



# Bank of Ghana Monetary Policy Report

## Real Sector Developments

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### 1.0 Real Sector Developments

The Ghanaian economy has been growing steadily in spite of the uncertain growth prospects in the global economy. Developments in the real sector indicate strong growth in economic activities in July 2011, indicating that the domestic economy continues to show signs of improvement amidst strong macroeconomic fundamentals. Indicators, such as income and corporate tax collections, workers contribution to SSNIT, cement production and retail sales, registered significant growths during the first seven months of 2011 coupled with improved labour market conditions during the period under review.

#### *Consumer Spending*

Consumer spending, as proxied by domestic VAT collections and total retail sales, improved in July 2011 compared with the performance observed during the corresponding period in 2010. Domestic VAT collections, grew by 16.8 per cent to GH¢70.4 million in July 2011 as against GH¢60.3 million during the same period a year ago. However, when compared with VAT collections for June 2011, the month-on-month change for July 2011 resulted in a decline of 22.4 per cent.

Also, total retail sales recorded a year-on-year growth of 17.9 per cent to GH¢7.3 million in July 2011. On a monthly basis, however, retail sales in July 2011 plummeted by 16.6 per cent below the

amount of GH¢8.7 million registered during the previous month in June 2011.

#### *Manufacturing Activities*

Economic activity in the manufacturing sub-sector measured by trends in income and corporate tax collections and workers contributions to the SSNIT Scheme improved markedly during the month of July 2011. Income and corporate tax collections went up by 27.4 per cent to GH¢283.1 million in July 2011 from GH¢222.3 million during the corresponding period of 2010. On monthly basis, income and corporate tax collections in July 2011 declined by 32.4 per cent below the amount of GH¢418.8 million collected in June 2011. In terms of relative contributions of the various sub-sectors, P.AY.E accounted for 42 per cent,

corporate tax (41%), while 'Self-employed' and 'Other Sources' jointly accounted for 17 per cent.

Total workers'<sup>1</sup> contributions to the SSNIT Scheme, both **Tier 1** and **Tier 2** increased by 88.3 per cent to GH¢61.2 million in July 2011 from GH¢32.5 million collected in June 2011. Similarly, workers contribution in July 2011 increased on year-on-year basis by 85.2 per cent above the GH¢3.0 million contributed during the same period a year ago. The number of firms that paid contributions on behalf of their employees to the SSNIT scheme increased by 10.4 per cent in July 2011 to 19,297 from 17,486 firms during the same period of 2010. The increase in workers' contribution to the SSNIT scheme in July 2011 was partly due to payment of arrears by the Accountant General's Department on behalf of government workers as well as registration of new firms onto the scheme.

### **Construction Sector Activities**

Activity in the construction sub-sector, proxied by the volume of cement production, increased by 29.9 per cent in July 2011 to 229,767 tonnes from 176,825 tonnes produced in June 2011.

The recorded cement production in July 2011 represented a year-on-year improvement of 3.7 per cent above the 221,592 tonnes produced during the same period in 2010.

### **Transport Sector Activity**

Activities in the transport sector, measured by total new registration of vehicles by DVLA<sup>2</sup>

improved in July 2011. The number of vehicle registered grew by 4.3 per cent to 12,513 in July 2011 from 11,999 registered in June 2011.

On year-on-year basis, the level of vehicle registration attained in July 2011 represented an increase of 41.9 per cent above 8,817 vehicles registered during a corresponding period of 2010. By type of vehicles registered, commercial motor vehicles (with capacity of up to 2000cc), motor cycles and private motor vehicles continued to be the dominant.

## **2.0 Labour Market Conditions**

Conditions in the labour market improved during the month of August 2011 as indicated by trends in advertised job vacancies compiled by the Bank of Ghana. Advertised Job vacancies for the month of August 2011 totalled 962, representing an increase of 10.2 per cent from the total job vacancies advertised in July 2011, but a drop of 5.3 per cent from the level recorded in the corresponding period a year ago.

Cumulatively, a total of 7,158 job vacancies have been recorded from January to August 2011 as against 10,820 jobs advertised during the corresponding period of 2010.

### **Advertised Job Vacancies**

The pattern observed in advertised job vacancies during the review month indicated a decrease in the job offers from the agricultural sector by 0.5 percentage points. The industrial sector, however, recorded a marginal growth in job offers of 1.1 percentage point. Within the industry sector, the manufacturing sub-sector registered 45.6 per cent of the job vacancies

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<sup>1</sup> The new three tier pension scheme classification started in January 2010.

<sup>2</sup> DVLA: Drivers Vehicle and Licensing Authority

followed by mining (28.48%), construction (15.8%), and water & electricity sub-sector (10.1 %) in that order.

The services sector recorded the highest number of advertised job vacancies in August 2011 with 796 vacancies, representing an increase of 9.5 per cent compared to that of July 2011. The leading sub-sectors within the service sector were the education sub-sector with 26.5 per cent followed by business services (11.9%), public sector (10.9%), wholesale and retail (9.1%), and other services (8.8%).

With regards to skills demand by potential employers, 'skilled labour' was the most sought after with 59.4 per cent of job offers in this

category. This was followed by sales and other service workers (24.6%), artisans and machine operators (10.1%), secretarial & clericals (4.8%), and other skills (1.1%).

**Redundancies**

The number of redundancies for the month of August 2011 totalled 173 compared to 200 layoffs for July 2011. For the first eight months of the year, 1,602 casual workers were laid off, representing 27 per cent drop from the level recorded in the corresponding period a year ago. Reasons ascribed by potential employers for the redundancies include completion of projects, financial constraints, promoting growth of company and labour rationalization issues.

Chart 1.1: Trends in Income and Corporate tax Collections

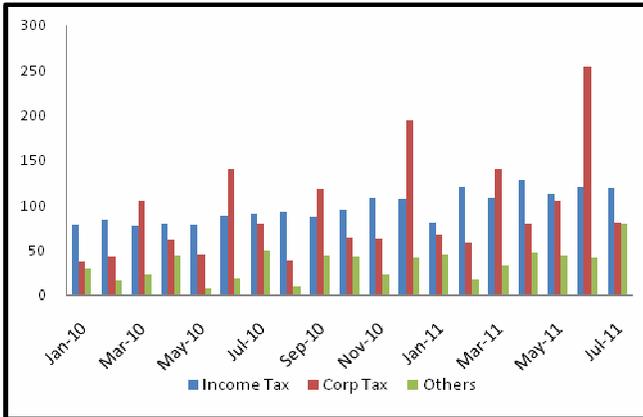


Chart 1.2: Trends in Workers' Contribution

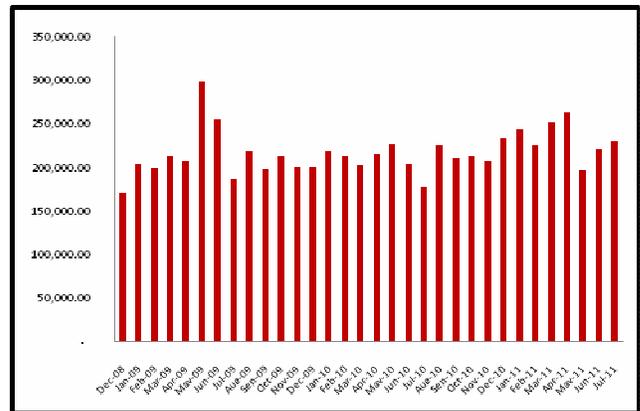
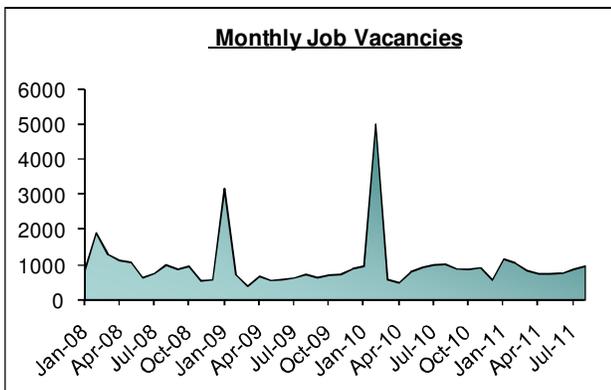


Chart 1.4: Trends in Advertised Job Vacancies



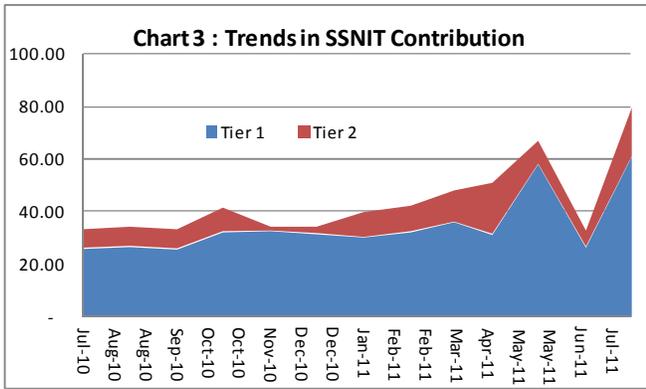
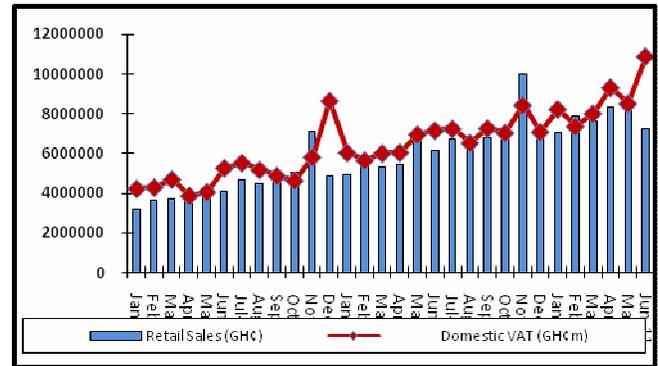
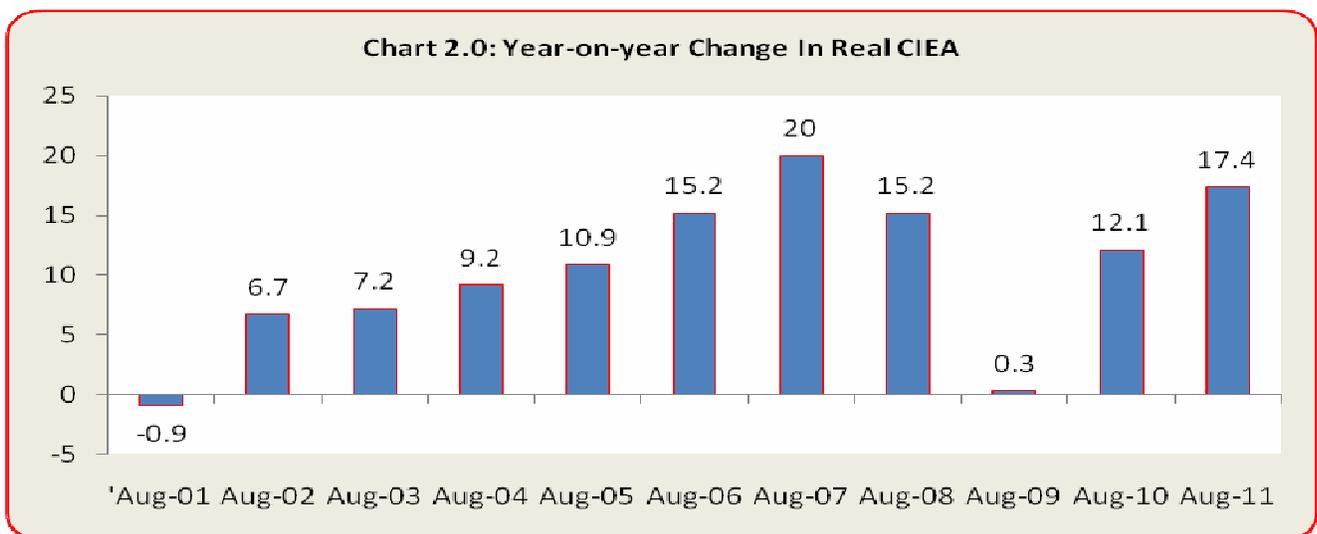


Chart 1.5: Retail Sales and Domestic VAT



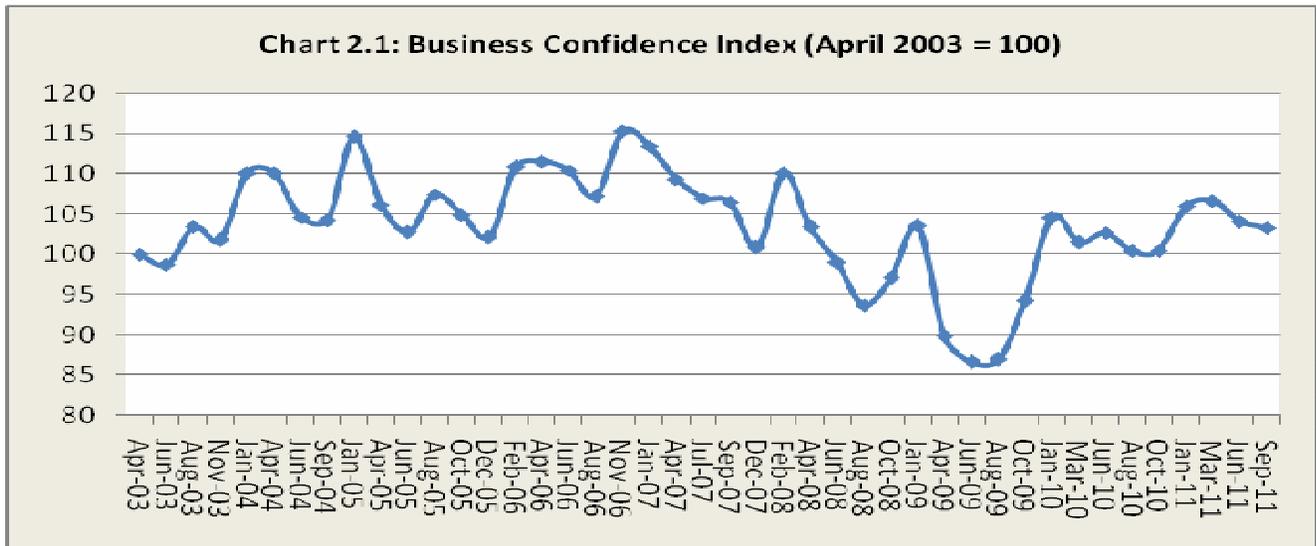
### 3.0 Developments in Real CIEA: August 2011

The Composite Index indicates that the level of economic activities in real terms picked up from the level recorded in the second quarter (June 2011). On a year-on-year basis however, the Real Composite Index posted a growth of 17.4% as at August 2011. This outturn represents the highest second month of the third quarter year-on-year growth in the eleven year cycle of the index. All the indicators, except tourist arrivals contributed positively to the growth of the real index in year-on-year basis.



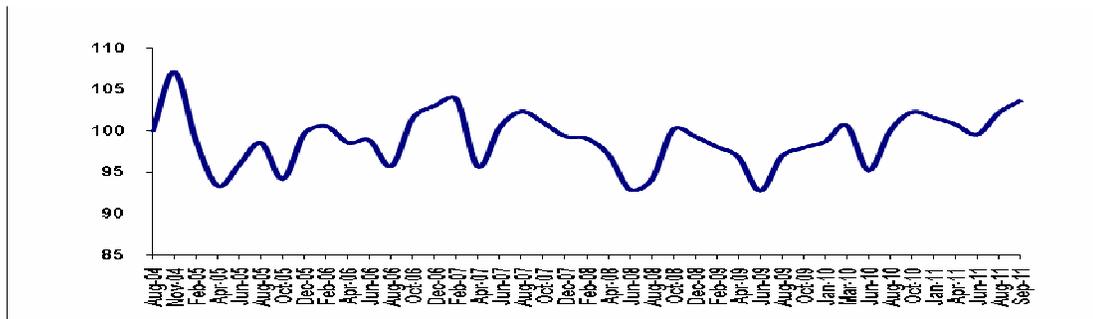
#### 4.0 Developments in Business Confidence for Third Quarter Of 2011

The latest in the periodic surveys carried out by the Bank of Ghana to gauge the sentiments of businesses showed an easing in optimism. The overall business confidence index fell slightly from 104.1 in the previous survey (June 2011) to 103.3 in latest survey conducted in September 2011. The survey showed that overall assessment of economic developments, interest rate trends, company expectations and company prospects contributed positively to the growth of the index while exchange rate trends, price trends, realizations of company expectations, prospects for the growth of the economy as well as industry prospects impacted adversely on business sentiments.



Consumer confidence continued its gains in September with the overall Index up by 1.46 percentage points to 103.58. Consumer welfare was the primary driver of the index. Both welfare confidence and expectations went up. Unlike August, consumers' sentiment about the macroeconomy waned with both the macro confidence and expectations indices weakening (see Chart 1).

**Chart 1: Overall Consumer Confidence Index and Sub-Indices**



Some of the factors that may have contributed to the buoyant consumer welfare include:

- a. The reported second quarter growth in the economy;
- b. The expected 20 per cent increase in public sector wage; and
- c. Stable inflation. While consumers expected the monthly price conditions to worsen, the weighted end year inflation expectation remained essentially unchanged at 12.2 per cent.

The overall consumer expectations index went up by 1.68 percentage points from 102.57 suggesting that the index may further strengthen in November all things being equal.

### *The Outlook*

Data gathered on the real sector of the economy indicate continued slowdown in inflation, declining interest rates and stable exchange rates conditions. The prospects for real GDP growth beyond the first quarter of the year could surpass what was attained for the same period in 2010. The construction, transportation and services sectors recorded brisk activities and are expected to continue to drive economic activity in 2011.