BANK OF GHANA

Monetary Policy Report

Volume 4, No 4

World Economic Outlook & External Sector Developments

- Developments in global GDP, Inflation and Financial Stability
- Global Monetary Policy Stance
- Developments in the Commodity & Currency Markets
- Ghana's Gross and Net International Reserves

Section I: World Economic Outlook

4.1.1 Global GDP growth

Since the last MPC meeting, there has been improved optimism on global growth primarily due to a pick-up in momentum in most mature economies where Q2 GDP growth accelerated.

U.S. GDP growth accelerated to 1.7 percent from downwardly revised prior quarters; the Euro Area exited recession with 0.3 percent growth; UK growth doubled from Q1; while Japan continued to grow rapidly.

However, the improvement in developed countries' growth was partly offset by weakness in major emerging market economies driven by challenges arising from domestic and external developments.

Outlook:
Sentiment indicators point to further improvement in the major economies, going forward.

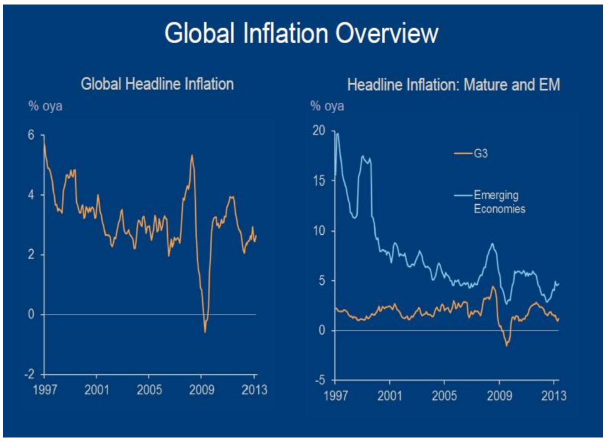
In the US, the main growth drivers going forward are likely to be an easing of the fiscal drag and further improvement in private demand as labour market improves.

Another factor that can help global growth going forward is the low level of inflation in both mature and emerging economies which supports consumption growth and generally allows central bankers to maintain the current accommodative policy stances

In Sub-Saharan Africa (SSA), growth is projected to firm to 5.1 percent in 2013 and further to 5.9 percent in 2014. Rising foreign direct investment, strong real wage growth and relative macroeconomic stability mean that much of SSA is well placed to continue its rapid economic expansion.

4.1.2 Global inflation

Global inflation is expected to remain generally stable. In advanced countries, inflation is expected to remain low, supported by slowdown in commodity price movements. In major emerging market economies, inflation is relatively higher, a problem that has been magnified by the exchange rate depreciation of recent months.



Outlook:

The expectation that commodity prices will remain subdued suggests that inflation in these countries will generally stay low.

On the contrary, if external financing conditions that have led to sell-off in emerging market currencies in recent months continue, depreciating currencies will drive up inflationary pressures.

Slowing GDP growth in emerging market economies makes the central banks reluctant to tighten policy. This suggests that inflation in emerging economies is likely to persist in the near term.

4.1.3 Global financial stability

Financial market volatility increased globally in May as a result of uncertainty about the timing of the Fed's exiting from its third quantitative easing (QE3) programme.

In advanced economies, longer-term interest rate and financial market volatility have risen and sovereign spreads in the euro area periphery have widened again after a period of sustained declines.

Emerging market and other capital recipient economies have generally been hit hardest, as the resulting shift in risk sentiment caused reversals of capital flows that led to currency depreciation and equity price declines.

For developing economies especially, slower growth in China and other emerging market economies and prolonged or faster decline in commodity prices pose a substantial risk.

Headwinds from subdued growth in China and other emerging market economies will impact both directly through bilateral trade ties and indirectly through falls in commodity prices.

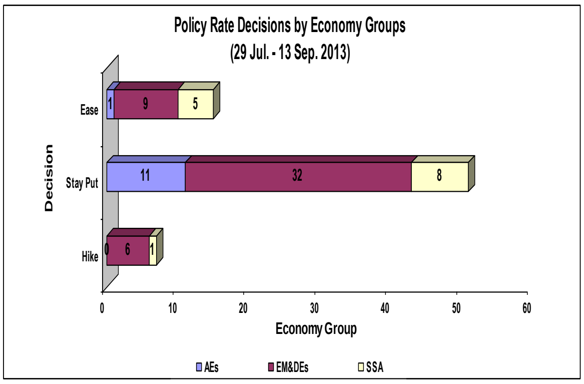
4.2 Global Monetary Policy Stance

Even though the dominant global trend is still toward lower policy rates due to concerns on global growth, a slowly increasing number of central banks are moving away from lower rates. Since the last MPC (i.e the period from 29 July to 13 September), decisions to hike rates,as a percentage of all policy decisions increased from 4.7 percent to 5.3 percent.

In terms of both interest rate and unconventional measures, global monetary policy stance continues to be accommodative.

4.2.1 Interest/Policy Rate decisions

The period since the last MPC to date saw 73 interest rate decisions from central banks around the world. Of those decisions, only 7 hiked the policy rates while 15 reviewed rates downward with the 51 majority staying put.



4.2.2 Measures other than movement in policy rate

Central banks continue to resort to measures other than movement in the policy rates to achieve the triad of policy objectives - growth, inflation, and financial stability:

- Bank Indonesia reduced the ceiling on loan-to-deposit ratios (LDR) for commercial banks and increased the secondary reserve requirement in a move to absorb excess liquidity as part of its efforts to curb inflation, which has been fueled by a reduction in government fuel subsidies and a depreciation of the rupiah currency.

- The MPC of BOE formally introduced forward policy guidance in August, pledging not to raise interest rates until unemployment has fallen to 7%.

- In addition to its inflation target, the Bank of Switzerland has capped the Swiss franc at CHF1.20 per euro and has pledged to buy unlimited amounts of foreign currency if necessary to maintain this exchange rate target.

Outlook

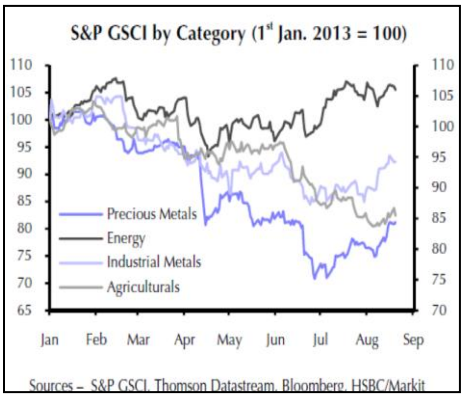
The IMF has urged central banks not to end their stimulus packages too soon as their impact has been positive and helped prevent "a collapse of the financial system and a collapse in activity".

In the major emerging market economies, growth and currency concerns are keeping central banks from policy tightening indicating that a shift from the current accommodative monetary policy is far off.

In Sub-Saharan Africa where growth has been robust, monetary policy is expected to tighten to rein in overheating.

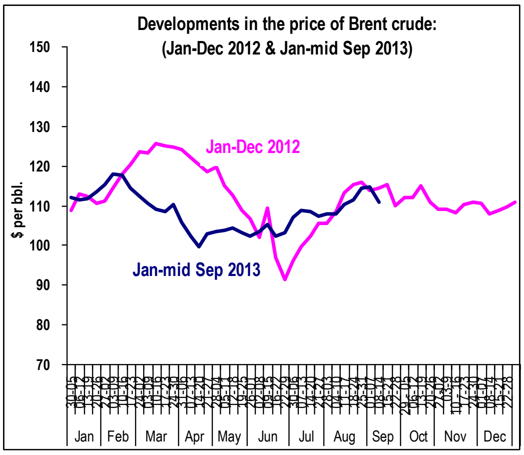
4.3 Commodities markets

Concerns about the impact of Fed tapering on commodity markets have eased somewhat, partly because of the growing recognition that US monetary policy is likely to remain very loose; and also because of a greater emphasis on the improving economic data that justify a scaling back of asset purchases in the first place.



4.3.1 Oil

The average weekly price of the benchmark Brent crude over the January – mid-September 2013 period was $112.60 per barrel, a 3.7 percent decline from the average price of $108.40 over the corresponding period in 2012.



Year to mid-September 2013, the average weekly price witnessed an increase of 0.2 percent to $110.83 per barrel.

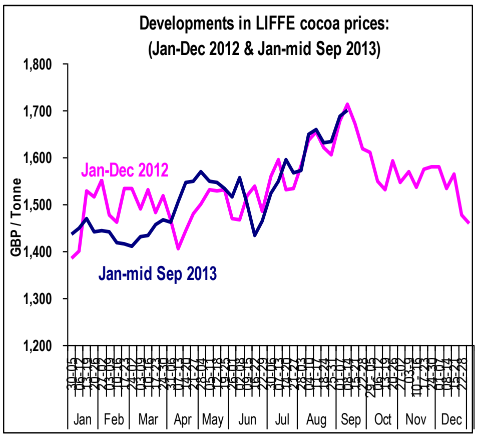
4.3.2 Cocoa

The recent bull market for cocoa has been supported by smaller crop harvests in Côte d'Ivoire and Ghana and improvement in chocolate consumption, especially in the emerging market economies.

Ghana: Cumulative Cocoa Purchases (tonnes)				
Season		**Crop Year**		**Change (%)**
		2011/12	**2012/13**	
LIGHT	**Actual (9 weeks)**	80,504	53,362	-33.7
	Proj. for season	42,000	92,000	119.0
	Share (%)	191.7	58.0	

In Ghana, the 2012/2013 light crop season commenced on 11 July 2013 and the first nine weeks' purchases turned in 53,362 tonnes, which was 33.7 percent lower, compared with the first nine weeks of the 2011/2012 main season.

Price developments



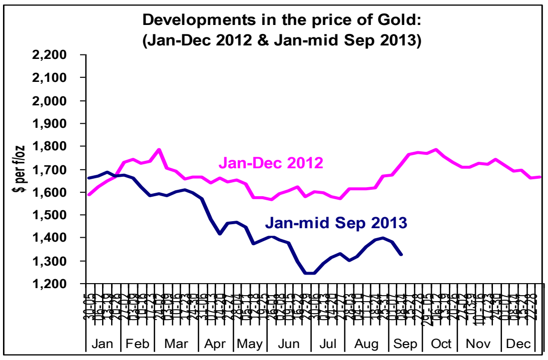
During January – mid September 2013, the London International Financial Futures Exchange (LIFFE) weekly price development of cocoa witnessed relatively lower fluctuations but, on average, declined by 0.8 percent to £1,518.80 per tonne.

In terms of the CSCE US$ price, the average January – mid-September 2013 price represented 1.0 percent decline from that for the corresponding period in 2012.

Gold

After collapsing to a 3-year low at the end of June 2013, the price of gold has steadily recovered, in line with industrial metals, reflecting renewed optimism about the prospects for global growth. Gold prices were boosted too in late August due to a revival of safe haven demand sparked by geopolitical risks. Physical demand from China and India has also been buoyant.

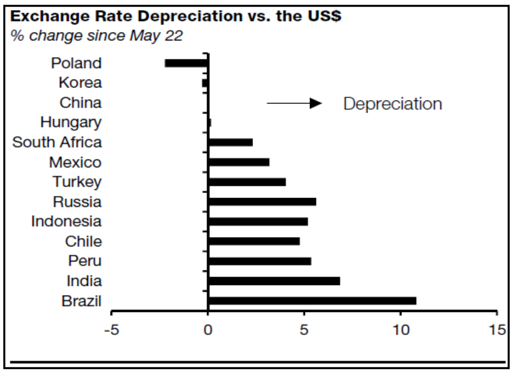
Price developments



The average weekly price over the January – mid-September 2013 period was $1,645.50 per fine ounce, compared with $1,463.00 over the corresponding period in 2012. Year-to-mid September 2013, the average spot price of gold declined by 20.5 percent.

4.4 Currencies Markets

The financial market fallout from both the growth slowdown and anticipated Fed tapering has been that most emerging market economies have suffered depreciations of their exchange rates since late May. However, the impact is not uniform across the countries.



Countries with large external financing requirements are more vulnerable to downward currency pressures. The form of financing also matters. Typically, portfolio financing is more volatile than foreign direct investments.

Section II: External Sector Developments

4.5 Local foreign exchange market

4.5.1 Nominal performance of the Ghana cedi – Bilateral and Effective

Bilateral movements

BILATERAL MOVEMENTS OF THE CEDI AGAINST CORE CURRENCIES									
Month	Gh¢/$	Gh¢/£	Gh¢/€	Monthly Change (%)			Year-on-year change (%)		
				$/Gh¢	£/Gh¢	€/Gh¢	$/Gh¢	£/Gh¢	€/Gh¢
2011									
Jan-11	1.5024	2.3473	2.0485	-1.9	-4.0	-5.1	-5.0	-1.6	-2.2
Feb-11	1.4975	2.4048	2.0631	0.3	-2.4	-0.7	-4.7	-9.2	-6.3
Mar-11	1.5031	2.4419	2.1643	-0.4	-1.5	-4.7	-5.7	-12.8	-11.4
Apr-11	1.4971	2.4771	2.2213	0.4	-1.4	-2.6	-5.4	-12.9	-15.6
May-11	1.5028	2.4356	2.1589	-0.4	1.7	2.9	-5.4	-16.1	-19.1
Jun-11	1.5054	2.4064	2.1523	-0.2	1.2	0.3	-5.2	-12.8	-18.8
Jul-11	1.5062	2.4514	2.1508	-0.1	-1.8	0.1	-4.6	-8.9	-13.8
Aug-11	1.5121	2.4841	2.1832	-0.4	-1.3	-1.5	-5.4	-11.4	-17.2
Cum. Change (%) Jan-Aug				**-2.5**	**-9.3**	**-11.0**			
2012									
Jan-12	1.6475	2.6233	2.1781	-5.9	-4.0	-3.4	-8.8	-10.5	-6.0
Feb-12	1.6735	2.6764	2.2736	-1.6	-2.0	-4.2	-10.5	-10.1	-9.3
Mar-12	1.6888	2.7646	2.3025	-0.9	-3.2	-1.3	-11.0	-11.7	-6.0
Apr-12	1.7030	2.8846	2.3916	-0.8	-4.2	-3.7	-12.1	-14.1	-7.1
May-12	1.8103	2.9178	2.3814	-5.9	-1.1	0.4	-17.0	-16.5	-9.3
Jun-12	1.8735	3.0202	2.4121	-3.4	-3.4	-1.3	-19.6	-20.3	-10.8
Jul-12	1.8846	2.9909	2.3840	-0.6	1.0	1.2	-20.1	-18.0	-9.8
Aug-12	1.8907	3.0450	2.4191	-0.3	-1.8	-1.5	-20.0	-18.4	-9.8
Cum. Change (%) Jan-Aug				**-18.0**	**-17.3**	**-13.1**			
2013									
Jan-13	1.8840	3.0237	2.5494	-0.2	1.1	-2.8	-12.6	-13.2	-14.6
Feb-13	1.8864	2.9065	2.5108	-0.1	4.0	1.5	-11.3	-7.9	-9.4
Mar-13	1.9010	2.9229	2.4760	-0.8	-0.6	1.4	-11.2	-5.4	-7.0
Apr-13	1.9126	3.0208	2.5235	-0.6	-3.2	-1.9	-11.0	-4.5	-5.2
May-13	1.9408	2.9780	2.5691	-1.5	1.4	-1.8	-6.7	-2.0	-7.3
Jun-13	1.9469	3.0919	2.6506	-0.3	-3.7	-3.1	-3.8	-2.3	-9.0
Jul-13	1.9494	3.1089	2.7228	-0.1	-0.5	-2.7	-3.3	-3.8	-12.4
Aug-13	1.9559	3.2290	2.8452	-0.3	-3.7	-4.3	-3.3	-5.7	-15.0
Cum. Change (%) Jan-Aug				**-3.9**	**-5.3**	**-12.9**			

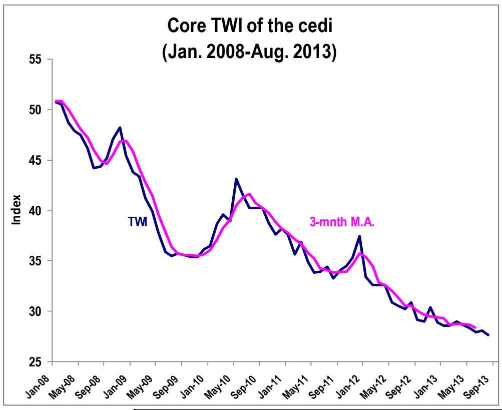
Developments in the nominal bilateral exchange rates of the cedi against the three core currencies – the US dollar, the pound sterling and the euro – show that from January to August 2013, the cedi depreciated, cumulatively, by 3.9, 5.3 and 12.9 percent against the US dollar, the pound and the euro respectively.

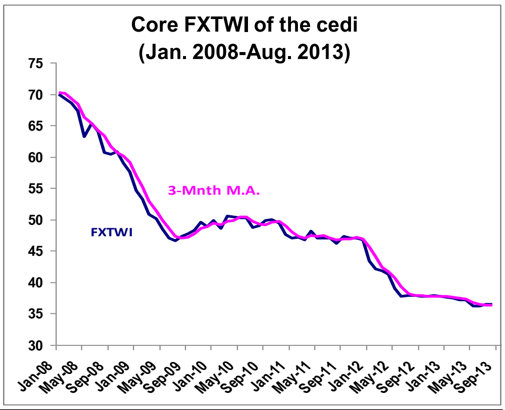
This is compared with higher depreciations of 18.0, 17.3 and 13.1 percent against the US dollar, the pound and the euro respectively over the corresponding period of 2012.

Nominal Effective Exchange Rates (NEERs)

Trade Weighted Index (TWI)

The major (or core) Trade Weighted Index (TWI) is an index measure of the value (January 2002=100), in nominal terms, of the cedi relative to the currencies of Ghana's top three trading currencies combined – the euro, the pound and the dollar. It is thus a nominal effective index.





Nominal TWI and FXTWI (Jan-Aug, 2012 and 2013)							
	2012				2013		
	Dec-11	Aug-12	Change (%)		Dec-12	Aug-13	Change (%)
TWI	37.41	30.80	-6.6		28.53	27.53	-1.0
FXTWI	46.71	37.86	-8.8		37.61	36.46	-1.1

For the period January – August 2013, the cedi weakened by 1.0 percentage points in trade-weighted terms. This compares with a depreciation of 6.6 percentage points over the corresponding period in 2012. The June 2013 value of the index was 27.53 and was 0.27 of a percentage point below its quarterly trend represented by the 3-month moving average.

Foreign Exchange Transactions Weighted Index (FXTWI)

Like the TWI, the FXTWI is nominal and effective, the difference being that while the TWI uses total merchandise trade (i.e. imports plus exports) as weights, the FXTWI uses the value of total foreign exchange transactions (i.e. purchases and sales) in the three core currencies as weights.

The FXTWI also shows that in August 2013, the cedi depreciated in foreign exchange transactions-weighted terms by 1.1 percentage points as compared with a depreciation of 8.8 percentage points in June 2012. The June 2013 value of the index of 36.46 was 0.10 of a percentage point above the quarterly trend value.

4.5.2 Real exchange rate developments

Over the period January – August 2013, the cedi's real exchange rate showed a cumulative appreciation of 6.9, 12.2 and 9.5 percent against the euro, the sterling and the dollar respectively.

Real Bilateral Exchange Rate Developments									
	RERI (Jan.02=100)			MONTHLY CHANGE (%)			CUMULATIVE (%)		
Month	EUR	GBP	USD	EUR	GBP	USD	EUR	GBP	USD
2007	89.9	104.4	143.1				-5.4	2.3	4.2
2008	90.1	129.6	134.8				0.2	25.2	-8.4
2009	81.5	114.0	129.6				-8.5	-15.6	-5.2
2010	92.5	120.3	134.4				11.0	6.3	4.8
2011	93.5	119.4	134.6				1.0	-0.9	0.3
2012									
Jan-12	91.8	115.3	128.5	0.8	-1.1	-1.1			
Feb-12	90.2	113.1	128.8	3.2	1.5	1.5			
Mar-12	90.1	113.1	128.9	-1.8	-4.0	-6.1	-3.5	-6.2	-5.7
Apr-12	90.7	112.1	129.7	-1.6	-2.2	0.3			
May-12	89.4	108.3	124.7	-0.1	-0.0	0.1			
Jun-12	89.8	109.1	122.2	0.6	-1.0	0.8	-3.8	-10.3	-12.4
Jul-12	92.3	108.4	123.0	-1.2	-3.8	-5.0			
Aug-12	90.1	106.1	121.3	0.4	0.8	-2.5	-3.4	-13.2	-13.3
2013									
Jan-13	83.0	103.9	120.4	0.6	3.2	1.7			
Feb-13	85.7	109.7	123.3	2.8	5.8	2.9			
Mar-13	88.5	113.3	124.6	2.8	3.6	1.3	6.1	12.6	5.9
Apr-13	89.2	112.3	127.8	0.6	-1.0	3.2			
May-13	90.0	113.7	127.5	0.9	1.5	-0.3			
Jun-13	90.0	114.1	128.8	-0.0	0.3	1.3	7.6	13.4	10.1
Jul-13	92.1	117.4	130.4	2.1	3.3	1.6			
Aug-13	89.3	112.9	128.2	-2.8	-4.5	-2.2	6.9	12.2	9.5

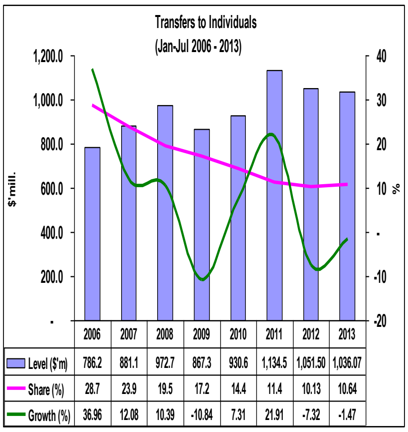
In contrast, for the corresponding period in 2012, the cedi's real exchange rate depreciated by 3.4, 13.2 and 13.3 percent against the euro, the pound sterling and the dollar respectively.

4.5.3 Inward transfers

Private inward transfers **–** received by **NGOs, embassies, service providers, individuals etc. –** through the banks for January to July 2013 amounted to $9.727 billion, which represents 7.3 percent decline over the transfers through banks in January to July 2012.

INWARD TRANSFERS THRO' BANKS
Jan - Jul: 2008 - 2013
($'million)

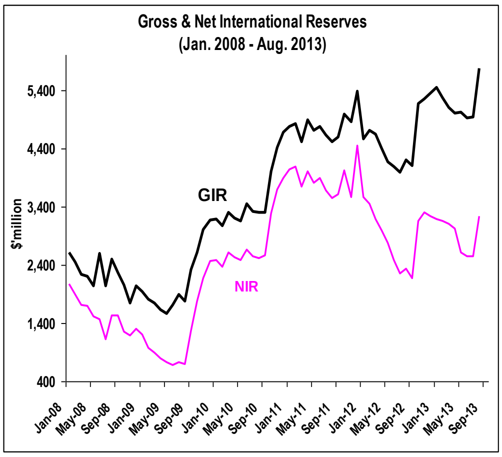
Year	Q1	Q2	JUL	JAN-JUL
2008	2,132.26	2,151.12	701.32	4,984.69
2009	1,976.59	2,249.49	815.81	5,041.88
2010	2,500.96	3,028.50	939.08	6,468.54
2011	4,219.96	4,369.92	1,377.78	9,967.67
2012	4,505.74	4,400.38	1,589.42	10,495.54
2013	3,870.49	4,462.05	1,394.45	9,726.99
Change ($'m)				
2008-9	-155.67	98.37	114.49	57.19
2009-10	524.37	779.02	123.27	1426.65
2010-11	1719.01	1341.42	438.70	3499.13
2011-12	285.78	30.46	211.64	527.88
2012-13	-635.26	61.67	-194.96	-768.55
Change (%)				
2008-9	-7.3	4.6	16.3	1.1
2009-10	26.5	34.6	15.1	28.3
2010-11	68.7	44.3	46.7	54.1
2011-12	6.8	0.7	15.4	5.3
2012-13	-14.1	1.4	-12.3	-7.3



Of the total transfers from January-July 2013, $1.036 billion (or 10.6%) accrued to individuals representing a 1.5 percent decline from that of January-July 2012 period of $1.051 billion (or 10.1%).

4.6 Gross and Net International Reserves

During the first half of 2013, the GIR declined by 8.2 percent to $4.9 billion in June, while the NIR declined by 21.0 percent to $2.6 billion.



The decline was driven by demand pressures on the cedi emanating from increased foreign exchange demand to finance imports coupled with decline in the Bank's foreign exchange inflows over the period.

In August, the GIR grew by 17.0 percent to reflect inflows from the Eurobond issued in July. Similarly, the NIR showed an increase of 26.6 percent in August.

The level of GIR at the end of August 2013 was $5.773 billion and could finance 3.2 months of goods and services imports.

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