1. Ladies and Gentlemen, welcome to this Monetary Policy Committee (MPC) press briefing, which also marks my maiden interaction with the media. We have concluded the 76th regular MPC meeting and I present the highlights of the deliberations that informed the Committee’s policy decision.

2. On the global scene, growth prospects have improved and the recovery is expected to continue through 2018, driven largely by a rebound in manufacturing, consumer confidence, an uptick in trade and higher commodity prices. While these conditions could provide some support to trade and growth in the domestic economy, the expected growth momentum in the United States could necessitate a faster pace of interest rate hikes, and in turn tighten global financing conditions. On inflation, the evidence shows that near and long-term inflation expectations remain subdued.

3. Headline inflation shows a slight uptick after six consecutive months decline from 17.2 percent in September 2016 to 12.8 percent in March 2017. However, in April, the rate inched up to 13.0 percent on account of an upward adjustment in transport cost, which reflected in higher non-food inflation.

4. The Bank’s measure of core inflation, which strips out energy and utility price changes from the consumer basket, has followed a similar pattern, and was estimated at 13.7 percent in April 2017 from 14.6 percent in December 2016. The results of the latest survey conducted by the Bank point to continued declines in
inflation expectations by businesses and the financial sector. The forecast horizon for inflation remains unchanged and inflation is expected to trend downwards towards the medium-term target of 8±2 percent in 2018.

5. The recently released GDP data from the Ghana Statistical Service showed that growth outcome for 2016 was slightly weaker than expected, mainly due to a significant decline in industrial growth following the adverse effects of the energy crises and operational challenges in crude oil production for most part of the year. The overall GDP growth for 2016 turned in at 3.5 percent against an envisaged growth of 4.1 percent.

6. Information from the updated Composite Index of Economic Activity (CIEA), suggests a faster pickup in economic activity during the first quarter of 2017, relative to the same period last year. Growth in the CIEA was mainly driven by private sector credit and exports.

7. The Bank of Ghana’s business and consumer confidence surveys produced mixed results. While business confidence showed a marked rebound, driven in large part by their expectation of an improved macroeconomic environment, consumer confidence recorded a marginal dip driven by softening welfare sentiments.

8. Broad Money (M2+) expanded in line with increased extension of credit to the private sector as real lending rates declined in response to the ease in the stance of monetary policy announced in March 2017.

9. Credit to the private sector and public institutions gained some momentum. For the 12-month period to March 2017, credit to the private sector and public institutions increased by GH¢5.0 billion (19.4% y/y growth) compared with GH¢2.6 billion (11.2% y/y growth) recorded for the same period in 2016. The private sector accounted for 86.1 percent of the total credit flow. In real terms, credit to the private sector also showed a rebound, increasing by 5.9 percent, on year-on-year basis, in March 2017 after contracting by 6.9 percent same period last year.
10. The latest credit conditions survey by the Bank of Ghana conducted in April 2017 showed a general easing of credit conditions for enterprises and households. But credit for house purchases tightened in the first quarter of 2017.

11. The banking system recorded strong asset growth in the year to April 2017. Total asset base increased by 30.9 percent to GH¢84.5 billion compared to an asset base of GH¢64.6 billion as at April 2016. The growth in assets was funded mainly by domestic deposits, which increased by 28.4 percent (GH¢11.7 billion) in April 2017.

12. Provisional data on government fiscal operations in the first quarter of 2017 indicate a cash deficit of 1.5 percent of GDP, consistent with the set target for the period. This was on the back of improved expenditure alignment to revenues. Total revenue and grants fell short of target by 14.3 percent, while expenditures remained broadly contained at 11.5 percent and below programmed target.

13. Total revenue and grants for January to March 2017 amounted to 4.1 percent of GDP as against a budget estimate of 4.8 percent. Total expenditures, including arrears clearance was provisionally reported at 5.6 percent of GDP compared with a target of 6.3 percent. Financing for the deficit, equivalent to 1.5 percent of GDP was mostly from domestic sources, including drawing down on government deposits with the Bank of Ghana.

14. The stock of domestic debt which was GH¢53.4 billion (31.9% of GDP) at the end of 2016 increased to GH¢55.2 billion (27.2% of GDP) at the end of March 2017. External debt increased from GH¢69.2 billion (41.3% of GDP) at the end of December 2016 to GH¢71.9 billion (35.3% of GDP). This brings total public debt at the end of March 2017 to GH¢127.1 billion (62.5% of GDP) up from GH¢122.6 billion (73.3% of GDP) at end 2016.

15. Developments in the external sector point to significant recovery in exports over the first four months of 2017, on the back of increased production volumes and prices of gold and crude oil. This, together
with lower imports, resulted in a trade surplus estimated at 2.5 percent of GDP, compared to a deficit of 2.2 percent recorded in same period of last year.

16. The volatility in the foreign exchange market observed at the last MPC meeting has eased significantly, supported by improved foreign exchange liquidity conditions and the outturn in the trade balance, with a more positive outlook based on significant expected inflows. Cumulatively, the Ghana Cedi has depreciated by 1.0 percent against the US dollar in the year to 18th May 2017, compared with 3.5 percent reported at the last MPC round.

17. Gross International Reserves increased to US$6.4 billion, an equivalent of 3.7 months of import cover, at the end of April 2017 from US$4.9 billion (2.8 months of import cover) at end-2016.

The Outlook and Risks

18. The Committee noted that the pace of economic activity has picked up, driven mainly by growth in private sector credit, improved business sentiments and easing credit stance. Furthermore, increased oil production from both Jubilee and TEN fields and the coming on stream of further activity in the oil and gas sector from the Sankofa Gyenyame Ntomme (SGN) fields by the third quarter should give added impetus to overall growth prospects. In sum, there is evidence to suggest that the economic imbalances that existed at the end of 2016 are giving way to stronger fundamentals with economic activity expected to pick up strongly in the period ahead, albeit below potential.

19. The 2017 budget indicates a return to the path of fiscal consolidation. The reduction in the fiscal deficit for the year is expected to foster more stable macroeconomic conditions. Rigorous and steadfast implementation of the budget will therefore be critical to the outlook.

20. On inflation, the Committee noted that headline inflation, and inflation expectations have broadly trended downwards. The disinflation process has been supported by tight policy stance and
exchange rate stability. With a stable outlook for exchange rate movements and return to the path of fiscal consolidation, headline inflation is expected to trend towards the medium-term target in 2018, barring any unanticipated shocks.

21. Given these considerations, the Committee judged that the downside risks to growth outweigh the upside risks to inflation in the outlook, and therefore decided to reduce the policy rate by 100 basis points to 22.5 percent.

22. The Committee would continue to monitor risks and take the necessary policy action to move headline inflation towards the medium term target.

Information Note
The next Monetary Policy Committee (MPC) meeting is scheduled for July 21, 2017. The meeting will conclude on July 24, 2017 with the announcement of the policy decision.