



Bank of Ghana Monetary Policy Committee Press Release

October 19, 2011

1. I present to you highlights of the Monetary Policy Committee's deliberations on recent economic developments and the positioning of the Policy Rate.

Global Developments

2. Since the last MPC meeting in late August, there has been a worsening in the global economic environment. In its latest World Economic Outlook, the IMF lowered global growth prospects from 4.3 per cent to 4 per cent.
3. Emerging and developing countries did not compensate for the slowdown in global growth due to supply-chain disruptions and uncertain demand from advanced economies.
4. The sovereign debt and banking sector problems in the euro zone have proved daunting. The protraction of the crisis and weaknesses in coordination efforts towards its resolution have contributed to worsening global instability threatening another bout of recession.
5. Global inflationary pressures remain elevated, especially in emerging and developing economies, fuelled by high energy and food prices. However, the moderation in growth forecasts and weakening commodity prices could translate to lower inflation.
6. The exchange rates of many emerging markets and developing countries including sub-Saharan Africa have come under immense pressure in recent

weeks. The currencies of Nigeria, South Africa, Botswana, Namibia and Kenya have all depreciated by large margins.

7. Increased macroeconomic and financial sector risks have prompted the downgrade of several banks in Europe and the lowered sovereign credit rating of the United States.
8. On the commodities markets, prices have declined influenced by weak growth in advanced economies and interest rate hikes in emerging countries. Crude oil prices have remained volatile reflecting weak demand especially in the US and Europe. Gold prices have also declined from the peak levels, in tandem with other precious metals.

Domestic Economic Developments

9. The release of the September inflation data by the Ghana Statistical Service indicated that the rate of inflation has stabilised at 8.4 per cent. Between June and September, food inflation rose by 0.9 per cent while non-food inflation declined by 1.1 per cent.
10. Core inflation, which measures underlying inflation pressures and excludes volatile energy and utility price changes, remained fairly stable in the third quarter, rising by a marginal 0.2 per cent.
11. Bank of Ghana's Composite Index of Economic Activity (CIEA) is constructed to provide early indication of developments in GDP. The index was 293.4 in August 2011, representing a real growth of 17.4 per cent over the August 2010 level. With the exception of tourist arrivals, all the other indicators contributed positively to the growth in the index.
12. The latest consumer and business confidence surveys produced mixed outcomes. While consumer confidence improved, business confidence dropped marginally. However, both consumer and business inflation expectations remained confident on the attainment of single digit inflation for the year.

Government Fiscal Operations (Narrow Basis)

- 13.** Provisional data on the execution of the budget show that total revenue and grants for the first three quarters of 2011 amounted to GH¢7.4 billion, representing a growth of 46.5 per cent over the same period in 2010. The receipts comprised GH¢6.1 billion of tax revenues and non-tax revenue (including grants) of GH¢1.4 billion. Tax revenue for the period was higher than the corresponding period by GH¢2 billion reflecting improved performance of import duty, import VAT, petroleum tax and domestic direct taxes.
- 14.** Total expenditures amounted to GH¢8.7 billion, showing an increase of 37.1 per cent over the corresponding period of 2010. The bulk of the expenditures were in respect of personal emoluments of GH¢3.3 billion and MDA spending of GH¢1.8 billion.
- 15.** The budgetary operations of government thus resulted in a deficit of GH¢1.3 billion, which was financed from domestic sources. The Net Domestic Financing (NDF) of GH¢1.3 billion was within the target of GH¢1.5 billion.
- 16.** The total public debt stock at end September was GH¢22.2 billion, equivalent to 41.7 per cent of GDP, up from GH¢17.5 billion or 37.8 per cent of GDP in December 2010. Of the total debt, the domestic component was GH¢11.4 billion while the external portion was GH¢10.8 billion (US\$7.1 billion).

Interest Rate Trends

- 17.** Interest rates declined consistently between January and July 2011. In the months of August and September however, rates remained broadly stable, especially at the short-end of the market. From 12.2 per cent in January, 91-day Treasury bill rates declined to 9.4 per cent in September 2011. Similarly, 182-day Treasury bill rates shed 2.6 per cent to settle at 10 per cent in September.
- 18.** The rates on the 1-year note also declined by 220 basis points from the beginning of the year to 11 per cent in September, while the 2-year fixed note rates went down by 80 basis points to 11.7 per cent in September 2011.

- 19.**Overnight interbank rates, the rate at which commercial banks deal with each other, dropped from 11.7 per cent in January to 10.6 per cent in September 2011.
- 20.**The average bank lending rate fell from 27.6 per cent in January to 27 per cent in June and has since remained unchanged. However, average base rate quotations showed consistent declines from 25.8 per cent in January to 23.3 per cent in September 2011.
- 21.**The average three-month deposit rates of commercial banks fell to 8.3 per cent in September 2011 from 10.5 per cent in December 2010. The average savings deposit rate also declined by 1.6 percentage points to 4.4 per cent in September 2011.

Money and Credit

- 22.**Growth in broad money supply including foreign currency deposits (M2+) moderated somewhat in August 2011. Between December 2010 and August 2011, broad money supply (M2+) went up by 12.6 per cent to GH¢15.4 billion. The broad money growth was therefore 42.1 per cent.
- 23.**On year-on-year basis, credit to the private sector went up by 22.1 per cent to GH¢7.5 billion at the end of August 2011. In real terms, this was growth of about 12.5 per cent.

Banking Sector Developments

- 24.**Total assets of the banking industry continued to grow steadily in the first eight months of the year. On a year-on-year basis, total bank assets grew by 28.2 per cent while total deposits increased by 39.2 per cent at the end of August 2011. Industry liquidity and profitability indicators also remained favourable.
- 25.**The asset quality of the banking industry improved. The Non-Performing Loan (NPL) ratio improved marginally to 16 per cent at end August 2011, compared with 16.4 per cent at end-August 2010. The Banks were also solvent, as the

industry achieved a Capital Adequacy Ratio (CAR) of 16.9 per cent, well above the 10 per cent statutory threshold.

26. The survey of credit conditions in the banking industry conducted by the Bank of Ghana in September showed a marginal tightening of credit stance for enterprises and households – a reversal of the easing credit stance recorded in previous surveys. Non-price factors such as the requirement of additional collateral security and credibility of cash flows were used to reject loan applications. The survey also revealed that majority of banks expected inflation to remain below 10 per cent for 2011.

External Sector Developments

27. External trade data for the first nine months of 2011 show that the balance of trade recorded a provisional deficit of US\$1.7 billion, compared to a deficit of US\$2 billion for the corresponding period in 2010.

28. Total merchandise exports amounted to US\$9.8 billion in 2011, representing a growth of about 67 per cent over the same period of 2010. The strong export growth continues to be driven by gold, cocoa beans and crude oil. The total export of crude oil from January to September was US\$1.97 billion, while gold exports was US\$3.7 billion, and cocoa beans was US\$1.7 billion.

29. Total merchandise imports amounted to US\$11.5 billion, representing an annual growth of 45.6 per cent. Crude oil imports were US\$991.4 million while imports of oil products amounted to US\$1.1 billion. In addition, there were imports of gas through the West African Gas Pipeline of US\$107.9 million.

30. Total non-oil imports, classified according to the Basic Economic Classification (BEC) or end use, amounted to US\$9.3 billion. Consumption goods imported amounted to US\$2.3 billion. Intermediate imports totalled US\$4.5 billion, while imports of capital goods were US\$1.9 billion and others amounted to US\$598 million.

- 31.** Private inward transfers to individuals reached US\$1.3 billion between January and August, up from US\$1.1 billion recorded in August 2010.
- 32.** The bilateral movement of the cedi against the US dollar, in nominal terms, recorded 3.2 per cent depreciation from January to September 2011, compared to 0.1 per cent appreciation over the same period in 2010. In trade weighted terms, the cedi recorded a nominal effective depreciation of 2.2 per cent by end September. The trade weighted real effective depreciation was 0.2 per cent during January to August 2011.
- 33.** The Gross International Reserves (GIR) of the Bank of Ghana was US\$4.6 billion as at September 2011, equivalent to 3.5 months of import cover. As at October 13, GIR stood at US\$5.3 billion, equivalent to 3.8 months of import cover.

Summary and Outlook

- 34.** The Monetary Policy Committee observed that conditions in the global economy remain uncertain, with implications for financial markets and commodity prices.
- 35.** On the domestic front, inflation remained stable, largely influenced by non-food inflation this time around. Our analysis indicates that inflationary pressures will remain moderate in the last quarter, in line with established seasonal trends.
- 36.** Conditions for the external trade sector remain generally favourable, supported by significant export growth.
- 37.** Indications are that the growth potential in the economy remains strong, despite the downward adjustment of projected GDP to 13.6 per cent from 14.4 per cent in 2011. Developments in the CIEA provide evidence that the pace of economic activity remains firm going into the last quarter of the year.
- 38.** Consumer confidence improved driven by increases in the consumer welfare sentiments and stable inflation expectations. However, business confidence softened.

39. Looking ahead, wage pressures, payment arrears and recent depreciation of the exchange rate have increased the upside risks to inflation. In the short-term, the impact of these underlying inflationary pressures on the economy remains contained. The Bank's inflation forecasts show that the end year target will be achieved. Movements in the exchange rate remain consistent with the delivery of the Bank's inflation target.

40. The Committee will continue to monitor emerging risks and will implement appropriate measures to counter any adverse effects on macroeconomic stability.

41. Given the assessments and the balance of risks to inflation and growth, the MPC has decided to maintain the Monetary Policy Rate at 12.5 per cent.

Thank you.