KEYNOTE ADDRESS

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Distinguished Ladies and Gentlemen of the media,

1. I am delighted to be with you today. Let me begin by thanking executives of the Journalist for Business Advocacy (JBA) for inviting me to share a few thoughts as part of this media training workshop on the theme ***"Understanding monetary policy in post pandemic era"***. I consider this event very important for a number of reasons. First, the global economy is currently recovering from the effects of the pandemic, amidst considerable uncertainty as some countries are experiencing a third wave of infections with important implications for economic policy going forward. Second, at the height of the pandemic, several bold and innovative policy measures were enacted and implemented, some of which will need to be reversed and unwound in a post-Covid-19 environment. There also could be the possibility that some of these measures would need to be kept in place for a while and the policy implications of all these decisions will have to be weighed. Clearly understanding what has happened and how the policies could be adapted in a post-Covid environment is crucial – one which I believe this workshop aims at achieving. My remarks will therefore broadly focus on two areas: policies pursued so far in dealing with the effects of the pandemic, and on the macroeconomic outlook and policies going forward.

2. The global economy has been severely impacted by the pandemic, culminating in the worst recession since the Great Depression of the 1930s. We are all aware that the containment measures put in place adopted to tackle the Covid-19 health emergency brought activity in the global economy

to a 'sudden stop' and prompted an unprecedented policy response – in terms of its size, speed, scope, and geographical reach. The synchronized monetary, fiscal, and prudential policies were implemented to deal with the adverse effects of the pandemic and to provide liquidity to financial markets as well as cushion the impact on the private sector especially small businesses and low-income households.

3. Macroeconomic management in Emerging Markets and Frontier Economies especially became more complicated. These countries not only experience a collapse of real sector activity but also faced substantial portfolio outflows and wider spreads due to heightened risk aversion when the pandemic hit around the globe. Thus, the pandemic was a complex mixture of supply and demand shocks that elicited a novel set of policies than previous global shocks.

4. Ghana was no exception. Perhaps, what was different here was that successive years of reforms and macroeconomic stabilization prior to the onset of the pandemic had placed the country in a better position to weather the effects of the pandemic. Economic conditions were relatively strong and pointed in the right direction. Inflation significantly declined and inflation expectations were firmly anchored. Real GDP growth averaged 7.0 percent in the three years before the pandemic (2017-2019) with pre-pandemic projections for 2020 pegged at 6.8 percent. At the same time, external sector performance was strong with a robust gross international reserve build up, sufficient to cover 4.7 months of imports. Moreover, the banking sector performance improved after the clean-up exercise and recapitalisation.

Indicators of financial soundness pointed to a solvent, liquid and profitable banking sector. The industry's measure of solvency, the Capital Adequacy Ratio (CAR) under the Basel II/III framework remained well above the regulatory 13 percent prudential limit. Asset quality similarly improved as reflected in declines in the non-performing loans ratio on the back of recoveries, write-offs, and increased credit growth.

5. Tentative signs of the impact of the Covid-19 pandemic started to emerge at the end of the first quarter of 2020. By the end of the first quarter of 2020, high frequency indicators reflected the effect of the pandemic on the economy. An incipient decline in the real CIEA recorded in March 2020 intensified at the height of the pandemic in the second quarter. The decline was broad-based, reflected in tourist arrivals, construction activity (cement sales), private sector contributions to the national pensions fund, domestic VAT collections, imports and exports. At the same time, inflation headline inflation jumped from 7.8 percent in the first quarter to 10.6 percent in April and further to 11.4 percent in July 2020, outside the Bank's inflation medium-term target band of 8±2 percent — the first time in over two years. The sharp rise in inflation was partly the result of panic-buying prior to the partial lockdown in the largest cities, which pushed up food prices significantly from 8 to around 15 percent while non-food inflation remained largely contained. *The pandemic therefore presented a combined demand and supply shock to the Ghanaian economy, which required close coordination and implementation of monetary, fiscal, and macroprudential policies to limit its impact on the broader economy.*

Bank of Ghana's Policy Response to Covid-19

6. Ghana's response to the COVID-19 pandemic has been decisive and broad-based, with both the fiscal and monetary authorities implementing complementary measures to tackle the effects of the pandemic. The response was in many respects, similar to the policies implemented elsewhere in the world. Government in particular, adopted a "whatever it takes" stance to minimize the impact of the pandemic, culminating in some GHc21 billion Covid-19-related expenditure in 2020.

7. To complement the fiscal policy actions, the Bank of Ghana deployed various tools, namely: the interest rate tool, macroprudential policies, market liquidity support, and the triggered its emergency financing clause to purchase a Government COVID-19 Bond. Specifically, the Bank of Ghana introduced the following policy and regulatory interventions:

- The Monetary Policy Rate was reduced by 150 basis points in March 2020 and another 100 basis points in May 2021 to 13.5 percent to complement fiscal policy and provide support to economic growth;
- The cash reserve requirement (CRR) ratio for banks was lowered from 10 to 8 percent to provide additional liquidity to Banks. This policy measure was expected to free up additional resources of about GHS2 billion for banks and Specialised Deposit-Taking Institutions (SDIs) to lend to critical sectors of the economy;
- The CRR for Rural and Community Banks (RCBs), Savings and Loans Companies (S&Ls), Finance Houses was reduced from 8 to 6 percent; and from 10 to 8 percent for microfinance companies;

- The Capital Conservation Buffer was reduced by 1.5 percentage points to 11.5 percent and providing capital relief of about GHS1.1 billion for banks;
- The provisioning requirements for loans categories was reduced from 10 to 5 percent and which translates to about GHS115.3 million in capital relief to Banks;
- Restrictions were imposed on dividend and other capital distributions for the financial years 2019 and 2020 to preserve liquidity and capital buffers;
- The deadline for new capital requirement for SDIs (MFIs and RCBs) was extended to December to provide temporary relief to SDIs, given current economic conditions;
- The Bank of Ghana requested Banks to grant 3-12 months moratorium on principal payments on loans granted to customers in the worst pandemic-hit sectors;
- A reduction in mobile money charges and waiver of transaction fees on minimum transactions (GHS100) and increased wallet limits was agreed with the TELCOS to promote electronic transactions as part of COVID protocols;

8. Moreover, to help close the residual financing gap of the budget arising from increased COVID-related spending and to prevent an inefficient tightening of domestic financial conditions arising from market conditions, the Bank of Ghana utilised its policy space from gains of over three years of strong monetary policy reforms, by triggering the emergency clause of the BOG Act to allow the Bank purchase Government of Ghana COVID-19 relief bond (GH¢10 billion), in line with provisions of the BOG Act 2002 (Act 612), as amended Act 918.

9. In addition, following the announcement of the measures by the Bank of Ghana, Deposit Money Banks also provided various reliefs to customers through reduction in lending rates, granted moratoria on loan repayments, restructured existing facilities, and advanced new loans to customers. Broadly, these actions have helped to moderate the economic impact of COVID-19 on customers and minimised the potential disruptions in credit flows.

10. Importantly, these reliefs occurred in the context of a reformed banking sector. The banking sector remains liquid, profitable, and well capitalised. The Financial Soundness Indicators are strong and Banking Sector Stability Index monitored by the Bank remains in high positive territories indicating the resilience of the sector. A recent BOG survey on the impact of the pandemic on Banks showed that while the pandemic has increased the industry's cost of operations, banks have not passed on the associated costs to consumers through higher interest margins.

Policy impact, the outlook lessons for post-pandemic

11. The mix of policies implemented have helped to moderate the impact of the pandemic on the economy and contributed significantly to a faster pace of economic recovery than anticipated. Ghana managed to record a measured positive growth in 2020 unlike many others that slipped into negative growth rates. Amidst the pandemic and surge in inflation, the central bank has successfully steered inflation back into the target band, a process that was significantly helped by the extraordinary stability in the foreign exchange

market in an election year while foreign exchange reserves level is at a record high.

12. Ghana's economy is entering a new phase of its macroeconomic developments with low inflation and well-anchored expectations. The Bank of Ghana will continue to pursue prudent policies to safeguard its primary objective of price stability. The Bank's inflation forecast strongly the low inflation expectations going forward.

13. *In the outlook,* the signs of recovery are encouraging and would require careful monitoring and, where necessary, continuous comprehensive macroeconomic policies including defining a feasible fiscal adjustment path in the medium term to ensure fiscal and debt sustainability to anchor macroeconomic stability. **A key issue going forward relates to the timing of withdrawal of policy support. This would need to be carefully done so as not to jeorpardise the recovery process and the Bank will continue to monitor development and take appropriate decision. A careful balancing act between unwinding the policy support and would be needed by policy makers to ensure that stability in a post-pandemic environment is guaranteed.**

14. Mr. Chairman, an important lesson from the pandemic is that it has quickened the drive towards a cash-lite economy and this is likely to shape monetary policies going forward. The widespread use of mobile money was given an added boost when the Ghana Interbank Payments and Settlement Systems (GhIPSS) introduced the national Quick Response (QR) Code payment solution last year to simplify merchant payments and reduce the use of cash. The QR

Code has since been made available to banks and payment service providers, as well as small and medium-sized enterprises to enhance business transactions. Leveraging on financial innovations, the Bank of Ghana has also initiated processes for a pilot central bank digital currency to further move the economy towards a cash-lite environment. We anticipate that the Bank's CBDC project would further advance financial inclusion, promote the efficiency and stability of the payment system, and foster competition in the financial sector.

15. In conclusion, as regulators, we belief that under the current inflation targeting regime, transparency is crucial in fostering credibility of the central bank's policies. Going forward, as financial journalists, perhaps more than any time in the past, you will be expected to play a key role in disseminating our policies to support the recovery process; and, how well this is done will tend to engender confidence in the financial markets and propagation of monetary policy impulses. The central bank will continue to implement policies consistent with its inflation targeting framework to entrench the current low inflation environment. I believe as part of this workshop you will also be taken through our inflation targeting framework and issues in the area of foreign exchange trading amongst others.

16. I thank you for your support over the years and on behalf of the Management of the Bank, we wish you fruitful deliberations.