



Bank of Ghana Monetary Policy Report

Real Sector Developments

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September 2020

1.0 Overview

Domestic economic activity, after contracting in the second quarter, is beginning to show signs of recovery from the adverse effects of the COVID-19 pandemic. The latest high frequency data show broad-based improvement in all the key indicators. Retail sales, domestic VAT collections, industrial consumption of electricity, cement sales, vehicle registration, and port activity have all turned around. Private sector contributions to social security and tourist arrivals, however, contracted in July 2020 compared with the same period a year ago.

2.0 Economic Growth

The second quarter GDP outturns in major economies showed sharp contractions in economic activity due to the COVID-19 pandemic. The United States, the Euro area, Japan, and the United Kingdom, all experienced significant economic downturns. In addition, major Sub-Saharan Africa countries such as South Africa and Nigeria contracted by 17.1 percent and 6.1 percent in the second quarter.

Similarly, latest data released by the Ghana Statistical Service confirmed that real GDP contracted by 3.2 percent in the second quarter of 2020, compared to 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 2019. In terms of sectors, Agriculture recorded a growth of 2.5 percent, driven mainly by the crops sub-sector, while the Industry and Services sectors contracted by 5.7 percent and 2.6 percent, being the most affected by the pandemic. The worst affected sub-sectors – Hotels

& Restaurants, Trade, and Manufacturing – contracted sharply by 79.4 percent, 20.2 percent, and 14.3 percent, respectively.

3.0 Trends in Real Sector Indicators

High frequency indicators such as consumer spending, manufacturing, construction, transport, electricity consumption and port activity improved, while tourist arrivals and pension contributors moderated.

Consumer Spending

Consumer spending, as measured by domestic VAT collections and retail sales, posted a positive performance in July 2020, compared with the corresponding period in 2019. Domestic VAT collections increased by 5.8 percent on a year-on-year basis, and by 17.4 percent on a month-on-month basis in July 2020. Cumulatively for the first seven months of 2020, total domestic VAT increased by 4.7 percent to GH¢2,921.12 million compared with GH¢2,790.23 million for the corresponding period of 2019. The observed improvement in domestic VAT collections was partly attributed to increasing consumer demand.

Retail sales increased by 45.1 percent (year-on-year) to GH¢93.59 million in July 2020, up from the GH¢64.50 million in the same period in 2019. In the first seven months of 2020, retail sales went up by 44.1 percent to GH¢586.93 million compared with GH¢407.32 million recorded during the same period in 2019. The relative improvement in retail sales was due largely to increased household consumption during the review period.

Manufacturing Activities

Activities in the manufacturing sub-sector, gauged by collection of direct taxes and private sector workers' contributions to the Social Security and National Insurance Trust (SSNIT) Pension Scheme (Tier-1), recorded mixed performance in July 2020. Total direct taxes collected increased by 19.0 percent (year-on-year) to GH¢1,486.71 million in July 2020, compared with GH¢1,249.16 million recorded in a similar period in 2019. Cumulatively, total Direct Taxes collected over the first seven months of 2020 went up by 4.5 percent to GH¢10,615.74 million, relative to GH¢10,157.27 million for the same period in 2019. In terms of contributions of the various sub-tax categories, Corporate tax accounted for 44.6 percent, Income tax (PAYE and self-employed) accounted for 44.2 percent, while "Other Tax Sources" contributed 11.2 percent.

Total private sector workers' contribution to the SSNIT Pension Scheme (Tier-1) declined marginally by 2.8 percent in year-on-year terms but dipped by 11.6 percent on a month-on-month basis in July 2020.

However, for the first seven months of 2020, the contribution grew by 13.6 percent to GH¢1,339.24 million, relative to GH¢1,178.70 million recorded in the same period in 2019.

Construction Sector Activities

Activity in the construction sub-sector, measured by the volume of cement sales, increased by 41.3 percent (year-on-year) in July 2020 to 351,608.35 tonnes compared with 248,808.74 tonnes recorded a year ago. On a month-on-month basis, total cement sales picked up marginally by 3.4 percent in July 2020 compared with the 340,116.45 tonnes recorded in June. The improvement in total cement sales was due to an uptick in construction activities during the review period. However, cement sales for the first seven months of 2020 moderated by 2.7 percent to 2,054,321.92 tonnes, from 2,111,796.37 tonnes recorded during the same period in 2019.

Vehicle Registration

The transport sector activities, measured by vehicle registration by DVLA, improved by 23.1 percent to 18,320 in July 2020, from 14,881 vehicles registered during the corresponding period of 2019. Cumulatively, vehicles registered by DVLA within the first seven months of 2020 rose by 13.3 percent to 132,329 from 116,774 recorded a year ago.

Industrial Consumption of Electricity

Industrial consumption of electricity went up significantly as firms and businesses returned to full operations post-lockdown. Activities within the productive sectors of the economy, measured by Industrial consumption of electricity went up by 27.5 percent during the period under review, compared with a similar period in 2019. Industries consumed 263.98 gigawatts of power in July 2020, as against 207.00 gigawatts recorded for the corresponding period in 2019. In addition, industrial consumption of electricity increased by 13.4 percent on a month-on-month basis, rising from the 232.79 gigawatts utilised in the preceding month. Cumulatively, electricity consumed by industries within the first seven months of 2020 increased marginally by 3.5 percent to 1,616.70 gigawatts from 1,561.48 gigawatts recorded during the same period in 2019. The improvement in power consumption by industries was due mainly to a rebound in industrial activity by manufacturing companies after the partial lockdown was lifted on April 20, 2020.

Ports and Harbours Activity

The pace of economic activities at the country's two main harbours (Tema and Takoradi), as measured by container traffic, improved during the period under review. Total container traffic grew by 12.6 percent, year-on-year, to 50,889 in July 2020, up from 45,194 for a similar period in 2019. In cumulative terms,

total container traffic for the first seven months of 2020 rose by 5.3 percent to 363,840 compared with 345,657 for the corresponding period of 2019. The relative improvement in port activities was due partly to an uptick in international trade activities during the review period.

Labour Market Indicators

The number of jobs advertised in the ‘Daily Graphic’ in August 2020 decreased relative to the same period in 2019. The total advertised jobs were 339 as of August 2020 compared with 650 advertised jobs in the same period of 2019, indicating a year-on-year decline of 47.8 percent. These developments resulted in a decline in the Job Adverts Index to 66.0 in August 2020 from 90.9 in July. Cumulatively, 5,727 advertised jobs were recorded between January and August 2020, compared with 5,578 jobs advertised during the same period in 2019.

A total of 2,013 vacancies were posted on the websites of 10 online job advertising/employment companies in August 2020 as compared with 2,742 for the same period in 2019, indicating a decline of 26.6 percent (year-on-year). The number of online job vacancies recorded in the review period however increased marginally by 2.5 percent from 1,963 recorded in July. A total of 18,174 jobs were advertised, year-to-date, compared with 24,489 recorded during the same period a year earlier, representing a decline of 25.8 percent.

Private Sector Pension Contributors

Total number of private sector’s SSNIT contributors, which partially gauges employment conditions, declined to 677,881 (down by 22.9% y/y) in July 2020 compared with 879,485 for a similar period in 2019. On a month-on-month basis, total number of private sector’s SSNIT contributors declined marginally by 3.4 percent. Cumulatively, for the first seven months of 2020, the total number of private sector contributors declined to 5,341,912 from 6,098,715 recorded over the corresponding period in 2019.

International Tourist Arrivals

International tourist arrivals declined in July 2020, by 93.6 percent year-on-year to 6,633 tourists compared to a similar period in 2019. For the first seven months of 2020, there were 222,815 tourist arrivals compared with 588,417 in the corresponding period in 2019, representing a decline of 62.1 percent. The decline in tourist arrivals was due to the imposition of travel restrictions amid the COVID-19 pandemic.

4.0 Composite Index of Economic Activity (CIEA)

In view of the trends in real sector indicators, the Composite Index of Economic Activity (CIEA) grew by 3.6 percent in July 2020, compared to a growth of 5.2 percent for the corresponding period of 2019.

5.0 Consumer and Business Surveys

The consumer and business confidence surveys conducted in August 2020 showed an improvement in sentiments. However, while consumer confidence bounced back strongly, business confidence is yet to return to pre-pandemic levels.

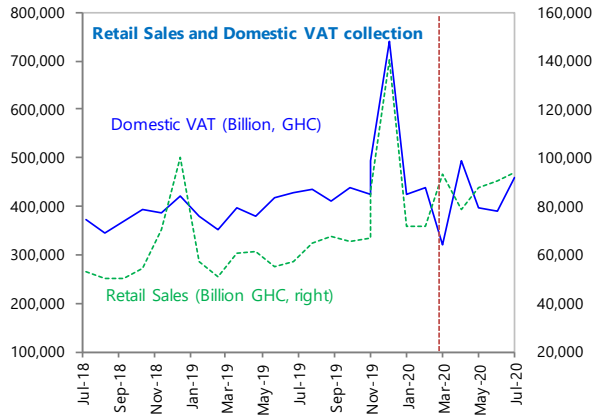
Consumer confidence index improved from 90.3 in June to 101.0 in August 2020. The improvement in confidence was largely driven by the current economic conditions of consumers following the gradual lifting of COVID-19 restrictions.

Business confidence index increased marginally from 88.0 in June to 90.9 in August 2020. The gradual improvement in sentiments reflected businesses' optimism about improving macroeconomic conditions, stability in the exchange rate, lower input prices, moderation in lending rates and positive industry prospects.

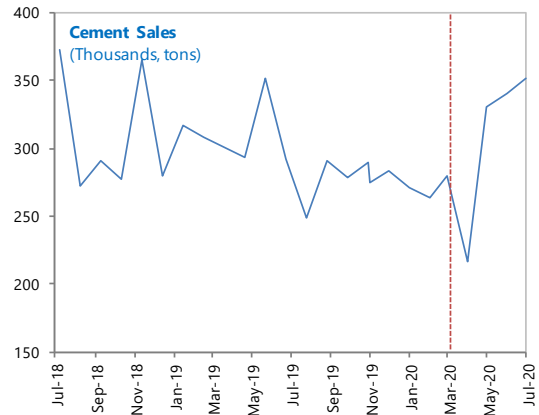
Appendix

Panel 1. Ghana: Impact of COVID-19 on Real Sector Indicators

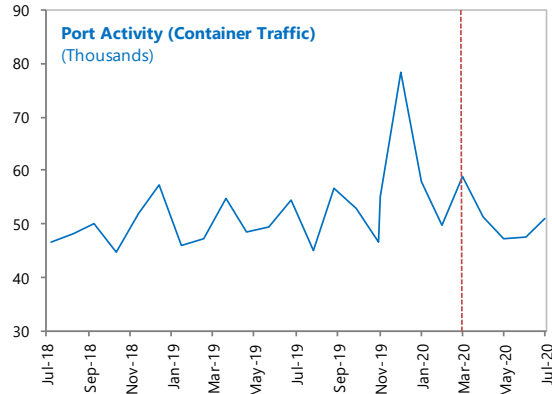
...Retail sales and domestic VAT collections improved in July 2020...



...Cement sales picked up further in July 2020...



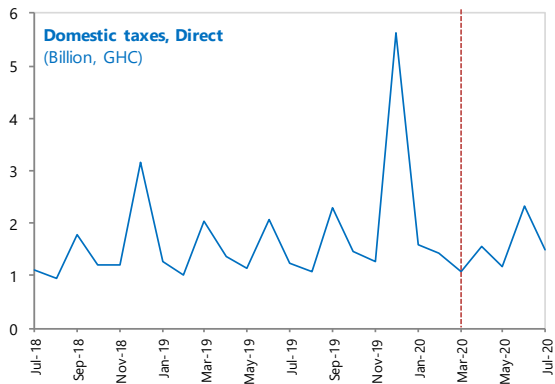
...Port activity improved slightly in July 2020...



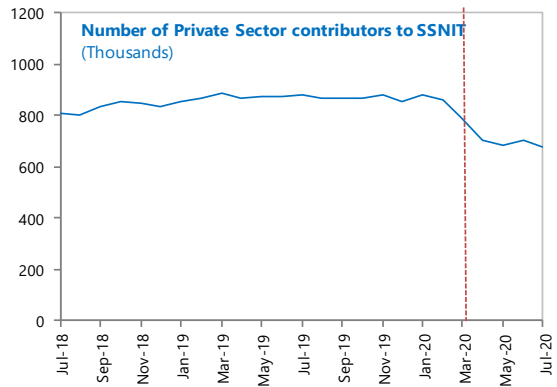
...Tourist arrivals went up further in July 2020 as Government evacuated more stranded Ghanaians, despite travel restrictions.



...Domestic tax collection dipped in July 2020...



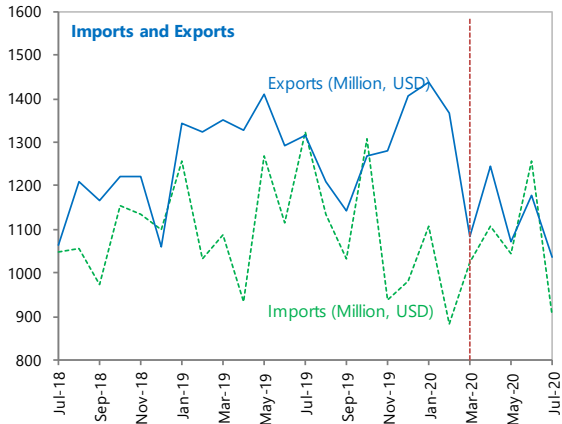
...The number of private sector workers contributing to SSNIT moderated in July 2020...



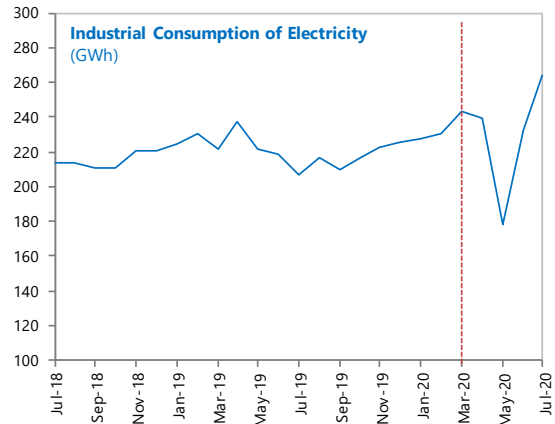
Sources: Bank of Ghana, Various Stakeholders

Panel 2. Ghana: Impact of COVID-19 on Real Sector Indicators

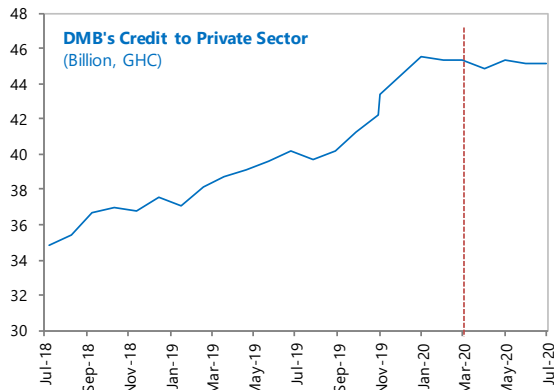
...Similar to exports, imports declined in July 2020...



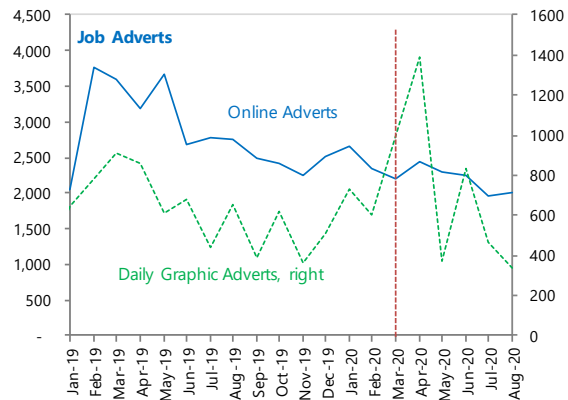
...Industrial consumption of electricity went up significantly in July 2020...



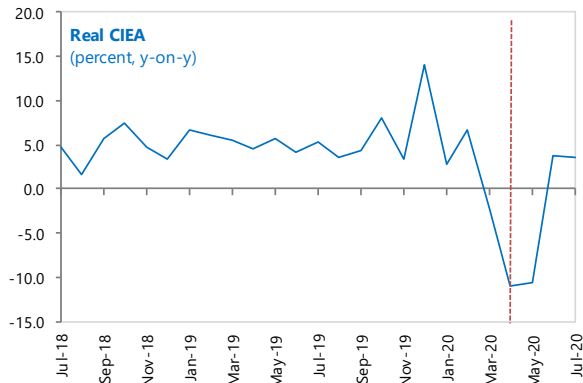
...DMB's credit to the private sector remained fairly flat in July 2020...



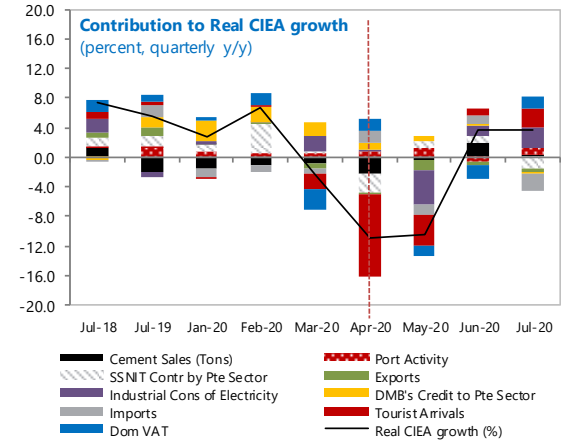
...The number of job adverts in Daily Graphic continues to moderate, while Online adverts increased marginally in July 2020...



...On a year-on-year basis, real CIEA rebounded to 3.56 percent, from a contraction of 11.00 percent and 10.58 percent in April and May 2020, respectively, compared to a growth of 14.02 percent in December 2019 and 5.23 percent growth in July 2019...



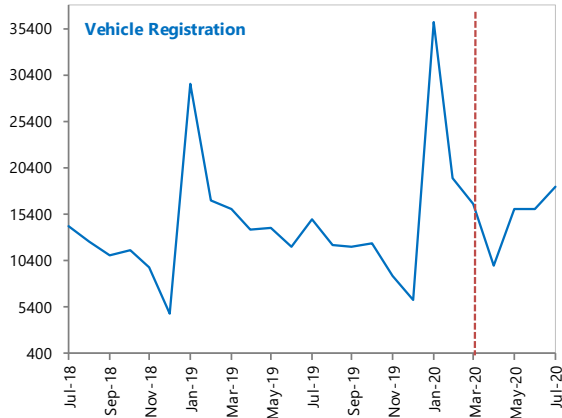
...A rebound in Real CIEA to 3.56 percent in July 2020, from a contraction of 10.58 percent in May 2020, driven mainly by increased Industrial Consumption of Electricity, Tourist Arrivals, Domestic VAT, Port Activity and Cement Sales...



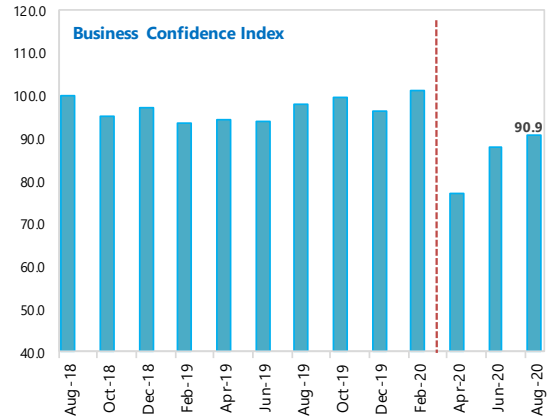
Source: Bank of Ghana, Various Stakeholders

Panel 3. Ghana: Impact of COVID-19 on Real Sector Indicators

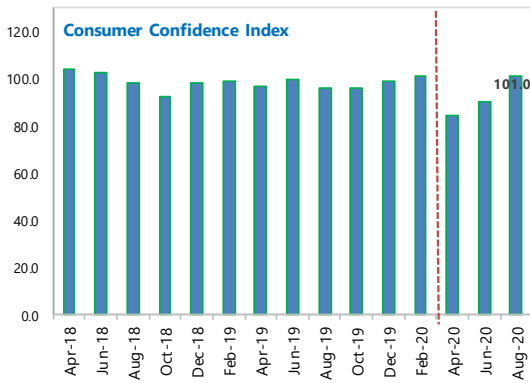
...Vehicle registration picked up further in July 2020



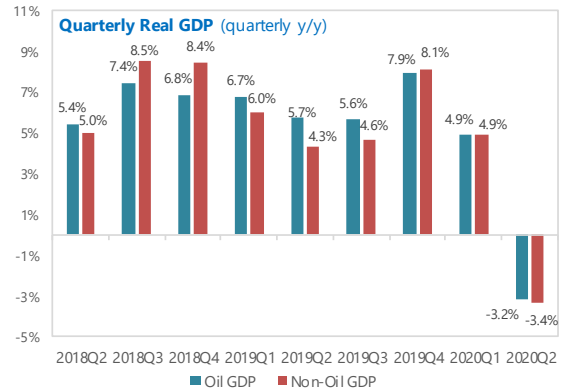
...Business confidence is gradually rebounding from the impact of COVID-19 coupled with relative stability in the exchange rate in August 2020



...Consumer confidence improved in August 2020, largely driven by current and future expectations...

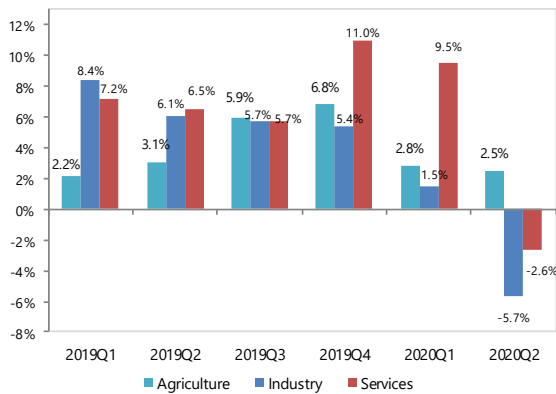


...Real GDP contracted by 3.2 percent in the second quarter of 2020, compared with a growth of 5.7 percent for the corresponding period in 2019....



...The Industry and Services sectors were significantly affected by the pandemic, contracting by 5.7 percent and 2.6 percent respectively....

Sectoral GDP growth rates (quarterly y/y)



Source: Bank of Ghana, Various Stakeholders