BANK OF GHANA
Monetary Policy Report

March 2020

Contents

PREFACE

The Bank of Ghana releases the Monetary Policy Report after each Monetary Policy Committee (MPC) meeting. The Report provides an overview of macroeconomic developments, which served as input for economic assessment during the MPC session. Through the publication, Bank of Ghana aims to promote accountability and transparency in the monetary policy formulation and implementation process.

Monetary Policy in Ghana

The primary objective of the Bank of Ghana is to pursue sound monetary policies aimed at price stability and creating an enabling environment for sustainable economic growth. Price stability in this context is defined as a medium-term inflation target of 8 percent with a band of ±2 percent. This target band is consistent with the objective of attaining the desired long-term average rate of growth for the economy. Other objectives include promoting and maintaining a sound financial sector and payment systems through effective regulation and supervision as spelt out in Bank of Ghana Act 2016 (Act 918, *as amended*. This is important for financial intermediation and effective transmission of monetary policy decisions.

Monetary Policy Strategy

To achieve the objective of price stability, Bank of Ghana was granted operational independence to employ the appropriate policy tools needed to stabilise inflation around the medium-term target. The Bank of Ghana's framework for conducting monetary policy is based on the Inflation Targeting (IT) Framework, which uses the Monetary Policy Rate (MPR) as the key policy tool that provides guidance on the monetary policy stance and also helps anchor inflation expectations.

The MPC Process and Operational Arrangements

The MPC is a statutorily constituted body by the Bank of Ghana Act 2016 (Act 918, *as amended*) to formulate monetary policy. The MPC consists of seven members — five members from the Bank of Ghana, including the Governor who acts as the Chairman of the Committee, and two external members. The MPC meets bi-monthly in the course of the year to assess economic conditions and risks to the inflation and growth outlook. The Committee, after assessing recent economic conditions and taking a forward-looking view of the evolution of key macroeconomic indicators, then votes to position the MPR through a process of consensus-building with each member assigning reasons for the stated or preferred direction of the policy rate. Each interest rate decision provides a signalling of the stance of monetary policy. The MPC meeting dates are determined well in advance and published on the Bank's website at the beginning of each year. In line with the transparency aspects of the framework, the Bank publishes the MPC Press Release after the press conference held at the end of each MPC meeting to communicate and explain the Committee's decisions to the financial markets and the public.

EXECUTIVE SUMMARY

At the January 2020 Monetary Policy Committee meeting, the synchronised slowdown in the global economy had started showing modest signs of recovery. The signing of the Phase I trade deal between the US and China, and a successful UK election in December 2019 contributed significantly to dampen the uncertain policy environment. Though the Coronavirus (COVID-19) had emerged in China at the time of the MPC meeting in January 2020, the impact assessment was uncertain. Since then, COVID-19 has spread beyond China with devastating effects on the global economy.

In particular, COVID-19 has significantly heightened uncertainty in global financial markets, causing a sharp downturn in global stock prices and a steep rise of emerging markets' sovereign bond spreads. These unfolding events have further worsened the pre-existing weaknesses in growth and caused major disruptions to global supply chains with adverse implications for the global economy. Given the scale of disruptions to current economic activity, the potential adverse effects of COVID-19 on growth, along with the sharp fall in commodity prices, will weigh heavily on economic activity in emerging market and frontier economies.

In response, most central banks have cut policy rates, together with other measures, to stabilise global financial markets, given that inflation remains subdued. In addition, major advanced economies have initiated fiscal stimulus packages to minimise the impact of the coronavirus pandemic on the global economy. Several other emerging market and frontier economies have replicated such fiscal and monetary policy measures to protect against the economic ramifications of the pandemic.

The impact of the pandemic on the domestic economy will be severe and transmit through several channels. First, the dampened global demand could significantly impact crude oil export earnings with major implications for foreign exchange inflows and tax revenues. There is also a likelihood of export restrictions from advanced economies and other emerging market economies which could create supply chain shortages for businesses, with significant impact on imports. This is expected to negatively affect inputs in the domestic production channels with severe consequences for growth and tax revenues. In addition, crude oil prices have declined sharply to historically low levels, with negative shocks on exports, albeit with some offsetting effects from rising gold and cocoa prices.

Initial assessments of the Bank show that COVID-19 will negatively impact exports, imports, taxes, and foreign exchange receipts, and culminate in a significant slowdown in economic activity in 2020. GDP growth is forecasted to decline to 5.0 percent in a baseline scenario. Indications are that GDP growth etimates could halve to about 2.5 percent and decline further in the worse case scenario of the COVID-19 impact. Headline inflation has remained in single digits since June 2018, and more recently edged closer to the central path of 8.0 percent. Inflation is forecasted to remain within the medium-target band over the forecast horizon.

Under these circumstances, the Bank of Ghana's MPC lowered the Monetary Policy Rate by 150 basis points to 14.5 percent. In addition, a number of measures aimed at improving liquidity of banks, and, a reduction in the cost of mobile money transactions to households were announced, while committing to monitor developments regarding the impact of COVID-19 on the domestic economy, and take further policy actions when needed.

1. GLOBAL GROWTH AND FINANCING CONDITIONS

(i) Global Growth Trends

Global economic activity was relatively weak during much of 2019 weighed down by trade policy uncertainty. The signing of the Phase I trade deal between the U.S and China and the successful elections in the United Kingdom (UK) in December 2019 had removed some of the uncertainty and signaled the beginning of a recovery that was expected to pickup pace by the first half of 2020.

However, the spread of the COVID-19 beyond China in the first quarter significantly heightened uncertainty in global financial markets, causing a sharp downturn in global stock prices and a steep rise in emerging markets' sovereign bond spreads. The prolonged presence of these factors, along with the public health measures to contain the spread of the virus has disrupted global supply chains and weighed heavily on business confidence, investment spending and economic activity.

An initial assessment by the Organization of Economic Cooperation and Development (OECD) suggests that global growth could slow by about 0.5 percent in 2020, given the scale of disruptions to current economic activity. The slowdown could be steeper in a worse case scenario, if public health counter measures implemented by various governments fail to stem the spread of the disease in the near-term.

In emerging market and frontier economies, the potential adverse effects of COVID-19 on global growth, along with the sharp fall in commodity prices, will weigh heavily on economic activity. In addition, the sharp increase in global financial conditions as a result of the rise in uncertainty will further weigh on economic activity. However, it is expected that the monetary and fiscal stimuli being implemented by various governments across the globe will reduce the severity of the potential slowdown in global growth.

(ii) Fourth quarter provisional GDP growth outturn

The **US** economy grew by an annualized 2.3 percent in the fourth quarter of 2019, a 0.2 percent higher than the 2.1 percent recorded during the previous three-month period. The rebound reflects a strong labour market, resilient consumer spending, supportive financial conditions and stronger-than-expected trade and residential investment. However, continuing uncertainty weighed on non-residential investment. Looking ahead, growth in the US is expected to weaken reflecting the increasing uncertainty and the effects of the public health measures implemented to contain the spread of the COVID-19.

Activity in the **UK** was flat in the fourth quarter after rebounding by 0.5 percent in the third quarter of 2019, weighed down by a drop in household consumption expenditure and fixed capital formation. Net trade and government expenditure contributed positively to growth. Looking ahead, the negative effects of the prolonged Brexit negotiations will continue to weigh on private investment and activity in the near-term. In addition, the containment measures announced by the Prime Minister regarding the spread of COVID-19 as well as the potential slowdown in global growth would combine to dampen growth in the near-term.

In the **Euro area**, economic activity grew by 0.1 percent in 2019Q4, a 0.2 percentage drop compared to the previous quarter. The modest growth was supported by an accommodative monetary policy stance, relatively strong labour market data, moderate pickup in wages and supportive financial conditions. However, the effects of these positive developments were partially offset by softening global growth dynamics and weak international trade. Looking ahead, the uncertainties associated with the COVID-19 pandemic are likely to weigh on activity in the Euro area. However, the prevailing accommodative monetary policy stance will continue to support private consumption and business investment. Growth in the

Euro area is expected to end the year at 1.2 percent according to the IMF.

Japan's economy shrank by 1.8 percent in 2019Q4, compared to a 1.6 percent contraction during the third quarter. Activity was affected negatively by the sales tax hike in October which weighed heavily on consumption and investment spending. Government spending and net trade contributed positively to growth but was not enough to offset the effects of the sales tax hike. Japan's economy is expected to be hit further by the spread of COVID-19 in the near-term.

Economic activity in **China** expanded by 1.5 percent quarter-on-quarter in 2019Q4 up from 1.4 percent in the third quarter. This representing an annualised growth rate of 6 percent. China's economy has been hit the hardest by the spread of COVID-19. In addition, the spread of the virus beyond China and the public health measures implemented by the various governments to contain it, may further slow global growth and weigh on China's exports. The IMF estimates that the Chinese economy will slow by 0.4 percent to 5.6 percent in 2020. The slowdown could be deeper in a worst-case scenario. However, the recent shift towards expansionary monetary and fiscal policy is expected to strengthen domestic demand. In addition, the Phase 1 deal with the US should ease the effects of trade tensions on economic activity.

According to the IMF, economic activity in **Emerging Market and Developing Economies (EMDEs)** will rise from 3.7 percent in 2019, to 4.4 percent in 2020, supported by the fragile recovery in stressed emerging market economies. However, the spread of COVID-19 is expected to adversely affect global growth and delay any expected recovery in EMDEs. In addition, the sharp drop in oil price will adversely affect the fiscal and external positions of commodity exporting countries. This may slow the already fragile recovery in commodity exporting countries.

Sub-Saharan African (SSA) growth will end 2020 at 3.3 percent, a 0.1 percent higher than the previous year, according to the IMF's January 2020 WEO update reflecting challenging external conditions, continued output disruptions in oil exporting countries, weaker than anticipated growth in South Africa. Downside risks to growth in SSA include a downturn in commodity prices, and increasing uncertainties associated with the spread of COVID-19. In addition, a slower-than-expected growth in China and the Euro area, which have strong trade and investment links to SSA, could adversely affect the region's export demand and investment. Domestically, country specific risks such as fiscal slippages, political uncertainty, domestic conflict and adverse weather conditions could also dampen growth prospects.

(iii) Accommodative monetary policy stance to contain COVID-19 impact

In response to the low inflation environment alongside slowdown in economic activity, central banks in major advanced economies have pursued accommodative monetary policy to ease the emerging tightness in financing conditions. For instance, the US Federal Reserve slashed its policy rate by 150 basis points to a range of 0.0-0.25 percent and introduced liquidity measures to ease financing conditions. Other central banks in advanced as well as emerging market and frontier economies have also cut their policy rates to contain the effects of COVID-19 on their economies.

(iv) Global Outlook

The global growth outlook was on a gradual recovery prior to the COVID-19. However, an initial assessment by the OECD indicated that the COVID-19 pandemic has caused a major economic disruption in global supply chains, travel, and commodity markets. Growth prospects remain uncertain and initial assessments show that global growth could drop by some 0.5 percent to 2.4 percent in 2020. A prolonged COVID-19 crisis could further global growth to 1.5 percent in 2020.

2. BALANCE OF PAYMENTS

(i) Trade balance remains positive

The value of merchandise exports for January to February 2020 was provisionally estimated at US$2,755.5 million, indicating a year-on-year increase of 3.4 percent. Of the total, exports of cocoa beans and products amounted to US$679.7 million, registering a 21.7 percent year-on-year growth from US$558.4 million in the first two months of 2019. Gold exports amounted to US$985.91 million, up by 5.7 percent in year-on-year terms, on account of favourable prices. The average realized gold price increased by 20.8 percent to settle at US$1,576.2 per fine ounce. Crude oil exports however declined by 6.6 percent to US$681.8 million, from US$730.0 million recorded in 2019 primarily due to a price effect on account of weaker global demand arising from COVID-19 and other geopolitical factors. Other exports, comprising non-traditional exports and other minerals, was estimated at US$370.0 million, indicating 8.8 percent decline year-on-year, compared to US$405.9 million recorded during the same period in 2019.

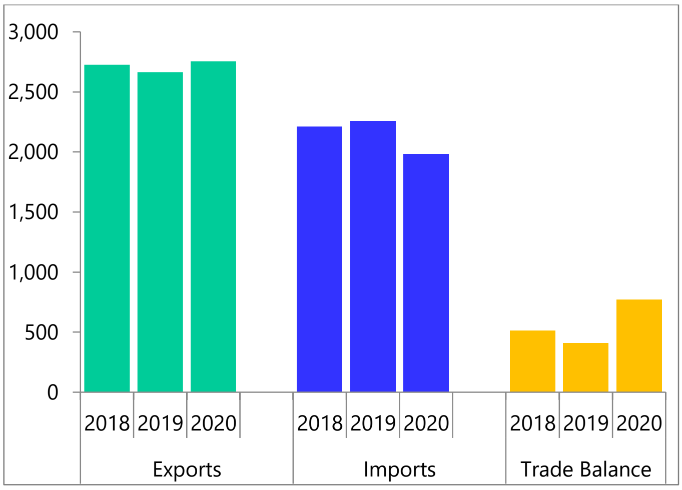
The estimated total value of merchandise imports for the period January to February 2020 declined by 12.5 per cent to US$1,975.5 million, from the US$2,258.0 million recorded in 2019. This was driven by disruptions in global supply chains on account of COVID-19.

The sharp decline in import growth, together with a modest growth in exports, mainly from gold and cocoa products, resulted in a provisional surplus of US$781.6 million compared to a surplus of US$407.5 million recorded for the same period in 2019. This outturn was on account of improvements in exports receipts.

(ii) Gross International Reserves

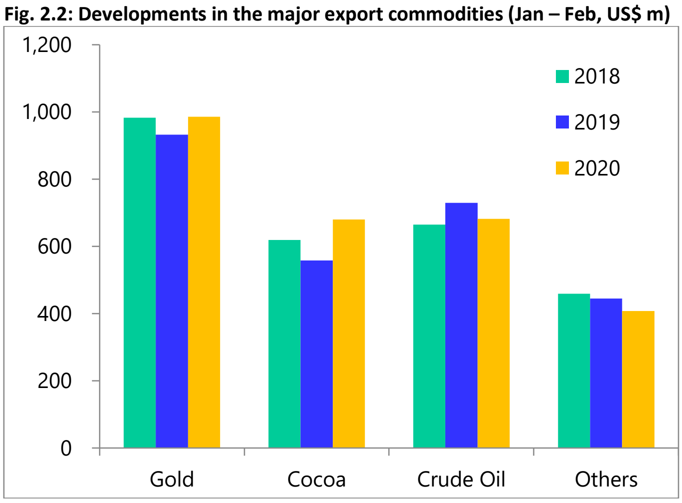
The country's gross international reserves stood at US$10,036.75 million, equivalent to 4.8 months of imports cover, at the end of February 2020, from a stock position of US$8,418.08 million at end December 2019.

Fig. 2.1: Trade account remains positive (Jan – Feb, US$ m)



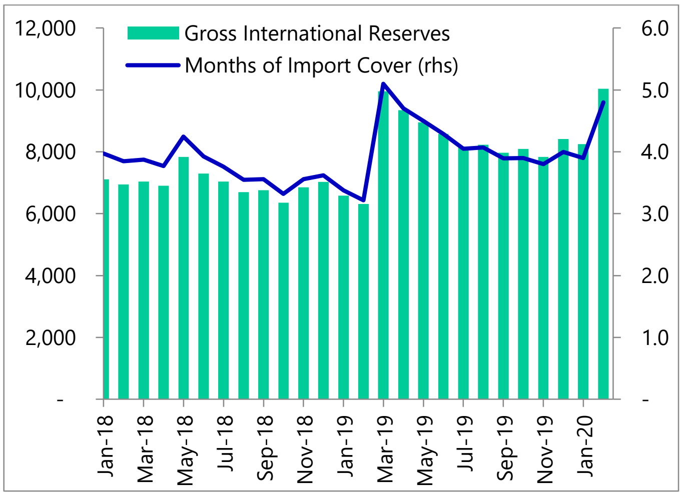
Source: Bank of Ghana

Fig. 2.2: Developments in the major export commodities (Jan – Feb, US$ m)



Source: Bank of Ghana

Fig. 2.3: Gross International Reserves (US$ m)



Source: Bank of Ghana

(iii) Favourable commodity prices

Cocoa futures added to the gains made in January 2020 with prices increasing by 5.7 percent to trade at US$2,825.90 per tonne. The price increase was triggered by threats of dry weather in top growers, Ivory Coast and Ghana. This stoked concerns about the main crop season and pushed up prices.

Brent crude oil continued to suffer losses in February 2020 mainly on the back of the Coronavirus pandemic. On average, crude oil traded at US$55.5 per barrel, a 12.8 percent decrease from the US$63.7 per barrel recorded in January 2020. Prices also suffered from the ongoing oil price war between Russia and Saudi Arabia, alongside weak demand as the COVID-19 spread across several countries.

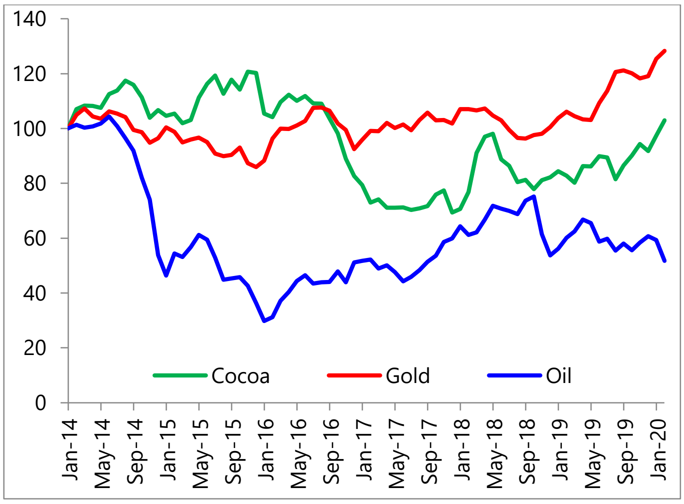
Spot gold prices continued to rise supported by global fundamentals. The yellow metal edged higher by 2.3 percent to close at US$1,596.81 per fine ounce in February 2020 compared to the average price of US$1,560.74 per fine ounce in January. Gold traded above US$1,500.00 per fine ounce over the first two months in 2020, reaching a high of US$1,670.58 per fine ounce. Gold prices benefitted from the safe-haven appeal by investors due to concerns over the devastating global economic fallout from the COVID-19 pandemic.

(iv) Commodities price outlook

Cocoa prices are likely to firm up in response to the dry weather conditions previling in Cote d'Ivoiure and Ghana - the two world's largest producers. There are emerging concerns about the willingness of OPEC+ to extend production cuts as Russia, key to any deal, is yet to announce its position on further cuts. In addition, investors remain wary that the world's oil demand could further decline as the spread of COVID-19 intensifies. These sentiments pose a gloomy outlook for oil prices.

Moving forward, market fundamentals remain bullish for gold as the COVID-19 pandemic has heightened fears of global recession, increasing the likelihood that the US Federal Reserve will be pressed to cut rates further to cushion the global impact.

Fig. 2.4: Trends in Ghana's main export commodities
Commodity Price Index (January 2014=100)



Source: Reuters & Bank of Ghana Computation

3. EXCHANGE RATE DEVELOPMENTS

(i) International and domestic currency market developments

The US dollar strengthened against the Euro, the British Pound, and the Japanese yen during the first quarter of 2020 reflecting flight to safety. The uncertainty associated with the spread of COVID-19 beyond China made US assets more attractive to investors. The outflows into dollar assets and the resulting strengthening of the US dollar led to increased pressure on currencies of emerging market and developing economies, with possible adverse implications for debt service costs in countries with sizable FX debt.

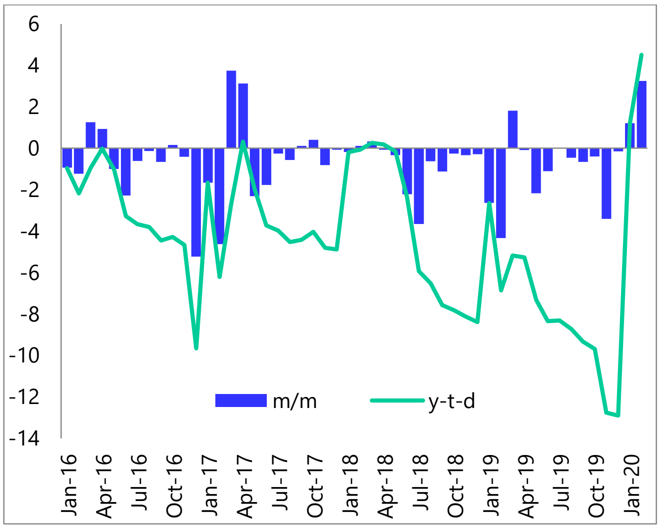
On the domestic currency market, the Ghana Cedi appreciated by 3.9 percent during the first 52 transaction days of 2020 reflecting supportive macroeconomic conditions and inflows from the Eurobond, mining, and oil sectors. In the year to February 2020, the Ghana Cedi cumulatively appreciated by 4.5 percent, compared with 6.9 percent depreciation during the same period in 2019. Against the British pound and Euro, the Ghana cedi cumulatively appreciated by 7.8 percent and 7.0 percent respectively, compared with 2.1 percent and 1.7 percent depreciation over the same periods in 2019.

In the outlook, the Ghana Cedi is expected to remain relatively stable supported by the dovish posture of major central banks in advanced economies, improving macro fundamentals and inflows from the Eurobond.

(ii) Nominal and Real Effective Exchange Rate Movements

On a year-to-date basis, the cedi appreciated by 5.8 percent and 4.5 percent in nominal trade and forex transactions weighted terms respectively, compared to 6.9 percent and 7.5 percent depreciation over the same period in 2019. In real terms, the cedi appreciated by 3.6 percent, 2.2 percent and 1.4 percent against the Euro, the British Pound and the dollar respectively, on a year-to-date basis. Also, the Cedi appreciated by 3.2 percent in real trade weighted terms and by 1.6 percent in forex transaction weighted terms, in the year-to-January 2020.

Fig. 3.1: Month-on-month Cedi depreciation (per USD) (dep. - /appr. +, %)



Source: Bank of Ghana

Table 3.1: Real Effective Exchange Rate Movements

	INDEX (2011=100)		Monthly Change (%)		Year-to-Date (%)	
	RFXTWI	RTWI	RFXTWI	RTWI	RFXTWI	RTWI
Jan-19	34.44	37.23	-1.1	-0.2	-1.1	-0.24
Feb-19	33.08	35.82	-4.1	-4.0	-5.3	-4.21
Mar-19	33.80	36.88	2.14	2.89	-3.0	-1.20
Apr-19	33.86	36.86	0.18	-0.1	-2.8	-1.27
May-19	33.49	36.61	-1.1	-0.7	-4.0	-1.96
Jun-19	33.42	36.02	-0.2	-1.6	-4.2	-3.61
Jul-19	33.56	37.18	0.42	3.12	-3.8	-0.37
Aug-19	33.54	37.34	-0.1	0.42	-3.8	0.05
Sep-19	33.31	37.22	-0.7	-0.3	-4.6	-0.28
Oct-19	33.10	36.34	-0.6	-2.4	-5.2	-2.71
Nov-19	32.14	35.73	-3.0	-1.7	-8.3	-4.44
Dec-19	32.05	35.12	-0.3	-1.8	-8.6	-6.27
Jan-20	32.58	36.27	1.61	3.18	1.61	3.18

RFXTWI - Real Foreign Transactions (purchases and sales) Weighted Index

RTWI - Real Trade (exports + Imports) Weighted Index

Source: Bank of Ghana computations

4. MONETARY AND FINANCIAL DEVELOPMENTS

(i) Reserve money increased

Annual growth in reserve money was 19.1 percent in February 2020, compared with 9.3 percent in February 2019. The significant jump in reserve money was on account of considerable expansion in Net Foreign Assets (NFA) of the central bank. NFA expanded by 102.8 percent compared with 23.9 percent contraction in the same comparative periods, reflecting inflows from the Bank's foreign exchange operations, cocoa inflows, and proceeds from the Eurobond issuance. Net Domestic Assets, on the other hand, contracted sharply by 66.9 percent in February 2020 compared to 98.2 percent growth in February 2019. The significant contraction in NDA was largely attributable to the contraction in the net claims on Government and claims on the rest of the economy.

(ii) Money supply growth moderates

Provisional data on broad money supply (M2+) indicated some moderation in the pace of growth in January 2020. Annual growth in M2+ slowed to 16.6 percent from 19.6 percent in January 2019 (Fig 4.2). The M2+ growth was driven by both Net Foreign Assets and Net Domestic Assets. In terms of components, the growth in M2+ was mainly reflected in currency outside banks and foreign currency deposits.

(iii) Private sector credit slows

Deposit Money Bank's private sector credit growth slowed to 18.8 percent to GH¢45.3 billion in February 2020 compared with 21.8 percent growth in February 2019. In real terms, private sector growth was 10.2 percent at the end of February 2020. (Fig. 4.3). The flow of credit to the private sector was dominated by Services with 24.7 percent share, followed by Commerce and Finance with 18.8 percent, and Manufactring with 10.7 percent of the total.

In line with the growth in private sector credit, Bank of Ghana's latest credit conditions survey conducted in February 2020, pointed to a net tightening of credit stance on loans to enterprises. The survey findings indicated that credit conditions were likely to remain tight over the next two months. Although loans to households eased during the survey period, the survey results suggested some marginal tightening of credit stance over the next two months, subject to the economic impact of the coronavirus pandemic.

Fig. 4.1: Reserve money growth and Sources of Change (y/y, %)

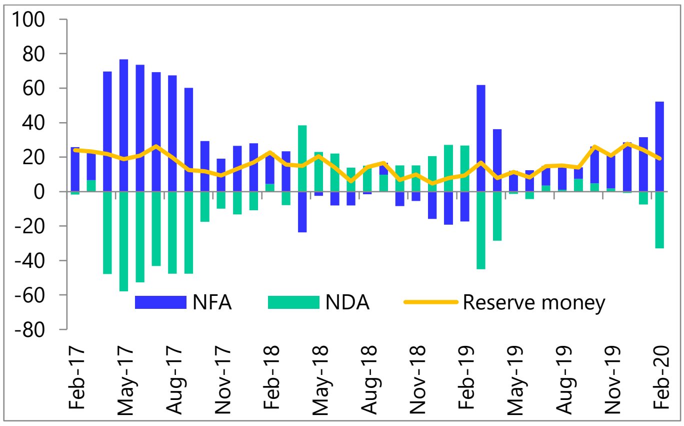


Fig. 4.2: Broad money supply (M2+) components (y/y, %)

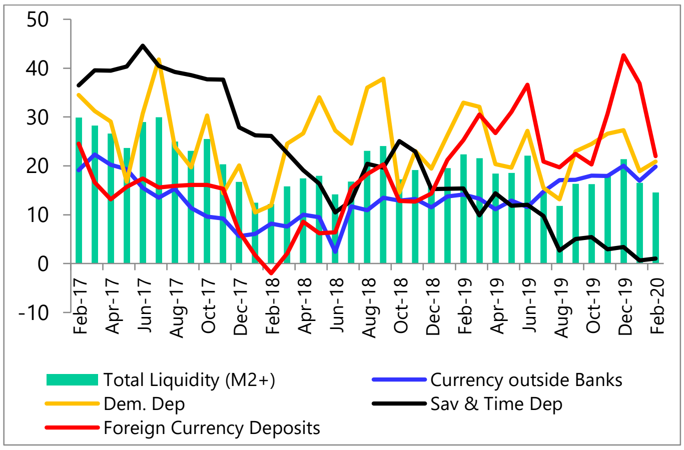
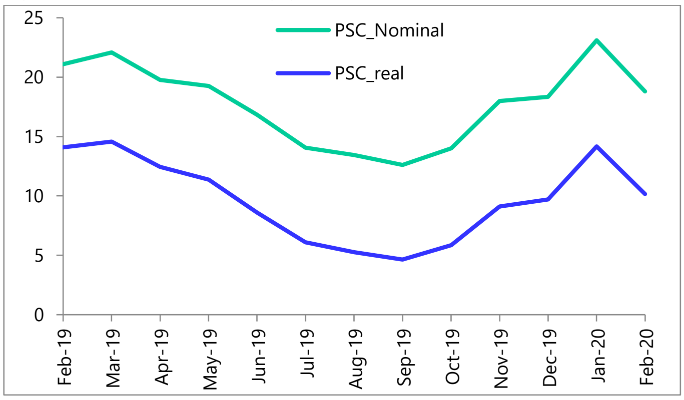


Fig. 4.3: Private sector credit (y/y, %)



Source: Bank of Ghana

(iv) Money market developments

Money market interest rate developments reflected mixed trends in January 2020. Rates on BOG bills, Deposit Money Banks (DMBs) deposits, and lending marginally declined, whereas rates on GOG securities increased in comparison to the same period in 2019.

Interest rates remained broadly stable across the spectrum of the money market in the first two months of 2020. On the treasury market, the 91-day Treasury bill rate remained unchanged at 14.7 percent. Rates on the 182-day instrument increased marginally to 15.2 percent from 15.1 percent a year ago. Interest rates on the secondary bond market also remained broadly stable with the 7-year and 15-year bonds yields unchanged at 16.3 percent and 19.8 percent respectively over the review period, while the yield on the 10-year bond has remained unchanged at 19.8 percent since June 2019. (See Fig. 4.4).

(v) Deposit Money Banks' interest rates

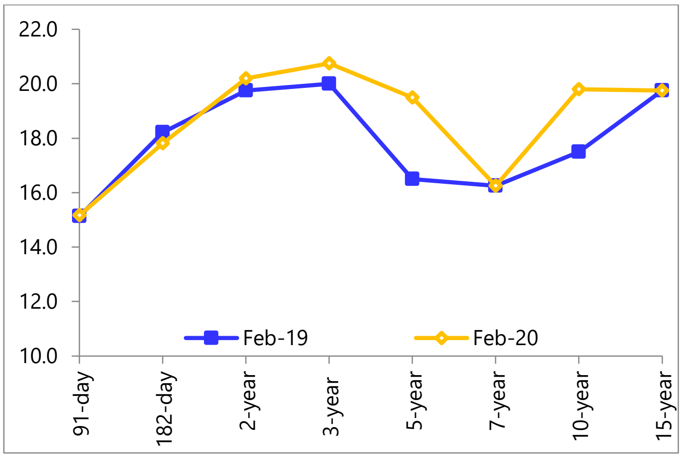
The average interest rate on the DMB's 3-month time deposits remained at 11.5 percent in February 2020 same as recorded a year ago. Similarly, savings deposit rates were stable at 7.7 percent. Average lending rates of banks marginally declined to 23.4 percent in February 2020 percent from 23.5 percent recorded in the corresponding period of 2019.

The weighted average interbank lending rate increased to 15.9 percent in February 2020 from 15.6 percent in February 2019, reflecting constrained supply of central bank liquidity to the market and increased trading among banks.

(vi) Stock market activity

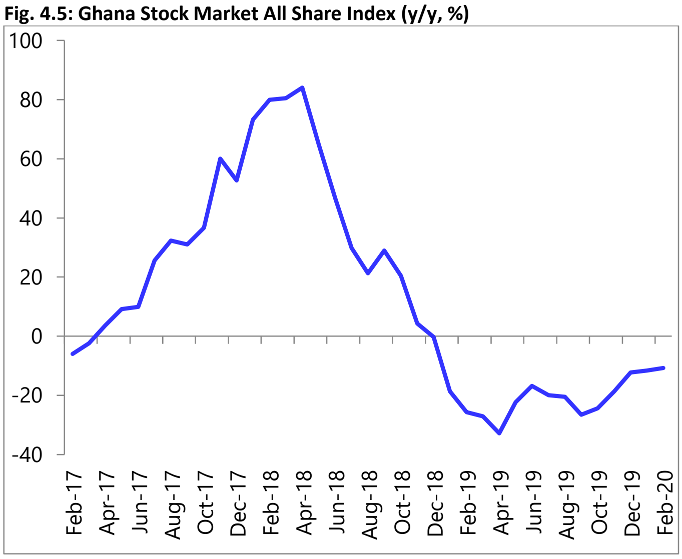
The Ghana Stock Exchange (GSE) recorded some marginal recovery though trading activity remained in the negative territory. The Composite Index (GSE-CI) contracted by 10.8 percent year-on-year in February 2020 compared with a 25.7 percent contraction in the same period last year (see Fig. 4.5). This was underscored by weak performance of equities in the Finance, Manufacturing, and Food & Brewery sectors which impacted market capitalization negatively. On a year-to-date basis, total market capitalization declined by 5.8 percent to GH¢56.5 billion in February 2020. In terms of market activity, the volume of traded shares was 29.22 million and valued at GH¢20.03 million. This compared with 6.7 million traded shares and valued at GH¢22.52 million in February 2019.

Fig. 4.4: Yield curve (%)



Source: Bank of Ghana

Fig. 4.5: Ghana Stock Market All Share Index (y/y, %)



Source: Ghana Stock Exchange

5. INFLATION AND GROWTH

Headline inflation has remained in single digits since June 2018, and more recently edged closer to the central path of 8.0 percent.

(i) Headline inflation below central path

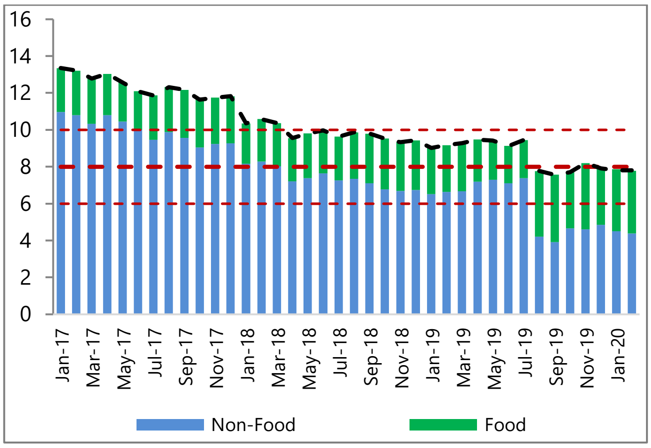
Headline inflation was 7.8 percent in February 2020, unchanged from January 2020. This was supported by a decline in non-food inflation, while food inflation edged up slightly. Food inflation went up marginally to 7.9 percent in February from 7.8 percent a month ago, driven mainly by a pick up in prices of fruits and fish sub-categories. The uptick in food inflation was however offset by a decline in non-food inflation to 7.7 percent from 7.9 percent over the same comparative period. The decline in non-food inflation was influenced by price drops in the transport, and housing and utilities sub-categories.

The weighted inflation expectations from the consumer, business, and banking sector surveys declined in the February survey round while core inflation remained broadly unchanged since the January 2020 MPC meeting, indicating stable underlying inflationary pressures.

(ii) Latest inflation forecast

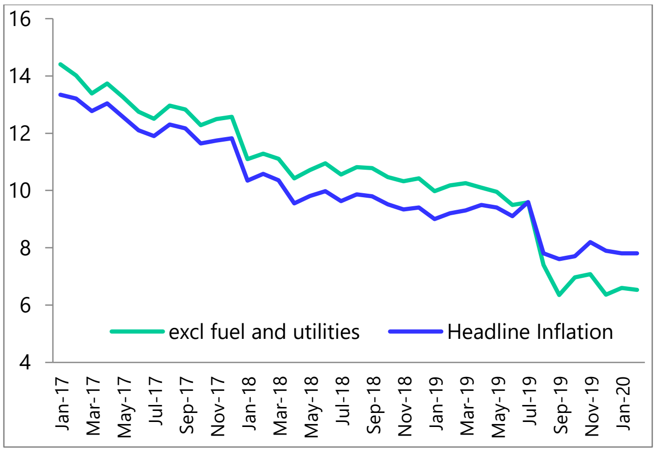
Available data on headline inflation, exchange rate, and developments in foreign inflation, foreign output gap and the new path of foreign interest rates following the sharp policy rate cuts in the US in response to COVID-19 were incorporated to the baseline forecast. Following the data update, inflation is still projected to remain within the medium-term target band of 8±2 percent over the forecast period (see Fig.5.3).

Fig. 5.1: Contribution to headline inflation (y/y, %) [Rebased CPI from August 2019]



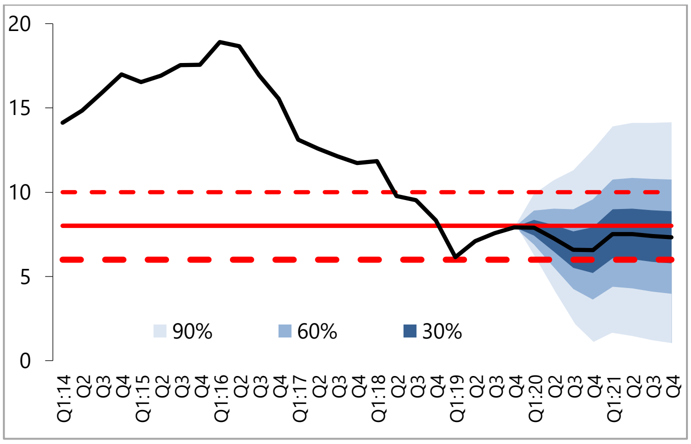
Source: Ghana Statistical Service and Bank of Ghana computations

Fig. 5.2: Core inflation (%)



Source: Bank of Ghana

Fig. 5.3: Fan chart - Inflation forecast



Source: Bank of Ghana

(iii) Risks to the inflation outlook

Risks to the inflation outlook were broadly balanced over the forecast horizon. Declining crude oil prices on account of weak global demand, and accommodative monetary policy by central banks are expected to dampen inflationary pressures in the outlook. The main downside risks to the inflation outlook are reduction in ex-pump prices of petroleum products, recent stability in the exchange rate, and dampened underlying inflation as both core inflation and weighted inflation expectations trend downwards.

On the upside, the risks to inflation are underscored by the global supply disruptions on account of COVID-19. This will likely compress imports and possibly push up domestic prices of intermediate and consumption imported goods, going forward. Another potential upside risk include fiscal pressures which would emerge over the medium-term on account of the implementation of various stimulus packages to dampen the economic and social implications of the COVID-19.

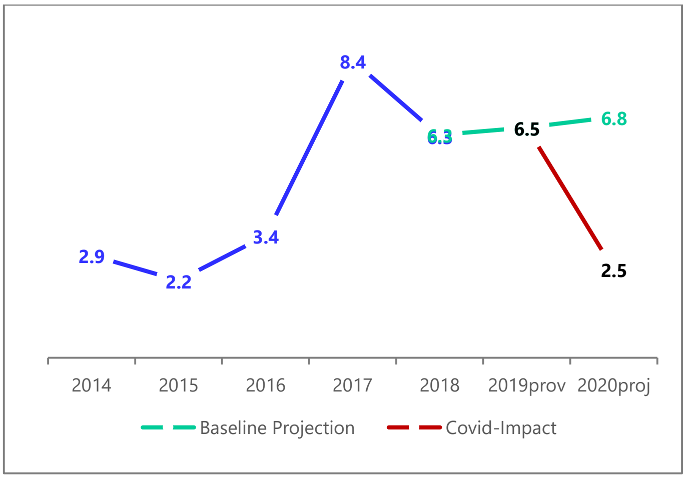
(iv) Domestic economic activity

The January 2020 update of the Bank of Ghana Composite Index of Economic Activity (CIEA) showed evidence of slower pace of economic activity. The index grew by 2.4 percent in January 2020, compared to 6.4 percent a year ago. The marginal growth in the CIEA was attributed mainly to DMB's Credit to the Private Sector and Domestic VAT.

In contrast to the strong growth outcomes in recent year, the outbreak of COVID-19 and its disruptive effects on economic activity is set to affect the growth outlook for 2020. Among others, the dampened global demand could significantly impact Ghana's crude oil export earnings with major implications for foreign inflows and tax revenues. There is also a likelihood of export restrictions from advanced economies and other emerging market economies which could create supply chain shortages for Ghanaian businesses, with significant impact on imports of intermediate and capital goods, as well as consumption goods. This is expected to negatively affect inputs in the domestic production channels with severe consequences for growth and tax revenues which could become more pronounced by the second or third quarter. In addition, crude oil prices have declined sharply to historically low levels, and already creating negative shocks on exports, albeit with some offsetting effects from rising gold and cocoa prices.

Initial assessment by the Bank shows that the negative impact of COVID-19 on exports, imports, taxes, and foreign exchange receipts will culminate in a slowdown in GDP growth to 5.0 percent in a baseline scenario from 6.8 percent expected before the outbreak. This assumes only a moderate slowdown in global growth and a recovery in crude oil prices to an average of US$45 per barrel with no outbreak and no significant public health counter measures implemented in the country. Assuming global recession, lower crude oil prices, reduced tourism activity, reduced domestic economic activity due to social distancing, among others, GDP growth estimates could be halved to about 2.5 percent in 2020, and could decline further in the worst case scenario. These assessments are preliminary as the situation is very fluid and the degree of uncertainty concerning the outbreak is very high. Therefore, there is a likelihood that these assessments could change rapidly. (See Fig. 5.4). In particular, growth may weaken further depending on the severity of the pandemic and policies taken to combat it , including full blown lockdown of the country.

Fig. 5.4: COVID-19 impact on GDP growth (y/y, %)



Source: Bank of Ghana Computation

(v) Consumer sentiments improved

The Consumer Confidence survey conducted in February 2020 reflected some consumer optimism about the economy. The consumer confidence index improved to 100.7 in February 2020 from 98.8 in December 2019. The pickup was driven by slower movement in consumer prices, improvement in current economic situation, current household finances as well as consumer willingness to purchase household durables. (see Fig 5.5).

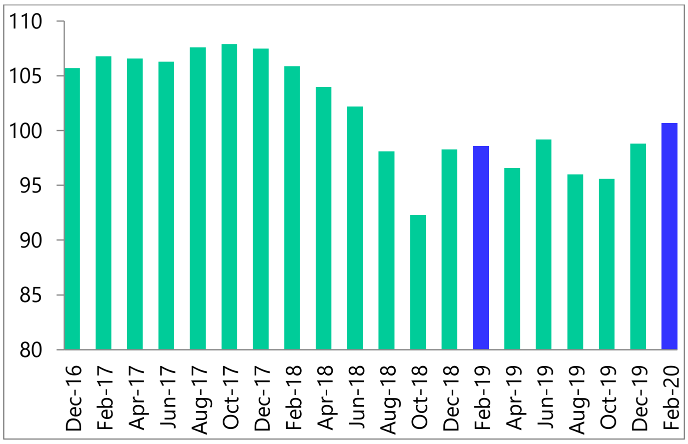
(vi) Business confidence improved

Similar to the consumer confidence survey outturn, the Business Confidence Index rose to 101.4 in February 2020, from 96.6 in December 2019. (see Fig 5.6). The improvements in business sentiments was largely influenced by the relative exchange rate stability as the Cedi appreciated against the trading currencies over the period. Other factors included favourable company prospects, positive industry prospects, and slower pace in the movement of prices.

(vii) MPC lowers policy rate

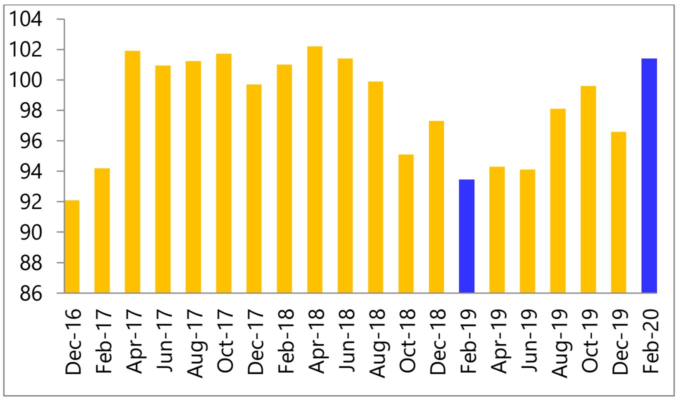
In taking the policy decision, the MPC noted the imminent risks posed by the COVID-19 on domestic economic activity and decided to reduce the policy rate from 16.0 percent to 14.5 percent. The initial assessments of COVID-19 on economic conditions were deemed preliminary, given that the high degree of uncertainty concerning the outbreak at the time of the MPC meeting. The MPC further announced other macro-prudential policies to ease liquidity conditions to enable banks provide the needed financial support to the economy. In particular, the primary reserve requirement, capital adequacy ratio, and capital conservation buffer were eased to enable banks support economic activity. Measures aimed at reducing the cost of mobile money transactions to households were similarly announced.

Fig. 5.5: Consumer sentiments improved



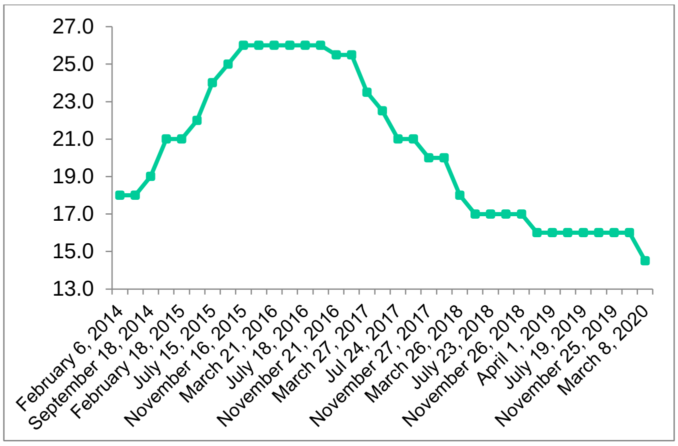
Source: Bank of Ghana Survey

Fig. 5.6: Business Confidence Index



Source: Bank of Ghana Survey

Fig. 5.7: Monetary Policy Rate lowered from 16% to 14.5%



Source: Bank of Ghana

ANNEXES

	Headline Inflation (%)			Monthly Changes in CPI (%)		
	Combined	**Food**	**Non-food**	**Combined**	**Food**	**Non-food**
Dec-16	**15.4**	**9.7**	**18.2**	**0.9**	**1.2**	**0.8**
Dec-17	**11.8**	**8.0**	**13.6**	**1.0**	**1.3**	**0.9**
Dec-18	**9.4**	**8.7**	**9.8**	**1.1**	**1.3**	**1.0**
2019						
Jan	9.0	8.0	9.5	1.0	1.5	0.8
Feb	9.2	8.1	9.7	1.0	1.2	0.9
Mar	9.3	8.4	9.7	1.2	1.3	1.1
Apr	9.5	7.3	10.4	1.1	0.1	1.5
May	9.4	6.7	10.6	0.9	0.6	1.0
Jun	9.1	6.5	10.3	0.8	0.8	0.8
Jul	9.4	6.6	10.7	0.6	0.4	0.7
Aug	7.8	8.2	7.4	0.5	1.0	0.1
Sep	7.6	8.5	7.0	-0.1	-0.3	0.2
Oct	7.7	7.0	8.2	0.3	-1.3	1.6
Nov	8.2	8.4	8.0	0.7	1.1	0.4
Dec	7.9	7.2	8.5	0.3	-0.6	1.0
2020						
Jan	7.8	7.8	7.9	1.4	2.3	0.8
Feb	7.8	7.9	7.7	0.4	0.5	0.4

Source: Ghana Statistical Service

CPI Components (%)	Weghts (%)	2018 Dec	2019 Jan	Mar	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2020 Jan	Feb
Overall	100.0	9.4	9.0	9.3	9.1	9.4	7.8	7.6	7.7	8.2	7.9	7.8	7.8
Food and Beverages	43.9	8.7	8.0	8.4	6.5	6.6	8.2	8.5	7.0	8.4	7.2	7.8	7.9
Non-food	56.1	9.8	9.5	9.7	10.3	10.7	7.4	7.0	8.2	8.0	8.5	7.9	7.7
Alcoholic Beverages, Tobacco	1.7	8.4	8.3	8.4	9.9	10.3	12.9	12.2	13.2	13.4	13.5	11.1	11.6
Clothing and footwear	9.0	13.0	12.8	13.3	15.2	14.9	6.6	6.1	7.4	6.8	6.7	7.2	8.5
Housing and Utilities	8.6	3.4	2.9	2.1	6.8	9.8	9.9	10.0	9.9	9.6	10.5	7.6	6.3
Furnish, H/H Equipt. Etc	4.7	11.6	11.2	12.2	14.6	14.6	6.1	5.6	5.9	4.9	4.7	4.3	4.3
Health	2.4	6.4	5.3	5.0	7.5	7.9	5.4	5.5	8.5	7.0	6.7	6.3	6.4
Transport	7.3	13.6	13.4	13.7	6.9	6.9	10.2	8.7	12.9	12.3	11.0	10.5	9.9
Communications	2.7	5.1	5.2	5.8	6.9	7.6	2.0	2.0	3.0	2.9	2.8	3.1	2.9
Recreation & Culture	2.6	13.2	12.7	14.1	15.0	14.8	7.4	7.5	7.9	7.7	9.3	9.0	9.0
Education	3.9	8.2	8.1	8.4	6.2	6.4	2.7	2.7	3.3	4.4	6.6	6.8	6.7
Hotels, Cafes & Restaurants	6.1	6.3	6.7	7.5	9.5	9.9	4.8	4.2	4.1	3.8	5.5	7.5	6.8
Insurance and Finacial services							0.3	1.1	0.9	0.9	0.6	0.6	0.4
Miscellaneous goods & services	7.1	10.0	9.6	9.4	11.3	11.2	7.1	6.9	8.2	8.2	7.4	7.3	7.4

Source: Ghana Statistical Service

Measures of Core Inflation	Weight %	2019 Jan	Feb	Mar	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2020 Jan	Feb
Headline Inflation	100.0	9.0	9.2	9.3	9.1	9.4	7.8	7.6	7.7	8.2	7.9	7.8	7.8
Core 1: Inflation excl Energy and Utility	94.9	10.0	10.2	10.3	9.5	9.6	7.4	6.4	7.0	7.1	6.4	6.6	6.5
Core 2: Inflation excl Energy and Utility and Volatile Food Items	77.3	10.4	10.6	10.6	10.2	10.3	7.1	6.0	7.3	7.7	6.5	6.2	6.3
Core 3: Inflation excl Energy and Utility Volatile Food Items & Transportation	73.1	9.9	10.1	10.2	10.2	10.3	7.9	6.5	6.5	6.7	6.8	7.0	6.9
Core 4: Inflation excl All Food Items, Energy & Utility	51.0	11.0	11.3	11.2	11.2	11.3	6.6	5.3	7.2	7.5	6.0	6.0	5.7

Source: Ghana Statistical Service

Note: August 2019 - Date inflation data reflects the newly rebased CPI (Year 2018=100) released by the GSS.

Selected Economic and Financial Indicators	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
National Income and Prices (Quarterly, %)														
Real GDP Growth	n.a	n.a	6.7	n.a	n.a	5.7	n.a	n.a	5.6	n.a	n.a	n.a	n.a	n.a
Real GDP_non-oil	n.a	n.a	6.0	n.a	n.a	4.3	n.a	n.a	4.6	n.a	n.a	n.a	n.a	n.a
Consumer Prices (year-on-year, %)														
Overall	9.0	9.2	9.3	9.5	9.4	9.1	9.4	7.8	7.6	7.7	8.2	7.9	7.8	7.8
Food	8.0	8.1	8.4	7.3	6.7	6.5	6.6	8.2	8.5	7.0	8.4	7.2	7.8	7.9
Non-food	9.5	9.7	9.7	10.4	10.6	10.3	10.7	7.4	7.0	8.2	8.0	8.5	7.9	7.7
Exchange rate (US$/GH¢): (end of period)	4.9506	5.1752	5.0834	5.0881	5.2011	5.2590	5.2570	5.2814	5.3161	5.3372	5.5254	5.5337	5.4672	5.2949
Exchange rate depreciation (M/M, %)	-2.6	-4.3	1.8	-0.1	-2.2	-1.1	0.0	-0.5	-0.7	-0.4	-3.4	-0.1	1.2	3.3
Exchange rate depreciation (YTD, %)	-2.6	-6.9	-5.2	-5.3	-7.3	-8.3	-8.3	-8.7	-9.3	-9.7	-12.8	-12.9	1.2	4.5
Money and Credit														
Broad money supply (M2+) (y/y, %)	19.5	22.4	21.6	18.4	18.6	22.1	14.8	11.8	16.3	16.3	18.2	21.6	17.0	14.5
Credit to the private sector (y/y, %)	10.4	21.1	22.1	19.8	19.2	16.8	14.1	13.4	12.6	14.0	18.0	18.3	23.1	18.8
Real Credit to the private sector (y/y, %)	4.3	14.2	14.6	12.5	11.4	8.7	6.1	5.2	4.6	5.8	9.1	9.7	14.1	10.2
Interest rates (%)														
Monetary Policy Rate	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0
Interbank rate	16.1	15.6	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.2	15.4	15.9
91-Day treasury bill rate	14.7	14.7	14.7	14.7	14.8	14.8	14.7	14.7	14.7	14.7	14.7	14.7	14.7	14.7
182-Day treasury bill rate	15.1	15.1	15.1	15.1	15.4	15.2	15.2	15.2	15.1	15.1	15.1	15.2	15.2	15.2
3-month average Deposit rate	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5
External Sector (cummulative)														
Current account balance (US$million)	n.a	n.a	186.9	n.a	n.a	-662.0	n.a	n.a	-1491.6	n.a	n.a	-1833.7	n.a	n.a
percent of GDP	n.a	n.a	0.3	n.a	n.a	-1.0	n.a	n.a	-2.3	n.a	n.a	-2.8	n.a	n.a
Trade balance (US$million)	85.5	378.2	642.4	1035.7	1178.3	1354.9	1345.7	1421.0	1536.4	1495.4	1859.4	2282.3	292.2	780.0
Commodity prices (International)														
Cocoa ($/tonne)	2318.2	2273.8	2202.5	2370.4	2365.8	2467.1	2456.9	2238.6	2375.8	2474.1	2589.6	2518.4	2673.1	2825.9
Gold ($/ounce)	1292.1	1320.0	1300.7	1286.2	1283.4	1359.7	1414.7	1501.0	1508.4	1494.3	1471.1	1481.3	1560.7	1596.8
Crude Oil ($/barrel)	60.2	64.5	67.0	71.7	70.3	63.1	64.2	59.5	62.3	59.6	62.7	65.2	63.7	55.5
Gross International Reserves (US$ m)	6585.0	6310.0	9959.6	9347.7	8950.9	8581.2	8137.9	8226.1	7965.7	8093.7	7836.6	8418.1	8249.6	10036.8
months of import cover	3.4	3.2	5.1	4.7	4.5	4.3	4.0	4.1	3.9	3.9	3.8	4.0	3.9	4.8
Net International Reserves (US$ m)	3514.1	3173.3	6848.3	5915.5	5577.8	5174.5	4941.3	5050.2	4730.0	4743.8	4764.4	5191.9	5053.8	6855.5
Non-Performing Loan (NPL) ratio (%)	18.4	18.2	18.8	18.9	18.8	18.1	17.9	17.8	17.3	17.3	16.7	14.3	13.6	n.a
Non-Performing Loan (excluding loss category)	9.9	9.4	8.8	9.0	9.1	9.0	9.3	8.9	8.1	8.1	7.5	7.0	5.3	n.a

NB: August 2019 - Date inflation data reflects the newly rebased CPI (Year 2018=100) released by the GSS.