



Bank of Ghana Monetary Policy Committee Press Release

July 6, 2011

1. I wish to share with you the latest information available on the economy, the assessment of the Monetary Policy Committee on the state of the Ghanaian economy and the positioning of the Monetary Policy Rate.

Global Economic Developments

2. Fiscal and sovereign debt problems continue to confront the economies of advanced countries. These problems continue to constrain the pace of global recovery. The delay of the US Congress in dealing with the US debt ceiling is also a matter of concern. However in Emerging and Developing Economies, growth continues to be brisk and prospects of sustained growth are high.
3. Inflation in advanced economies which averaged 1.6 per cent in 2010 is expected to accelerate further to 2.6 per cent by the end of 2011. In most Emerging and Developing Economies inflationary pressures are expected to rise from the average of 6.1 per cent recorded at the end of 2010 to about 6.9 per cent by the end of 2011.
4. In the commodities market crude oil prices, which breached the US\$120 mark in May, declined to below US\$110 per barrel at the end of June 2011.
5. The Ghana Statistical Service reports on inflation since May show a steady decline in the rate of inflation. From 9.2 per cent at the end of March, the rate of inflation declined to 9 per cent in April and further to 8.9 per cent in May 2011. These reductions have been largely driven by food prices.
6. Results from Bank of Ghana's surveys show that inflation expectations are well anchored. Businesses, consumers and financial institutions all had favourable expectations that inflation would slow down over the next six months.

7. After recording a significant increase in the CIEA by 23.7 per cent in the first quarter, data for April and May 2011 show that the year-on-year growth turned in at 26.5 per cent and 19.4 per cent respectively. All sectors in the CIEA contributed to the increase, with the exception of cement sales and the industrial consumption of electricity.
8. The observed trends in the CIEA for the first quarter of 2011 were confirmed by the Ghana Statistical Service in the maiden release of quarterly GDP series for the first quarter of 2011. Estimates by the GSS, on year-on-year basis showed a 23 per cent growth in GDP over the same period of 2010. The sectors that contributed to this growth were cocoa, crude oil and manufacturing. The overall medium-term outlook for growth remains positive.
9. However, the results of surveys conducted by the Bank on businesses and consumers in June show softening sentiments on growth. The overall business confidence index dropped from 106.6 in April to 104.1 in June 2011. Firms surveyed were less optimistic about the level and intensity of their capital expenditures. The firms surveyed expect lower levels of sales, profits and employment opportunities. Overall consumer confidence declined from 100.7 in April to 99.5 in June, driven by weaker welfare expectations.

Government's Fiscal Operations

10. For the first half of the year, total revenue and grants amounted to GH¢5.1 billion. International trade taxes, comprising import duties, import VAT, petroleum taxes and NHIL receipts amounted to GH¢1.6 billion, exceeding the target by 8.4 per cent. Income and Property taxes amounting to GH¢1.6 billion marginally fell short of target by 1.2 per cent. Indirect domestic taxes; VAT, excise duty and NHIL amounted to GH¢ 649.0 million, exceeding the target by 9 per cent. Lodgements of non-tax revenue amounted to GH¢ 425.9 million representing 66.8 per cent of budgeted receipts. Programme grants amounted to GH¢ 244.3 million, exceeding the target by 22.7 per cent.
11. Total expenditure (excluding foreign financed capital expenditure) for the first half of 2011 amounted to GH¢5.5 billion. Wages and salaries and related expenditures amounted to GH¢2.1 billion absorbing close to 48.5 per cent of domestic revenues.

12. Fiscal operations during the first half of 2011, resulted in a narrow budget deficit of GH¢701.9 million compared with programmed deficit of GH¢645 million. This deficit was financed by a net domestic borrowing of GH¢599.8 million and a net foreign loan inflow of GH¢102 million. The net domestic financing of GH¢599.8 million was well within the end-June programmed target of GH¢953.5 million.
13. At end May 2011, domestic debt stood at GH¢10 billion, up from GH¢8.3 billion in December 2010. The external debt stock rose from US\$6.3 billion in December 2010 to US\$6.7 billion in May 2011. The total public debt was therefore GH¢20.1 billion at end May 2011, equivalent to 35.4 per cent of GDP down from 39.1 per cent of GDP at the end of 2010.

Interest Rate Structure

14. Interest rates on the money market have continued to decline, since the beginning of the year. The 91-day Treasury bill rate declined from 12.3 per cent to 10.6 per cent, while the 182-day Treasury bill rate declined from 12.7 per cent to 11.4 per cent during the period.
15. The rate on the 1-year note fell from 12.7 per cent to 12 per cent, while the 2-year fixed rate note also dropped from 12.7 per cent to 12.1 per cent.
16. Between January and June 2011, the overnight interbank rate, the rate at which commercial banks borrow from each other, declined by 3 bps to 11.6 per cent.
17. The DMBs' lending rates have also come down in the period. From January to May 2011, the average base rate quotations of the banks have declined by 160 bps to 24.2 per cent while average lending rates were reduced by 10 bps to 27.5 per cent over the same period.
18. The average three-month deposit rates of the commercial banks were also reduced in May 2011 by 160 basis points to 8.9 per cent; from 10.5 per cent in December 2010. The average savings deposit rate went up by 50 bps to 6.4 per cent.

Monetary and Banking Sector Developments

19. Broad money supply (M2+), defined to include currency in circulation, domestic and foreign currency deposits, continued to increase. By end May 2011, money supply expanded by 7.2 per cent to a level of GH¢14.8 billion compared with GH¢13.8 billion at the end of 2010.
20. Private sector credit growth is gradually picking up. As at May 2011, real credit to the private sector recorded an annual growth of 8.8 per cent compared to a decline of 3.4 per cent in the corresponding period of 2010.
21. Overall developments in the banking system through May 2011 show that asset growth continue to strengthen, alongside major indicators of financial soundness. Total assets of the banking industry grew by 27.2 per cent to GH¢18.1 billion at the end of May 2011, on top of the 29.8 per cent growth achieved during the corresponding period of 2010. The industry continued to be highly liquid and profitable. Total liquidity relative to deposits increased to GH¢10.8 billion in May 2011, up from GH¢7.2 billion in May 2010. Bank profitability also increased by 21.9 per cent to GH¢199.9 million, on top of the 53.3 per cent growth recorded in May 2010.
22. The Capital Adequacy Ratio (CAR) of the banking industry which stood at 19.3 per cent in December 2010 declined to 17.7 per cent by the end of May 2011, well above the statutory threshold of 10 per cent. A year ago in May 2010, the CAR was 20.3 per cent. Currently all the banks satisfy the minimum capital requirement.
23. The asset quality of the banking system continues to remain a source of concern. At the last MPC meeting, the Non-Performing Loan Ratio (NPL) of the banking system stood at 16.2 per cent (March 2011). The NPL ratio deteriorated to 17.5 per cent in April 2011 and has, in May 2011, improved to 17.2 per cent.
24. Evidence from the latest Credit Conditions survey show that banks eased credit stance for both enterprises and households in June. Net demand for credit by SME's and large enterprises declined while preference for long term loans by households for consumer loans increased. The stance on credit for mortgage purposes remained tightened by the commercial banks. The overall ease in the stance of credit for

households and firms reflected largely the commercial banks favourable expectations about future economic prospects.

External Sector Developments

25. Provisional trade data for the first five months of the year showed that the balance on the trade account narrowed significantly by US\$729.4 million, from US\$1,067.1 million to a deficit of US\$337.7 million.
26. Total merchandise exports improved by US\$2.1 billion to US\$5.3 billion and represented a growth of 66.2 per cent over the same period in 2010. The robust growth in exports were driven by oil, gold and cocoa beans. Exports of crude oil for the first five months of the year amounted to 8.6 million barrels valued at US\$954.6 million, while exports of gold and cocoa amounted to US\$2 billion and US\$1.4 billion respectively.
27. Total merchandise imports amounted to US\$5.6 billion during the first five months of the year, representing an increase of 32.4 per cent over the past year. Crude oil imports declined by 8 per cent to US\$391.9 million while imports of oil products increased by 18.7 per cent to US\$618.5 million. In terms of the end use of imports, consumer goods grew by 52.1 per cent to US\$2.3 billion, intermediate by 27.8 per cent to US\$1.1 billion and capital goods imports grew by 45.4 per cent to US\$ 900 million.
28. Private inward remittances channelled through the banks amounted to US\$7.1 billion for January-May 2011 compared to US\$4.2 billion for the same period in 2010. This represents a 68 per cent increase over last year's level. US\$745.1 million of the total remittances received was from individuals.
29. At the end of May 2011, Gross International Reserves were US\$4.7 billion, representing 3.7 months of import cover.
30. In the foreign exchange market, total purchases and sales of foreign exchange by deposit money banks increased by US\$2.6 billion. Total purchases and sales amounted to US\$8.2 billion as at end May 2011 compared with US\$5.7 billion for the same period in 2010.

31. Developments in the local foreign exchange market show that the cedi cumulatively depreciated by 2.2 per cent, against the US dollar in nominal terms during the first half of the year, compared with an appreciation of 0.1 per cent for the same period in 2010.
32. In trade weighted terms, a nominal effective depreciation of 2.9 per cent was recorded by the end of May 2011. In real trade-weighted terms, the cedi depreciated by 1.3 per cent.

Summary and Outlook

To conclude, let me provide the Committee's assessment of a number of issues.

33. The MPC continues to be committed to price stability to provide a supportive environment for growth. Inflation has continued to drop and is currently at 8.9 per cent. Based on internal projections, the Bank is confident that the annual inflation target of 9 per cent is achievable.
34. The sources of uncertainty that existed at the last MPC meeting have substantially abated. From the analysis and the data presented, inflation expectations of businesses and the financial sector are well anchored. However, recent statistical releases and survey-based indicators point to some weakening in the growth potential.
35. The sluggish response of banks' lending rates to policy rate adjustments remains a source of concern to the Bank. In order to address this issue, the Bank of Ghana, in consultation with the banks has constituted a Committee to review the determination of base rates in the industry. It is expected that the recommendations of the Committee will bring standardisation and transparency into the determination of lending rates.
36. Considering arrangements being put in place by the Government regarding the issuance of a five year bond to finance the completion of critical road projects, coupled with on-going reforms in expenditure management and tax administration (particularly GIFMIS), the fiscal is not expected to add any significant risks to the inflation profile.
37. The external outlook remains favourable. Cocoa and gold prices are holding firm. Crude oil prices have reduced with the range of price adjustment uncertain but

forecast to be within tolerable limits, thus reducing the downside risks connected with oil imports.

38. The current state of the economy and the assumptions on both the domestic and external economic outlook as well as the inflation forecast suggest that in the near term, stable and favourable economic conditions will hold.

39. Given these balance of risks, the Monetary Policy Committee decided to reduce the Monetary Policy Rate by 50 basis points to 12.5 per cent.

Thank You