Bank of Ghana
Monetary Policy Report

Global Economic Developments & Ghana's Balance of Payments

Vol. 1 No. 5/2020 September 2020

Highlights

- *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.*
- *Global inflationary pressures remain broadly subdued, driven by low energy prices, the large negative output gap and labour market slackness.*
- *Financial conditions have eased, reflecting the improvement in the global financial market risks sentiment.*
- *Improvements in financial market risk sentiment has helped to ease pressure on some EMDE currencies. Other currencies remain under pressure owing to country specific vulnerabilities.*

Section I: Global Economic Developments

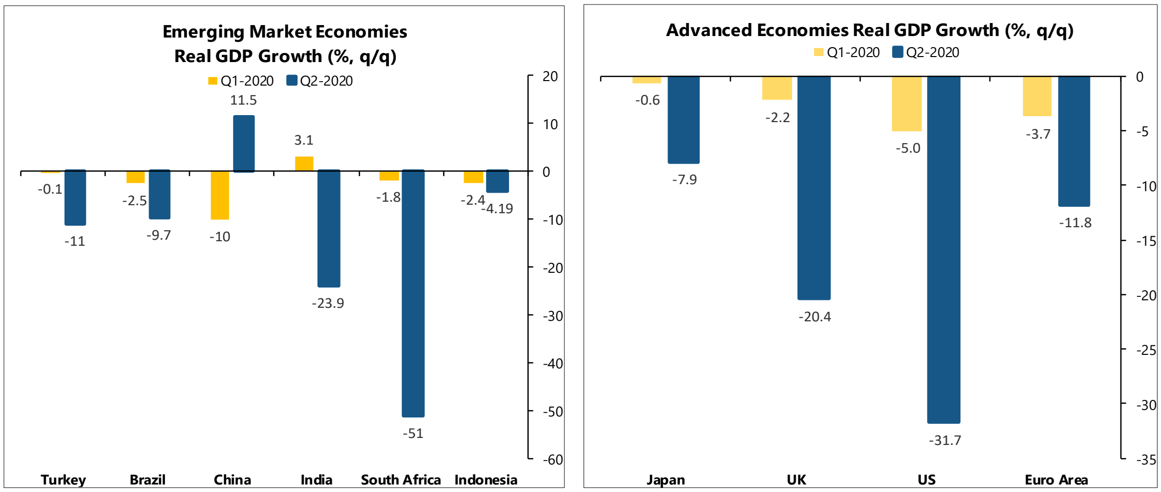
1.0 Global Real GDP Growth Developments

The global economy experienced a sharp contraction in the first half of 2020 due to restrictions imposed to contain the spread of the COVID-19 pandemic. The contraction was broad based and deepest in countries that were severely hit by the spread of the COVID-19 virus (see Figure 1). However, recent survey data point to signs of recovery driven by the widespread easing of restrictions and decisive monetary and fiscal policy support.[1] The massive fiscal support is expected to reduce uncertainty about global growth and unleash the pent-up private demand for goods and services (see Figure 2). Global confidence indicators have continued to improve although still below pre-pandemic levels. The JP Morgan Global Composite Output Index rose

[1] For instance, economic activity will be boosted by lagged effects from substantial fiscal and monetary support already in place. Activity will also be supported by the €750 billion recovery fund passed by EU leaders to help fight the effects of the pandemic.

from 51.0 in July to 52.4 in August, its highest level since March 2020, signalling expansion ahead. Growth was registered in both manufacturing and service sectors**.**

Figure 1: **Real GDP Growth in Advanced and Emerging Market Economies**

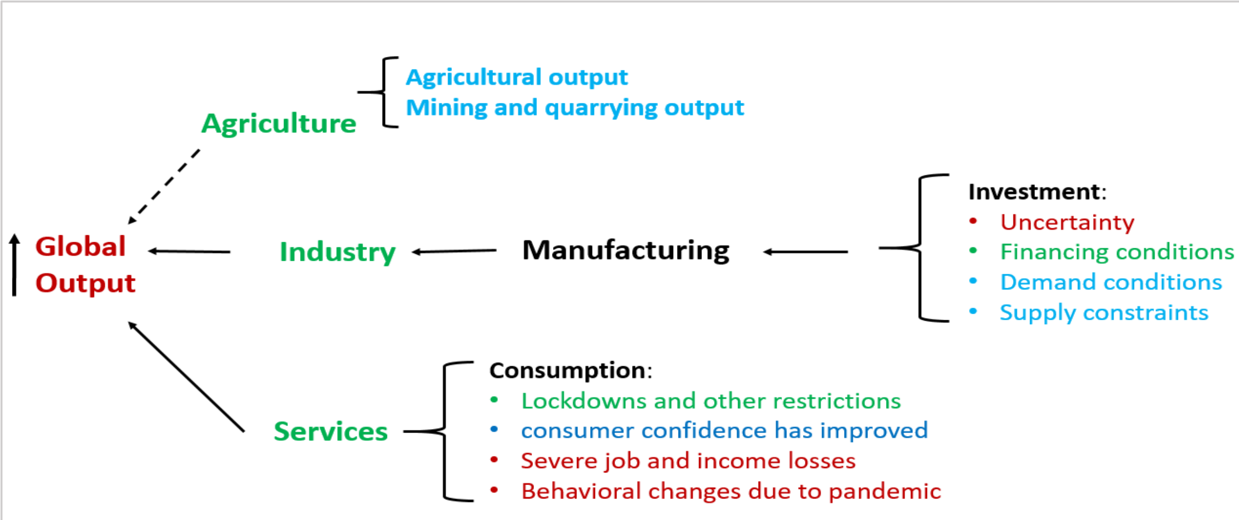


Source: *Bank of Ghana/Trading Economics*

However, the recovery is expected to be gradual and uneven in view of persisting social distancing measures in the near-term, cautious behaviour of households and firms, and the fact that the worst hit sectors may take a while to recover, and country cases vary (See Figure 2). The outlook for the global economy also remains uncertain despite the early signs of recovery. The COVID-19 infections continue to rise as countries ease restrictions, sparking fears of a second wave of infections that may require re-imposition of restrictions and leading to further slowdown in the world economy. The recent resurgence of the pandemic in Israel, the United States, and parts of Europe, lends credence to the uncertain path of the pandemic in the near-term.

A combination of increased oil supply and weak global demand could lead to low oil prices for a long period, worsening the already precarious public finances of oil exporting countries. Both OPEC+ and International Energy Agency (IEA) have trimmed their forecast for global oil demand due to the unprecedented contraction in the global economy. EMDEs continue to face multi-layered shocks including domestic economic disruptions due to containment measures and the challenging global environment which weakened demand for exports. Although sovereign spreads have retreated somewhat following the sharp rise in March 2020, on average, they remain above the pre-pandemic level in many EMDEs.

Figure 2: Sectoral Effects of the COVID-19 Pandemic



Source: BOG/IMF/ECB/World Bank

An IMF growth projection released in June 2020 suggests global growth will contract by 4.9 percent in 2020, 1.9 percentage points steeper than the April 2020 forecast. Growth in EMDEs is projected to decline from 3.7 percent in 2019 to a contraction of 3.0 percent in 2020. A more recent forecast released by the OECD suggests global growth will contract at 4.5 percent in 2020. Sub-Saharan Africa's real GDP growth is projected to decline from 3.1 percent in 2019 to 3.2 percent contraction in 2020. However, the global economy is expected to recover to 5.4 percent growth rate in 2021, 0.4 percentage points lower than the April 2020 forecast.

The recovery in 2021 is expected to be supported by a gradual strengthening of both consumption and investment spending as the public health counter measures introduced to control the outbreak are gradually rolled back. For countries where infections are declining, a gradual recovery path is anticipated in view of the larger than anticipated hit to activity in the first and second quarters of 2020, the need for the continuation of social distancing into the second half of the year, changes in consumer behaviour due to fear of infection and the precautionary behaviour of firms in the face of uncertainty surrounding their earnings prospects. For economies struggling to control infection rates, the need to continue lockdowns and social distancing will take an additional toll on activity, according to the IMF.

Table 1: IMF Global Growth Projections

	JUNE 2020 UPDATES (%, YEAR OVER YEAR)			
	ESTIMATES		PROJECTIONS	
REAL GDP GROWTH (%)	**2018**	**2019**	**2020**	**2021**
World	**3.6**	**2.9**	**-4.9**	**5.4**
Advanced Economies	**2.2**	**1.7**	**-8.0**	**4.8**
United States	2.9	2.3	-8.0	4.5
Euro Area	1.9	1.3	-10.2	6.0
Germany	1.5	0.6	-7.8	5.4
France	1.8	1.5	-12.5	7.3
Italy	0.8	0.3	-12.8	6.3
Spain	2.4	2.0	-12.8	6.3
Japan	0.3	0.7	-5.8	2.4
United Kingdom	1.3	1.4	-10.2	6.3
Emerging and Developing Economies	**4.5**	**3.7**	**-3.0**	**5.9**
Russia	2.5	1.3	-6.6	4.1
China	6.7	6.1	1.0	8.2
India	6.1	4.2	-4.5	6.0
Brazil	1.3	1.1	-9.1	3.6
Sub-Saharan Africa	**3.3**	**3.1**	**-3.2**	**3.4**
Ghana	6.3	6.1	0.9	5.9
Nigeria	1.9	2.2	-5.4	2.6
South Africa	0.8	0.2	-8.0	3.5

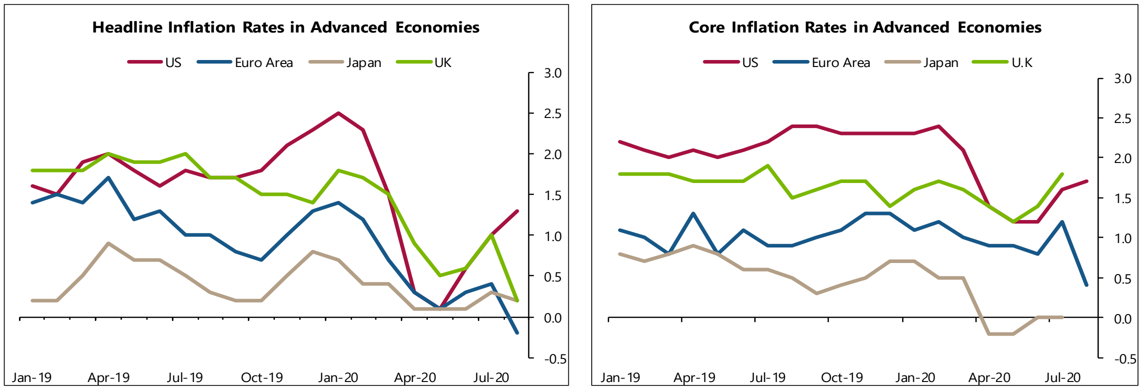
Source: IMF WEO JUNE 2020 UPDATE

Looking ahead, risks to the outlook are tilted to the downside despite the massive monetary and fiscal stimulus initiatives undertaken by various central banks and governments. This assessment derives from the still high uncertainty regarding how long the COVID-19 pandemic will continue to spread, the extent of the economic fallout, and how quickly global growth will recover from the outbreak.

2.0 Global Price Developments

Crude oil price has recovered somewhat since the collapse in the first quarter but still below the pre-pandemic level. OPEC+ agreed in July 2020 to cut output by 7.7 mb/d from August – December to push oil prices up. However, so far, oil prices have remained around US$40-US$42 per barrel and faces uncertain demand. Both OPEC+ and IEA have trimmed the 2020 outlook for oil demand. The partial recovery in oil prices led to some marginal increase in headline inflation in some countries, moderated by downward pressure from spare capacity within firms and in the labour market. Core inflation remains low in advanced economies, and inflation projections have generally been revised downwards in the near term, reflecting the weakening global demand associated with the spread of COVID-19.

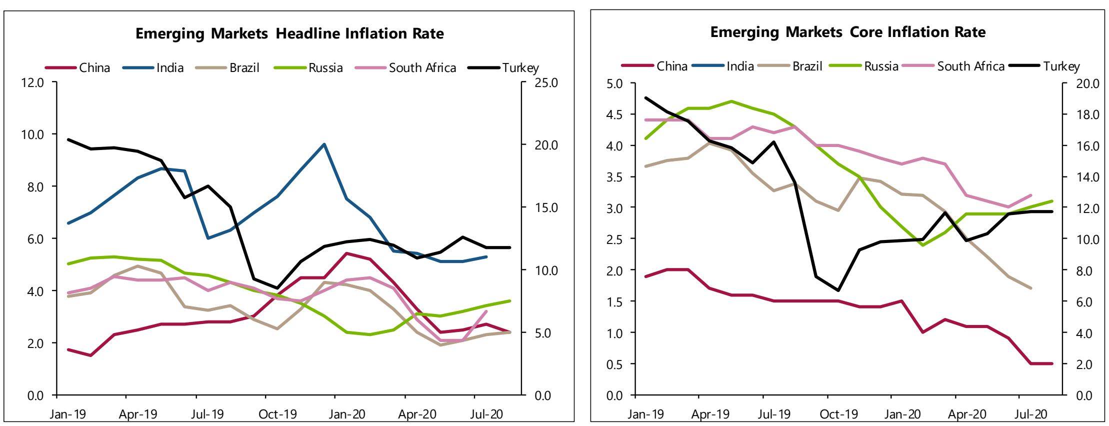
Figure 3: Headline and core inflation in advanced economies (%)



Source: Bank of Ghana/Trading Economics

In emerging market and developing economies, both headline and core inflation remains subdued due to low oil prices and subdued demand linked to measures to address COVID-19.

Figure 4: Headline and Core Inflation in Emerging Market Economies



Source: Bank of Ghana/Trading Economics

In the outlook, we expect lower oil prices to continue to weigh on inflation over the coming months. As indicated earlier, OPEC+ and IEA are forecasting lower demand in the outlook. At the same time, some OPEC+ members are struggling to keep the production cuts agreed in July, increasing oil supply. Also, the weak demand and a sharp deterioration in labor market conditions are likely to weaken underlying inflation pressures globally. Indicators of inflation expectations are well anchored. In advanced economies, inflation is expected to remain below the 2 percent "ideal" in the near term. However, inflation is likely to return to target as the effects of the pandemic wanes and the slack in the labour market improves. The inflation situation in EMDEs will continue to reflect movement of exchange rate and impact of COVID-19 on food prices.

3.0 Global Financial Market Developments

Global financial market risk sentiment improved as restrictions eased and monetary and fiscal policies remained supportive. Equity prices rebounded strongly from the March sell off, corporate and sovereign bond spreads narrowed, while flows to EMDEs continued in August. The U.S. Federal Reserve at the end of its September 2020 meeting maintained the federal funds rate target at 0-0.25 percent. The committee said inflation is running persistently below its longer-run target. Therefore, it will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. Therefore, the committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved.

Table 2: Monetary Policy Stance of Selected Central Banks

	Key Rate	Previous (%)	Current (%)	Forecast	Inflation Rate (August, 2020)	Real rate	Infl Target	overall Fiscal Deficit (% of GDP)	GDP Growth (Dec.2019)	GrossDebt/GDP(%)
U.S	Federal Funds Rate	0.3	0.3	0.3	1.3	-1.05	2%	-5.8	2.3	109
Euro Area	Rifinancing Rate	0.0	0.0	0.0	-0.2	0.2	< 2%	-0.7	1.2	84.1
UK	Bank Rate	0.1	0.1	0.1	1.0	-0.9	2%	-2.1	1.4	85.4
Japan	short term policy rate	-0.1	-0.1	-0.1	0.1	-0.2	2%	-2.8	0.7	237.4
Russia	one-week repo rate	4.5	4.3	4.0	3.6	0.65	4%	1.9	1.3	14
India	Benchmark rate	4.0	4.0	3.8	6.7	-2.69	4±2%	-7.4	4.2	71.9
Brazil	Selic rate	2.0	2.0	2.0	2.4	-0.44	4.5±1.5%	-6	1.1	89.5
Turkey	One week repo rate	8.3	8.3	8.3	11.8	-3.52	5±2%	-5.3	0.9	33.1
Maylasia	Policy Rate	2.0	1.8	2.0	-1.3	3.05	3% - 4%	-3.2	4.3	57.2
Indonesia	Policy Rate	4.0	4.0	4.0	1.3	2.68	3.5% ± 1%	-2.2	5	30.4
Chile	Benchmark Interest Rate	0.5	0.5	0.5	2.4	-1.9	3±1%	-2.6	1.1	27.9
Ghana	Monetary Policy Rate	14.5	14.5	14.5	10.5	4	8±2%	-7.4	6.1	63.2
South Africa	Repo Rate	3.8	3.5	3.8	3.2	0.3	3%-6%	-6.3	0.2	62.2
Nigeria	Monetary Policy Rate	12.5	12.5	12.5	13.2	-0.72	6% -9%	-5.0	2.2	29.4
Kenya	Policy Rate	7.0	7.0	7.0	4.4	2.64	5±2.5%	-7.8	5.6	60.8
Zambia	Policy Rate	9.3	8.0	9.3	15.5	-7.5	9%	-7.6	1.5	85.7
Morocco	Policy Rate	2.0	1.5	2.0	-0.1	1.6		-4.1	2.2	65.8

Source: Trading Economics, Bank of Ghana
Note: The green colour indicates unchanged monetary policy rate; the blue colour indicates a cut in the policy rate; the real rate is the policy rate minus the ex post inflation rate.

The European Central Bank (ECB) kept the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility unchanged at 0.00 percent, 0.25 percent, and -0.50 percent, respectively. In addition, the Governing Council expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2 percent within its projection horizon. The ECB will continue its purchases under the pandemic emergency purchase programme (PEPP) with a total envelope of €1,350 billion. These purchases according to ECB, contribute to easing the overall monetary policy stance, thereby helping to offset the pandemic-related downward shift in the projected path of inflation. The Bank of England and Bank of Japan also left their policy rates unchanged.

The accommodative stance maintained by the central banks in both the advanced and emerging market economies, and the signals that their policy rates will remain low for sometime has led to lower expected path of future policy rates and a decline in government bond yields especially in advanced economies.

The decisive monetary policy has also contributed to the relative stability in the financial markets as evidenced by the rebound in equity markets despite the collapse in global economic activity, a retreat of sovereign bond spreads in emerging markets and frontier economies and portfolio inflows in July and August 2020, after the historic flight to safety in March 2020. As a result, financial conditions have eased for advanced economies and to some extent EMDEs. Confidence indicators are beginning to show signs of improvement although still below pre-pandemic levels, especially in countries that have successfully slowed the pace of COVID-19 infections. Notwithstanding these signs of early bounce back, lingering concerns of a second wave of the pandemic seem to be weighing on risk sentiment, with implications for borrowing costs, currency stability and rising debt levels.

Table 3: Total Portfolio Flows to Emerging Markets

$Billions	Total Flows	Debt Flows	Equity Flows
Jan 20	48.5	46.7	1.8
Feb 20	5.9	19.6	-13.7
Mar 20	-89.1	-33.9	-55.2
Apr 20	15.8	19.4	-3.5
May 20	0.4	4.4	-4.0
Jun 20	29.4	22.6	6.8
Jul 20	15.2	14.1	1.1
Aug 20	2.1	-2.3	4.4

Data Source: Institute of International Finance

In the outlook, we expect relative calm in the financial markets as policy remains supportive. Activity will continue to be supported by both fiscal and monetary policy. For instance, EU leaders have agreed a €750 billion recovery fund and a sizable fiscal package is being debated in the US Congress. Meanwhile, monetary policy is expected to remain accommodative until the global economy improves.

4.0 Currency Markets

On the international currency market, the U.S. dollar continued to trade weaker against major currencies in July and August 2020, weighed down by the massive monetary policy actions taken by the Federal Reserve to contain the impact of the COVID-19 pandemic. The US economy also shrank by an annualized 32.9 percent in Q2, with unemployment rate of 8.4 percent in August 2020. Under these conditions, the dollar is expected to weaken against the major currencies such as the Euro, Yen and British Pound Sterling.

Movements in currencies in EMDEs during July-August 2020 reflected the improvement in financial market risk sentiment. The rapid and aggressive monetary policy actions enhanced liquidity in financial markets and led to a retreat of sovereign bond spreads. The sizable fiscal policy measures introduced to fight the effects of the pandemic also helped to reduce near-term economic damage. Portfolio flows have recovered after the historic flight to safety and liquidity, while the stability in the oil market has also helped to lift financial market sentiment. All the above factors helped to ease the pressure on some EMDE currencies. Other currencies remain under pressure owing to country specific vulnerabilities (Kenya, Turkey, Argentina, and Zambia).

Table 4: Interbank Exchange Rates

	US$/GHC*	Monthly depreciation/ appreciation	Year-to-Date depreciation/a ppreciation	GBP/GHC*	Monthly depreciation/ appreciation	Year-to-Date depreciation/ appreciation	Euro/GHC*	Monthly depreciation/ appreciation	Year-to-Date depreciation/ appreciation
2018									
Jan	4.4240	-0.2	-0.19	6.2717	-4.9	-4.86	5.5131	-3.9	-3.93
Feb	4.4187	0.1	-0.07	6.0925	2.9	-2.06	5.3873	2.3	-1.69
Mar	4.4044	0.3	0.26	6.1816	-1.4	-3.47	5.4179	-0.6	-2.24
Apr	4.4078	-0.1	0.18	6.0678	1.9	-1.66	5.3308	1.6	-0.65
May	4.4226	-0.3	-0.16	5.8865	3.1	1.37	5.1634	3.2	2.58
June	4.5230	-2.2	-2.37	5.9681	-1.4	-0.02	5.2808	-2.2	0.30
July	4.6943	-3.6	-5.93	6.1569	-3.1	-3.09	5.4945	-3.9	-3.61
Aug	4.7241	-0.6	-6.53	6.1344	0.4	-2.73	5.4951	0.0	-3.62
Sep	4.7776	-1.1	-7.57	6.2145	-1.3	-3.98	5.5392	-0.8	-4.38
Oct	4.7899	-0.3	-7.81	6.1115	1.7	-2.37	5.4187	2.2	-2.26
Nov	4.8060	-0.3	-8.12	6.1248	-0.2	-2.58	5.4503	-0.6	-2.82
Dec	4.8200	-0.3	-8.39	6.1710	-0.7	-3.31	5.5131	-1.1	-3.93
2019									
Jan	4.9506	-2.6	-2.64	6.5121	-5.2	-5.24	5.6824	-3.0	-2.98
Feb	5.1752	-4.3	-6.86	6.8703	-5.2	-10.18	5.8799	-3.4	-6.24
Mar	5.0834	1.8	-5.18	6.6166	3.8	-6.73	5.7084	3.0	-3.42
Apr	5.0881	-0.1	-5.27	6.6318	-0.2	-6.95	5.7001	0.1	-3.28
May	5.2011	-2.2	-7.33	6.5640	1.0	-5.99	5.7973	-1.7	-4.90
June	5.2590	-1.1	-8.35	6.6787	-1.7	-7.60	5.9831	-3.1	-7.86
July	5.2570	0.0	-8.31	6.4267	3.9	-3.98	5.8528	2.2	-5.80
Aug	5.2814	-0.5	-8.74	6.4296	0.0	-4.02	5.8094	0.7	-5.10
Sep	5.3161	-0.7	-9.33	6.5412	-1.7	-5.66	5.7956	0.2	-4.87
Oct	5.3372	-0.4	-9.69	6.9010	-5.2	-10.58	5.9445	-2.5	-7.26
Nov	5.5254	-3.4	-12.77	7.1322	-3.2	-13.48	6.0785	-2.2	-9.30
Dec	5.5337	-0.1	-12.90	7.3164	-2.5	-15.66	6.2114	-2.1	-11.24
2020									
Jan	5.5274	0.1	0.11	7.1924	1.7	1.72	6.0476	2.7	2.71
Feb	5.2949	4.4	4.51	6.7881	6.0	7.78	5.8048	4.2	7.00
Mar	5.4423	-2.7	1.68	6.7583	0.4	8.26	5.9752	-2.9	3.95
Apr	5.6010	-2.8	-1.20	7.0584	-4.3	3.66	6.1276	-2.5	1.37
May	5.6203	-0.3	-1.54	6.9186	2.0	5.75	6.2406	-1.8	-0.47
June	5.6674	-0.8	-2.36	7.0038	-1.2	4.46	6.3613	-1.9	-2.36
July	5.6782	-0.2	-2.54	7.4050	-5.4	-1.20	6.6944	-5.0	-7.21
Aug	5.6848	-0.12	-2.66	7.5997	-2.6	-3.73	6.7916	-1.4	-8.54

Source: Bank of Ghana Staff Calculations

In the domestic currency market, movements in the cedi also reflected the improvement in global financial market risk sentiment. In addition, inflows from mining, remittances, FX auction and BOP support helped to ease the pressures from the corporate sector. On a year to date basis, the cedi depreciated by 2.66, 3.73 and 8.54 percent respectively against the dollar, the pound sterling and the euro in August 2020, compared to a depreciation of 8.74, 4.02 and 5.10 percent respectively against the dollar, the pound sterling and the euro in 2019 (see Table 4).

Table 5: Nominal Effective Exchange Rate

	2018=100		Monthly CHG(%)		Year-to-Date (%)	
	FXTWI	TWI	FXTWI	TWI	FXTWI	TWI
2019						
Jan-19	30.81	34.78	-2.76	-2.83	-2.76	-2.83
Feb-19	29.48	33.41	-4.51	-4.10	-7.39	-7.05
Mar-19	30.05	34.42	1.91	2.95	-5.34	-3.89
Apr-19	30.03	34.40	-0.09	-0.06	-5.43	-3.95
May-19	29.40	33.85	-2.12	-1.62	-7.67	-5.63
Jun-19	29.04	33.00	-1.26	-2.60	-9.03	-8.38
Jul-19	29.13	33.82	0.33	2.44	-8.67	-5.73
Aug-19	**29.02**	**33.88**	-0.40	0.17	-9.10	-5.55
Sep-19	28.84	33.84	-0.62	-0.12	-9.78	-5.68
Oct-19	28.64	32.96	-0.68	-2.67	-10.53	-8.50
Nov-19	27.69	32.14	-3.43	-2.55	-14.32	-11.27
Dec-19	27.60	31.59	-0.34	-1.74	-14.71	-13.21
2020						
Jan-20	27.66	31.90	0.20	1.0	0.20	0.98
Feb-20	28.90	33.54	4.31	4.90	4.51	5.83
Mar-20	28.14	32.71	-2.72	-2.54	1.91	3.43
Apr-20	27.35	31.93	-2.89	-2.46	-0.92	1.06
May-20	27.24	31.53	-0.41	-1.26	-1.34	-0.18
Jun-20	26.98	30.98	-0.94	-1.79	-2.28	-1.97
Jul-20	26.80	29.66	-0.67	-4.45	-2.97	-6.51
Aug-20	26.73	29.27	-0.26	-1.35	-3.24	-7.94

Source: Bank of Ghana Staff Calculations
Note: TWI and FXTWI are index measures of the value, in nominal terms, of the cedi relative to Ghana's top three currencies: Euro, the Pound and the US dollar.

In nominal effective terms, (i.e. taking movements in major trade partner currencies into account), the cedi depreciated by 7.94 percent in nominal trade weighted terms and 3.24 percent in nominal Forex transactions weighted terms, on a year–to-date basis (see Table 5). This compares with the depreciation of 5.55 percent in nominal trade weighted terms and 9.10 percent in nominal foreign exchange transaction weighted terms respectively over the same period in 2019.

In real bilateral terms (i.e. adjusting for inflation), the cedi appreciated by 5.4, 4.9 and 0.3 percent, respectively against the dollar, pound sterling, and the Euro on a year-to-date basis. Comparatively, for the corresponding period in 2019, the cedi's real exchange rate depreciated by 4.3 percent against the dollar and appreciated by 0.7 percent against the Pound Sterling, and the Euro respectively (see Table 6).

Table 6: Real Bilateral Exchange Rate

	RER Index (Jan.18=100)			MONTHLY CHANGE (Index)			Year-to-Date (%)		
	EUR	GBP	USD	EUR	GBP	USD	EUR	GBP	USD
				2019					
Jan-19	**101.40**	**100.57**	**93.31**	**0.3**	**-3.2**	**-1.2**	**0.3**	**-3.2**	**-1.2**
Feb-19	97.75	95.07	89.62	**-3.7**	**-5.8**	**-4.1**	**-3.5**	**-9.2**	**-5.3**
Mar-19	100.67	99.07	91.48	**2.9**	**4.0**	**2.0**	**-0.5**	**-4.8**	**-3.2**
Apr-19	100.51	99.43	91.66	**-0.2**	**0.4**	**0.2**	**-0.6**	**-4.4**	**-3.0**
May-19	99.68	100.79	90.58	**-0.8**	**1.3**	**-1.2**	**-1.5**	**-3.0**	**-4.2**
Jun-19	97.72	100.24	90.53	**-2.0**	**-0.6**	**-0.1**	**-3.5**	**-3.6**	**-4.3**
Jul-19	101.21	105.13	90.58	**3.4**	**4.7**	**0.1**	**0.1**	**1.3**	**-4.2**
Aug-19	101.84	104.56	90.48	0.6	-0.6	-0.1	0.7	0.7	-4.3
Sep-19	101.74	102.65	89.84	-0.1	-1.9	-0.7	0.6	-1.1	-5.1
Oct-19	99.28	97.69	89.52	-2.5	-5.1	-0.4	-1.9	-6.3	-5.5
Nov-19	98.01	94.86	86.81	-1.3	-3.0	-3.1	-3.2	-9.4	-8.8
Dec-19	96.13	92.64	86.72	-2.0	-2.4	-0.1	-5.2	-12.1	-8.9
				2020					
Jan-20	99.7	94.7	88.0	3.6	2.2	1.4	3.6	2.2	1.4
Feb-20	105.0	101.9	92.2	5.0	7.1	4.5	8.4	9.1	5.9
Mar-20	102.3	103.3	90.8	-2.6	1.3	-1.5	6.1	10.3	4.5
Apr-20	103.1	102.2	91.8	0.7	-1.1	1.1	6.8	9.3	5.5
May-20	103.2	105.6	93.1	0.1	3.3	1.4	6.8	12.3	6.8
Jun-20	101.8	105.3	93.4	-1.3	-0.3	0.4	5.6	12.0	7.2
Jul-20	97.8	99.7	92.5	-4.1	-5.6	-1.0	1.7	7.1	6.2
Aug-20	96.4	97.4	91.7	-1.5	-2.3	-0.9	0.3	4.9	5.4

Source: Bank of Ghana Staff Calculations

Table 7 shows the real effective exchange rate movements of the cedi against the three core currencies for 2019 and January-August 2020. On a year-to-date basis, the cedi appreciated by 1.4% in real trade weighted terms and by 5.0 percent in real forex transaction weighted terms, compared with the appreciation of 0.03 in trade weighted terms and a depreciation of 3.8 percent in FX transaction weighted terms in August 2019. Regarding the real effective exchange rate with reference to its economic fundamentals, the Bank's estimated Behavioural Exchange Rate Equilibrium indicated that the real effective exchange rate is broadly in line with its macroeconomic fundamentals, with deviations within generally acceptable levels and a strong tendency to converge to the long-run trend as depicted in the last data point (see Figure 5). In terms of its impact on the external sector performance, the real exchange rate remains competitive in supporting the strong trade balance outturn and the current account improvement for the first quarter of the year.

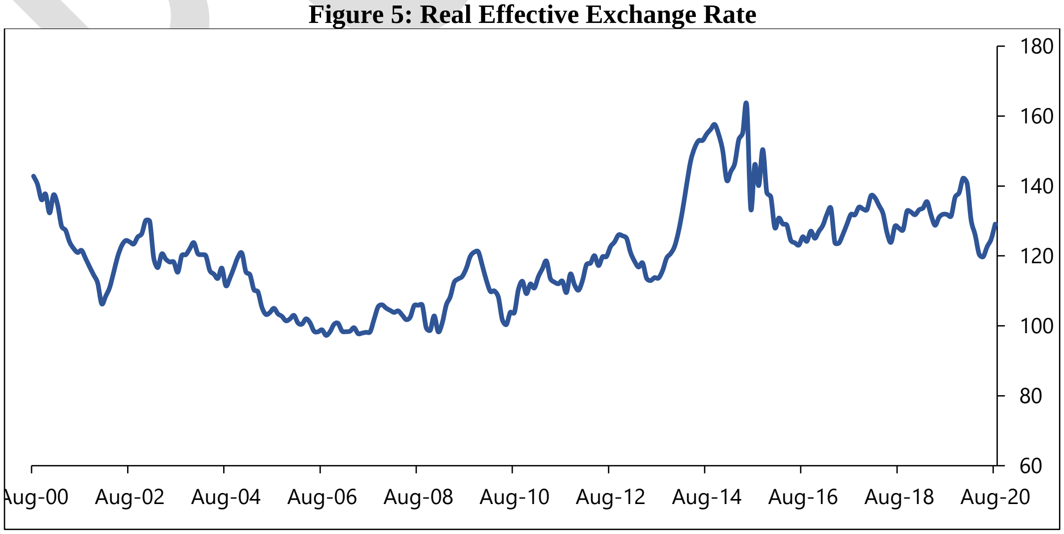
Table 7: Real Effective Exchange Rate for Major Trade Partners

	INDEX (2018=100)		MONTHLY CHG		Year-to-Date (%)	
			RFXTWI	RTWI	RFXTWI	RTWI
			2019			
Jan-19	94.06	100.20	**-1.1**	**-0.2**	**-1.1**	**-0.24**
Feb-19	90.33	96.39	**-4.1**	**-4.0**	**-5.3**	**-4.21**
Mar-19	92.30	99.24	**2.14**	**2.88**	**-3.0**	**-1.21**
Apr-19	92.47	99.18	**0.18**	**-0.1**	**-2.8**	**-1.27**
May-19	91.46	98.50	**-1.1**	**-0.7**	**-4.0**	**-1.97**
Jun-19	91.26	96.94	**-0.2**	**-1.6**	**-4.2**	**-3.61**
Jul-19	91.64	100.04	**0.42**	**3.10**	**-3.8**	**-0.40**
Aug-19	91.59	100.47	**-0.1**	**0.42**	-3.8	0.03
Sep-19	90.96	100.14	**-0.7**	**-0.3**	-4.6	-0.31
Oct-19	90.40	97.78	**-0.6**	**-2.4**	-5.2	-2.72
Nov-19	87.78	96.15	-3.0	-1.7	-8.3	-4.46
Dec-19	87.53	94.51	-0.3	-1.7	-8.6	-6.28
			2020			
Jan-20	88.96	97.60	1.6	3.2	1.6	3.2
Feb-20	93.29	102.89	4.6	5.1	6.2	8.2
Mar-20	91.87	100.78	-1.6	-2.1	4.7	6.2
Apr-20	92.81	101.43	1.0	0.6	5.7	6.8
May-20	94.07	101.97	1.3	0.5	6.9	7.3
Jun-20	94.29	100.93	0.2	-1.0	7.2	6.4
Jul-20	93.05	97.23	-1.3	-3.8	5.9	2.8
Aug-20	92.15	95.84	-1.0	-1.5	5.0	1.4

Source: Bank of Ghana Staff Calculations

Computing the Real Effective Exchange Rate from Ghana's 18 trading partners for the first eight months of the year 2020 (January-August) shows a real average appreciation of 2.1 percent in year-on-year terms (driven by the relatively higher domestic inflation compared to the average of the 18 trading partners) compared to the 3.0 percent real depreciation same time in the previous year. In year-to-date terms, the real effective exchange rate on average appreciated by 3.2 percent compared with a real depreciation of 0.8 percent in the previous year. (See Figure 5 – we adopt the direct quotation or price definition for the exchange rate; an increase denotes a depreciation and increase denotes appreciation).

Figure 5: Real Effective Exchange Rate



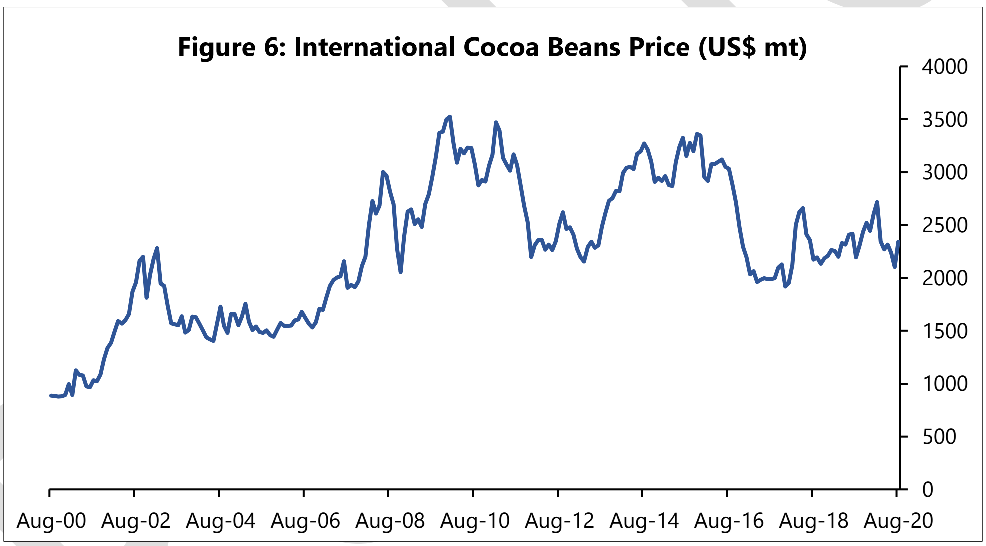
Source: Bank of Ghana Staff Calculations

[Section II: External Sector Developments](#)

6.0 Developments in Key Commodity Prices

Cocoa Price Developments

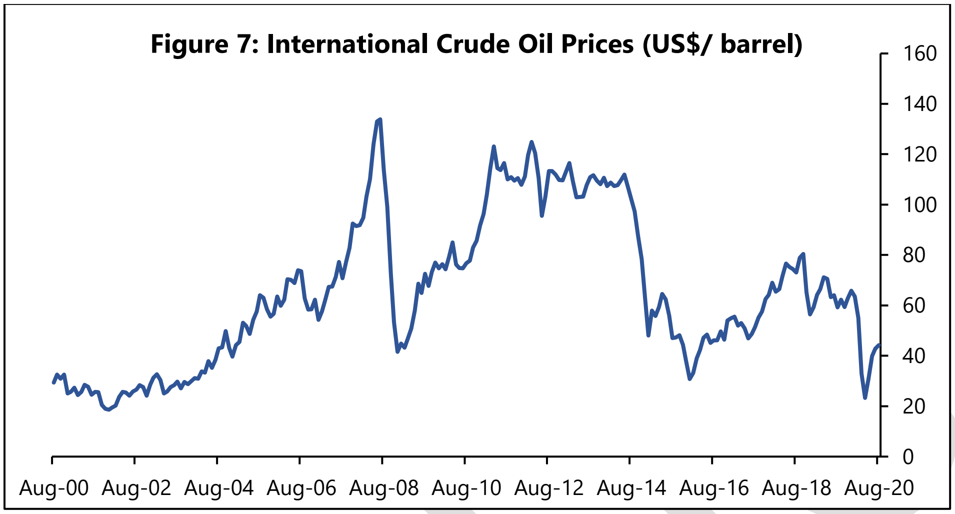
Cocoa futures made an impressive recovery after pricing low in the two months preceding August 2020. The crop gained 12.5 percent compared to the previous month's average price of US$2,206.77 per tonne to settle at an average price of US$2,482.14 per tonne. The market was supported by below average rainfall in Ivory Coast's main cocoa growing regions and some West African regions. The gains were however moderated by the strengthening of some major currencies and the effect of COVID-19 which continues to curb demand. From the beginning of the year to August 2020, the crop has lost 1.44 percent of its price caused mainly by low demand for the bean due to the COVID 19 pandemic.



Source: Trading Economics

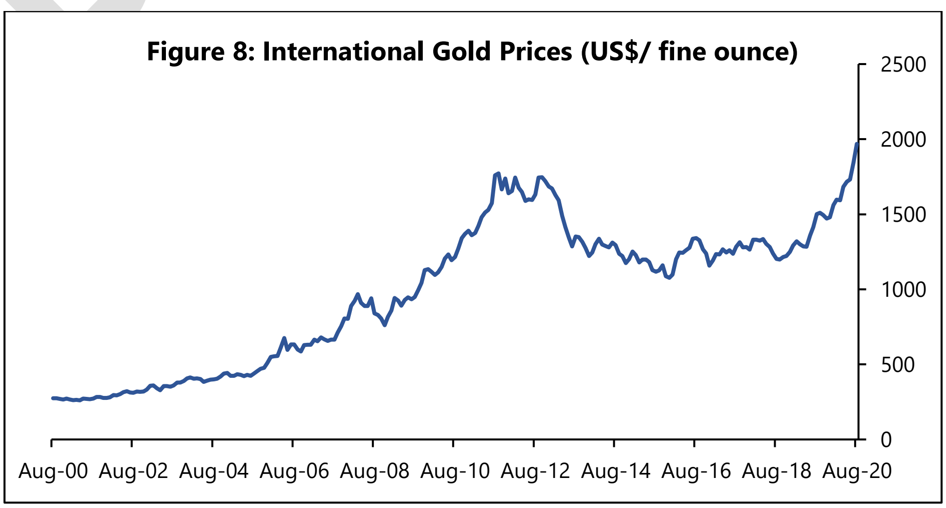
Brent Crude Oil Price Developments

International benchmark Brent crude oil traded in the positive territory for the fourth successive month into August 2020. Crude closed the month under review at an average of US$45.04 per barrel, representing a 4.17 percent increase from that recorded in the previous month. Prices gained on account of efforts by OPEC+ to fully comply with the agreement to cut global oil production and thereby reduce supply in the market. Prices were further supported by reduction in offshore oil production in the U.S ahead of hurricane Laura. Crude oil prices have fallen 30.98 percent from the beginning of year to date. The gap in losses is however narrowing as economies are finding ways to be in business amid the pandemic.



Gold Price Developments

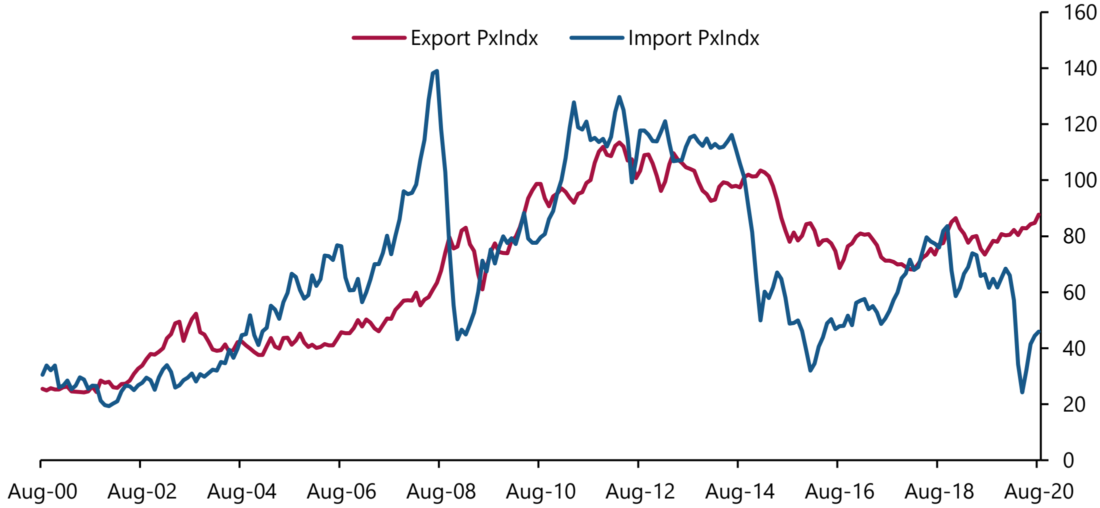
Spot gold continues to enjoy solid gains as it soars for the fifth successive month into August 2020. Compared to the preceding month, the yellow metal edged higher by 6.94 percent to settle at an average price of US$1,971.07 per fine ounce. Gold continues to benefit from the misfortune of its competitors as COVID-19 lingers and the falling returns on US bonds. From the beginning of the year to August 2020, gold prices have gained 33.06 percent as investors run to safety from the impact of coronavirus and as central banks and fiscal authorities implemented stimulus packages to cushion its economic impact.



7.0 Developments in Export, Import Price & Commodity Terms of Trade Indices

The weighted average price of the three major commodities exported by Ghana (cocoa, gold, and crude oil) increased for the sixth successive month into August 2020. The increase in index was buoyed by increase in the sub-indexes of all three commodities. Cocoa sub-index contributed the most with 12.48 percent, followed by the gold sub-index with 6.94 percent and the crude sub-index contributed 4.17 percent, leading to an overall increase in the index by 7.42 percent compared to the previous month. From the beginning of the year to August 2020, the index increased 12.39 percent on the back of an increase in the gold sub-index alone, which was enough to offset declines in the sub-indexes of cocoa and crude oil.

Figure 8: Core Export & Import Price Indices (Jan 2011=100)



The above developments resulted in a significant improvement in the computed Core Terms of Trade Index (Cocoa, Gold, and Oil). In year-on-year terms the core terms of trade improved by 46.9 percent and 54.8 percent in year-to-date terms. The improvements were mainly on account of a much sharper decline in the import price index as reflected in lower oil prices on account of weak global demand due to COVID-19. Conversely, the relative increase in the average export price was mainly driven by higher gold prices as many investors consider it as a haven amid COVID-19.

8.0 Trade Balance for the First Eight Months of the Year

Total merchandise trade for the first eight months of 2020 was provisionally estimated at a surplus of US$1,318 million (2.0% of GDP) compared with a surplus of US$1,421 million (2.1% of GDP) over the same time in 2019. This outturn was on the heels of a larger decline in exports receipts mainly from crude oil.

For the period January to August 2020, exports of cocoa beans and products amounted to US$1,719.0 million compared with US$1,507.4 million recorded for the same time in 2019. Gold exports were US$4,332.5 million, up by 5.5 percent in year-on-year terms. Crude oil exports fell sharply to US$1,903.6 million compared with US$3,073.1 million in 2019. In the 'Other' exports category, non-traditional exports rose marginally by 2.2 percent in year-on-year terms to US$1,323.7 million in the period under review compared with US$1,295.2 in 2019.

Table 8: Trade Balance

	2018 Jan - Aug	2019 Jan - Aug	2020 Jan - Aug	Abs Y/Y Chg	Rel Y/Y Chg
Trade Bal (% GDP)	**2.1**	**2.1**	**2.0**	**-0.1**	**-6.6**
Trade Balance	**1,395.1**	**1,421.0**	**1,318.0**	**-103.0**	**-7.2**
Total Exports	**10,146.1**	**10,570.6**	**9,622.3**	**-948.3**	**-9.0**
Gold (US$'M)	3,864.9	4,106.4	4,332.5	226.1	5.5
Volume (fine ounces)	2,969,363.6	3,061,369.7	2,546,992.3	-514,377.4	-16.8
Unit Price ($/fine ounce)	1,301.6	1,341.4	1,701.0	359.7	26.8
Cocoa Beans (US$'M)	992.7	950.8	1,066.8	116.0	12.2
Volume (tonnes)	460,808.0	407,328.7	432,953.5	25,624.8	6.3
Unit Price ($/tonne)	2,154.3	2,334.3	2,464.1	129.8	5.6
Cocoa Products (US$'M)	500.6	556.6	652.2	95.6	17.2
Volume (tonnes)	167,328.1	189,974.8	207,179.5	17,204.7	9.1
Unit Price ($/tonne)	2,991.7	2,929.8	3,148.1	218.3	7.5
Crude Oil ($'M)	2,917.9	3,073.1	1,930.6	-1,142.5	-37.2
Volume (barrels)	40,638,842.0	47,160,037.0	45,389,350.0	-1,770,687.0	-3.8
Unit Price ($/bbl)	71.8	65.2	42.5	-22.6	-34.7
Other Exports	1,870.0	1,883.6	1,640.1	-243.5	-12.9
ow: Non-Traditional Exports	1,453.6	1,295.2	1,323.7	28.6	2.2
Total Imports	**8,750.9**	**9,149.6**	**8,304.3**	**-845.3**	**-9.2**
Non-Oil (US$ M)	7,054.0	7,418.3	7,067.9	-350.4	-4.7
Oil and Gas (US$ M)	1,696.9	1,731.3	1,236.4	-494.9	-28.6
of which: products	1,528.5	1,351.2	913.0	-438.2	-32.4
Crude (US$'M)	33.4	263.7	200.1	-63.6	-24.1
Volume (barrels)	394,527.0	4,128,418.6	6,041,216.4	1,912,797.8	46.3
Unit Price ($/bbl)	84.7	63.9	33.1	-30.8	-48.1
Gas (US$'M)	135.0	116.4	123.3	6.9	5.9
Volume (MMBtu)	15,592,745.8	16,270,688.5	16,938,484.2	667,795.7	4.1
Unit Price ($ mmBtu)	8.7	7.2	7.3	0.1	1.7

Source: Bank of Ghana

Total merchandise imports for the period January to August amounted to US$8,304.3 million, indicating a year-on-year decline of 9.2 percent. Of the total imports, non-oil imports fell by 2.1 percent to US$7,067.9 while oil and gas imports fell by 28.6 percent to US$1,236.4 million compared with US$1,731.3 million recorded in 2019.

9.0 Developments in International Reserves

Gross International Reserves[2] rose from US$ 8.4 billion at the end of December 2019 to US$8.7 billion at the end of August 2020. This was sufficient to provide 4.0 months of imports cover. Developments in Net International Reserves indicated a stock position of US$4.6 billion at the end of August 2020 compared with a stock position of US$5.2 billion at the end of December 2019.

10.0 Outlook for Commodity Prices

Favourable weather conditions in the West African region and the announced higher farm gate prices for top grower Cote d'Ivoire and Ghana will boost supply. This, together with an expected reduction in grindings in mature markets such as Europe, North America, and Asia on the heels of weakening demand due to COVID-19, will weigh down on cocoa prices in the near term. In the case of crude oil, the recovery of positive sentiments of the commodity emanating from a slight increase in demand and OPEC+ production cut will provide some substantial price gains, but not to pre-pandemic levels. Gold prices will continue to rise buoyed by the Federal Reserve and other central banks accommodative monetary policy stance for an extended period to combat the economic toll caused by the coronavirus pandemic.

[2] Gross International Reserves define here as total sum of: Short-Term Assets + Long Term Assets + Encumbered Assets (Collaterised Letters of Credit, Pledged Assets and Cash Collateral) + Petroleum & Stabilization Funds (Stabilization & Heritage Funds).

NB: According the Balance of Payments Manual (BPM) 6, international reserves is defined as *"A country's international reserves pertaining to those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing".* (BPM6, paragraph 6.64).