



Bank of Ghana Monetary Policy Report

Monetary and Financial Developments

Volume 3: No.5/2012

November 2012

3.0 Introduction

The first half of 2012 witnessed increased exchange rate volatility and higher inflation expectations. In response to the build-up of pressures in the foreign exchange market, the Bank of Ghana implemented policy measures to stem the rapid depreciation of the cedi.

In the third quarter through to October, the economy continued to respond positively to the mix of policies pursued to bring about stability in the foreign exchange market and the economy as a whole. Currently, the cedi has made significant gains while inflation remains broadly stable. The outlook is positive with strong continuing investor interest in domestic assets.

The pace of growth in the monetary aggregates has also continued to slowdown, albeit with strong private sector credit expansion.

There has been significant re-alignment of interest rates on government securities while the accompanying strong monetary operations has led to a major drop in liquidity especially on the interbank market. However, on the money market, liquidity continued to be relatively tight and the overnight rates remained outside the corridor.

Key monetary and financial indicators								
i. Key monetary aggregates								
Variable	Level (Ghcml)		Annual per cent change (unless otherwise specified)					
	Oct-12	Dec-11	Mar-12	Jun-12	Jul-12	Aug-12	Sep-13	Oct-13
Broad Money (M2+)*	20,412	33.2	29.1	30.5	29.6	30.8	28.8	n.a
Broad Money (M2)*	15,060	30.2	23.6	25.2	28.1	27.9	24.9	n.a
Narrow Money (M1)*	9,285	36.1	26.2	30.6	35.2	33.0	29.6	n.a
Reserve Money	6,656	31.1	16.9	45.1	38.0	31.6	49.3	30.0
Currency Outside Banks	4,130	28.6	33.9	30.6	35.4	35.8	33.7	26.2
Foreign Currency Deposits*	5,352	45.0	47.7	47.3	34.4	39.7	41.2	n.a
DMBs Credit*	12,633	17.0	38.5	44.1	46.4	51.1	50.8	n.a
of which priv. sector	11,151	26.3	44.6	39.0	41.3	43.7	43.8	n.a
Real Priv. sect credit*		16.3	32.9	27.0	29.0	31.3	31.4	n.a
Gross International Reserves (\$mn)		5,383	4,641	4,081	4,090	4,200	4,096	5,210
in months of import cover		3.0	2.7	2.3	2.3	2.4	2.3	2.9
ii. Inflation, interest rates and other financial indicators								
Per cent (unless otherwise specified)								
Variable	Dec-11	Mar-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	
Inflation (y-on-y)								
Overall	8.6	8.8	9.4	9.5	9.5	9.4	9.2	
Food	4.3	4.4	5.4	5.5	4.4	4.4	4.1	
Non food	11.2	11.4	11.9	12.0	12.5	12.4	12.2	
MPR	12.5	12.5	15.0	15.0	15.0	15.0	15.0	
Interbank rate	6.3	12.2	16.9	18.5	16.8	17.8	18.7	
Treasury bill rate (91-days)	10.7	12.6	22.4	22.9	22.7	23.1	23.0	
DMBs avg deposit rate (3-mnth)	7.8	7.8	10.0	10.0	10.5	12.0	12.5	
DMBs avg lending rate	25.9	25.9	24.7	24.7	24.5	25.7	25.7	
Exchange rate (\$/Ghc)	1.55	1.69	1.87	1.88	1.89	1.89	1.88	
Depreciation (monthly)	-0.60	-0.91	-3.37	-0.57	-0.34	0.11	0.52	
GSE Composite Index (Level)	969	1,047	1,045	1,028	1,026	1,048	1,116	
GSE Financial Index (Level)	863	911	900	868	861	883	947	

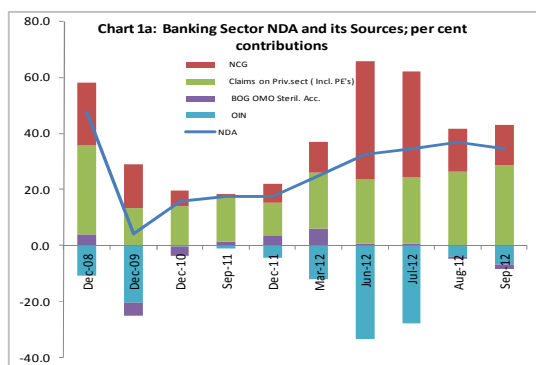
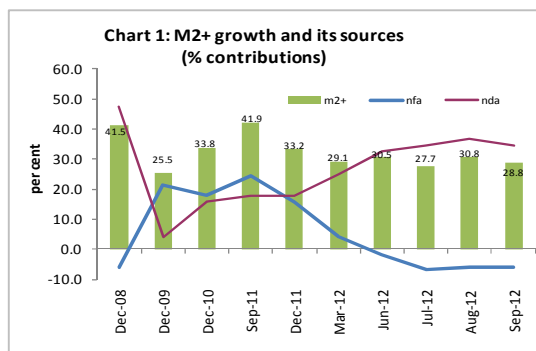
*End-September 2012 data

3.1 Developments in Monetary Aggregates

3.1.1 Money Supply

Annual growth of broad money supply, including foreign currency deposits (M2+), slowed down significantly from 41.9 percent in September 2011 to 28.8 percent in September 2012, supported entirely by Net Domestic Assets (NDA) of the banking system. Developments in NDA of the banking system was underpinned by continued stronger than expected private sector credit expansion the (charts 1 and 1a, Appendix table 1).

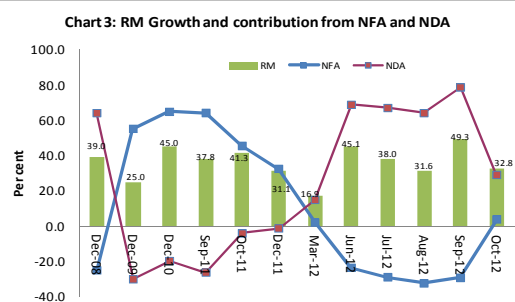
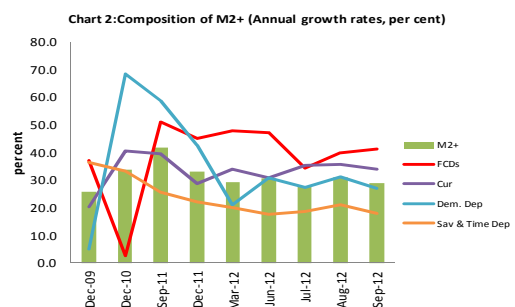
In terms of composition, the slowdown in growth of M2+ over the period was reflected in significant slowdown in the pace of growth of domestic deposits and currency outside banks.



3.1.2 Reserve Money (RM)

Growth of RM similarly eased downward to 32.8 percent in October 2012 from 41.3 percent at end-October 2011, driven mainly by BOG NDA and a rather measured pace of NFA accumulation by BOG along with stepped up foreign exchange operations. At end-October 2012, the relative contribution of BOG NDA to the growth of RM was 29 percent, up from -4.1 percent during the corresponding period in 2011, driven mainly by net claims on Government (charts 3 and appendix table 2).

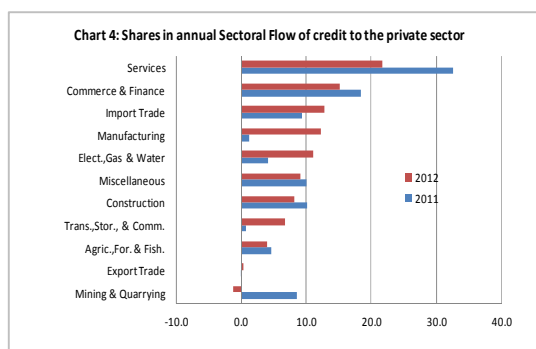
The growth of RM reflected mainly in DMBs reserves and non-bank deposits.



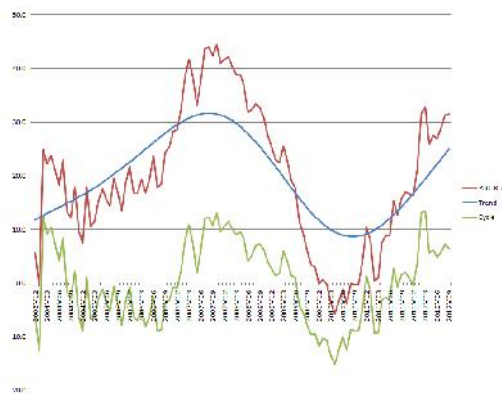
3.1.3 Deposit Money Banks (DMBs) Credit Developments

DMBs credit continued to expand rapidly in the year through October, with increased broad-based distribution reflected in the services, import trade, commerce and finance, manufacturing, electricity, gas and water sectors.

DMBs credit to the private sector and public institutions over the 12-month period to September 2012 increased significantly by GH¢4,256.2 million (50.8%), from GH¢1,037.7 million (14.1%) recorded for the same period in 2011. Outstanding credit at end-September 2012 was GH¢12,633.2 million. The private sector absorbed the bulk of the credit, a share of 77.2 percent. On year-on-year

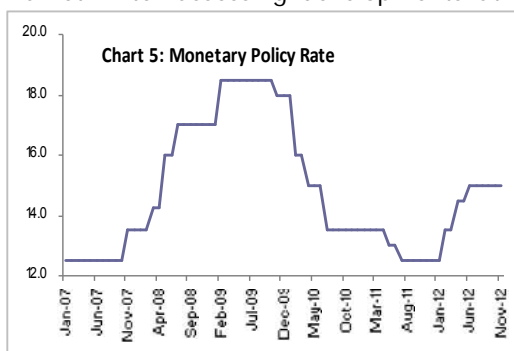


basis, private sector credit expanded by 43.8 percent to GH¢11,151.1 million (or 15.5% of GDP) in September 2012, compared to a growth of 25.5 percent in September 2011 to GH¢7,752.4 million (or 13.1% of GDP). In real terms, private sector credit grew by 31.4 percent compared to 15.8 percent in September 2011. Sectoral distribution of the flow of credit to the private sector over the 12-month period to September 2012 shows more broad-based distribution with the services, commerce and finance, import trade, manufacturing and electricity, gas and waters each absorbing over 10 percent of the credit flow.

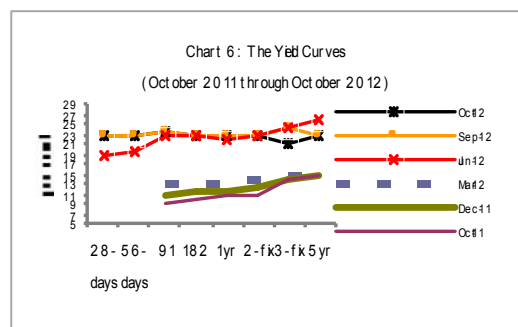


3.2 Money Market Developments

Interest rates developments in Q3 and October 2012 reflected some stability with short term rates remaining relatively stable while long term rates inched downward. Nevertheless, there continued to be strong investor interest in cedi-denominated bonds on the market. After assessing developments at its latest meeting in November, the MPC noted that the risks to the inflation and growth outlook were fairly balanced and therefore decided to leave the policy rate unchanged at 15 percent, the second consecutive time the rate has been maintained following the strong tightening of H1.

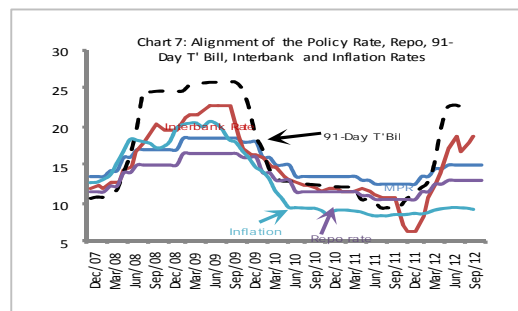


Interest rate trends generally stabilized in Q3 and October 2012. During the period, rates on 91-day treasury bills rose by 57bps to 23 percent, while 182-day bills firmed by 21bps to 22.9 percent. The 1-year fixed note increased by 80bps to 22.8 percent. The 2-year fixed note stayed put at 23 percent while the rates on the 3-year fixed note and 5-year bond declined by 300bps each to 21 percent and 23 percent respectively.



On the interbank market, the weighted average rate increased to 18.7 percent in October 2012 from 16.9 percent in June 2012, thus remaining above the policy rate corridor¹ and also partly reflects current tight liquidity conditions on the interbank market.

The rates on the recently introduced Bank of Ghana bills however firmed upward in the period. The rates on the 1-month and 2-month Bog bills inched up by 4.3 percent and 3.2 percent respectively to 22.8 percent and 22.7 percent between June and October 2012.



¹ The policy corridor was recently widened to 17 percent (i.e. MPR+3%) on the upside.

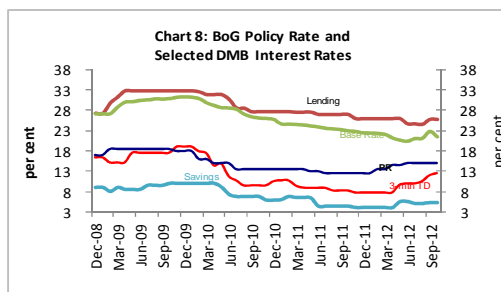
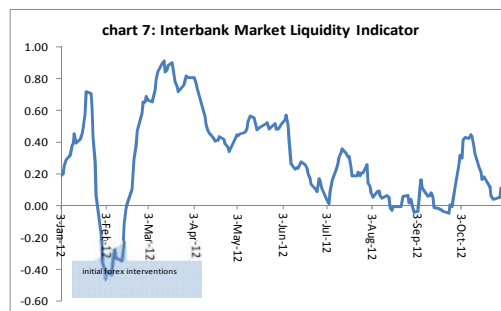
The average 3-month time deposit rate moved up to 12.5 percent in October 2012 from 10 percent in June 2012, while average lending rates edged up slightly to 25.7 percent from 24.7 percent recorded in June 2012, thus giving rise to a narrowing of the lending-deposit rate spread to 13.2 percent in October, from 14.7 percent in June 2012. Banks' base rate quotations ranged between 12.7 percent and 26.5 percent in October 2012. On the average, base rates inched up to 21.8 percent in October, from 20.4 per cent in June 2012.

3.3 Stock Market Developments

The third quarter, and October 2012 witnessed buoyant activity on the Ghana Stock Exchange (GSE), driven mainly by stocks in the finance, food and beverage, distribution and energy sub-sectors. The bullish performance also followed impressive financial results released by most of the listed companies in Q3.

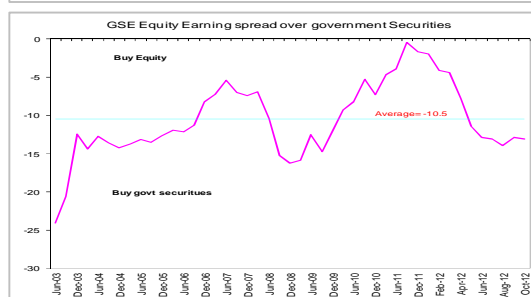
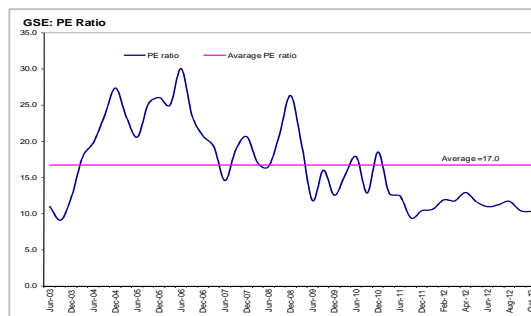
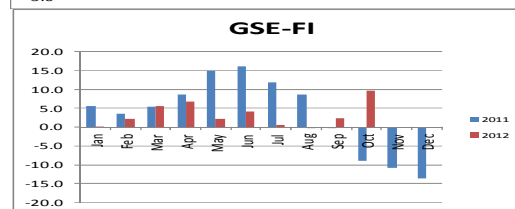
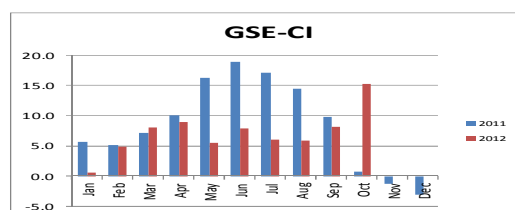
At the end of October 2012, the GSE Composite Index (GSE-CI) closed 1,116.3 points (a cumulative gain of 15.2 percent), compared with an index level of 1,007.9 points (or a cumulative gain of 0.8 percent) during the same period in 2011. The GSE Financial Stocks Index (GSE-FSI) similarly closed October 2012 at 947 points (or a cumulative gain of 9.7 percent), compared with an index level of 910.7 points (or a cumulative loss of 8.9 percent) during the same period in 2011. Total market capitalization at the end-October 2012 was up by 19.6 per cent to GH¢56.3 billion.

A close examination of broad profitability indicators on the market shows that most of the stocks on the bourse broadly continue to be relatively cheaper relative to historical trends, with a positive outlook for the bourse in 2012. However, continuing high interest rates on the money market continues to some challenge for the outlook.



Performance of the Ghana Stock Exchange

	Changes in August											
	Ytd		Y/Y		October Sep							
	Dec-10	Sep-11	Oct-11	Dec-11	Sep-12	Oct-12	2011	2012	2011	2012		
GSE CI	1000.0	1098.4	1007.9	969.0	1047.7	1116.3	0.8	15.2	-4.6	10.8	-3.24	6.5
GSE FI	1000.0	999.4	910.7	863.1	883.4	947.0	-8.9	9.7	-11.6	4.0	-8.88	7.2
Market Capitalization	20116.7	47669.2	47170.4	47347.2	56342.3	56646.0	134.5	19.6	17.7	20.1	-1.46	0.5



3.4 Conclusion

The monetary policy measures taken earlier in the year to deal with pressures in the foreign exchange market are working, and the cedi is currently recording marginal gains.

Liquidity remains relatively tight on the interbank market, partly reflecting the impact of the recent policy measures. However, the overnight rate is still above the policy rate band and will need to be corrected going forward. This is important as it will stem further increases in DMBs rates.

The GSE is currently witnessing positive investor sentiments and the outlook is positive.

Box 1: FOREIGN EXCHANGE MARKET PRESSURES RECENT MONETARY POLICY MEASURES

The first half of 2012 witnessed considerable foreign exchange market pressures and the Bank of Ghana responded to these pressures in a number of ways to stem the accompanying rapid depreciation of the cedi. The pressures had followed a combination of factors, notably:

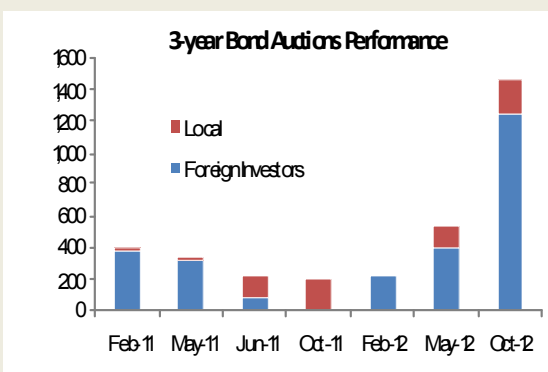
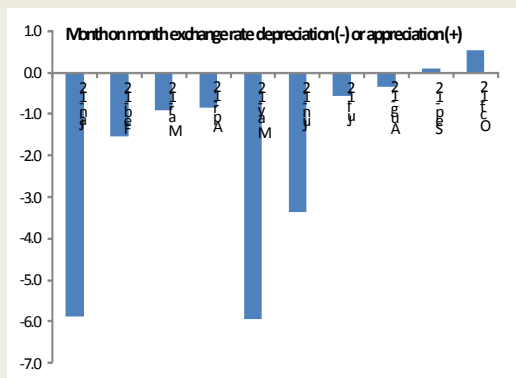
- A surge in import demand that accompanied the strong GDP growth,
- Expansionary fiscal operations with the implementation of the SSSS and subsidies on petroleum products.
- Overhang of liquidity, partly reflecting the expansionary fiscal and also strong private capital flows earlier into the economy,
- Higher relative price differentials and a natural tendency for depreciation to restore competitiveness although the rate of depreciation/ or adjustment was rather too swift and
- Cyclical factors related to electoral cycle and its attendant speculative activities.

The combination of these factors led to unmet foreign exchange demand from banks and this along with the other factors exerted considerable pressure on the cedi, leading to a cumulative depreciation of 17.2 percent in H1 2012.

The Bank’s responses which were mainly to work through the market mechanism included a three-consecutive time hike of the monetary policy rate that culminated in 250bps increase in the first half of the year and a re-introduction of the Bank of Ghana bills. There were additional monetary policy measures including reduction in the Net Open Positions (NOPs) of banks, a requirement for banks to keep statutory reserves in cedis only and a 100 percent reserve cover for VOSTRO balances to be maintained at the central bank were undertaken to reinforce the MPR hikes.

These policies were expected to re-align demand pressures in the forex market towards cedi denominated assets while augmenting supply of forex in the foreign exchange market as well as improving the transparency of the forex market.

Recent developments on the foreign exchange market show that the policies are working and the rapid depreciation of the cedi has been halted. After depreciating by 5.9 percent in May 2012 when most of the policies were implemented, the cedi fell by a further 3.4 percent in June, 0.6 percent in July and 0.3 percent in August. Developments on the market show that cedi appreciated by 0.1 per cent and 0.5 per cent in September and October respectively. Alongside, the policies have also resulted in a strong resumption of foreign investor interest in cedi-denominated bonds while the strong mopping up of liquidity by the BOG continues to restrain liquidity levels on the interbank market.



Appendix 1: Sources of Growth in Total Liquidity (M2+) (millions of Ghana cedis unless otherwise stated)

	Dec-08	Dec-09	Dec-10	Sep-11	Dec-11	Mar-12	Jun-12	Jul-12	Aug-12	Sep-12
1 Net Foreign Assets	2186	3933	5754	6551	7880	6830	6491	5529	5466	5626
2 Net Domestic Assets	5949	6278	7909	9300	10315	11670	13348	14076	14657	14786
3 ow: Claims on government (net)	2397	3676	4249	4394	5181	5389	10531	10130	6544	6678
4 ow: Claims on Private sector(Incl. PEs)	5970	7055	8475	9330	10066	11406	12088	12552	13059	13878
5 Total Liquidity (M2+)	8134	10211	13663	15851	18195	18500	19839	19604	20123	20412
6 ow: Broad Money Supply (M2)	6191	7550	10935	12060	14241	13673	14434	14559	14934	15060
7 ow: Foreign Currency Deposits(\$million)	1600	1863	1851	2500	2550	2864	2885	2678	2744	2834
Change from previous year (in per cent)										
8 Net Foreign Assets	-13.6	79.9	46.3	70.9	37.0	9.8	-4.4	-15.7	-14.8	-14.1
9 Net Domestic Assets	84.6	5.5	26.0	26.8	30.4	43.9	58.7	60.0	63.3	59.0
10 ow: Claims on government (net)	117.2	53.3	15.6	1.9	21.9	40.2	155.6	133.2	55.5	52.0
11 ow: Claims on Private sector(Incl. PEs)	43.8	18.2	20.1	24.4	18.8	33.6	40.5	41.0	45.1	48.7
12 ow: BOG OMO Sterilisation Acc.	50.5	-175.4	-53.9	25.2	53.3	86.0	12.1	12.2	-18.7	-64.7
12 Total Liquidity (M2+)	41.5	25.5	33.8	41.9	33.2	29.1	30.5	27.7	30.8	28.8
13 Broad Money Supply (M2)	30.1	21.9	44.8	39.2	30.2	23.6	25.2	25.5	27.9	24.9
14 Foreign Currency Deposits (FCDs)	95.7	37.0	2.5	51.1	45.0	47.7	47.3	34.4	39.7	41.2
Cumulative change from previous year end (in per cent)										
15 Net Foreign Assets	-13.6	79.9	46.3	13.9	37.0	-13.3	-17.6	-29.8	-30.6	-28.6
16 Net Domestic Assets	84.6	5.5	26.0	17.6	30.4	13.1	29.4	36.5	42.1	43.3
17 ow: Claims on government (net)	117.2	53.3	15.6	3.4	21.9	4.0	103.3	95.5	26.3	28.9
18 Broad Money(M2+)	41.5	25.5	33.8	16.0	33.2	1.7	9.0	7.7	10.6	12.2
Annual per cent contribution to money supply growth										
19 Net Foreign Assets	-6.0	21.5	17.8	24.3	15.6	4.2	-2.0	-6.7	-6.2	-5.8
20 NDA	47.4	4.1	16.0	17.6	17.6	24.8	32.5	34.4	36.9	34.6
21 Total Liquidity (M2+)	41.5	25.5	33.8	41.9	33.2	29.1	30.5	27.7	30.8	28.8

Appendix 2: Sources of Growth in Reserve Money (millions of Ghana cedis unless otherwise stated)

	Dec-08	Dec-09	Dec-10	Sep-11	Oct-11	Dec-11	Mar-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12
1 Net Foreign Asset	1931	3271	5241	5311	5931	6670	5324	4483	3990	3690	4038	6123
2 Net Domestic Asset	502	-230	-831	-970	-813	-890	-282	1673	2254	2066	2444	672
Of which:												
3 ow: Claims on government	1448	1390	1371	1161	1758	1943	1920	4054	4506	3797	4346	3228
4 Claims on DMB's (net)	-513	-372	-814	-1347	-1583	-1861	-1074	-673	-597	-614	-682	-697
5 OMO Sterilisation Account	-221	-1442	-935	-451	-335	-437	-142	-745	-563	-618	-742	-915
6 Reserve Money(RM)	2433	3041	4410	4341	5118	5780	5042	6156	6243	5756	6482	6795
7 ow: Currency	1731	2082	2927	2885	3273	3894	3500	3638	3685	3767	3848	4242
8 ow: DMB's reserves	595	873	1320	1355	1763	1709	1386	2363	2389	1812	2261	2325
Change from previous year (in per cent)												
10 Net Foreign Asset	-19	69	60	61	38	27.3	1.7	-18.3	-24.7	-27.8	-24.0	3.2
11 Net Domestic Asset	181	-146	-261	-585	-22	-7.1	69.4	234.7	390.6	381.0	352.1	182.7
12 ow: Claims on government	468	-4	-1.3	-22.3	14.7	41.7	58.2	588.4	354.5	310.9	274.4	83.6
13 ow: Claims on DMB's (net)	-118	28	-119	-113	-54	-128.7	-14.4	7.4	16.1	15.0	49.4	55.9
14 ow: OMO Sterilisation Acc	51	-554	35	61	51	53.3	86.0	12.1	12.2	-18.7	-64.7	-172.7
15 Reserve Money(RM)	39	25	45.0	37.8	41.3	31.1	16.9	45.1	38.0	31.6	49.3	32.8
16 ow: Currency	33	20	40.6	39.9	34.6	33.0	34.3	30.6	35.4	36.0	33.4	29.6
Cumulative change from previous year end (in per cent)												
17 Net Foreign Asset	-18.5	69.4	60.2	1.3	13.2	27.3	-20.2	-32.8	-40.2	-44.7	-39.5	-8.2
18 Net Domestic Asset	181.0	-145.8	-261.4	-16.6	2.2	-7.1	68.3	287.9	353.2	332.1	374.6	175.5
19 ow: Claims on government	467.6	-4.0	-1.3	-15.3	28.2	41.7	-1.2	108.7	131.9	95.4	123.7	66.1
20 Reserve Money(RM)	39.0	25.0	45.0	-1.5	16.1	31.1	-12.8	6.5	8.0	-0.4	12.2	17.6
Annual per cent contribution												
21 NFA	-25.1	55.1	64.8	64.1	45.4	32.4	2.0	-23.6	-28.9	-32.5	-29.3	3.8
22 NDA	64.1	-30.1	-19.8	-26.3	-4.1	-1.3	14.9	68.7	67.0	64.0	78.6	29.0
23 RM growth (y-on-y)	39.0	25.0	45.0	37.8	41.3	31.1	16.9	45.1	38.0	31.6	49.3	32.8
Memorandum Item												
24 Total Sterilisation Outstanding Net Reverse	-271	-1540	-1493	-1385	-1492	-1876	-582	-828	-663	-656	-866	-1578
25 Repos	-50	-98	-558	-934	-1157	-1439	-440	-83	-100	-38	-124	-663
26 BOG Repo Receivable	62.4	158.0	0.0	50.0	90.0	50.0	68.0	0.0	0.0	43.2	0.0	0.0
27 BOG Repo Payable	112.6	255.8	557.5	983.8	1247.0	1489.0	508.0	83.0	100.0	81.5	124.0	663.0

Appendix 3	Year-On-Year Variation									
				As at end-Sep 2011			As at end-Sep 2012			
	Sep-10	Sep-11	Sep-12	Abs	Percent	Share in annual flow (%)	Abs	Percent	Share in annual flow (%)	
a Public Sector	1164.0	624.6	1482.0	-539.5	-46.3	-52.0	857.44	137.28	20.1	
b Private Sector	6,175.2	7,752.4	11,151.1	1,577.2	25.5	152.0	3,398.7	43.8	79.9	
Agric., For. & Fish.	372.9	446.9	584.7	74.0	19.8	4.7	137.8	30.8	4.1	
Export Trade	131.2	130.3	139.6	-0.9	-0.7	-0.1	9.3	7.1	0.3	
Manufacturing	867.5	886.6	1,304.6	19.1	2.2	1.2	418.0	47.2	12.3	
Trans., Stor., & Comm.	300.9	312.4	541.4	11.5	3.8	0.7	229.0	73.3	6.7	
Mining & Quarrying	208.9	345.1	300.7	136.2	65.2	8.6	-44.4	-12.9	-1.3	
Import Trade	548.5	697.0	1,130.9	148.5	27.1	9.4	433.9	62.3	12.8	
Construction	527.7	688.2	968.1	160.5	30.4	10.2	279.9	40.7	8.2	
Commerce & Finance	916.4	1,207.0	1,720.7	290.6	31.7	18.4	513.7	42.6	15.1	
Elect., Gas & Water	327.7	392.5	767.9	64.8	19.8	4.1	375.3	95.6	11.0	
Services	1,428.0	1,942.1	2,679.6	514.1	36.0	32.6	737.5	38.0	21.7	
Miscellaneous	545.3	704.3	1,013.0	158.9	29.1	10.1	308.8	43.8	9.1	
c Grand Total	7,339.2	8,377.0	12,633.2	1,037.7	14.1		4,256.2	50.8		
Public	16%	7%	12%							
Private	84%	93%	88%							