Ghana's Economic Development Updates

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Salary increments and economic realities

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Summary: Ghana, like many countries, is currently experiencing economic challenges including high inflation, depreciation of the Cedis and volatile exchange rate culminating into the high cost of living experienced in the country in 2022. The economic hardship has prompted government action and an announcement of a 30% increase in salaries was made in late 2022. The increase in salaries and wages may be well justified, however such policy actions must be weighted more carefully given their potential to trigger further inflation and render futile the efforts to reduce the economic burden. The potential impact on the fiscal gap also requires such policy actions to consider strengthening domestic revenue mobilization as a more sustainable means of meeting government's high expenditure.

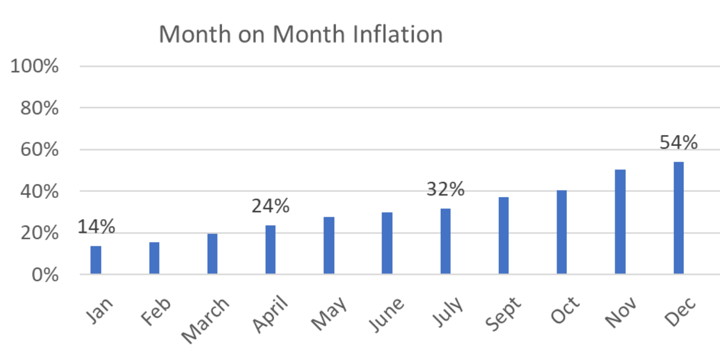
Background/ Context

Ghana is currently experiencing its worst economic turmoil in generations. Ghanaians are faced with exorbitant prices and an extraordinarily high cost of living as inflation hovers at a record-high of 54.1% . This is shown in Figure 1. This surge in inflation can partly be linked to fluctuations in the exchange rate. Ghana's economy is import-driven and the fluctuation in the Ghana cedi against the US dollar causes an increase in the prices of imported goods that is used in domestic production and consumption.

Implication

High inflation has drastically reduced purchasing power. This in turn has led to wage-increase demands from government employees, with some trade unions embarking on month long strikes to protest their demands.

Figure 1: Inflation trends from January to December 2022



Despite its limited fiscal space, with heightened debt distress, the government of Ghana responded with a Cost-of-Living Allowance (COLA) aimed at providing a short-term relief to its employees. This allowance is an additional 15% base pay across board, with a commitment to negotiate an appropriate salary increment at the end of the year.

In December 2022, the government of Ghana and representatives of national trade unions agreed on general salary increment of all public servants by 30% in 2023, though amid extraordinary financial stress.

Theory, practice and experience suggest that large and sudden increases in government expenditure can crowd out social and development spending. This can also pose a challenge for debt sustainability, possibly intensify inflationary pressures and negatively affect foreign exchange availability and thus undermine economic growth.

What does this increment mean to the government and its employees?

From Ghana's 2022 budget, compensation for government employees stood at GHc35,841,237,277 ($3,320,600,844). Using this figure, the government will have to raise additional Ghc10,752,371,183($996,180,253) to meet its commitment of a 30% salary increment. Though a necessary decision, this is an additional strain on the government's finances. With Ghana's debt to GDP ratio estimated at 91% by the IMF, several questions come to mind: can the government afford to increase expenditure? Does it make economic sense for the Government of Ghana to increase expenditure in the middle of a debt restructuring program? Where is this additional revenue coming from?

Salary raise may have a positive correlation with utility bills which can erase the potential of purchasing power. The Public Utility Regulatory Commission (PURC) announced an increase in electricity and water tariffs by 29.6% and 8.3% respectively effective Feb 1, 2023. This increment in tariffs comes off days after an increase in public servants' salaries was announced.

Given this context (particularly increases in utility bills and prices), the expected relief given by this pay rise may not be fully realized. Additionally, unchecked inflation can further push people into extreme poverty.

With a constant income and the regular increase in the prices of goods and services as shown in figure 1, the real wage of consumers is fast decreasing even with salary increments. On average, a government worker earns, monthly, approximately Ghc1,964.22 ($181.980). With fluctuations in exchange rate and rampant inflation, the real wage of public servant decreases as their cost-of-living increases. Even though there may be need for increases in salaries and wages to compensate workers, such policy actions must be weighted more carefully given their potential to trigger further inflation and render the efforts meaningless.

Conclusion

In conclusion, it appears more prudent for government to focus on fighting and stabilizing inflation as opposed to pay increases, which is unlikely to be effective or can in worse cases push inflation even further.

Some reflection on the way forward…

Strengthening domestic revenue mobilization is the government's most pragmatic and sustainable means of meeting its high spending targets. Ghana has one of the lowest tax revenues to GDP ratio in Sub-Sahara Africa, estimated at 13%. Weak taxation systems characterized by high levels of leakages, evasion and illicit financial flows are some of the reasons put forward. This is a concern the United Nations Development Programme (UNDP) is assisting the government to address through its tax for SDGs and Tax Inspectors Without Borders (TIWB) initiatives.

For employees and their purchasing power, nominal salary increment matters little as compared to real salaries (nominal income minus the rate of inflation). As inflation increases, salary increment is of less benefit to employees. Where as this brief is not advocating for a 'no salary increment', the emphasis is being made that to get the full benefit of salary increment, other levers of economic management (inflation control, increasing exports and foreign exchange management etc) should be applied.

Also, salary increment should be well managed to avoid a bloated fiscal gap. Lessons from other countries that increased salaries to mitigate the economic impact of the COVID-19 slow down and the war in Ukraine can be learnt to ensure **expenditure rationalization**. In The Gambia for instance, a much smaller economy, inflation has only risen up to about 14%, the government also increased salaries by 30% but ensured the following:

- Reduced or eliminated non-payroll related allowances of civil servants
- Reduced subsidies to state-owned enterprise (SOE)
- Curtailed non-essential travel and training abroad; a measure also said to have been adopted in Ghana.
- Reduced allocation to goods and services

These measures off set the salary increase of 30% in 2022 and is supporting fiscal consolidation. It is important to note that this comparison here is not about the salary increment but the measures introduced by countries to reduce the impact of salary increment on the fiscal envelop. Several other countries in Africa (South Africa, Zimbabwe, Zambia, DRC in Africa and others: England, Canada, US etc) increased public sector salaries[1]. The DRC, which also increased salaries[2] in 2022 by 30% proposes to 'clean the payrolls' of various ministries in public administration including the departure of people eligible for retirement as a means of generating the extra resources required to meet the salary demands.

Following this brief, what will be most interesting to analyse is real wages and salaries. Since the salary increment in Ghana came into effect in January 2023, it is yet to reflect on employees purchasing power. A subsequent brief will analyse recent inflation data released by the Government Statistics System to provide some implications of the salary increment.

How does the government's decision affect UN work?

An increase in the salaries of public servants in the country can have an impact on the work of

[1] https://seekersnewsgh.com/2023-public-sector-salary-increment-overview-in-selected-countries-as-unions-all-over-fight-for-better-conditions/

[2] https://www.africanews.com/2022/04/21/drc-on-pogressive-increase-of-salaries-for-civil-servants//

the United Nations in several ways but we will focus on two:

First, for UN agencies whose work focus on small credit to businesses and households, inflation poses a serious risk to people's hard earned capital and savings. If unchecked, unsustainable inflation levels can reverse Ghana's success in the fight against extreme poverty and hunger and ultimately a slowdown in achieving the Sustainable Development Goals.

Second, and most importantly, a bloated wage bill and shrinking resource envelope culminates to less resources for development activities. This has negative consequences on social service delivery, access to services and affects the work of UN Agencies.

On a flip side, if the policy action does not lead or contribute to inflation, payment to teachers, medical professionals in particular enhances the work of UN agencies that focus on service delivery.

Recommendations

- Government should look internally to generate more domestic revenue.
- Ghana should lessen its reliance on imports, which experts have highlighted as one of the causes of this excessive inflation.
- UN agencies should identify and support Ghana's productive sectors to increase national productivity and raise real wages.
- UN agencies can also support innovative service delivery to lower the cost of access to social services and support local economic development to enhance income and livelihood opportunities for all across the country.
- The government must continue to guarantee that all workers in Ghana are fairly compensated in order to increase productivity.
- The government and development partners should focus on the overall better management of the economy for more sustainable solutions to current economic challenges.