IEA Press Release

Government-Bank of Ghana Collaborative Efforts to Mitigate the Impact of the Covid-19 Pandemic on Businesses and the Economy

Ghana has not been spared the ravaging impact of the Covid-19 pandemic that has plunged the entire global economy into a deep crisis. In his 30th March statement to Parliament on the economic impact of the pandemic, the Minister of Finance indicated that Ghana's growth could shrink to 1.5-2.6% in 2020, which would be considerably down on the original estimate of 6.8%. Almost every sector of the economy—from agriculture to industry to services—will be negatively impacted. Fledgling and fragile small and medium-scale enterprises are likely to bear the main brunt of the pandemic, resulting in widespread job losses and economic hardship. The Government and Bank of Ghana (BoG) have taken coordinated measures to mitigate the impact of the pandemic on businesses and the economy.

The IEA is issuing this Press Release to commend the Government-BoG response, while providing additional recommendations for making the proposed measures more effective.

1. Government has mobilised a GHc1 billion stimulus package to support small businesses. This is an important initiative that will prevent these businesses that constitute the backbone of the economy from going down and taking with them many households and livelihoods. Our wish is that the National Board for Small-Scale Industries (NBSSI) will administer the package fairly and judiciously for the maximum benefit of the affected businesses, while also calling on the businesses to use the funds prudently and productively.

2. Emergency spending occasioned by the pandemic will render the 5% fiscal deficit ceiling in the Fiscal Responsibility Act (FRA) unattainable. The Minister of Finance is, therefore, right in indicating his intention to seek Parliamentary approval to exceed the ceiling, at least this year. When the crisis or emergency is over, the ceiling can be accordingly reinstated.

3. At its March sitting, the Monetary Policy Committee of the Bank of Ghana reduced the Policy Rate by 150 basis points from 16.0% to 14.5%. This was a necessary step to induce lower lending rates for business and consumer loans.

4. Bank of Ghana reduced the primary reserve requirement of banks from 10% to 8%. This will free locked-up liquidity for banks to support the economy and is, therefore, a step in the right direction.

5. Bank of Ghana directed banks and Specialised Deposit-Taking Institutions to ease repayment of loans that may experience difficulty due to the slowdown in economic activity. The directive will certainly bring relief to businesses and consumers that are expected to be impacted by the pandemic.

6. Bank of Ghana agreed with banks and mobile money operators on a number of measures to facilitate more efficient payments and promote digital forms of payment for the next three months. This is a useful intervention that will further promote the policy to limit the use of cash in the economy and thereby reduce the cost and inconvenience associated with cash transactions.

7. The IEA urges the BoG to ensure that the foregoing measures do not remain mere paper directives, but that they are strictly enforced and observed by banks and other financial institutions. For instance, we know that banks invariably show inertia in responding to policy rate adjustments, particularly in the downward direction. The BoG also expressed concern about the possibility of banks using the extra liquidity freed up for them to buy Treasury Bills rather than lending it to the private sector. Therefore, to make the monetary policy rate cut effective and also ensure that banks lend their freed-up reserves to the private sector, the BoG should, as of necessity, follow up with a strong directive to banks to act accordingly. We are even calling on the Bank to set up a multi-stakeholder committee, comprising representatives from the Bank of Ghana, Ministry of Finance, Ghana Bankers Association, Association of Ghana Industries and civil society to enforce the BoG measures.

8. Government needs substantial resources to finance both the health and economic costs of the pandemic. We note that Government is sourcing funds from the IMF and the World Bank. Internally, Government has indicated its intention to resort to the Consolidated Fund and the Ghana Stabilisation Fund. We believe sourcing all of these funds is in order, given the gravity and urgency of the situation. It is our expectation that the funds would be applied judiciously to the intended purposes.

9. But beyond these sources, we believe that the central bank should also be able to provide some funding to Government. As we noted above, the BoG does not want banks to use their freed resources to fund Government, but rather to channel them to the private sector. We understand this. Because of the crisis, the non-bank sector would also not have enough resources or even be willing to fund Government. So, this is where the BoG has

to step in. We, therefore, support the Bank's decision to waive the existing zero-ceiling on its lending to Government and the subsequent decision by the Bank to purchase GHc10 billion of Treasury Bills. It is not only the BoG that is extending credit to its Government. Many central banks across the globe, including even those in mature economies, are offering a helping "financial hand" to their Governments at this unprecedented time of need. We hear some people say that this will be inflationary. What we say to them in reply is that this is also a matter of survival. We need to survive the pandemic first and then find the means to solve any inflation that may be associated with it.

10. While on this issue, we wish to point out that the central bank in a developing country has both stabilisation and developmental roles to play. Indeed, the BoG Act enjoins the Bank to support the general economic policy of Government, economic growth and economic development. It has to be said that even the US Federal Reserve is mandated to support economic growth and full employment. In the earlier part of its history, the BoG provided direct support to the economy by financing development projects, creating a regime of low interest rates and directing lending to strategic sectors like agriculture and industry. As part of the general economic liberalisation measures introduced in the early 1980s, the Bank also liberalised financial transactions and abandoned its direct support for the economy, contrary to the obligations imposed on the Bank by its Act. In the course of history, the objectives of central banks have never been static, but have rather evolved. By their sheer unique power to issue currency, central banks have been called upon to play direct roles to support their countries to meet the exigencies of their times—be it wars, natural disasters or health pandemics. It is important that the BoG position itself to provide direct support to the development of the economy, in addition to pursuing its primary objective of price stability.

11. Further, the Bank should exercise its mandate as banker and financial adviser to Government by lending to Government. This will require amendment of the Bank's (Amendment) Act, which reduced the previous ceiling on lending to Government from 10% of previous year's revenue to 0%. It has to be emphasised that in a developing country, the Central Bank should be able to offer some financing to Government at a much cheaper rate than is available elsewhere, albeit subject to caps. Government's lack of access to Central Bank money will compel it to borrow at much higher rates from the domestic bond market, where it will crowd out the private sector, or from international markets, leading to undesirable escalation of the public debt and erosion of long-term fiscal and debt sustainability.

12. It has to be pointed out that for the Bank of Ghana to provide the needed support to the economy and Government in a less inflationary way, the bank must have adequate foreign exchange reserves to back the domestic currency. It is important, therefore, for the bank to build up its reserves substantially above the current US$7-8 billion dollars level. And, to that end, one important, low-hanging-fruit is for Ghana to increase its share of the world chocolate market, which is worth US$100 billion, rather than continuing, 63 years after independence, to share only the raw-beans market that is worth a paltry US10 billion. To be able to do this, the BoG should spearhead concrete, beyond-lip-service policies to add value to our cocoa beans through scaled-up local processing and refinement, which will have the additional benefit of creating jobs here in Ghana. It is for this reason that we support our President's recent polite rejection of the suggestion by the President of Switzerland that Ghana should increase its cocoa exports to that country. Our President was right in stating then that it would be in Ghana's interest to refine its cocoa at home. In a subsequent statement, the Minister of Finance also, rightly, reiterated the President's position. It is important, therefore, for Government and the BoG to adopt concerted measures to transform our cocoa beans into finished products so that Ghana can maximise its foreign exchange earnings from obviously its most important export commodity.

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