



Bank of Ghana Monetary Policy Report

Monetary and Financial Developments

Vol. 4 No.2/2021

March 2021

1.0 Overview

The thrust of monetary policy in 2021 is to deliver inflation within the medium-term target of 8 ± 2 percent while supporting the overall economic policy of Government. Headline inflation remained above pre-pandemic levels with price developments in the first two months of 2021 broadly mixed. Headline inflation eased from 10.4 percent in December 2020 to 9.9 percent in January 2021, and subsequently went up to 10.3 percent in February, marginally outside the medium-term target band of 8 ± 2 percent. The uptick in inflation in February was mainly driven by non-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 monetary aggregates in February 2021 showed sustained growth in broad money supply ($M2+$), reflecting the impact of Government's fiscal stimulus programme, and the complementary monetary policy measures implemented during 2020 to mitigate the adverse 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. The Ghana Stock Exchange (GSE) Composite Index showed continued improvement in the performance of stock market following a rebound in December 2020, reflecting the general pick-up in economic activity.

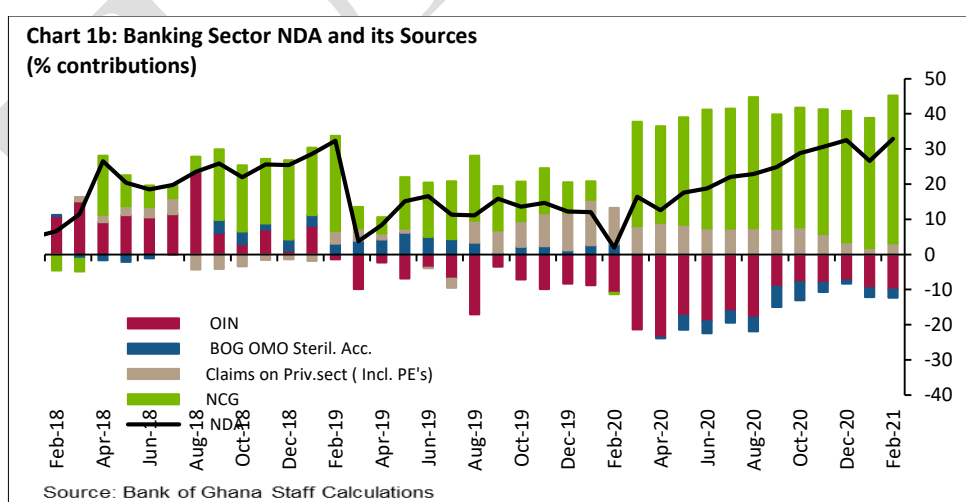
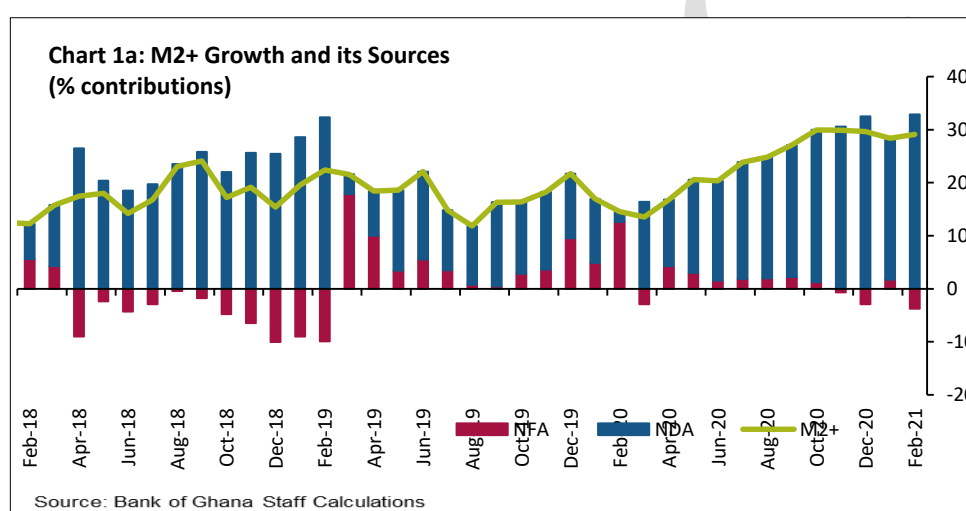
Key Monetary and Financial Indicators												
i. Key Monetary Aggregates	Per cent (Unless otherwise specified)											
	Level (GH¢ Million)	Jun-19	Sep-19	Dec-19	Jan-20	Feb-20	Mar-20	Jun-20	Sep-20	Dec-20	Jan-21	Feb-21
Broad Money (M2+)		22.1	16.3	21.7	17.0	14.5	13.5	20.3	27.1	29.6	28.4	29.1
Broad Money (M2)		18.0	14.5	16.1	11.4	12.4	12.7	22.1	30.7	35.0	35.2	31.9
Narrow Money (M1)		22.3	21.2	25.5	19.2	20.5	16.6	27.9	31.5	39.8	39.3	33.3
Reserve Money		8.1	14.0	34.4	24.1	19.1	20.4	16.6	31.7	25.0	31.7	34.8
Currency Outside Banks		11.6	17.2	20.2	19.8	19.8	20.9	36.7	43.7	45.5	46.3	45.2
Foreign Currency Deposits		36.6	22.4	42.6	36.9	22.0	16.2	14.8	16.0	13.2	8.5	20.2
DMBs Credit		-0.0	15.0	23.8	30.7	26.0	19.6	16.3	14.4	5.8	1.9	3.6
of which priv. sector		1.9	11.6	18.0	26.8	21.8	19.7	14.2	12.6	10.6	6.6	7.4
Real Priv. sect credit		-5.2	3.7	9.4	17.6	13.0	11.0	2.7	2.0	0.2	-3.0	-2.7
ii. Inflation, interest rates and other financial indicators												
Variable	Per cent (Unless otherwise specified)											
	Jun-19	Sep-19	Dec-19	Jan-20	Feb-20	Mar-20	Jun-20	Sep-20	Dec-20	Jan-21	Feb-21	
Inflation (y-on-y)												
Overall	7.6	7.6	7.9	7.8	7.8	7.8	11.2	10.4	10.4	9.9	10.3	
Food	7.9	8.5	7.2	7.8	7.9	8.4	13.8	11.2	14.1	12.8	12.3	
Non food	10.1	7.0	8.5	7.9	7.7	7.4	9.2	9.8	7.7	7.7	8.8	
MPR	16.0	16.0	16.0	16.0	16.0	14.5	14.5	14.5	14.5	14.5	14.5	14.5
Interbank rate	15.2	15.2	15.2	15.4	15.9	15.7	13.8	13.6	13.6	13.6	13.6	13.6
Treasury bill rate (91-days)	14.8	14.7	14.7	14.7	14.7	14.7	14.0	14.0	14.1	14.1	14.1	13.6
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	11.5
DMBs avg lending rate	23.1	23.7	23.6	23.1	23.4	23.4	22.0	21.3	21.1	21.0	21.0	21.0
Exchange rate (\$/GH¢)	5.2590	5.3164	5.5337	5.4672	5.2949	5.4423	5.6674	5.7027	5.7602	5.7604	5.7374	
Depreciation (monthly)	1.1	0.7	0.1	-1.2	-3.3	2.7	0.8	0.3	0.8	0.0	-0.4	
Depreciation (Y-o-Y)	8.3	9.3	12.9	9.4	2.3	-1.7	2.4	3.0	3.9	5.1	7.7	
GSE Composite Index (Level)	2,394.8	2,204.8	2,257.2	2,212.2	2,211.9	2,159.6	1,899.9	1,856.6	1,941.6	2,027.1	2,200.9	
GSE Financial Index (Level)	2,090.0	1,894.2	2,019.7	2,002.5	1,964.6	1,922.9	1,725.0	1,675.6	1,782.8	1,861.5	1,873.3	

Source: Bank of Ghana Staff Calculations

2.0 Developments in Monetary Aggregates

Money Supply

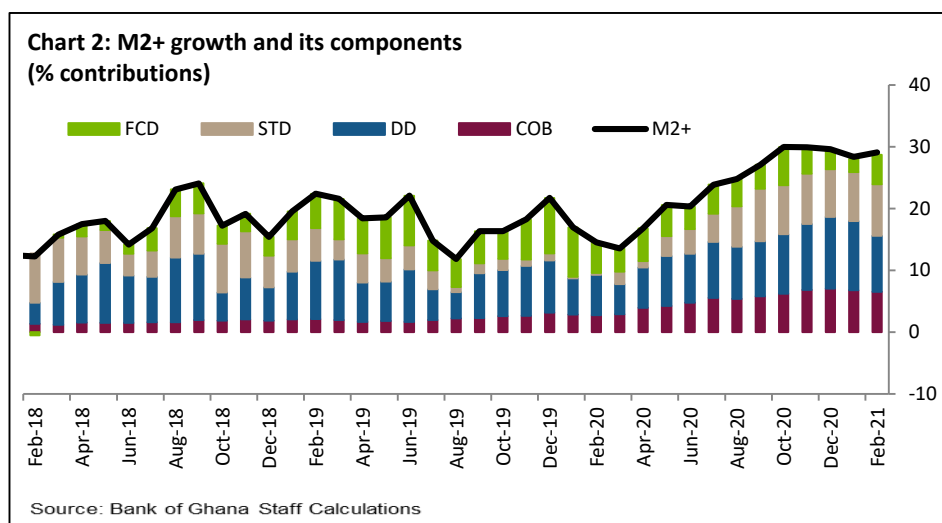
Developments in monetary aggregates showed sustained growth in broad money supply (M2+), largely driven by a faster pace of growth in Net Domestic Assets (NDA) of the depository sector. M2+ expanded by 29.1 percent on year-on-year basis in February 2021, compared with 14.5 percent growth recorded in the corresponding period of 2020. In terms of contributions to growth in M2+, NDA accounted for 32.9 percent while the Net Foreign Assets (NFA) accounted for *negative* 3.8 percent of the annual growth in M2+ (Chart 1a and Appendix Table 1). On annual basis, the NDA expanded by 43.6 percent in February 2021 compared with 2.3 percent recorded in the same period in 2020. In contrast, the NFA contracted by 15.4 percent compared to an expansion of 80.6 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 programmes to mitigate the impact of the COVID-19 pandemic. NCG contributed 42.1 percent to the growth of NDA. This was, however, moderated by a marginal increase in sterilization through the Open Market Operations (OMO). Growth in

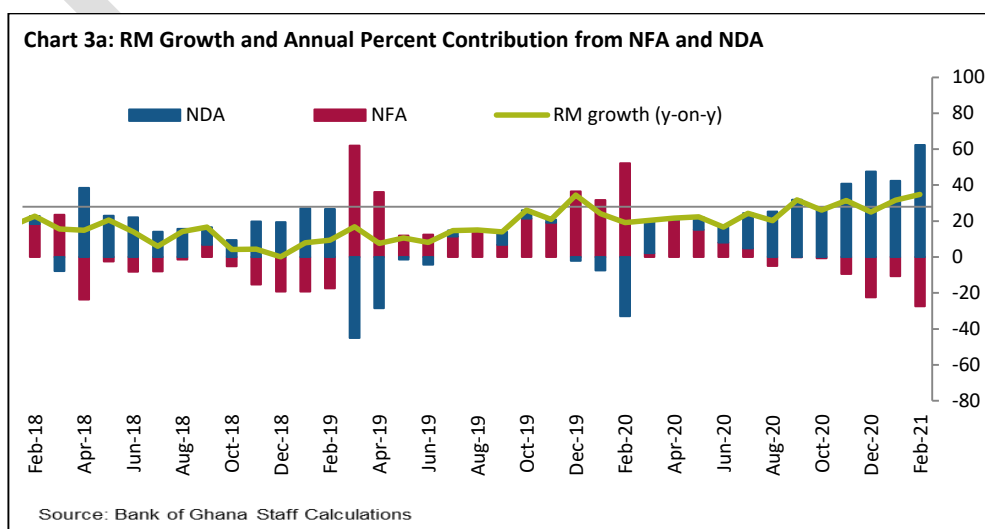
claims on private sector (including public enterprises) decreased to 3.1 percent in February 2021 from 10.3 percent recorded in February 2020. (Chart 1b, and Appendix Table 1).

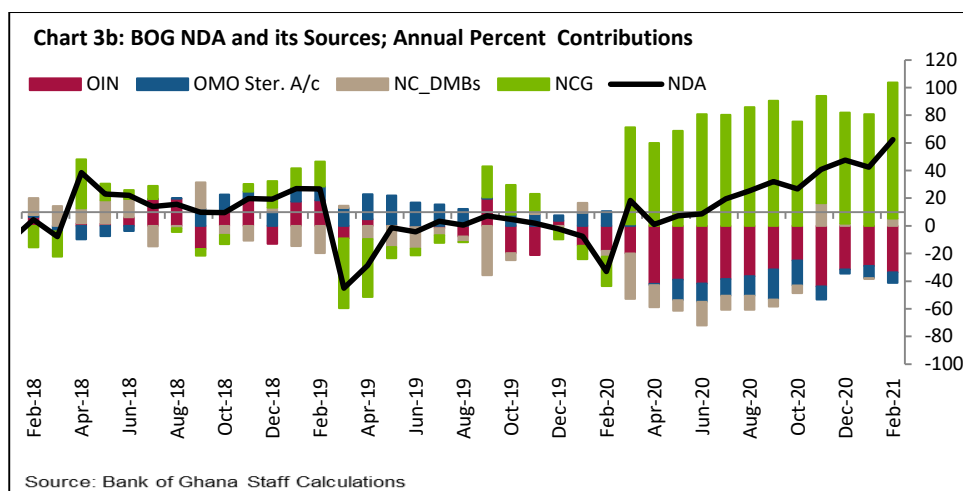
Analysis of the components of M2+ over the period showed that the expansion in M2+ was largely reflected in increased growth of Currency Outside Banks (COB), Demand Deposits (DD), and Savings and Time Deposits (STD). The significant growth in currency outside banks and domestic deposits was on the back of fiscal stimulus programme implemented in the wake of the pandemic. (Chart 2; Appendix 1).



Reserve Money

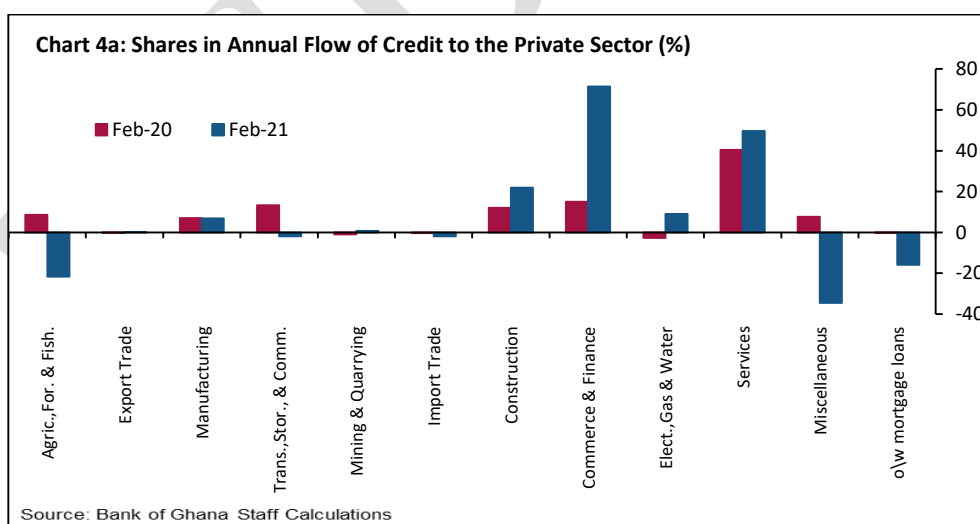
Annual growth in Reserve Money (RM) increased to 34.8 percent in February 2021 from 19.1 percent recorded in the corresponding period of 2020. The sources of change in reserve money indicated that growth in RM was mainly on account of significant growth in NDA of Bank of Ghana, reinforced by considerable 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).



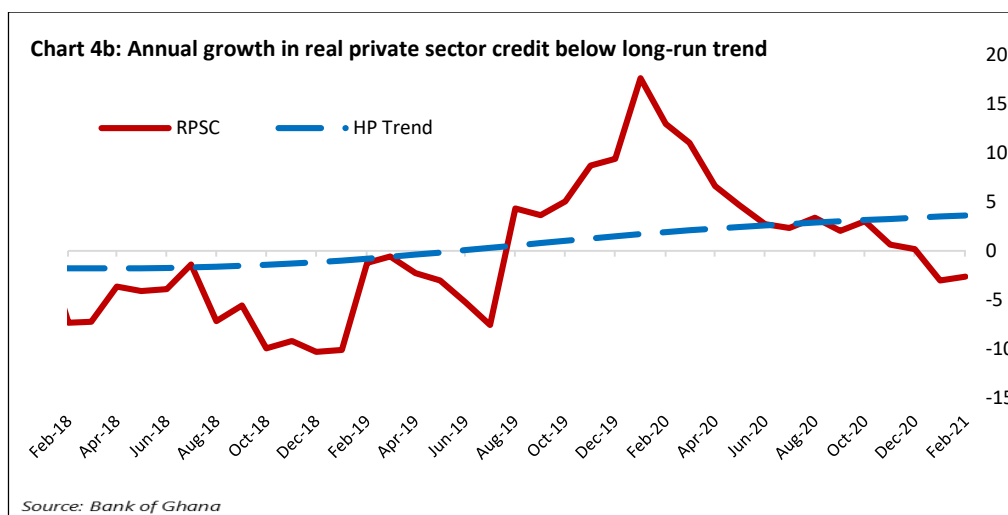


Deposit Money Banks' (DMBs') Credit Developments

DMBs' credit to the private sector and public institutions increased by GH¢1,664.71 million (3.6%) in February 2021, compared with GH¢9,462.95 million (26.0%) recorded in February 2020. Credit to the private sector increased by GH¢2,968.51 million (7.4%) in February 2021, compared with GH¢7,196.49 million (21.8%) in the same period last year. Private sector credit accounted for 178.3 percent of total flow of credit granted to private and public institutions in February 2021, as against 76.1 percent recorded in the corresponding period in 2020. Credit flow to the private sector remains concentrated in five sub-sectors including services, commerce and finance, manufacturing, construction, and electricity, gas and water (Chart 4a).



Outstanding credit to the private sector at the end of February 2021 was GH¢43,216.14 million, compared with GH¢40,247.63 million in the same period last year. In real terms, growth in private sector credit declined to negative 2.7 percent in February 2021 from 13.0 percent in February 2020, mainly reflecting the effect of higher price levels as well as slowdown in credit demand. Real growth in private sector credit since September 2020 has been below the long-term trend (Chart 4b).



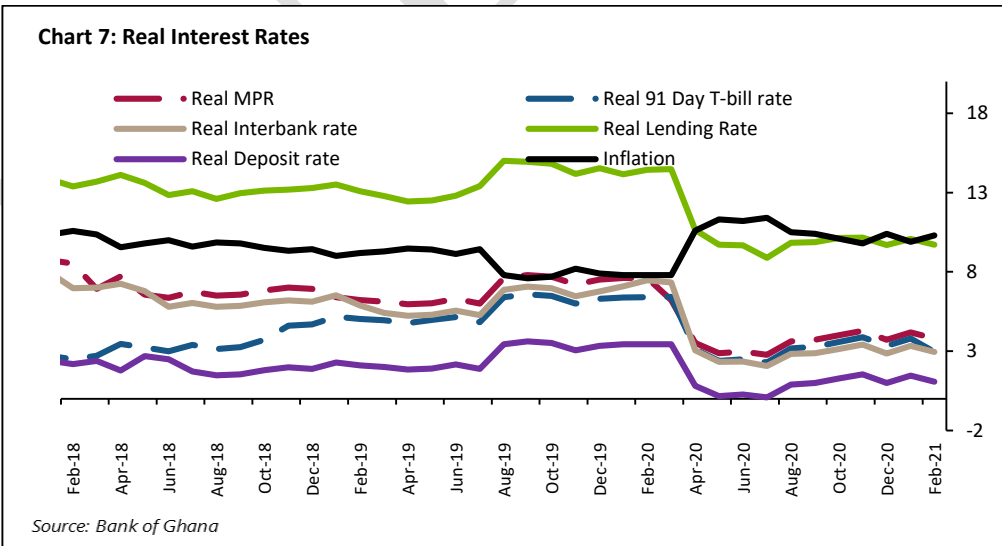
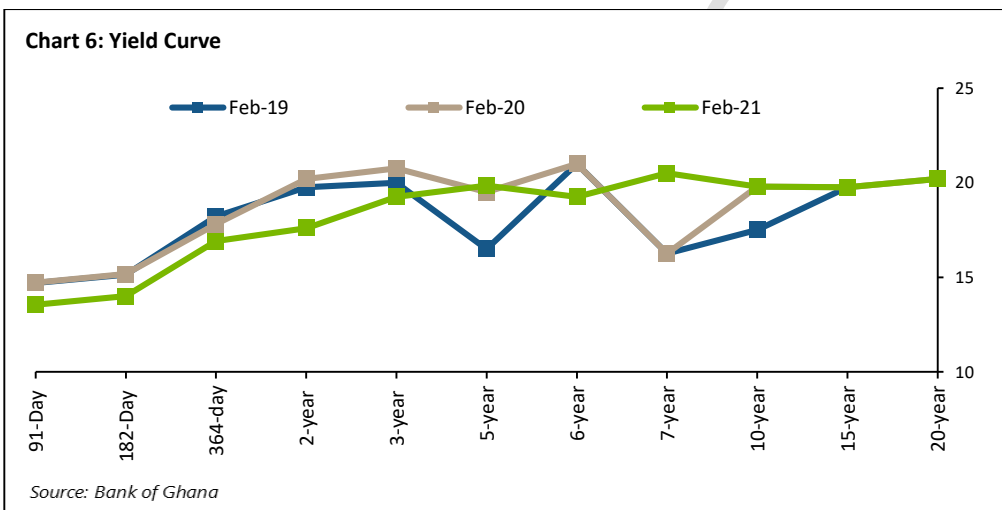
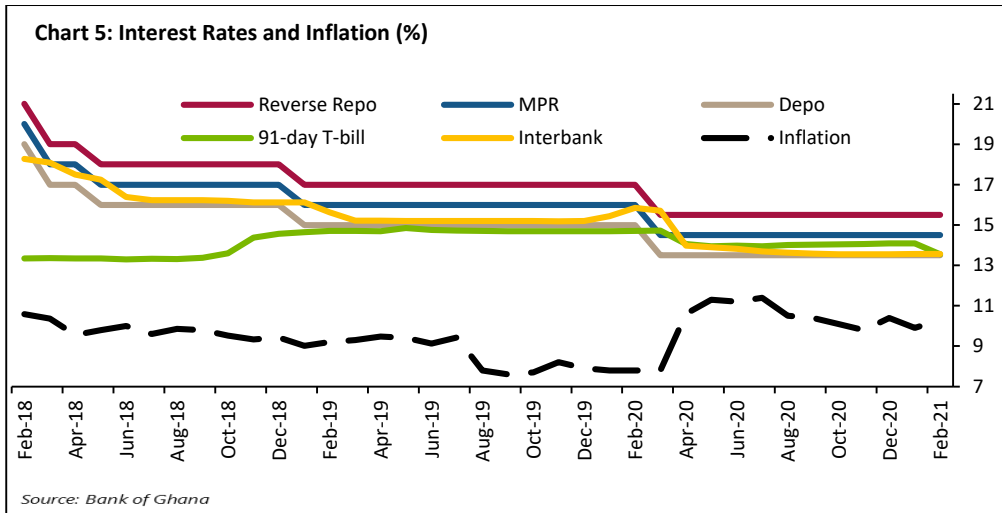
3.0 Money Market Developments

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

Interest rates on the money market broadly showed downward trends for short-dated instruments and mixed trends for medium to long-dated instruments. The 91-day and 182-day Treasury bill rates declined to 13.55 percent and 14.00 percent, respectively, in February 2021, from 14.71 percent and 15.17 percent in February 2020. Similarly, the rate on the 364-day instrument decreased to 16.91 percent from 17.81 percent over the same comparative period. Rates on the secondary bond market have also generally 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 260bps, 150bps, and 175bps respectively, to settle at 17.60 percent, 19.25 percent, and 19.25 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 same comparative period.

The weighted average interbank rate declined to 13.56 percent from 15.86 percent, reflecting the reduction in the monetary policy rate in March 2020 by 150bps, and improved liquidity conditions. Consequently, average lending rates of banks declined marginally to 21.02 in February 2021 percent from 23.37 percent recorded in the corresponding period of 2020, consistent with developments in the interbank market.

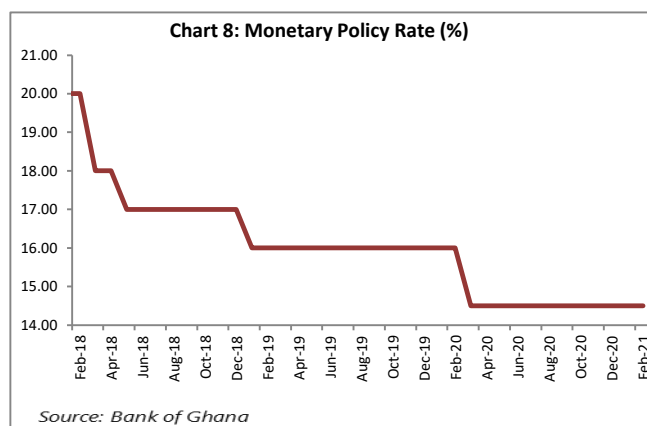
Real interest rates have also declined, reflecting the general downward trends in interest rates and effects of higher price levels. (Charts 5, 6 and 7).



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 sustained policy support to moderate the impact of the pandemic and the massive rollout of the COVID-19 vaccination programme in advanced economies have significantly improved global growth prospects for 2021 and the medium-term outlook. With the improved outlook, commodity markets, especially crude oil prices, are gradually turning around and cost pressures have begun to emerge due to resurgence in demand coupled with temporary supply constraints. However, inflation remains generally subdued due to the sizeable spare capacity and labour market slack in advanced economies. Near-term global financing conditions remain favourable and likely to benefit currencies in emerging market and frontier economies, including Ghana. The strong fiscal stimulus in the United States could trigger a rise in bond yields, leading to potential capital flow reversals from emerging markets. However, the Committee was of the view that the Fed's indication to keep interest rates at low levels will support favourable financing conditions in the near term.



On the domestic front, the Bank's high frequency indicators continued to pick up, reflecting the rebound in economic activity. Although business and consumer sentiments softened on the back of the surge in COVID cases in the early months of 2021, the rollout of the vaccination programme has increased optimism about the future and will further add a boost to the anticipated recovery in growth. Even though private sector credit growth remains generally weak due to the pandemic, the rebound of input supplies evidenced by increased non-oil imports should support the ongoing rebound in economic activity.

The banking sector remains well-positioned to continue with the core objective of financial intermediation to support the ongoing recovery process. Banks are expected to sustain the strong performance under mild to moderate stress conditions. While some of the regulatory reliefs extended to the industry have helped banks' continued support of the real sector, close monitoring and heightened supervision will be required to address potential vulnerabilities in the industry as the pandemic lingers.

The 2021 budget has set fiscal policy on an adjustment path, albeit slower than originally anticipated. The adjustment for 2021 is expected to be driven mainly by revenue-enhancing measures, and to a lesser extent, expenditure rationalization due to the need to continue the stimulus programmes. The Committee assessed the possibility of achieving the enhanced revenue targets and the heavy reliance on the domestic market as the main risks to the budget.

After declining in January 2021, headline inflation rose slightly above the upper band of the medium-term target in February, driven mainly by non-food prices. The Bank's forecast, however, remains broadly unchanged with headline inflation expected to return to the target band in the second quarter of 2021. Risks to inflation in the near-term are broadly balanced, but there are emerging short-term pressures emanating from the rising crude oil prices and the direct and secondary price effects of the revenue measures announced in the 2021 budget. Monetary policy would remain vigilant to monitor these risks. Under the circumstances, 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 2200.9 points in February 2021 from 2211.9 points recorded in the corresponding period of 2020. This translated into a loss of 0.5 percent in the index in February 2021 compared with a loss of 10.8 percent in February 2020. The GSE-Financial Stocks Index (GSE-FSI), the main driver of the overall performance within the period, closed at 1873.3 points, representing a loss of 4.6 percent compared with a loss of 6.7 percent in February 2020.

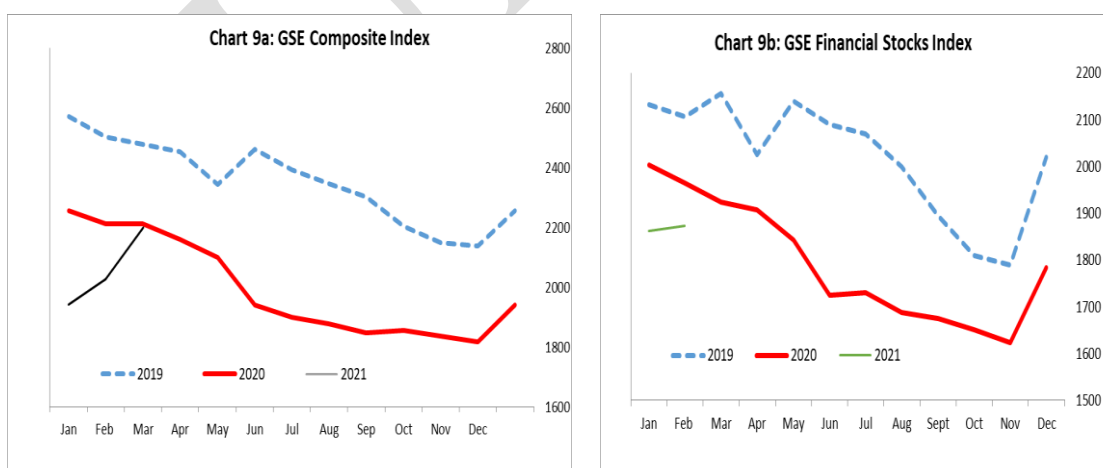
												Changes (%)				
												Y-O-Y		Y-T-D		Feb over Jan
	Feb-19	Sep-19	Dec-19	Jan-20	Feb-20	Mar-20	Jun-20	Sep-20	Dec-20	Jan-21	Feb-21	2020	2021	2021	2020	2021
GSE CI	2479.0	2204.8	2257.2	2212.2	2211.9	2159.6	1899.9	1856.6	1941.6	2027.1	2200.9	-10.8	-0.5	13.4	0.0	8.6
GSE FI	2106.0	1894.2	2019.7	2002.5	1964.6	1922.9	1725.0	1675.6	1782.8	1861.5	1873.3	-6.7	-4.6	5.1	-1.9	0.6
Market Capitalization	59,996.25	57,599.79	56,791.3	56,714.4	56,529.4	55,985.6	52,950.4	53,159.8	54,374.9	55,333.0	57,152.2	-5.8	1.1	5.1	-0.3	3.3

Source: Ghana Stock Exchange and Bank of Ghana Staff Calculations

Total market capitalisation of the GSE at the end of February 2021 was GH¢57.2 billion, representing an expansion of 1.1 percent (GH¢622.8 million) compared to a contraction by 5.8 percent in February 2020. The improvement in market capitalization, in percentage terms, was mainly on account of capital gains.

Continued policy support in the global economy and ongoing vaccine deployment have improved the growth prospects for 2021. In addition, global financial conditions remain accommodative, reflecting the massive policy support. These have enhanced investor risk appetite and eased pressure on some emerging and frontier market currencies, including the Ghana Cedi. These developments should have positive spill over effects on domestic economy in terms of enhancing the capital inflows, sustaining the stability in the domestic currency and inducing economic activity.

The commencement of the vaccine rollout and gradual lifting of remaining restrictions on the domestic front are expected to sustain the rebound in market confidence and the momentum in the pick-up in economic activities. In the outlook, stock market performance is expected to improve, albeit marginally, in the ensuing months, on the back of the COVID-19 vaccines deployment, stable exchange rate, sustained fiscal stimulus in advanced economies and improved investor sentiments.



Conclusion

Developments in monetary aggregates in February 2021 showed sustained growth in broad money supply (M2+), reflecting the impact of Government's fiscal stimulus programme, and the complementary monetary policy measures implemented during 2020 to mitigate the adverse 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. The Ghana Stock Exchange (GSE) Composite Index showed continued improvement in the performance of stock market following a rebound in December 2020. The rebound in the performance of the Ghana Stock Exchange (GSE) is expected to be sustained, on the back of the COVID-19 vaccines deployment, stable exchange rate, continuing fiscal stimulus in advanced economies, and improved investor sentiments.

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Appendices

Appendix 1: Sources of Growth in Total Liquidity (M2+) (millions of Ghana cedis unless otherwise stated)									
	Dec-19	Jan-20	Feb-20	Mar-20	Jun-20	Sep-20	Dec-20	Jan-21	Feb-21
1 Net Foreign Assets	21,293.0	17,395.2	22,603.7	26,544.1	21,888.3	19,306.3	18,598.1	18,980.6	19,132.6
Bank of Ghana	20,622.5	19,036.1	22,680.3	27,685.5	20,458.7	16,557.5	14,121.5	16,105.2	15,460.7
Commercial Banks	670.5	-1,640.9	-76.6	-1,141.4	1,429.7	2,748.8	4,476.6	2,875.3	3,671.9
2 Net Domestic Assets	71,682.5	74,512.2	69,159.0	66,360.9	78,610.6	89,828.1	101,923.8	98,996.3	99,334.9
ow: Claims on government (net)	34,214.5	34,089.5	31,100.2	42,196.7	53,676.3	61,087.9	68,965.6	68,081.7	69,687.6
4 ow: Claims on Private sector(Incl. PE's)	49,713.1	50,974.6	50,347.0	49,344.1	49,693.3	50,986.2	52,943.2	52,659.5	53,228.2
BOG OMO Sterilisation Acc.	-4,924.6	-3,514.5	-3,766.3	-6,212.5	-8,376.9	-9,866.8	-5,789.9	-5,930.6	-5,824.3
5 Total Liquidity (M2+)	92,975.5	91,907.4	91,762.7	92,905.1	100,498.9	109,134.4	120,521.8	117,976.8	118,467.5
6 ow: Broad Money Supply (M2)	69,973.1	68,534.7	69,798.9	71,097.9	76,951.8	84,864.0	94,491.8	92,626.0	92,071.2
7 ow: Foreign Currency Deposits(€million)	23,002.4	23,372.7	21,963.8	21,807.2	23,547.1	24,270.4	26,030.1	25,350.9	26,396.3
Change from previous year (in per cent)									
8 Net Foreign Assets	51.7	28.4	80.6	-8.2	6.2	11.0	-12.7	9.1	-15.4
9 Net Domestic Assets	15.0	14.6	2.3	25.4	25.0	31.2	42.2	32.9	43.6
10 ow: Claims on government (net)	24.2	13.7	-1.0	135.8	111.1	84.4	101.6	99.7	124.1
11 ow: Claims on Private sector(Incl. PE's)	19.7	24.9	19.6	14.7	14.2	13.9	6.5	3.3	5.7
12 ow: BOG OMO Sterilisation Acc.	14.8	37.2	38.4	4.0	-52.4	-103.3	-17.6	-68.7	-54.6
12 Total Liquidity (M2+)	21.7	17.0	14.5	13.5	20.3	27.1	29.6	28.4	29.1
13 Broad Money Supply (M2)	16.1	11.4	12.4	12.7	22.1	30.7	35.0	35.2	31.9
14 Foreign Currency Deposits (FCDs)	42.6	36.9	22.0	16.2	14.8	16.0	13.2	8.5	20.2
Cummulative change from previous year end (in per cent)									
15 Net Foreign Assets	51.7	-18.3	6.2	24.7	2.8	-9.3	-12.7	2.1	2.9
16 Net Domestic Assets	15.0	3.9	-3.5	-7.4	9.7	25.3	42.2	-2.9	-2.5
17 ow: Claims on government (net)	24.2	-0.4	-9.1	23.3	56.9	78.5	101.6	-1.3	1.0
18 Broad Money(M2+)	21.7	-1.1	-1.3	-0.1	8.1	17.4	29.6	-2.1	-1.7
Annual per cent contribution to money growth									
19 Net Foreign Assets	9.5	4.9	12.6	-2.9	1.5	2.2	-2.9	1.7	-3.8
20 NDA	12.2	12.1	1.9	16.4	18.8	24.9	32.5	26.6	32.9
21 Total Liquidity (M2+)	21.7	17.0	14.5	13.5	20.3	27.1	29.6	28.4	29.1
Memorandum items									
22 Reserve Money	28,896	27,432	26,285	28,487	25,547	30,338	36,125	36,117	35,440
23 NFA (\$million)	3,848	3,182	4,269	4,877	3,862	3,385	3,229	3,295	3,335
24 Currency ratio	0.18	0.17	0.17	0.17	0.17	0.18	0.20	0.20	0.20
25 FCD/M2+	0.25	0.25	0.24	0.23	0.23	0.22	0.22	0.21	0.22
26 FCD/Total Deposit	0.29	0.30	0.28	0.28	0.27	0.26	0.26	0.26	0.27
27 RM multiplier	2.42	2.50	2.66	2.50	3.01	2.80	2.62	2.56	2.60

Source: Bank of Ghana Staff Calculations

Appendix 2: Sources of Growth in Reserve Money (millions of Ghana cedis unless otherwise stated)									
	Dec-19	Jan-20	Feb-20	Mar-20	Jun-20	Sep-20	Dec-20	Jan-21	Feb-21
Net Foreign Assets (NFA)	20,622.5	19,036.1	22,680.3	27,685.5	20,458.7	16,557.5	14,123.3	16,105.2	15,460.7
Net Domestic Assets (NDA)	8,273.5	8,395.9	3,604.4	801.1	5,088.2	13,780.6	22,001.5	20,012.0	19,979.1
Of which:									
ow: Claims on government (net)	8,468.7	8,760.3	6,276.6	12,879.7	21,714.1	29,869.7	31,731.1	30,926.9	32,158.1
Claims on DMB's (net)	5,302.0	1,784.0	-1,054.4	-2,256.8	-2,294.9	-1,386.1	5,736.6	1,629.4	1,254.3
OMO Sterilisation Account.	-4,924.6	-3,514.5	-3,766.3	-6,212.5	-8,376.9	-9,866.8	-5,789.9	-5,930.6	-5,824.3
Reserve Money (RM)	28,896.0	27,432.0	26,284.6	28,486.6	25,546.8	30,338.0	36,124.8	36,117.2	35,439.7
ow: Currency	14,358.1	13,608.5	13,392.9	13,647.5	14,817.4	16,406.2	20,889.6	19,906.2	19,447.0
DMB's reserves	11,850.6	11,002.8	10,078.3	11,925.4	7,720.7	10,722.1	11,860.8	12,642.9	12,554.1
Non-Bank deposits	2,687.4	2,820.6	2,813.4	2,913.7	3,008.7	3,209.8	3,374.3	3,568.1	3,438.6
Change from previous year (in per cent)									
Net Foreign Assets	61.6	58.0	102.8	1.8	9.3	-0.3	-31.5	-15.4	-31.8
Net Domestic Assets	-5.3	-16.5	-66.9	-122.7	59.5	114.5	165.9	138.4	454.3
ow: Claims on government (net)	-17.0	-20.0	-42.8	-446.8	438.5	229.9	274.7	253.0	412.3
Claims on DMB's (net)	6.3	-927.1	113.0	140.9	258.1	-609.8	-8.2	8.7	1,290.6
OMO Sterilisation Account.	14.8	37.2	38.4	4.0	-52.4	-103.3	-17.6	-68.7	-54.6
Reserve Money (RM)	34.4	24.1	19.1	20.4	16.6	31.7	25.0	31.7	34.8
ow: Currency	20.2	19.8	19.8	20.9	36.7	43.7	45.5	46.3	45.2
Cummulative change from previous year end (in per cent)									
Net Foreign Assets (NFA)	61.6	-7.7	10.0	34.2	-0.8	-19.7	-31.5	14.0	9.5
Net Domestic Assets (NDA)	-5.3	1.5	-56.4	-90.3	-38.5	66.6	165.9	-9.0	-9.2
ow: Claims on government (net)	-17.0	3.4	-25.9	52.1	156.4	252.7	274.7	-2.5	1.3
Reserve Money (RM)	34.4	-5.1	-9.0	-1.4	-11.6	5.0	25.0	25.0	22.6
Annual per cent contribution to money growth									
Net Foreign Assets	36.6	31.6	52.1	2.1	7.9	-0.2	-22.5	-10.7	-27.5
Net Domestic Assets (NDA)	-2.2	-7.5	-33.0	18.3	8.7	31.9	47.5	42.3	62.3
RM growth (y-o-y)	34.4	24.1	19.1	20.4	16.6	31.7	25.0	31.7	34.8

Source: Bank of Ghana Staff Calculations