Ghana National Chamber of Commerce & Industry
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Implications of Bank of Ghana's Policy Rate Hike on Businesses

Introduction: At its 105th meeting on 21 March 2022, the Monetary Policy Committee of the Bank of Ghana (BoG) hiked the policy rate by 250 basis points to 17% for the next three-month window. It should be noted that the new policy rate is the highest since November 2018. The rate hike comes against the backdrop of tighter global financing conditions, exchange rate volatility, inflationary and fiscal pressures, among others. On the external front, the risk is associated with the anticipated uptick in global food and crude oil prices from the Russia-Ukraine crisis and its effects on supply chain disruption.

Implications: The policy rate determines the rate at which the Central Bank lends to the commercial banks which in turn affects the interest rate that households and businesses pay on their loans. The Chamber's desk research shows that any time the monetary policy rate is adjusted, it takes a minimum of two to three months for commercial banks to respond. Historical data shows that when the monetary policy rate is increased, the commercial banks maintain their lending rates for not more than three months before increasing the lending rate. Similarly, with an upward adjustment of the policy rate, inflation increases within the short-term and then stabilizes in the medium- to long-term.

- With the new policy rate of 17%, it is expected that commercial banks will adjust their lending rates upwards within two to three months.
- This will result in a higher cost of capital, reduced borrowing and reduced spending by consumers and the private sector over the short- to medium-term.
- Companies with high leverage (debt to equity) will have to pay higher interest rates which could impact their business performance (profitability).
- Given that inflation is outside its target band, it is anticipated that inflation will continue to increase in line with the policy rate adjustment.
- Increase in the lending rate will make the fixed income market become more attractive to both local and foreign investors, given moderating inflationary pressures. This will, in addition to fiscal policy measures, cause strengthening of the cedi against major trading currencies over the medium- to long-term and boost confidence in the economy as government borrows from the local debt market to finance its expenditures.

Conclusion: The global economy is facing inflationary pressures which has led to key central banks raising policy rates to address inflation. Accordingly, the BoG hiked the policy rate to ensure price stability and investor confidence.

Given the anticipated increase in cost of loans, it is recommended that business owners explore alternative forms of financing their businesses. The Ghana Alternative Market (GAX) offers an easier access to long term capital at a relatively lower cost, access to a revolving fund to support the cost of raising capital and deferment of up-front fees, among others.

The Ghana National Chamber of Commerce & Industry (GNCCI) will continue to engage the Bank of Ghana and other stakeholders to achieve a low interest rate regime in Ghana. This remains critical to improving the competitiveness of businesses in the country.

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