Economic Impact of COVID-19: Responses and Way Forward – Ghana's Case (Bank of Ghana's Policy Responses)

INTRODUCTION

The COVID-19 pandemic has brought about significant global health, economic and social challenges which have disrupted the conduct of public policy in general, including monetary policy. The pandemic is affecting livelihoods and economic activities, and threatening to unwind significant macroeconomic gains and financial stability achieved through widespread reforms implemented in the country over the past three years. Ghana recorded its first COVID-19 case on March 13, 2020 and since then, the numbers have risen with cases currently above 27,000 and 148 deaths.

GOVERNMENT RESPONSES

To avert the economy's plunge into recession, the Government of Ghana (GOG) adopted a number of policies, measures, and strategies to curb the spread and book economic activities. These include:

Restrictions

- The full closure of the country's borders (air, sea and land) to passengers since March 21 till date. Cargo was however exempted.
- Partial lockdown was imposed in Covid 19 endemic areas, from March 30 and a country-wide restrictions were imposed on social gatherings such as religious activities, funerals etc.
- Lockdown measures were eased in April 2020 but wearing of face masks in public has been made mandatory.
- All schools have been temporarily shut down and students asked to stay home. Schools were tasked to deliver distance learning education through the media and the internet and examination candidates have recently been asked to return to school to write their exams

Incentives

- **Allowances/Tax Relief:** Frontline health workers were granted an additional allowance of 50 percent of their basic salary per month for the months of March, April, May and June while all health workers were granted three months tax relief. These tax relief /allowances has been extended for further 3 months.
- **Utilities:** Government fully absorbed electricity bills for the life-line consumers and absorbed fifty percent (50%) of electricity bills for all other consumers.

- **Alleviation Funds.**
    - A Covid-19 National Trust Fund has been inaugurated to mobilise funds to be used in designing programmes to fight the pandemic.
    - A GH¢600 million soft loan scheme has been put in place by the government to support micro, small and medium scale businesses.
    - A GH¢1 billion Coronavirus Alleviation Program was also announced to help reduce the impact of Covid-19 on the economy.

In addition to the above the Fiscal authorities have also sought to re-align expenditures, in the light of revenue shortfalls and redirect resources towards health-related spending as well as pay outstanding government claims to health-related sectors of the economy.

It has also worked with multinational and international institutions to attract resources to the budgetary process and help close the financing gap. This comprises resources from the IMF Rapid Credit Facility (US$1 billion), drawdown of US$219 million from the strategic reserves (Ghana Stabilization Fund), release of US$300 million with assistance from the World Bank. These efforts have yielded about 2.3% of GDP as additional resources to the budget.

BANK OF GHANA POLICY RESPONSES

Since the onset of the COVID-19 pandemic, Ghana's economic indicators monitored by the Bank of Ghana have provided strong evidence of significant slowdown in economic activity. The pandemic presented a combined demand and supply shock that required close coordination and implementation of monetary, fiscal and macro-prudential policies to limit its impact on the broader economy.

To complement the government's efforts, the Bank of Ghana also announced policy measures aimed at moderating the adverse consequences of COVID-19 on the Ghanaian economy.

In March, the Bank of Ghana announced a raft of measures designed to mitigate the shock. The measures were as follows:

- Cut in the Monetary Policy Rate (MPR) by 150 basis points to 14.5 percent to boost aggregate demand and encourage production;
- Lowering of the primary reserve requirement ratio for banks from 10 percent to 8 percent to provide additional liquidity to the banks. This policy measure was expected to free up additional resources of about GHS2 billion for banks and savings and deposit-taking institutions (SDIs) to lend to critical sectors of the economy;

- Reduction in the capital conservation buffer of 3 percent to 1.5 percent to provide capital relief of about GHS1.1 billion for banks. This policy complements the reduction in the primary reserve requirement in helping boost credit expansion to support critical sectors of the economy.
- Change in the provisioning requirements for the spectrum of loan categories from 10 to 5 percent, which translates to about GHS115.3 million in capital relief to banks. This policy seeks to minimize the impact of potential challenges of non-performing loans on loan loss provisions and profit margins of banks.
- Discussions with commercial banks to further lower lending rates by about 200 basis points to reflect the MPR cut;
- Collaboration with commercial banks to create a GHS3 billion credit facility for key industries including pharmaceuticals, hospitality, services, and manufacturing sectors;
- Agreement with banks to provide a 6-month moratorium on principal payments for the worst-hit sectors – Airline and Hospitality Industries and generally restructure repayment of loans to ease pressure on debtors and reduce risk of default;
- Reclassifying as "current", loan repayments past due for up to 30 days for microfinance institutions, similar to what pertained in the savings and deposit-taking institutions sector.
- The Bank directed Telcos not to charge transactions with values below GHCedis100 (excluding cash out) in order to encourage the use of digital payments during the period while banks were tasked to encourage their customers to make use of online and digital modes of processing transactions.

Following these measures, the Bank reassessed the initial impact of the pandemic in May 2020 and observed contraction in real sector activities, upward inflationary pressures, and heightened uncertainty about the fiscal stance. Although banks remained well capitalized, profitable, and liquid, there were some emerging signs of weaknesses as the pandemic impacted households and businesses.

In view of these, the Bank of Ghana triggered its Asset Purchase Programme in line with Section 30 of the Bank of Ghana Act, 2002 (Act 612) as amended. This allowed the central bank to purchase a Government of Ghana COVID-19 relief bond with a face value of GH¢5.5 billion at the Monetary Policy Rate with a 10-year tenor and a moratorium of two (2) years (principal and interest). The Central Bank indicated further commitments of the Asset Purchase Programme of up to GH¢10 billion in line with the current estimates of the financing gap from the COVID-19 pandemic.

Additionally, the Bank of Ghana

- Proscribed dividend payments by banks for 2019 and 2020, to conserve the liquidity and capital in the banking sector.

- Activated Section 46A of the Bank of Ghana Act 2002 (Act 612) as amended, to provide liquidity support to savings and loans, and finance house companies facing temporary liquidity challenges.

- Took actionable steps to strengthen the capacity of the Association of Rural Banks (ARB) Apex Bank to provide liquidity support for rural and community banks facing temporary liquidity challenges in line with a framework to be agreed on. Microfinance companies that meet the agreed eligibility criteria qualify for this support from the ARB Apex Bank.

- Extended the deadline for savings and loans companies, finance house companies, and rural and community banks to meet new capital requirements to December 2021, from the earlier deadline of 28th February 2020**.**

- Reduced the 8 percent primary reserve ratio for savings and loans companies, finance house companies, and rural and community banks to 6 percent, and the 10 percent primary reserve ratio for micro finance companies to 8 percent. This should provide liquidity to support credit extension to micro, small and medium sized enterprises, as well as low-income households.

- Agreed with banks and mobile money operators on measures to facilitate and promote efficient digital forms of payments in line with the COVID-19 protocols. This resulted in the elimination of transaction fees on money transfers up to GHC100 and revision of transaction limits upwards to encourage use of mobile money electronic channels for transactions.

Way Forward

Broadly, Ghana has implemented far-reaching policies and undertaken several measures to moderate the impact of COVID-19 on the economy. This notwithstanding, the COVID-19 impact is still unfolding with diverse impacts on various economies. The situation remains fluid and the Central Bank will continue to monitor events unfolding to ensure achievement of the intended policy objectives. Further policy actions would be taken, if risks to growth and financial stability heighten, to limit the adverse impact of the pandemic on the economy.