



Bank of Ghana Monetary Policy Report

Monetary and Financial Developments

Vol. 4 No.4/2021

July 2021

1.0 Overview

Latest trends in monetary aggregates showed a slightly higher pace of growth in broad money supply (M2+), largely driven by Net Domestic Assets (NDA) of the banking sector. 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 continued to show improvements in the performance of the stock market, following the rebound in December 2020.

Table 1: Key Monetary and Financial Indicators

Key Monetary and Financial Indicators												
Variable	Per cent (unless otherwise specified)											
	Dec-19	Mar-20	Apr-20	Jun-20	Sep-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
Broad Money (M2+)	21.7	13.5	16.8	20.3	27.1	29.6	28.4	29.1	28.6	25.8	22.2	21.3
Broad Money (M2)	16.1	12.7	14.8	22.1	30.7	35.0	35.2	31.9	31.1	27.8	24.2	22.4
Narrow Money (M1)	25.5	16.6	22.9	27.9	31.5	39.8	39.3	33.3	32.3	27.0	24.0	23.1
Reserve Money	34.4	20.4	21.7	16.6	31.7	25.0	31.7	34.8	22.5	32.0	35.5	41.2
Currency Outside Banks	20.2	20.9	28.5	36.7	43.7	45.5	46.3	45.2	41.6	38.0	31.9	25.2
Foreign Currency Deposits	42.6	16.2	23.5	14.8	16.0	13.2	8.5	20.2	20.2	19.4	16.0	17.6
DMBs Credit	23.8	19.6	18.5	16.3	14.4	5.8	1.9	3.6	5.6	7.0	7.2	5.7
of which priv. sector	18.0	19.7	17.9	14.2	12.6	10.6	6.6	7.4	4.8	6.9	7.7	6.8
Real Priv. sect credit	9.4	11.0	6.6	2.7	2.0	0.2	3.0	2.7	5.0	1.5	0.2	1.0
ii. Inflation, interest rates and other financial indicators												
Variable	Per cent (Unless otherwise specified)											
	Dec-19	Mar-20	Apr-20	Jun-20	Sep-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
Inflation (y-on-y)												
Overall	7.9	7.8	10.6	11.2	10.4	10.4	9.9	10.3	10.3	8.5	7.5	7.8
Food	7.2	8.4	14.4	13.8	11.2	14.1	12.8	12.3	10.8	6.5	5.4	9.2
Non food	8.5	7.4	7.7	9.2	9.8	7.7	7.7	8.8	10.0	10.2	7.3	8.2
MPR	16.0	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	14.5	13.5	13.5
Interbank rate	15.2	15.7	14.0	13.8	13.6	13.6	13.6	13.6	13.6	13.6	13.6	12.9
Treasury bill rate (91-days)	14.7	14.7	14.1	14.0	14.0	14.1	14.1	13.6	13.0	12.8	12.8	12.6
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	23.6	23.4	22.4	22.0	21.3	21.1	21.0	21.0	21.0	20.9	20.9	20.6
Exchange rate (\$/GHc)	5.5337	5.4423	5.6010	5.6674	5.7027	5.7602	5.7604	5.7374	5.7288	5.7322	5.7965	5.8003
Depreciation (monthly)	0.1	2.7	2.8	0.8	0.3	0.8	0.0	-0.4	-0.2	0.1	1.1	0.1
Depreciation (Y-o-Y)	12.9	6.6	9.2	7.2	6.8	3.9	5.1	7.7	5.0	2.3	3.1	2.3
GSE Composite Index (Level)	2,257.2	2,159.6	2,100.7	1,899.9	1,856.6	1,941.6	2,027.1	2,200.9	2,213.3	2,561.5	2,421.1	2,643.7
GSE Financial Index (Level)	2,019.7	1,922.9	1,906.4	1,725.0	1,675.6	1,782.8	1,861.5	1,873.3	1,845.9	1,877.1	1,902.9	1,871.4

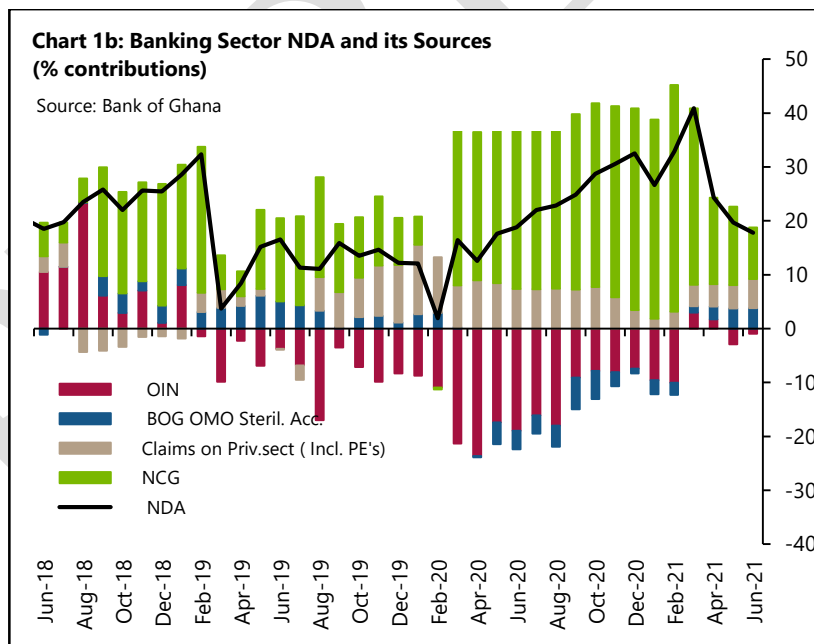
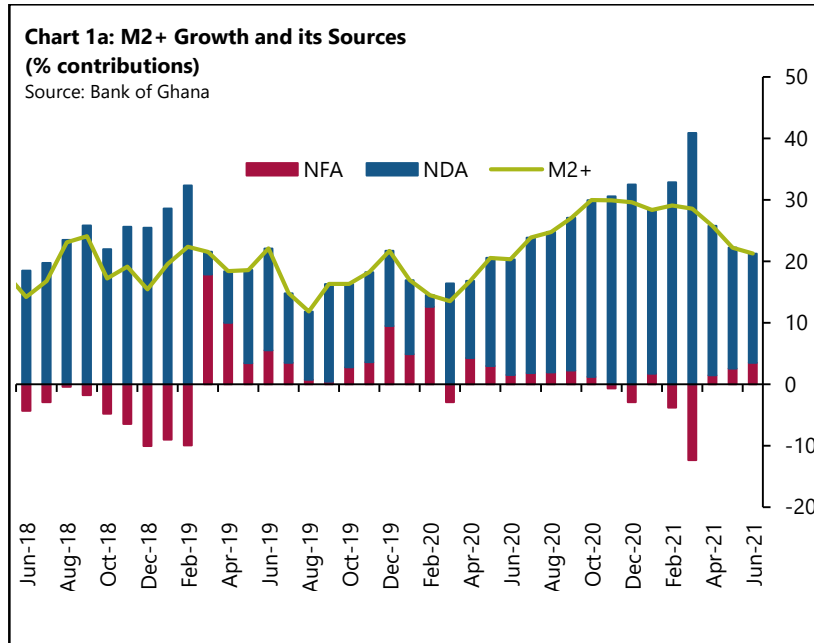
Source: Bank of Ghana

2.0 Developments in Monetary Aggregates

Money Supply

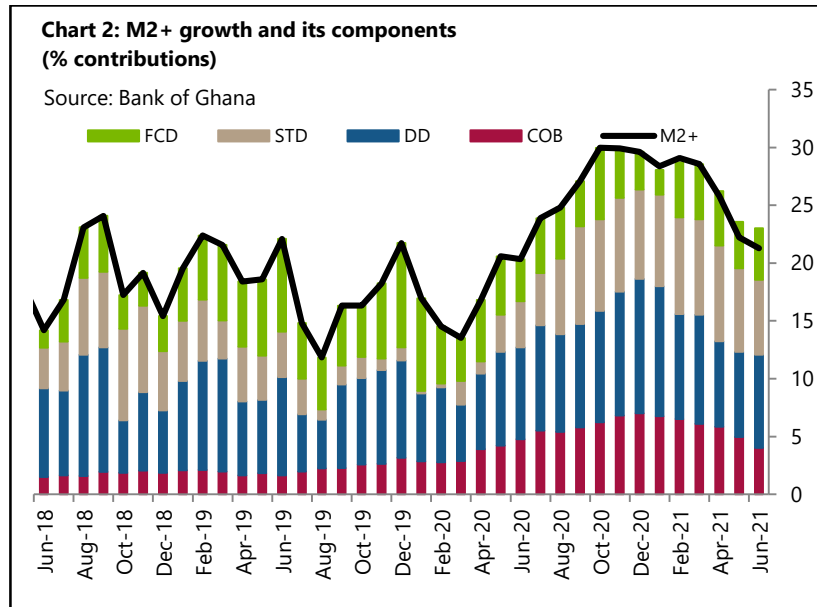
Developments in monetary aggregates showed a slightly higher pace of growth in broad money supply (M2+) on year-on-year basis, largely driven by Net Domestic Assets (NDA) of the depository sector. M2+ expanded by 21.3 percent in June 2021 compared with a growth of 20.3 percent, recorded in June 2020. In terms of contributions to growth in M2+, the NDA accounted

for 17.8 percent while the Net Foreign Assets (NFA) accounted for 3.5 percent (Chart 1a and Appendix Table 1). On annual basis, growth in NDA decreased to 22.8 percent in June 2021, from 25.0 percent recorded in June 2020. In contrast, growth in NFA increased to 16.0 percent from 6.2 percent, over the same comparative period.



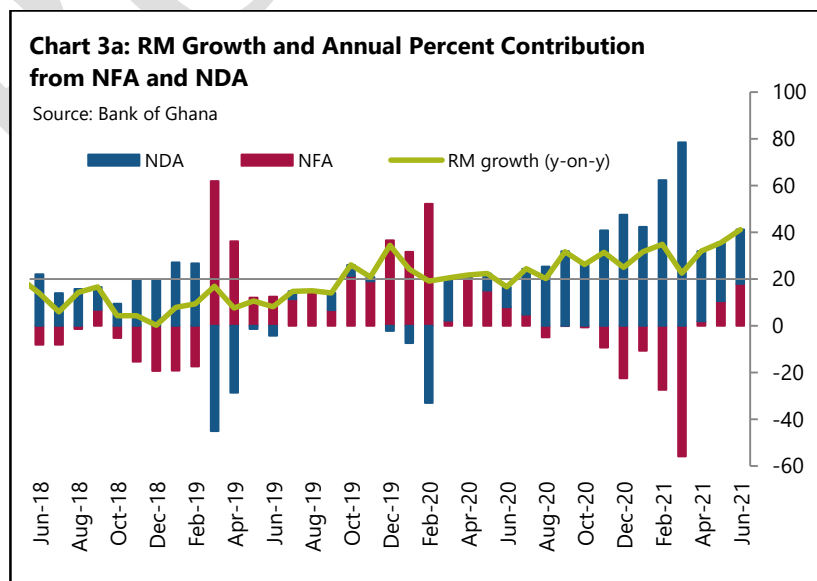
The growth in NDA was largely driven by Net Claims on Government (NCG), reflecting increased investments in Government's securities by banks, which was partly moderated by decreased sterilization through the Open Market Operations (OMO), reflecting a net drawdown on stock of BOG bills. NCG contributed 9.6 percent to the growth of NDA. Growth in claims on private sector (including public enterprises), however, decreased to 5.4 percent in June 2021, from 7.4 percent recorded in June 2020 (Chart 1b, and Appendix Table 1).

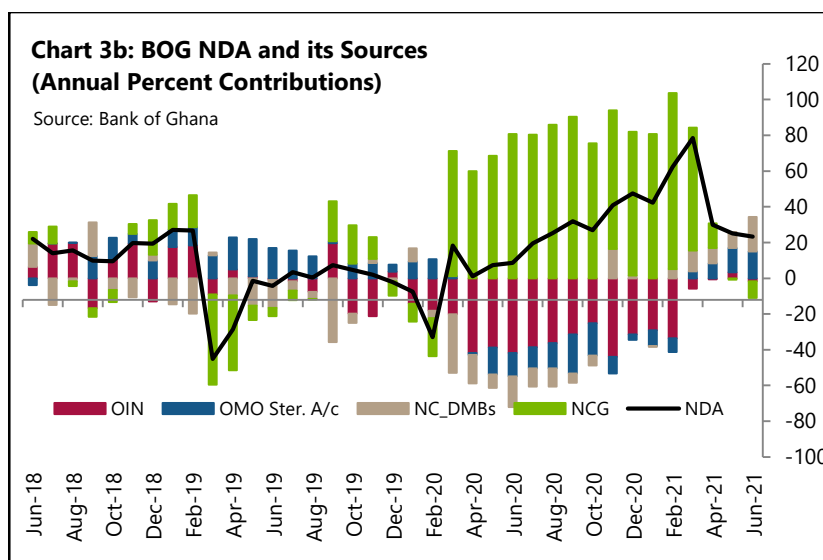
Analysis of the components showed that the expansion in M2+ largely reflected in increased growth in Demand Deposits (DD), Savings and Time Deposits (STD) and Foreign Currency Deposits (FCD); growth in Currency Outside Banks (COB) however, declined over the same comparative period (Chart 2; Appendix 1).



Reserve Money

Annual growth in Reserve Money (RM) increased to 41.2 percent in June 2021, from 16.6 percent recorded in the corresponding period of 2020. The sources of change in reserve money was largely attributed to NDA of Bank of Ghana, reinforced by an increase in the net claims on Deposit Money Banks (DMBs) and decreased sterilization. Similarly, the NFA expanded, albeit moderately, over the same comparative period. (Chart 3a, 3b, and Appendix 2).

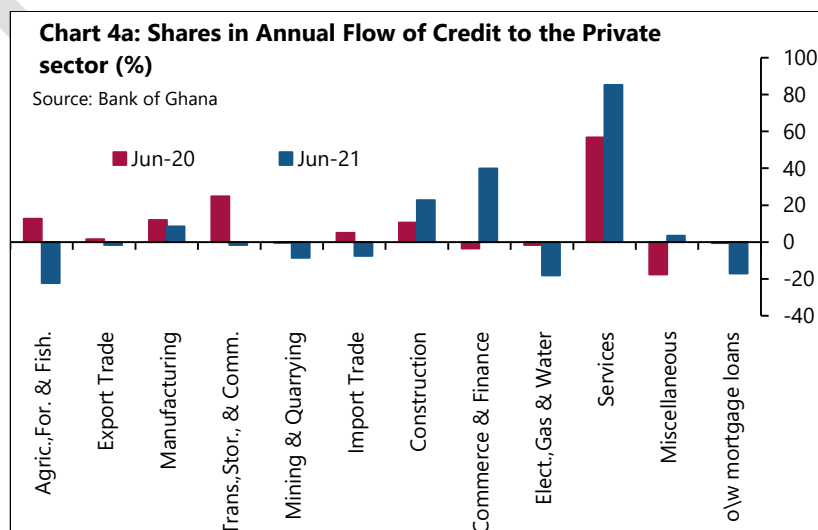


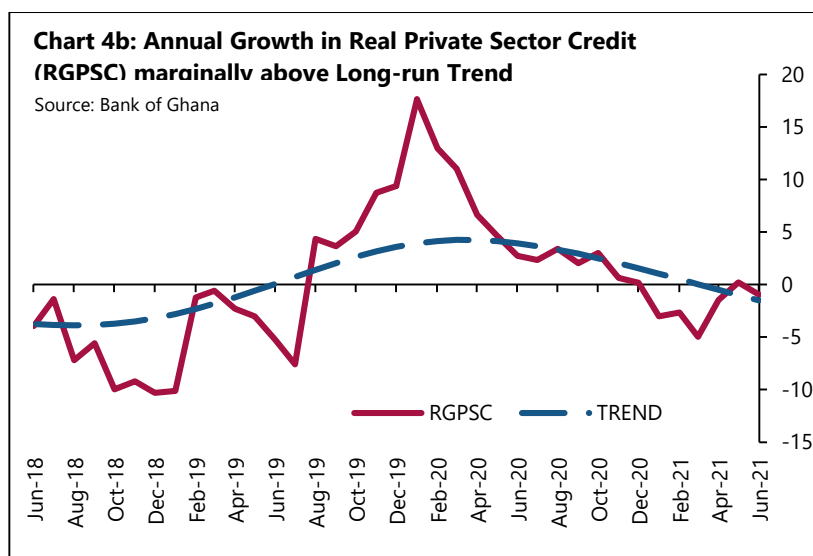


Deposit Money Banks' (DMBs') Credit Developments

DMBs' credit to the private sector and public institutions increased by GH¢2,568.97 million (5.7%) in June 2021 compared with GH¢6,302.72 million (16.3%) recorded in June 2020. Credit to the private sector increased by GH¢2,706.66 million (6.8%) relative to GH¢4,987.39 million (14.2%) over the same comparative period. Credit flow to the private sector remained concentrated in four sub-sectors, namely, Services; Commerce and Finance; Construction; and Manufacturing (Chart 4a).

Outstanding credit to the private sector at the end of June 2021 was GH¢42,743.45 million, compared with GH¢40,036.79 million same period last year. In real terms, private sector credit contracted marginally by 1.0 percent compared to a growth of 2.8 percent in June 2020, broadly reflecting the heightened credit risks associated with the Covid-19 pandemic. Real growth in private sector credit has been marginally above the long-run trend since May 2021 (Chart 4b).

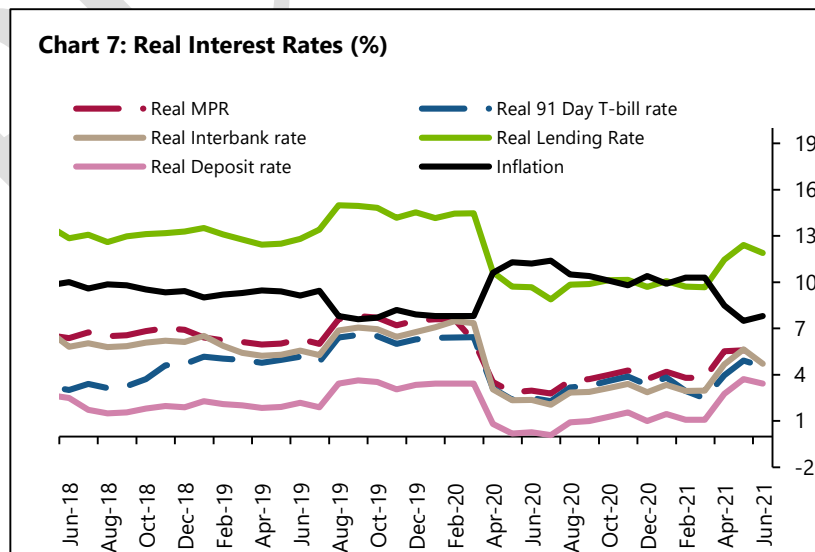
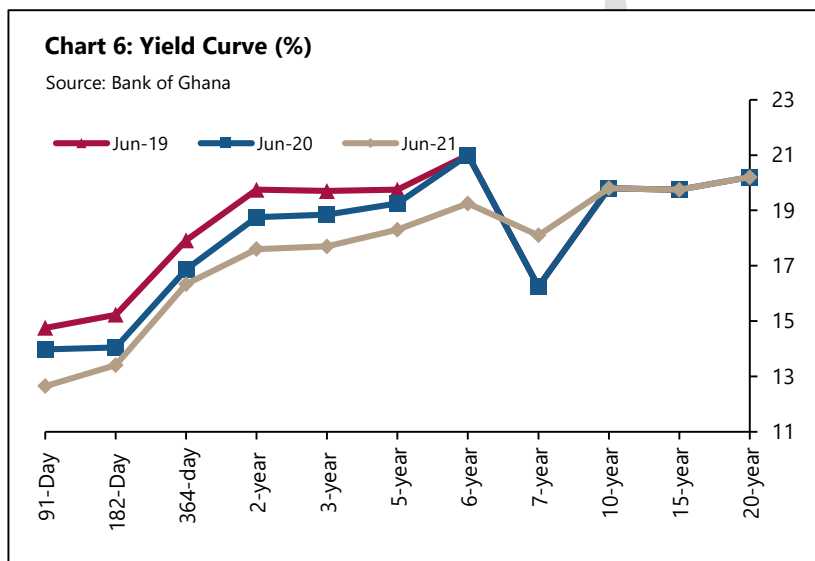
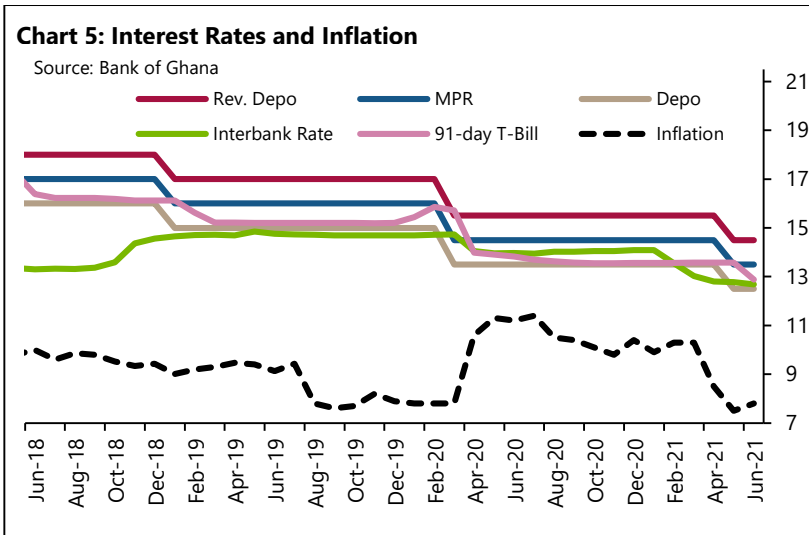




3.0 Money Market Developments

Developments in interest rates 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 12.65 percent and 13.40 percent respectively in June 2021 from 13.97 percent and 14.02 percent respectively, in June 2020. Similarly, the rate on the 364-day instrument decreased marginally to 16.34 percent from 16.87 percent over the same comparative period. Rates on medium- to long-term instruments also declined, except for the rate on the 7-year bond which increased by 185bps to 18.10 percent. Rates on 2-year, 3-year, 5-year and 6-year bonds decreased by 115bps, 115bps, 95bps and 175bps respectively, to 17.60 percent, 17.70 percent, 18.30 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 the same comparative period.

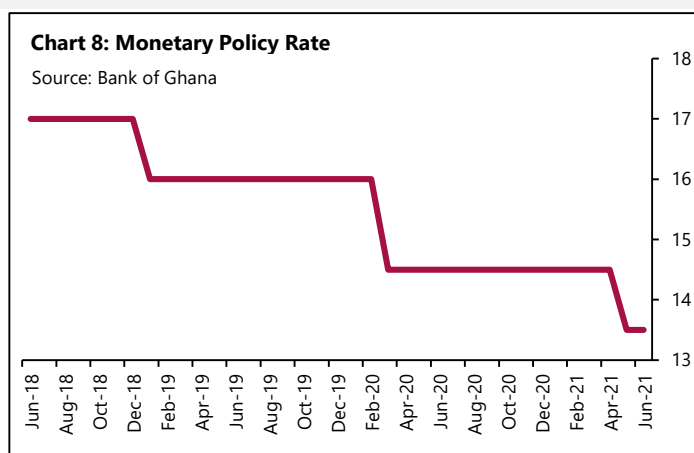
The Interbank Weighted Average Rate (IWAR) declined to 12.88 percent from 13.82 percent, in tandem with the reduction in the Monetary Policy Rate (MPR) and supported by improved liquidity conditions on the interbank market. Consequently, average lending rates of banks declined marginally to 20.61 percent in June 2021 from 21.95 percent recorded a year earlier, in line with developments in the interbank market. Real interest rates tipped in June 2021 due to the marginal uptick in inflation from 7.5 percent in May 2021 to 7.8 percent in April 2021. (Charts 5, 6 and 7).



Box 1: RECENT MONETARY POLICY DECISIONS

The MPC, at its meeting held in July 2021, maintained the Monetary Policy Rate (MPR) at 13.5 percent.

In arriving at the decision, the Committee noted that the global growth outlook remained uncertain despite the ongoing recovery, driven by continued policy support and rising consumer confidence. This was due to uneven vaccination across regions, rising Covid-19 infection rates fuelled by new variants of the virus, cases of vaccine hesitancy and divergence in the recovery across jurisdictions. Headline inflation has risen sharply in many economies mainly due to the sharp increase in energy prices with concerns of overheating. In emerging market and developing economies, a re-alignment of currencies in response to the global strengthening of the US dollar, resulted in many of these currencies coming under pressure with implications for inflation in the near term. In the view of the Committee, the opening-up of economies, rising inflation abroad, stronger growth outcomes in advanced economies with possible interest rate responses from central banks, are beginning to shape investor behaviour, with potential impact on the domestic bond market.



The banking sector performance reflected sustained growth in customer deposits, investments, total assets, and profits and key financial soundness indicators remain healthy in relation to liquidity and solvency. Based on macro-prudential risk assessments, the banking sector is expected to withstand mild to moderate credit risk shocks although a new wave of the pandemic could further elevate credit risks and would require close monitoring of banks' capital and liquidity buffers.

The growth rebound which began in the last quarter of 2020 continued into the first half of 2021. However, the Committee was concerned about the sustained sluggishness in new lending by banks which could undermine the growth momentum. Broadly, the slow growth in lending reflects increased credit risks on account of uncertainties in the business environment due to the impact of Covid-19 pandemic on the real sector, coupled with very high yields on Government securities. This crowding-out effect continues to keep the credit to GDP gap below the long-term trend and is likely to delay recovery of the economy. Headline inflation has eased sharply and reverted within the medium-term target band, driven mainly by the tight monetary policy stance and some base drift effects. The latest forecast remains broadly unchanged with inflation projected to remain within band and around the central path in the forecast horizon barring any upside risks from fiscal pressures.

On the whole, the Committee assessed that the risks to inflation and growth were broadly balanced and decided to keep the policy rate at 13.5 percent.

4.0 Stock Market Developments

The Ghana Stock Exchange Composite Index (GSE-CI) increased to 2643.7 points in June 2021 from 1899.9 points recorded in the corresponding period of 2020, representing 39.2 percent gain in the index in June 2021 compared with a loss of 20.7 percent in June 2020. The GSE-Financial Stocks Index (GSE-FSI) closed at 1871.4 points, representing a gain of 8.5 percent compared with a loss of 17.5 percent in June 2020.

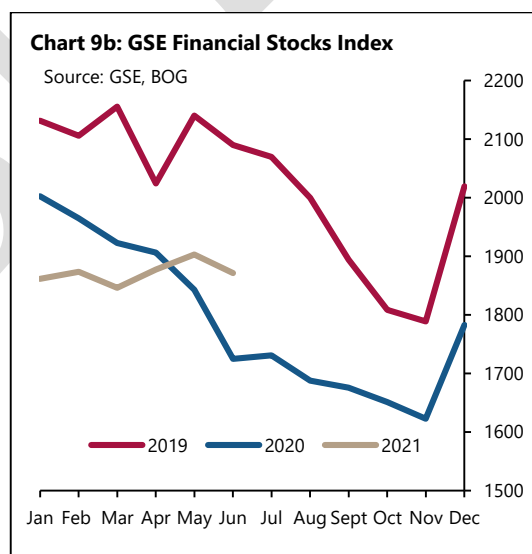
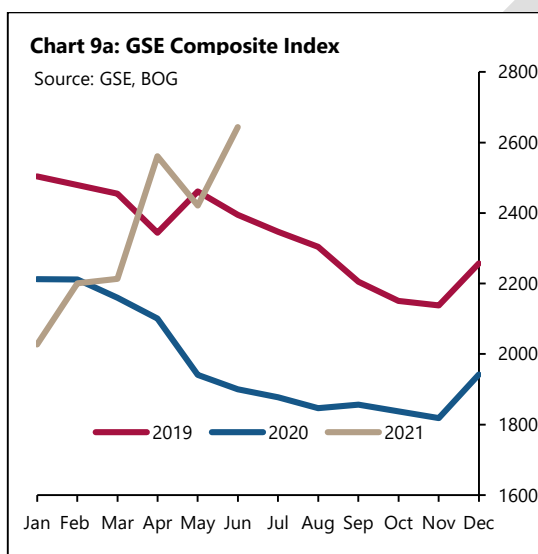
Total market capitalisation of the GSE was GH¢61.3 billion at the end of June 2021, representing a growth of 15.8 percent, compared with a 9.8 percent contraction in June 2020. The improvement in market capitalization was largely on account of capital gains and the listing of a new company, Pesewa One PLC.

The domestic economy continued to show strong signs of recovery from the impact of the COVID-19 pandemic in the first quarter of 2021, while inflationary pressures moderated during the second

quarter of 2021. The headline inflation dropped sharply below the central path of the medium-term target band of 8 ± 2 percent, supported by tight monetary policy stance. The overall impact of the pandemic on the banking industry has been moderate; the financial soundness indicators showed that banking sector remained solvent, liquid, profitable and well-capitalized. As a result of these developments, the GSE-CI sustained its strong performance in June 2021 reinforced by high investor interests. Over the review period, the share prices of ten companies appreciated with MTNGH (20%), EGL (18%), TOTAL (12%), BOPP (9%) and POP (8%) making the top five.

Performance of Ghana Stock Exchange (Table 2)														Changes		Y-T-D	May over June	
	Jun-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	2020	2021	2021	2020	2021	
GSE CI	2394.82	2257.15	2159.61	1899.90	1856.56	1941.59	2027.12	2200.92	2213.29	2561.45	2421.11	2643.67	-20.67	39.15	36.16	-2.12	9.19	
GSE FI	2089.99	2019.65	1922.92	1725.04	1675.63	1782.76	1861.45	1873.31	1845.92	1877.07	1902.90	1871.41	-17.46	8.49	4.97	-6.41	-1.66	
Market Capitalization	58729.61	56791.25	55985.53	52950.38	53159.75	54374.86	55332.98	57152.18	57162.18	60801.73	59333.16	61331.40	-9.84	15.83	12.79	-1.11	3.37	

Source: Ghana Stock Exchange and Bank of Ghana Staff Calculations



Conclusion

Latest trends in monetary aggregates showed a slightly higher pace of growth in broad money supply (M2+), largely driven by Net Domestic Assets (NDA) of the depository sector. Similarly, growth in reserve money was mainly driven by increased claims on DMBs. The growth in reserve money was also supported by a net build-up in foreign assets of Bank of Ghana. Credit growth remained sluggish reflecting heightened credit risks associated with 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 sustained its strong performance in the first half of 2021, supported by high investor interest.

Appendices

Appendix 1: Sources of Growth in Total Liquidity (M2+) (millions of Ghana cedis unless otherwise stated)												
	Dec-19	Mar-20	Apr-20	Jun-20	Sep-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
1 Net Foreign Assets	21293.01	26544.12	26593.13	21888.34	19306.29	18598.06	18980.55	19132.59	15096.87	27987.31	26446.66	25384.55
Bank of Ghana	20622.55	27685.53	26449.50	20458.68	16557.47	14121.48	16105.20	15460.68	11740.53	26967.14	26592.03	25033.84
Commercial Banks	670.46	(1141.41)	143.63	1429.66	2748.81	4476.57	2875.35	3671.92	3356.35	1020.17	(145.37)	350.71
2 Net Domestic Assets	71682.47	66360.95	67962.90	78610.57	89828.09	101923.76	98996.29	99334.89	104348.34	90946.49	94004.89	96506.78
ow: Claims on government (net)	34214.54	42196.66	43431.67	53676.32	61087.88	68965.59	68081.70	69687.64	72637.59	58621.99	63909.64	63281.84
ow: Claims on Private sector(Incl. PE's)	49713.15	49344.15	49623.21	49693.32	50986.20	52943.18	52659.48	53228.16	53021.45	53538.78	54121.96	55112.28
ow: BOG OMO Sterilisation Acc.	(4924.64)	(6212.52)	(6404.46)	(8376.85)	(9866.83)	(5789.95)	(5930.64)	(5824.25)	(5122.11)	(4155.74)	(4370.99)	(4666.44)
5 Total Liquidity (M2+)	92975.47	92905.07	94556.03	100498.91	109134.38	120521.82	117976.85	118467.48	119445.22	118933.79	120451.55	121891.32
6 ow: Broad Money Supply (M2)	69973.10	71097.88	71941.27	76951.84	84864.02	94491.75	92625.97	92071.18	93226.01	91942.98	93396.17	94210.69
7 ow: Foreign Currency Deposits(€million)	23002.37	21807.18	22614.77	23547.07	24270.36	26030.07	25350.87	26396.31	26219.21	26990.81	27055.37	27680.63
Change from previous year (in per cent)												
8 Net Foreign Assets	51.69	(8.21)	14.90	6.22	10.99	(12.66)	9.11	(15.36)	(43.13)	5.24	10.43	15.97
9 Net Domestic Assets	14.98	25.40	17.58	24.96	31.18	42.19	32.86	43.63	57.24	33.82	26.03	22.77
ow: Claims on government (net)	24.18	135.76	105.19	111.14	84.39	101.57	99.71	124.07	72.14	34.98	28.82	17.90
ow: Claims on Private sector(Incl. PE's)	19.73	14.69	17.11	14.19	13.93	6.50	3.31	5.72	7.45	7.89	8.64	10.90
ow: BOG OMO Sterilisation Acc.	14.76	4.02	(3.83)	(52.39)	(103.26)	(17.57)	(68.75)	(54.64)	17.55	35.11	45.69	44.29
12 Total Liquidity (M2+)	21.73	13.52	16.81	20.33	27.09	29.63	28.36	29.10	28.57	25.78	22.24	21.29
13 Broad Money Supply (M2)	16.13	12.74	14.84	22.13	30.66	35.04	35.15	31.91	31.12	27.80	24.17	22.43
14 Foreign Currency Deposits (FCDs)	42.65	16.17	23.54	14.82	16.01	13.16	8.46	20.18	20.23	19.35	15.99	17.55
Cummulative change from previous year end (in per cent)												
15 Net Foreign Assets	51.69	24.66	24.89	2.80	(9.33)	(12.66)	2.06	2.87	(18.83)	50.49	42.19	36.48
16 Net Domestic Assets	14.98	(7.42)	(5.19)	9.66	25.31	42.19	(2.87)	(2.54)	2.38	(10.77)	(7.77)	(5.31)
17 ow: Claims on government (net)	24.18	23.33	26.94	56.88	78.54	101.57	(1.28)	1.05	5.32	(15.00)	(7.33)	(8.24)
18 Broad Money(M2+)	21.73	(0.08)	1.70	8.09	17.38	29.63	(2.11)	(1.70)	(0.89)	(1.32)	(0.06)	1.14
Annual per cent contribution to money growth												
19 Net Foreign Assets	9.50	(2.90)	4.26	1.53	2.23	(2.90)	1.72	(3.78)	(12.32)	1.47	2.53	3.48
20 NDA	12.23	16.43	12.55	18.80	24.86	32.53	26.64	32.88	40.89	24.31	19.70	17.81
21 Total Liquidity (M2+)	21.73	13.52	16.81	20.33	27.09	29.63	28.36	29.10	28.57	25.78	22.24	21.29
Memorandum items												
22 Reserve Money	28896.02	28486.64	26747.38	25546.83	30338.05	36124.78	36117.25	35439.73	34904.63	35293.96	36597.91	36063.64
23 NFA (\$million)	3847.88	4877.37	4747.93	3862.15	3385.46	3228.72	3295.01	3334.72	2635.26	4882.47	4601.58	4405.05
24 Currency ratio	0.18	0.17	0.18	0.17	0.18	0.21	0.20	0.20	0.19	0.20	0.19	0.18
25 FCD/M2+	0.25	0.23	0.24	0.23	0.22	0.22	0.21	0.22	0.22	0.23	0.22	0.23
26 FCD/Total Deposit	0.29	0.28	0.28	0.27	0.26	0.26	0.26	0.27	0.26	0.27	0.27	0.27
27 RM multiplier	2.42	2.50	2.69	3.01	2.80	2.62	2.56	2.60	2.67	2.61	2.55	2.61

Source: Bank of Ghana

Appendix 2: Sources of Growth in Reserve Money (millions of Ghana cedis unless otherwise stated)													
	Dec-19	Mar-20	Apr-20	Jun-20	Sep-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21
1 Net Foreign Assets (NFA)	20622.55	27685.53	26449.50	20458.68	16557.47	14123.29	16105.20	15460.68	11740.53	26967.14	26967.14	26592.03	25033.84
2 Net Domestic Assets (NDA)	8273.47	801.11	297.88	5088.15	13780.58	22001.49	20012.04	19979.06	23164.10	8326.82	8326.82	10005.87	11029.80
Of which:													
ow: Claims on government (net)	8468.74	12879.65	12849.25	21714.12	29869.65	31731.12	30926.91	32158.06	32502.58	16537.84	16537.84	17840.93	19340.81
ow: Claims on DMB's (net)	5302.04	(226.75)	(963.13)	(2294.88)	(1386.09)	5736.58	1629.44	1254.30	1069.52	1314.21	1314.21	1198.07	2624.76
ow: OMO Sterilisation Account.	(4924.64)	(6212.52)	(6404.46)	(8376.85)	(9866.83)	(5789.95)	(5930.64)	(5824.25)	(5122.11)	(4155.74)	(4370.99)	(4666.44)	
6 Reserve Money (RM)	28896.02	28486.64	26747.38	25546.83	30338.05	36124.78	36117.25	35439.73	34904.63	35293.96	36597.91	36063.64	
7 ow: Currency	14358.06	13647.53	14314.56	14817.44	16406.21	20889.63	19906.22	19447.00	19324.74	19748.36	19643.83	19112.47	
8 DMB's reserves	11850.56	11925.43	9301.01	7720.71	10722.08	11860.85	12642.95	12554.09	12090.54	11951.87	12056.40	13720.65	
9 Non-Bank deposits	2687.40	2913.68	3131.82	3008.68	3209.76	3374.30	3568.08	3438.64	3489.35	3593.73	3593.73	3764.79	
10 Net Foreign Assets	61.58	1.85	20.77	9.30	(0.28)	(31.52)	(15.40)	(31.83)	(57.59)	1.96	1.96	11.91	22.36
11 Net Domestic Assets	(5.32)	(122.72)	286.34	59.55	114.51	165.93	138.35	454.30	2791.49	2695.35	2695.35	208.81	116.77
ow: Claims on government (net)	(17.05)	(446.75)	(4192.63)	438.50	229.94	274.69	253.03	412.35	152.36	28.71	28.71	(1.18)	(10.93)
ow: Claims on DMB's (net)	6.32	140.85	137.93	258.09	(609.79)	(8.20)	8.67	1290.59	147.39	236.45	236.45	200.89	214.37
ow: OMO Sterilisation Account.	14.76	4.02	(3.83)	(52.39)	(103.26)	(17.57)	(68.75)	(54.64)	17.55	35.11	37.16	47.32	45.86
15 Reserve Money (RM)	34.39	20.41	21.70	16.62	31.75	25.02	31.66	34.83	22.53	31.95	31.95	35.54	41.17
16 ow: Currency	20.24	20.87	28.46	36.69	43.66	45.49	46.28	45.20	41.60	37.96	37.23	31.91	28.85
17 Net Foreign Assets (NFA)	61.58	34.25	28.26	(0.79)	(19.71)	(31.52)	14.03	9.47	(16.87)	90.94	90.94	88.29	77.25
18 Net Domestic Assets (NDA)	(5.32)	(90.32)	(96.40)	(38.50)	66.56	165.93	(9.04)	(9.19)	5.28	(62.15)	(62.15)	(54.52)	(48.87)
ow: Claims on government (net)	(17.05)	52.08	51.73	156.40	252.70	274.69	(2.53)	1.35	2.43	(47.88)	(47.88)	(43.77)	(39.05)
20 Reserve Money (RM)	34.39	(1.42)	(7.44)	(11.59)	4.99	25.02	(0.02)	(1.90)	(3.38)	(2.30)	(2.30)	1.31	(0.17)
21 Net Foreign Assets	36.56	2.12	20.70	7.95	(0.20)	(22.49)	(10.68)	(27.47)	(55.97)	1.94	1.94	10.48	17.91
22 Net Domestic Assets (NDA)	(2.16)	18.29	1.00	8.67	31.95	47.51	42.35	62.30	78.50	30.02	30.02	25.06	23.26
23 RM growth (y-o-y)	34.39	20.41	21.70	16.62	31.75	25.02	31.66	34.83	22.53	31.95	31.95	35.54	41.17

Source: Bank of Ghana