressive because, compared to the relatively affluent non-core financial services that the NPP removed for the relatively rich, this insensitive “mobile money umbrella tax” will seriously affect millions of Ghanaians who use their telephones to transfer small amounts to relatives. It is an indirect way of taxing transactions such as transfers of school fees and medical bills. In particular, the NPP must provide some relief to low-income families from this “chop money” transfer tax, as this is nothing more than a backdoor move to reintroduce the taxes they removed last year.

Already, the business community is wailing over the heavy and cumbersome tax burden that they have been forced to carry by this government. Only last week, the Ashanti Business Association cried out to government to scrap the clumsy 3% VAT flat rate and reintroduce the 17.5% VAT system that existed. They rightly pointed out that the introduction of the 3% VAT flat rate has only resulted in double taxation making them pay up to 20% in actual fact and is leading to the collapse of their businesses. This vindicates the position we took when the 3% rate was introduced but which was unfortunately ignored by the managers of the Ghanaian economy. Similar complaints have emanated from importers who indicate that they have noticed astronomical increases in duty payments since this government took over. It is important for government to use the opportunity of the 2018 budget statement to address these concerns as failure to do so will worsen the business climate especially at a time when Ghana has slipped 12 places on the World Bank Ease of Doing Business report. This deterioration is most unfortunate because around this same time last year under the NDC government, Ghana moved up 13 places on the same index and was adjudged the best place to do Business in West Africa ahead of Nigeria and Cote D'Ivoire.

ON DEBT

Ladies and gentlemen, the Vice President and the Finance Minister are yet to apologize to Ghanaians for boldly asserting that they will not borrow when elected into office following a clear breach of this campaign commitment. Our national debt has ballooned alarmingly within the 11 months that the Akufo Addo government has been in charge. At the last reckoning, the public debt had increased from GHs 122.6 billion in January,2017 to GHs 138.6 billion as of June and is set to increase due to recent developments to 150 billion by end December 2017.

You will recall ladies and gentlemen, that after the collapse of the UT Bank and the Capital Bank, the Bank of Ghana approved a purchase and assumption transaction between GCB and Bank of Ghana. We issued a cautious statement at the time and promised to return to the subject immediately the government provides Ghanaians with all the information on the transaction. To date, however, as with the Franklin Templeton Bond, no comprehensive information has been provided to Ghanaians. Nonetheless, we did warn against leaving the original owners and transferring the liability to taxpayers as a fiscal measure. Indeed, our preliminary information suggests that the assuming bank, GCB will be receiving about GHS2 billion worth of government bonds, an equivalent of about 1 percent of GDP, to balance its assets and liabilities.

Ladies and Gentlemen, what this simply means is that taxpayer—households and businesses—will be paying the GCB Bank an equivalent of about GHS2 billion for the collapse of the two banks. This amount will add to the existing public debt. Unfortunately, the Minister for Finance and his counterpart the Governor of Bank of Ghana have failed to disclose this information to the public and tax payers who will eventually pay this liability. We are urging the Minister for Finance to make this information available in the budget to be presented before Parliament.

We also decry the fact that those whose irresponsible conduct and mismanagement led to the collapse of the two banks in the first place, appear to have been left unscathed and the poor tax payer, already burdened with high fuel and electricity prices and general hardships, is the one bearing the brunt.

The recently failed Energy Bond on which a colossal GHS 177.2 million scandalously spent is for all intents and purposes public debt and this is a view shared by the IMF and the World Bank.

When the NDC decided to introduce the ESLA—which, for bad faith, the NPP opposed and did not remove last year (as a nuisance tax) but is feasting on—the Mahama administration was as transparent as to go to Parliament for a law to support the measure. We expect the Minister for Finance to follow suit and table this agreement for a “UT/Capital Bank” Bond.

DEBT TO GDP RATIO PROJECTIONS BY END YEAR 2017

The NPP inherited a “grossed-up" debt to GDP ratio of 72.5% with strong buffers instituted by an act of parliament, an example being the sinking fund with almost a balance of US$400 million, and balances in the domestic debt restructuring account (DDR), under the superior “smart-borrowing" debt management strategy in place. Unfortunately, the state will be ending the year with debt-to-GDP of approximately 73.6%.When the energy bond and the UT/Capital bank bond is added, the debt to GDP ratio will shoot up to 76.8%.

The above shows that despite their lofty rhetoric in opposition, the NPP has undermined the conscious effort to slow down the rate of growth of the public debt since 2015.

EXPENDITURE

So far, we note that the Finance Minister has been silent on the NPP's promise to save the nation Ghc3 billion annually from wasteful expenditures. The reason for this silence is perhaps not far-fetched. Even as he has failed to make the promised savings, he and his government have been engaged in very wasteful and scandalous expenditure.

A case in point is the incredible GHS 177.2 million failed Energy Bond Programme Expenditure. This expenditure represents 25% of the about GHS 700 million actual cash realized after the bond floatation. A huge GHS 80 million is provided as administrative cost which is totally unjustifiable. Such costs as air tickets, hotel accommodation, per diem payments etc cannot amount to this much and we once again demand a detailed breakdown of this expenditure. We also re-iterate our demand for details to be provided on the payments to transaction advisors which is quoted in the Bond prospectus as GHS 87 million. Compared to what was spent on previous bond floatation, this is extremely inflated and we will push for a comprehensive enquiry into the matter.

We demand from the Finance Minister to provide updates on the current status of expenditure allocation to the following proposed policy initiatives.

1. Stimulus package to distress industries

2. Planting for food and jobs which appears not to have yielded any tangible dividends except a weak response to the devastating army worm attack which we fear could affect food security going forward.

3. Support to small businesses in rural and deprived areas

4. Entrepreneurship development

5. Zongo development fund

6. One district, one factory-We note that despite a plethora of assurances including one from the President that 51 of the Factories will commence by November, not a single factory has been built in any District in Ghana.

7. One village, one dam-Not a single dam is under construction under this slogan despite assurances from the Vice President that work will start after the rainy season which has long been over.

8. Small business development

9. US$ 275 million for 275 Constituencies under the One million dollar per constituency slogan-As the Financial year draws to a close, not one dollar has been transferred to any constituency in Ghana in spite of a promise in the NPP manifesto to do so and claims by Special Initiatives Minister, Hawa Koomson that the transfers would be effected in August this year.

10. Free SHS-While the NPP manifesto promised to provide Free SHS for all, only first year students were admitted to the programme in September. Over 560,000 students in the second and third years were unjustifiably excluded. In spite of all caution to make adequate preparations to avert overcrowding and drops in quality, the NPP implemented the programme without making the necessary provision for adequate funding and infrastructure. Two months into the programme, government has failed to pay the second tranche of 20% funds which is badly needed by the schools to fend for students.

Ghanaians have also been inundated with horrifying images of widespread overcrowding, lack of classrooms and dormitories forcing students to sleep in the open and sit on cement blocks instead of desks, insanitary conditions leading dangerous diseases such as malaria and pneumonia, poor quality food and general squalor. This situation will no doubt result in terrible declines on quality and standards if not immediately rectified. Sadly, we note that not even a single three-unit classroom block has been constructed by the Akufo Addo government since its inception and we are unable to see how these challenges will be resolved in the near future.

11. Setting up of Development Authorities-No clear poverty-reduction strategies appear to have been implemented this year as the vehicle which government itself identified for the purpose is yet to take off. We are only a few weeks away from the end of the financial year and yet not a single development authority has been set up despite a lot of talk on the subject.

12. Restoration of allowances-After a lot of pomp and pageantry went into launching the restoration of nursing allowances, several complaints have been received of long delays in the payment of the allowances. Privately-trained nurses have also in the past few months demonstrated over government’s failure to employ them.
Agricultural trainees have agitated and demonstrated over the non-payment of allowances to them and their demands have fallen on deaf ears as no concrete action has been taken on the matter.

The College of Education Teachers Association of Ghana CETAG are also up in arms over lengthy delays in the payment of monies owed them.

The plight of newly-trained doctors has come to the fore. The Ghana Medical Association has complained bitterly about government's failure to employ over 250 doctors trained at great expense to the state.

Precious state funds that are wasted in a reckless manner like the GHS 177 million failed Energy Bond expenditure can be channeled into meeting these obligations to bring relief to our people instead spending it on the ostentatious life-styles of NPP government officials.

Finally, in the 2017 original and Mid-Year review budgets, the Minister made two major "back-pass" changes to our fiscal regime. First, he added "pipeline" expenditures that the NDC had been compiling, under the GIFMIS reforms to shift to accrual accounting to the deficit. We expect the Minister to continue the process and add the equivalent amount to the Appropriation for 2018.

Secondly, in the Mid-year Review, the Governor clearly reopened the books to allow interest paid in January 2018 to be given another "backpass" to December 2016, in violation of the "cut-off" rules under the Financial Administration Regulations (FAR) (still in force, long after passage of the PFMA). Since 2017 also ends on a weekend, we expect to the Minister to include the full estimates for the December 2017 debt service commitments in the Appropriation for 2017 and not revert to the FAR basis (with appropriate amendments in the Finance Bills).
We must stress that these two conditions will define our cooperation in passing the 2018 Appropriation Act.

CONCLUSION

Contrary to the President's assertion that 2018 will create jobs, we in the minority believe that the 2018 budget cannot create jobs because of the following reasons;

1. How can you create jobs when the commercial banks do not have the needed liquidity to lend to the private sector?

2. How can you create jobs under sever austerity (fiscal consolidation)

3. How can you create jobs when you have mandated the Central Bank to pursue tight monetary policy?

4. How can you create jobs when real sector (non-oil GDP) is projected to grow in 2018 almost at the same level in 2016?

We believe that unfortunately government economic policy for 2018 will bring about severe hardship and Ghanaian must be well informed. A final reminder: we take advantage of this very important fiscal event in reminding senior officials and functionaries of the NPP that members of the NDC also pay taxes. Hence they should refrain from dismissing or intimidating our members from occupying or applying for vacancies for jobs.