Bank of Ghana
Monetary Policy Committee
Press Release

September 28 , 2020

Good morning, Ladies and Gentlemen of the Media, and welcome to the 96th Monetary Policy Committee (MPC) press briefing. The MPC met last week and reviewed the recent global and domestic economic developments including the outlook for the economy. I present highlights of the developments and subsequent positioning of the Monetary Policy Rate.

1. Recent survey data point to emerging signs of recovery following the sharp global economic contraction in the first half of 2020, due to the COVID-19 pandemic. The recovery has been underpinned by coordinated large fiscal stimulus packages, supportive monetary policies and widespread easing of restrictions, especially in countries that have made significant progress in containing the spread of the virus. The recovery is expected to continue, but at a gradual pace. A key downside risk is the resurgence of a second wave of the pandemic which is generating uncertainties and posing risks to the anticipated recovery.

2. This notwithstanding, sentiments on the global financial markets have improved. Equity prices rebounded strongly from the March 2020 sell off, corporate and sovereign bond spreads have narrowed, while capital and portfolio flows to emerging market and frontier economies improved in August. These developments helped ease pressures on currencies in some emerging market and frontier economies. Sovereign risk spreads for some sub-Saharan African countries have also begun trending downwards, indicating lower investor perception of risks.

3. Global inflationary pressures remain broadly subdued, driven by low energy prices, the large negative output gap, and labour market slackness. In addition, core inflation remains low in advanced economies and inflation projections have generally been revised downwards in the near-term. In emerging market and frontier economies, the inflation dynamics remain largely dependent on currency movements and the impact of COVID-19 on food prices.

4. The Ghanaian economy has also begun to experience some recovery as price pressures that resulted from the pandemic-related restrictions and lockdown measures in March 2020, are easing. Headline inflation, after edging up sharply to 11.4 percent in July 2020, has started going down, now at 10.5 percent in August, on the back of declining food prices. Food inflation has steadily declined from 15.1 percent in May to 11.4 percent in August, partly reflecting seasonal effects. Non-food inflation has however, increased from 8.4 percent to 9.9 percent over the review period.

5. Underlying inflationary pressures are also easing. Inflation expectations of businesses, consumers, and the financial sector, derived from the Bank's latest round of surveys, have moderated. The Bank's core inflation measure, which excludes energy and utility, also declined marginally.

6. As expected, the latest data released by the Ghana Statistical Service (GSS) confirms the full impact of the pandemic on economic activity in the second quarter of 2020. The GSS data showed that real GDP contracted by 3.2 percent in the second quarter of 2020, compared with a growth of 5.7 percent for the corresponding period in 2019. Non-oil GDP also contracted by 3.4 percent, relative to the 4.3 percent growth in the same comparative period. The Industry and Services sectors have been most affected by the pandemic, contracting by 5.7 and 2.6 percent respectively. The worst affected sub-sectors: Hotels & Restaurants, Trade, and Manufacturing contracted sharply by 79.4, 20.2, and 14.3 percent respectively.

7. Notwithstanding the contraction in the second quarter, high frequency data available to the Bank of Ghana show some green shoots of rebound in economic activity. From the Bank of Ghana's surveys in August, consumer confidence is bouncing back strongly and is currently above pre-lockdown levels. Consumers seem to be responding to the gradual lifting of restrictions—providing some scope for meaningful economic activities. Business confidence also increased, but yet to reach pre-lockdown levels. About 95 percent of businesses surveyed showed strong optimism, reflecting the improving macroeconomic conditions, stability in the exchange rate, lower input prices, moderation in lending rates, and positive industry prospects.

8. The real Composite Index of Economic Activity (CIEA) grew by 3.6 percent in July 2020, compared with a contraction of 10.6 percent recorded in May. Consumer spending, industrial consumption of electricity, and construction activities have all reached pre-lockdown levels, while tourist arrivals and port harbour activity are gradually edging upwards. In contrast, imports, exports, and private sector contributions to social security, remain below pre-lockdown levels.

9. In addition to the positive trends in the CIEA, other indicators monitored by the Bank of Ghana also point to signs of a recovery. With the exception of workplace clusters, which still remained below baseline, all other indicators embodied in the google mobility data — commuting and travelling, visit to supermarkets and pharmacy, and residential activity have moved above baseline. The Ghana Purchasing Managers Index, which gauges the rate of inventory accumulation by managers of private sector firms and measures dynamics in economic activity, points to a steady rise in business activity since April 2020.

10. On fiscal policy, provisional data on budget execution for the first seven months, showed an overall budget deficit of 7.4 percent of GDP, against the revised target of 7.2 percent of GDP as the COVID-19 pandemic continued to impact fiscal operations. The primary balance also recorded a deficit of 3.7 percent of GDP, above the planned target of 3.4 percent of GDP. Over the review period, total revenue and grants amounted to GH¢27.7 billion compared with the target of GH¢26.8 billion. Total expenditures and arrears clearance amounted to GH¢56.2 billion, above the target of GH¢53.3 billion.

11. These developments impacted the stock of public debt which rose to 68.3 percent of GDP (GH¢263 billion) at the end of July 2020, compared with 62.4 percent of GDP (GH¢218.2 billion) at the end of December 2019. Of the total debt stock, domestic debt was GH¢125.1 billion (32.5 percent of GDP) while external debt was GH¢138 billion (35.8 percent of GDP), representing 52.4 percent of the total public debt.

12. The pace of growth in broad money supply (M2+) picked up in August 2020, reflecting the gradual uptick in economic activity. M2+ grew by 24.8 percent, year-on-year compared with 11.8 percent in the corresponding period of 2019. The increase in total liquidity was driven by Net Domestic Assets (NDA) and Net Foreign Assets (NFA). NDA grew by 28.8 percent year-on-year in August 2020, compared with 14.7 percent in August 2019, while NFA went up to 11.2 percent from 3.0 percent over the same comparative period. In terms of components, the growth in M2+ reflected mainly in currency outside banks and demand deposits. DMBs' credit to the private sector has moderated since the beginning of the year.

13. Interest rates on the money market saw mixed developments as rates on short to medium term instruments eased, but generally tightened at the longer-end. On a year-on-year basis, the 91-day Treasury bill rate declined to about 14.0 percent in August 2020 from 14.7 percent a year ago. Similarly, the interest rate on the 182-day instrument declined to 14.1 percent from 15.2 percent. With the exception of the 6-year bond, yields on the 7-year, 10-year, 15-year, and 20-year bonds all increased.

14. The downward adjustment of the monetary policy rate impacted the weighted average interbank lending rate, which declined to 13.6 percent in August 2020 from 15.2 percent in August 2019. Average lending rates of banks have steadily declined to 21.4 percent from 24.0 percent over the same comparative period.

15. The latest credit conditions survey conducted in August 2020 showed a net tightening in the overall credit stance on loans to enterprises. However, as economic activities continue to pick-up, demand for credit by households and firms will also pick up. Banks have signalled a net easing of their credit stance on enterprises' loans in the months ahead. Cumulatively, from the beginning of the year to August 2020, new advances have totalled GH¢20.9 billion, compared with GH¢15.8 billion for the same period of last year.

16. The banking sector remains liquid, well capitalised, and well-positioned to support growth. The sector remains robust as reflected by the strong Financial Soundness Indicators and the Banking Sector Stability Index. Banks are well capitalized to contain short-term liquidity pressures and any possible worsening of the economic environment. The NPL ratio has declined marginally and profitability remains strong. The recent survey results revealed that while the pandemic has increased the industry's cost of operations, banks have not passed on the associated costs to consumers through higher interest margins.

17. On trade, prices of the key export commodities continue to trade mixed in the year to August 2020. Crude oil prices have declined by 30.9 percent from the beginning of year to August 2020 primarily due to low demand as a result of the COVID-19 pandemic. Crude oil prices averaged US$44.3 per barrel in August. In contrast, gold prices averaged US$1,971.1 per fine ounce at the end of August, representing a year-on-year growth of 33.1 percent supported by accommodative monetary policy, increased uncertainty, and the global economic slowdown due to COVID-19. Cocoa prices averaged US$2,482.1 per tonne in August 2020, representing a 1.4 percent year-on-year decline.

18. The price movements, especially for crude oil, impacted adversely on the external sector. In the first eight months of the year, total exports contracted by 9 percent year-on-year to US$9,622.3 million, driven mainly by the sharp decline of US$1,142.5 million in crude oil export receipts due to the drop in prices. Gold and cocoa export earnings however increased by about US$400 million on account of favourable prices and production volumes. Total imports also contracted by 9.2 percent to US$8,304.3 million on account of a 28.6 percent and 4.7 percent contraction in oil and non-oil imports, respectively. These developments resulted in a lower trade surplus of US$1,318.0 million (2.0 percent of GDP) in the first eight months of 2020, compared with US$1,421.0 million (2.1 percent of GDP) in the same period of 2019.

19. Gross International Reserves at the end of August 2020 was US$8,561.9 million, providing cover for 4.0 months of imports of goods and services. The reserve level compares with a position of US$8,418.1 million, equivalent to 4.0 months of import cover recorded at the end of December 2019.

20. The strong foreign exchange reserve position has provided an anchor for exchange rate stability. Cumulatively, the Ghana Cedi has depreciated by 2.9 percent against the US dollar in the year to 23rd September, 2020, compared with a depreciation of 9.3 percent a year ago. The strong performance of the cedi, broadly reflects improvements in global financial market risk sentiments, foreign inflows from mining, strong remittances, and forward sales of foreign exchange by the Bank of Ghana.

Summary and Outlook

21. In sum, the global economy has begun to show signs of recovery. The recovery and improving sentiments on global financial markets should help ease pressure on emerging market currencies. Emerging market sovereign spreads have tightened in response. The external environment, which has improved, should provide support to Ghana's economic recovery. However, there are uncertainties in the external environment which need to be carefully monitored to ensure that Ghana continues to safeguard international capital market access.

22. On the domestic front, the policy and regulatory relief measures introduced by the Bank of Ghana have enhanced liquidity in the banking system, preserved capital buffers, and provided relief to customers severely impacted by the pandemic. These measures have also helped banks and specialised deposit-taking institutions provide support to critical sectors of the economy to mitigate the adverse impact of the pandemic. The Bank of Ghana will continue to monitor the impact of these relief measures.

23. On the real economy, despite the contraction in the second quarter, the indication is for improved growth outturn in the third and fourth quarters. Leading indicators of economic activity point to a recovery. A sustained level in consumer and business confidence, broad-based growth in the indicators of the CIEA are all supportive of positive growth conditions in the outlook. Following from the above, it is estimated that growth in 2020 will be between 2.0 and 2.5 percent.

24. Fiscal policy has been a source of considerable stimulus, driven by exceptional expenditures directed towards goods & services, capital expenditures, COVID-related spending, and in the energy sector. As at July 2020, the budget deficit was higher than programmed. Indications from banking data point to a faster budgetary execution in August relative to the annual target of 11.4 percent of GDP, supported by exceptional domestic and foreign financing sources.

25. Headline inflation, after peaking at 11.4 percent has eased to 10.5 percent, slightly above the upper band target. With the easing of the COVID-related food price pressures and continued stability in the exchange rate, a gradual and steady return of inflation to target is anticipated over the horizon. Underlying inflation and inflation expectations are easing. The latest staff forecast shows a somewhat improved outlook compared to the last MPC and in the absence of unanticipated shocks, inflation should return to the medium-term target by the second quarter of 2021.

26. In sum, the drivers of economic growth are returning to normal with prospects for a good recovery. Monetary and fiscal policies have been supportive, providing the necessary underpinnings for the economy to withstand the negative output shock arising from the pandemic. However, this has come at the cost of moving away from the consolidation path and could pose a risk to long-term macroeconomic stability if decisive measures are not taken to define a feasible fiscal adjustment to stabilise debt.

27. Under the circumstances, the Committee's view is that risks to the immediate outlook for inflation and growth are broadly balanced and decided to keep the policy rate unchanged at 14.5 percent.

Informational Note

The next Monetary Policy Committee (MPC) meeting is scheduled for November 18-20, 2020. The meeting will conclude on Monday, November 23, 2020 with the announcement of the policy decision.