



Bank of Ghana Monetary Policy Report

Monetary and Financial Developments

Vol. 4 No. 4/2020

July 2020

1.0 Overview

The thrust of monetary policy in 2020 is to deliver the medium-term inflation target of 8 ± 2 percent while supporting the overall economic policy of Government. Inflation was relatively stable in June 2020 after it surged in April 2020, remaining outside the medium-term target band. The surge in inflation was instigated by sudden hikes in food prices on account of COVID-19 containment measures implemented by Government. Nonetheless, threats from inflation, though elevated, broadly remains under control and inflation is forecast to return to the medium-term target band by the second quarter of 2021, conditional on corrective fiscal measures introduced in the near term.

Developments in money supply in the second quarter of 2020 show that annual growth in broad money (M2+) moderated marginally, consistent with the slowdown in general economic activities, which in turn reflects the impact of COVID-19 pandemic on the real sector. Interest rates have generally trended downward in line with the cut in the monetary policy rate in March 2020. Performance of the Ghana Stock Exchange (GSE) has remained bearish, mirroring the general economic uncertainty.

Key Monetary and Financial Indicators										
i. Key Monetary Aggregates		Per cent (Unless otherwise specified)								
Variable	Level (Ghc Million)									
	Jun-20	Jun-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Apr-20	May-20	Jun-20
Broad Money (M2+)	100,499	14.2	21.6	22.1	16.3	21.7	13.5	16.8	20.6	20.3
Broad Money (M2)	76,952	16.6	19.1	18.0	14.5	16.1	12.7	14.8	20.3	22.1
Narrow Money (M1)	48,685	21.4	26.0	22.3	21.2	25.5	16.6	22.9	26.7	27.9
Reserve Money	25,547	13.9	16.9	8.1	14.0	34.4	20.4	21.7	22.3	16.6
Currency Outside Banks	14,817	10.3	13.3	11.6	17.2	20.2	20.9	28.5	31.3	36.7
Foreign Currency Deposits	23,547	6.4	30.5	36.6	22.4	42.6	16.2	23.5	21.4	14.8
DMBs Credit	52,076	2.9	23.9	18.4	14.9	22.4	16.5	15.5	15.1	13.8
of which priv. sector	45,157	5.7	22.1	16.8	12.6	18.3	17.1	15.6	14.3	12.4
Real Priv. sect credit	-	3.9	14.6	8.6	4.6	9.7	8.6	4.5	2.7	1.1
ii. Inflation, interest rates and other financial indicators		Per cent (Unless otherwise specified)								
Variable		Jun-18	Mar-19	Jun-19	Sept-19	Dec-19	Mar-20	Apr-20	May-20	Jun-20
Inflation (y-on-y)										
Overall		10.0	9.3	9.1	7.6	7.9	7.8	10.6	11.3	11.2
Food		7.3	8.4	6.5	8.5	7.2	8.4	14.4	15.1	13.8
Non food		11.2	9.7	10.3	7.0	8.5	7.4	7.7	8.4	9.2
MPR		17.0	16.0	16.0	16.0	16.0	14.5	14.5	14.5	14.5
Interbank rate		16.4	15.2	15.2	15.2	15.2	15.7	14.0	13.9	13.8
Treasury bill rate (91-days)		13.3	14.7	14.8	14.7	14.7	14.7	14.1	14.0	14.0
DMBs avg deposit rate (3-mnth)		12.8	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5
DMBs avg lending rate		24.1	23.3	23.1	23.7	23.6	23.4	22.4	22.1	22.0
Exchange rate (\$/Ghc)		4.5230	5.0834	5.2590	5.3164	5.5337	5.4423	5.6010	5.6203	5.6674
Depreciation (monthly)		2.3	-1.8	1.1	0.7	0.1	2.7	2.8	0.3	0.8
Depreciation (YTD)		2.4	5.2	8.3	9.3	12.9	-1.7	1.2	1.5	2.4
GSE Composite Index (Level)		2,879	2,455	2,395	2,205	2,257	2,160	2,101	1,941	1899.9
GSE Financial Index (Level)		2,583	2,155	2,090	1,894	2,020	1,923	1,906	1,843	1725.0

Source: Bank of Ghana Staff Calculations; Ghana Statistical Service.

2.0 Developments in Monetary Aggregates

Money Supply

Growth in money supply moderated marginally at the end of the second quarter of 2020, driven by a lower Net Foreign Assets (NFA) of the banking system. Broad money (M2+) grew by 20.3 percent in June 2020 compared with 22.1 percent growth recorded for the corresponding period of 2019. This was on account of slower growth in NFA to 6.2 percent compared with 22.5 percent over the same comparative periods. NFA therefore contributed 1.5 percent of the growth in M2+ compared with 5.5 percent in 2019 (Chart 1a and Appendix Table 1). The decline in the growth of NFA was moderated by an increase in Net Domestic Assets (NDA) which expanded by 25.0 percent compared with 22.0 percent recorded last year, driven largely by significant expansion in Net Claims on Government compared with the corresponding period in 2019. In terms of contribution to the growth in M2+, the NDA contributed 18.8 percent compared with 16.6 percent in June 2019 (Chart 1b, and Appendix Table 1).

Chart 1a: M2+ growth slowed down in the second quarter due to reduction in NFA

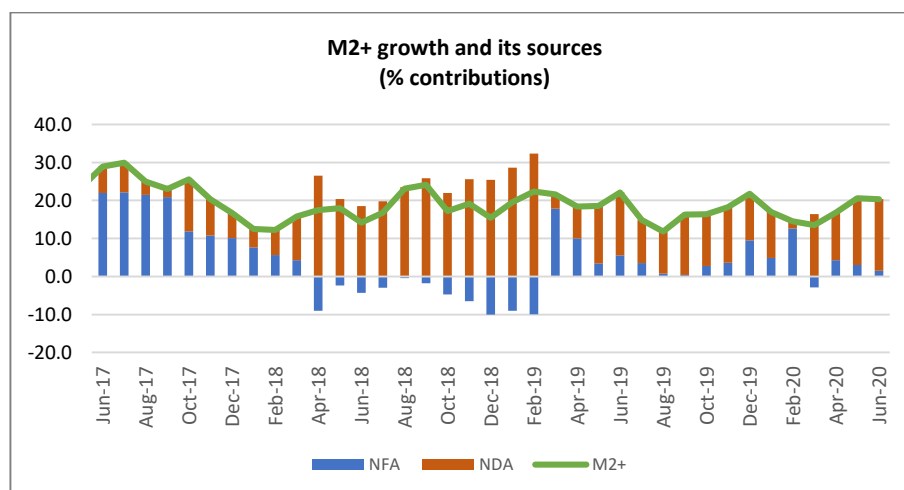
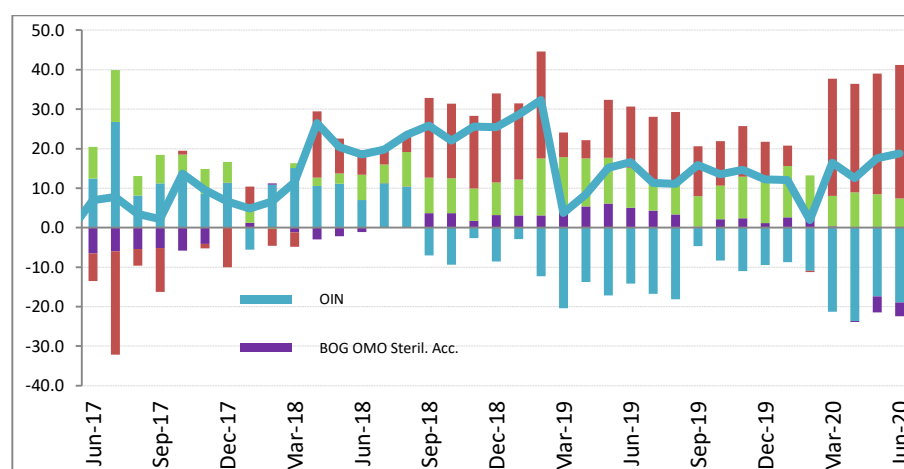


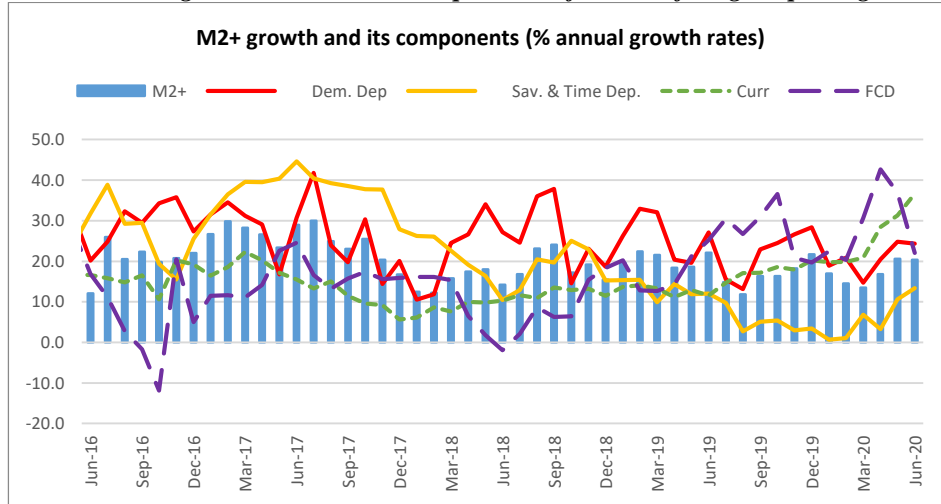
Chart 1b: Banking Sector claims on Government pushed up NDA (%)



Source: Bank of Ghana Staff Calculations

Analysis of the components of M2+ over the period shows that the slowdown in growth in M2+ reflected in a significant decline in growth of foreign currency deposits in 2020 compared with 2019 (Chart 2; Appendix 1).

Chart 2: M2+ growth slowdown in components reflected in foreign deposits growth

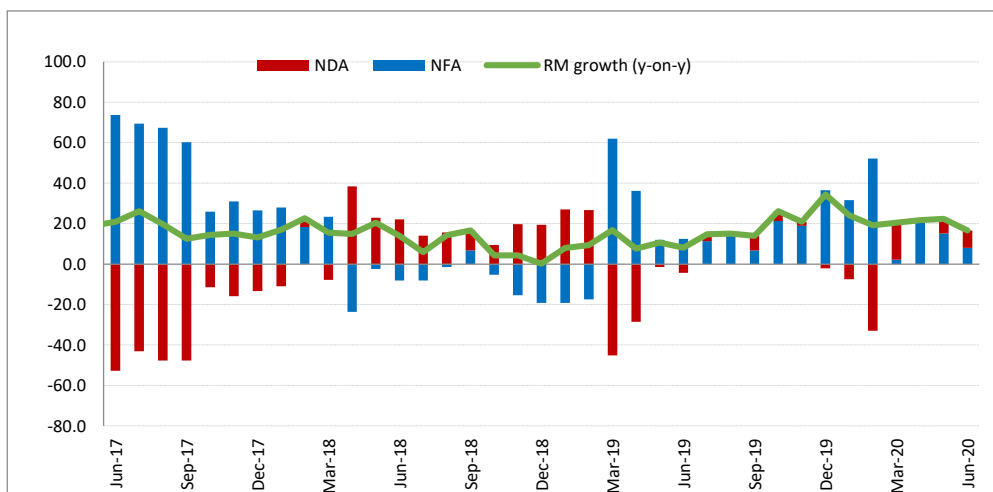


Source: Bank of Ghana Staff Calculations

Reserve Money

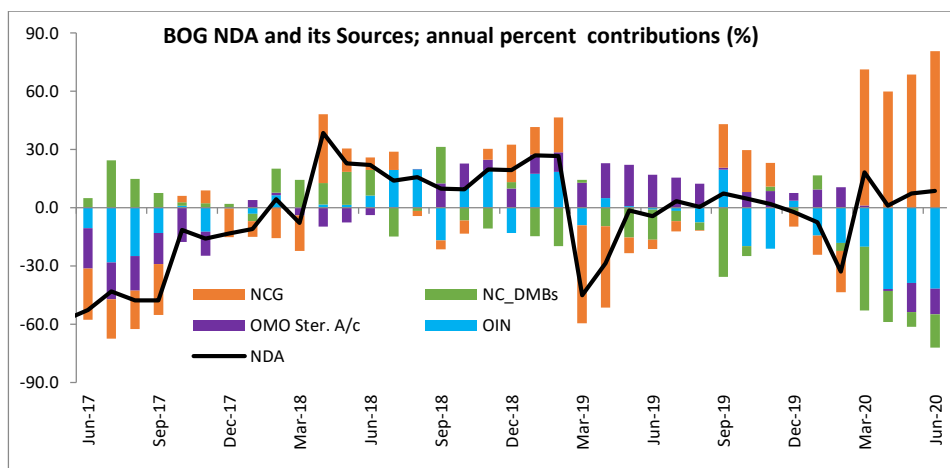
Annual growth in Reserve Money (RM) increased significantly to 16.6 percent in June 2020 compared with 8.1 percent during the corresponding period in a year ago. The sources of change in reserve money shows that growth in RM was strongly influenced by significant growth in NDA of the Bank of Ghana, underscored by considerable increase in the Net Claims on Government and Net Claims on Deposit Money Banks (DMBs). In contrast, growth in the NFA declined relative to what was recorded in the corresponding period of 2019 (Chart 3a, 3b, and Appendix 2).

Chart 3a: RM growth remained strong, underpinned by increased accumulation of NDA (%)



Source: Bank of Ghana Staff Calculations

Chart 3b: BOG NDA driven up by NCG and reduced sterilization

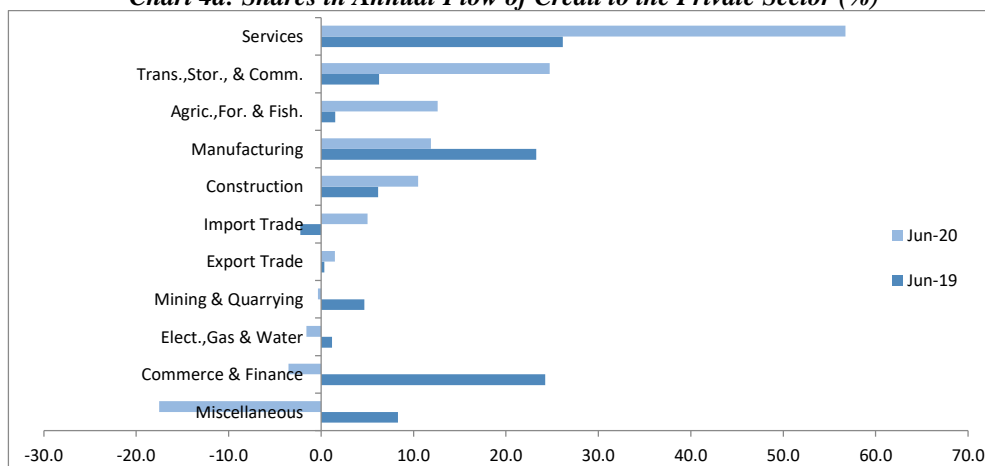


Source: Bank of Ghana Staff Calculations

Deposit Money Banks (DMBs) Credit Developments

DMBs credit to the private sector and public institutions increased by GH¢6,302.72 million (13.77%) on year-on-year basis in June 2020, down from GH¢7,103.35 million (18.37%) in the corresponding period of 2019. Private sector credit accounted for a share of GH¢4,987.39 million (79.1%) compared with GH¢5,789.59 million (81.5%) during the same period in 2019. The flow of credit to the private sector was concentrated in five sub-sectors including: services; transport, storage, and communication; agriculture, forestry & fishing; manufacturing and construction (Chart 4a).

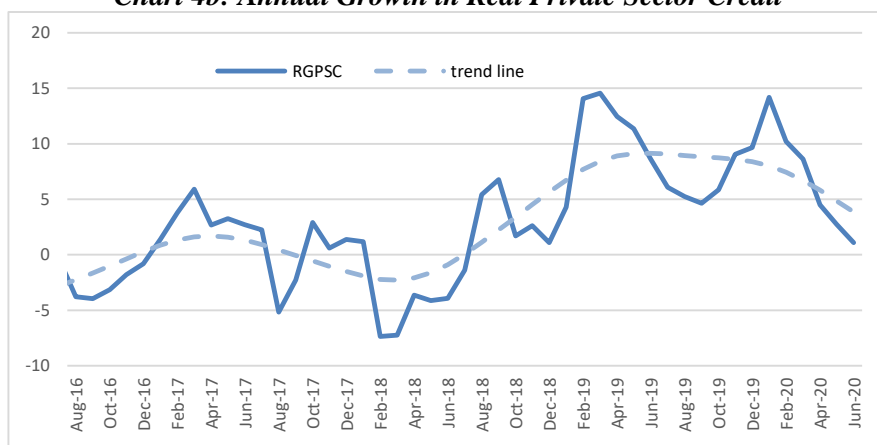
Chart 4a: Shares in Annual Flow of Credit to the Private Sector (%)



Source: Bank of Ghana Staff Calculations

Outstanding credit to the private sector at the end of June 2020 was GH¢45,157.13 million compared with GH¢40,169.74 million last year. In real terms, private sector credit expanded marginally by 1.2 percent compared to 8.6 percent in June 2019, thus, lower than the long-term trend (Chart 4b).

Chart 4b: Annual Growth in Real Private Sector Credit



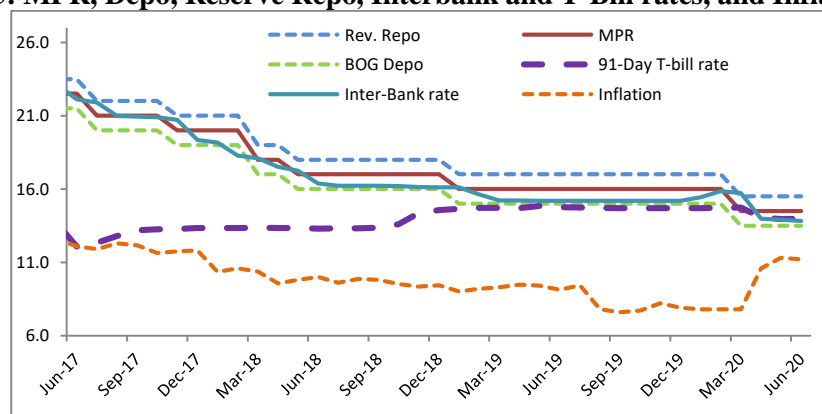
Source: Bank of Ghana Staff Calculations

3.0 Money Market Developments

Monetary Policy Rate, Repo, Interbank, Treasury bill and bond rates, and Inflation

Developments in the money market indicated downward trends in interest rates at the short end of the market, and mixed trends at the medium to long-term segments of the market in June 2020. The weighted average interbank rate declined to 13.82 percent in June 2020 from 15.20 percent in the corresponding period of 2019, reflecting the monetary policy stance. The 91-day Treasury bill rate declined to 13.97 percent in June 2020 from 14.75 percent a year ago. Similarly, the interest rate on the 182-day and 364-day instruments declined to 14.05 percent and 16.87 in June 2020 from 15.23 percent and 17.92 percent respectively in June 2019. The yields on the 2-year, 3-year and 5-year instruments decreased marginally to 18.75 percent, 18.85 percent, and 19.25 percent respectively, from 19.75 percent, 19.70 percent, and 19.75 percent, respectively. Yields on the 6-year, 7-year, 10-year and 15-year bonds remained unchanged at 21.00 percent, 16.25 percent, 19.80 percent, and 19.75 percent respectively, over the comparative periods. The yield on the 20-year instrument was 20.2 percent in June 2020 and remained unchanged since it was issued in August 2019. (Charts 5 and 7).

Chart 5: MPR, Depo, Reserve Repo, Interbank and T-Bill rates, and Inflation (%)



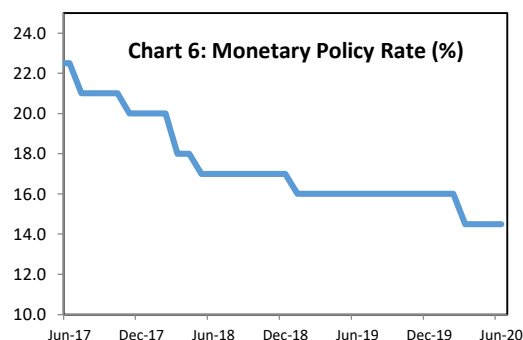
Source: Bank of Ghana

Box 1: RECENT MONETARY POLICY DECISIONS

The MPC at its latest meeting held in July 2020 maintained the MPR at 14.5 percent.

The MPC concluded at its meeting that uncertainties in the global economy has increased, and the spillover of weak global demand conditions on the domestic economy will negatively impact exports, foreign direct investments, remittance flows, and domestic growth conditions.

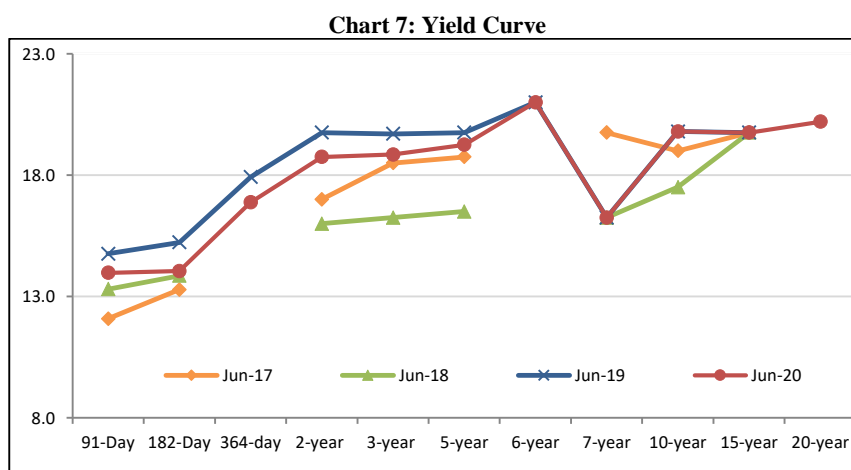
The most recent data on the Ghanaian economy shows that the pandemic has impacted adversely, resulting in a significant growth downturn and higher inflation. All leading indicators of economic activity, international trade, construction, and manufacturing activities declined significantly. More granular data also show that business and consumer confidence, and private sector credit growth even though declined on a year-on-year basis, is beginning to show some modest gains.



The Committee noted that the COVID-19 pandemic has pushed public finances out of the path of fiscal consolidation and the huge financing gap brought about by the expanded deficit could exert pressure on public debt, with long term implications for the economy. While government stimulus package for various sectors of the economy, including micro, small and medium sized enterprises is in the right direction to boost economic activity, the Committee's view was that going forward, the 2021 budget should be focused on instituting measures to return to the fiscal consolidation path with the view to building resilience and strengthening the pillars of the economy for a return to macroeconomic stability.

The Bank's latest forecast shows that inflation is currently above its upper limit, driven mostly by food prices. Adjusting for the unusual noise in the food inflation, the indications are that underlying inflationary pressures are stable. The Bank projects a return of inflation to the medium-term target band by the second quarter of 2021, conditional on corrective fiscal measures being introduced in the near-term.

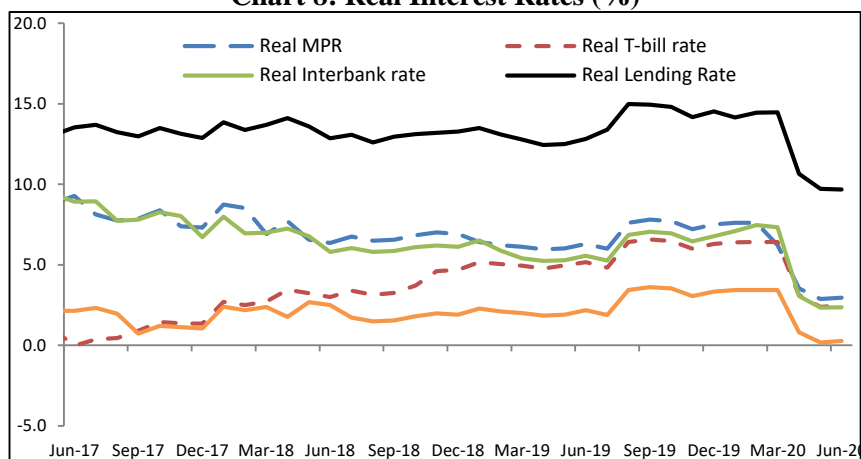
The Committee was of the view that the current extraordinary circumstances, with a widened budget deficit and a residual financing gap, would require some monetary restraint to preserve the anchors of macroeconomic stability. Therefore, the Committee decided to maintain the policy rate at 14.5 percent.



Source: Bank of Ghana

DMBs average lending rates eased downward by 116 basis points from 23.11 percent in June 2019 to 21.95 percent in June 2020. The average rate on 3-month term deposits remained unchanged at 11.50 percent. The general decline in nominal interest rates and the recent jump in inflation pushed real interest rates significantly down.

Chart 8: Real Interest Rates (%)



Source: Bank of Ghana Staff Calculations

4.0 Stock Market Developments

The GSE Composite Index (GSE-CI) closed June 2020 at 1,899.9 points, with a loss of 494.92 points compared with an index level of 2,394.8 points in the same period last year. This development has translated into 20.7 percent contraction in the index in June 2020 compared with 16.8 percent contraction in the corresponding period in 2019. The GSE-Financial Stocks Index (GSE-FSI), the main driver of the overall performance within the period closed at 1,725.04 points, representing a loss of 17.5 percent compared with a loss of 19.1 percent for the corresponding period in 2019.

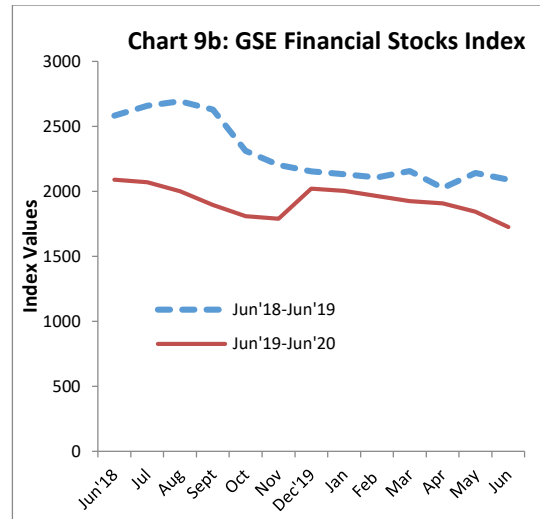
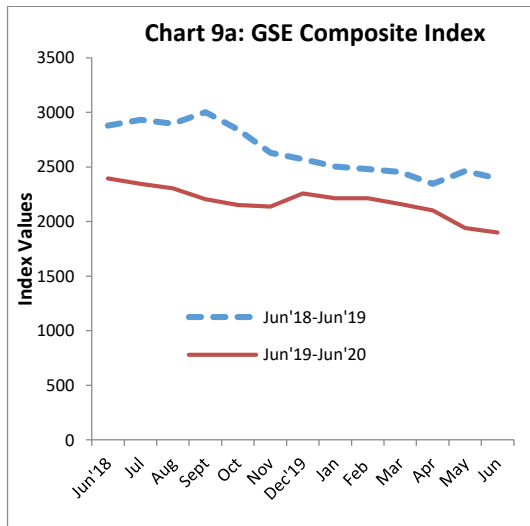
Table 2: Performance of Ghana Stock Exchange

	Jun-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Apr-20	May-20	Jun-20	Changes in June					
										Y-O-Y		Y-T-D		Jun over Mar	
										2019	2020	2020	2019	2020	2020
GSE CI	2879.43	2454.51	2,394.8	2,204.8	2,257.2	2,159.6	2,100.7	1,941.0	1,899.9	-16.8	-20.7	-15.8	-2.4	-12.0	
GSE FI	2582.66	2155.29	2,090.0	1,894.2	2,019.7	1,922.9	1,906.4	1,843.1	1,725.04	-19.1	-17.5	-14.6	-3.0	-10.3	
Market Capitalization	55,280.46	59,750.01	58,729.6	56,251.0	56,791.3	55,985.6	55,200.8	53,542.6	52,950.40	6.2	-9.8	-6.8	-1.7	-5.4	

Source: Ghana Stock Exchange and Bank of Ghana Staff Calculations

Total market capitalisation of the GSE at the end of June 2020 was GH¢53 billion representing a contraction of 9.8 percent (GH¢5.8 billion). This compares with a growth of 6.2 percent (GH¢3.4 billion) in June 2019. The decrease in market capitalisation for the review period reflected declines in the values of most equities on the exchange, especially the financial stocks.

The slowdown in economic activities, coupled with sudden rise in inflation on account of impact of COVID-19 pandemic, would continue to create uncertainties for the bourse in the ensuing months. This may however be offset by the news of the gradual easing of COVID-19 measures and the slow but steady restorations of some of the initial disruptions of logistic chains that affected production.



Data Source: Ghana Stock Exchange

5.0 Conclusion

Recent data indicated that the COVID-19 pandemic has impacted the real sector adversely, resulting in significant growth downturn and higher inflation. Although inflation is currently above its upper limit, it is projected to return to the medium-term target band by the second quarter of 2021. Developments in money supply in the second quarter of 2020 showed that annual growth in broad money (M2+) moderated marginally, consistent with the slowdown in general economic activities. Despite the declining interest rates as well as a reduction in commercial banks' lending rates, real growth in private sector credit was marginal, reflecting moderated demand for credit and elevated default risks on account of COVID-19 pandemic.

Appendices

Appendix 1: Sources of Growth in Total Liquidity (M2+) (millions of Ghana cedis unless otherwise stated)									
	Jun-18	Mar-18	Jun-19	Sep-19	Dec-19	Mar-19	Apr-20	May-20	Jun-20
1 Net Foreign Assets	16,822	28,919	20,607.5	17,394.1	21,293.0	26,544.1	26,593.1	23,949.5	21,888.3
Bank of Ghana	16,197	27,183	18,717.2	16,603.7	20,622.5	27,685.5	26,449.5	23,761.4	20,458.7
Commercial Banks	626	1,736	1,890.3	790.4	670.5	1,141.4	143.6	188.1	1,429.7
2 Net Domestic Assets	51,580	52,918	62,909.6	68,479.0	71,682.5	66,360.9	67,962.9	74,590.5	78,610.6
3 ow: Claims on government (net)	14,834	17,898	25,421.9	33,129.2	34,214.5	42,196.7	43,431.7	49,612.1	53,676.3
4 ow: Claims on Private sector(Incl. PE's)	43,650	50,131	50,623.8	51,859.9	56,819.9	56,450.9	56,730.0	56,923.5	56,800.1
BOG OMO Sterilisation Acc.	- 8,932	- 6,473	- 5,496.9	- 4,854.3	- 4,924.6	- 6,212.5	- 6,404.5	- 8,047.8	- 8,376.9
5 Total Liquidity (M2+)	68,402	81,837	83,517.1	85,873.1	92,975.5	92,905.1	94,556.0	98,540.0	100,498.9
6 ow: Broad Money Supply (M2)	53,390	63,065	63,008.8	64,952.0	69,973.1	71,097.9	71,941.3	75,215.3	76,951.8
7 ow: Foreign Currency Deposits(\$million)	3,319	3,693	3,899.7	3,935.2	4,156.8	4,007.0	4,037.6	4,150.1	4,154.8
Change from previous year (in per cent)									
8 Net Foreign Assets	- 13.4	71.1	22.5	1.9	51.7	- 8.2	14.9	11.4	6.2
9 Net Domestic Assets	27.4	5.0	22.0	20.7	15.0	25.4	17.6	23.9	25.0
10 ow: Claims on government (net)	33.7	30.8	71.4	39.3	24.2	135.8	105.2	101.7	111.1
11 ow: Claims on Private sector(Incl. PE's)	9.7	23.2	16.0	12.2	19.0	12.6	14.6	13.8	12.2
12 ow: BOG OMO Sterilisation Acc.	- 8.2	28.6	38.5	4.3	14.8	4.0	3.8	69.5	52.4
12 Total Liquidity (M2+)	14.2	21.6	22.1	16.3	21.7	13.5	16.8	20.6	20.3
13 Broad Money Supply (M2)	16.6	19.1	18.0	14.5	16.1	12.7	14.8	20.3	22.1
14 Foreign Currency Deposits (FCDs)	6.4	30.5	36.6	22.4	42.6	16.2	23.5	21.4	14.8
Cummulative change from previous year end (in per cent)									
15 Net Foreign Assets	- 18.6	106.0	46.8	23.9	51.7	89.1	89.5	70.6	55.9
16 Net Domestic Assets	13.4	15.1	0.9	9.8	15.0	6.4	9.0	19.6	26.1
17 ow: Claims on government (net)	17.6	35.0	7.7	20.2	24.2	53.2	57.6	80.1	94.8
18 Broad Money(M2+)	3.4	7.1	9.3	12.4	21.7	21.6	23.8	29.0	31.6
Annual per cent contribution to money growth									
19 Net Foreign Assets	- 4.3	17.9	5.5	0.4	9.5	2.9	4.3	3.0	1.5
20 NDA	18.5	3.7	16.6	15.9	12.2	16.4	12.6	17.6	18.8
21 Total Liquidity (M2+)	14.2	21.6	22.1	16.3	21.7	13.5	16.8	20.6	20.3
Memorandum items									
22 Reserve Money	20,259	23,658	21,906	23,028	28,896	28,487	26,747	27,002	25,547
23 NFA (\$million)	3,719	5,689	3,919	3,272	3,848	4,877	4,748	4,261	3,862
24 Currency ratio	0.17	0.16	0.15	0.15	0.18	0.17	0.18	0.17	0.17
25 FCD/M2+	0.22	0.23	0.25	0.24	0.25	0.23	0.24	0.24	0.23
26 FCD/Total Deposit	0.26	0.27	0.28	0.28	0.29	0.28	0.28	0.28	0.27
27 RM multiplier	2.64	2.67	2.88	2.82	2.42	2.50	2.69	2.79	3.01

Appendix 2: Sources of Growth in Reserve Money (millions of Ghana cedis unless otherwise stated)									
	Jun-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Apr-20	May-20	Jun-20
1 Net Foreign Assets (NFA)	16,196.52	27,183.46	18,717.23	16,603.68	20,622.55	27,685.53	26,449.50	23,761.38	20,458.68
2 Net Domestic Assets (NDA)	4,062.81	3,525.26	3,189.07	6,424.16	8,273.47	801.11	297.88	3,240.15	5,088.15
Of which:									
3 ow: Claims on government (net)	4,991.20	3,714.36	4,032.30	9,053.16	8,468.74	12,879.65	12,849.25	18,053.51	21,714.12
4 Claims on DMB's (net)	4,609.95	5,524.16	1,451.64	- 195.28	5,302.04	- 2,256.75	- 963.13	- 1,187.51	- 2,294.88
5 OMO Sterilisation Account.	- 8,932.29	- 6,472.54	- 5,496.89	- 4,854.29	- 4,924.64	- 6,212.52	- 6,404.46	- 8,047.85	- 8,376.85
6 Reserve Money (RM)	20,259.33	23,658.20	21,906.30	23,027.84	28,896.02	28,486.64	26,747.38	27,001.53	25,546.83
7 ow: Currency	9,015.62	11,291.11	10,840.44	11,419.94	14,358.06	13,647.53	14,314.56	14,489.24	14,817.44
8 DMB's reserves	8,876.72	8,045.41	8,372.26	8,940.83	11,850.56	11,925.43	9,301.01	9,493.88	7,720.71
9 Non-Bank deposits	2,366.99	4,321.68	2,693.59	2,667.07	2,687.40	2,913.68	3,131.82	3,018.41	3,008.68
Change from previous year (in per cent)									
10 Net Foreign Assets	-8.18	85.65	15.56	8.87	61.58	1.85	20.77	16.27	9.30
11 Net Domestic Assets	2708.62	-162.92	-21.51	29.93	-5.32	-122.72	286.34	97.91	59.55
12 ow: Claims on government (net)	29.56	-157.07	-19.21	99.47	-17.05	-446.75	-4192.63	521.22	438.50
13 Claims on DMB's (net)	-102.80	-6.27	68.51	102.79	6.32	140.85	137.93	345.71	258.09
14 OMO Sterilisation Account.	-8.17	28.63	38.46	4.32	14.76	4.02	-3.83	-69.50	-52.39
15 Reserve Money (RM)	13.91	16.86	8.13	14.02	34.39	20.41	21.70	22.33	16.62
16 ow: Currency	2.37	13.32	20.24	17.15	20.24	20.87	28.46	31.32	36.69
Cummulative change from previous year end (in per cent)									
17 Net Foreign Assets (NFA)	-4.17	112.99	46.65	30.09	61.58	116.92	107.24	86.18	60.30
18 Net Domestic Assets (NDA)	-11.12	101.95	34.41	17.95	40.74	92.12	78.34	59.67	36.33
19 ow: Claims on government (net)	-17.60	-136.38	-60.50	-11.32	-17.05	26.16	25.86	76.84	112.70
20 Reserve Money (RM)	-5.65	10.03	1.88	7.10	34.39	32.49	24.40	25.58	18.82
Annual per cent contribution to money growth									
21 Net Foreign Assets	-8.12	61.94	12.44	6.69	36.56	2.12	20.70	15.07	7.95
22 Net Domestic Assets (NDA)	22.03	-45.09	-4.31	7.33	-2.16	18.29	1.00	7.26	8.67
23 RM growth (y-o-y)	13.91	16.86	8.13	14.02	34.39	20.41	21.70	22.33	16.62

Source: Bank of Ghana Staff Calculations