

Reflections of a Central Bank Governor

By Ernest Addison

Editor's note: Dr. Addison delivered this address on July 15, 2021, during the event marking the launch of Financial Capability and Asset Building in Africa (FCAB Africa). Participants gathered virtually for the start of this multinational collaboration in a session of the 22nd biennial conference of the International Consortium for Social Development, which was hosted by the University of Johannesburg, July 13–16, 2021. Dr. Addison's remarks are presented here with the permission of the author and the Bank of Ghana.

Distinguished Guests and Conference Participants,

1. I deem it an honour to be invited to this virtual launch of the FCAB Africa Initiative, which, among others, seeks to increase financial capability and asset holding to strengthen the socio-economic conditions of financially marginalised populations in Africa. This is a noble course, and let me commend the partners involved with this Initiative. This morning, my task is to reflect on my role as a central banker, especially within the context of FCAB Africa's objectives.
2. At the outset, let me indicate that the issues being promoted by the FCAB Africa initiative are intricately linked to the mandate of most central banks. When a central bank delivers on its mandate, whether through conventional or unconventional means, the socio-economic conditions of financially marginalised populations can improve. For all intents and purposes, the Global Financial Crisis and the COVID-19 pandemic has taught policymakers a useful lesson, that sometimes unconventional policies also deliver optimum social outcomes. Gone are the days when a central bank's adoption of unconventional policies to deliver on its mandate or attain a certain socio-economic objective for the collective good of society was anathema.
3. Presently, central bankers are caught up in the loop of implementing complementary monetary policies either using the traditional toolkits (interest rates, primary reserve ratios, etc.) or employing the use of non-traditional tools (such as forward guidance, quantitative easing, etc.) to complement fiscal policy. Under these circumstances, the question posed is whether central banks are losing grip of their independence. In the scheme of recent developments, however, the answer is far and in between, because at the end of the day, these toolkits are implemented to deliver the same objective; that is, to support economic agents of all classes in society.
4. Central banks have clear-cut mandates with either a single objective or multiple objectives, but price stability always remains the primary objective for obvious reasons. Pursuit of this price stability mandate, however, has unintended consequences. When a central banker tightens monetary policy rates to moderate inflation pressures, oftentimes, there are some trade-offs with growth. In addition to making credit expensive for businesses, the tightened policy stance also deters households' equitable access to funds and, depending on the

asset holdings, can worsen the plight of the financially marginalised. Certain shocks also tend to throw a lot more people out of the economic and financial system, thereby increasing the number of financially marginalised in society. To these events, central bankers combine conventional and unconventional policy tools to reduce the adverse economic implications on the populace. A case in point is the recent pandemic, which led to the implementation of accommodative monetary policies, as well as regulatory and financial reliefs to support households and firms, and improve the situation of the financially marginalised.

5. Let me at this point briefly share Bank of Ghana's experience with the deployment of policy tools to achieve its mandate of price stability and stabilising the financial system in the face of economic and financial shocks.
6. The essence of the Bank's primary objective is to **ensure low and stable prices**. A stable macro economic environment, characterised by low and stable prices, provides economic certainty for businesses and increases opportunities for the financially marginalised to access relatively cheaper loans and credit schemes. This will help increase financial capability and asset holding of the financially marginalised. Bank of Ghana has achieved some successes on this front, and monetary policy decisions since 2017 have resulted in the gradual decline of inflation from 15.4 percent at end-December 2016 to 7.9 percent at end-December 2019. The COVID-19 containment measures, such as lockdowns and restrictions on movements, triggered some inflationary pressures and pushed inflation up to 10.4 percent at end-December 2020, but inflation has since eased back to pre-pandemic levels at 7.5 percent in May 2021.
7. Ladies and gentlemen, **promotion of financial stability**, as a part of the secondary mandate of the Bank, seeks to ensure a safe and sound financial system that engenders confidence for effective financial intermediation. It is this confidence and trust which ensures the seamless flow of financial resources to support economic

growth. In this direction, the Bank embarked on comprehensive financial sector reforms from 2017 to 2019 to safeguard the financial system. The reforms led to the revocation of some banking licenses, resolution and consolidation of some banks, recapitalisation, and the issuance of directives to strengthen the regulatory and supervisory frameworks. This resulted in a well-capitalised and profitable banking sector, and indeed repositioned banks to withstand the COVID-19 shock that hit the economy in 2020.

8. Last but not the least, the Bank has crafted several policies to ensure **efficient payment and settlement systems**. The passage of the Payment Systems and Services Act, 2019 (Act 987), and the introduction of Guidelines on Electronic Payment Channels, has unleashed the financial technology sector to deliver innovative products and services. These reforms have resulted in the rapid expansion of the mobile money services sector. Mobile money operations have promoted financial inclusion in the country, with a sizable portion of the unbanked population now roped into the formal financial system. Further, mobile money operators have developed microcredit and micro-insurance schemes that the financially marginalised can access to improve and sustain livelihoods. In collaboration with the Government, the Bank also implemented the mobile money interoperability that has facilitated mobile money transactions across different networks. This has lowered the cost and enhanced business transactions.
9. The world is changing, and it is changing very fast. Another issue that comes to mind is how businesses have re-positioned themselves in a post-pandemic era to do business. This brings to mind digital currency and how it is permeating all facets of our lives and the way we do business. The private sector has taken a lead in this area with electronic money and is swapping this for cedis with the banks constantly. Government is also jumping into the space and has succeeded in digitizing revenue collection flows with the banks. The central bank is also working on rolling out a central bank digital currency

(CBDC) to complete the digitization loop. We are thinking about the implications of issuing a CBDC on the banking sector, on the transmission mechanism, on financial stability, on monetary policy, and on its implications for macroeconomic efficiency and welfare. These are big issues occupying our minds at the moment.

10. Ladies and gentlemen, drawing lessons from the Global Financial Crisis, central banks have added non-traditional monetary policy measures to their toolkits for ready deployment to prevent liquidity freezes across financial markets in the event of a major shock. This has come in handy with the onset of the COVID-19 pandemic, which triggered the implementation of synchronized monetary, fiscal, and macroprudential policies across both advanced and developing countries to provide liquidity to financial markets as well as cushion the impact on the private sector, especially small businesses and low-income households. These have yielded positive results, and global growth has rebounded strongly from the adverse effects of the pandemic.
11. In Ghana, a series of measures were taken to moderate the adverse impact of the pandemic. In addition to the fiscal reliefs to the health sector, as well as the socially vulnerable groups, the Bank implemented several policy and regulatory measures to ease financing constraints and liquidity pressures in the economy. In particular, the policy rate was reduced by 150 basis points in March 2020, and further down by 100 basis points in May 2021 to 13.5 percent. In addition, the primary reserve requirements and the capital conservation buffers for regulated financial institutions were lowered. The Bank also purchased a 10-year Government of Ghana COVID bond with a face value of GH¢10.0 billion to augment governments' financing requirements. In response to the regulatory reliefs, commercial banks also extended reliefs, including loan restructuring and repayment moratoria for firms in the worst-hit sectors. As the economy recovers, we need to begin thinking about how to reverse these regulatory reliefs. But this must be done carefully to avoid

the unwinding process being viewed as a shock to the financial system. A careful balancing act would be needed here and the Central Bank is thinking through these issues carefully.

12. Ladies and gentlemen, as regulators and supervisors, central banks have always implemented policies to promote macroeconomic stability and ensure financial stability. For these measures to have a meaningful impact on the financially marginalised in the society, there should be complementary efforts from other key stakeholders in academia, the business sector, and civil society. There is the need for improved financial literacy for the financially marginalised to take advantage of the various opportunities created by the policy measures, especially with the current financial digitisation environment, which offers several opportunities for financial inclusiveness.
13. On this note, I would like to congratulate FCAB Africa for this Initiative and hope that it goes a long way to complement the efforts of policy-makers to help the financially marginalised in Africa. Thank you.

Author

Dr. Ernest Kwamina Addison was appointed Governor of Bank of Ghana by the President of the Republic of Ghana, Nana Addo Dankwa Akufo-Addo, in April 2017. Addison spent over 25 years working in the broader areas of public service, with a focus on economic development, monetary policy formulation and implementation, and macroeconomic surveillance. With his deep knowledge and experience in financial markets, foreign exchange markets, and sound macroeconomics, Governor Addison has demonstrated strong leadership, management, and policy skills. He has inspired confidence and credibility both within the Bank and throughout the financial sector. Under his leadership, the Bank of Ghana has achieved several successes in the pursuit of macroeconomic and financial stability following the implementation of prudent monetary policies to bring inflation down to single digits, and widespread policy and

regulatory reforms, including major recapitalization efforts over the past three years. This has cleaned up the financial sector, strengthened governance and the supervisory frameworks, and repositioned the sector to undertake its primary role of financial intermediation for the growth and development of the country. These successes have won him and the Bank many international and domestic awards including the Central Bank Governor of the Year in sub-Saharan Africa by *GlobalMarkets* and the Best Central Bank of the Year by the Central Banking Awards. In addition to his Governorship role, Dr. Addison served as the Chair of the Board of Governors of the IMF and World Bank at the 2020 annual meetings of the World Bank and the IMF in Washington, D.C. He is currently a Co-chair of the Financial Stability Board (FSB), a Regional Consultative Group for sub-Saharan Africa, Chairman of the Board of Directors of the Ghana International Bank, and a member of the Ghana Cocoa Board, among others. Addison holds a degree in economics from the University of Ghana, a master's degree in economics and politics from Cambridge University, and a doctorate with specialisation in monetary economics and economic development from McGill University.

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