



Bank of Ghana Monetary Policy Report

Monetary and Financial Developments

Vol. 4 No. 1/2021

January 2021

1.0 Overview

The thrust of monetary policy in 2020 was to deliver inflation within the medium-term target of 8 ± 2 percent while supporting the overall economic policy of Government. However, COVID-related factors drove prices, especially the spike in inflation observed during the second quarter of 2020, which was on the back of events preceding the partial lockdown. Inflationary pressures, however, eased steadily in the early months of the fourth quarter, but increased to 10.4 percent in December 2020, driven mainly by food inflation. 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-term.

Developments in money supply in December 2020 showed that annual growth in broad money supply (M2+) increased significantly, reflecting the fiscal stimulus and complementary monetary policy measures taken to support efforts to moderate the impact of the COVID-19 pandemic. Interest rates have generally trended downwards in line with the easing of monetary policy stance and improved liquidity conditions. Performance of the Ghana Stock Exchange (GSE) has remained bearish, reflecting the general economic uncertainty.

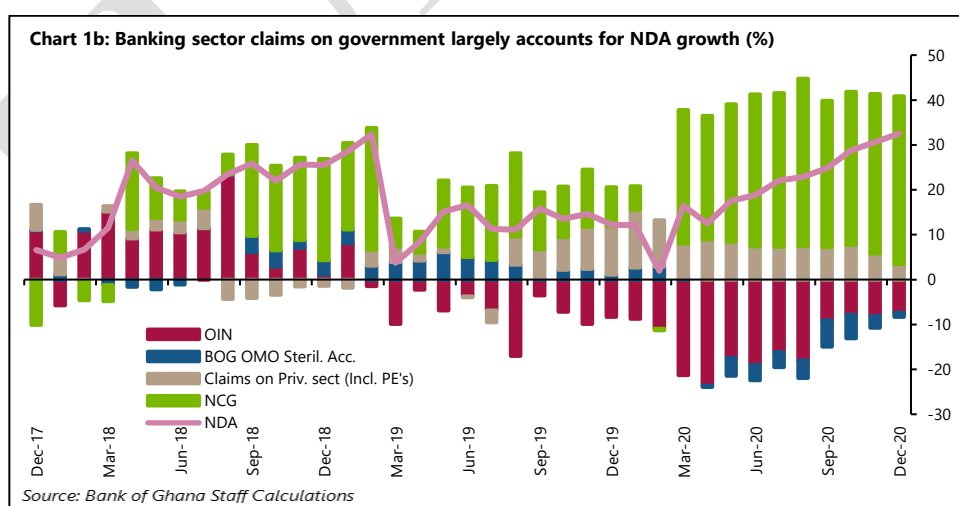
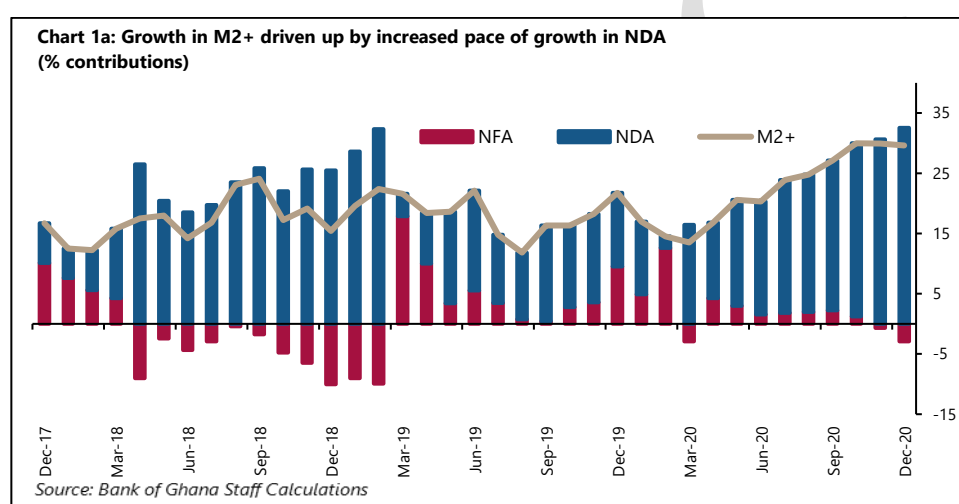
Key Monetary and Financial Indicators												
i. Key Monetary Aggregates	Level (GH¢ Million)	Per cent (Unless otherwise specified)										
		Dec-18	Mar-19	Jun-19	Sep-19	Nov-19	Dec-19	Mar-20	Jun-20	Sep-20	Nov-20	Dec-20
Broad Money (M2+)	15.4	21.6	22.1	16.3	18.2	21.7	13.5	20.3	27.1	29.9	29.6	
Broad Money (M2)	15.7	19.1	18.0	14.5	14.9	16.1	12.7	22.1	30.7	33.5	35.0	
Narrow Money (M1)	16.1	26.0	22.3	21.2	23.8	25.5	16.6	27.9	31.5	37.1	39.8	
Reserve Money	0.1	16.9	8.1	14.0	20.9	34.4	20.4	16.6	31.7	31.4	25.0	
Currency Outside Banks	11.5	13.3	11.6	17.2	17.9	20.2	20.9	36.7	43.7	46.4	45.5	
Foreign Currency Deposits	14.3	30.5	36.6	22.4	30.6	42.6	16.2	14.8	16.0	18.2	13.2	
DMBs Credit	-	3.5	4.1	0.0	15.0	21.4	23.8	19.6	16.3	14.4	11.0	5.8
of which priv. sector	-	1.9	5.9	1.9	11.6	17.6	18.0	19.7	14.2	12.6	10.5	10.6
Real Priv. sect credit	-	10.3	0.6	5.2	3.7	8.7	9.4	11.0	2.7	2.0	0.6	0.2
ii. Inflation, interest rates and other financial indicators												
Variable	Per cent (Unless otherwise specified)											
	Dec-18	Mar-19	Jun-19	Sep-19	Nov-19	Dec-19	Mar-20	Jun-20	Sep-20	Nov-20	Dec-20	
Inflation (y-on-y)												
Overall	9.4	6.6	7.6	7.6	8.2	7.9	7.8	11.2	10.4	9.8	10.4	
Food	8.7	8.1	7.9	8.5	8.4	7.2	8.4	13.8	11.2	11.7	14.1	
Non food	9.8	10.2	10.1	7.0	8.0	8.5	7.4	9.2	9.8	8.3	7.7	
MPR	17.0	16.0	16.0	16.0	16.0	16.0	14.5	14.5	14.5	14.5	14.5	
Interbank rate	16.1	15.2	15.2	15.2	15.2	15.2	15.7	13.8	13.6	13.6	13.6	
Treasury bill rate (91-days)	14.6	14.7	14.8	14.7	14.7	14.7	14.7	14.0	14.0	14.1	14.1	
DMBs avg deposit rate (3-mnth)	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5	
DMBs avg lending rate	24.0	23.3	23.1	23.7	23.5	23.6	23.4	22.0	21.3	20.9	21.1	
Exchange rate (\$/GH¢)	4.8200	5.0834	5.2590	5.3164	5.5254	5.5337	5.4423	5.6674	5.7027	5.7139	5.7602	
Depreciation (monthly)	0.3	-1.8	1.1	0.7	3.4	0.1	2.7	0.8	0.3	0.1	0.8	
Depreciation (YTD)	8.4	5.2	8.3	9.3	12.8	12.9	-1.7	2.4	3.0	3.2	3.9	
GSE Composite Index (Level)	2,572.2	2,454.5	2,394.8	2,204.8	2,137.9	2,257.2	2,159.6	1,899.9	1,856.6	1,818.7	1,941.6	
GSE Financial Index (Level)	2,153.7	2,155.3	2,090.0	1,894.2	1,788.8	2,019.7	1,922.9	1,725.0	1,675.6	1,622.8	1,782.8	

Source: Bank of Ghana Staff Calculations

2.0 Developments in Monetary Aggregates

Money Supply

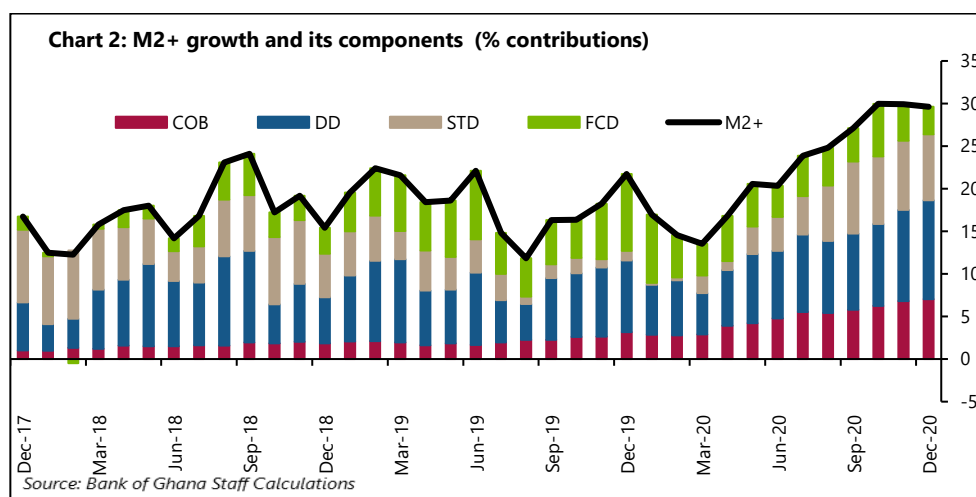
Growth in money supply (M2+) increased significantly in December 2020, largely driven by a faster pace of growth in Net Domestic Assets (NDA) of the banking system. M2+ expanded by 29.6 percent on year-on-year basis in December 2020 compared with 21.7 percent growth recorded in the corresponding period of 2019. In terms of contributions to growth in M2+, the NDA accounted for 32.5 percent while the Net Foreign Assets (NFA) accounted for negative 1.2 percent of the annual growth in M2+ (Chart 1a and Appendix Table 1). On annual basis, the NDA expanded by 42.2 percent in December, 2020 compared with 15.0 percent, same period in 2019. In contrast, the NFA contracted by 12.7 percent compared to an expansion of 51.7 percent, over the same comparative periods.



The significant growth in NDA was driven by Net Claims on Government (NCG), partly reflecting the fiscal financing of Government's measures to mitigate the impact of the COVID-19 pandemic. NCG contributed 37.4 percent to the growth of NDA. This was, however, moderated by a marginal increase in sterilization through the Open Market Operations (OMO). Growth in claims on private

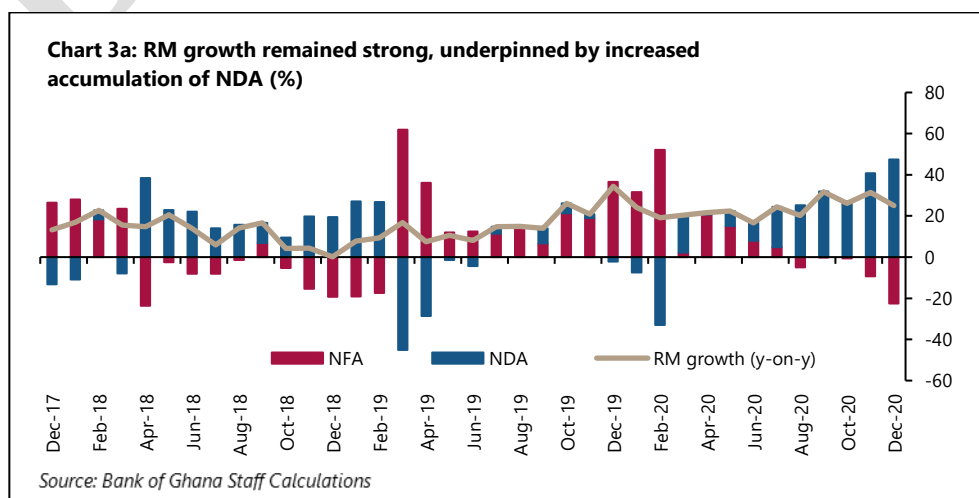
sector decreased to 6.5 percent in December 2020 from 19.7 percent recorded in December 2019. (Chart 1b, and Appendix Table 1).

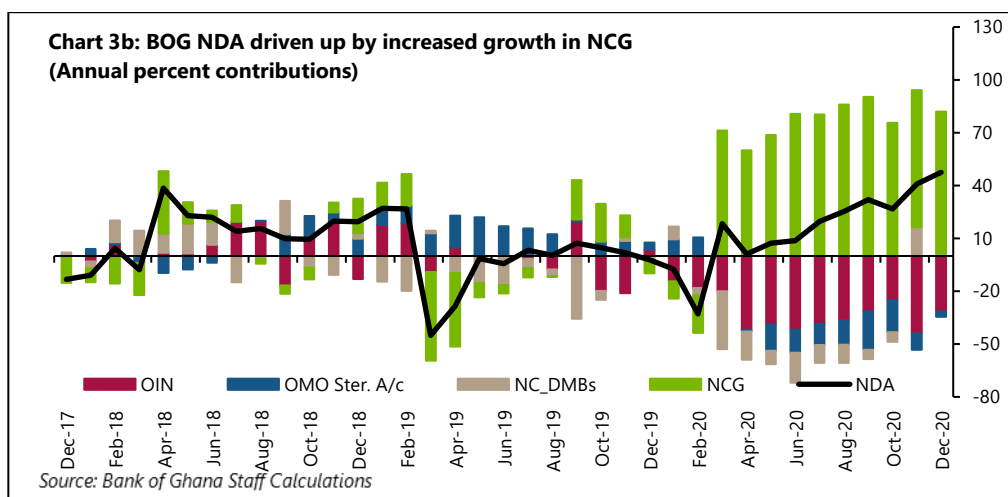
Analysis of the components of M2+ over the period showed that the expansion in M2+ was largely reflected in increased growth of currency outside banks, demand deposits, and savings and time deposits. The significant growth in currency outside banks and domestic deposits was on the back of fiscal stimulus in the wake of the pandemic. (Chart 2; Appendix 1).



Reserve Money

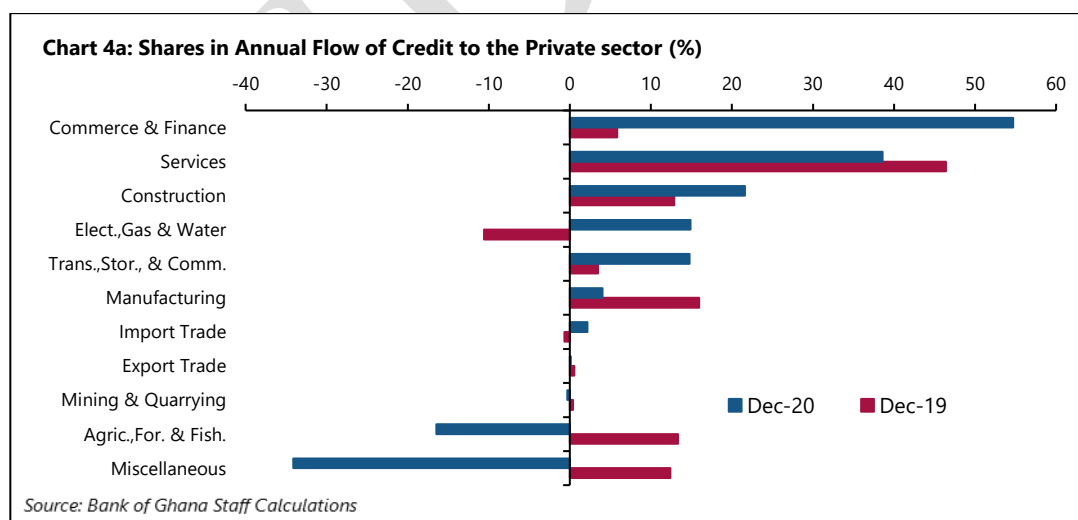
Annual growth in Reserve Money (RM) decreased to 25.0 percent in December 2020 from 34.4 percent, recorded in the corresponding period of 2019. The sources of change in reserve money indicated that growth in RM was mainly on account of significant growth in NDA of Bank of Ghana, reinforced by considerable increase in the Net Claims on Government. In contrast, the NFA contracted significantly, over the same comparative period, to moderate growth in Reserve Money. (Chart 3a, 3b, and Appendix 2).



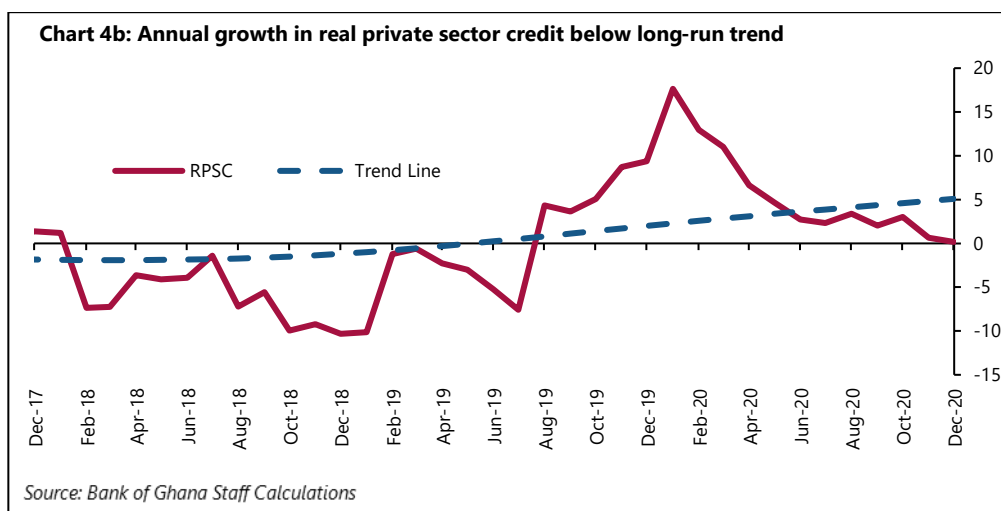


Deposit Money Banks (DMBs) Credit Developments

DMBs' credit to the private sector and public institutions increased by GH¢2,599.02 million (5.8%) in December 2020 compared with GH¢8,673.15 million (23.8%) recorded in December 2019. On the other hand, credit to the private sector increased by GH¢4,168.27 million (10.6%) in December 2020 compared with GH¢6,012.78 million (18.0) last year. The private sector credit accounted for 160.4 percent of total flow of credit granted to private and public institutions in December 2020 as against 69.3 percent recorded in the corresponding period in 2019. Credit to the private sector remains concentrated in five sub-sectors including services; commerce and finance; electricity, gas and water; construction; and transport, storage, and communication (Chart 4a).



Outstanding credit to the private sector at the end of December 2020 was GH¢43,533.19 million compared with GH¢39,364.91 million, same period last year. In real terms, growth in private sector credit declined to 0.2 percent in December 2020 from 9.4 percent in December 2019, mainly reflecting the effect of higher price levels as well as slowdown in credit demand. Real growth in private sector credit since June 2020 has been below the long-term trend (Chart 4b).



3.0 Money Market Developments

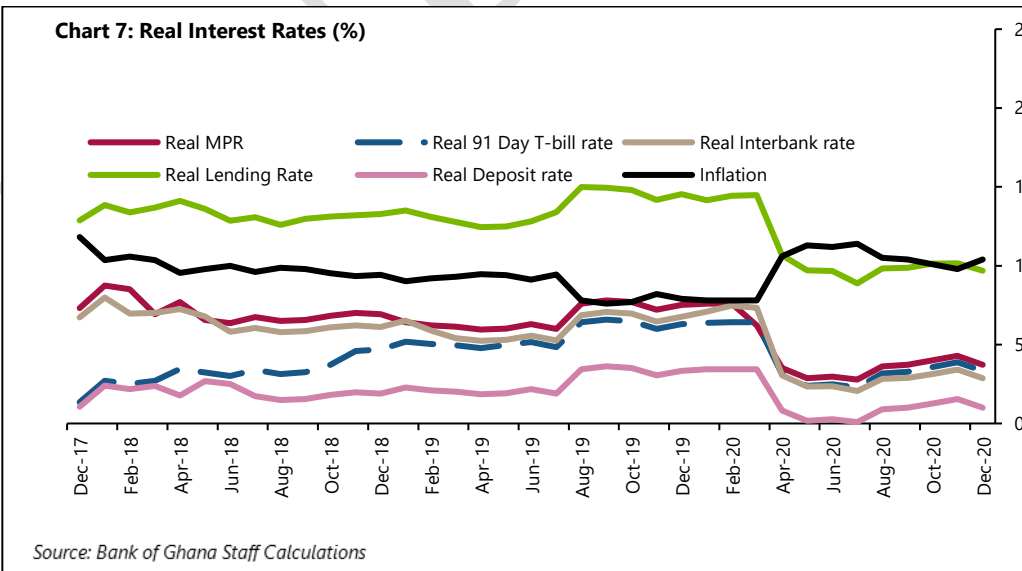
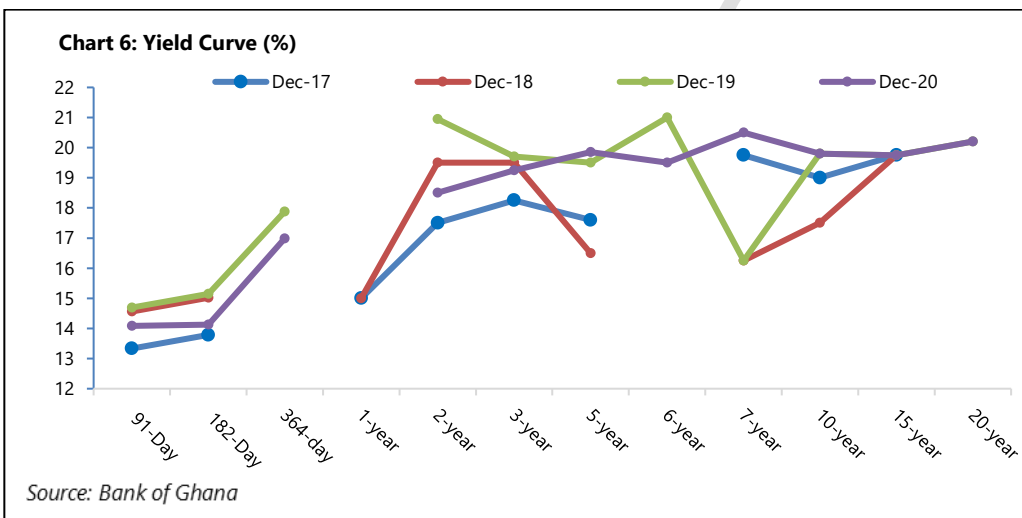
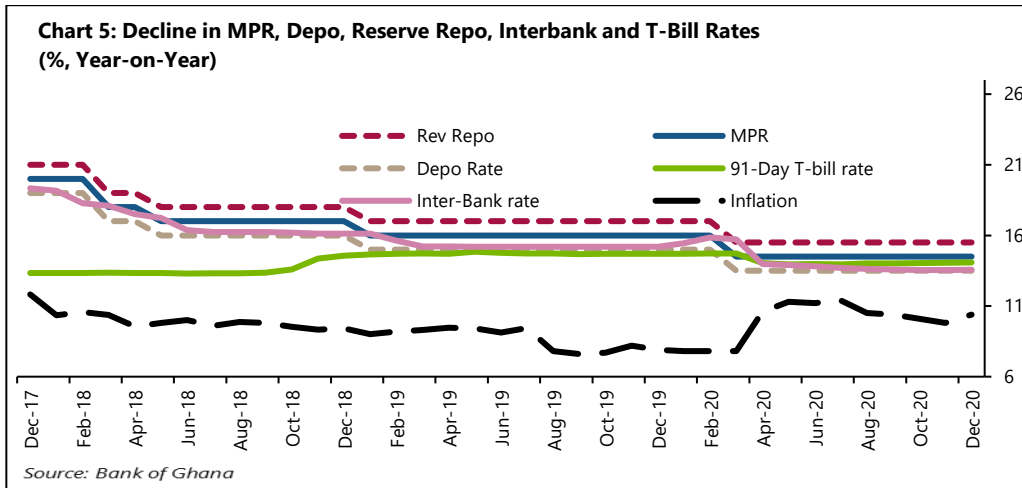
Monetary Policy Rate, Repo, Interbank, Treasury bill and bond rates, and Inflation

Developments in the money market indicated downward trends in interest rates for short-dated instruments and mix trends for medium to long-dated instruments. The 91-day and 182-day Treasury bill rates declined to 14.08 percent and 14.13 percent respectively in December 2020, from 14.69 percent and 15.15 percent respectively, in December 2019. Similarly, the rate on the 364-day instrument decreased to 16.98 percent from 17.88 percent over the same comparative periods.

Rates on the secondary bond market have also broadly declined except rates on the 5-year and 7-year bonds, which increased by 35bps and 425bps respectively, to settle at 19.85 percent and 20.50 percent, respectively. Yields on 2-year, 3-year and 6-year bonds decreased by 245bps, 45bps and 150bps respectively, to settle at 18.50 percent, 19.25 percent, and 19.50 percent, respectively. Rates on the 10-year, 15-year and 20-year bond however remained unchanged at 19.80 percent, 19.75 percent, and 20.20 percent respectively, over the same comparative periods.

The weighted average interbank rate declined to 13.56 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 21.10 percent in December 2020, from 23.59 percent recorded in the corresponding period of 2019, consistent with developments in the interbank market.

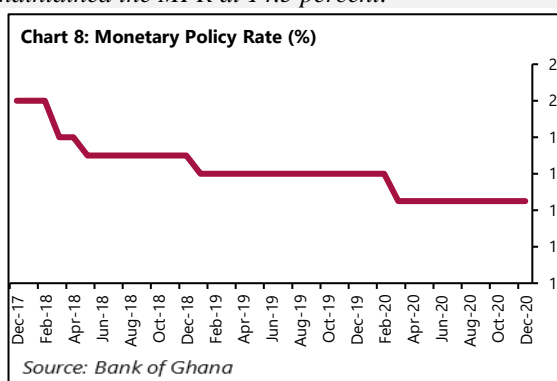
Real interest rates have also declined reflecting the general downward trends in interest rates and effects of higher price levels. (Charts 5, 6 and 7).



Box 1: RECENT MONETARY POLICY DECISIONS

The MPC, at its latest meeting held in January 2021, maintained the MPR at 14.5 percent.

The Committee noted that the global resurgence of Covid-19 infections has elevated uncertainties in the outlook, posing significant risks to the pace of recovery in the near-term. Global growth prospects remain positive, conditioned on a successful vaccine rollout across various countries, a gradual relaxation of the containment measures, and assured policy support. When well-coordinated, these will help support the much-anticipated global growth rebound in the second half of 2021. These conditions will also foster accommodative near-term monetary policies in Advanced Economies and trigger a search for yield in Emerging Market and Developing



Economies with strong fundamentals. Rising debt vulnerabilities in emerging market and frontier economies, including Ghana, on the other hand, pose significant risks and could potentially worsen investor risk appetite. These conditions will require managing fiscal risks in the outlook for the Ghanaian economy.

In the domestic economy, growth has picked up since the sharp contraction in the second quarter. All the high frequency indicators of economic activity have rebounded, consumer and business confidence levels are back at pre-lockdown levels, and there are indications of steady growth in private sector credit. However, the renewed threat from the second wave of the pandemic has again heightened uncertainty and could hamper the recovery process in the near term.

The banking sector remains well positioned to undertake its core objective of financial intermediation and providing support to the growth recovery process. Banks are expected to sustain the strong performance under mild to moderate stress conditions, barring more severe consequences on the real sector from the second wave of the pandemic. Policy and regulatory reliefs granted to the industry will be reviewed alongside close monitoring and prompt supervisory actions will be taken to address emerging potential vulnerabilities in the financial sector arising from the pandemic.

The current account balance turned out better than earlier anticipated. However, lower-than-projected FDI flows and portfolio reversals resulted in a lower build-up of reserves than earlier projected. The gross reserves at US\$8.6 billion, translating into 4.1 months of import cover, will provide adequate cushion against potential external vulnerabilities in 2021. Prospects of a sharp fiscal correction in 2021 now looks unlikely amidst the second wave of the pandemic which will be requiring additional spending to provide testing, vaccines, etc. To put debt on a sustainable path and to ensure sustainability in policies, some new revenue measures and expenditure rationalization efforts will have to be pursued within the context of the medium-term fiscal framework to allow for the generation of primary surpluses.

Headline inflation, while on steady decline in the early months of the last quarter of 2020, jumped in December to 10.4 percent, outside the target band of 8 ± 2 percent, driven by food prices. However, the Bank projects headline inflation to return to target in the second quarter of 2021. Risks to inflation in the near-term are broadly contained, but short to medium-term risks emanating from the fiscal expansion and rising crude oil prices are emerging. Under the circumstances and given the balance of risks to inflation and growth, the Committee decided to keep the policy rate at 14.5 percent.

4.0 Stock Market Developments

The GSE Composite Index (GSE-CI) declined to 1941.6 points from 2257.2 points recorded in the corresponding period of 2019. This translated into loss of 14.0 percent in the index in December 2020 compared with a loss of 12.2 percent in December 2019. The GSE-Financial Stocks Index (GSE-FSI), the main driver of the overall performance within the period, closed at 1782.8 points, representing a loss of 11.7 percent compared with a loss of 6.2 percent in December 2019.

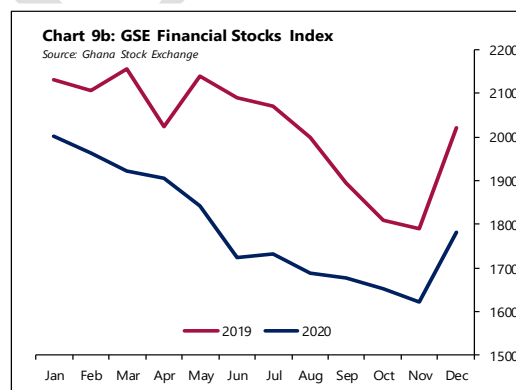
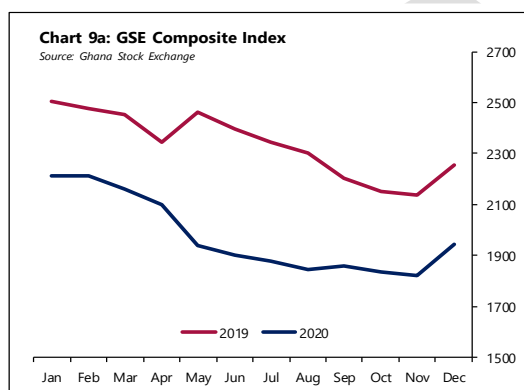
Table 2: Performance of Ghana Stock Exchange

	Dec-18	Mar-19	Jun-19	Sep-19	Nov-19	Dec-19	Mar-20	Jun-20	Sep-20	Nov-20	Dec-20	Changes				
												Y-O-Y 2019	2020	Y-T-D 2020	Dec over Nov 2019	2020
GSE CI	2572.2	2454.5	2394.8	2204.8	2137.9	2257.2	2159.6	1899.9	1856.6	1818.7	1941.6	-12.2	-14.0	-14.0	5.6	6.8
GSE FI	2153.7	2155.3	2090.0	1894.2	1788.8	2019.7	1922.9	1725.0	1675.6	1622.8	1782.8	-6.2	-11.7	-11.7	12.9	9.9
Market Capitalization	61,972.14	59,996.25	59,803.0	57,599.8	55,529.0	55,563.4	55,985.6	52,950.4	53,159.8	53,086.3	54,374.9	-10.3	-2.1	-2.1	0.1	2.4

Source: Ghana Stock Exchange and Bank of Ghana Staff Calculations

Total market capitalisation of the GSE at the end of December 2020 was GH¢54.4 billion representing a contraction of 2.1 percent (GH¢3.09 billion), compared with a contraction by 10.3 percent in December 2019. The improvement in market capitalization, in percentage terms, was mainly on account of capital gains.

Uncertainties on the bourse continued to be slightly elevated in view of the resurgence of COVID-19 infections and emergence of new variants of the virus since the last quarter of 2020, which has resulted in the re-imposition of restrictions and partial lockdowns in some economies. These uncertainties may, however, be muted by policy support in advanced economies and successful deployment of COVID-19 vaccines. In the outlook, GSE-CI is expected to recover marginally in the ensuing months, on the back of the rollout of COVID-19 vaccines, relatively stable exchange rate, sustained fiscal stimulus in advanced economies and improved investor sentiments.



Conclusion

Developments in money supply in December 2020 showed that annual growth in broad money supply (M2+) increased significantly, reflecting the fiscal stimulus and complementary monetary policy measures taken to minimize the impact of the COVID-19 pandemic. Interest rates have generally trended downward in line with the easing of monetary policy stance and improved liquidity conditions. Performance of the Ghana Stock Exchange (GSE) has remained bearish but expected to recover marginally in the ensuing months, on the back of the rollout of COVID-19 vaccines, relatively stable exchange rate, sustained fiscal stimulus in advanced economies and improving investor sentiments.

Appendices

Appendix 1: Sources of Growth in Total Liquidity (M2+) (millions of Ghana cedis unless otherwise stated)										
	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	
1 Net Foreign Assets	14,036.7	28,919.1	20,607.5	17,394.1	17,585.0	21,293.0	26,544.1	19,306.3	18,599.9	
Bank of Ghana	12,763	27,183	18,717.2	16,603.7	17,346.9	20,622.5	27,685.5	16,557.5	14,123.3	
Commercial Banks	1,274	1,736	1,890.3	790.4	238.1	670.5	1,141.4	2,748.8	4,476.6	
2 Net Domestic Assets	62,344	52,918	62,909.6	68,479.0	71,682.5	66,360.9	78,610.6	89,828.1	101,922.0	
3 ow: Claims on government (net)	27,552	17,898	25,421.9	33,129.2	34,214.5	42,196.7	53,676.3	61,087.9	68,965.6	
4 ow: Claims on Private sector(Incl. PE's)	41,519	43,024	43,517.0	44,753.1	49,713.1	49,344.1	49,693.3	50,986.2	52,943.2	
ow: BOG OMO Sterilisation Acc.	- 5,777	- 6,473	- 5,496.9	- 4,854.3	- 4,924.6	- 6,212.5	- 8,376.9	- 9,866.8	- 5,789.9	
5 Total Liquidity (M2+)	76,380	81,837	83,517.1	85,873.1	92,975.5	92,905.1	100,498.9	109,134.4	120,521.8	
6 ow: Broad Money Supply (M2)	60,255	63,065	63,008.8	64,952.0	69,973.1	71,097.9	76,951.8	84,864.0	94,491.8	
7 ow: Foreign Currency Deposits(€million)	16,126	18,773	20,508.3	20,921.1	23,002.4	21,807.2	23,547.1	24,270.4	26,030.1	
Change from previous year (in per cent)										
8 Net Foreign Assets	- 32.1	71.1	22.5	1.9	51.7	- 8.2	6.2	11.0	- 12.6	
9 Net Domestic Assets	37.0	5.0	22.0	20.7	15.0	25.4	25.0	31.2	42.2	
10 ow: Claims on government (net)	118.4	30.8	71.4	39.3	24.2	135.8	111.1	84.4	101.6	
11 ow: Claims on Private sector(Incl. PE's)	- 2.2	5.7	0.3	11.9	19.7	14.7	14.2	13.9	6.5	
12 ow: BOG OMO Sterilisation Acc.	26.9	28.6	38.5	4.3	14.8	4.0	52.4	103.3	17.6	
12 Total Liquidity (M2+)	15.4	21.6	22.1	16.3	21.7	13.5	20.3	27.1	29.6	
13 Broad Money Supply (M2)	15.7	19.1	18.0	14.5	16.1	12.7	22.1	30.7	35.0	
14 Foreign Currency Deposits (FCDs)	14.3	30.5	36.6	22.4	42.6	16.2	14.8	16.0	13.2	
Cummulative change from previous year end (in per cent)										
15 Net Foreign Assets	- 32.1	106.0	46.8	23.9	51.7	24.7	2.8	9.3	- 12.6	
16 Net Domestic Assets	37.0	15.1	0.9	9.8	15.0	7.4	9.7	25.3	42.2	
17 o/w: Claims on government (net)	118.4	35.0	7.7	20.2	24.2	23.3	56.9	78.5	101.6	
18 Broad Money(M2+)	15.4	7.1	9.3	12.4	21.7	0.1	8.1	17.4	29.6	
Annual per cent contribution to money growth										
19 Net Foreign Assets	- 10.0	17.9	5.5	0.4	9.5	- 2.9	1.5	2.2	- 2.9	
20 NDA	25.5	3.7	16.6	15.9	12.2	16.4	18.8	24.9	32.5	
21 Total Liquidity (M2+)	15.4	21.6	22.1	16.3	21.7	13.5	20.3	27.1	29.6	
Memorandum items										
22 Reserve Money	21,501	23,658	21,906	23,028	28,896	28,487	25,547	30,338	36,125	
23 NFA (\$million)	2,912	5,689	3,919	3,272	3,848	4,877	3,862	3,385	3,229	
24 Currency ratio	0.19	0.16	0.15	0.15	0.18	0.17	0.17	0.18	0.21	
25 FCD/M2+	0.21	0.23	0.25	0.24	0.25	0.23	0.23	0.22	0.22	
26 FCD/T total Deposit	0.25	0.27	0.28	0.28	0.29	0.28	0.27	0.26	0.26	
27 RM multiplier	2.80	2.67	2.88	2.82	2.42	2.50	3.01	2.80	2.62	

Source: Bank of Ghana Staff Calculations

Appendix 2: Sources of Growth in Reserve Money (millions of Ghana cedis unless otherwise stated)										
	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	
1 Net Foreign Assets (NFA)	12,762.8	27,183.5	18,717.2	16,603.7	20,622.5	27,685.5	20,458.7	16,557.5	14,123.3	
2 Net Domestic Assets (NDA)	8,738.3	3,525.3	3,189.1	6,424.2	8,273.5	801.1	5,088.2	13,780.6	22,001.5	
Of which:										
3 ow: Claims on government (net)	10,209.0	3,714.4	4,032.3	9,053.2	8,468.7	12,879.7	21,714.1	29,869.7	31,731.1	
4 Claims on DMB's (net)	5,659.9	5,524.2	1,451.6	195.3	5,302.0	2,256.8	2,294.9	1,386.1	5,736.6	
5 OMO Sterilisation Account.	- 5,777.1	- 6,472.5	- 5,496.9	- 4,854.3	- 4,924.6	- 6,212.5	- 8,376.9	- 9,866.8	- 5,789.9	
6 Reserve Money (RM)	21,501.0	23,658.2	21,906.3	23,027.8	28,896.0	28,486.6	25,546.8	30,338.0	36,124.8	
7 ow: Currency	11,940.9	11,291.1	10,840.4	11,419.9	14,358.1	13,647.5	14,817.4	16,406.2	20,889.6	
8 DMB's reserves	7,011.5	8,045.4	8,372.3	8,940.8	11,850.6	11,925.4	7,720.7	10,722.1	11,860.8	
9 Non-Bank deposits	2,548.6	4,321.7	2,693.6	2,667.1	2,687.4	2,913.7	3,008.7	3,209.8	3,374.3	
Change from previous year (in per cent)										
10 Net Foreign Assets	- 24.5	85.6	15.6	8.9	61.6	1.8	9.3	0.3	- 31.5	
11 Net Domestic Assets	91.2	- 162.9	21.5	29.9	- 5.3	122.7	59.5	114.5	165.9	
12 ow: Claims on government (net)	68.5	- 157.1	19.2	99.5	- 17.0	446.8	438.5	229.9	274.7	
13 Claims on DMB's (net)	- 14.0	6.3	68.5	102.8	6.3	140.9	258.1	609.8	8.2	
14 OMO Sterilisation Account.	26.9	28.6	38.5	4.3	14.8	4.0	52.4	103.3	17.6	
15 Reserve Money (RM)	0.1	16.9	8.1	14.0	34.4	20.4	16.6	31.7	25.0	
16 ow: Currency	11.5	13.3	11.6	17.2	20.2	20.9	36.7	43.7	45.5	
Cummulative change from previous year end (in per cent)										
17 Net Foreign Assets (NFA)	- 24.5	113.0	46.7	30.1	61.6	34.2	0.8	19.7	- 31.5	
18 Net Domestic Assets (NDA)	91.2	102.0	34.4	17.9	40.7	36.5	3.1	22.1	34.2	
19 o/w: Claims on government (net)	68.5	- 136.4	60.5	11.3	17.0	52.1	156.4	252.7	274.7	
20 Reserve Money (RM)	0.1	10.0	1.9	7.1	34.4	1.4	11.6	5.0	25.0	
Annual per cent contribution to money growth										
21 Net Foreign Assets	- 19.3	61.9	12.4	6.7	36.6	2.1	7.9	0.2	- 22.5	
22 Net Domestic Assets (NDA)	19.4	- 45.1	4.3	7.3	- 2.2	18.3	8.7	31.9	47.5	
23 RM growth (y-o-y)	0.1	16.9	8.1	14.0	34.4	20.4	16.6	31.7	25.0	

Source: Bank of Ghana Staff Calculations