**RACING TO RESCUE GHANA FROM ECONOMIC DOWNTURN: POST COVID 19 AND MATTERS ARISING**

**Poor Credit Ratings**


Ghana's economic situation is generating heated debate amongst development observers and commentators from within and without. Major development indicators show a decline in the economic fundamentals of the Ghanaian economy with dire consequences for business growth and the living standard of the people. Following the unprecedented depreciation of the Ghana cedi and the persistent rise in inflation as well as the worsening debt situation of the country, major international economic rating agencies have downgraded the credit ratings of the West African nation. Moody's, S & P, and Fitch in that order have all rated Ghana further downwards from their last releases (see past and present rates below).

| MOODY'S RATINGS | | | S&P RATINGS | | | FITCH RATINGS | | |
|---|---|---|---|---|---|---|---|---|
| **PREVIOUS** | CURRENT | OUTLOOK | PREVIOUS | CURRENT | Outlook | PREVIOUS | CURRENT | Outlook |
| **B3** | CAA1 | Stable | B-/B | CCC+/C | Negative | B- | CCC | N/A |

The implications of the negative ratings by these international credit rating agencies are dire as investors both local and international, all monitor such ratings to make decisions. The Government of Ghana (GoG) already knows this and seriously considers such reports' outcomes. GoG in response to Moody's release this year stated its reservations with the approach of the firm which it stated were not fair given some limitations it had observed. GoG, therefore, proceeded to lodge a complaint to Moody's and requested a review before publishing its report which the latter failed to do. Subsequent negative ratings from S&P and Fitch are seen by many as confirmation of Moody's earlier observations and a reflection of the current poor economic situation in the country. Others, on the other hand, believe the ratings from these agencies (all foreign) are a deliberate attempt to slump the credit potential of the Ghanaian economy and redirect investors' attention to other economies (a position the GoG and its sympathizers like to identify with).

The locking out of the GoG from the Eurobond market partly due to these ratings is expected to prolong for a while despite attempts by the government and its partners to salvage the situation. This follows a potential delay in the IMF response to Ghana's request for budgetary support to a tune of $ 3 billion (an amount the country reportedly loses every year because of corruption/infractions in the public sector) and delays in the government's own efforts to ramp up its revenues through new tax reforms as well as the blocking of internal revenue leakages. The GoG has, on the other hand, announced a 30% cut in government expenditures for the year 2022 (announced by the Finance minister in the mid-year budget in July 2022) as a show of commitment to improving its debt to GDP position.

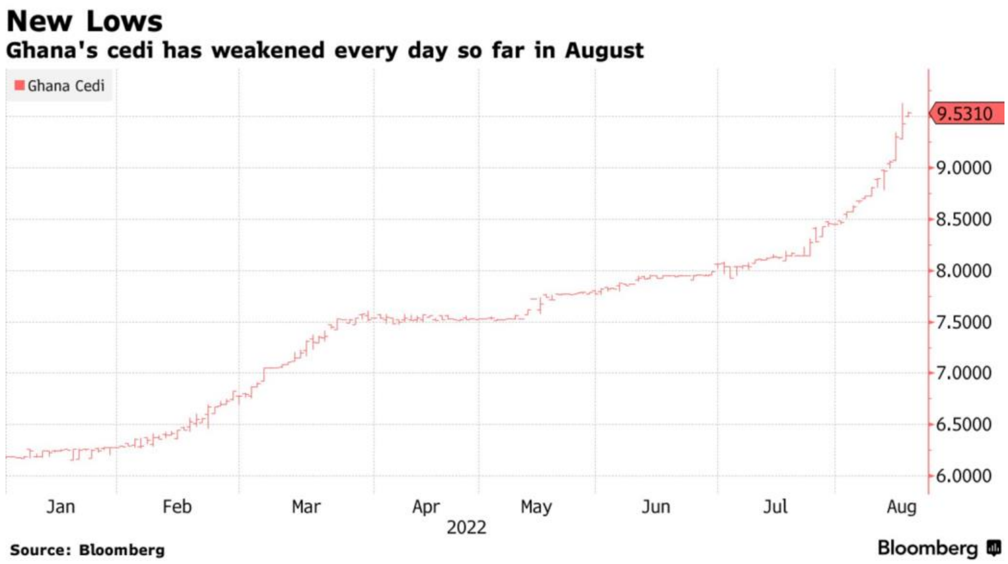
**Impact of Russia-Ukraine Protracted War**

The Akufo Addo-led administration maintains the current economic crisis Ghana faces has been largely influenced by three main factors name; the banking sector clean-up in 2017??, the COVID-19 pandemic, and the Russia-Ukraine war. The latter, however, according to the government is the number one causal factor that has derailed its attempts in recent times to recover fully from the impact of COVID-19 and put the economy on the path of growth (a position largely agreed to by the IMF in its response to Ghana's new application for support).

The negative impact of a protracted war between the two neighboring countries i.e. Russia and Ukraine is negatively affecting critical sectors of the Ghanaian economy including agriculture, manufacturing, and industrial sectors. For the agricultural sector, the shortage and sharp rise in the cost of in-organic fertilizers from these two economies which are powerhouses in the export of these commodities is a major concern.

**Depreciating Cedi**


Ghana's currency the cedi is said to be one of the poor-performing national currencies around the globe. The cedi has persistently depreciated against all the country's major trading currencies (the US dollar, euro, and British pound) from the beginning of the year 2022 to date. Official figures from the Ministry of Finance (MoF) indicated a 15.6% rate depreciation of the cedi by the end of the 1st quarter of the year against the US dollar, 13.6% against the euro, and 13.1% against the British pound (GoG,2022). The combined efforts by the Finance Ministry and the Bank of Ghana (Central Bank) after the first quarter through the introduction of some fiscal and monetary measures respectively, saw some marginal gains in the cedi in April 2022. However, due to further sustained pressures on the cedi following the continuous blockage of the country on the international bond market, delay in a Ghana-IMF program, as well as delays in the approval of some concessionary loans at the Parliament of Ghana, the cedi depreciation in late July and August, has been worsened. Records from Bloomberg as shown below shows a worrying trend of daily depreciation of the cedi.




For some years, the Ghana government has relied heavily on the bond market to raise foreign exchange for the management of its external debts, shore up its foreign reserves, and to a large extent support its currency performance against the major trading currencies. However, following the credit downgrades, the yet-to-be-approved IMF programme, delays in parliamentary approval of some concessionary loans, and the syndicated loan for the purchase of cocoa beans for the 2022-2023 season andexcess demand for the supply of the US dollar mainly, has led to the sharp depreciation of the cedi. The shortage of foreign currencies (particularly the US dollar) in the Ghanaian trading market is negatively affecting businesses that are into importation of either finished products or inputs for their operations. The cost of doing business in the country subsequently has shot up significantly month on month with the potential of reducing trade volumes and decreasing government revenues through taxes, fees, and duties.

**The Persistent Rise in Inflation**

According to national official figures, the country’s inflation rate at the start of the year 2022 was 13.9% (GOG/GSS, 2022). This rate shows the percentage change in the Consumer Price Index (CPI) over the last twelve months (fiscal year), i.e. January 2021 to January 2022. However, some seven to eight months into the year 2022, Ghana’s inflationary rates have been rising at an alarming rate. At the end of July 2022, a report by the government’s statistician, Professor Samuel Kobina Annim at a meet-the-press session in Accra, gave the current inflation figure as 31.7%. This indicated a 1.9% increase from the June figure of 29.8%. for the same reporting period, imported inflation in the country stood at 33.9% whilst local production-related inflation (domestic) stood at 30.9%. The food-price inflation at the end of July was 32.3% growing from 30.9% in June. Non-food inflation, on the other hand, accelerated to 31.3% from 29.1%, a month prior.

The persistent rise in inflation for 2022 is a matter of grave concern to all.  Prices of general goods and other essential commodities keep rising at an alarming rate with no clear end in sight. This is leading to unpredictability in the market with serious implication for the quality of life as the purchasing power of people continue to reduce on day by day basis. For a heavy import-dependent nation like Ghana, the continuous rise in imported inflation means a high cost of living for the average person with limited options to opt for locally produced alternatives since the inflationary rates of these options are equally high.

**GOVERNMENT'S INTERVENTIONS**

- **Policy Rate Hike**

The Bank of Ghana for the fourth time in the year 2022, has revised its policy rate. The recent upward adjustment of the policy by 300 basis points, i.e. from 19% to 22% is in response to the sharp decline in the value of the Ghana cedi which the central bank partly blames on excess liquidity in the system. Below are the policy rate announcements by the Monetary Policy Committee (MPC) of the BoG so far in the year 2022.

| Meeting No. | MPC Date | Effective Date | BoG Policy Rate |
|---|---|---|---|
| 104 | 25 – 28 January | 31st January | **14.5** |
| 105 | 16 – 18 March | 21st March | **17.0** |
| 106 | 18 – 20 May | 23rd May | **19.0** |
| 107 | 20 – 22 July | 25th July | **19.0** |
| 108 | 17 August | 17th August | **22.0** |

Source: Extract from BoG Policy Compilation, 2022

The poor-performing currency has given calls for stakeholders to mount pressure on the managers of the Ghanaian economy to institute immediate measures to halt any further declines. Investors claim the depreciating cedi is eroding all their margins and even affecting their working capital thereby threatening to collapse their businesses. The policy rate hikes, therefore, form part of the intervention by the central bank to mop up excess liquidity and help halt the depreciation of the cedi. Some economic observers however believe the continuous hiking of the policy rate by the central bank will only increase the cost of doing business as businesses who borrow from the central banks now will be paying much more interest on their loans.

- **Clamp down on Forex Operators flouting regulations**

Aside from the monetary policy hikes by the central bank (BoG), another intervention by the regulator to stop the surge in the depreciation of the cedi is geared at enforcing the forex trading laws of the country. The BoG has observed that some licensed forex bureaus in the country are engaged in some sort of irregularities that are fueling the current free fall of the cedi.  The suspension is that these forex exchange companies are engaged in speculations and hoarding of foreign currencies leading to an artificial shortage thereby leading to the further surge in the value of those currencies that now are in short supply. The resultant effect is the continuous and free fall of the local currency, the cedi. Meanwhile, one of the major market players in the forex exchange trade, the Ghana Union of Traders Association (GUTA), has largely discounted this assertion from the central bank. GUTA believes, that the inability of the central government to go to the international bond market is the leading cause of the shortage. GUTA, therefore, among other measures has proposed for consideration, the possibility of the country switching to the Chinese currency (the yuan) which it considers stable for international trade.

**REACTIONS TO GOVERNMENT'S INTERVENTION**

Notwithstanding the various interventions by the managers of the Ghanaian economy, including all the Central Bank's decisions on all five occasions when the Monetary Policy Committee (MPC) of the BoG has met this year, the Economic Desk at GGA-WARO can report that there appears to be some skepticism towards the ability of the decision to hike policy rates to arrest further depreciation of the Ghana cedi. As a result, there are increasing calls for the government to demonstrate commitment to turning things around by cutting its expenditure, checking corruption, and blocking revenue loopholes in the system. The concern is that, if these measures are not urgently initiated and followed, the government's expected inflows from the $750 million loan from the Afrexim Bank recently approved by parliament, the "CocoaBoard" syndicated loan, and even the $3 billion IMF expected loan, may fail to restore fiscal and macroeconomic stability to the Ghanaian economy.

**Summary of Factors Driving High Cost of Living in Ghana Currently**

**Forex** – arguably the unfavorable exchange rate of major trading currencies against Ghana's depreciating cedi is the forerunning factor affecting all aspects of economic life in the country with a direct impact on the rise in inflation.

**Freight** – with an import-dependent economy like Ghana, the global surge of freight rates following the onset of COVID-19 coupled with the depreciating cedi is translating into a high cost of products on the Ghanaian market. The Ghana Institute of Freight Forwarders for instance reported at the end of March 2022, an increase in the freight charge for a 20-foot container from China from an average of $1500 to $3500 (a 133% increase since the start of the COVID-19 pandemic).

**Fertilizer** – the direct impact of the Russia-Ukraine protracted war has limited the importation of inorganic fertilizers onto the Ghanaian market. The price of limited quantities of the products on the market has seen an astronomical increase. At the end of the first quarter of this year, the prices of fertilizer had gone up almost 400% from 350 to 1200 per tonne.

**Fuel and fares** – steeply linked to the depreciating Ghanaian currency is the rise in the price of fuel. Petrol XP is currently selling at 11.15 cedis per litter and diesel XP at 13. 46 cedis according to GOIL (state-owned oil marketing company). These figures show a 67.67% in the price of Super XP (petrol) and a 102.4% increase in the price of diesel XP which were both at 6.650 at the start of the year (January 5, 2022). The high cost of fuel in Ghana is directly linked to the cedi depreciation, the rise in global crude oil prices, and the significant tax margins on the price build-up on the finished fuel products. Currently. The tax build-up on the ex-pump price is estimated at 29%. Linked to the fuel price increases is the increase of public transportation fares. Other factors such as the cost of spare parts (which have also been negatively impacted by the depreciating cedi and increased freight charges), also affect the pricing of fares. For over the last seventeen (17) months using January 2021 as a base, public transport charges have seen over 50%

increment with the high probability of further increase as the current fares lag behind the percentage increases in fuel and spare parts (the two leading determinants of fare price change in Ghana).

**Food** – the rise in the cost of food as a result of the economic downturn mainly due to the deteriorating currency, transport cost, and general cost of production (high cost of fertilizer in the case of agriculture), is of utmost concern to Ghanaians. Food prices across the board have all risen with the following categories showing the most price change (inflation rate) increases according to the Ghana Statistical Service (GSS) for the period ending July 2022:

- Fish and Other Seafood (59.6%); Cereal Products (54.9%); Cocoa Drinks (50.2%); Oils and Fats (47.0%); Water (44.7%); Milk, Dairy Products and Eggs (42.0%); Live Animals and Meat (41.5%); Fruits and Nuts (39.2%); Coffee and Coffee Substitutes (36.1%); Soft Drinks (35.5%); Vegetables (31.5%); Sugar and Desserts (31.3%); Ready-made Food (30.3%); Tea (26.8%) and Fruit and Vegetable Juices (26.3%).