

Bloomberg Invest: Focus on Africa

In Conversation with a Newsmaker:

David Merritt: Hello, and welcome to this session of the Invest Africa Summit from Bloomberg. My name is David Merritt. I'm the senior executive editor here at Bloomberg for Europe, the Middle East and Africa. I am very delighted to be joined for this interview by Ernest Addison, who is the governor of the Bank of Ghana. Governor, thank you so much for joining Bloomberg today.

Ernest Addison: I'm very happy to be here, David.

David Merritt: Great. Well let's dive straight in. My first question is a question we could ask any central bank governor I think in the world at the moment, as governments and policy makers grapple with the threat of inflation. The problem in Ghana does seem to be particularly acute. We've had the latest reading in April nearly 24%. In that environment, it's obviously impossible to have a policy rate that is higher perhaps than inflation. How are you in this very, very turbulent environment adapting your decision making process to this new high inflation reality?

Ernest Addison: Thank you very much David for that question. I think that it's an issue which in a sense is baffling for all of us. A year ago inflation in Ghana was single digits, in particular, we were at 7.5% and then we find ourselves a year later in high digits. It's a very complicated environment as you yourself are aware. We've just come out of Covid. Ghana fortunately was able to weather the impact of Covid well without recording a negative growth rate. It seemed as if the economy had picked up significantly by the end of 2021, with the positive **[unintelligible 00:01:57]** growth rates of 5.4%.

At the central bank we had anticipated this. In November last year we raised the policy rate by 100 basis points. Then we were rather surprised by the inflation rate which came out later on after that in February in particular, which triggered the 250 basis points adjustment in the policy rate. This week the MPC would be meeting. I do not want to preempt what the committee will decide but I think it's a very complicated situation. As you said, inflation is about nearly at 24% and we need to take a position on what to do with that current policy rate at 17%.

David Merritt: The spread for you, as bond yields, Ghana's spread has shot up again. Obviously, that's something that people are looking at closely, external debts are going to be more costly and prolonging the lack of access or loss of access to the market for Ghana. You can narrow that gap, obviously, by hiking rates domestically, and that's going to help presumably keep domestic lending taps open, but there are costs to that as well. In all of this environment, when the numbers are really going against you, how do you see the role of the central bank in stabilizing the economy?

Ernest Addison: The role of the central bank in stabilizing has been very clear. We have a limited set of instruments, trying to manage liquidity and trying to manage interest rates. That's what we have done in the last year or so. As you said, we have to be conscious of the impact of both the external developments in China and

developments on exchange rates. If markets get tighter and we see capital beginning to flow out, obviously, the interest rate is too valuable not to do its part [unintelligible 00:04:13]. At home, we are trying to manage liquidity very tightly to ensure that we don't have excess liquidity, swirling, further inflation, and exchange rate depreciation.

David Merritt: The inflation problem, as I said at the beginning, something that governments are grappling with and many policymakers have not lived through periods of such high inflation in their professional experience, but the noises we're hearing from around the world say that the worst isn't upon us yet. The war in Ukraine is obviously disrupting things like global food supplies. We have a fertilizer shortage looming, so farming costs are obviously increasing. When you look forward, the rest of this year but into next year as well, where do you see that headline inflation rate peaking or when might it peak? Is there a possibility of things turning back more favorably for Ghana and for the rest of Africa perhaps as the next year plays out?

Ernest Addison: I think that countries have different experiences. If you look at the inflation rates across Africa, they vary from country to country, and you rightly said that Ghana is one of the higher ones. The government and the central bank are very much aware of the problem, and we have had very major decisions of fiscal consolidation, expenditures have been cut by 20% this year. As I said earlier on, we had raised the policy rate by 250 basis points. We expect that these measures would save us at [unintelligible 00:05:58] inflation.

We had raised the primary reserve requirements for banks, which is also drawing liquidity from the economy. Broadly, all these fiscal and monetary measures that have been put in place should impact on aggregate [inaudible 00:06:15]. Yes, a lot of the shocks that we are seeing now tend to be supply side in nature, with food price shorts, oil price shorts, but we think that the worst has already gone through the system. We expect that inflation will be tapering off for the rest of the year.

David Merritt: You talked about cutting of public spending, obviously, and a large reduction there in order to help to tame inflation. What do you feel will be the outcome for overall economic growth? Of course, there needs to be a hit to the overall economy from all of these measures. Is it going to be manageable in the coming year, or are you concerned that growth will fall too far, and all of the other impacts that might have?

Ernest Addison: The Ghanaian situation, in a sense, also reflects what happened in 2020, where the government had various [unintelligible 00:07:13] stance on policy. Therefore, there were many, many interventions that was put into place in order to protect lives and livelihoods. The impact of that was the real sector being more resilient than we see in other places.

As I said, we are beginning to see a pickup in growth in 2021. Some of the data that has come in so far for 2022 does not suggest that we are slowing down. I believe that if we were to choose between the growth and inflation, the policy priority should be on managing the pace at which prices are increasing.

David Merritt: Absolutely. Thank you. I just want to pivot onto the question of currencies. Of course, the war in Ukraine has sparked a renewed debate, if you like, about the role of the dollar, the US dollar as a reserve currency. There's been suggestions that maybe the era of the dollar's dominance is not going to continue. Is the Bank of Ghana diversifying holdings of reserve currencies? If so, where, and where else are you building up reserves? Is it in the Chinese currency? Is it euros? Where would you be diversifying these holdings?

Ernest Addison: This topic of reserve diversification became very popular when the US dollar was weaker and was not serving as an effective reserve currency because most of developing countries, and African countries in particular, were holding the bulk of their reserves in US dollars. We do not have that situation today. Today the dollar seems reasonably strong, and the issue of what has happened in Russia and the sanctions that were imposed on Russian banks, I don't think presents an argument for reserve investigation for us. Secondly, the issue of the Chinese currency and the type of controls that China has on flows makes it very difficult for us to substitute away from the dollar into the Chinese renminbi.

I can say that for Ghana, the central bank has started the gold purchase program, domestic gold purchase program, where we are currently buying gold locally and trying to raise the gold component in the level of our reserves, and this is where the current policy focus is.

David Merritt: Is that connected- I'm interested in the gold purchasing program as well, as Africa's biggest gold producer, in a high inflationary environment as well, is that playing into your decision about building up gold reserves as a good place to be?

Ernest Addison: That's a very good question. Fortunately for us, most of the purchases are coming in from central bank profits that we have made over the years and therefore doesn't really represent an additional push of liquidity into the system, and therefore, I don't see that conflict of falling inflation first.

David Merritt: Yes, got it. I want to ask you a quick question about sovereign ratings agencies, and coming back to this question of sovereign debt and access to the market, the Ghanaian government has been critical about the impacts that the ratings agencies have on the pricing of debts, and the African Union has also echoed that criticism. Is there an alternative to the rating of debt? Should there be an African, a localized rating agency to assess the value and the riskiness of sovereign debt across the continent?

Ernest Addison: I'm not sure if it's about an African rating agent, as to- [audio cut] more about the methodology and functions that the rating companies use to make their assessment. The case of data, I think some of the issues that came up have to do with the assumptions that were driving the various focus, and then secondly, the timing of the assessments, given that all countries had been hit very badly by Covid, whether really this was the time to go out there for ratings assessed at wish. In the view of some probably not the appropriate time to have done that.

Especially if you think of the fact that the whole world was going through a pandemic. If you were to take out the pandemic from the modeling or account for the pandemic

in the modeling, would they have reached the same conclusions that they reached? I don't think it's so much about setting up an African rating, I think it's about methodology and timing and contest and all of that.

David Merritt: Thank you, I just want- if you've got time for one more question, I'm going to pivot to this- quite the topic of cryptocurrencies. It's been yet another very turbulent week for cryptocurrencies. I know that the Bank of Central African States is cracking down on crypto after the adoption of Bitcoin by the Central African Republic, one of its member states. Where does the Bank of Ghana stand on crypto regulation, again something central banks are grappling with all around the world. Can you give us an update about how your e-city pilot project is going?

Ernest Addison: We have come out to let the public know that we do not regulate crypto assets, and therefore if you engage in any transactions in cryptocurrency you're on your own. It's not an area where the central bank would be able to provide consumer protection. The ECD, we're making fairly good progress on that. As you know, Ghana already has a culture of mobile money, which has held a great deal with financial inclusion. The average person on the streets knows how to use their telephone to transfer digital value. We're taking advantage of that background to develop a retail token-based type of instrument which we call the central bank digital currency.

There has been a pilot in different parts of the country and the **[unintelligible 00:14:19]** from the feedback that I got people have been quite enthusiastic about having the opportunity to be part of the pilot and call on their way to reload this CBD using their own resources to be able to carry out transactions, which is a good sign that by the end of the pilot we would be able to proceed as planned.

David Merritt: What do you see the benefits for the economy if there is widespread adoption of digital currencies?

Ernest Addison: I think further financial inclusion, we're looking at a system which can upgrade offline in the most remotest parts of the country. As I said, the populace here's already used to this mode of digital payments using telephones, but we are also looking at a card-based form of instruments that can also be used by those probably in the more urban areas. Yes, more financial inclusion, higher mobilization of savings, resources, and hopefully, that should help drive economic growth better.

Fortunately for us, also, we have a country adopted an ID strategy, I'm sure you're aware of the National Identification Schemes, which in science has helped improve identification in our economy and therefore the issues of KYC about the **[unintelligible 00:15:57]** that come to these mystery lanes, in the sense minimized.

David Merritt: Fantastic, Governor, thank you so much. We're out of time, but we so appreciate you joining the Invest Africa Summit here at Bloomberg and sharing your insights. Governor of the Bank of Ghana, Ernest Addison, thank you very much for joining us.

Ernest Addison: Thank you very much indeed. It's been a pleasure talking to you.

David Merritt: Thank you.

