

The Consequences of the Covid-19 Pandemic on the Ghanaian Financial Markets and the Effectiveness of Government Policy Responses

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This study analysed the consequences of COVID-19 on Ghanaian financial markets and further profiled and assessed the effectiveness of government policy interventions to contain its incidence. Using a qualitative documentary analytic approach combined with available time series data from financial market regulators between 2015 and 2021, empirical evidence shows that key profitability (ROA and ROE) measures of banks, gross insurance premium and capital market indicators were negatively affected. The containment and stringency of government policies in the wake of the pandemic do not match in equal potency with the rise in occurrences. Policy recommendations were provided.

Keywords: COVID-19, Ghana, policy responses, stringency index

INTRODUCTION

Originally, the COVID-19 pandemic started in November 2019 in Wuhan and nippily spread to all parts of the globe, with serious economic and non-economic implications for countries. In Africa, the first case of COVID-19 was recorded in Egypt on February 14, 2020, according to the Organisation for Economic Cooperation and Development (OECD, 2020)¹ report, while in Ghana, the first case was recorded on March 14, 2020. The outbreak of the pandemic caused serious economic and non-economic consequences, including the loss of lives and jobs around the globe. The International Monetary Fund (IMF) (2020) has predicted that 2020 growth will slow significantly from the projected 3.3% to a rate less than the 2019 outturn of 2.9%. Indeed, the global economic outlook indicated growth of 3.2% in 2021 but rose marginally

to 3.4% in 2022. According to the United Nations forecast, it is likely that Africa's 2020 projected GDP growth will drop by 1.4 percentage points from 3.2% to 1.8% because of COVID-19 (Ministry of Finance, 2020). In South Saharan Africa (SSA), the economic growth rate recorded was 4.1% in 2021, but this growth was reduced to 3.6% in 2022.

Additionally, the pandemic has changed corporate work dynamics through the loss of jobs (in Ghana, for example, the 2020 mid-year budget put the total job losses at 1,531 between April and June 2020), a slowdown in business operations due to lockdowns and restrictions, low demand from consumers, and disruption in supply chains. Globally, the COVID-19 pandemic has also affected global supply chains with drops in value creation and delays in shipments of major goods and services; widespread supply shortages (including food, pharmaceutical, and manufactured goods) and attendant huge price increases; unprecedented volatility and collapse of stock markets, which had recorded all-time low indices; tighter global financing conditions despite interventions through monetary policy to cut interest rates; a decline in the international price of crude oil with significant revenue loss to oil exporting countries, among many others (MoF, 2020).

One of the channels through which the pandemic affected the global economy was the financial market. The arrival of the pandemic caused a sharp decline in key stock market prices across major markets around the world. Between February and March 2020, the Standard & Poor (S&P) 500 fell by over 20%. Similarly, NASDAQ and the Dow Jones Industrial Average (DJIA) witnessed a fall of about 17% and 23% respectively. Other developed economies such as China, Japan, Singapore, France, Germany, the United Kingdom, Australia and Russia accordingly recorded declines of -6%, -16%, -24%, -25%, -25%, -26%, -33%, and -34%, respectively in their stock markets. The fall in global stock prices also leads to significant volatility spikes in capital markets worldwide. Available data from the World Economic Outlook (WEO, 2021) shows varied growth projections for developed and emerging economies. For instance, WEO (2021) projected world output to be negative in the year 2020 but gradually move to a high of 6% and thereafter fall to 4.4% in the years 2021 and 2022, respectively, while Sub-Saharan Africa recorded a growth rate of 4.1% and 3.6% in the years 2021 and 2022, respectively. Ghana's growth output in 2021 was 5.4% and is expected to decrease to 3.2% in 2022. The global and national decline in growth shows the ravaging effect of COVID-19 on the global and national economies.

In Ghana, the entrance of COVID-19 in March 2020 has affected every aspect of the Ghanaian economy and birthed a host of challenges for all industries in the economy. The Ghanaian financial market, like any financial sector, continues to play an enviable role in the transformation of the socioeconomic lives of the population and is the principal channel for financing corporate growth and industrial stability. The surge in the pandemic in Ghana has been erratic, with the highest peaks between July and August 2020 and between January and February 2021. Indeed, several preventive and containment measures taken by the Government of Ghana also contributed in no small way to mitigate the full negative repercussions of the pandemic on the Ghanaian economy. Some of these measures were a three-week partial lockdown of Greater Accra and Greater Kumasi (the two densely populated major cities in Ghana) followed by restrictions on movement; a ban on all public gatherings (e.g. political rallies, funerals, schools and religious meetings); closure of schools; closure of borders /travel bans; strict social distancing, contact tracing and mandatory quarantine of all travellers into Ghana and infected persons; compulsory wearing of face masks in public places, and; enforcement of strict hygiene protocols such as regular washing of hands and the use of hand sanitisers. In the financial market, the government has responded to the consequences of the pandemic with a combination of monetary and fiscal policy containment measures to avert the negative consequences of the pandemic on the financial market and the national economy as a whole. Nonetheless, the daily recorded cases kept increasing, and this raised concern about the effectiveness of government COVID-19 containment and stringency policy measures. In this study, the effectiveness of the COVID-19 containment policy measure is examined by the containment and stringency indices developed by the University of Oxford COVID-19 Government Policy Response Tracker (oXCGRT, 2021)² against the bi-weekly surge in COVID-19 cases. This policy tracker fundamentally assesses the effectiveness of government policy in reducing the bi-weekly cases of the pandemic in general.

Moreover, much is not empirically documented or known yet about the consequences of the pandemic on the Ghanaian economy in particular and the effectiveness of the government's intervention policies associated with pandemic containment. Again, in spite of the increased interest in research about the impact of external shocks on the financial markets (Bancit et al., 2016; Jin & An, 2016; Castagneto-Gissey & Nivorozhkin, 2016; Ankudinov et al., 2017; Atkins et al., 2018; Liu et al., 2019; Samadi et al., 2021), this study is the first to make a singular contribution about the consequences of the COVID-19 pandemic on the Ghanaian financial markets and assess the effectiveness of government containment policies employed so far. Thus, to fill this knowledge gap, two principal objectives are explored in this paper:

1. To identify and profile key consequences of the COVID-19 pandemic on the banking sector, insurance sector and capital markets;
2. To catalogue and evaluate the effectiveness of the government's intervention policies in the wake of the COVID-19 outbreak.

To address the first objective, a shred of qualitative documentary evidence and relevant policy documents on COVID-19's consequences on the Ghanaian economy and financial markets, in particular, were explored. With respect to the second objective, a quantitative (descriptive) analysis of secondary data on containment and stringency indices developed by the University of Oxford COVID-19 Government Policy Response Tracker (oXCGRT, 2021) was analysed.

This study is highly motivated due to the important contribution it makes to the literature and knowledge that would inform policy and research from an emerging market perspective. In the first place, despite increased interest in the impact of COVID-19 on economies, most of these studies are evidence from developed financial markets, with few focusing on emerging economies. Emerging financial markets, like the Ghanaian financial market, possess different institutional characteristics that influence their response and resilience to external shocks like the pandemic. Accordingly, North (1990, 1991, 2005) based on institutional theory, argued that the environment of a firm influences its actions and structure. As noted by existing scholars (Khanna & Palepu, 1997, 2011), emerging markets have weak institutional environments needed to enhance the effectiveness of government intervention policies in the event of a pandemic outbreak and also limit the ravaging impact of any pandemic. Thus, the current study extends the COVID-19 pandemic impact literature from an emerging market perspective, using Ghana. Again, this study used the recently published OxCGRT database on government responses to the COVID-19 pandemic to assess the effectiveness of government policy initiatives on the financial markets. Based on the fact that government policy interventions were meant to positively yield social and economic impact in containing the ravaging effect of COVID-19, it is very important to understand the effect and consequences of these policy interventions on the financial market so that future policy can be guided accordingly. Secondly, this study extends the impact of government policy intervention on financial market literature, especially during the pandemic on asset prices, which informs investor decision-making and policy intervention in the future.

The rest of this study is organised as follows: in Section 2, this study presents brief literature on the consequences of the pandemic on the global financial markets and policy responses, while in Section 3, this study adopted the documentary research methodology (DRM) approach to identify and profile the consequences of the pandemic on the Ghanaian financial markets and also assess the effectiveness of public policy response to the pandemic using the government policy tracker (oXCGRT) originally developed by Hale et al. (2020) and constantly updated by the University of Oxford. Section 4 provides the findings of the study, followed by an assessment of the effectiveness of the government's containment policy responses against bi-weekly occurrences. Finally, conclusions and recommendations based on the analysis are provided in Section 5.

LITERATURE REVIEW

Consequences of COVID-19 Pandemics on Financial Markets

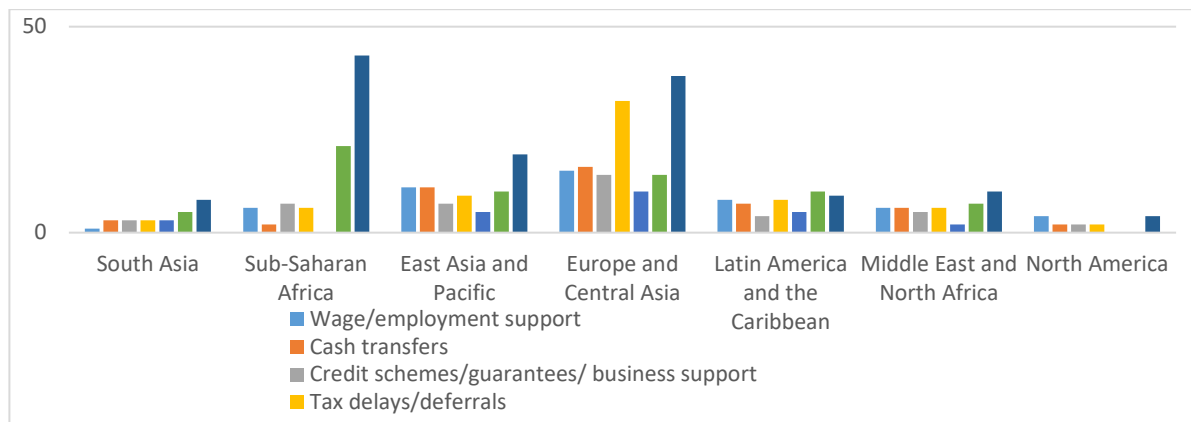
The existing scholarly literature on the impact of a pandemic on financial markets and economies can be classified into two main categories: those that recognise the impact of external shocks on financial markets (Soyemi et al., 2017; Bastianin et al., 2016; Rigobon & Sack, 2005; Lewis & Liu, 2017; Rehse et

al., 2019); and those that focus, specifically, on the effect of the COVID-19 pandemic on global financial markets and economies (Pak et al., 2021; Atkeson, 2020; Baker et al., 2020; Gormsen & Koijen, 2020; So et al., 2021; Yoshino et al., 2021; Ozkan, 2021; Vera-Valdes, 2021; Li & Yan, 2021). These studies have largely focused on developed economies except for Uddin et al. (2021) and Aharon & Siev (2021), who considered both developed and emerging economies.

With regard to the impact of external shocks on the financial markets, external shocks are considered exogenous factors that potentially affect national economies and financial markets. Their impact and intensity may differ from one region to another. External shocks can affect the domestic economy and financial markets through the corporate balance sheet effect, the competitiveness channel, and credit conditions in the domestic economy (Deb, Nadeem, Peiris, 2021). According to Soyemi et al. (2017), Nigeria's economy was affected by the oil price shock, which consequently affected equity market activities directly and indirectly through the commodity market. Another external shock can be war, such as the Russian-Ukraine War. This war affected commodity prices, which consequently affected financial markets globally. Thus, generally, it is an established fact (Bastianin et al., 2016) that external shocks affect financial markets in both developed and developing economies, but with varying intensity and consequences. With regard to those that focus on the impact of the COVID-19 pandemic on financial markets, existing evidence suggests that governments and financial sector regulators least expected the huge ramifications of the COVID-19 pandemic on their national economies, hence little response was made to avert its consequences (Pak et al., 2021). Nonetheless, Atkeson (2020) found that there seems to be a direct relationship between the number of COVID-19 infections and staffing shortages. Furthermore, Ozkan (2021), Vera-Valdes (2021) and Li & Yan (2021) found evidence that shows that, the COVID-19 pandemic has increased the volume of fluctuations and imbalances in the financial markets in developed economies. Similarly, Aharon and Siev (2021) found a negative impact of the COVID-19 pandemic on financial markets and economies. Other studies have been more specific with respect to the consequences of COVID-19 on a specific aspect of the financial markets, such as the stock market (Baker et al., 2020; Gormsen & Koijen, 2020), banking sector (Kulińska-Sadłocha et al., 2020; Baret et al., 2020), and financial sector volatility (Albulescu, 2020; Zaremba et al., 2020). Baker et al., (2020) compared the relative impact of the COVID-19 pandemic on the U.S. stock market with that of the Spanish Flu of 1918 and 1919 and also the influenza pandemics of 1957–19, 1957–58, and 1968. They found that, even though COVID-19 negatively affected the U.S. stock market, both the Spanish Flu and influenza had a greater impact on the U.S. economy than the COVID-19 pandemic.

Moreover, the speed of the spread of COVID-19, accompanied by its socioeconomic consequences on economies, moved governments to swift responses that vary from country to country due to country-specific characteristics. Generally, the global responses to the COVID-19 pandemic by governments have been a structured mix of conventional fiscal policy, monetary policy, and macro-prudential policy, alongside social policy measures. Figure 1 shows that globally, governments responded to the ravaging consequences of the pandemic by means of social policy interventions that support wage and employment benefits, cash transfers, credit schemes in support of small and medium-scale firms, which were highly affected, and fiscal and monetary packages.

FIGURE 1
GLOBAL COVID-19 POLICY RESPONSES BY GOVERNMENTS



Author's compilation with data from IGC, 2021

The Ghanaian financial market is composed of the stock market, the bond market (capital market), the banking sector, and the insurance sector. In a developing economy like Ghana, where the level of infrastructure development is low, pandemic shocks resulting in workplace disruptions such as the closure of offices, remote working, and poor internet services might greatly affect capital market trading and liquidity. Again, the government's social policy response to the pandemic in the form of a 'shift system for workers and the closure of schools with the good intention of managing the pandemic might also require parents to stay home, causing more absenteeism which may also cause an increased demand for household consumption expenditure which may cause an increase in demand for cash withdrawals from banks and insurance policies to ensure household liquidity needs are met. Closure of businesses due to low demand for their products and services could negatively affect bank loan repayment obligations, resulting in a loss of interest income for banks and thereby affecting their profitability and capital base. Banks that have tradable financial securities such as bonds and stocks suffer a loss in value due to the pandemic. The increased demand for cash by individuals due to the pandemic also affected banks' liquidity positions and portfolio allocation needs. In conclusion, there is some limited evidence in the empirical literature about the consequences of the COVID-19 pandemic on the financial markets, especially in developing economies, including Ghana. This paper adds to this new strand in the literature by examining the consequences of COVID-19 on the Ghanaian financial markets and the effectiveness of government policy responses.

MATERIALS AND METHODS

This study employed a combination of qualitative documentary analysis of relevant materials and policy documents (articles, reviews, and policy documents) on the consequences of the COVID-19 pandemic on financial markets in general. Also, quantitative (time series) data from the Bank of Ghana (BOG), the National Insurance Commission (NIC), and the Ghana Stock Exchange (GSE) was used to examine the trend of key market performance indicators. With respect to the effectiveness of government policy responses to the COVID-19 pandemic, government policy tracker (oXCGRT) data originally developed by Hale et al. (2020) was used to analyse the effectiveness of government policy responses in the wake of the pandemic. Documentary evidence for analysis can originate from three sources, namely, public records, personal documents, and physical evidence (O'Leary, 2014). According to Bowen (2009), the essence of documentary analysis is to interpret and make meaning by reviewing and analysing printed and online materials systematically. Even though this research design has been used in previous studies in the area of tourism (Chen et al., 2020; Phi, 2020; Seraphin & Dosquet, 2020; Allaberganov, Preko & Mohammed, 2021), its applicability and usefulness extend to other areas. Other scholars added their voices

and explained that documentary analysis is useful for the consistent analysis of policies (Martuscelli, 2020; Wach et al., 2003). Other benefits include cost-effectiveness and efficiency (Mogalakwe, 2006), similar to interviews or survey designs in research. Nonetheless, document research design (DRD) has been critiqued for lacking detailing and thorough exposure of issues, difficult data retrieval, and selection bias. Despite these weaknesses, Bowen (2009) argued that the merits of DRD overshadow its shortcomings.

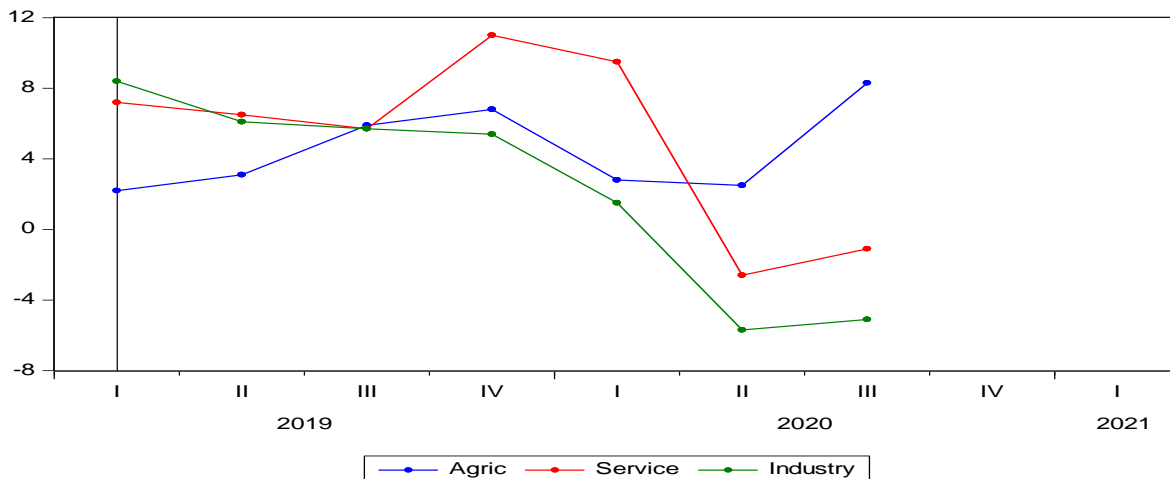
Thus, this study adopts the DRD by examining and analysing printed documents (articles, reviews, and policy documents) that are made available on the Internet. Using keywords combinations and Boolean operators (*title-abs-key (impact AND of AND covid-19 AND on AND financial AND markets) AND PUBYEAR > 2019 AND PUBYEAR < 2023 AND (LIMIT-TO (EXACTKEYWORD, "Financial Markets")OR LIMIT-TO (EXACTKEYWORD, "COVID-19") OR LIMIT-TO (EXACTKEYWORD , "Stock Market")OR LIMIT-TO (EXACTKEYWORD , "COVID-19 Pandemic") OR LIMIT-TO (EXACTKEYWORD , "Covid-19") OR LIMIT-TO (EXACTKEYWORD, "Coronavirus")OR LIMIT-TO (EXACTKEYWORD, "Coronavirus Disease 2019")OR LIMIT-TO (EXACTKEYWORD , "COVID-19 Crisis")) AND (LIMIT-TO (DOCTYPE , "ar") OR LIMIT-TO (DOCTYPE , "cp") OR LIMIT-TO (DOCTYPE , "re"))*) resulted in 863 documents. These documents are made up of articles (732), Reviews (33), and Conference Papers (98). Again, with regard to government policy responses to COVID-19, 47 documents were retrieved using the Boolean operators (*title-abs-key (Ghana AND government AND responses AND to AND COVID-19) AND PUBYEAR > 2019 AND PUBYEAR < 2023 AND (LIMIT-TO (DOCTYPE, "ar") OR LIMIT-TO (DOCTYPE, "cp") OR LIMIT-TO (DOCTYPE, "re")) AND (LIMIT-TO (EXACT KEYWORD, "COVID-19") OR LIMIT-TO (EXACT KEYWORD, "Ghana") OR LIMIT-TO (EXACT KEYWORD, "COVID-19 Pandemic") OR LIMIT-TO (EXACT EXACTKEYWORD, "Government") OR LIMIT-TO (EXACT KEYWORD, "COVID-19 Testing"))*). Only articles and documents that have a relevant narrative on the impact of COVID-19 on financial markets are considered. Eventually, 47 documents were retrieved between 2020 and 2022 after careful screening. This period actually covers the relevant periods for the impact of the pandemic on national economies.

FINDINGS

Consequences of COVID-19 on the Ghanaian Economy

The growth of the Ghanaian economy is closely linked to the development of the Ghanaian financial market. Key sectors in the Ghanaian economy that drive growth have been affected by the emergency of the COVID-19 pandemic due to the impact of the pandemic on the financial markets. Available evidence from the quarterly report of the Bank of Ghana (2021) shows that the first quarter of the year 2020, which coincided with the arrival of COVID-19, indicated a downward trajectory in the growth of agriculture, service, and industry segments of the Ghanaian economy (See Figure 2.0). A possible cause might be mainly due to several restrictive measures employed by the government that affected the movement of people, increased the cost of goods and services, and generally limited the opportunities available in the economy.

FIGURE 2
GROWTH IN AGRICULTURE, INDUSTRY AND SERVICES SECTOR



Source: Author's computation from BoG quarterly statistics

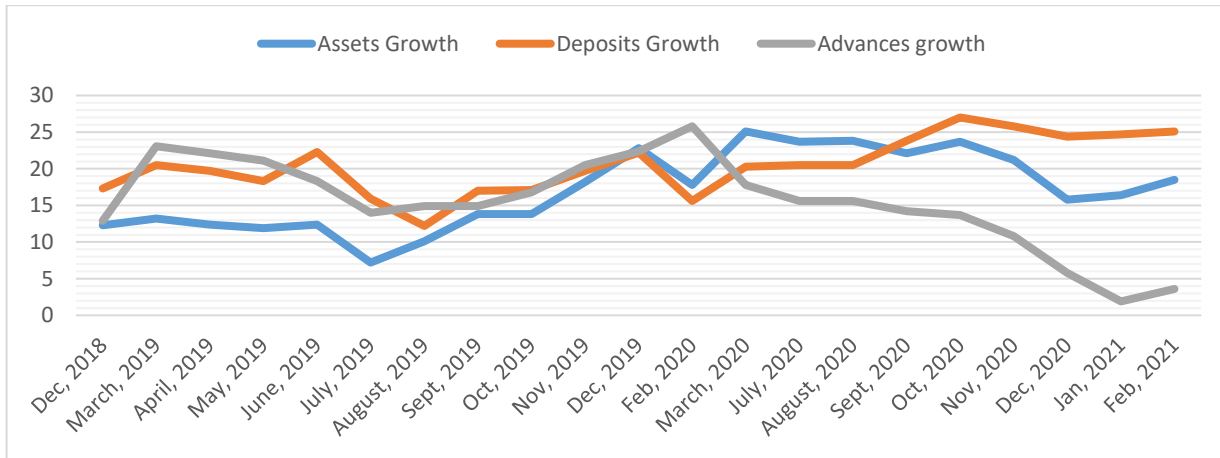
Furthermore, the fall in outputs in the aforementioned sectors can be traced to a partial lockdown between September 2019 and February 2020 and the full-scale lockdown.

Also, the services industry suffered a fall in output. Firms have changed the working dynamics of their staff from a normal to a shift system due to the continual surge in COVID-19 cases at workplaces. Others have to resort to online work schedules. These changes in work schedules affected productivity due to the new adjustments that must be made by workers in the new normal era. One of the key service sectors that were badly affected was the hospitality and tourism sectors due to the closure of hotels and restrictions on travel. These affected the growth of the services sector and the industry.

Consequences of COVID-19 on the Banking Sector

Prior to the arrival of COVID-19, the banking sector made impressive gains after a series of financial sector clean-up reforms. For instance, the sector registered a growth in total assets from GHS105.1 billion in December 2018 to GHS129.1 billion in December 2019, representing a 22.9% growth in total assets in December 2019. Profit after tax (PAT) increased by 38% year-on-year to GHS3.3 billion in 2019, representing a 23.8% growth in gross loans between 2018 and 2019, while there was a general decline in non-performing loans of 5.2% between 2018 and 2019. Total customer deposits in the banking sector also increased by 22.2% as of December 2019. However, in the year of COVID-19, coupled with the rapidly changing social norms, restrictions on transportation, a slowdown in the level of economic activity, disruptions in the supply chain, high degrees of volatility in the markets, and shocks in market sentiment, some preliminary challenges were experienced by the banks. Available evidence (Figure 3.0) shows that financial intermediation efforts by banks in Ghana were largely affected.

FIGURE 3
IMPACT OF COVID-19 ON BANK ASSETS, DEPOSITS AND LOANS

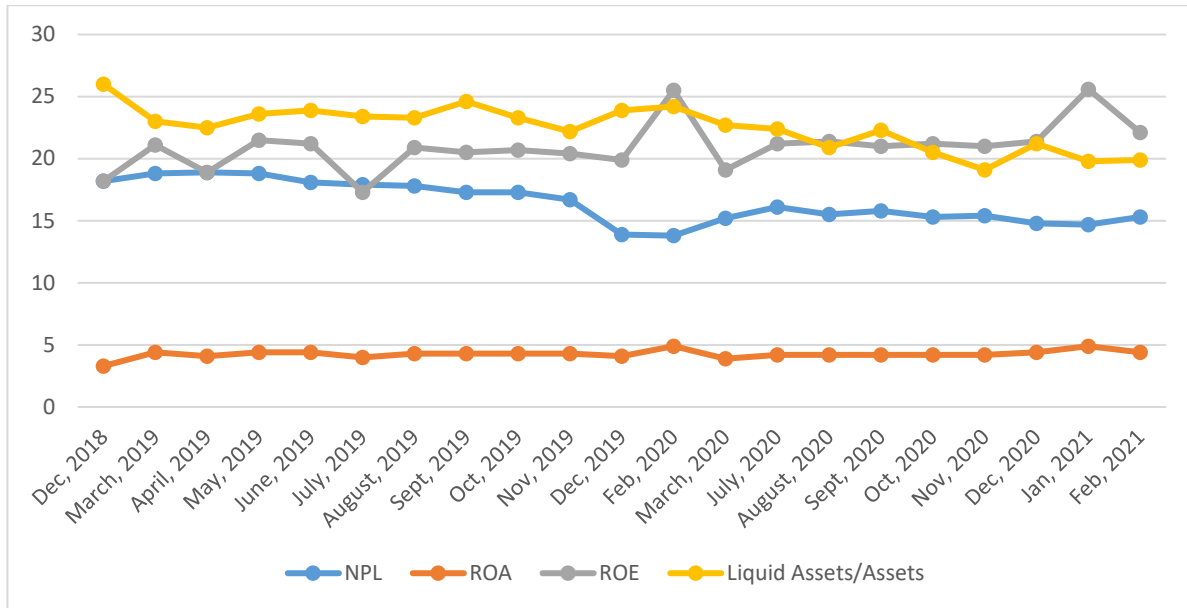


Source: Author's computation with data from BoG

The growth in banks' assets took a nosedive between December 2019 and March 2020 when the pandemic entered the Ghanaian financial markets. Thereafter, it rises steadily to July 2020 and falls thereafter. However, it can be noticed that it began to rise again in January 2021. These dynamics in asset growth in the banking sector could be due to a shift away from demand for loans to withdrawals to meet transactional motives. Advances to other financial firms also took a downward trajectory, with only growth in deposits showing a steady rise after the initial fall in February 2020. The fall in loans or advances is largely due to the low demand for loans by businesses and individuals due to the abrupt closure of businesses caused by the rise in pandemic cases and government containment policies. The negative impact of the pandemic on the banking sector indicators above is consistent with that of Elnahass et al. (2021), who admitted that the COVID-19 outbreak has had a damaging effect on financial performance and financial stability across many varied industries, while Demir and Danisman (2022) found that listed banks' returns have been robust to the COVID-19, particularly for those banks with higher capitalization and deposits, more diversification, fewer non-performing loans, and larger size. Also, the key banking sector performance indicators (return on assets (ROA), return on equity (ROE), management efficiency (cost-income ratio), and liquidity in the banking sector were fairly stable, but with a marginal fall in both ROA and ROE in March 2020. The ratio of non-performing loans had also gone up (see Figure 4.0). The rise in non-performing loans is due to increasing defaults on loans by individual borrowers who were laid off and businesses that were closed but had loan repayment obligations. Disruptions and downturns in general economic activity might have affected businesses' debt obligations to financial institutions like banks, which seems to have negatively impacted banks' profitability and credit risk. According to Elnahass et al. (2021), larger banks were more affected by COVID-19 than smaller banks. These authors found a negative and significant relationship between bank profitability, measured as return on assets, and the COVID-19 pandemic.

Nonetheless, the liquidity position in the banking sector was fairly stable. This might be partly due to the high storage of liquidity on the balance sheet of banks as a result of their inability to expand loan growth due to the high risk and uncertainty brought about by COVID-19. However, at the start of the year 2021, both ROA and ROE begin to rise, with an associated rise in the non-performing loan ratio (NPL). This can again be linked to the reopening of businesses and increased demand for credit, largely due to the easing of closures and restrictive measures.

FIGURE 4
IMPACT OF COVID-19 ON SELECTED BANK PERFORMANCE INDICATORS

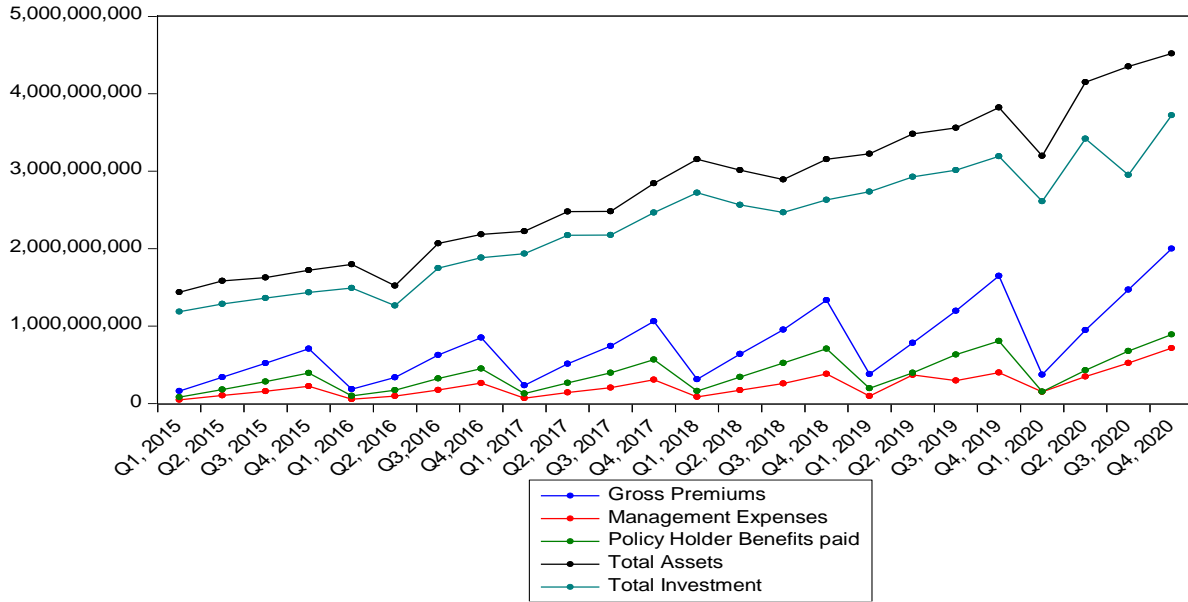


Source: Author's computation with data from BoG

Impact of COVID-19 on the Insurance Sector

The Ghanaian insurance sector seems to be the risk absorber of the economy and plays a significant role in risk management with diverse life and non-life insurance products. In the year 2019, the total assets of the insurance industry in the life category stood at ₵3.85 billion, non-life was ₵2.86 billion, reinsurance also recorded ₵0.78 billion, and intermediaries reported ₵0.16 billion (NIC, 2019). Within the same year, the total premium for the industry regarding life and non-life was ₵1.65 billion and ₵1.83 billion, respectively, while the reinsurance premium was ₵3.02 billion (NIC, 2019). Figure 5.0 clearly demonstrated the performance of the insurance sector with total assets and total investments maintaining an upward trend until the first quarter of 2020, which witnessed a sharp fall in all the indicators such as gross premium, management expenses, benefits paid to policyholders, total assets, and total investments. This sharp fall in the indicators shows the adverse impact of COVID-19's arrival on the insurance industry as the industry seeks to realign its strategy to cope with the pandemic. Many restrictions and containment measures taken by the government also affected firms with whom the insurance firms held substantial investments. Also, as the incidence of the pandemic surges, it is expected that claims payable to policyholders will increase. The first quarter of the year 2020 witnessed a drastic fall in gross premiums compared to the fall in policy benefits paid, which might be due to the closure of several shops and businesses and reduced travel insurance opportunities in compliance with the national containment measures. However, the indicators have started showing a positive outlook since the last quarter of 2020. Similar empirical findings by Wang et al. (2020) show that the COVID-19 pandemic had a ravaging impact on the Chinese insurance industry. Furthermore, Babuna et al. (2020) found that the impact of COVID-19 on the Ghanaian insurance industry had escalated claim payments, putting more pressure on the insurance industry. They also observed that profitability had declined during the COVID-19 period in the insurance industry.

FIGURE 5
IMPACT OF COVID-19 ON INSURANCE PERFORMANCE INDICATORS

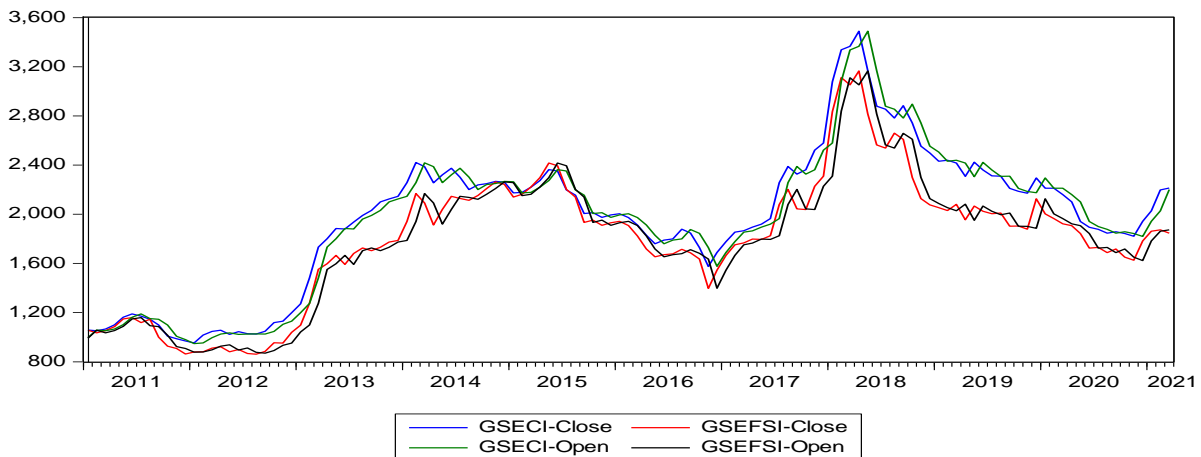


Source: Author's computation with data from National Insurance Commission (NIC)

The Impact of COVID-19 on the Capital (Bond and Equity) Market

Another segment of the Ghanaian financial system affected by the pandemic is the capital market. The capital market, which consists of the bond market and the equity market, is responsible for funding long-term development projects. Stock markets globally have suffered from the surge in the pandemic, ranging from developed economies to developing economies like Ghana. Already showing a declining performance, the Ghana Stock Exchange Composite Index-GSECI (market-weighted index of all listed firms, has continued its free fall since 2018 and was further exacerbated by the pandemic in 2020. However, figure 6 shows that the beginning of the year 2021 marked a gradual upward trend in the index, which might be due to the relaxation of restrictive measures and bouncing back with brisk economic activities as firms are adjusting to the new normal of work life. The index for financial stocks (GSEFSI) also follows the same trajectory as the GSECI.

FIGURE 6
GHANA STOCK EXCHANGE COMPOSITE INDEX



The Ghana Fixed Income Market (GFIM) was left out of the reach of the pandemic. The GFIM provides a conducive platform for trading Government of Ghana Securities like bonds, treasury bills and notes, and corporate bonds. The GFIM has shown impressive performance in the volume of trades executed since 2015 but responded to a sharp fall in the months of January to March 2021 in the wake of COVID-19.

Profiling Ghana's Government Policy Responses to the COVID-19 Pandemic

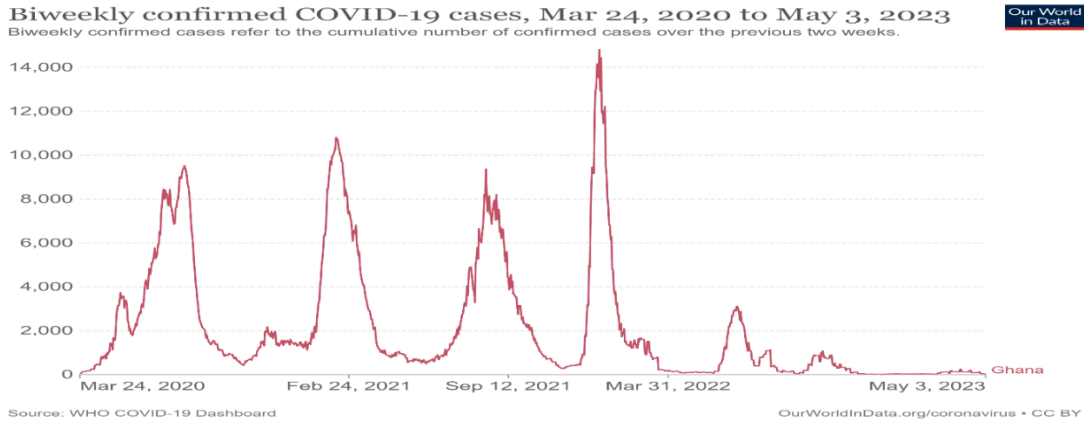
In Ghana, the government implemented a wide range of policies consistent with the national agenda and international policy options. These policy interventions aimed at achieving two major key objectives: striking a balance between protecting existing economic structures that support livelihoods (the economic policy objective) and saving lives (the health policy objective). Other policy response directives include the following:

- A reduction in the monetary policy rate by 150 basis points to 14.5 percent in March 2020,
- A reduction in primary reserve requirements to 8 percent from 10 percent to increase liquidity in the banking system.
- A reduction in the capital conservation buffer (CCB) of banks by 1.5 percent in order to effectively reduce the capital adequacy requirement (CAR) from 13 to 11.5 percent,
- The provisioning requirements for the spectrum of loan categories were reduced from 10 to 5 percent, which helped to ease liquidity conditions and provided capital relief to banks.
- A suspension of dividend payments by Banks for the year 2020 to secure capital buffers.
- A reduction in the cash reserve requirement for Rural and Community Banks (RCBs), Savings and Loan Companies (S&Ls), Finance Houses from 8 to 6 percent and from 10 to 8 percent for microfinance companies;
- Reached an agreement with the banks and mobile money operators to eliminate transaction fees on mobile money transfers of up to GH¢100 and revise transaction limits upwards to further promote the use of digital solutions, such as mobile money and online transactions,
- The Bank of Ghana triggered its Asset Purchase Programme in line with emergency provisions in the Bank of Ghana Act, 2002 (Act 612) as amended, and purchased a Government of Ghana COVID-19 relief bond with a face value of GH¢10 billion.
- Monetary Policy Rate with a 10-year tenor and a moratorium of two (2) years (principal and interest) in May 2020.
- Tax waivers for frontline health workers,
- Stimulus packages for small and medium-scale enterprises, absorption of utility bills (electricity and water),
- The government introduced an Emergency Preparedness and Response Plan of GH¢560 million (US\$100 million).
- The government introduced a GH¢10.3 million insurance package for health workers and a livelihood preservation programme targeting 4.1 million households and 682,522 businesses.
- The government assessed a US\$1 billion IMF Rapid Credit Facility as expenses for COVID-relief measures ballooned.

Ghana Government Policy Stringency and Containment Outcomes

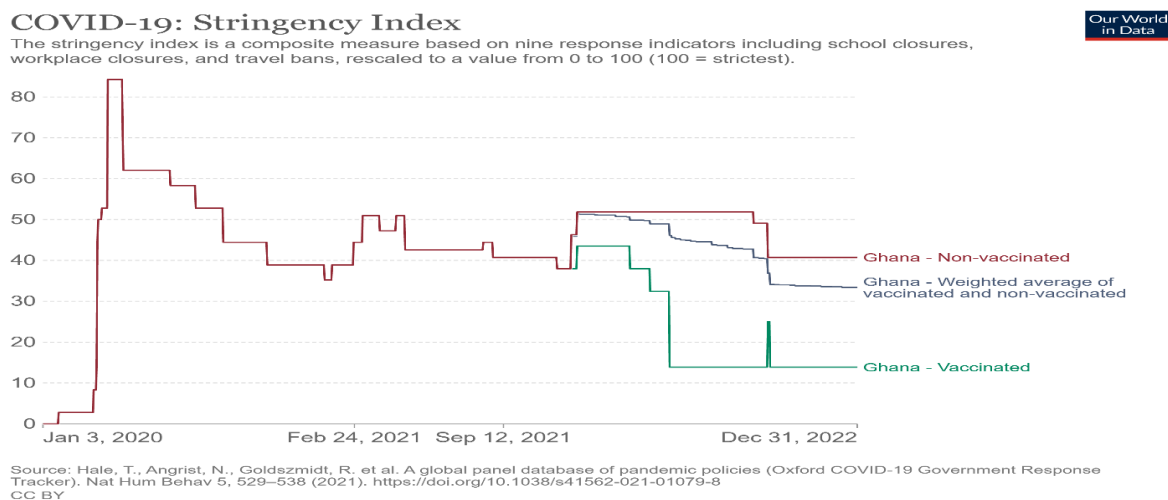
The effectiveness of the containment policy measures is examined by the containment and stringency indices developed by the University of Oxford COVID-19 Government Policy Response Tracker (oXCGRT, 2021) against the bi-weekly surge in the cases, as indicated in Figure 7.

FIGURE 7
BIWEEKLY CONFIRMED COVID-19 CASES IN GHANA



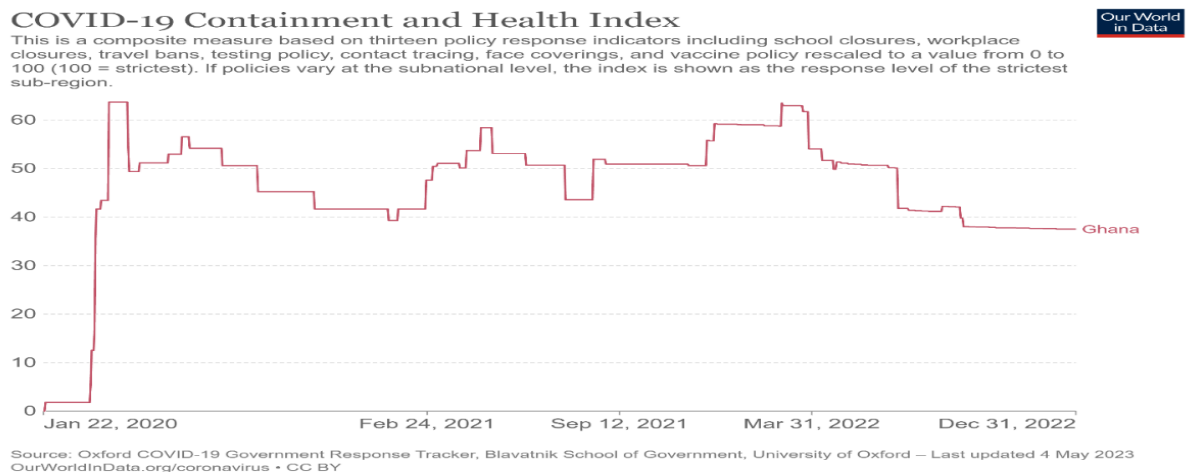
From Figure 7, the month of March 2022 experienced the highest number of confirmed cases following February 2021. The arrival of Ghanaians abroad for the Christmas holidays in Ghana in December could partly account for the surge in the number of cases in February and March. Daily new cases were also high during these periods. The government of Ghana also responded to the surge in the COVID-19 outbreak with lockdowns and testing exercises. The effectiveness of the government of Ghana’s containment and responses is juxtaposed on the stringency index, which is a composite measure based on nine response indicators, including school closures, workplace closures, travel bans, and vaccination exercises, which have been rescaled to a value from 0 to 100 (100 = strictest) (Oxford COVID-19 Government Response Tracker, 2021). Evidence from Figure 8 shows that the majority of Ghanaians were not vaccinated against the COVID-19 pandemic. This could be due to religious sentiments and beliefs and poor education on the part of the GoG and the Ministry of Health/Ghana Health Service. Another possibility could be due to inadequate vaccines procured by the government and weak regulatory enforcement of mandatory vaccination by all Ghanaians and non-Ghanaians alike. This largely points to the weak stringency of the GoG COVID-19 pandemic policy intervention, and as such, efforts must be made to ensure all bottlenecks are eliminated in the wake of future pandemic outbreaks.

FIGURE 8
GHANA COVID-19 STRINGENCY INDEX



Moreover, Figure 9 shows the performance of the GoG COVID-19 containment index. This index is a composite measure based on thirteen policy response indicators, including school closures, workplace closures, travel bans, testing policy, contact tracing, face coverings, and vaccine policy, rescaled to a value from 0 to 100 (100 = strictest). The index shows that in the period of March 2021 and 2022, the containment index was the highest. These are the periods when Ghana experienced the highest outbreak of the pandemic. Thereafter, the containment index falls to December 2022, when the incidence of the pandemic seems to have been under control and containment measures have been relaxed. Restrictions and other containment measures have been removed.

FIGURE 9
GHANA COVID-19 CONTAINMENT AND HEALTH INDEX



Comparatively, there seems to be a higher sporadic surge in the pandemic’s newly confirmed cases in Ghana compared to the containment and stringency of measures adopted by the government. This may give a strong indication of weak compliance and enforcement of relevant containment measures announced by the government via a series of media announcements about the update on the pandemic. This evidence supports the emerging evidence that, in developing economies, longer lockdowns are less effective as containment measures (Bharati et al., 2020). The lockdowns imposed huge costs on the economy and the government, especially. Food prices skyrocketed, along with associated transport fares. Coupled with already falling domestic revenue, the imposition of the health policy objective of saving lives through lockdowns and other social interventions negatively impacted businesses and consequently government revenue. Thus, in Africa, especially Ghana, the high informality of the economy and associated youthful population may imply that blanket containment and stringent measures may not yield the intended results, thus requiring targeted policies.

CONCLUSION AND POLICY IMPLICATIONS

The COVID-19 pandemic has created huge socio-economic burdens for national governments, firms, and individual households. The unexpected arrival of the COVID-19 pandemic caused a huge impact on the global financial landscape, pushing national economies into near recession and creating a high sovereign debt risk profile. Despite the wide range of policies implemented by the Government of Ghana (GoG) to curb the surge in the pandemic, the impact of the COVID-19 pandemic on the Ghanaian financial market resulted in reduced profitability in the banking sector due to low demand for banking products and services. The low demand for banking products and services resulted in reduced trading income, fees, and commission incomes for the banks, which eventually affected the profitability of the banking sector. The

key profitability measures of banks (ROA and ROE) have registered a downward trend while loans and advances have been curtailed. Also, the closure of businesses created an economic downturn that heightened credit default risk on bank loans, thereby creating high credit risk exposure for the banking sector. The high credit risk affected asset quality, liquidity, and capital in the banking sector. Moreover, high levels of non-performing loans curtail credit expansion by banks, which negatively affects financial intermediation efforts, private enterprise growth, employment generation, and economic growth.

Moreover, in the insurance sector, the impact of the COVID-19 pandemic affected gross premium collection, claims payments, and operational expenses. The lockdowns and business closures created liquidity challenges for policyholders' account renewal efforts and premium payments, thereby reducing the gross premium. However, management's operational expenses as well as claims payments had increased. The increase in management operational expenses is due to adjustment costs associated with the new normal remote working conditions. The increase in claims payments is due to withdrawals by policyholders for their usage and survival. This withdrawal will affect the investment assets and income of the insurance industry. The capital market, made up of the stock market and bond market, was negatively impacted as well.

The COVID-19 pandemic was not a normal crisis, and to control its spread, containment and stringent measures were taken by the Government of Ghana. Businesses also implemented their share of containment measures. Nonetheless, the containment and stringency of government intervention policies could not match in equal measure with respect to the ravaging impact of COVID-19 on the Ghanaian financial market and socio-economic lives in general. Thus, it is important to propose that governments, especially those in developing countries, pursue a learn-as-you-go policy, promote policy responses based on learn-as-you-go due to the evolving nature of the pandemic, and focus more on expanding financial stimulus packages that will enhance liquidity and stability of the financial system as a whole. More specifically, monetary policies must offer liquidity creation strategies in the banking sector while fiscal policies must consider expanding fiscal stimulus packages, especially for businesses.

ENDNOTES

1. <https://www.oecd.org/coronavirus/policy-responses/covid-19-and-africa-socio-economic-implications-and-policy-responses-96e1b282/>
2. Oxford COVID-19 Government Response Tracker, Blavatnik School of Government, University of Oxford – Last updated 6 May 2023. OurWorldInData.org/coronavirus • CC BY

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