



Bank of Ghana Monetary Policy Committee Press Release

May 15 2020

Global Developments

1. The COVID-19 pandemic has disrupted economic activity, created uncertainty, and weakened global growth conditions. Countries have imposed restrictions and social distancing measures, and in some cases lockdowns to slow the spread of the virus. These measures have come at a cost to the global economy forcing fiscal and monetary authorities to implement unprecedented policy measures to deal with the economic fallout. For instance, the U.S. Fed cut its policy rate by 150 basis points to a range of 0-0.25 percent in March 2020 and made US\$1.5 trillion available for short-term interbank lending among other liquidity measures.
2. The U.S. Treasury has also introduced various stimulus initiatives to support health institutions, frontline health workers, households, and businesses. Finally, multilateral institutions like the IMF and World Bank, and the G20 have also introduced loans and debt initiatives to support vulnerable countries in their fight against the COVID-19 pandemic. In addition to the weak growth

prospects, the inability of OPEC+ to agree on production cuts led to the collapse of oil prices, further sending shock waves across financial markets. Events related to the spread of the pandemic and its impact are still evolving and the heightened uncertainty has added to the challenge of assessing the overall economic impact.

External Sector Developments

3. Notwithstanding the unfavourable global developments, the performance of the external sector has been strong in the first quarter of 2020, reflecting in a higher trade surplus and higher capital inflows. The trade balance recorded a surplus of US\$936.4 million (1.4% of GDP) compared with a surplus of US\$642.4 million (1.0% of GDP) recorded for the same period in 2019. This outturn was on account of lower imports and a marginal fall in export receipts. The lower oil imports value is primarily as a result of a switch in the energy generation mix in favour of domestically produced gas. Demand for non-oil imports also dropped in line with the slowdown in economic activity.
4. The Government of Ghana's decision to access the Eurobond market earlier in the year, and the Rapid Credit Facility (RCF) financing from the IMF resulted in a build-up in reserves of US\$1.5 billion (2.2% of GDP). Gross International Reserves therefore increased from a level of US\$8.4 billion at the end of December 2019 to US\$10.3 billion at the end of April 2020, sufficient to provide 4.8 months of imports cover. This strong reserve position has helped to ensure stability in the foreign exchange market even as external financing conditions tighten and emerging and frontier economies see capital flow reversals as a result of the heightened global uncertainty.

5. To further boost foreign exchange liquidity, the Bank of Ghana (BOG) has concluded a US\$1 billion Repurchase Agreement (Repo) facility with the U.S. Federal Reserve under its Repo facility for Foreign and International Monetary Authorities (FIMA Repo Facility). This facility is expected to be available for at least six months, provides an important foreign exchange buffer to boost dollar liquidity amid the COVID-19 global pandemic, and will further enhance the BOG's dollar liquidity.

Real Sector Developments

6. Leading indicators of economic activity during the first quarter of the year suggests some slowdown, reflecting the restrictions, social distancing, and the partial lockdown measures introduced by the government in the middle of March. Retail sales picked up in March 2020 due to panic buying which preceded the partial lockdown, while consumption, proxied by Domestic VAT receipts, dipped. The slow conditions in economic activity is reflected in port activities and a sharp decline in tourist arrivals. The slowdown also affected the private sector's contributions to social security. As a result of these developments, the Bank of Ghana's Composite Index of Economic Activity (CIEA) contracted by 2.2 percent in March 2020, compared to a growth of 5.6 percent for the corresponding period of 2019. Preliminary estimates by the Bank of Ghana shows that growth in 2020 is likely to be between 2.0 and 2.5 percent.

Fiscal Developments

7. Provisional data for the first quarter on the execution of the budget show a widening of the deficit relative to what was observed for the same period in 2019. As at the end of the first quarter, a deficit, equivalent to 3.4 percent of GDP has been recorded compared with a deficit target of 1.9 per cent of GDP. The larger deficit is explained by shortfalls in tax revenues — on the back of shortfalls in international trade taxes, taxes on goods and services and taxes on income and property in response to unfavourable external and domestic conditions — and higher pace of spending, which included some unbudgeted COVID-19 related expenditure. The expanded deficit led to an increase in the debt stock to 59.3 percent of GDP at the end of March 2020.

Monetary and Banking Sector Developments

8. The lockdown resulted in a decline in currency as consumers resorted to the use of electronic modes of payment. General economic uncertainty reduced demand for credit, as commercial banks tightened their credit stance. As a result, credit to the private sector remained virtually flat during the period. Broad money supply (M2+) slowed significantly to 13.5 percent in March 2020, compared with 21.6 percent growth a year ago.
9. The latest stress tests conducted in April 2020 suggest that banks are strong and resilient and are well-positioned to withstand mild to moderate liquidity and credit shocks on the basis of strong capital buffers and high liquidity positions. Capital Adequacy Ratio is well above the revised regulatory floor of 11.5 percent. However, the industry NPL ratio has inched up during the quarter, reflecting the emerging impact of the pandemic on low credit growth and higher loan provisioning. So far, banks are also responding positively to the recently-announced policy initiatives to support the economy by reducing

lending rates and supporting credit growth, as well as offering moratoriums on loan repayments to cushion customers.

Price Developments

10. After remaining flat at 7.8 percent for three consecutive readings (January-March 2020), headline inflation jumped up in April to 10.6 percent—outside the Bank’s inflation target band. The sharp rise in inflation is attributed to increased demand for food items stemming from the two panic-buying episodes preceding the market fumigation exercises across the country and the partial lockdown in both Accra and Kumasi—the two largest cities. This led to exaggerated food prices in April. Food and non-alcoholic beverages prices rose to 14.4 percent, significantly higher than the 8.4 percent recorded in March 2020. Non-food inflation increased to 7.7 percent in April 2020 from 7.5 percent in March 2020.

Decision

11. The Bank’s latest forecast points to elevated risks to the inflation outlook in the forecast horizon, underscored by the recent jump in headline inflation. On the downside, relief measures on water and electricity tariffs and declining crude oil prices are likely to ease price pressures in the outlook. The recent rise in inflation is projected to peak in the second quarter and begin to return to the disinflation path in subsequent quarters with inflation settling within the

medium-term target band by the end of the year. On the growth outlook, baseline projections show a sharp downturn in GDP growth with the economy operating below capacity in the medium-term. **Under the circumstances and given the balance of risks to inflation and growth, the Committee decided to keep the policy rate unchanged at 14.5 percent.**

Additional Policy Measures

A. Budget Financing

12. The COVID-19 pandemic has put a severe strain on the budget, manifesting in petroleum revenue shortfalls as a result of plunging crude oil prices, shortfalls in import duties, other tax revenues, and non-tax revenues.
13. Preliminary assessments show that the financing gap that was estimated at the time of applying for the IMF RCF in March has widened significantly, resulting in a large residual financing gap. Current market conditions in the wake of the pandemic, will not allow the financing of the gap from the domestic debt capital markets without significantly increasing interest rates.
14. Under the circumstances and in line with section 30 of the Bank of Ghana Act, 2002 (Act 612) as amended, the Bank of Ghana has triggered the emergency financing provisions, which permits the Bank to increase the limit of BOG's purchases of government securities in the event of any emergency to help finance the residual financing gap.
15. Today, under the Bank of Ghana's Asset Purchase Programme, the Bank has purchased a Government of Ghana COVID-19 relief bond with a face value of GH¢5.5 billion at the Monetary Policy Rate with a 10-year tenor and a

moratorium of two (2) years (principal and interest). The Bank stands ready to continue with its Asset Purchase Programme up to GH¢10 billion in line with the current estimates of the financing gap from the COVID-19 pandemic.

B. Relief Measures to the SDI Sector

16. The SDI sector has played a key role in extending access to financial services to small households and businesses. Such customers are at high risk of being disproportionately impacted by the pandemic, either because they have lost their livelihoods in the informal/micro and small business sector or have lost their jobs. At the same time, SDIs are much smaller in size and balance sheet, compared to the banks, and are themselves being impacted by the pandemic. To further provide economic relief to households and businesses, and to increase credit to the key sectors of the economy, BOG announces the following additional measures:

- a. Activate section 46A of the Bank of Ghana Act 2002 (Act 612) as amended, to provide liquidity support to savings and loans and finance house companies facing temporary liquidity challenges. Eligibility for this facility and the terms and conditions upon which it will be granted will be based strictly on the provisions of section 46A and BOG's updated liquidity support policy framework.
- b. Strengthen the capacity of the ARB Apex Bank to provide liquidity support for rural and community banks facing temporary liquidity challenges in line with a framework to be agreed. Microfinance companies who meet eligibility criteria agreed will also qualify for this support from ARB Apex Bank.

- c. Extend the deadline for SDIs (MFIs and RCBs) to meet new capital requirements to December 2021. This is expected to provide temporary relief to SDIs, given current economic conditions.
 - d. Reduce the 8 percent primary reserve ratio for savings and loans companies, finance house companies, and rural and community banks to 6 percent, and the 10 percent primary reserve ratio for micro finance companies to 8 percent.
17. These measures are designed to release liquidity to the SDI sector to enable them to support their customers and ensure that the MSME sector and low-income households do not lose access to critical financial services in these uncertain times.
18. The Bank will provide guidance to banks and SDIs on the accounting treatment of loan restructuring, classifications, provisioning, and expected credit losses, and prudential assessments of credit risk and capital ratios. Such guidance should help banks and SDIs make quicker decisions on customers' requests for loan restructuring. BOG expects fair and equitable treatment of all customers of banks and SDIs at all times, and especially at this time. The Bank will strictly monitor business conduct rules for banks and SDIs in their dealings with customers, particularly in relation to transparency and fairness in revisions to loan terms and conditions, fee charges, and related issues.
19. Overall, the sector will be well-positioned to participate in the post-pandemic economic recovery and the Bank of Ghana will continue to monitor developments in the banking and SDI sector and take additional decisions as may be necessary.

Informational Note

The next Monetary Policy Committee (MPC) meeting is scheduled for July 22-24, 2020. The meeting will conclude on Monday, July 27, 2020 with the announcement of the policy decision.

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