GHANA 5TH CEO SUMMIT

RESETTING GHANA'S ECONOMY: POLICY RESPONSE & STRATEGIES FOR BUILDING A RESILIENT ECONOMY POST-COVID PANDEMIC

KEYNOTE SPEECH

DR. MAXWELL OPOKU-AFARI
FIRST DEPUTY GOVERNOR, BANK OF GHANA

MAY 17, 2021

Chairman of the 5th CEO Summit

Founder of the CEO Summit

CEOs & Captains of Industry

Fellow Keynote Speakers

Distinguished Guests, Ladies and Gentlemen

Introduction

1. It is always a great pleasure to be part of this annual CEO Summit and I would like to thank the organizers for inviting me to speak on the topical issue of '***Resetting Ghana's Economy: Policy Response & Strategies for Building a Resilient Economy Post-Covid Pandemic***'.

2. We are all witnesses to the ravaging economic, health, and social effects of the COVID pandemic on the global economy. Indeed, as we speak, some countries are going through either a second or third wave with its associated human toll and continuous economic devastation. As a country, we have also gone through these challenges and the topic for discussion today is timely.

3. Ladies and Gentlemen, my remarks will start with two key questions. First, what was the state of Ghana's economy before Covid? Second, what was the impact of Covid on the economy?

Then, we can shift our focus to strategies needed to reset the economy amid and post Covid.

What was the state of the Ghanaian economy before the pandemic?

4. Mr. Chairman, implementation of sound macroeconomic policies between 2017 and 2019, significantly improved the macro fundamentals of the Ghanaian economy. Broadly, the economy was characterised by strong GDP growth, averaging 7 percent over the period, and inflation declined to single-digits and within the Bank's medium-term target of 8±2 percent. Unwinding of the large macro imbalances resulted in lower fiscal and current account deficits, accompanied by three consecutive years of trade surpluses.

5. The country's reserve buffers also improved, providing some anchor to exchange rate stability. Public debt management policies were strengthened, and the debt profile restructured to lessen the repayment burden. This created some fiscal space to support the implementation of growth-enhancing policy initiatives by government. Alongside these, the Bank implemented comprehensive financial sector reforms which resulted in well-capitalised, strong, and liquid banking sector,

well-positioned to support the country’s growth and development agenda.

6. With this background, the policy direction at the start of 2020 was to further consolidate the achievements and move the country to the next stage of the development agenda. Consequently, prudent, and complementary monetary and fiscal policies were programmed. First, monetary policy was to steer inflation further down to low and stable levels. For the financial sector, the successful completion of the clean-up had improved prudential regulations, strengthened efficiency, and refocused the banking sector to its intermediary role to finance the growth needs of the country.

7. Second, fiscal policy was geared towards aggressive tax reforms and pro-growth initiatives in the agriculture and industrial sectors to expand the productive capacity of the economy. And last but not the least, other structural reforms were initiated to increase efficiency of the public sector through digitisation and by so doing, formalize the economy and improve the ease of doing business.

What was the impact of Covid on the economy?

8. Ladies and Gentlemen, this was where the Ghanaian economy was at the start of 2020, until March, when Covid

disrupted the rather very strong economic outlook. The severity of the pandemic prompted restricted movements, lockdowns, and border closures to halt its spread. These resulted in a slump in economic activity and almost wiped off the gains achieved over the three-years prior. For instance, GDP growth slumped to 0.4 percent in 2020 (the lowest in decades) compared with the pre-Covid projection of 6.8 percent. Inflation spiked from single to double digits, peaked at 11.4 percent in July 2020, driven mainly by food price pressures due to the lockdown measures, before easing to 10.4 percent in December 2020.

9. The disruptions in global supply chains adversely impacted trade activity. Businesses faced supply constraints amid weak consumer demand which set off cost-cutting measures including reduction in working hours, layoffs, and wage cutbacks, worsening the unemployment situation.

10. Fiscal pressures from the health sector and the social consequences of the restricted movements mounted and disrupted the fiscal consolidation path. As a result, additional expenditures related to the Covid-19 coupled with revenue shortfalls on account of the economic slowdown and sharp drop in oil revenues, elevated the 2020 fiscal deficit to 11.7 percent of GDP, from a pre-Covid projection of 4.7 percent of GDP. These

unanticipated fiscal developments also pushed up the stock of public debt to 74.6 percent of GDP at the end of 2020 from 62.4 percent of GDP recorded in 2019.

11. Mr. Chairman, the combined demand and supply shock from Covid required decisive and swift fiscal, monetary, and macroprudential policy responses to moderate the economic damage. The policy responses included fiscal stimulus packages, including several social intervention measures. To complement these, the Bank lowered the monetary policy rate by 150 basis points and implemented other macro prudential measures to ensure adequate liquidity within the financial sector during the pandemic.

12. The push for financial digitization was intensified with the removal of transfer costs (for minimum transactions) on mobile networks, and the Universal Quick Response Code for payments across banks, Telco's, fintechs and merchants was implemented to promote e-commerce and e-transactions.

13. Ladies and Gentlemen, the economic costs of the Covid-shock, in terms of foregone growth and its implications for employment and poverty reduction, infrastructural development, and economic expansion, are enormous and would require

carefully crafted strategies to reset the economic agenda back to stability and growth.

Resetting the Economy (amid and post-Covid)

14. Mr. Chairman, lessons drawn from other countries on "***building back better***" from the pandemic indicate that a flattened Covid-curve is a necessary condition prior to massive rollout of policies and strategies designed to reset the economy. Reason being that subsequent Covid flare-ups could potentially slow the recovery process. Based on this, the **short-term strategies** to reset Ghana's economy should be to:

- *First, sustain the flattened Covid-curve.* By this, priority must be given to health sector policies and other supportive measures including testing, tracing and treatment, alongside mass vaccinations rollouts should continue to achieve some form of herd immunity. The flattened curve would keep the economy open for business, provide some certainty to the economic outlook, and prevent diversion of resources to any resurgence of the pandemic.

- *Second, maintain the Covid-policy responses to sustain the on-going V-shaped recovery.* To a large extent, the Covid-policy responses (accommodative fiscal and monetary policies, macro-prudential measures, and other initiatives) proved timely and helped moderate what could possibly have been a worst outcome for the Ghanaian economy. Already, the implementation of these policies has spurred some recovery evidenced by improvement in the Bank's high frequency economic indicators for the first quarter of 2021.

- Inflation has eased and declined back to single digits in April 2021, the exchange rate remains relatively stable, business and consumer confidence has bounced back, and the Bank's high frequency indicators have rebounded to near pre-pandemic levels. Also, the banking sector remains strong with the support of the macro prudential measures and continues to play its intermediary role to boost growth efforts, post-Covid.

15. **Over time**, Mr, Chairman, the strategies should include innovative and actionable macroeconomic policies to unwind the Covid-related fiscal excesses and lower the public debt to sustainable levels. Broadly,

- *Prudent fiscal policies would be needed*. The 2021 Budget has already reset fiscal policy on a consolidation path with the deficit projected to decline to 9.5 percent of GDP and unwind over the medium-term to 5 percent by 2024. This would ensure medium-term debt sustainability. To achieve these fiscal targets:

- Domestic revenue mobilisation through tax reforms has been given some prominence. And here, the ongoing national digitization programme would be supportive. Already, the Ghana Card and TIN numbers are merged, broadening the tax base. Over time, this is expected to result in some revenue gains for the government.

- Expenditure rationalization programmes that are pro-growth and promote value-for-money projects would also be critical.

- *Complementary monetary policy and macroprudential measures are critical.* Monetary policy and financial sector policies should be designed to anchor the disinflation process, create supportive frameworks for credit enhancement, digitisation, and enhanced payments platforms to support growth.

- *Effective implementation of the pro-growth Ghana CARES programme.* The socio-economic consequence of the pandemic needs to be addressed and the **Ghana CARES** programme is in the right direction. Among others, it seeks to stabilise, revitalise, and transform the economy to create jobs and prosperity over a 3-year period.

- *Continued investments in the public health infrastructure* over the medium-term are also important to improve the country's preparedness to adequately handle future health crises.

- *Digitisation to improve the business environment.* Pushing the boundaries for economy-wide digitisation through the merger of the National ID systems with other national databases to enhance transparency, facilitate seamless financial transactions, and reduce costs of doing business in the economy.

16. In conclusion, Ladies and Gentlemen, resetting the economy back to resilience would be a gradual process over the next two or three years and would require our collective and collaborative support, and burden sharing, to "**Build Back Better**".

17. For the Bank of Ghana, we are committed to ensuring that the banking and other non-bank financial institutions remain resilient, inclusive, and supportive of resetting Ghana's post-Covid economy back to stability and growth.

Thank you for the attention.