



Bank of Ghana Monetary Policy Committee Press Release

November 23 2020

Good morning, Ladies and Gentlemen of the Media, and welcome to the 97th Monetary Policy Committee (MPC) press briefing, and also the last press briefing for the year. 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 the decision of the committee on the Policy Rate.

1. Global growth picked up in the third quarter of 2020, after a sharp contraction in the second quarter. The growth pick-up was supported by the gradual easing of the pandemic-related restrictions and strong fiscal and monetary policy support. In the near-term, however, the resurgence of COVID-infections in advanced economies, accompanied by the re-imposition of targeted lockdown measures in several advanced economies, is expected to moderate economic activity and slowdown the recovery. The latest IMF World Economic Outlook forecasts a contraction of global output by 4.4 percent in 2020, and a rebound to 5.2 percent growth in 2021.
2. Global financial market sentiments remain positive, reflecting the large fiscal stimulus packages, the continuous supportive monetary policy, and the easing of lockdown restrictions imposed in the first half of the year. Since March 2020, equity prices have rebounded, corporate and sovereign bond spreads have narrowed, while capital and portfolio flows to emerging market and frontier economies have improved, especially in October. These developments have helped ease pressures on currencies in some emerging market and frontier economies. Sovereign risk spreads for most Sub-Saharan African countries have steadily declined, affirming lower investor risk perception. However, rising debt levels pose a major risk to emerging markets and developing economies in the outlook.
3. Global inflationary pressures remain generally subdued, helped by low oil prices, weak demand, and deterioration in labour market conditions. Consequently,

inflation projections have generally been revised downwards in the near term. In Advanced Economies, inflation is expected to remain low. Currency movements and COVID-related supply side constraints are likely to shape inflation dynamics in emerging market and frontier economies, going forward.

4. On the domestic front, the initial growth spurts recorded in June 2020, high frequency economic indicators, monitored by the Bank of Ghana gained some traction due to supportive fiscal and monetary policies and the easing of COVID-restrictions. After contracting in March, April and May, the real Composite Index of Economic Activity (CIEA) recorded an annual growth of 10.5 percent in September 2020, compared with 4.2 percent growth a year ago. The key drivers of economic activity during the period were construction activities, manufacturing, and credit to the private sector. In addition, the Purchasing Managers Index (PMI) which gauges the rate of inventory accumulation by managers of private sector and also captures dynamics in economic activity has increased significantly since the last MPC meeting in September 2020.
5. The latest Bank surveys conducted in October 2020 point to improvements in both consumer and business confidence. Consumer confidence was firmly above pre-lockdown levels supported by rebounding economic activity following gradual relaxation of COVID-restrictions. Though below pre-lockdown levels, business confidence has shown a steady and gradual recovery supported by improved company prospects and steady demand for goods and services.
6. Inflation pressures from events preceding the partial lockdown of the economy in April 2020 are easing. From an average of 7.8 percent in the first quarter, headline inflation steadily rose in the second quarter and peaked at 11.4 percent in July 2020, driven mainly by the spike in food prices. Since then, headline inflation has trended downwards and is reported at 10.1 percent for October driven by both declines in food and non-food prices. Non-food inflation has declined to 8.3 percent from a peak of 9.9 percent, and food inflation has also declined from a peak of 15.1 percent in May to 12.6 percent in October.
7. Underlying domestic inflationary pressures have continued to moderate. The Bank's core inflation measure, which excludes energy and utility, declined marginally. While inflation expectations of businesses and consumers moderated, that for the financial sector inched up marginally.
8. Budget implementation through September 2020 was broadly in line with the revised mid-year Budget estimates following the introduction of fiscal measures to combat the COVID-19 pandemic. Provisional data for the first three quarters of 2020, showed an overall budget deficit of 9.0 percent of GDP against the target of 8.9 percent of GDP. The primary balance also recorded a deficit of 4.1 percent of GDP, marginally above the target of 4.0 percent of GDP. Over the review period, total revenue and grants amounted to GH¢36.3 billion (9.4% of GDP)

compared with the target of GH¢35.7 billion (9.3% of GDP). Total expenditures and arrears clearance amounted to GH¢70.9 billion (18.4% of GDP), marginally above the target of GH¢70.0 billion (18.2% of GDP). The deficit was financed mainly from domestic sources.

9. These developments impacted the stock of public debt which was 71 percent of GDP (GH¢273.8 billion) at the end of September 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¢135.3 billion (35.1% of GDP), of which the financial sector bailout accounts for 4.0 percent of GDP, while external debt was GH¢138.5 billion (35.9% of GDP).
10. Money supply showed significant expansion in the first ten months of 2020, reflecting the complementary monetary policy and fiscal stimulus measures taken to support efforts to minimize the impact of the COVID-19 pandemic. M2+ grew by 30.0 percent, year-on-year compared with 16.3 percent in the corresponding period of 2019. The increase in total liquidity was mainly driven by the net domestic assets of the central bank and the commercial banks. Net domestic assets increased sharply by 36.1 percent year-on-year in October 2020, compared with 17.1 percent in the same period of last year, while net foreign assets moderated by 6.0 percent from 13.4 percent over the same comparative period. In terms of components, the growth in M2+ reflected mainly in currency outside banks and demand deposits.
11. Net outstanding claims on the private sector, which also captures repayments to the banking sector, show some moderation since the beginning of the year. With respect to new advances, the data shows that cumulatively from the beginning of the year, new loans to support economic activity stands at GH¢27.4 billion compared with GH¢21.3 billion for the same period of last year.
12. Interest rate trends on the money market reflected mixed developments as yields on the short to medium term instruments eased, but broadly tightened at the longer end. On a year-on-year basis, the 91-day Treasury bill rate declined to about 14.1 percent in October 2020 from 14.7 percent a year ago. Similarly, the interest rate on the 182-day instrument declined to 14.1 percent from 15.1 percent. With the exception of the 6-year bond, yields on the 7-year, 10-year, 15-year, and 20-year bonds all increased.
13. The weighted average interbank lending rate, that is the rate at which banks lend to each other, declined to 13.6 percent in October 2020 from 15.2 percent same period last year. The downward adjustment was driven by the cut in the monetary policy rate in March 2020. Average lending rates of banks eased significantly to 21.3 percent from 24.0 percent over the same comparative period.

14. The latest credit conditions survey conducted in October 2020 show a net easing in overall credit stance on loans to enterprises and households. The survey results showed that with the recovery in economic activities underway, demand for loans over the next two months is also expected to rise.
15. The banking sector remains liquid, profitable and well capitalized with strong buffers to withstand adverse shocks and support the country's recovery efforts from the pandemic. Asset quality has also improved. The Financial Soundness Indicators and the Banking Sector Stability Index remain in high positive territories. The industry's CAR of 20.0 percent as at end October 2020 remains well above the regulatory minimum threshold.
16. The latest banking sector data as at October 2020 indicate that total assets grew by 23.7 percent year-on-year to GH¢150.0 billion while deposits also recorded an annual growth of 27.0 percent to GH¢100.2 billion. Total advances also went up by 13.7 percent year-on-year to GH¢47.4 billion over the period.
17. On the external sector, prices of key export commodities have traded mixed in the year to October 2020. Driven by low demand, crude oil prices sharply declined by 36.5 percent from the beginning of year to October 2020. Crude oil prices averaged US\$41.1 per barrel in October, compared with US\$65.2 per barrel average price in December 2019. On the contrary, gold prices increased by 28.3 percent to average US\$1,900 per fine ounce at the end of October. Gold prices have been largely supported by accommodative monetary policy, increased uncertainty, and the global economic slowdown due to COVID-19. Cocoa prices averaged US\$2,423.5 per tonne in October 2020, marginally down by 3.8 percent on a year-to-date basis due to a pandemic-linked drop in global demand.
18. These commodity price developments impacted variously on the trade balance. In the first nine months of the year, total exports contracted by 7.9 percent year-on-year to US\$10,790 million, driven mainly by the significant decline of US\$1,220 million in crude oil export receipts on the back of low prices. Gold and cocoa export earnings on the other hand, went up by 8.0 percent and 11.0 percent respectively, due to favourable prices and production volumes. Total imports slowed by US\$939 million to US\$9,244 million over the period, underpinned by significant declines in both oil and non-oil imports. As a consequence, the trade balance recorded a surplus of US\$1,545.6 million (2.3 percent of GDP) in the first nine months of 2020, compared with US\$1,530 million (2.3 percent of GDP) in the same period of 2019.
19. The current account for January to September 2020 improved marginally, recording a deficit of US\$1,267 million (1.9 percent of GDP) compared with a deficit of US\$1,497 million (2.2 percent of GDP) for the same time in 2019. The current account outturn was supported by stable inflows in current transfers, especially remittances, and lower net investment income outflows, particularly

profits and dividends. The improvement in the current account was offset by lower inflows in the capital and financial account, which recorded a balance of US\$366 million for the first nine months of 2020, compared with US\$2,273 million in the same period in 2019. This was attributed to the lower-than-projected inflows from FDIs and portfolio investments. This resulted in an overall balance of payments deficit of US\$676 million (1.0 percent of GDP) for the first nine months of 2020, compared with a surplus of US\$879 million (1.3 percent of GDP) for the same period in 2019.

20. Gross International Reserves at the end of October 2020 was US\$8,627.4 million, equivalent to 4.0 months of import cover of goods and services. This compares with US\$8,418.1 million, equivalent to 4.0 months of import cover recorded at the end of December 2019. Cumulatively, the Ghana Cedi as at November 18 2020 has recorded a depreciation of 3.1 percent against the US dollar compared with a depreciation of 10.1 percent same period last year.

Summary and Outlook

21. To summarise the developments, the Committee noted that global GDP growth rebounded in the third quarter of 2020 after the sharp fall in the second quarter, but is expected to slowdown in the last quarter as rising COVID-19 cases moderate the recovery process. The supportive global monetary policy stance, together with fiscal stimulus packages, is likely to persist over the medium-term to support the growth recovery process. Consequently, global financing conditions are expected to remain favourable in the near-term.
22. On the Ghanaian economy, evidence from high frequency indicators – the CIEA outturn for October 2020, improved consumer and business confidence, and strong liquidity flows – have helped to deliver a faster than expected recovery in economic activity. These flows include payments to contractors, SDI depositors, clients of SEC licenced fund managers, micro and small business loans provided by government through the National Board for Small Scale Industries, and the policy and regulatory reliefs to banks and SDIs. Based on these observations, the Bank maintains that growth will perform better than earlier projected.
23. The Committee noted that performance of the banking sector remains strong. The sector recorded strong growth in deposits and investments and solvency indicators were significantly higher than regulatory thresholds. Pandemic tail-risks, that is, pandemic-related impact on non-performing loans, would require continuous supervisory vigilance.
24. On budget implementation, the Committee noted that the expansionary fiscal stance to address the COVID-19 pandemic has also led to deviation from the path of fiscal consolidation. Looking ahead to 2021, a decisive fiscal correction plan would be needed to contain fiscal risks in the medium-term.

25. The Committee noted that inflation has eased following the spike to 11.4 percent. At 10.1 percent for October 2020, inflation is almost at the upper band target. The fiscal and monetary policy measures, which have increased liquidity in the economy, appear not to be impacting inflation, partly due to the existence of the output gap. As a result, the Committee expects these conditions to support inflation to return to its central path by the second quarter of 2021.
26. To conclude, the Committee noted that macroeconomic conditions have generally improved relative to conditions at the time of the last MPC meeting in September 2020. Global conditions continue to be supportive, domestic inflation is easing, growth prospects are improving, crude oil prices have stabilized, monetary aggregates have expanded but with minimal impact on inflation, the current account deficit is stable, remittances inflow has remained firm, the exchange rate has been stable and reserve buffers continue to remain strong. The key risks are the evolution of the budget deficit and the financing needs to support budget implementation and the uncertainty surrounding the pandemic.
27. Under the circumstances, the Committee's decided to maintain the policy rate at 14.5 percent.

Informational Note

The next Monetary Policy Committee (MPC) meeting is scheduled for January 20-22, 2021. The meeting will conclude on Monday, January 25, 2021 with the announcement of the policy decision.