



# Bank of Ghana Monetary Policy Committee Press Release

September 1, 2011

1. I would like to share with you the Monetary Policy Committee's review of recent developments in the Ghanaian economy and the positioning of the Monetary Policy Rate.

## **Global Economic Developments**

2. Since our July meeting, global economic conditions have deteriorated. The downgrading of the US sovereign debt rating, the continuing sovereign debt crisis in the euro zone and volatile commodity prices have led to increasing global anxieties. These events are taking place against the backdrop of a slowdown in growth in many of the advanced economies.
3. In contrast, growth in emerging and developing economies remains strong. However, there are emerging signs of overheating in these economies as the pace of growth increases.
4. Commodity prices remain volatile reflecting uncertainties in the global economy. Gold prices surged to record levels on account of the weakening of the dollar. On the other hand a slowdown in growth and

the anticipated resolution of the political stalemate in Libya contributed to the decline in crude oil prices.

### **Domestic Economic Developments**

5. Information from the Ghana Statistical Service show that overall inflation declined from 9.2 per cent in February to 8.6 percent in June 2011 and further down to 8.4 percent in July.
6. The deceleration in headline inflation is largely attributed to continued reduction in food inflation, which reached 3.3 per cent in July, down from 4.5 per cent recorded in December 2010. Non-food inflation, on the other hand, has gone up slightly from the 11.2 percent recorded at the end of December 2010 to 11.8 percent by the end of July.
7. The core measure of inflation used by the Bank of Ghana to monitor underlying inflation pressures in the economy (defined to exclude energy and utilities charges from the CPI basket), exhibited signs of stability. The rate declined from 8 per cent at the end of December 2010 to 7.8 per cent at the end of July 2011.
8. Results of our recent survey on inflation expectations show that consumers and financial institutions are optimistic that inflation would remain within single digits by the end of 2011.
9. Estimates of the real Composite Index of Economic Activity (CIEA) for the first half of 2011 show that the level of economic activity increased, on a year-on-year basis, by 20.5 per cent compared to 19.4 per cent in May 2011. All the components of the CIEA (port activity, SSNIT

contributions, merchandise exports and imports, sales of key manufacturing establishments, bank credit and domestic VAT collection) contributed to the increase in economic growth.

10. The consumer survey also showed a generally positive assessment of macroeconomic conditions and prospects. The Consumer Confidence Index increased to 102.1 in August, from 99.5 in June 2011.

### **Monetary and Banking Sector Developments**

11. Broad money supply including foreign currency deposits (M2+) increased between December 2010 and July 2011. It expanded by 12.4 per cent to GH¢15.4 billion by end July 2011. On a year-on-year basis, M2+ grew by 42.6 per cent in July, up from 40.2 per cent in June 2011.
12. The banking sector continued to be sound, with most banks well capitalized. Although the Capital Adequacy Ratio (CAR) declined from 19.9 per cent in June 2010 to 17.5 per cent at end of June 2011, it remained well above the statutory threshold of 10 per cent.
13. The asset quality of the banking system showed improvements as the Non-Performing Loans (NPL) ratio (the proportion of non-performing loans to total loans) declined from 17.2 per cent in May 2011 to 16.4 per cent at end June 2011. Liquidity levels also remained above the regulatory requirement.
14. Stress tests conducted on the banks by Bank of Ghana indicated that the banking sector was resilient to adverse changes in interest rates,

exchange rate and credit quality. It also showed that liquidity levels were sufficient to cushion the system against extreme liquidity risks.

15. The Credit Conditions Survey conducted in July 2011 indicates continued easing of banks' credit stance for both enterprises and households. Net overall demand for credit by enterprises declined, but enterprise demand for long-term loans increased. The stance on credit for mortgages and consumer lending by commercial banks eased, underscored by commercial banks' favourable expectations of general economic activity.

### **Government's Fiscal Operations**

16. Recent fiscal developments that were considered by the Committee in its deliberations were:
  - a. The approval of the GH¢ 1.4 billion Supplementary Budget;
  - b. The announcement of a 20 per cent increase in public sector wages taking effect from January 2011; and
  - c. The announcement of increases in electricity and water tariffs.
17. Provisional Bank of Ghana data on the execution of the budget shows that the total revenue target for the January - July period was achieved. However, the pace of growth in expenditures was higher than programmed.
18. Total revenue and grants realized in the first seven months of 2011 amounted to GH¢5.8 billion compared to a target of GH¢5.7 billion. International trade taxes comprising import duty, import VAT, petroleum taxes and import NHIL totaled GH¢1.9 billion, exceeding the target by

7.7 per cent. Income and Property taxes amounted to GH¢1.9 billion, falling short of the expected target by 12.4 per cent. Indirect domestic taxes, made up of domestic VAT, excise duty, Communication Service Tax (CST) and NHIL, amounted to GH¢679.2 million, 5.9 per cent below its target. Non-Tax Revenue amounted to GH¢458.8 million, representing 69.6 per cent of budgeted target. Grants amounted to GH¢260.4 million, representing 75.8 per cent of the budgeted target. Other receipts amounted to GH¢556.5 million.

19. Total expenditure (excluding foreign financed capital expenditure) amounted to GH¢6.9 billion for the first seven months of 2011. Wages and salaries and related expenditures amounted to GH¢2.6 billion, absorbing 46.5 per cent of domestic revenues.
20. Overall fiscal operations from January to July 2011 therefore resulted in a narrow budget deficit of GH¢1.12 billion, compared with a target deficit of GH¢849.8 million. This was financed by net domestic borrowing of GH¢1.04 billion and net foreign inflows of GH¢84.3 million. The net domestic financing represented 92.7 per cent of budgeted target for the period.
21. The stock of domestic debt at the end of July 2011 was GH¢10.9 billion, up from GH¢8.3 billion in December 2010. The external debt stock increased from US\$6.3 billion at the end of December 2010 to US\$7.1 billion at end July 2011. The total public debt at the end of July 2011 was therefore GH¢21.6 billion, equivalent to 40.5 per cent of GDP, up from 38.1 per cent at the end of December 2010.

## **Interest Rate Structure**

22. Interest rates on the money market continued to ease over the seven-month period, with a shift in investor preference towards long-dated instruments. The 91-day Treasury bill rate declined from 12.28 per cent to 10.39 per cent, while the 182-day Treasury bill rate declined from 12.68 per cent to 11.20 per cent during the period.
23. The rate on the 1-year note fell from 12.65 per cent to 11.8 per cent, while the rate on the 2-year note declined from 12.7 per cent to 11.95 per cent.
24. The overnight interbank weighted average rate, the rate at which commercial banks borrow from each other, declined by 27 basis points to 11.38 per cent between January and July 2011.
25. Commercial bank lending rates also declined in the period under review. The average base rate quotations of the banks fell by 2.21 per cent to 23.58 per cent while average lending rates were lower by 68 basis points to 26.95 per cent.
26. The average three-month time deposit rate of commercial banks fell by 1.6 per cent to 8.9 per cent during the period. Similarly, the average savings deposit rate declined by 1.5 per cent to 4.4 per cent.

## **External Sector Developments**

27. The balance of trade data shows that the deficit of US\$1.3 billion in the first seven months of 2010 reduced to a provisional deficit of US\$1.1 billion for the corresponding period in 2011.

28. Total merchandise exports increased by US\$2.9 billion to US\$7.5 billion in 2011, representing a growth of 62.3 per cent over the same period of 2010. The strong export growth was driven by gold, cocoa beans and crude oil. The total export of crude oil from January to July was 12.6 million barrels valued at US\$1.4 billion, while exports of gold and cocoa beans were US\$2.8 billion and US\$1.5 billion respectively.
29. Total merchandise imports from January to July amounted to US\$8.6 billion, representing an annual growth of 45.4 per cent. Crude oil imports went up by US\$229.1 million to US\$825.9 million while imports of oil products increased by US\$180.9 million to US\$805.8 million. In addition, there were imports of gas through the West African Gas Pipeline of US\$94.5 million.
30. Total non-oil imports, classified according to the Basic Economic Classification (BEC) or end use, showed that the value of consumer goods increased by US\$617.5 million to US\$1.7 billion. Intermediate imports also went up by US\$854.1 million to US\$3.4 billion, while imports of capital goods grew by US\$484.1 million to US\$1.4 billion.
31. Private inward transfers through the banks from January to July 2011 amounted to US\$9.97 billion, out of which US\$1.13 billion (or 11.3 per cent of the total) accrued to individuals. The total transfers represent an annual growth of 53.4 per cent over the US\$6.5 billion transferred during the corresponding period in 2010.

32. Total purchases of foreign exchange by Deposit Money Banks and Forex Bureaux, amounted to US\$5.97 billion between January and July 2011. Sales of foreign exchange during the period were US\$5.89 billion. Total transactions (both purchases and sales) on the foreign exchange market therefore amounted to US\$11.86 billion at the end of July 2011, compared with US\$7.93 billion over the same period in 2010.
33. The cedi depreciated by 2.2 per cent against the US dollar in nominal terms from the beginning of the year to July 2011, compared with a marginal depreciation of 0.6 per cent for the same period in 2010. In trade weighted terms, a nominal effective depreciation of 3 per cent was recorded by end of July 2011.
34. The Gross International Reserves (GIR) of the Bank of Ghana was US\$4.5 billion as at August 19, 2011, equivalent to 3.5 months cover of imports of goods and services. This may be compared to the December 2010 level of US\$4.7 billion (equivalent to 3.7 months of import cover).

### **Summary and Conclusions**

35. The summary of the Monetary Policy Committee's assessment of the current economic environment is as follows.
36. The pace of economic activity has picked up. Consumer confidence has improved and expectations about macroeconomic conditions are positive. The exchange rate remains stable while external sector developments continue to be favourable.

37. Inflation expectations are well-anchored and have stabilized along the single digit path, supported by favourable food prices. The rate has continued to decline and the 9 per cent target for the year is achievable.
38. Despite the improved macroeconomic fundamentals, upside risks to inflation are emerging in the form of the adjustment in utility tariffs, wage pressures and other oil-induced and external pressures that may result in the overheating of the economy.
39. In light of the assessment of the risks, the MPC has decided to maintain the Policy Rate at 12.5 per cent.

**Thank You**