



Bank of Ghana Monetary Policy Report

Monetary and Financial Developments

Vol. 4 No. 5/2020

September 2020

1.0 Overview

The thrust of monetary policy in 2020 is to deliver the medium-term inflation target of 8 ± 2 percent while supporting the overall economic policy of Government. The inflationary pressure, which mounted in April 2020 on account of pandemic-related measures, eased in August 2020 on the back of declining food prices, partly reflecting seasonal factors. Inflation is expected to return to the medium-term target band by the second quarter of 2021, barring any unanticipated shocks to price in the short to medium-term.

Developments in money supply in August 2020 showed that annual growth in broad money supply (M2+) increased significantly, partly reflecting supportive monetary and fiscal policies to provide the necessary underpinnings for the economy to withstand the negative output shock arising from the pandemic. Interest rates have generally trended downward in line with the easing monetary policy stance. Performance of the Ghana Stock Exchange (GSE) has remained bearish, mirroring the general economic uncertainty.

Key Monetary and Financial Indicators												
i. Key Monetary Aggregates	Level (GHc Million)	Per cent (Unless otherwise specified)										
		Aug-20	Aug-18	Jul-19	Aug-19	Sep-19	Dec-19	May-20	Jun-20	Jul-20	Aug-20	
Broad Money (M2+)	102,815	23.1	14.8	11.8	16.3	21.7	20.6	20.3	23.9	24.8		
Broad Money (M2)	79,012	24.6	13.0	9.5	14.5	16.1	20.3	22.1	25.3	27.0		
Narrow Money (M1)	49,567	27.6	15.3	14.3	21.2	25.5	26.7	27.9	32.2	29.9		
Reserve Money	27,474	14.2	14.7	15.0	14.0	34.4	22.3	16.6	24.4	20.2		
Currency Outside Banks	15,782	10.9	14.7	17.1	17.2	20.2	31.3	36.7	41.4	39.3		
Foreign Currency Deposits	23,803	18.3	20.9	19.7	22.4	42.6	21.4	14.8	19.5	18.1		
DMBs Credit	44,971	-	5.6	-	3.9	15.0	15.0	23.8	17.9	16.3	15.8	15.7
of which priv. sector	40,107	-	2.0	-	0.6	12.4	11.6	18.0	16.5	14.2	14.0	14.3
Real Priv. sect credit	-	-	7.2	-	7.6	4.3	3.7	9.4	4.6	2.7	2.3	3.4
ii. Inflation, interest rates and other financial indicators												
Variable	Per cent (Unless otherwise specified)											
	Aug-18	Jul-19	Aug-19	Sept-19	Dec-19	May-20	Jun-20	Jul-20	Aug-20			
Inflation (y-on-y)												
Overall	9.9	7.5	7.8	7.6	7.9	11.3	11.2	11.4	10.5			
Food	7.9	7.9	8.2	8.5	7.2	15.1	13.8	13.7	11.4			
Non food	10.8	10.1	7.4	7.0	8.5	8.4	9.2	9.7	9.9			
MPR	17.0	16.0	16.0	16.0	16.0	14.5	14.5	14.5	14.5			
Interbank rate	16.2	15.2	15.2	15.2	15.2	13.9	13.8	13.7	13.6			
Treasury bill rate (91-days)	14.6	14.7	14.7	14.7	14.7	14.0	14.0	14.0	14.0			
DMBs avg deposit rate (3-mnth)	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5			
DMBs avg lending rate	23.7	24.1	24.0	23.7	23.6	22.1	22.0	21.3	21.4			
Exchange rate (\$/GHc)	4,7241	5,2570	5,2814	5,3164	5,5337	5,6203	5,6674	5,6782	5,6848			
Depreciation (monthly)	0.6	0.0	0.5	0.7	0.1	0.3	0.8	0.2	0.1			
Depreciation (YTD)	6.5	8.3	8.7	9.3	12.9	1.5	2.4	2.5	2.7			
GSE Composite Index (Level)	2,897.5	2,346.5	2,303.8	2,204.8	2,257.2	1,941.0	1,899.9	1,877.6	1,846.6			
GSE Financial Index (Level)	2,691.2	2,069.5	1,999.7	1,894.2	2,019.7	1,843.1	1,725.0	1,730.8	1,687.4			

Source: Bank of Ghana Staff Calculations

2.0 Developments in Monetary Aggregates

Money Supply

Growth in money supply (M2+) increased significantly in August 2020 largely on account of faster pace of growth in Net Domestic Assets (NDA) of the banking system. M2+ increased by 24.8 percent year on year in August 2020 compared with 11.8 percent growth recorded in the corresponding period of 2019. In terms of contributions to growth in M2+, the NDA accounted for 22.3 percent while the Net Foreign Assets (NFA) accounted for 2.5 percent of the annual growth in M2+ (Chart 1a and Appendix Table 1). The NDA and NFA expanded by 28.8 percent and 11.2 percent respectively compared with 14.7 percent and 3.0 percent respectively, over the same comparative periods.

Chart 1a: Pace of growth of M2+ driven by significant growth in NDA

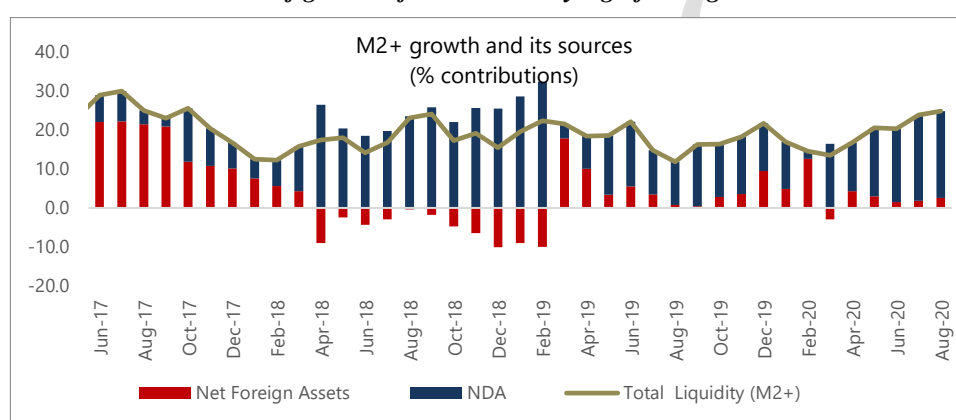
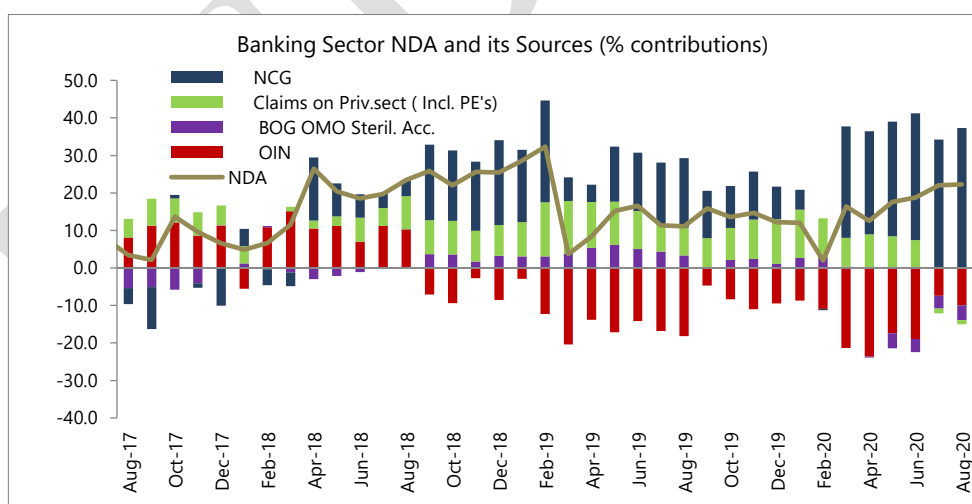


Chart 1b: Banking Sector claims on Government largely accounts for growth in NDA (%)

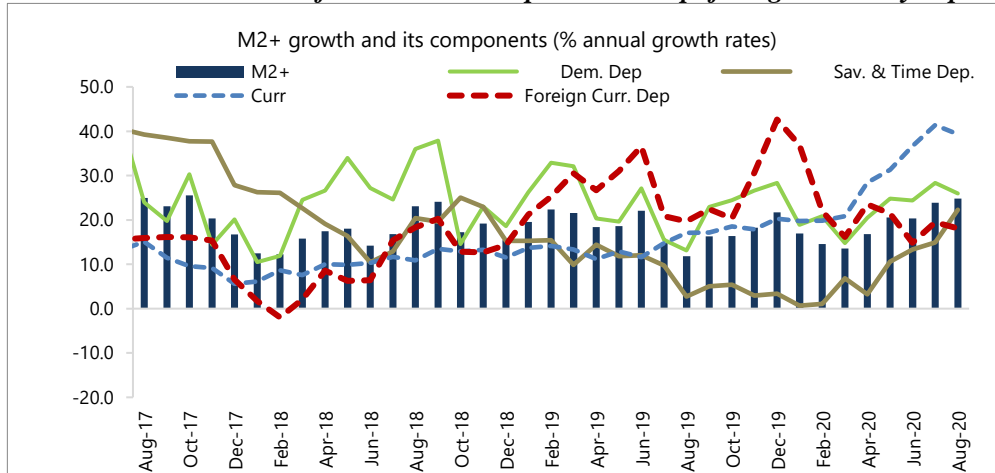


Source: Bank of Ghana Staff Calculations

The strong growth in NDA was driven by a significant growth in Net Claims on Government (NCG), partly reflecting the COVID-19-induced financing of government operations. NCG significantly contributed 37.3 percent to the growth of NDA, mitigated partly by strong monetary policy operations (sterilisation) and more measured credit to the private sector. Other components of NDA contracted during the period. (Chart 1b, and Appendix Table 1).

Analysis of the components of M2+ over the period showed that the expansion in M2+ was largely on account of currency outside banks and domestic currency deposits as the Ghana cedi remained generally stable (Chart 2; Appendix 1).

Chart 2: M2+ Growth is reflected in all components except foreign currency deposits

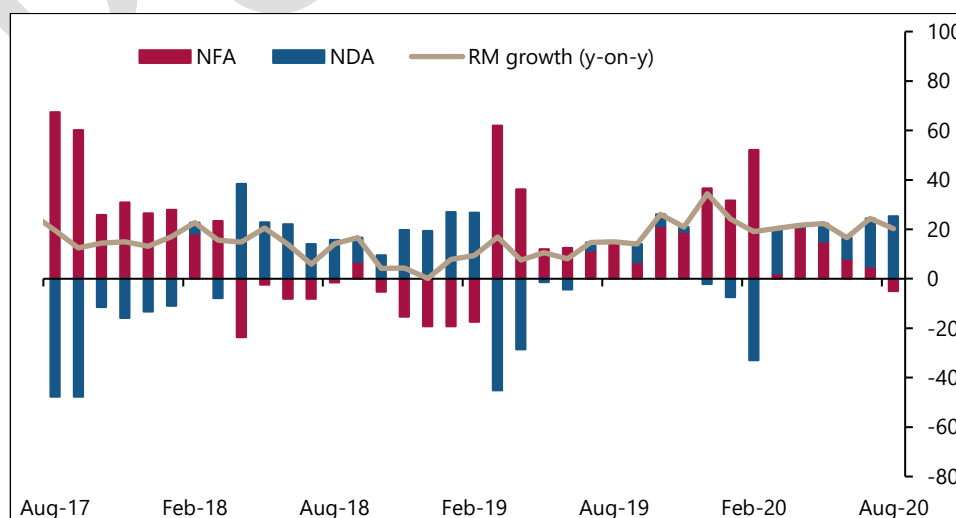


Source: Bank of Ghana Staff Calculations

Reserve Money

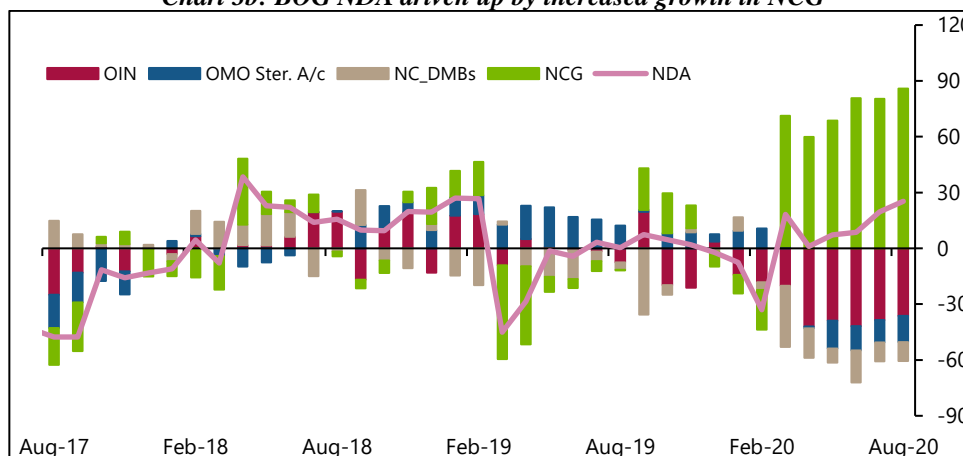
Annual growth in Reserve Money (RM) increased to 20.2 percent in August 2020 compared with 15.0 percent in the corresponding period of 2019, underscoring the growth in money supply. The sources of change in reserve money indicated that growth in RM was strongly influenced by significant growth in NDA of the Bank of Ghana, underscored by considerable increase in the Net Claims on Government. In contrast, the NFA contracted over the same comparative period. (Chart 3a, 3b, and Appendix 2).

Chart 3a: RM growth remained strong, underpinned by increased accumulation of NDA (%)



Source: Bank of Ghana Staff Calculations

Chart 3b: BOG NDA driven up by increased growth in NCG

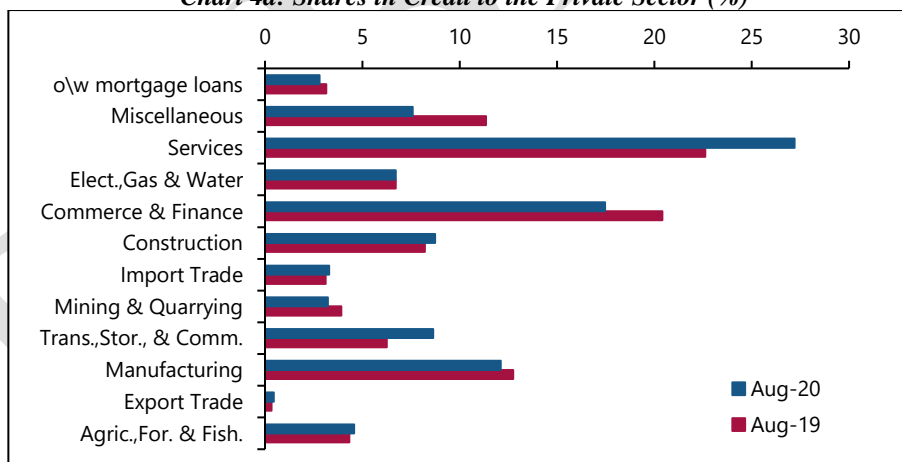


Source: Bank of Ghana Staff Calculations

Deposit Money Banks (DMBs) Credit Developments

DMBs' credit to the private sector and public institutions increased by GH¢6,118.97 million (15.8%) in August 2020 compared with GH¢5,074.10 million (15.0%) recorded in August 2019. Private sector credit accounted for a share of GH¢5,002.53 million (81.8%) compared with GH¢3,882.82 million (76.5%) recorded in the corresponding period in 2019. Credit to the private sector remains concentrated in five sub-sectors including: services; commerce and finance; manufacturing; construction; and transport, storage, and communication (Chart 4a).

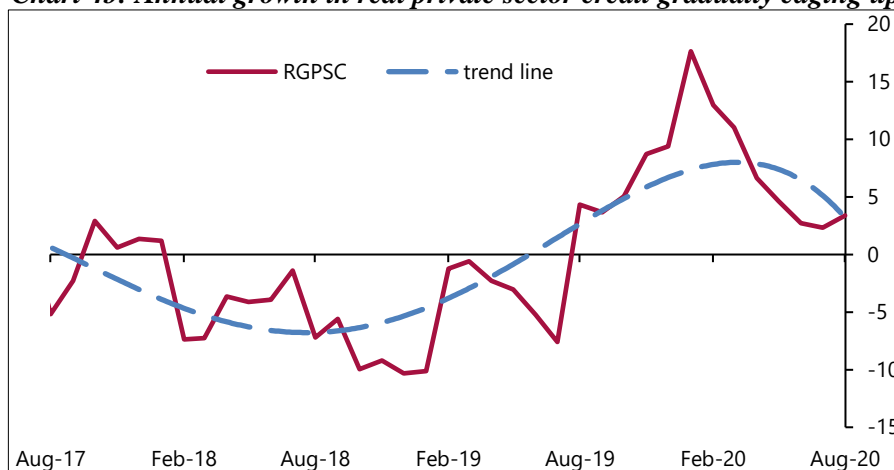
Chart 4a: Shares in Credit to the Private Sector (%)



Source: Bank of Ghana Staff Calculations

Outstanding credit to the private sector at the end of August 2020 was GH¢44,970.96 million compared with GH¢38,851.99 million, same period last year. In real terms, private sector credit expanded by 3.4 percent compared to 4.3 percent in August 2019, reflecting the effects of higher price level. Real growth in private sector credit also fell below the long-term trend (Chart 4b).

Chart 4b: Annual growth in real private sector credit gradually edging up



Source: Bank of Ghana Staff Calculations

3.0 Money Market Developments

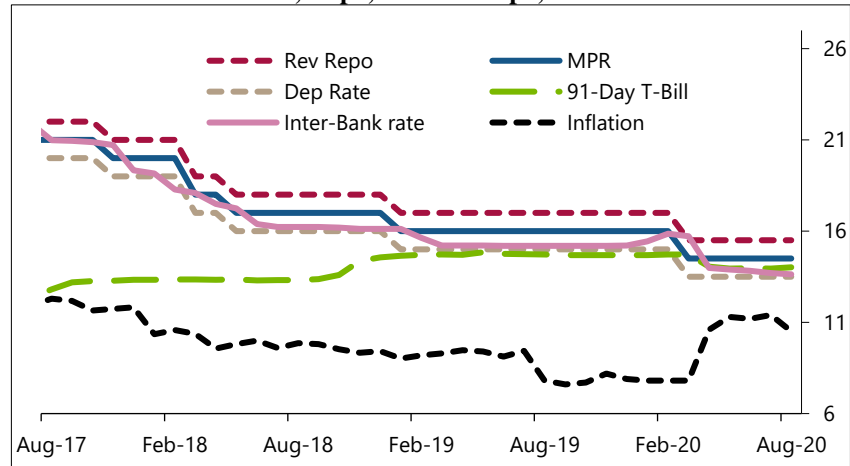
Monetary Policy Rate, Repo, Interbank, Treasury bill and bond rates, and Inflation

Developments in the money market indicated downward trends in interest rates for short-dated instruments and mix trends for medium to long-dated instruments in August 2020. The 91-day and 182-day Treasury bill rates declined to 14.02 percent and 14.09 percent in August 2020 from 14.72 percent and 15.15 percent respectively, in August 2019. Similarly, the rate on the 364-day instrument decreased to 16.89 percent from 17.91 percent over the same comparative periods.

Yields on the secondary bond market have also declined except the yield on the 7-year bond, which increased by 375bps to settle at 20.0 percent. Yields on 2-year, 3-year, 5-year and 6-year bonds decreased to 18.25 percent, 18.85 percent, 19.25 percent and 19.50 percent, from 19.75 percent, 19.70 percent, 19.50 percent and 21.00 percent, respectively, over the same comparative periods.

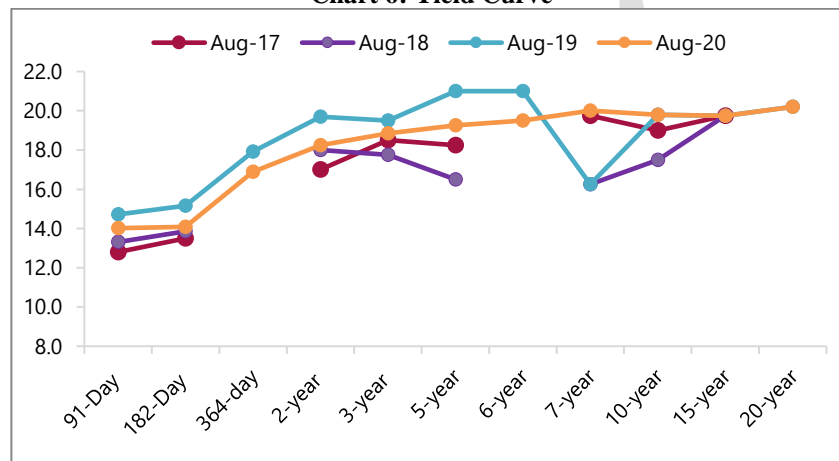
The weighted average interbank rate declined to 13.63 percent from 15.20 percent, reflecting the reduction in the monetary policy rate in March 2020, improved liquidity conditions on the market and increased trading among banks. Consequently, average lending rates of banks declined marginally to 21.37 percent in August 2020 from 23.93 percent recorded in the corresponding period of 2019, consistent with developments in the interbank market. The average rate on 3-month term deposits remained unchanged at 11.50 percent. The general decline in nominal interest rates and the recent jump in inflation pushed real interest rates significantly down (Charts 5, 6 and 7).

Chart 5: Decline in MPR, Depo, Reserve Repo, Interbank and T-Bill rates



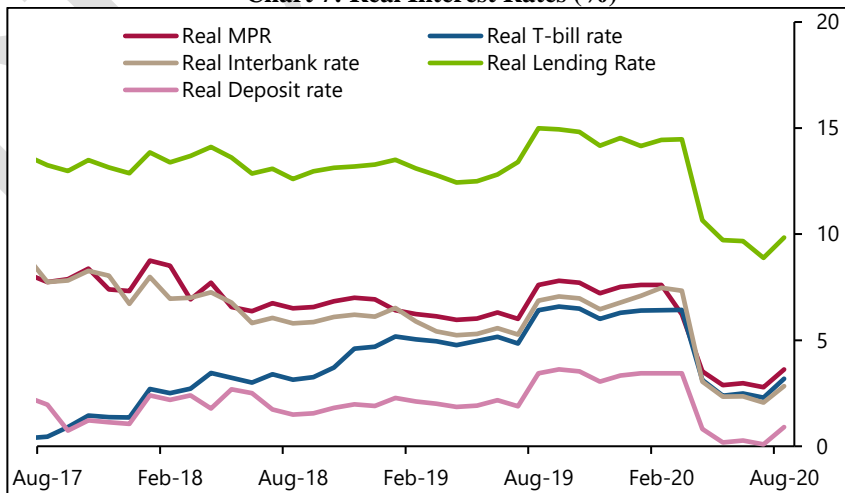
Source: Bank of Ghana

Chart 6: Yield Curve



Source: Bank of Ghana

Chart 7: Real Interest Rates (%)



Source: Bank of Ghana Staff Calculations

Box 1: RECENT MONETARY POLICY DECISIONS

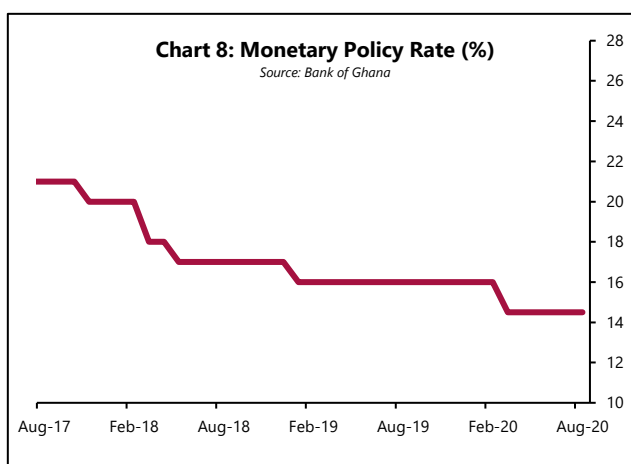
The MPC at its latest meeting held in September 2020 maintained the MPR at 14.5 percent.

The MPC noted at its meeting that 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. 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.

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.

Headline inflation, after peaking at 11.4 percent in July eased to 10.5 percent in August, slightly above the upper band target. With the easing of the COVID-related food price pressures, 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.

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. 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.



4.0 Stock Market Developments

The GSE Composite Index (GSE-CI) in August 2020 declined to 1,846.6 points from 2,303.8 points recorded in the corresponding period of 2019. This translated into loss of 19.8 percent in the index in August 2020 compared with a loss of 20.5 percent in August 2019. The GSE-Financial Stocks Index (GSE-FSI), the main driver of the overall performance within the period, closed at 1,687.4 points, representing a loss of 15.6 percent compared with a loss of 25.7 percent in August 2019.

Performance of Ghana Stock Exchange (Table 2)

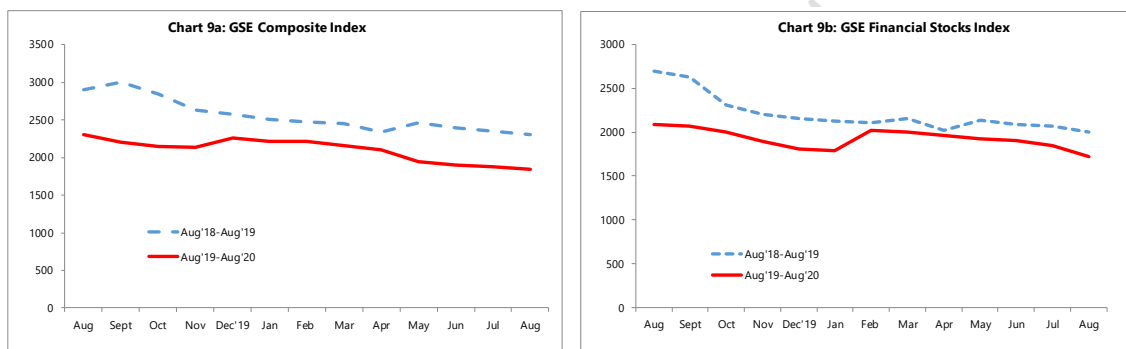
	Aug-18	Jul-19	Aug-19	Sep-19	Dec-19	May-20	Jun-20	Jul-20	Aug-20	Changes in August				
										Y-O-Y 2019	Y-O-Y 2020	Y-T-D 2020	Aug over Jul 2019	Aug over Jul 2020
GSE CI	2897.5	2346.5	2,303.8	2,204.8	2,257.2	1,941.0	1,899.9	1,877.6	1,846.6	-20.5	-19.8	-18.2	-1.8	-1.7
GSE FI	2691.16	2069.5	1,999.7	1,894.2	2,019.7	1,843.1	1,725.0	1,730.8	1,687.40	-25.7	-15.6	-16.5	-3.4	-2.5
Market Capitalization	55,971.16	58,235.88	57,599.8	56,251.0	56,791.3	53,542.6	52,950.4	52,722.1	52,568.06	2.9	-8.7	-7.4	-1.1	-0.3

Source: Ghana Stock Exchange and Bank of Ghana Staff Calculations

Total market capitalisation of the GSE at the end of August 2020 was GH¢52.57 billion representing a contraction of 8.7 percent (GH¢5.03 billion), relative to a growth of 2.9 percent

(GH¢1.63 billion) in August 2019. The decrease in market capitalisation for the review period reflected declines in the values of most equities on the exchange, especially the financial stocks.

Although inflationary pressure eased in August 2020 amidst moderate recovery in economic activities, uncertainties on the bourse are slightly elevated in view of a possible second wave of the COVID-19 pandemic. These uncertainties may be offset by improving investor sentiments fuelled by easing pandemic-related restrictions. In the outlook, GSE-CI is expected to recover marginally in the ensuing months, on the back of easing COVID-19 containment measures, relatively stable exchange rate, expected pick-up in economic activities and improving investor sentiments.



Data Source: Ghana Stock Exchange

5.0 Conclusion

The inflationary pressure, which mounted in April 2020 on account of pandemic-related measures, eased in August 2020 on the back of declining food prices, partly reflecting effects of seasonal factors. Inflation is expected to return to the medium-term target band by the second quarter of 2021, barring any unanticipated shocks to price in the short to medium-term.

Developments in money supply in August 2020 showed that annual growth in broad money supply (M2+) increased significantly, reflecting supportive monetary and fiscal policies to provide the necessary underpinnings for the economy to withstand the negative output shock arising from the pandemic. Real growth in private sector credit declined during the review period, mainly due to price effects. Interest rates have generally trended downward in line with the cut in the monetary policy rate in March 2020. Performance of the Ghana Stock Exchange (GSE) has remained bearish but expected to recover marginally in the ensuing months.

Appendices

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

	Aug-18	Jul-19	Aug-19	Sep-19	Dec-19	May-20	Jun-20	Jul-20	Aug-20
1 Net Foreign Assets	18,133.7	20,182.2	18,680.7	17,394.1	21,293.0	23,949.5	21,888.3	21,682.1	20,776.1
Bank of Ghana	15,281.4	17,511.4	18,177.4	16,603.7	20,622.5	23,761.4	20,458.7	18,608.8	17,030.7
Commercial Banks	2,852.2	2,670.8	503.3	790.4	670.5	188.1	1,429.7	3,073.4	3,745.4
2 Net Domestic Assets	55,532.0	61,809.5	63,701.3	68,479.0	71,682.5	74,590.5	78,610.6	79,882.0	82,038.5
3 ow: Claims on government (net)	22,912.0	28,062.3	28,947.6	33,129.2	34,214.5	49,612.1	53,676.3	56,146.0	59,680.9
4 ow: Claims on Private sector(Incl. PE's)	39,055.3	42,983.5	43,680.7	44,753.1	49,713.1	49,816.7	49,693.3	48,984.4	49,820.6
BOG OMO Sterilisation Acc.	-8,932.3	-6,472.5	-5,496.9	-4,854.3	-4,924.6	-6,212.5	-6,404.5	-8,047.8	-8,376.9
5 Total Liquidity (M2+)	73,665.7	81,991.6	82,382.0	85,873.1	92,975.5	98,540.0	100,498.9	101,564.1	102,814.7
6 ow: Broad Money Supply (M2)	56,830.8	62,141.9	62,231.5	64,952.0	69,973.1	75,215.3	76,951.8	77,843.8	79,012.1
7 ow: Foreign Currency Deposits(€million)	16,835.0	19,849.7	20,150.5	20,921.1	23,002.4	23,324.7	23,547.1	23,720.3	23,802.6
Change from previous year (in per cent)									
8 Net Foreign Assets	-1.4	14.1	3.0	1.9	51.7	11.4	6.2	7.4	11.2
9 Net Domestic Assets	33.9	15.1	14.7	20.7	15.0	23.9	25.0	29.2	28.8
10 ow: Claims on government (net)	20.7	72.0	89.1	39.3	24.2	101.7	111.1	99.7	106.2
11 ow: Claims on Private sector(Incl. PE's)	13.1	11.6	12.1	12.2	19.0	13.8	12.2	14.0	14.1
12 ow: BOG OMO Sterilisation Acc.	0.6	40.7	32.2	4.3	14.8	-69.5	-52.4	-60.6	-62.6
12 Total Liquidity (M2+)	23.1	14.8	11.8	16.3	21.7	20.6	20.3	23.9	24.8
13 Broad Money Supply (M2)	24.6	13.0	9.5	14.5	16.1	20.3	22.1	25.3	27.0
14 Foreign Currency Deposits (FCDs)	18.3	20.9	19.7	22.4	42.6	21.4	14.8	19.5	18.1
Cummulative change from previous year end (in per cent)									
15 Net Foreign Assets	-12.3	43.8	33.1	23.9	51.7	12.5	2.8	1.8	-2.4
16 Net Domestic Assets	22.1	-0.9	2.2	9.8	15.0	4.1	9.7	11.4	14.4
17 ow: Claims on government (net)	21.4	2.0	5.1	20.2	24.2	45.0	56.9	64.1	74.4
18 Broad Money(M2+)	11.3	7.3	7.9	12.4	21.7	6.0	8.1	9.2	10.6
Annual per cent contribution to money growth									
19 Net Foreign Assets	-0.4	3.5	0.7	0.4	9.5	3.0	1.5	1.8	2.5
20 NDA	23.5	11.3	11.1	15.9	12.2	17.6	18.8	22.0	22.3
21 Total Liquidity (M2+)	23.1	14.8	11.8	16.3	21.7	20.6	20.3	23.9	24.8
Memorandum items									
22 Reserve Money	19,867.7	22,924.0	22,848.6	23,027.8	28,896.0	27,001.5	25,546.8	28,515.2	27,474.0
23 NFA (\$million)	3,838.5	3,839.1	3,537.1	3,271.8	3,847.9	4,261.3	3,862.1	3,818.5	3,654.7
24 Currency ratio	0.15	0.15	0.16	0.15	0.18	0.17	0.17	0.18	0.18
25 FCD/M2+	0.23	0.24	0.24	0.24	0.25	0.24	0.23	0.23	0.23
26 FCD/T total Deposit	0.26	0.28	0.28	0.28	0.29	0.28	0.27	0.28	0.27
27 RM multiplier	2.9	2.7	2.7	2.8	2.4	2.8	3.0	2.7	2.9

Source: Bank of Ghana Staff Calculations

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

	Aug-18	Jul-19	Aug-19	Sep-19	Dec-19	May-19	Jun-20	Jul-20	Aug-20
1 Net Foreign Assets (NFA)	15,281.4	17,511.4	18,177.4	16,603.7	20,622.5	23,761.4	20,458.7	18,608.8	17,030.7
2 Net Domestic Assets (NDA)	4,586.3	5,412.6	4,671.3	6,424.2	8,273.5	3,240.2	5,088.2	9,906.4	10,443.3
Of which:									
3 ow: Claims on government (net)	5,798.1	6,047.1	5,731.4	9,053.2	8,468.7	18,053.5	21,714.1	24,452.0	25,355.9
4 Claims on DMB's (net)	2,500.5	969.6	1,712.8	-195.3	5,302.0	-1,187.5	-2,294.9	-1,365.3	-617.4
5 OMO Sterilisation Account.	-7,596.3	-4,529.7	-5,152.5	-4,854.3	-4,924.6	-8,047.8	-8,376.9	-7,273.2	-8,375.5
6 Reserve Money (RM)	19,867.7	22,924.0	22,848.6	23,027.8	28,896.0	27,001.5	25,546.8	28,515.2	27,474.0
7 ow: Currency	9,676.0	10,950.3	11,329.7	11,419.9	14,358.1	14,489.2	14,817.4	15,483.2	15,781.9
8 DMB's reserves	7,787.1	9,297.5	8,845.3	8,940.8	11,850.6	9,493.9	7,720.7	9,787.9	8,490.0
9 Non-Bank deposits	2,404.7	2,676.1	2,673.7	2,667.1	2,687.4	3,018.4	3,008.7	3,244.1	3,202.2
Change from previous year (in per cent)									
10 Net Foreign Assets	-1.6	14.9	19.0	8.9	61.6	16.3	9.3	6.3	-6.3
11 Net Domestic Assets	146.8	14.0	1.9	29.9	-5.3	97.9	59.5	83.0	123.6
12 ow: Claims on government (net)	-7.5	-15.1	-1.2	99.5	-17.0	521.2	438.5	304.4	342.4
13 Claims on DMB's (net)	10.2	51.8	31.5	102.8	6.3	345.7	258.1	240.8	136.0
14 OMO Sterilisation Account.	0.6	40.7	32.2	4.3	14.8	-69.5	-52.4	-60.6	-62.6
15 Reserve Money (RM)	14.2	14.7	15.0	14.0	34.4	22.3	16.6	24.4	20.2
16 ow: Currency	10.9	14.7	17.1	17.2	20.2	31.3	36.7	41.4	39.3
Cummulative change from previous year end (in per cent)									
17 Net Foreign Assets (NFA)	-9.6	37.2	42.4	30.1	61.6	15.2	-0.8	-9.8	-17.4
18 Net Domestic Assets (NDA)	0.3	25.8	30.0	17.9	40.7	13.4	-3.1	-12.1	-19.6
19 ow: Claims on government (net)	-4.3	-40.8	-43.9	-11.3	-17.0	113.2	156.4	188.7	199.4
20 Reserve Money (RM)	-7.5	6.6	6.3	7.1	34.4	-6.6	-11.6	-1.3	-4.9
Annual per cent contribution to money growth									
21 Net Foreign Assets	-1.5	11.4	14.6	6.7	36.6	15.1	7.9	4.8	-5.0
22 Net Domestic Assets (NDA)	15.7	3.3	0.4	7.3	-2.2	7.3	8.7	19.6	25.3
23 RM growth (y-o-y)	14.2	14.7	15.0	14.0	34.4	22.3	16.6	24.4	20.2

Source: Bank of Ghana Staff Calculations