

Ghana – EU Business Forum

The Challenges of Monetary Policy and Markets Development in Ghana

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Outline

- **Brief on Monetary Policy (MP) Implementation in Ghana**
- **MP Implementation Challenges**
- **Concluding Remarks**



Brief Overview on Monetary Policy (MP) Implementation in Ghana

- **Monetary policy remains and will continue to remain crucial in the macroeconomic management process.** Macroeconomic stability is a necessary condition to underpin the Government's agenda to move from Stability to Sustained and Shared growth.
- In line with the Bank's primary mandate of price stability, the key goal of the Central Bank's monetary policy strategy seeks to pursue policies geared towards achieving low and stable inflation to support the transformation agenda.



Brief Overview on Monetary Policy (MP) Implementation in Ghana

- **Currently, we have a medium term target band of $8\pm 2\%$, which is already achieved.** The plan is to review at the end of the year whether a new target band would be required, reflecting prevailing economic circumstances.
- With improving macroeconomic fundamentals, the Central Bank has lowered consistently its key policy rate, in line with the disinflation process, from a high rate of 25.5 percent at the end of 2016 to the current level of 16 percent as at May 2019.
- The Bank has done this by carefully balancing the need to lower rates to help foster vibrancy in economic activity and at the same time sustaining investor interest in the economy.



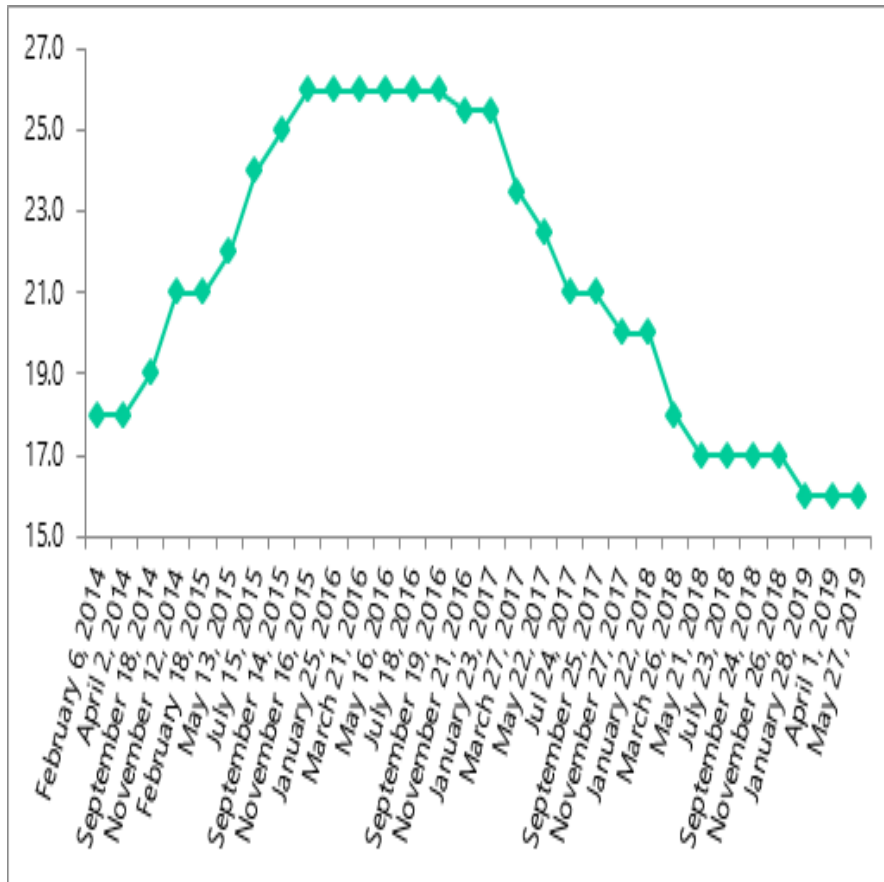
Brief Overview on Monetary Policy (MP) Implementation in Ghana

- **Headline inflation has declined from 15.4% at end 2016 to 9.0% in January 2019, before edging up to 9.5% in April** on the back of pass-through effects of the recent bouts of exchange rate depreciation.
- While there is full commitment on the part of the Central Bank to achieve its price stability mandate, we need to recognize that monetary policy will have to act in concert with other economic parameters for full realization of the desired effects.

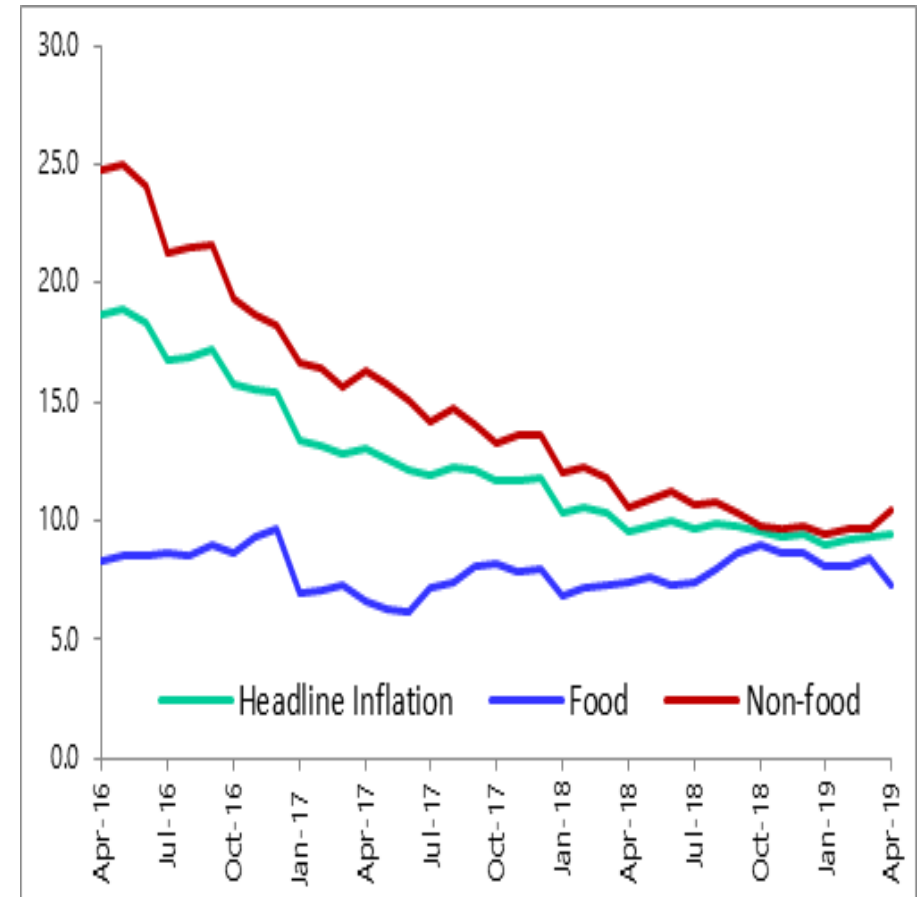


Brief on Monetary Policy Implementation in Ghana

Monetary Policy Rate lowered by 850 basis points to 16% in January

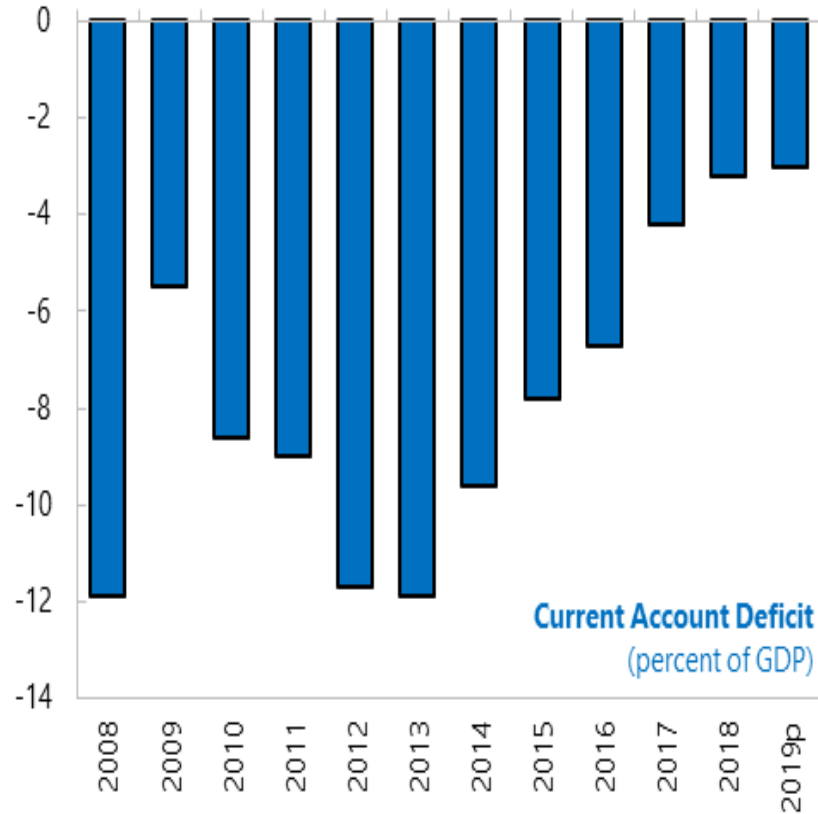


Headline Inflation within the medium term band for 13 consecutive readings since April 2018 (y/y, %)

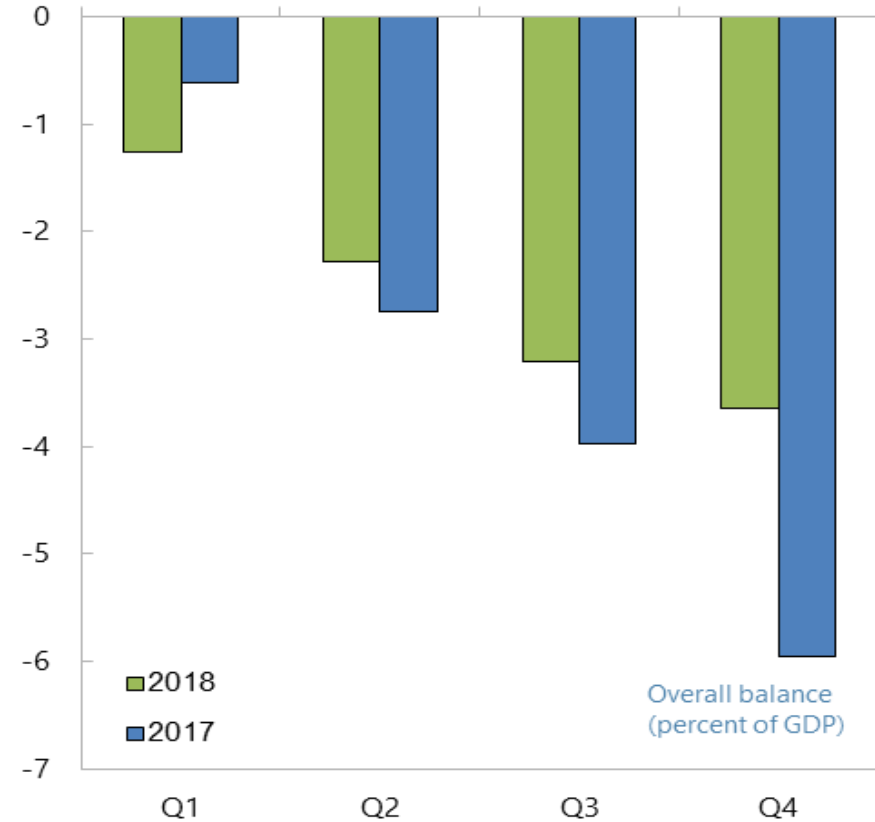


Improvement in macro fundamentals...

...a narrowing of the current account balance since 2013

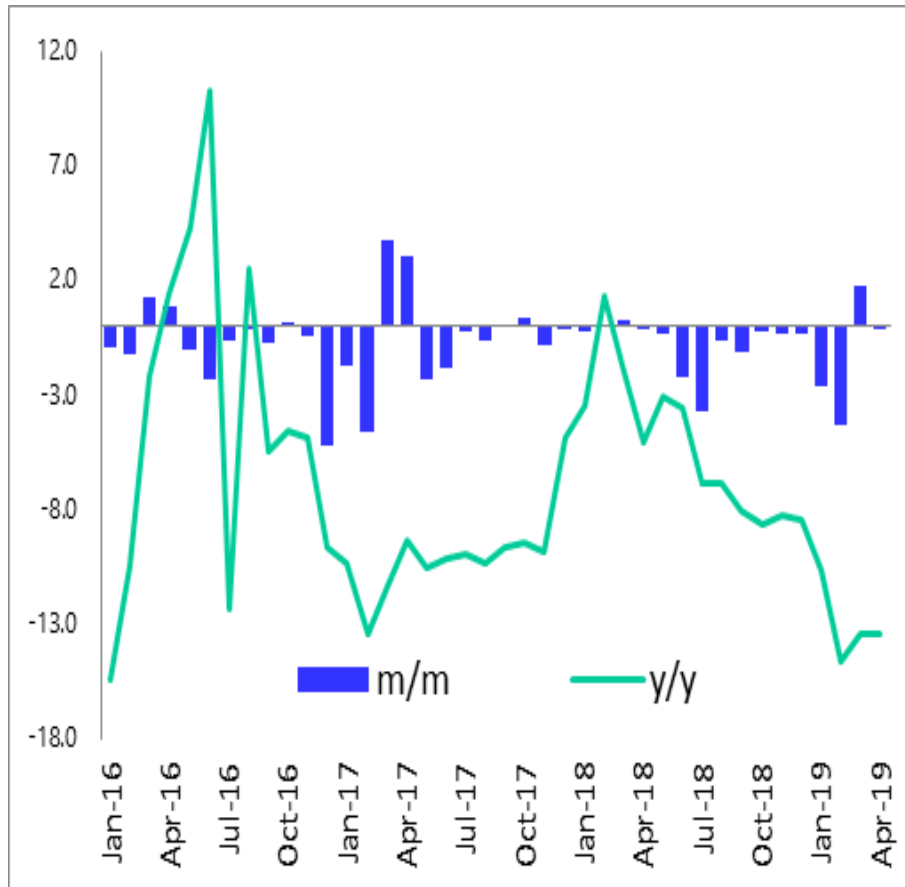


....Fiscal consolidation conditions

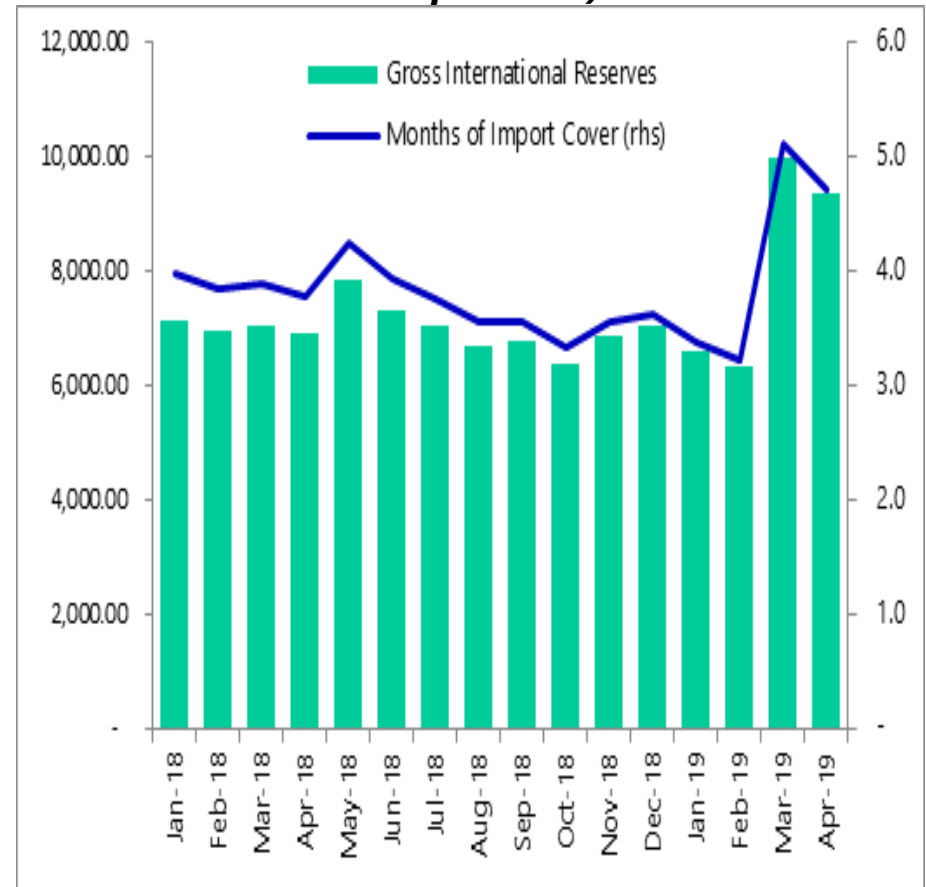


Improvement in macro fundamentals...

....relative stability in the exchange rate after first quarter volatility



....improvement in Gross Reserves (US\$9.3 bn, 4.7 mic as at April 2019)



Brief on Monetary Policy (MP) Implementation in Ghana

- Monetary policy effectiveness therefore requires an **efficient financial market system** to ensure that monetary policy actions have the desired impact on the economy.
- Appreciating the role of an efficient financial system, in discussions of monetary policy and market development is very important. Under **the Bank's inflation-targeting framework of monetary policy**, short-term interest rates, including the rates at which banks lend to each other are expected to respond to changes in the Monetary Policy Rate (MPR) .
- This then serves to influence other rates in the financial markets and then finally with impact effects on inflation and output.



Monetary Policy Implementation Challenges

- As simple as the transmission process may seem, , there are challenges. Key challenges to effective monetary policy and markets development, in our experience, have centred mostly on the following:

- ❖ **Weak and uncompetitive banking sector**
- ❖ **High Non-Performing Loans (NPLs)**
- ❖ **Market development to ease transmission mechanism**
- ❖ **External Vulnerabilities**
- ❖ **Structural rigidities and supply-side constraints**



Weak and Uncompetitive Banking Sector

- The critical role of banks as the primary conduit for monetary policy suggests that the transmission mechanism is more effective in a competitive banking sector environment. In a weak and uncompetitive banking sector, monetary policy becomes less effective because banks become less responsive to changes in monetary policy stance.
- To address some of these challenges in the Ghanaian economy, **the Bank of Ghana, over the past two years, has taken steps to recapitalise and undertaken significant reforms in the banking sector to strengthen the industry's capacity to effectively intermediate.** The implementation of new and wide-ranging regulatory reforms should also serve to provide a good-enough basis for enhancing competition and efficiency in the sector.
- Fostering banking competition, efficiency and stability therefore remains key policy objectives that the Bank of Ghana will continue to pursue to facilitate effective monetary policy transmission.



High Non-Performing Loans

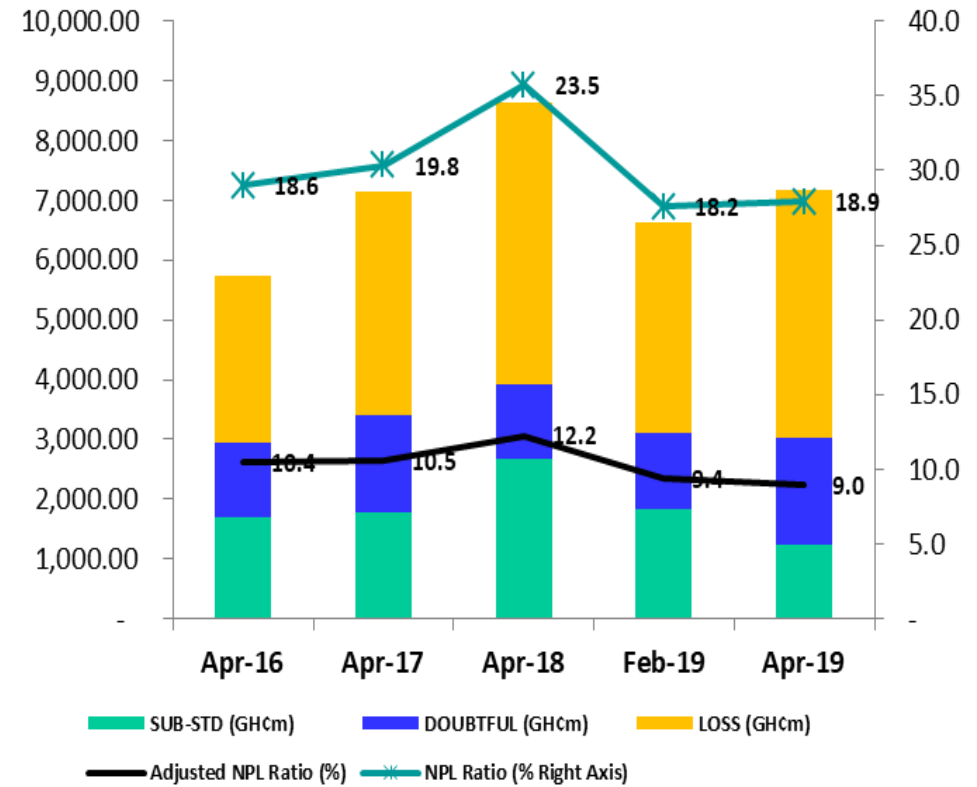
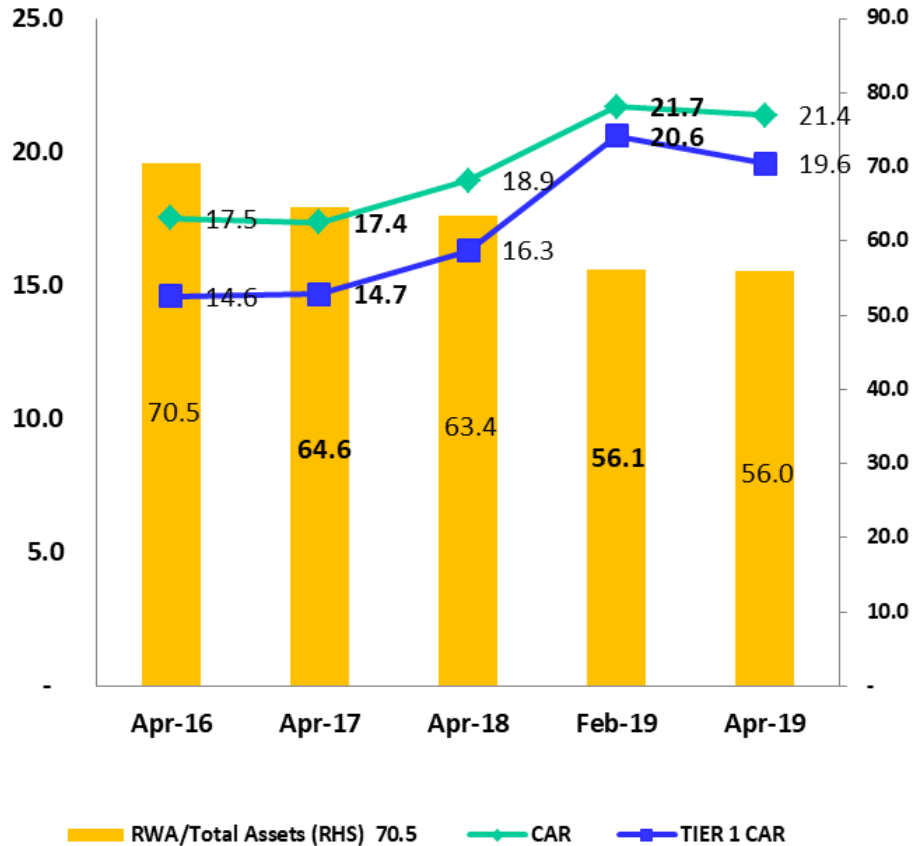
- The prevalence of high non-performing loans can also limit banks' lending capacity and/or interfere with policy transmission and therefore impair the effectiveness of monetary policy.
- Although the banking sector's NPL ratio has declined from 23.5 percent in April 2018 to 18.9 percent in April 2019, the current ratio still remains very high. With such high NPL levels, transmission mechanism of monetary policy to lending rates is weakened and financial intermediation to support economic activity is constrained.
- To make effective the transmission channel through the NPL, the Bank of Ghana is engaging banks to improve their risk management frameworks while the loan loss write-off policy is on-going.



Banking sector now well-capitalised, liquid and solvent...

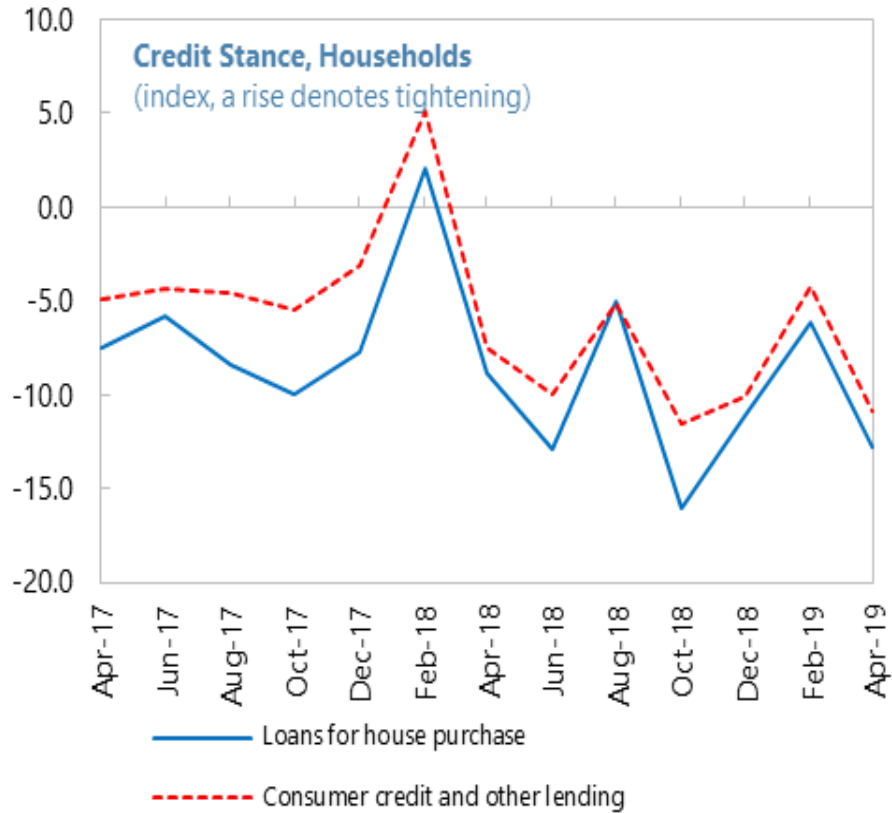
...banks' solvency has significantly improved (%)

...Asset quality has improved... (%)

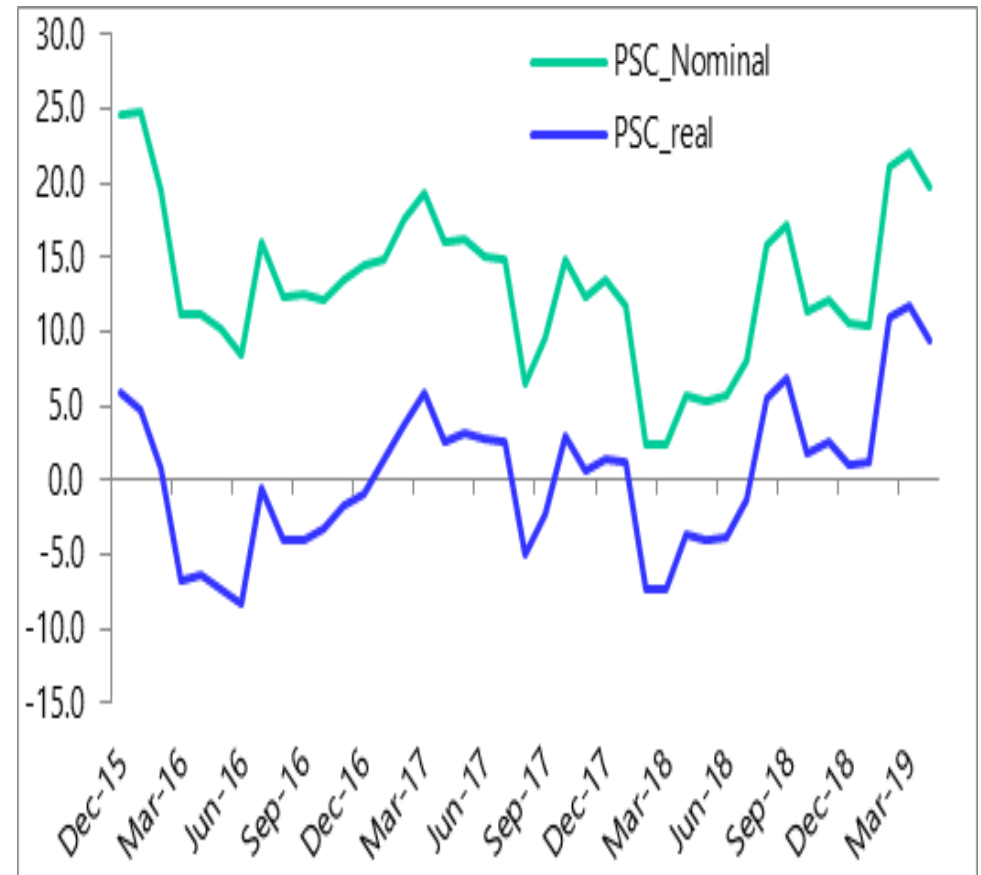


Banking sector credit allocation improves...

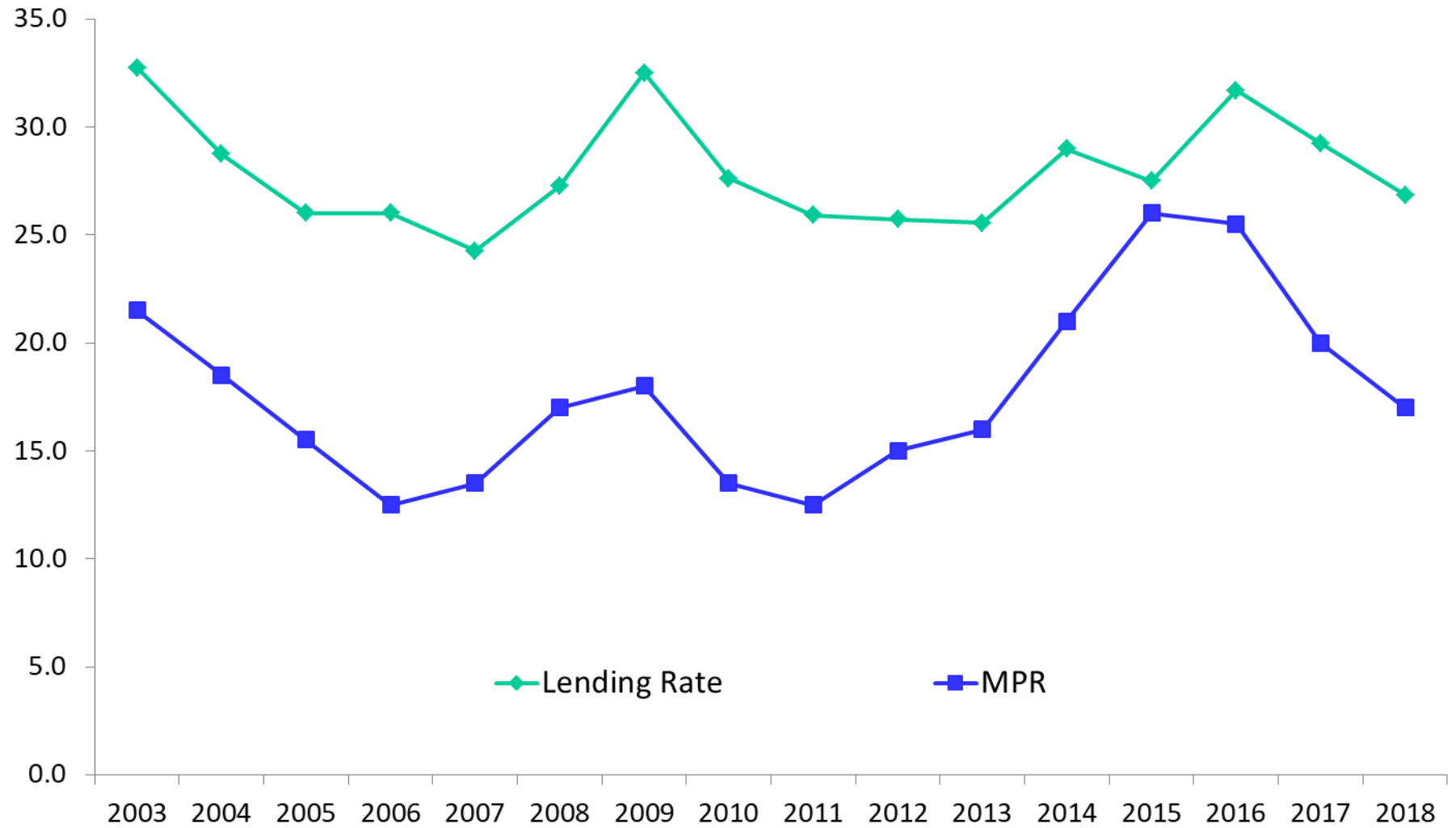
...bank's credit stance on loan approvals to households ease...



Private sector credit rebounds (y/y, %)



Lending rates move in tandem with declining policy rate....



Market development to ease transmission mechanism

- The need to broaden the scope of government financing needs without crowding out the private sector through the development of a liquid bond market is critical to effectively help manage debt without repercussions on macroeconomic stability. **An efficient and liquid bond market provides some scope for effective transmission mechanism for monetary policy.**
- With sound fiscal and monetary policies, improved regulatory environment and improved payments and settlement infrastructure, Government has lengthened the yield curve to 15-years on the domestic money market.
- Government re-profiling has supported the shift towards more medium-to-long term bonds to reduce re-financing risks, driving down interest rates at the short-end of the market and has helped correct the yield curve.



External Vulnerabilities

- Exchange rate dynamics have significant effects on the ultimate goal of price stability and hence monetary policy decisions.
- Ghana's external vulnerabilities are channelled through three main sources:
 - (i) with a commodity-dependent export base, the economy is highly vulnerable to negative terms of trade shocks.
 - (ii) the increased levels of outflows in the service and income accounts due to the dividends and profit repatriation by large MNCs in the energy, mining and telecoms sectors.
 - (iii) increased non-resident participation in the domestic bond market.
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Structural rigidities and supply-side constraints

- The external vulnerability issues highlight the issues of structural rigidities that would need to be addressed alongside ensuring sound macroeconomic condition to ensure exchange rate stability.
- **Issues such as pursuing export diversification, increasing local content, stepping-up domestic production, managing services and income outflows by MNCs, will all have to be addressed head-on.**
- Most of these structural issues are not in the domain of monetary policy, but could pose challenges for monetary policy conduct.



Structural rigidities and supply-side constraints

- Structural reforms such as the Government's industrialization drive under the '*Ghana beyond Aid*' agenda to improve the manufacturing base of the economy, diversify the structure of the economy and create employment opportunities to increase production should be vigorously pursued.
- On-going digitization of service delivery processes in the economy will help improve the business environment of the country.
- Other complementary reforms and institutional arrangements to further improve the business environment and ease production bottlenecks should be pursued to facilitate growth.



Conclusion

- **The importance of maintaining macroeconomic stability and ensuring an efficient and robust banking sector are critical to our monetary policy implementation processes.**
- **The Bank of Ghana will continue to play its role in ensuring that economic conditions are conducive to support private sector investment and business growth in the country.**



Selected Economic and Financial Indicators

Selected Economic and Financial Indicators	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	Jun-18	Sep-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19
National Income and Prices (Quarterly, %)												
Real GDP Growth	5.5	n.a	n.a	5.4	n.a	5.4	7.4	6.8	n.a	n.a	n.a	n.a
Real GDP_non-oil	1.8	n.a	n.a	4.2	n.a	5.0	8.5	8.4	n.a	n.a	n.a	n.a
Consumer Prices (year-on-year, %)												
Overall	11.8	10.3	10.6	10.4	9.6	10.0	9.8	9.4	9.0	9.2	9.3	9.5
Food	8.0	6.8	7.2	7.3	7.4	7.3	8.7	8.7	8.0	8.1	8.4	7.3
Non-food	13.6	12	12.2	11.8	10.6	11.3	10.3	9.8	9.5	9.7	9.7	10.4
Exchange rate (US\$/GH¢): (end of period)												
Exchange rate depreciation (M/M, %)	-0.1	-0.2	0.1	0.3	-0.1	-2.2	-1.1	-0.3	-2.6	-4.3	1.8	-0.1
Exchange rate depreciation (YTD, %)	-4.9	-0.2	-0.1	0.3	0.2	-2.4	-7.6	-8.4	-2.6	-6.9	-5.2	-5.3
Money and Credit												
Broad money supply (M2+) (y/y, %)	16.7	12.5	12.2	15.8	17.5	13.0	24.1	15.7	19.5	22.4	21.6	18.5
Credit to the private sector (y/y, %)	13.4	11.7	2.4	2.4	5.6	5.7	17.2	10.6	10.4	21.1	22.1	19.8
Real Credit to the private sector (y/y, %)	1.4	1.2	-7.4	-7.3	-3.6	-3.9	6.8	1.1	1.3	10.9	11.7	9.4
Interest rates (%)												
Monetary Policy Rate	20.0	20.0	20.0	18.0	18.0	17.0	17.0	17.0	16.0	16.0	16.0	16.0
Interbank rate	19.3	19.2	18.3	18.1	17.5	16.4	16.2	16.1	16.1	15.6	15.2	15.2
91-Day treasury bill rate	13.3	13.3	13.3	13.4	13.3	13.3	13.4	14.6	14.7	14.7	14.7	14.7
182-Day treasury bill rate	13.8	13.9	14.9	13.9	13.9	13.9	14.0	15.0	15.1	15.1	15.1	15.1
Average lending rate	29.3	29.3	29.3	28.8	28.2	27.5	27.5	26.9	27.8	27.8	27.7	27.7
3-month average Deposit rate	13.0	13.0	13.0	13.0	11.5	12.8	11.5	11.5	11.5	11.5	11.5	11.5
<i>lending - deposit rate spread</i>	16.3	16.3	16.3	15.8	16.7	14.8	16.0	15.4	16.3	16.3	16.2	16.2
External Sector (cummulative)												
Current account balance (US\$million)	-2,003.0	n.a	n.a	226.8	n.a	-409.3	-1,002.0	-2,043.9	n.a	n.a	294.5	n.a
<i>percent of GDP</i>	-3.4	n.a	n.a	0.3	n.a	-0.6	-1.5	-3.1	n.a	n.a	0.4	n.a
Trade balance (US\$million)	1,187.7	253.5	513.3	726.1	1,027.9	1,257.5	1,557.3	1,808.6	116.9	463.1	794.4	1,285.2
Commodity prices (International)												
<i>Cocoa (\$/tonne)</i>	1,905.0	1,940.5	2,109.4	2,499.0	2,663.5	2,435.7	2,230.4	2,256.3	2,318.2	2,273.8	2,202.5	2,370.4
<i>Gold (\$/ounce)</i>	1,266.6	1,331.7	1,332.4	1,325.7	1,334.9	1,281.1	1,198.1	1,251.1	1,292.1	1,320.0	1,300.7	1,286.2
<i>Crude Oil (\$/barrel)</i>	64.3	69.1	65.7	66.7	71.7	75.9	79.1	57.7	60.2	64.5	67.1	71.7
Gross International Reserves (US\$ m)												
<i>months of import cover</i>	7,554.8	7,106.0	6,942.0	7,040.9	6,901.1	7,294.1	6,756.4	7,024.8	6,585.0	6,310.0	9,959.6	9,347.7
Net International Reserves (US\$ m)	4.3	4.0	3.8	3.9	3.8	3.9	3.6	3.6	3.4	3.2	5.1	4.7
	4,522.5	4,936.9	4,685.1	3,909.0	4,529.0	4,150.9	3,765.1	3,851.0	3,514.1	3,173.3	6,848.3	5,915.6
Non-Performing Loan (NPL) ratio (%)												
Non-Performing Loan (excluding loss category)	21.6	21.0	21.6	22.6	23.5	22.6	20.0	18.2	18.4	18.2	18.8	18.9
	10.1	10.6	10.9	12.2	12.3	12.3	11.2	10.2	9.9	9.4	8.8	9.0

For further information on the Ghanaian economy, visit
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Thank You

