“A PUBLIC POLICY DIALOGUE ON GROWTH, STABILITY AND JOBS IN GHANA ”

A Paper Delivered At the Graphic/Stanbic Bank Breakfast Meeting on Held at Labadi Beach Hotel, Accra
February 14, 2016

By

Dr. J. K. Kwakye

Director of Research

Institute for Fiscal Studies (IFS), Ghana

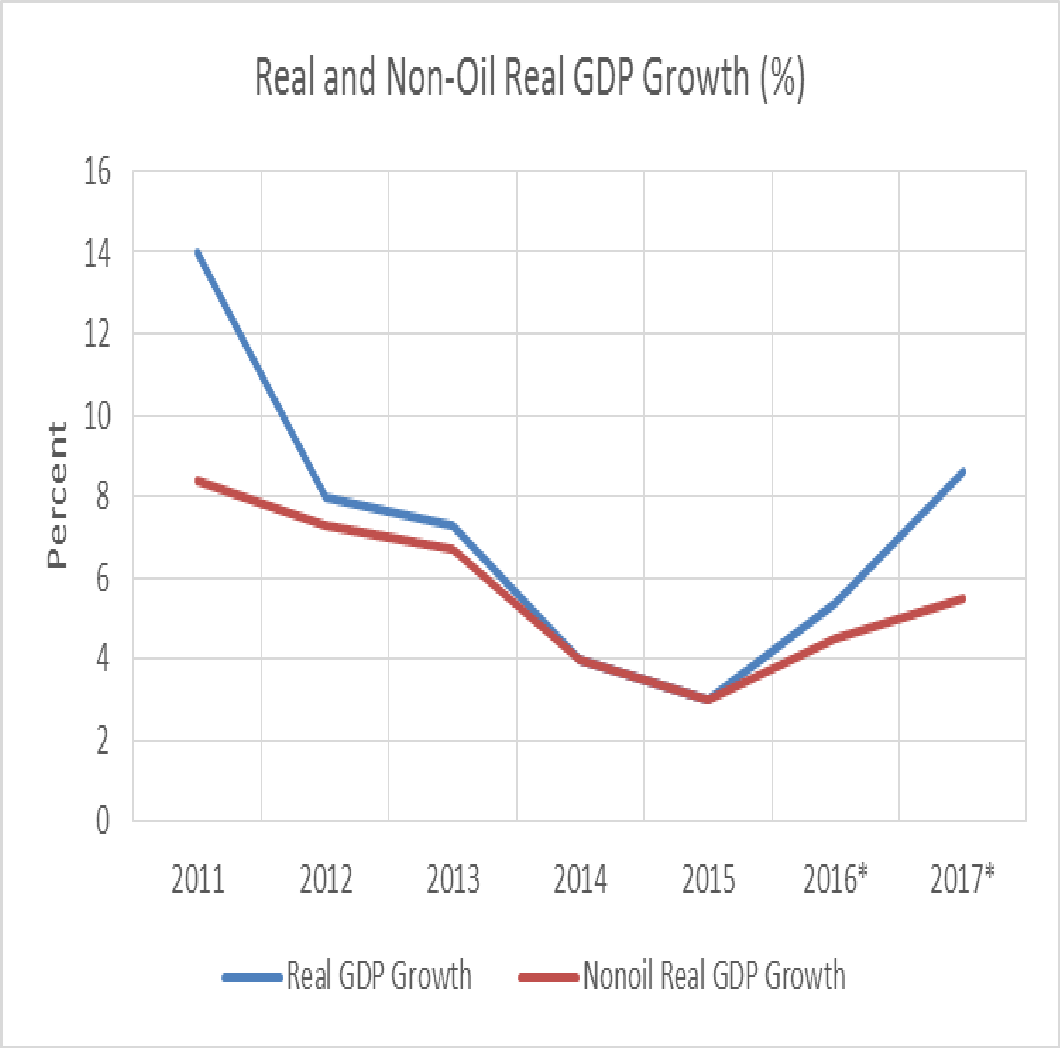
OUTLINE OF PRESENTATION

- Growth
- Stability
- Jobs

Growth

<u>Weakening--and unbalanced</u>

- Average growth of about 6-7% in the decade, 2000-10.
- Peaked at 14% in 2011, driven by first oil.
- Since then, growth declined consistently to reach a trough of about 3.3% in 2016.



- Recent growth being driven by capital-intensive extractives and services---do not seem to be creating enough jobs.
- Agriculture and manufacturing—believed to have greater capacity to create jobs—stagnating.
- [*Will talk about this non-job growth phenomenon later]*.
- Slowing growth due to:

➢ Power constraints

➢ Low commodity prices

➢ Low investments

➢ High business costs in addition to other obstacles

➢ Macroeconomic instability

(IN)STABILITY

Heightened macroeconmic instability:

Manifested in all key indicators

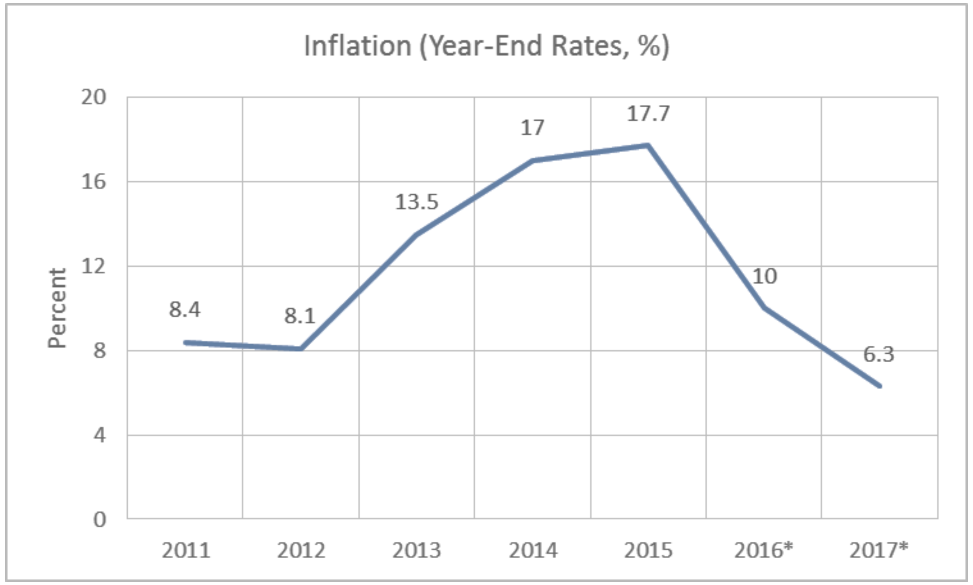
- Inflation
- Fiscal deficit
- Current account deficit
- Exchange rate
- Public debt

Inflation

- Rose consistently from 8.1% in 2012 to 17.0% in 2015 before falling back slightly to 15.4% in 2016.

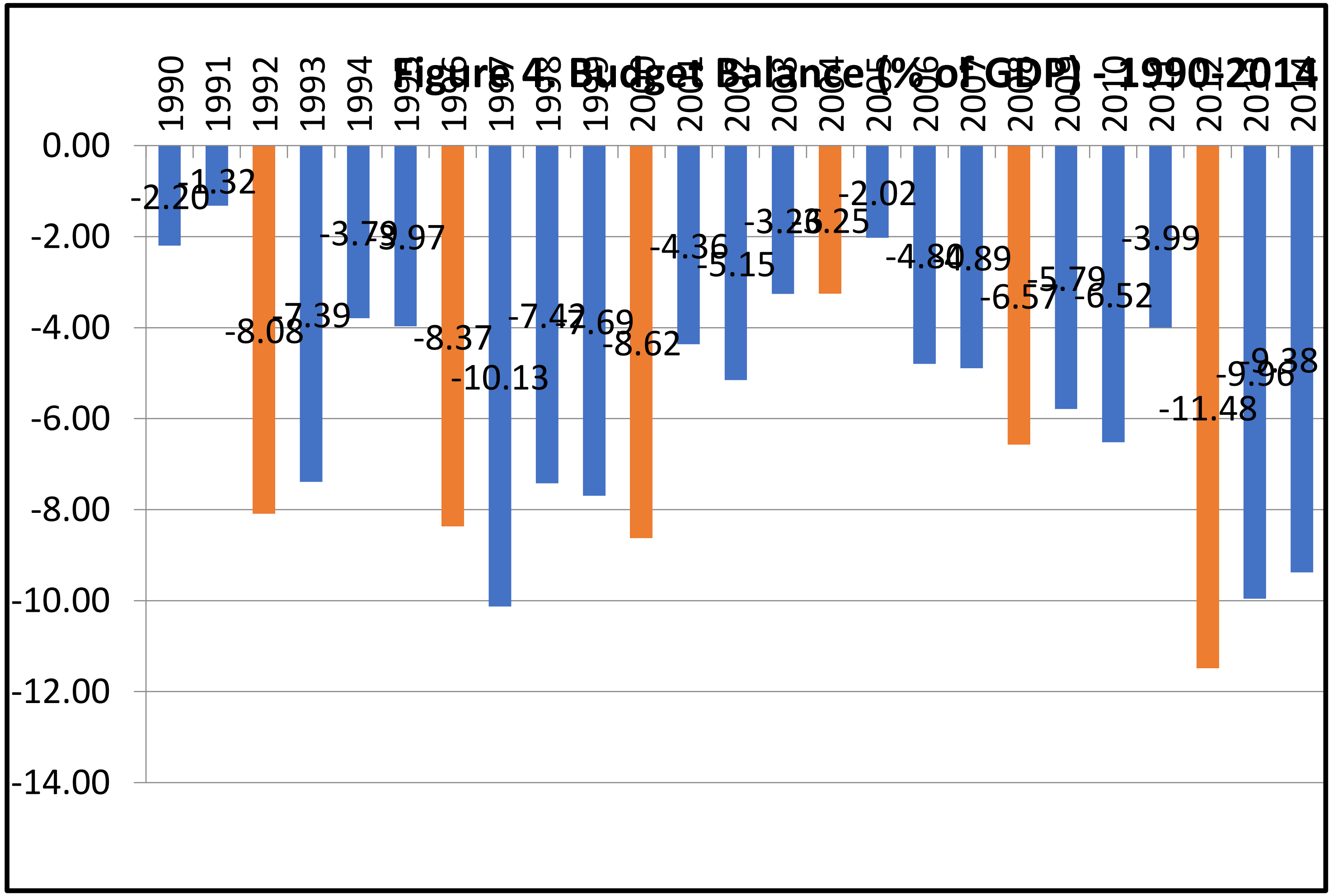
- Persistent inflation, the result of:

➢Demand pressures
➢High fuel and utilities prices
➢Currency instability
➢High food prices



Fiscal Deficits

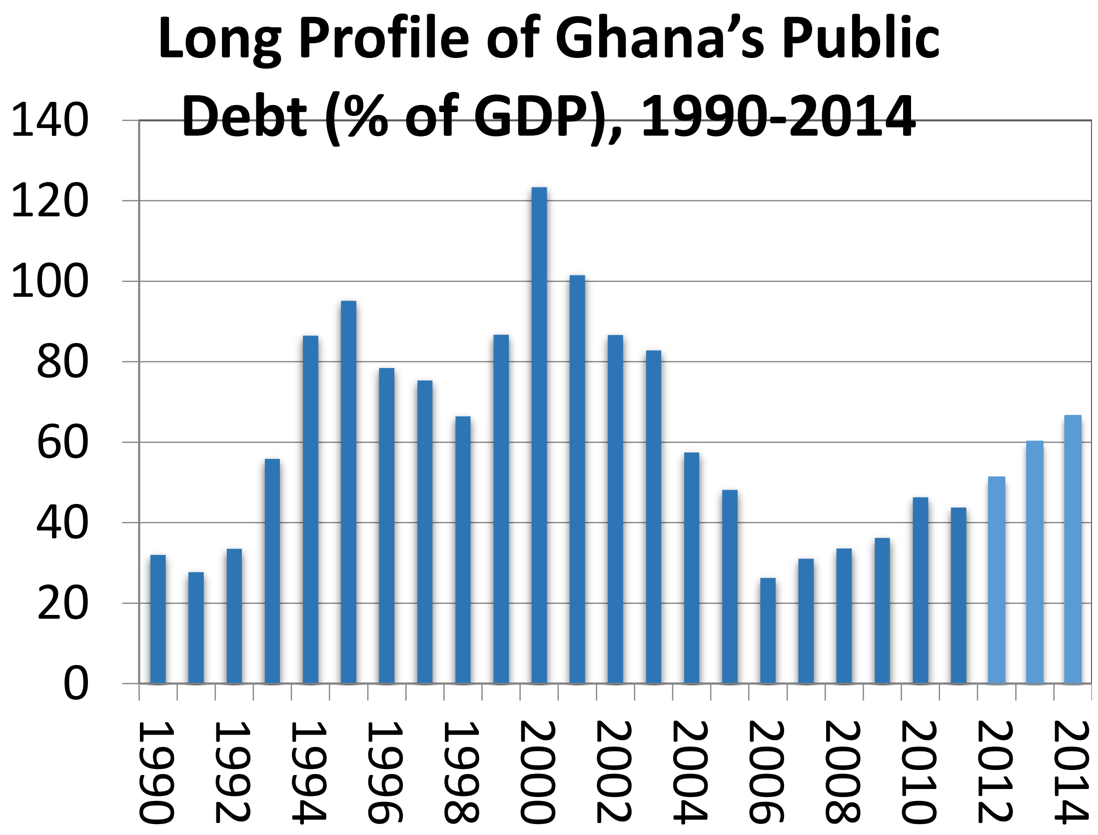
- Relatively high fiscal deficits as expenditure continues to outpace revenue
- Tends to escalate in election years.
- Provisional deficit out-turn for 2016 believed to be close to 10%, repeating election- year deficit-escalation syndrome.
- Our tax effort is only 18-19% of GDP
- Our expenditure is about 34-35% of GDP
- IMF says we tax like a low-income country but we spend like a middle-income country---**agree**?



Public Debt

- Public debt risen from immediate post-HIPC level of 26% of GDP to over 70% in 2016.

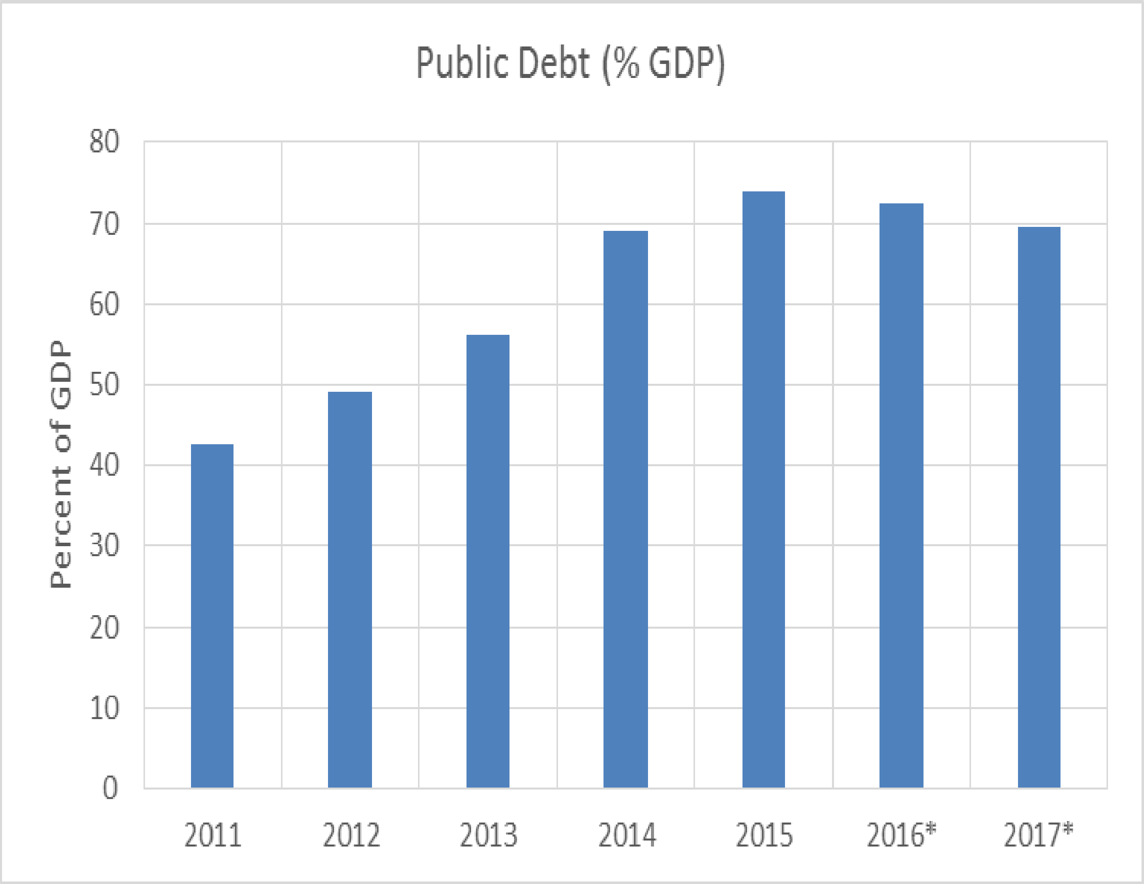
- The result of borrowing to finance twin fiscal and current account deficits.



- 60% GDP deemed rough threshold for sustainable debt.

- By this measure, Ghana's debt already crossed the sustainability threshold.

- Risk of returning to HIPC status unless undertake strong fiscal consolidation.

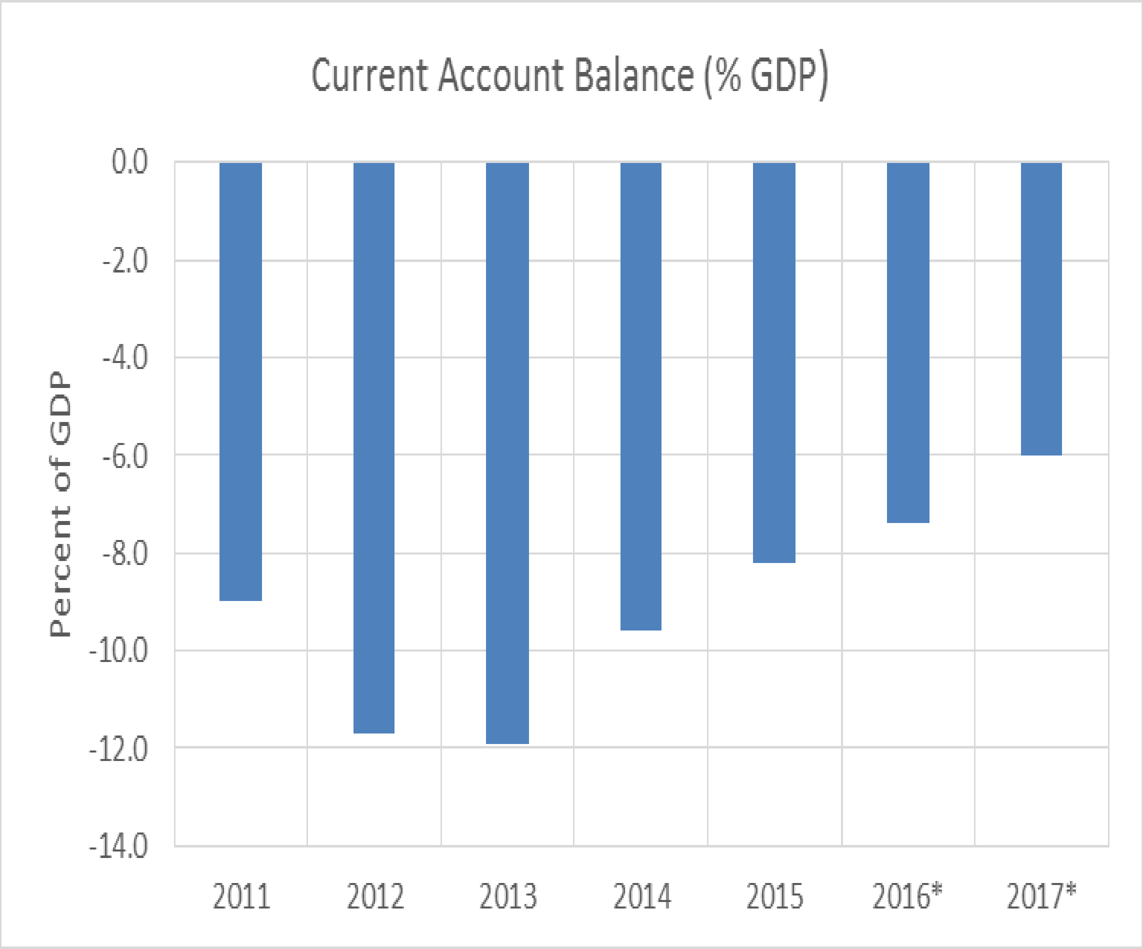


External Deficits

- Equally high current account deficits
- Result of low export earnings and high import payments.
- Recent narrowing of the deficit result of:

➢ Exchange rate depreciation effect on imports

➢ Effect of low oil prices on import bill



Exchange Rate

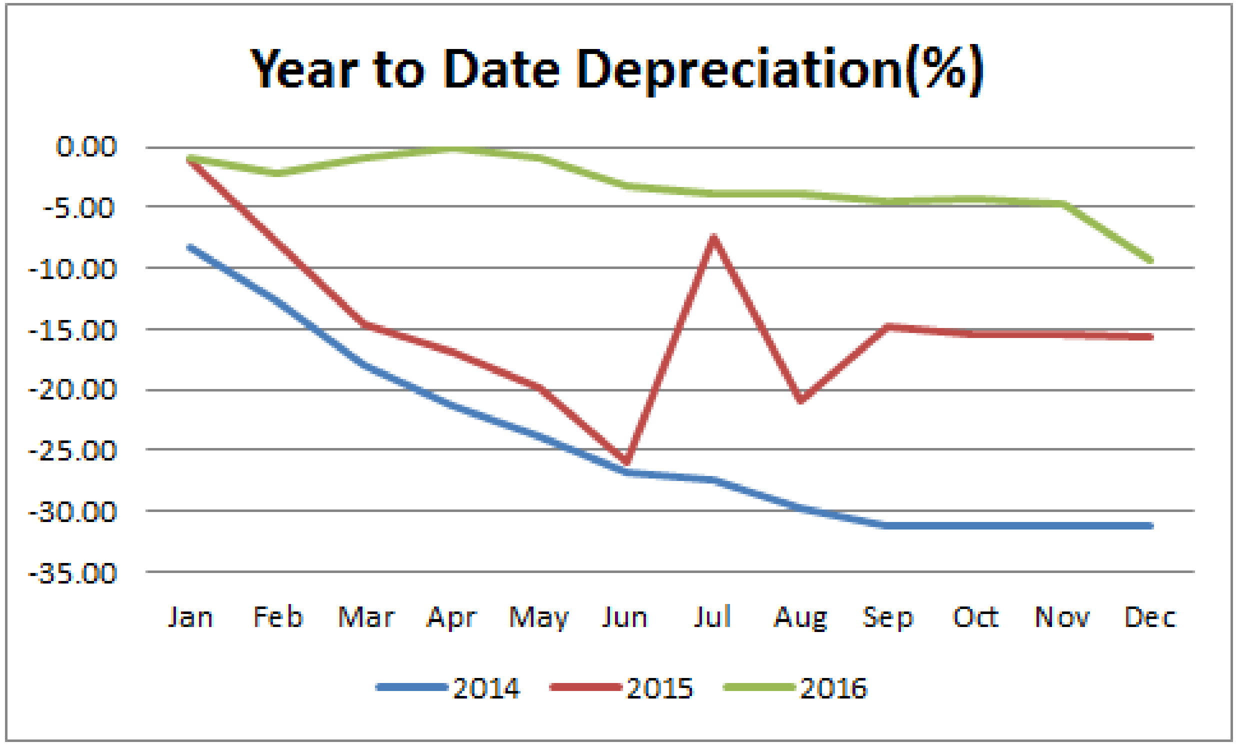
- <u>Incessant depreciation, with only short intermittent periods of stability</u>

➢ Over 30% in 2014

➢ Over 15 % in 2015

➢ Nearly 10% in 2016

- Cumulative depreciation, 2014-16, over 55%



- Since 1983, when the cedi started “floating,” it has depreciated by about 99.4% against the dollar.

- [Mathematically, any quantity that depreciates or devalues by 100% falls to zero or vanishes.]

- The incessant cedi deprecation reflects simply the persistent gap between foreign currency supply and demand.

- *Note: Since 1983, the cedi-dollar rate has moved from 2.75 old cedis to about 44,0000 old cedis currently.*

JOBS

Acute problem of unemployment, particularly youth and graduate unemployment.

- Problem serious enough to pose a potential “time-bomb” capable of triggering social upheaval.
- High unemployment due to a myriad of factors:

➢ Economic growth does not match labor force growth from population growth and proliferation of schools.

➢ Concentration of growth in low job-creating capital-intensive extractives and automated service activities

➢ Agriculture and manufacturing with high potential to create jobs stagnating.

➢ Mismatch between skills and jobs.

➢ Limited opportunities for self-employment and entrepreneurship.

- <u>Some proposals to address the unemployment problem:</u>

- Provide active support to agriculture and manufacturing.
- Implement the National Strategy and Action Plan for Informal Enterprises developed by the Ministry of Employment and Social Welfare;
- Promote entrepreneurship by:
  - supporting initiation of business ideas;
  - reforming education curricula to focus attention on technical disciplines, maths and science;
  - setting up business incubators as an important mechanism to support growth-oriented entrepreneurs;
- Forge a close relationship between industry and schools to better match skills and jobs;
- Strengthen labor market information and monitoring systems to ensure regular flow of information on employment opportunities.

FUTURE OUTLOOK IN TERMS OF GROWTH, STABILITY AND JOBS

- Data based on IMF projections in the ECF, extending to 2035.

	2015-2020	2021-2035
Real GDP Growth (%)	5.8	5.8
Inflation (GDP Deflator) (%)	9.6	7.1
Current Account Balance (%GDP)	-6.4	-4.5
Primary Fiscal Balance (%GDP)	1.8	0.8

- <u>Inflation</u>
- **9.6 in 2015-2020**
- **7.1 in 2020-2035**

- Do not appear sufficiently ambitious, given that it will take a long time to reduce inflation to even high single digits.
- While there is a need to keep demand under control, it is even more important to address the supply-side factors that continually push up inflation—like food prices, fuel and utility prices and the exchange rate effect.

- **Fiscal Deficit**
- Primary Fiscal Balance (%GDP)

➢ 2015-2020 1.8

➢ 2021-2030 0.8

- The projected fiscal deficit profile implies sustained fiscal consolidation.
- This will require strong revenue mobilization effort in conjunction with rationalization of expenditure.

- <u>Current Account Balance:</u>

- **-6.4 in 2015-2020**
- **-4.5 in 2020-2035**

- Projected downward trend welcome turnaround from previous high deficits
- Will require far-reaching policies to boost exports and reduce import demand.
- Calls for transformation of the economy through strong export diversification and industrialization drives.

- Public Debt

- Projected to peak at 78% of GDP in 2016, decline to a presumably sustainable level of 59% in 2020 and fall further to 40% by 2035.

Year	2015	2016	2017	2018	2019	2020	2025	2035
Public Debt (%GDP)	77.9	78.3	74.3	68.8	63.4	59.5	54.5	40.3

- Will take a strong fiscal adjustment effort to bring the public debt "back to a sustainable path." (IMF)

- Again, this will require sustained improvement in revenue generation and expenditure rationalization and control.

- <u>Economic growth</u>

➢ **5.8% for 2015-20**

➢ **5.8% for 2021-35**

-------satisfactory?

- Projected growth rates averaging 5.8% each during 2015-20 and 2021-35 may be achievable
- But not high enough to ensure appreciable improvement in the standard of living or significant reduction in poverty over the 20-year horizon.

- Ghana has potential to grow at higher rates just as many emerging market countries have been able to do.
- Substantial unharnessed natural and human resources.
- With oil—and gas—we should be able to achieve even high growth rates.
- What is needed to deliver acceptably-high growth rates are policy initiatives to harness the productive potential of the economy.
- Such policies must be geared to:

➢developing human and physical capital, and

➢developing home-grown technology, to the extent possible, while also leveraging international technology.

- These are important tools for transforming our economy from a less-productive agrarian one to a more productive industrial economy.
- Policies to transform the economy must be buttressed by sustained macroeconomic stability—built on entrenched fiscal and monetary discipline—that creates a conducive environment for higher savings to support investment.
- Development a progressive, step-by-step process—not an event.
- Countries follow different development paths depending on their individual resource endowment and relative comparative production advantage.
- Given our own circumstances, it is only natural that we develop a strong agricultural sector.
- Because we have vast arable land with huge productive potential.

- Vast human resources tied to the sector, which need to be released through higher productivity to engage in other productive activities.
- Agriculture should be able to produce enough food to feed the people and for export as well as produce raw materials to feed our industries.
- The status quo whereby food accounts for nearly 45% of the CPI basket is unacceptable and should be changed as a matter of policy priority.
- Second, we should embark on a serious industrialization drive.
- Need to add value to our natural resources and develop new industrial activities, utilizing Ghana’s relative comparative advantage.
- Third, should develop our human capital to meet the economic and social needs of the country.
- This calls for interventions to support maths, science and ICT education.

- THANK YOU