



Bank of Ghana Monetary Policy Committee Press Release

December 21, 2011

1. The 48th meeting of the Monetary Policy Committee (MPC) has just concluded after a review of recent economic developments and their implications. This briefing provides a summary of the deliberations leading to the positioning of the policy rate. Since this is the last press briefing for the year, I would like to take the opportunity to extend the MPC's appreciation to you all for your support and collaboration.

Global Economic Environment

2. 2011 has been a challenging year. The outlook for the global economy continues to be uncertain with weak growth and declining consumer confidence. There is continuing anxiety regarding the sovereign debt problem in the Euro zone and, together with the slower-than expected growth in the U.S., have intensified downside risks to global recovery.
3. Growth in emerging and developing economies was fairly robust. In Sub-Saharan Africa, economic growth was supported by increased exports and relatively stable financial systems.
4. High levels of unemployment and slow economic recovery contributed to a decline of headline inflation in major advanced economies. However, inflation was a major concern for emerging and developing countries in the early part of the year, due largely to rising commodity prices, especially in food and fuel. After initially rising steeply, commodity prices have since been on a downward path. Consequently, inflation levels have eased in some emerging and developing countries.

Domestic Economic Developments

5. Growth prospects remained strong during the year with GDP projected to grow at 13.6 per cent, up from 7.7 per cent in 2010.

6. The Bank of Ghana's Composite Index of Economic Activity (CIEA) indicates continued momentum in economic activity. The CIEA recorded a growth of 6.4 per cent between August and October 2011. On a year-on-year basis, the CIEA posted a growth of 18 per cent. The increase was reflected in growth in all the indicators of the Index.
7. Inflation remained within single-digits during the year. From 9.1 per cent in January, it declined to 8.4 per cent at the end of the third quarter but has since inched up to 8.6 per cent in November. Food Inflation which stood at 4.8 per cent in January 2011 declined to 4.4 per cent by the end of November 2011. Similarly, non-food inflation fell from 11.8 per cent to 11.1 per cent over the same period.
8. Core inflation, which measures underlying inflation, dropped from 8.1 per cent in January 2011 to 7.5 per cent in June 2011, but has since November 2011 increased to 7.9 per cent.
9. The latest Consumer Confidence Survey, conducted by the Bank of Ghana in November 2011, showed a decline in the index from 103.6 in September to 99.3. Factors cited by respondents for the decline in confidence include the uptick in inflation and pressures on the Cedi.

Fiscal Developments

10. Provisional data on the implementation of the government budget indicates that total revenue and grants for January to November 2011 increased to GH¢9.3 billion from the GH¢6.4 billion recorded for the same period in 2010. Customs collections comprising import duties, import VAT, Petroleum taxes and NHIL receipts amounted to GH¢3.1 billion. Income and property taxes also amounted to GH¢3.1 billion, while indirect domestic tax collections of VAT and Excise Duty and NHIL amounted to GH¢1.1 billion. Programme grants totalled GH¢340.6 million.
11. Total expenditure (excluding foreign financed capital expenditure) for the first eleven months of 2011 amounted to GH¢11.5 billion compared to GH¢8.2 billion a year ago. Wages and salaries and related expenditures totalled GH¢4.5 billion.
12. Fiscal operations during the period, therefore, resulted in a narrow budget deficit of GH¢2.2 billion. The deficit, together with a net foreign loan repayment of GH¢132.7 million, was financed by a net domestic borrowing of GH¢2.4 billion.
13. Domestic debt was GH¢11.7 billion at the end of November 2011, showing an increase of 39.2 per cent over the end December 2010 level. The external debt stock rose by 21.7 per cent over

the end of December 2010 level to US\$7.6 billion. The total public debt is estimated at GH¢23.4 billion at end November 2011 equivalent to 43.9 per cent of GDP, up from 37.8 per cent of GDP at the end of 2010.

Banking Sector Developments

- 14.** The banking system continued to show steady growth in assets and profitability, although at a relatively slower pace than a year ago. In year-on-year terms, total assets of the banking industry grew by 26.4 per cent between January and October 2011 to GH¢20.6 billion compared with a 35.2 per cent growth for the same period in 2010. The growth in assets was funded mainly by deposits which grew by 39.3 per cent on a year-on-year basis to GH¢15 billion during the period, compared to GH¢10.8 billion in 2010.
- 15.** The financial soundness indicators in terms of earnings, liquidity and capital adequacy remained strong. Although the Capital Adequacy Ratio (CAR) for the banking industry declined to 17.1 per cent in October 2011 from 20.2 per cent a year ago, the industry CAR was well above the 10 per cent benchmark.
- 16.** Non-performing loans at the industry level remained high, although declining. The NPL ratio improved to 15.3 per cent in October 2011 from 16.9 per cent in October 2010.
- 17.** The November 2011 Credit Conditions Survey of the Bank of Ghana revealed overall net easing of credit stance for enterprises and households. The easing in credit stance was the result of a number factors including improved capital position, access to market financing and competition from other banks. However, access to credit by small and medium enterprises and for mortgages was tightened on account of increases in additional security requirements.
- 18.** Credit to the private sector grew steadily into the last quarter of the year. By the end of October 2011, it had increased by GH¢1.7 billion, on a year-on-year basis, to GH¢7.9 billion. In real terms, credit flow to the private sector recorded an annual growth of 16.9 per cent, compared to a decline of 0.2 per cent a year earlier.
- 19.** Annual growth in broad money supply (inclusive of foreign currency deposits) firmed up to 38.1 per cent at the end of October 2011, compared to 33.1 per cent in October 2010. In nominal terms, total liquidity stood at GH¢16.9 billion at the end of October 2011. On a year-on-year basis, reserve money grew by 43.6 per cent in November 2011 compared with 42.3 per cent growth in the same period of 2010.

Interest Rate Trends

- 20.** Interest rates have broadly trended downwards throughout the year. On the money market, the 91-day and 182-day Treasury bill rates declined to 9.6 and 10.8 per cent respectively in November 2011 from 12.3 and 12.7 per cent respectively in December 2010.
- 21.** The rates on the 1-year note also declined by 140 basis points from the beginning of the year to 11.3 per cent in November 2011, while the 2-year fixed note rates went down by 60 basis points to 12.1 per cent over the same period.
- 22.** The average three-month deposit rate of commercial banks fell to 7.8 per cent in November 2011 from 10.5 per cent in December 2010. Similarly, average savings deposit rate also declined to 4.4 per cent, from 5.9 per cent over the same period.
- 23.** Average base rate within the banking industry declined to 22.8 per cent in November 2011 from 25.8 per cent in December 2010.

Balance of Payments and Exchange Rate Developments

- 24.** The balance of trade data shows a provisional deficit of US\$2.6 billion for the first eleven months of 2011 compared with US\$2.4 billion for the corresponding period in 2010.
- 25.** Total merchandise exports increased to US\$11.8 billion in 2011, representing a growth of 64.7 per cent over the value for the same period in 2010. The strong export growth was driven by gold and cocoa beans with a boost from crude oil. The value of crude oil exports over the same period amounted to US\$2.6 billion, while exports of gold and cocoa beans were US\$4.5 billion and US\$1.9 billion respectively.
- 26.** Total merchandise imports since the beginning of 2011 amounted to US\$14.4 billion, representing an annual growth of 49.9 per cent. Crude oil imports amounted to US\$1.2 billion while imports of oil products were US\$1.4 billion. Import of gas through the West African Gas Pipeline was estimated at US\$136.9 million.
- 27.** Total non-oil imports, classified according to the Basic Economic Classification (BEC) or end-use, amounted to US\$11.6 billion, with the value of capital goods estimated at US\$2.5 billion.

Consumption goods amounted to US\$2.7 billion; Intermediate imports, US\$5.6 billion and other goods, US\$770 million.

28. The Gross International Reserves (GIR) of the Bank of Ghana was US\$4.8 billion as at the end of September 2011. This may be compared to the December 2010 level of US\$4.7 billion.
29. Total inward transfers through the banks from January to October 2011 amounted to US\$14.5 billion, representing a growth of 48.3 per cent over the corresponding period of 2010. Of the total transfers, US\$1.6 billion accrued to individuals compared to US\$1.1 billion in October 2010.
30. Developments in the nominal bilateral exchange rates of the cedi to the US dollar showed increased depreciation. In the year to November 2011, the cedi depreciated by 4.5 per cent against the US dollar, compared with a depreciation of 0.6 per cent in November 2010. In trade weighted terms, a real effective depreciation of 2.3 per cent was recorded in November 2011, compared to an appreciation of 1.5 per cent in the corresponding period of 2010.

Summary and Outlook

31. Ladies and Gentlemen, the global economy continues to face uncertainties emanating from the sovereign debt crisis and its contagion effects. The crisis has led to the downgrade of some European banks, volatility in financial markets, and exchange rate pressures in many emerging and developing countries. The MPC is aware of the potential consequences of these developments on the economy and is closely monitoring their implications for the external sector and inflation outlook.
32. Inflationary pressures have been largely contained, with the rates remaining in single digits throughout the year. So far, price stability has been broad based. In recent months, however, the stability has been induced more by the non-food component of the consumer basket.
33. Indications from the CIEA suggest that the economy has expanded at a fast pace, spurred by strong export growth. However, the Consumer Confidence Index has weakened somewhat since the September survey due to several factors including increased volatility in the foreign exchange market.
34. The external environment has remained favourable and export receipts have been bolstered by both price and volume effects from the major export commodities – cocoa, gold and oil. This

notwithstanding, the pace of growth in imports has outweighed the export gains leading to deterioration in the trade balance.

- 35.** As you would recall, at the last MPC meeting, the major risks to the outlook were highlighted. These included emerging volatility in the exchange rate market and aggregate demand pressures driven by wages and salaries as well as arrears clearance. These threats still remain.
- 36.** The uncertainties in the global economy have also impacted on the foreign exchange market as foreign investors gradually wind down portions of their holdings of domestic securities. Together with increased corporate demand for foreign exchange on account of higher imports, the Ghana cedi has come under intense pressure in the last two months.
- 37.** The current level of crude oil prices on the international markets may entail additional costs for crude oil importation with implications for domestic pricing of petroleum products going forward.
- 38.** Although inflation has remained relatively stable since the beginning of the year, risks to the outlook for 2012 are slightly elevated. While upside risks remain, the slowdown in the global economy, low foreign inflation, weak domestic business and consumer confidence as well as tight credit conditions for SMEs are expected to exert a moderating effect in the outlook.
- 39.** In the assessment of the Monetary Policy Committee, the risks to the outlook for inflation and growth are fairly balanced. The Committee has therefore decided to maintain the policy rate at 12.5 per cent.