6TH GHANA CEO SUMMIT

THEME: DIGITAL LEADERSHIP FOR THE DIGITAL ECONOMY

SPEECH BY

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Chairman of the 6th CEO Summit

Founder of the CEO Summit

CEOs & Captains of Industry

Fellow Speakers

Distinguished Guests, Ladies and Gentlemen

1. Thank you for the opportunity to join you, once again, at this year's CEO Summit, the sixth in the series since it was founded back in 2016. First off, let me applaud the CEO Summit Team for the foresight in institutionalising this annual event that provides a platform for CEOs, policymakers, business leaders, entrepreneurs, among others, to network and discuss issues of relevant interest that affects their general conduct of business and their quest to continuously seek and advocate for policies that will enhance the business environment.

2. I must confess that the past two years has indeed been challenging for policy makers globally. The COVID-19 pandemic and its impact of 2020, the much anticipated recovery in 2021 and the sudden Russian-Ukraine war have all played out to introduce complexities in macroeconomic management and dented confidence. And so my remarks today will focus on "*Restoring Confidence in the Wake of Recent Macroeconomic Challenges*". Given the uncertainty of the times, I deem this topic as appropriate and offers the opportunity for the business community to soberly reflect on the current trajectory of the Ghanaian economy in the face of multiple shocks. My address on this subject will focus on three main points: understanding the challenges; the impact of sequential shocks on the economy; and the coordinated policy actions to steer the economy back to stability and growth, and ultimately restore confidence.

Tracing the roots of the current macroeconomic challenges…

3. Mr. Chairman, the world economy was impacted by the Covid-19 pandemic in 2020. Starting off as a health crisis, the impact quickly transitioned into an economic and financial crisis, which required synchronised global policy responses. These ranged from large global fiscal stimulus packages, accommodative monetary policies, and macroprudential regulatory reliefs designed to ensure appropriate liquidity flows in the financial sector to prop up economic activity. Here in Ghana, and within the context of avoiding an economic recession, some of these complementary policies were implemented, leveraging the ongoing digitalization process rolled out by the Government, to reduce costs and help cushion the fully impact of the pandemic.

4. Ladies and Gentlemen, although macroeconomic conditions at the end of 2019 remained on sound footing, alongside a rejuvenated banking sector that had just undergone reforms, the Covid-19 pandemic introduced serious macroeconomic challenges to the domestic economy. Economic activity slowed sharply in 2020, due to the restrictive movements and supply disruptions; inflation surged to double digits due to increases in food prices; global supply chain disruptions impacted adversely on trade; businesses faced severe supply constraints with weak consumer demand and cost cutting measures such as reduced working hours and staff layoffs. In addition, the fiscal consolidation path was derailed, and the Fiscal Responsibility Law, with a Fiscal Rule of a fiscal deficit of at most 5 percent of GDP was suspended to enable government support the ailing socio-economic conditions that had emerged as a consequence of the pandemic.

5. These adverse effects of the pandemic threatened to disrupt the considerable macroeconomic gains achieved prior to 2020. However, the policy responses and measures that were implemented helped moderate the impact of Covid-19 somewhat and supported the economic rebound. From 0.5 percent in 2020, GDP growth bounced to 5.4 percent in 2021, supported by the services and agriculture sectors. Despite the growth rebound, some economic scarring occurred. The significant revenue shortfalls, combined with increased Covid-related spending, resulted in a substantial financing gap, high fiscal deficits, and rising debt levels. These debt sustainability concerns eventually led to the country's sovereign credit downgrades, which technically blocked Ghana out of the international capital markets, deepening the financing challenges.

6. Distinguished Ladies and Gentlemen, in addition to the above challenges that complicated the rebound of the economy, was another external shock—The Russian-Ukraine war. The war has further worsened supply chain bottlenecks that emerged during the pandemic, triggered global food and fuel price shocks, and resulted in elevated inflation globally. With inflation at historical high levels, central banks all over the world immediately had to shift from the accommodative monetary policy stance that supported the pandemic, to policy tightening. This triggered capital outflows from Emerging and Developing Economies, widened sovereign bond spreads, and put pressures on currencies similar to what we have observed in Ghana. Of course countries with weakened fundamentals took heavier hits than those with strong fundamentals and buffers.

7. The developments in global capital markets, combined with internal challenges that resulted to the ratings downgrade, have played out to exacerbate price and exchange rate pressures in the domestic economy. The Ghana Cedi came under severe pressure in the first quarter of 2022 as offshore investors exited positions in domestic securities at a time when domestic demand for forex had increased. The FX pressures, coupled with tight forex liquidity due to absence from the International Capital Markets, contributed to the significant currency depreciation. Cumulatively, the Ghana Cedi depreciated by 15.8 percent against the US Dollar in the year to 18th May 2022, compared with an appreciation of 0.5 percent in the same period of 2021.

8. Recent price developments indicate elevated pressures from both domestic and external sources. These include the global

energy and food price shock, and its consequential upward adjustments on domestic ex-pump petroleum prices and transportation costs, domestic food prices, as well as the pass-through effects of the recent exchange rate depreciation. Headline inflation has increased sharply from 13.9 percent in January 2022 to 23.6 percent in April 2022, driven by both food and non-food prices. The Bank of Ghana's inflation target is 8+/-2 %. The current inflation of 23.6 per cent is about three times the central target of the Central Bank, and has significantly complicated the conduct of monetary policy, making those of us in charge very uncomfortable. But I am sure that our discomfort cannot be compared to the feeling of the ordinary man in the street who is confronted with these rapid changes in prices on a day to day basis. I think we have all began to appreciate the importance of stability in sustaining livelihoods and standards of living.

9. The developments in the global economy have impacted Ghana strongly as it is occurring at the same time that the country is not able to access capital markets to raise money due to the ratings downgrade, as it has done for the past few years. This has elevated Ghana's external vulnerabilities and translated into balance of payments pressures, although, the trade surplus improved somewhat, due to higher crude oil export earnings. However, the significant net portfolio reversals and weak inflows into the capital and financial account resulted in a widened balance of payments outturn and loss of reserves in the first quarter of 2022. The prevailing tight global financing conditions, and further policy rate hikes in advanced economies continue to make the external financing conditions unfavourable, posing real risks to the external outlook.

10. The developments have also impacted Government finances and created financing challenges for the budget. The issuance of bonds and securities have not been met with significant uptakes by the market. In response, the Government announced a series of expenditure cuts of up to nearly 30 percent to deal with the situation. It is expected that the US$2 billion dollar syndicated facility will provide some relief to both the budget and the balance of payments.

Policy coordination efforts to rebuilding confidence has started…

11. Although growth prospects remain positive, these macroeconomic challenges have dampened consumer and business confidence in the domestic economy. The upside risks to the inflation outlook are significant, and the second-round effects of upward adjustments in ex-pump prices and possible

utility tariffs could further amplify inflation pressures in the outlook. We have heard several arguments by stakeholders on the Bank of Ghana's response to the inflation problem, with some stakeholders arguing that these supply-side shocks cannot be resolved by raising the policy rate especially because the inflation we are experiencing is imported. I took sometime during the recent MPC Press Conference to explain that the Bank is very much aware that supply-side shocks are more difficult to deal with. The policy rate tightening emanates from the fact that the MPC assessed that, the shocks are becoming embedded in domestic prices. Oil price shocks for example sends price impulses and spreads to other prices in the economy, and then affects economic agents' expectations. Monetary policy response is directed at the second round effects of these supply-side shocks. Consequently, the policy response to the challenges have been swift, which has seen implementation of prudent monetary and fiscal policies to regain macroeconomic stability. Indeed, the inflation challenge has brought to the fore the importance of stability which we take for granted and has shown clearly that macroeconomic stability is a necessary condition needed to enhance confidence and build back better from the pandemic/war effects. The measures taken so far include the following:

- **Policy rate hikes:** Cumulatively since November 2021, the Bank's MPC has raised the policy rate by 550 basis points. First, 100 basis points in November 2021, then 250 basis points in March 2022, and additional 200 basis points increase in May. Currently, the policy rate stands at 19 percent. These tight monetary policy actions are expected to dampen the heightened inflationary pressures in the medium term.

- **Reversal of Covid-reliefs**: In addition to the policy rate increases, the Bank has reversed the prudential regulatory reliefs extended to universal banks at the height of the pandemic. Under these measures, the Cash Reserve Ratio was increased to 12 percent; the Capital Adequacy Ratio reset back to 13 percent; and the provisioning rate for loans in the Other Loans Exceptionally Mentioned (OLEM) category reset to the pre-pandemic level of 10 percent. These are intended to withdraw excess liquidity from the system and moderate demand pressures.

- **Extended FX Auctions:** To ease off increased volatility in the foreign exchange (FX) market, the Bank extended the forward auctions to include the Bulk Oil Distributing Companies. This formed part of the measures taken by the Bank to address the FX liquidity constraints within the local petroleum sector and aid price discovery, especially for the general pricing window within the downstream sector.

- **Fiscal measures:** To complement all these efforts, the government announced a 20 percent expenditure cut while enhancing revenue mobilization measures to ensure the attainment of the fiscal deficit target for 2022. The government further announced a syndicated arrangement of US$2.0 billion in line with approved external financing for 2022 and for liability management.

12. The monetary policy rate hikes, reversal of the regulatory reliefs, and the announcement effect of the fiscal measures have impacted positively on the FX market, and the local currency has regained some of the first quarter losses. These are positive signals to boost investor confidence in the outlook.

Going forward, the Bank will continue to implement additional prudent monetary and external sector policies to ensure price and exchange rate stability for business growth. These would help re-anchor inflation expectations and restore confidence in the economy.

13. Mr. Chairman**, now let me turn attention to the theme for the day**, that is, "digital leadership for a digital economy". As you are all aware, the Bank has been at the forefront of the digitisation agenda for close to two decades now. This started with the passage of the Payment Systems Act 2003 (Act 662), which provided the legal and regulatory basis for the introduction of technology in the banking industry. This was followed with the implementation of a real time gross settlement system, which is the Ghana Interbank Settlement (GIS) system. This infrastructure significantly improved the efficiency of

wholesale and large value interbank funds transfer and liquidity management. In 2007, additional institutional reforms were carried out which led to the establishment of the Ghana Interbank Payment and Settlement Systems Limited (GhIPSS). Since then, GhIPSS has rapidly transformed the payment ecosystem through the implementation of interoperable interbank retail payment systems, including electronic cheque clearing, automated clearing house for direct debit and credit funds transfer, instant payment, gh-Link card, and mobile money interoperability.

14. At the next phase of the digitisation agenda, the Bank reinforced the regulatory frameworks to tackle financial exclusion in a practical and affordable manner. This led to the issuance of Branchless Banking Guidelines (BBG) in 2008, which provided the regulatory support for mobile money through

partnerships between banks and telecommunication companies. A further review of the BBG led to the Electronic Money issuers and Agents Guideline in 2015, to address some regulatory challenges and boost adoption of the mobile money concept. These regulatory changes provided the needed boost to the expansion of mobile money operations and set the stage for financial technology in Ghana.

15. The enabling regulatory environment attracted several FinTech companies into the ecosystem, who introduced innovative digital financial products and services on the back of mobile money operations. This notwithstanding, the operations of FinTechs were largely unregulated, and to better harness their potential, an extensive review and consolidation of laws, regulations, policies and guidelines within the payment systems was done. This led to the passage of the Payment Systems and

Services Act, 2019 (Act 987), which has since established a conducive environment for inclusive and competitive delivery of digital financial services.

16. Mr. Chairman, in line with the rapid innovation in digital financial services, the Bank adopted the Regulatory and Innovation Sandbox approach to support the process. Currently, the sandbox provides live-tests of innovative digital financial service products, business models and supportive technologies in a controlled environment for possible market rollout. More recently, the Bank took a major step to explore a central bank digital currency within the framework of the financial sector digitization programme. In partnership with G+D Technology, the Bank is currently piloting the issuance of the digital currency. This project presents a unique opportunity to design a technological representation of a fiat currency that will drive the

financial sector digitization further and also facilitate the government's inclusive digital transformation programme.

17. In keeping with the Bank's commitment to digitization of the sector, the eCedi project is progressing steadily. Since financial inclusion is one of the objectives for embarking on the CBDC pilot, the Bank has deemed it necessary to test an offline version of the eCedi that can be used for consecutive payments between individuals and merchants, where there is no connectivity infrastructure, just like cash. Digitising the offline transactions of rural and frontier households holds the key to creating the necessary market linkages that could result in access to finance in future. So far, the usage and uptake of the offline version of the eCedi is being piloted in a small town called Sefwi Asafo in the Western North region. Select users in that community have been using the eCedi for daily purchases such

as for food, grocery and drinks. The Bank will continue to work with these users to obtain the critical usage data that will inform the decision about the eCedi's future after the pilot. These are clearly landmark events in providing digital leadership with the payment systems, to lead to a digitised economy in the near future.

Conclusion

18. In conclusion, Ladies and Gentlemen, the Bank remains confident that ongoing policy efforts should help re-anchor inflation expectations, restore confidence in the economy and ensure that businesses operate in an environment of stability. In this regard we will work assiduously to ensure inflation stability. It is a known fact in the literature that inflation is detrimental to economic progress. Safeguarding inflation will inure benefits to businesses and the poor in society. While working to safeguard macroeconomic stability the Bank will continue to work with partners in the private sector and other relevant institutions to strengthen the payment ecosystem to support the financial inclusion and digitization.

Thank you for your very kind attention.