



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

Section I: World Economic Outlook

The two trends that have characterized the global economy so far in 2014 are:

- The macro picture has been unexpectedly weak, and
- Financial markets have been surprisingly buoyant.

4.1.1 Global GDP growth

In its July update to the World Economic Outlook, the International Monetary Fund (IMF) marked down the global growth projection for 2014 by 0.3 percent to 3.4 percent. This reflected both the legacy of weak growth in the first quarter (2014:Q1), particularly in the US, and a less optimistic outlook for several emerging markets. With somewhat stronger growth expected in some advanced economies next year, the global growth projection for 2015 however remains at 4 percent.

Global GDP increased by 1.3 percent (q/q, saar) in Q1, the weakest pace in two years. Only a modest rebound in Q2 is expected to an estimated 2.1 percent. Growth outcomes have also been quite uneven, with many emerging market economies stuck in the growth path.

Overview of World Economic Outlook

(Percent change unless noted otherwise)

Economy/Region	Real GDP Growth					
	Realised		Projections		Diff. from Apr 2014	
	2012	2013	2014	2015	2014	2015
World	3.5	3.2	3.4	4.0	-0.3	0.0
Advanced Economies	1.4	1.3	1.8	2.4	-0.4	0.1
USA	2.8	1.9	1.7	3.0	-1.1	0.1
Japan	1.4	1.5	1.6	1.1	0.3	0.1
Euro Area	-0.7	-0.5	1.1	1.5	0.0	0.1
EM and Developing Economies	5.1	4.7	4.6	5.2	-0.2	-0.1
China	7.7	7.7	7.4	7.1	-0.2	-0.2
India	4.7	5.0	5.4	6.4	0.0	0.0
Sub-Saharan Africa	5.1	5.4	5.4	5.8	0.0	0.2
South Africa	2.5	1.9	2.3	2.7	-0.6	0.0
Ghana	8.8	7.1	7.1	N/A		
Memorandum						
World Trade Volume (G & S)	2.8	3.1	4.0	5.3	-0.3	0.0
Commodity Prices (% change)						
Oil	1.0	-0.9	0.1	-4.3	0.0	1.7
Non-fuel	-10.0	-1.2	-1.7	-3.6	1.8	0.4
Consumer Prices						
Advanced Economies	2.0	1.4	1.6	1.7	0.1	0.1
Emerging Mkt & Developing	6.1	5.9	5.4	5.3	-0.2	-0.1

Sources: IMF, WEO Jul 2014 *Ghana Statistical Service

Outlook:

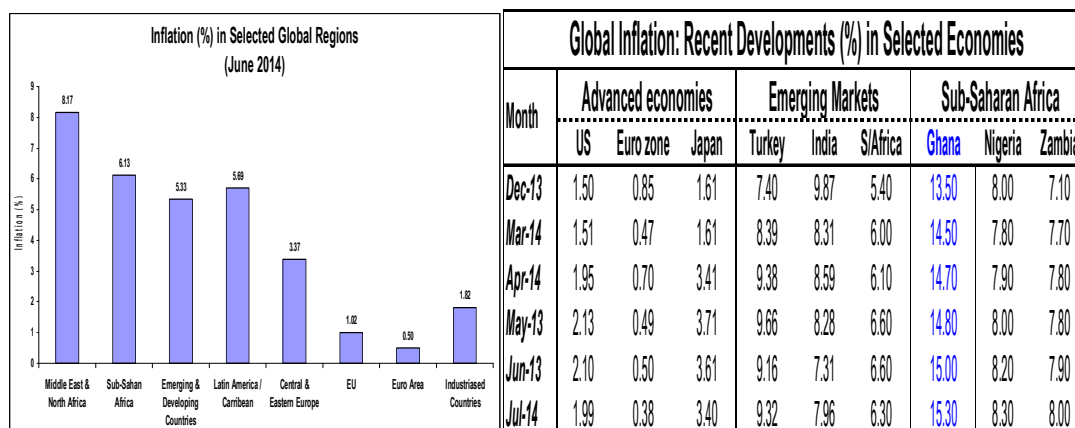
In the major advanced economies, a growth rebound is underway in the US, as temporary factors wane. In the emerging market and developing economies, growth is now projected to decrease to 4.6 percent in 2014 and then strengthen to 5.2 percent in 2015. In China, authorities have resorted to limited and targeted policy measures to support activity in the second half of the year (2014:H2), including tax relief for SMEs, accelerated fiscal and infrastructure spending, and targeted cuts in required reserve ratios.

4.1.2 Global inflation

Globally, inflation pressure is expected to stay subdued in 2014–15 with continued sizable negative output gaps in advanced economies, weaker domestic demand in several emerging market economies, and falling commodity prices.

Average developing country headline inflation has however been rising steadily. For a number of emerging markets and developing economies, recent exchange rate depreciations (following jitters in May 2013 and January 2014), have contributed to inflation pressures even though they helped improve the external balances of some of these countries. Inflation is expected to decline from about

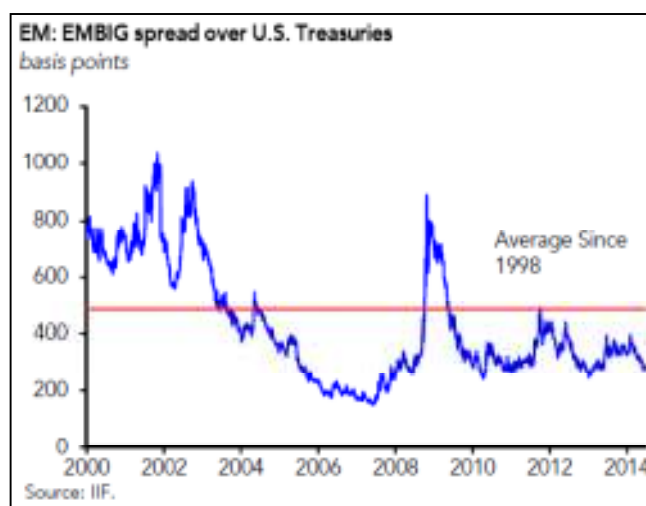
6 percent currently to about 5 percent by 2015 in emerging market and developing economies.



4.1.3 Global financial stability

Financial conditions have eased since IMF's global financial stability assessment in April. Long-term interest rates in advanced economies have declined further, in part reflecting expectations of a lower neutral policy rate over the medium term; indicators of expected price volatility have declined as well, and equity prices have strengthened.

Notwithstanding the macro disappointments in 2014:H1, risk appetite on financial markets has continued to rise and volatility has declined to multi-year lows. Emerging market and developing economies have shared in the benefits and the Emerging Market Bond Index Global (EMBIG) has declined well below its long-term average.



A key driving force of the heightened risk appetite is the low-for-longer rhetoric of most mature economy central banks.

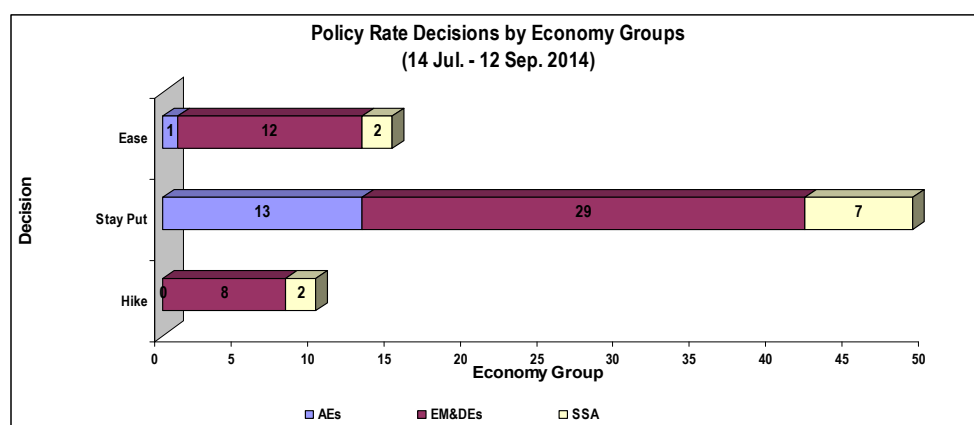
4.2 Global Monetary Policy Stance

Recently, central banks have eased monetary policy to shore up economic growth and also amidst concerns over geopolitical stability. The ECB shaken by the loss of momentum in the euro area's economic recovery, on 4 September, pushed its benchmark refinancing rate to the lower bound (cut its refi rate to 0.05 percent and the deposit rate to -0.20 percent).

The other recurring theme in global financial markets is the impending shift in monetary policy in the US and UK, with emerging market central banks continuing to tighten as they position themselves to avoid a repeat of last year's "taper tantrum" in May 2013 when global capital reversed course and moved into advanced economies.

4.2.1 Interest/Policy Rate decisions

The trends towards policy easing and tightening are both continuing among central banks around the world. So far in 2014 (up to the week ending 12 September), central banks have cut policy rates 48 times constituting 14.1 percent of all 339 policy rate decisions, up from 12 percent at the end of 2014:H1. But the trend toward higher global rates remains alive with policy rates so far raised 36 times, or 10.9 percent of the decisions taken, up from 9.3 percent at the end of June 2014.



The end result of the rate changes since the last MPC meeting was that the average Global Monetary Policy Rate (GMPR) increased to 5.54 percent as at 12 September from 5.52 percent at the last MPC meeting and 5.41 percent at the end of 2013. It shows how the global trend has shifted toward slightly higher, rather than lower, interest rates even though the global economy has performed weaker than expected.

4.2.2 Measures other than movement in policy rate

Central Bank of Kenya has introduced a new pricing system to serve as a standard for all banks. The rate, Kenya Bank Reference Rate, which will be computed as an average of the Central Bank Rate and the 91-day Treasury Bill rate for the previous six months, will act as the floor on which each lender loads its premium. It was expected to bring down considerably the cost of borrowing in Kenya.

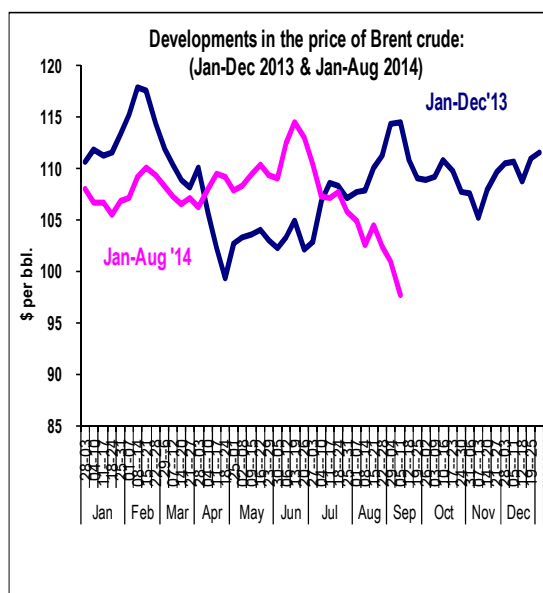
The ECB launched an impassioned plea for euro area governments to step up to the plate and use fiscal policy to boost faltering demand.

ECB added fresh fuel to its June stimulus measures by embarking on purchase of asset-backed securities. The move to inject liquidity into financial markets has been hailed as opportune for the global economy, since the Fed and Bank of England remain on track to raise rates at some point in 2015.

4.3 Commodities markets

Commodity prices fell, on the average, by 3.6 percent in August 2014, reflecting declines in almost all the major indices except primary energy and agriculture. The decreases are on account of weak demand and ample supply, as well as the strengthening of the U.S. dollar against major currencies. Consequently, futures markets indicate that most commodity prices are either easing or remaining flat through to end-2014, (IMF's commodity price outlook and risks, September 2014).

4.3.1 Oil



Global oil demand remains weak and crude oil supply ample to meet demand, despite geopolitical disturbances in Iraq, Syria and Ukraine.

Owing to ample supply, crude oil price prospects are downward-trending. The average weekly price of the benchmark Brent crude over the January – August 2014 period was

\$108.02 per barrel, a 0.21 percent decrease from the average price of \$108.25 over the corresponding period in 2013, despite geopolitical tensions in Ukraine and ongoing supply outages, notably in Libya and Iraq.

Year to August 2014, the average weekly price witnessed a decline of 8.1 percent to \$102.49 per barrel.

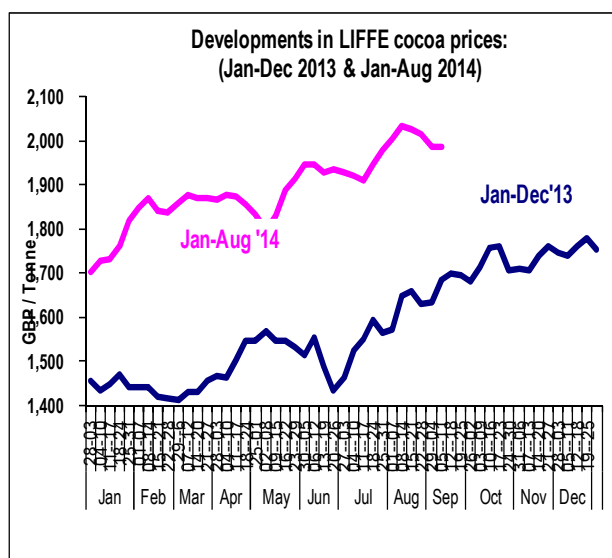
4.3.2 Cocoa

Cocoa prices are likely to remain flat through to the end of 2014 against the backdrop of weaker global growth prospects.

Ghana: Cumulative Cocoa Purchases (tonnes)				
Season		Crop Year		Change (%)
		2013/14	2014/15	
LIGHT	Actual (09 weeks)	50,104.00	18,285.00	(63.51)
	Act./Proj. for season	820,620.00	894,285.00	8.98
	Share (%)	6.11	2.04	

The first nine weeks' purchases turned in 18,285 tonnes, which was 63.5 percent lower, compared with the first nine weeks of the 2013/2014 light season.

Price developments

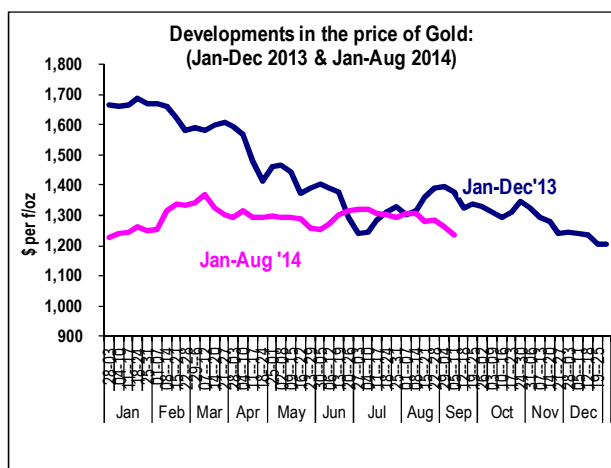


During January – August 2014, the London International Financial Futures Exchange (LIFFE) weekly price development of cocoa witnessed relatively lower fluctuations but increased by 24.9 percent to £1,882.29 per tonne.

In terms of the CSCE US\$ price, the year-to-August 2014 price developments resulted in an increase of 16.8 percent.

4.3.3 Gold

After collapsing to a 3-year low at the end of December 2013, gold prices have remained flat and expected to rise through to end of the year before declining marginally in 2014, in line with the recovery in the safe haven financial assets, reflecting renewed optimism about the prospects for global growth in 2014:H2.



Year to August 2014, the average weekly price witnessed a decline of 16.0 percent to \$102.49 per barrel.

Price developments

The average weekly price over the January – August 2014 period declined by 12.3 percent to \$1,284 per fine ounce, compared with \$1,394 over the corresponding period in 2013.

4.4 Currencies Markets

MOVEMENTS OF SELECTED CURRENCIES AGAINST THE US DOLLAR (%)								
Pt-to-pt. (%)	Advanced Economies			Emerging Markets			SSA	
	Euro	Pound	Yen	New Lira	Rupee	Rand	Kwacha	Gh. Cedi
	Euro zone	UK	Japan	Turkey	India	S. Africa	Zambia	Ghana
2013								
Jan	1.5	-1.2	-6.1	1.0	0.8	-2.1	-4.3	-0.2
Feb	0.3	-3.0	-4.2	-0.4	0.7	-0.9	0.5	-0.1
Mar	-2.9	-2.6	-1.9	-1.7	-1.1	-3.4	-1.0	-0.8
Apr	0.5	1.6	-3.0	0.7	0.2	1.0	2.2	-0.6
May	-0.3	-0.1	-3.1	-1.6	-1.2	-2.6	-1.0	-1.5
Jun	1.6	1.3	3.7	-3.9	-5.8	-6.6	-2.4	-0.3
Jul	-0.9	-2.1	-2.5	-1.7	-2.4	0.8	-0.1	-0.1
Aug	1.8	2.2	2.0	-1.4	-4.9	-1.6	1.9	-0.3
Jan-Aug (Cum)	1.5	-3.9	-14.4	-8.9	-13.1	-14.5	-4.3	-3.9
2014								
Jan	-0.7	0.5	-0.4	-7.2	-0.5	-4.7	-1.2	-7.8
Feb	0.4	0.6	1.6	0.7	-0.2	-0.6	-3.9	-5.5
Mar	1.2	0.4	-0.2	-0.3	2.1	1.9	-4.9	-5.5
Apr	-0.1	0.7	-0.1	4.1	1.0	1.9	-3.4	-4.4
May	-0.5	0.6	0.6	1.7	1.7	1.2	-7.3	-3.4
Jun	-1.0	0.4	-0.2	-1.3	-0.7	-2.5	8.9	-3.6
Jul	-0.5	0.9	0.3	-0.1	-0.5	0.2	2.0	-1.0
Aug	-1.6	-2.2	-1.2	-2.0	-1.3	-0.0	2.3	-3.2
Jan-Aug (Cum)	-2.9	1.9	0.4	-4.6	1.6	-2.7	-8.1	-29.8

The currencies of most emerging markets, especially those with large external financing needs and fragile policy frameworks, weakened sharply in early 2014 as capital flowed out in response to the Federal Reserve's plan to reduce asset purchases.

In **Sub-Saharan Africa**, the volatility affected several economies, leading to rising inflationary pressures.

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 MOVEMENT OF THE CEDI AGAINST CORE CURRENCIES									
Month				Monthly Changes (%)			Year-on-year changes (%)		
	Ghc/\$	Ghc/£	Ghc/€	Ghc/\$	Ghc/£	Ghc/€	Ghc/\$	Ghc/£	Ghc/€
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	-1.5	-1.9	-4.1	-10.5	-10.1	-9.3
Mar-12	1.6888	2.7646	2.3025	-0.8	-3.0	-1.2	-11.0	-11.7	-6.0
Apr-12	1.7030	2.8846	2.3916	-9.1	-7.7	-4.2	-12.1	-14.1	-7.1
May-12	1.8103	2.9178	2.3814	2.9	2.9	1.1	-17.0	-16.5	-9.3
Jun-12	1.8735	3.0202	2.4121	-2.9	-2.9	-1.1	-19.6	-20.3	-10.8
Jul-12	1.8846	2.9909	2.3840	-0.5	0.8	1.0	-20.1	-18.0	-9.8
Jun-12	1.8735	3.0202	2.4121	-0.3	-1.5	-1.3	-20.0	-18.4	-9.8
Jul-12	1.8846	2.9909	2.3840	-0.4	0.1	-1.1	-19.9	-19.8	-12.9
Cum. Change (%) Jan-Jun				-18.0	-17.3	-13.1			
2013									
Jan-13	1.8840	3.0237	2.5646	-0.2	1.1	-3.4	-12.6	-13.2	-15.1
Feb-13	1.8864	2.9065	2.5108	-0.1	4.1	2.1	-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	-3.4	-1.9	-11.0	-4.5	-5.2
May-13	1.9408	2.9780	2.5691	-1.4	1.5	-1.7	-6.7	-2.0	-7.3
Jun-13	1.9469	3.0919	2.6506	-0.3	-3.8	-3.0	-3.8	-2.3	-9.0
Jul-13	1.9494	3.1089	2.7228	-0.1	-0.5	-2.5	-3.3	-3.8	-12.4
Aug-13	1.9559	3.2290	2.8452	-0.3	-3.7	-3.9	-3.3	-5.7	-15.0
Cum. Change (%) Jan-Jun				-3.9	-5.3	-12.9			
2014									
Jan-14	2.3864	3.9160	3.2469	-7.8	-6.2	-4.6	-21.1	-22.8	-21.0
Feb-14	2.5243	4.2197	3.4676	-5.0	-6.7	-6.1	-25.3	-31.1	-27.6
Mar-14	2.6707	4.4478	3.6479	-4.8	-4.5	-4.4	-28.8	-34.3	-32.1
Apr-14	2.7950	4.7251	3.8509	-3.7	-4.8	-4.5	-31.6	-36.1	-34.5
May-14	2.8935	4.9635	4.0066	-2.7	-3.7	-3.1	-32.9	-40.0	-35.9
Jun-14	3.0016	5.1080	4.0934	-2.7	-2.1	-1.6	-35.1	-39.5	-35.2
Jul-14	3.0337	5.1297	4.0583	-0.8	-0.3	0.7	-35.7	-39.4	-32.9
Aug-14	3.1333	5.1949	4.1278	-2.3	-0.9	-1.3	-37.6	-37.8	-31.1
Cum. Change (%) Jan-Jun				-29.8	-29.3	-24.9			

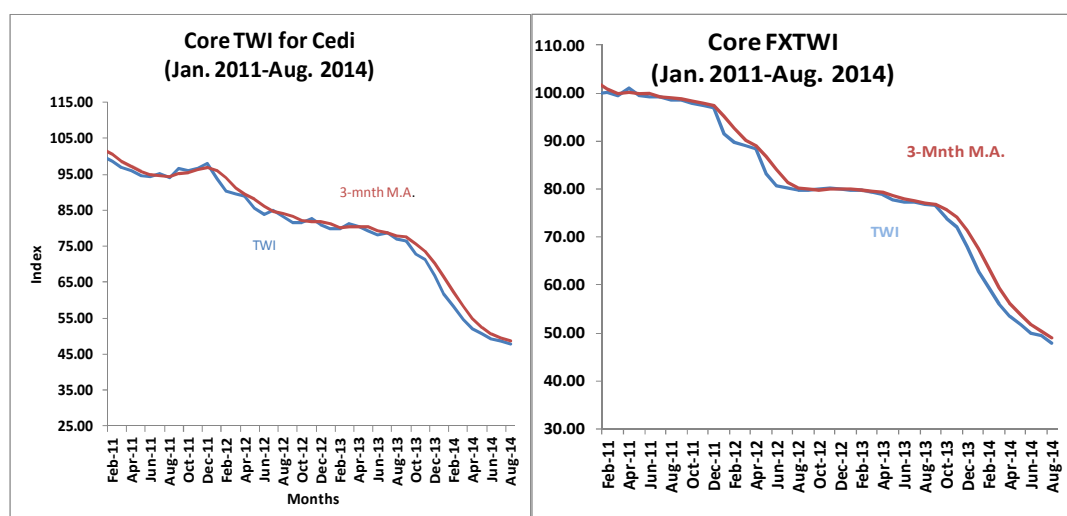
Developments in the nominal bilateral exchange rates of the cedi against the three core currencies – the US dollar, the pound sterling and the euro – show that from January to August 2014, the cedi depreciated, cumulatively, by 29.8, 29.3 and 24.9 percent against the US dollar, the pound and the euro respectively.

This is compared with similar depreciations of 3.9, 5.3 and 12.9 percent against the US dollar, the pound and the euro respectively over the corresponding period of 2013.

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.



For the January – August 2014 period, the cedi weakened by 18.9 index points in trade-weighted terms. This compares with a depreciation of 3.8 index points over the corresponding period in 2013. The August 2014 value of the index was 47.87 and was 0.70 of an index 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.

	Nominal TWI and FXTWI (Jan-Aug, 2013 and 2014)						
	2013				2014		
	Dec-12	Aug-13	Change (%)		Dec-13	Aug-14	Change (%)
TWI	80.93	77.17	-3.8		66.74	47.87	-18.9
FXTWI	79.97	76.88	-3.1		68.10	47.90	-20.2

The FXTWI also shows that in August 2014, the cedi depreciated in foreign exchange transactions-weighted terms by 20.2 index points as compared with a depreciation of 3.1 index points in August 2013. The August 2014 value of the index of 47.9 was very close to its quarterly trend value.

4.5.2 Real exchange rate developments

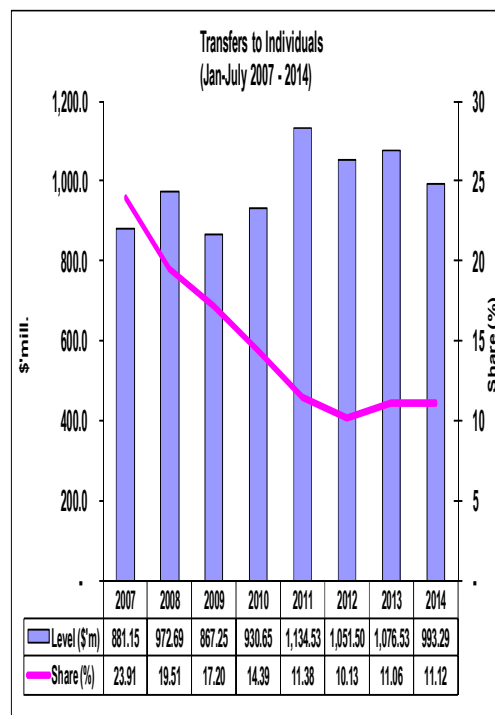
Real Bilateral Exchange Rate Developments									
Month	RERI (Jan.11=100)			MONTHLY CHANGE (%)			CUMULATIVE (%)		
	EUR	GBP	USD	EUR	GBP	USD	EUR	GBP	USD
2007	97.4	87.7	106.6				-5.8	1.9	3.1
2008	97.6	108.9	100.4				0.2	21.2	-6.2
2009	88.3	95.8	96.6				-9.3	-13.1	-3.8
2010	100.3	101.1	100.1				11.9	5.3	3.5
2011	101.3	100.2	100.3				1.0	-0.8	0.2
2012	89.3	84.6	88.5				-12.0	-15.7	-11.8
2013									
Jan-13	91.6	88.8	91.3	2.2	4.3	2.9			
Feb-13	92.4	91.6	91.3	0.8	2.8	0.0			
Mar-13	93.8	93.0	90.7	1.4	1.4	-0.6			
Apr-13	94.1	92.2	91.7	0.3	-0.8	0.9			
May-13	93.3	91.4	90.9	-0.7	-0.8	-0.8			
Jun-13	93.0	91.3	91.5	-0.4	-0.1	0.6			
Jul-13	95.3	94.1	92.7	2.3	2.8	1.2			
Aug-13	92.5	90.6	91.3	-2.8	-3.5	-1.4	3.2	6.1	2.9
2014									
Jan-14	79.8	75.9	80.8	-2.4	-3.4	-3.8			
Feb-14	76.3	71.7	76.9	-3.4	-4.2	-3.8			
Mar-14	70.8	68.0	72.9	-5.6	-3.7	-4.1			
Apr-14	68.8	65.5	70.6	-2.0	-2.6	-2.3			
May-14	67.3	63.4	68.8	-1.4	-2.1	-1.8			
Jun-14	66.7	61.8	67.1	-0.6	-1.6	-1.7			
Jul-14	67.8	61.7	67.4	1.1	-0.1	0.3			
Aug-14	66.3	60.5	64.8	-1.5	-1.3	-2.6	-15.8	-18.8	-19.7

Over the January – August 2014 period, the cedi's real exchange rate cumulatively depreciated by 15.8, 18.8 and 19.7 against the euro, the pound sterling and the dollar respectively. For the corresponding period in 2013, the cedi's real exchange rate appreciated by 3.2, 6.1 and 2.9 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 2014 amounted to \$8.94 billion, which represents 8.1 percent decline over the transfers through banks over the corresponding period in 2013.

INWARD TRANSFERS THRO' BANKS				
Jan -Jul, 2009 - 2014				
(\$'million)				
Year	Q1	Q2	JUL	JAN-JUL
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
2014	3,810.95	3,841.24	1,283.30	8,935.49
Change (\$'m)				
2009-10	524.37	779.02	123.27	1,426.65
2010-11	1,719.01	1,341.42	438.70	3,499.13
2011-12	285.78	30.46	211.64	527.88
2012-13	- 635.26	61.67	- 194.96	- 768.55
2013-14	- 59.54	- 620.81	- 111.15	- 791.50
Change (%)				
2009-10	26.53	34.63	15.11	28.30
2010-11	68.73	44.29	46.72	54.09
2011-12	6.77	0.70	15.36	5.30
2012-13	- 14.10	1.40	- 12.27	- 7.32
2013-14	- 1.54	- 13.91	- 7.97	- 8.14



Of the total transfers from January-July 2014, \$993.3 million (or 11.1%) accrued to individuals representing a 7.7 percent increase over the corresponding period in 2013 of \$1.1 million (or 9.68%).

For further information, contact:
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