# PANDEMIC, THE ECONOMY AND OUTLOOK

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# Pandemic, The Economy and Outlook

Vice Chancellor of the University of Ghana,
President of the Alumni Association,
Fellow Alumni of the University of Ghana,
Distinguished Ladies and Gentlemen,

## Introduction

1. It is a privilege to join you today to deliver this year's Alumni Lecture. Coming back to this great institution has brought back fond memories of my days on the Legon Campus over three decades ago, shuffling between Mensah Sarbah Hall Annex A and the Economics Department. I sincerely thank the Alumni Association for the kind invitation and to join the list of distinguished speakers of the University of Ghana Alumni lecture series.

2. Ladies and Gentlemen, when I received the invitation to deliver this year's alumni lecture, the first thing that came to my mind was the

devastating effects of the Covid-19 pandemic on the global economy, how that will transmit to the Ghanaian economy and the enormous challenges to public policy, including macroeconomic management. Since the inception of the pandemic, policies have been crafted and extraordinary measures imposed to contain its spread and manage the human, economic and social consequences.

3. This single event, which probably happens once in a lifetime, has caused some fundamental shifts in the global economy and disrupted social and cultural norms. We no longer greet each other warmly and are continuously masked up as if we are at a masquerade party. This has become the new normal. In some circles, the Covid-19 pandemic has been described as a tail event or black swan event. Such events rarely happen and when they do, they rest within the tail end of a probability distribution. Indeed, 2020 has turned out as exceptional and will surely leave an indelible mark on our thinking for years to come.

4. As grim as it sounds, Covid-19 is not the first pandemic to hit the human race. Throughout history there have been several pandemics, with some arguably much worse than Covid-19 in terms of the number of people who succumbed to the disease. Let me highlight a few of these, starting with

- **The Antonine Plague (165 AD-180 AD)** which was also known as the Plague of Galen and killed over 2,000 people per day at the height of that pandemic;
- **The Black Death (1347-1352)** which swept through Europe and Asia among other continents, and killed an estimated 25 million people;
- **The Small Pox Pandemic (1870-1874)** which spread from Europe to Asia through America, causing 500,000 deaths worldwide.
- **Cholera (1817-1824)** which emerged in India in 1817 and reached different countries in Asia, Europe and Eastern Africa, also killing more than 100 thousand people;

- **Russian Flu (1889-1890)** which started in St. Petersburg and spread through Europe with an estimated 1 million deaths.
- **Spanish Flu (1918-1919)** which is considered the deadliest in history, infecting one-third of the world's population and killing 20 to 50 million people worldwide;
- **H3N2 Pandemic (1968)** which first emerged in Hong Kong in July 1968 and by December the virus had reached the United States, United Kingdom, and other countries in Europe and killed an estimated one million people, and the
- **SARS (2002-2004)** outbreak, first reported in Guangdong, China in February 2002 and spread throughout North America, South America, Europe, and Asia. It infected more than 8,000 people worldwide and killed 774 people.

5. All these pandemics varied significantly in terms of the human costs, depending on its severity and how it was dealt with. The stark difference between these other pandemics and the Covid-19 pandemic is that it has led to much stricter public health measures

and birthed a new socio-economic order. As we know, Covid-19 brought in its wake unprecedented disruptions to global supply chains due to travel restrictions, business closures and weakened demand for goods and services. Notwithstanding these events, we have now learnt that "decisions write history" and this pandemic presents an opportunity for policy makers to write an impactful history through their decisions. In fact, from history, humankind has fought and overcome several pandemics and major economies have subsequently recovered even more strongly after pandemic episodes. So, we remain optimistic about the final outcome of the Covid-19 pandemic and hopefully our collective decisions will be viewed positively by historians for posterity to judge.

## COVID-19 Pandemic and the Global economy

6. Mr Vice Chancellor, President of the Alumni Association, Fellow Alumni, Distinguished Ladies and Gentlemen, Dear Friends and Colleagues, at the global front, the emergence of the coronavirus in late 2019 and subsequent explosion into a full-blown pandemic has

been described as the most serious health crisis since the 1918 Spanish Flu, and the most economically costly in recent history due to global interconnectedness. It moved rapidly across borders, along principal arteries of the global economy and catapulted a global health crisis into a global economic shock. The topmost public policy objective in Covid-affected countries was to strike a good balance between saving lives (a public health objective) and protecting existing structures that support livelihoods (an economic policy objective). This game theoretic objective, I believe has challenged policy makers globally. It is one that I strongly believe John Nash could not have easily addressed with his Nobel Prize winning masterpiece on the Nash equilibrium.

7. Different countries have managed this challenge differently. Governments imposed restrictions such as quarantines, border closures, workplace closures, and social distancing rules to slow the rate of transmission and deaths associated with the pandemic. Although these public health counter measures succeeded in

flattening the Covid-19 curve, they also caused significant disruptions to global economic activity. Global demand and activity fell sharply. Exports decreased in both the advanced and emerging market economies and almost halved in the large oil producing countries.

8. The initial lockdowns and closure of borders also interrupted international trade, tourism and regional trade which are important sources of export revenue for many countries. Remittances were affected too, as migrant workers were hit by the pandemic hard. The World Bank estimates a 20% fall in global remittances for 2020 although remittances have proved resilient in some countries including Ghana. Global financial markets were also stressed by the pandemic. For instance, the months of February and March 2020 were characterised by large swings in global stock markets, reversal of capital flows to Emerging Market and Developing Economies (EMDEs), and widening of EMDE sovereign bond spreads. In addition, the weak global demand and the inability of OPEC and its

allies to agree on production cuts led to the collapse of oil prices, and further worsened financial market risk sentiments. These developments led to tighter global financing conditions in both advanced and EMDEs.

9. The intensity of the virus and its socio-economic consequences demanded swift and decisive policy reactions. Synchronised massive fiscal response packages and supportive monetary policy measures were implemented in many countries to deal with the fallouts from the crisis. In particular, central banks deployed a mix of conventional and unconventional measures depending on country-specific policy space to ease off the socioeconomic consequences of the pandemic.[1] Consistent with traditional responses to such negative economic shocks, the toolkit deployed by central banks in advanced and emerging market economies was to aggressively cut policy rates. For instance, the U.S. Federal Reserve cut its policy rate by 150 basis

[1] Survey of 29 countries [6 Advanced, 9 Emerging Market economies, and 14 Sub-Saharan Countries] revealed the following COVID-19 Responses

points in March 2020, while the Bank of England cut the rate by 65 basis points. Similarly, in the emerging market economies, policy rates in Turkey, Brazil, and Russia, were all cut by 300, 150, and 115 basis points, respectively.

10. In addition to the rate cuts, central banks in advanced economies embraced other unconventional measures such as direct lending programmes to small and medium scale enterprises to boost economic activity. To safeguard liquidity in the financial sector, central banks also provided short-term interbank lending facilities and resumed massive asset purchase programmes to ensure the smooth functioning of financial markets and credit flows.

11. In the United States, fiscal policy measures took the form of direct support to firms and households, credit/Loan Guarantees such as the emergency grants and loan forgiveness programs for SMEs (launched by the U.S government), also known as the Paycheck Protection Program under the CARES Act, and other measures such

as the Families First Coronavirus Response Act (FFCRAA), extension of tax filing deadline for individuals and businesses, deferment of student loan repayment by six months and Refundable tax credit for all businesses to cover wages for employees unable to work due to the COVID-19 pandemic. Similar measures were implemented across other advanced economies.

12. The policy response in the emerging market economies was no different. A multiplicity of unconventional policy actions were taken and these included direct foreign exchange intervention to stem volatilities in the exchange rate, direct lending to SMEs, granting of loans to financial institutions, foreign exchange SWAP transactions, lowering reserve requirements, Asset Purchase Programs, direct lending to exporters, easing of capital conservation buffers, among others. At the last count, at the beginning of the third quarter, EMDEs had utilized 12 different unconventional tools to stem the impact of the pandemic on their economies. In emerging market economies, central banks intensified foreign exchange interventions to smoothen

currency volatilities following deteriorating financial market sentiments induced by Covid-19.

13. Across Sub-Saharan African (SSA) countries, policy responses to the pandemic varied depending on country specific conditions, but not distinctly different from those in advanced and emerging market economies. Remarkably, monetary and macro-prudential policies were eased to support economic growth and provide adequate liquidity in the financial systems. Amid limited fiscal space, most central banks in the region, with inflation well contained, cut policy rates to support the recovery process, with some bringing it down to historical lows. For instance, Ghana cut the policy rate by 150 basis points, South Africa 275 basis points, Uganda 200 basis points etc. Central banks also introduced a variety of facilities to inject liquidity into the banking system, with some lending directly to targeted sectors. Botswana, South Africa, Kenya and Malawi, many more announced lower reserve or liquidity requirements for commercial lenders to encourage more lending.

14. In addition to the policy rate cuts and liquidity measures, some central banks encouraged banks to work with their clients to re-structure their obligations to the banks. These range from a temporary moratorium on loan payments (Botswana, Namibia, São Tomé and Príncipe,) or through a restructuring of existing obligations (Botswana, Eswatini, Ethiopia, Kenya, Namibia, Nigeria, Uganda). Some central banks have also relaxed prudential constraints, for example, by easing capital requirements (Botswana, Ghana) or by delaying the transition to Basel III norms (West African Economic and Monetary Union).

15. With higher spending, lower revenues, reduced external funding, and waning investor appetite for government debt, some sub-Saharan African countries have already tapped the central bank to help fund their crisis spending during the lockdown (Democratic Republic of the Congo, Ghana, Mauritius), according to IMF. Many central banks with enough reserve buffers also intervened in the FX

markets to stem exchange rate volatility arising from the capital flows reversals by providing extra liquidity to the domestic financial system. Many countries encouraged the use of digital money, leveraging on the digital money platforms, to help channel cash payments. This included measures such as increasing the transaction limits and removal or reduction of fees. There was also direct fiscal support to a large proportion of vulnerable households and businesses. Transfers to households took the form of food distribution, school meals, lowering of the utility bills and tax waivers.

16. Given pre-existing economic fragilities, huge financing gaps, and weak health infrastructure in most African countries, it became clear that additional financing would be needed to dampen the adverse effects of the pandemic in these countries. Ladies and Gentlemen, the size of financial support needed to combat the adverse economic consequences of the pandemic prompted several countries to apply for financial assistance from the multilateral agencies. According to IMF estimates, official creditors mobilised up to US$57 billion for

Africa—including US$18 billion from the IMF and the World Bank—to provide frontline health services, support the poor and vulnerable, and keep economies afloat in the face of the worst global economic downturn since the 1930s. So far, the IMF's total Emergency Financing for some 28 Sub-Saharan African countries was estimated at US$9,977.76 million (SDR 7,281.17 million). Furthermore, some 20 African countries benefited from debt relief estimated at US$251.24 million.

17. The data for the first half of 2020 showed that the global economy experienced a sharp contraction due to restrictions imposed to contain the spread of the Covid-19 pandemic. However, survey data into the third quarter of the year pointed to signs of recovery driven by the easing of restrictions and decisive monetary and fiscal policy support. The recovery is however expected to be gradual and uneven in view of the cautious behaviour of both households and firms. Also, Covid-19 containment measures vary across countries and the recoveries will reflect these variations.

18. Despite these early encouraging signs of recovery, the outlook for the global economy remains highly uncertain. The Covid-19 infections continue to increase as countries ease restrictions, sparking fears of a second and even third waves of infections, requiring re-imposition of restrictions and leading to further slowdown in the world economy. The recent resurgence of the pandemic in the United States and parts of Europe lends credence to the uncertain path of the pandemic in the near-term. Also, events related to the spread of the COVID-19 pandemic are still evolving and there is considerable uncertainty about the duration of the spread and how quickly countries will recover. The IMF forecasts that global growth will contract by 4.4 percent in 2020 (IMF WEO, October 2020 update). If this materialises, the Covid-19 pandemic may possibly become one of the most economically costly pandemics in recent history.

19. These notwithstanding, the recent announcement of coronavirus vaccines with more than 90 percent efficacy, and the subsequent approval to administer these vaccines in the United Kingdom and other advanced economies has fuelled optimism and restored some hope about a 'return to normalcy' in the near-term. Already, coronavirus vaccines are being administered in China, Russia, Brazil and United States. This positive news of Covid-19 vaccine has boosted global economic recovery prospects in 2021 and beyond.

**The Ghanaian economy and COVID-19 pandemic**

15. At this stage, Fellow Alumni, I would like to shift the focus to how the Covid-19 pandemic impacted the domestic economy and delve into the various decisive and co-ordinated policy measures taken to moderate the financial and economic costs.

16. Ladies and Gentlemen, the Ghanaian economy ended 2019 on a sound footing, before COVID-19 came knocking. This followed the successful implementation of a sound macroeconomic framework

with fiscal consolidation and prudent monetary and exchange rate policies over the last three years, which had yielded good outcomes. Inflation at 7.9 percent was within the medium-term target band of 8±2 percent, the exchange rate was relatively stable, the current account had improved significantly alongside three consecutive years of trade surpluses of US$2.26 billion, and the Bank of Ghana had built strong foreign exchange reserve buffers of US$8.42 billion. In addition, economic growth had rebounded strongly to 6.5 percent, supported by growth-oriented government policy initiatives to boost agriculture and manufacturing.

17. In the financial sector, the Bank of Ghana had successfully concluded three years of banking sector reforms, which saw an increase in the minimum capital requirement, revocation of licences of insolvent institutions ("banking sector clean-up"), and a complete overhaul of the regulatory and supervisory frameworks. The clean-up resulted in a stable and resilient banking and SDIs sector that is well capitalised, liquid, and solvent. By the end of 2019, all the

financial sector soundness indicators showed improvements. The overall capital adequacy ratio for banks had increased to 20 percent well above the regulatory requirement. The Non-performing loans ratio had declined from 21.3 percent at the end of December 2017 to 15.3 percent. Liquidity in the industry had improved and profitability has been on the uptrend.

18. We had also seen a significant increase in the use of digital financial services, thanks to some of the measures instituted including National Financial Inclusion and Development Strategy, the Digital Financial Services Strategy, and the Cash-Lite Policy. This policy framework was intended to scale up access to financial services from 58% in 2015 to 85% by 2023 through increased digital financial services that will help promote economic empowerment of the poor and marginalized.

19. So, with the strong economic fundamentals, a sound and stable financial sector, as well as fairly developed payment system

architecture, Ladies and Gentlemen, Ghana was prepared to consolidate the gains made with reforms over the past three years even in the face of challenges that typically arise during election years—a track record badly needed to shape Ghana's story to the international investors. But as the Bible puts it "***many are the plans in the heart of a man, but it is the purpose of the Lord that prevails***"**.** This well-thought through objective was shattered, if I am allowed to use that word, with the unprecedented and unexpected shock that came with the advent of the coronavirus on the Ghanaian people. The real ramifications of this shock and the extraordinary demands on the government as the guardian of public safety and welfare became severe after several weeks.

20. The first two Covid-19 cases were imported into the country on 14th March 2020, and it did not take long for the numbers to start multiplying, first from Accra, Kumasi, and on to the other regions. Following the steady increase in the Covid-19 cases and the threat of weakening an already burdened health sector, the Government

imposed a three-week partial lockdown, beginning March 30th, in the major cities of Accra and Kumasi, as a containment measure to stop the spread. Akin to other country experiences, this proved to the game changer and led to a sudden stop in economic activity. Educational institutions, transport services, the airport, recreation centres, and hotels and restaurants, were all shut down. In addition, manufacturing companies scaled back operations, workplaces were closed except for key staff, while markets operated at half capacity. Now, this partial lockdown had tremendous impact on economic activity, household incomes, government revenues, and jobs as companies laid off staff or cut back wages and salaries.

21. The first inkling of the adverse effect of Covid-19 was felt in the prices of goods and services. The announcement of a lockdown triggered panic buying as households stocked up on goods across the city centres of Accra and Kumasi, resulting in a sharp increase in headline inflation from 7.8 percent in March to 10.6 percent in April,

and further up to 11.3 percent in May 2020 due to the astronomical jump in food prices.

## The Economic and Financial shock

22. Ladies and Gentlemen, the economic impact of Covid-19 presented as both demand and supply shocks to the domestic economy. On the supply side, there were disruptions in productive activities as employees fell victim to the virus, while disruptions to global supply chains led to shortage of raw materials and inputs for manufacturing activity, which led to increased cost of production including costs associated with adoption of new health and safety protocols. On the demand side, companies experienced weak consumer demand due to closure of businesses and job losses. With these constraints, major businesses faced difficulties in honouring obligations such as staff compensation, suppliers' credit, utility bills, and servicing loans with financial institutions.

23. Fellow Alumni, the Covid-19 also impacted the economy as an external shock through the contraction of trade, fall in commodity prices, tourism and international capital flows. By the second quarter of the year, the full effect of the pandemic was showing in slower growth in domestic economic activity, adversely impacting livelihoods, and threatening to erode the economic and financial stability gains achieved over the preceding three years.

24. The developments placed severe constraints on government finances, arising from significant revenue shortfalls on the back of weakened domestic economic activity and the collapse in international crude oil prices, coupled with increased government expenditures due to Covid-related spending. The large informal economy, which in the past used to provide a cushion to such shocks, this time around amplified the shock as the lockdowns brought a halt to informal activities as well. Therefore, providing a sense of security to market participants and the public required close coordination between various stakeholders and implementation of monetary,

fiscal, and macro prudential policies to limit the impact of the pandemic on the broader economy.

### *The Fiscal Response*

25. Obviously, the onset of Covid-19 outbreak brought intense pressure on government fiscal operations, pushing the economy off the consolidation path as the Government took actionable steps and instituted programmes to moderate the social and economic consequences. In addition to the lockdowns and border closures, the government had to increase health and social assistance spending, including direct transfers to households (including food distribution), several relief packages such as tax waivers for frontline health workers, stimulus packages for small and medium-scale enterprises, absorption of utility bills (electricity and water), etc. All these were aimed at protecting livelihoods, supporting businesses, minimising job losses, and providing additional funding sources to industries to shore up output for domestic consumption. Government introduced an Emergency Preparedness and Response Plan of GH¢560 million

(US$100 million). Clearance was given to increase staff in the health sector by employing 24,255 health workers for testing, tracing and treatment. Government also refurbished 10 treatment centres across the country, introduced a GH¢10.3 million insurance package for health workers and livelihood preservation programme targeting 4.1 million households and 682,522 businesses. To close the funding gap arising from these actions, government assessed a US$1 billion IMF Rapid Credit Facility as expenses for Covid-relief measures ballooned.

***Bank of Ghana Responses***

26. To complement government's Covid-relief measures, Distinguished Ladies and Gentlemen, the Bank of Ghana also announced a series of policy and regulatory measures to loosen financing conditions, ease liquidity pressures and keep credit flowing to support critical sectors of the economy.

- The Bank of Ghana cut the monetary policy rate by 150 basis points to 14.5 percent in March 2020 and worked with commercial banks (through moral suasion) to transmit the same measure of decline to lending rates.

- The Bank also reduced primary reserve requirements to 8 percent from 10 percent to increase liquidity in the banking system.

- The Bank of Ghana reduced the Capital Conservation Buffer (CCB) of banks by 1.5 percentage, implying an effective drop of capital adequacy requirement (CAR) from 13 to 11.5 percent.

- The provisioning requirements for the spectrum of loan categories was reduced from 10 to 5 percent, which helped to ease liquidity conditions and provided capital relief to banks.

- Urged the commercial banks to provide a 6-month moratorium on principal payments on loans due from customers in the worst-hit sectors of the economy.

- The Bank also suspended Dividend payments by Banks for the year 2020 to secure capital buffers.

- The Bank provided assurance to strengthen the capacity of the ARB Apex Bank to provide liquidity support for rural and community banks facing temporary liquidity challenges.

- It also extended the deadline for SDIs (MFIs and RCBs) to meet new capital requirements to December 2021 from the earlier deadline date of 28th February 2020.

- Similarly, loan repayments that were past due for Microfinance Institutions for up to 30 days were reclassified as "current", as pertains to all other sectors.

- The Bank also reduced the cash reserve requirement for Rural and Community Banks (RCBs), Savings and Loans Companies (S&Ls), Finance Houses from 8 to 6 percent, and from 10 to 8 percent for microfinance companies;

- In order to encourage the use of digital forms of payments, the Bank agreed with banks and mobile money operators to the elimination of transaction fees on mobile money transfers of up to GH¢100 and revision of transaction limits upwards to further promote the use of digital solutions, such as mobile money and online transactions.

27. Fellow Alumni, besides these monetary policy and macro prudential measures, the Bank also triggered its Asset Purchase Programme in line with emergency provisions in the Bank of Ghana Act, 2002 (Act 612) as amended, and purchased a Government of Ghana Covid-19 relief bond with a face value of GH¢10 billion at the

Monetary Policy Rate with a 10-year tenor and a moratorium of two (2) years (principal and interest) in May 2020.

28. The Bank of Ghana again issued several notices to guide banks and SDIs on the utilisation of capital and liquidity releases as well as to ensure business continuity. In this context, banks and SDIs were required to:

- Activate business continuity and disaster recovery plans to ensure full time access to banking services during the period of the outbreak and restricted movements, and to review these plans on a continuous basis.
- Ensure full functionality of all electronic channels and that ATMs do not run out of cash.
- Develop Covid-19 Contingency Plans to help assess and identify the possible risk scenarios and mitigating measures to deal with the scenarios, including crisis management plan that seeks to map out specific actions to be taken based on Covid-19 case thresholds.

## Assessing the Impact of Covid Policy Responses

29. Distinguished Ladies and Gentlemen, Ghana faced multi-layered shocks with the advent of the pandemic, including domestic economic disruptions due to containment measures, and the challenging global environment which induced global supply disruptions and weakened demand for exports. Broadly, the impact of the pandemic reflected in negative growth rates, declining GDP per capita across most African countries, which almost wiped out 5-6 years of economic progress by the third quarter of 2020 and increased extreme poverty.

30. In addition to the slower growth, fiscal pressures became elevated, necessitating a revision of the 2020 projections for the economy. Amid weak external demand, and domestic Covid-containment measures, it became very necessary to revise the macro framework for Ghana with the GDP growth projection for 2020 revised downward to 0.9 percent from the pre-Covid projection of

6.8 percent while the fiscal deficit was revised up to 11.4 percent of GDP, from the earlier projected 4.7 percent of GDP in 2020. With a significant slowdown in growth and a widening budget deficit, the economy was facing the prospect of instability without the appropriate measures to provide additional financing.

- ***Economy gradually turning around***

31. Ladies and Gentlemen, Bank of Ghana on the basis of recent available data believes that the economy is on a rebound. And that this rebound can be attributed to the evidence of some green shoots in economic activity gleaned from the Bank of Ghana's surveys on consumer confidence which had bounced back to pre-lockdown levels as consumers responded favourably to the gradual lifting of restrictions—providing some scope for undertaking meaningful economic activities. Business confidence has also improved although the Index remained below pre-lockdown levels. Our latest high frequency economic indicators, such as consumer spending,

industrial consumption of electricity, and construction activities have all reached pre-lockdown levels.

32. Just yesterday, the Ghana Statistical Service put out an estimate of the third quarter GDP growth suggesting that the economy contracted by 1.1 percent during the third quarter. It must be pointed out that this is consistent with the rebound view as the economy has recovered from a contraction of 3.2 percent to 1.1 percent during the quarter. Recent report from the International Growth Centre (IGC) corroborates this view as employment rates and hours worked per adult which fell substantially in March and April have largely reverted to its pre-Covid levels in August and September. Headline inflation also eased to single digits at 9.8 percent in November.

- ***Financial sector resilience remains intact***

33. In the financial sector, the policy and regulatory relief measures introduced by the Bank of Ghana have enhanced liquidity in the

banking system, preserved capital buffers, and provided relief to customers severely impacted by the pandemic. These measures have also helped banks and specialised deposit-taking institutions provide support to critical sectors of the economy to mitigate the adverse impact of the pandemic. To start, the downward adjustment of the monetary policy rate impacted positively, and average lending rate of banks has steadily declined to 20.9 percent in November 2020 from 24.0 percent last year. Banks have also signalled a net easing of credit stance on enterprises' loans in the months ahead as new advances steadily rise.

34. Ladies and Gentlemen, the banking sector remains liquid and well-positioned to support growth, benefitting significantly from the recent reforms. To a large extent, the policy interventions have also helped improve soundness of the banking sector and reduced the potential adverse spillback effects that the banking sector may have had on the macro-financial landscape. The sector remains robust as reflected by the strong Financial Soundness Indicators – Capital

adequacy levels are above the regulatory limits, the NPL ratio has declined, and profitability remains strong.

35. As part of financial sector surveillance, Fellow Alumni, the Bank assessed the resilience of the banking system to credit and liquidity shocks emanating from the pandemic. The findings revealed that, overall, the banking sector is robust and largely resilient to the pandemic-related shocks. In addition, tail risks arising from the changing macroeconomics landscape has had a moderate effect and the banking sector soundness index has improved from the pre-pandemic levels. Broadly, the prompt policy response to the COVID-19 pandemic, including the freeze on dividend pay-out, reduction in the Cash Reserve Requirement, and the reduction in policy rate supported the sector to build reserves to withstand credit shocks.

## The post-COVID outlook

36. At the Global level, there is beginning to emerge a consensus that the recovery process will be prolonged due to significant scarring of

the economy. Although some countries have made significant progress, threats of second-wave of infections and concerns about the re-imposition of restrictive movements, have heightened uncertainty. A recent study[2] that investigated the long-term impact of a sample of 12 major epidemics in Europe concluded that pandemics are followed by years of low natural interest rates[3], as the accommodative policy stance persists for a longer period due to household behaviour which raises precautionary savings and depresses investment opportunities. On this basis, it is expected that the global, and indeed, the domestic outlook will be challenging with a longer recovery process.

37. Domestically, the Bank of Ghana, in collaboration with the Fiscal authorities, responded decisively to ensure easing credit conditions and liquidity within the financial sector to stimulate economic activity. Bank of Ghana's action to trigger emergency financing support for

[2] Jordi et al. (2020)
[3] The relative demand and supply of loanable funds by savers and borrowers determine the natural rate in the long-run.

the government was largely enabled by the policy space and gains achieved over three years of strong monetary policy reforms. Prior to this action, the Bank had observed a strict zero financing of the budget in line with a Memorandum of Understanding between it and the Ministry of Finance as part of the IMF programme. This policy therefore represented a major policy shift reflecting the "***whatever it takes***" posture to preserve lives and livelihoods, which helped in closing the budget's widened financing gap arising from increased COVID-related spending as revenues dwindled. These measures provided some fiscal space for government to help sustain the income of households, businesses and consequently supported a quicker turnaround in economic activity.

38. The relatively strong macroeconomic outturn in 2020 in the midst of the pandemic showing strong foreign reserves buffers, low inflation, relatively stable exchange rates can be attributed to the prudent policy measures implemented over the last three years including the recapitalisation of banks. Indeed, the data shows that

since 2018, non-resident holdings of domestic debt have declined from 32% to around 18% in 2020 even as government financing needs remained high. This has been possible due to the recapitalisation of the banking sector which has given banks enough resources to allow them to substitute for the exit of non-resident investors in the government bond instruments. The recapitalisation policy therefore accounts partly for the relatively stable economic conditions, it is anticipated that should the projected consolidation of fiscal policy materialise, we should begin to see these resources channelled back to private sector financing which was the major rationale for the recapitalisation of the Banks.

39. At the end of the year, the stage is set to redesign a medium-term macroeconomic framework to return the economy to fiscal consolidation and to further consolidate macroeconomic stability to provide an essential lever for positioning the Ghanaian economy on a path of higher growth, job creation, and faster pace of poverty alleviation. Public debt levels have risen following the necessary fiscal

expansion in the short-term to contain the impact of the pandemic. Hence, there is the need to design a plan to bring down the debt to sustainable levels to contain risks posed to future financing of the budget, exchange rate stability and financial sector stability post Covid-19. The framework should include a clear priority towards expenditure rationalization and efficiency, as well as improving revenue collection capacity.

40. Ghana's public debt has reached 71 percent of the estimated GDP at the end of September 2020, fairly above the maximum early warning sustainability threshold of 70 percent for the Market Access Countries (MACs). The country's debt service indicators and gross financing needs have breached the sustainability thresholds. The non-resident holdings of the public debt, although declined, is still high at 59.9 percent of GDP, above the threshold of 45 percent for the MAC. Public gross financing needs are also above the 10 percent MAC threshold on the back of increased fiscal obligations, suggesting constrained fiscal space for growth spending. Although external

financing requirement as a share of GDP has declined and within acceptable thresholds, efforts would need to be put in place to increase buffer levels to help meet future external obligations.

41. In ensuring financial stability, the financial sector will require constant regulatory and policy attention to identify and mitigate emerging risks. By and large, the economic impact of the pandemic may result in higher non-performing loans and some capital erosion of banks. Hence, the Bank is putting greater focus on identifying the early warning signals and initiating prompt corrective actions. The symptoms of a weaker bank are usually poor asset quality, lack of profitability, loss of capital, excessive leverage, excessive risk exposure, and poor governance conduct as well as liquidity concerns. In this respect, the Bank of Ghana will continue to strengthen all the regulatory measures implemented over the last three and half years to maintain confidence and safeguard financial stability. Over the next three years, in the aftermath of the pandemic, the Bank of Ghana will carefully unwind the countercyclical measures

implemented and allow the financial system to function without the regulatory forbearance put into place due to the pandemic. Banks themselves will have to remain vigilant, upgrade staff capabilities, and improve the governance and risk culture. The Bank of Ghana is optimistic that with this approach, a resilient and capable financial sector will weather the storms brought about by the pandemic and ensure soundness of the industry.

42. Ladies and gentlemen, prior to the pandemic, the Government initiated and implemented policies including the National Financial Inclusion and Development Strategy, the Digital Financial Services Policy, and the Cash-Lite Roadmap, with an overall objective of deepening financial inclusion and accelerating the shift to digital payments in the country. The significant progress made in this area has significantly helped in the fight against the pandemic with an exponential growth in the volumes and values of the digital payment platforms in Ghana. Promoting financial technology has already been at the forefront of the Bank of Ghana's agenda and we will continue

to invest in the supportive infrastructure, improve on the regulatory environment, as well as contain all the associated risks to help achieve financial inclusiveness and digital financial transactions to support the national objective.

## Conclusion

43. In closing, Fellow Alumni, let me leave you with some food for thought. First, after almost four years of prudent management of Ghanaian economy, the Covid-19 external shock has partly reversed the progress made on the macroeconomic stability front. So far, the fiscal costs, in terms of stimulus package deployed to moderate the adverse socioeconomic consequences on the households and businesses, is estimated at over GH¢11.2 billion. If you add the financial sector costs and the energy sector costs raises the estimate of the financial burden from these three sources alone to GH¢24 billion. As at half year it was estimated that government paid GH¢4.7 billion in excess capacity payments in the energy sector. This has

pushed the debt/GDP ratio above the threshold for the Market Access Countries.

44. Going forward, difficult decisions will have to be taken to reorganize public finances and expenditure priorities while exploring more sustainable revenue sources. The programme of interventions to revitalize businesses and cushion households will have to be defined to scale and there should be no expectation that these should become permanent obligations of government. The wide fiscal gap raises important financing issues, and its financing should not be by recourse to central bank funds as this will weaken the central bank's ability to serve as the anchor of monetary and exchange rate stability.

45. Mr. Vice Chancellor, Distinguished Ladies and Gentlemen, let me conclude by reiterating that, the global economy is not out of the woods yet and neither is the Ghanaian economy. The pandemic and its socio-economic impact would be felt long after we have reached

herd-immunity and started seeing the full benefits of the success in the vaccines. Which means as public policy makers, we will still be faced with tough decisions that require a response function asymptotic to Pareto principles. The critical decisions that we take will be judged by posterity.

**I thank you all for the attention.**