Bank of Ghana
Monetary Policy Committee
Press Release

May 27, 2019

1. Good morning and welcome to the Press Briefing of the 88th MPC Meeting. The MPC of the Bank of Ghana met during the past week to deliberate on recent global and domestic economic developments. We present highlights of the discussions and subsequent positioning of the monetary policy rate.

2. Since the last MPC meeting in March 2019, global growth projections have been revised downwards, reflecting heightened policy uncertainty on a number of issues, including escalated trade tensions between the US and China, rising political tensions in Europe, unresolved Brexit negotiations, and geopolitical tensions. Growth has been downgraded across the major regions, especially in Advanced Economies. In Emerging Market and Developing Economies, growth broadly weakened, influenced largely by the slowdown in China and concerns regarding the impact of the on-going US-China trade tensions.

3. Inflation in Advanced Economies, including Ghana's key trading partners, is gradually inching up as a result of rising crude oil prices, even though core inflation remains relatively subdued due to sluggish wage growth. Across Emerging Market and Developing Economies, inflation rose marginally, also reflecting the recent rise in crude oil prices as well as pass-through of currency depreciation in the immediate past, especially in Turkey. In the outlook, inflation is forecast to remain stable in Advanced Economies due to moderation in wage growth. In Emerging Market Economies, strong aggregate demand pressures, higher value added tax, and rising inflation expectations could put pressure on inflation.

4. Global financing conditions, on the other hand, have eased somewhat due to the accommodative monetary policy stance in most Advanced Economies. As a result, global interest rates are likely to remain broadly unchanged, reducing the risk of sudden portfolio reversals out of emerging market and frontier economies, should investor sentiments shift. However, deepening trade and geopolitical tensions, sharper than expected slowdown in global growth and prospects of a 'no deal' Brexit negotiations could weigh on financial market sentiments in the near-term.

5. Turning to the domestic economy, growth remains relatively strong as the output gap continues to close. The Bank's updated Composite Index of Economic Activity (CIEA) also shows evidence of increased economic activity with a yearly growth of 4.0 percent in March 2019, up from 2.9 percent a year earlier. This robust pace of economic activity is supported by improved sentiments from businesses following the Ghana Cedi's recovery from the recent sharp depreciation and favourable growth prospects, even though consumer sentiments weakened slightly as a result of recent increases in prices.

6. Headline inflation has continued to inch up gradually in the three months to April, reflecting pass-through effects from the recent currency depreciation. Since February 2019, headline inflation increased from 9.2 percent to 9.3 percent in March and further to 9.5 percent in April. These increases in inflation appear not to have become embedded in underlying inflation as the Bank's main measure of core inflation (inflation excluding fuel and utilities prices) eased in April 2019; and, inflation expectations remain well-anchored.

7. Price movements of Ghana's three main export commodities — oil, gold and cocoa — showed mixed trends. Crude oil prices have witnessed a rebound, supported by production cuts by OPEC and its allies, renewed geopolitical tensions in the Middle East and oil sanctions on Venezuela. As a result, Brent crude prices have risen by 24.3 percent on a year-to-date basis to an average of US$71.7 per barrel in April 2019. Brent crude is expected to trade around the same price by the end of the second quarter.

8. Gold prices on the international commodities market inched up on the average by 2.8 percent on a year-to-date basis to settle at US$1,286.2 per fine ounce in April due mainly to perceived market risks and increasing uncertainty. With the signalling of a neutral monetary policy stance by the US Fed and some Advanced Economies, gold prices will likely remain subdued.

9. Cocoa crop conditions remain generally favourable and increased supply from Ivory Coast has provided an added boost to supply expectations which is not supportive of a price rally. Cocoa prices are therefore likely to remain subdued in

the outlook. On a year-to-date basis, average cocoa prices have risen by 5.1 percent to an average of US$2,370.4 per tonne in April 2019.

10. These commodity price movements and increased gold and crude oil production volumes, alongside a relatively lower import bill had a positive effect on the trade balance. Provisional estimates for the first four months of 2019 indicated a trade surplus of US$1.3 billion (1.9% of GDP), compared with a surplus of US$1.0 billion (1.6% of GDP) in the same period of last year.

11. The current account balance for the first quarter of 2019 registered a surplus of US$294.5 million, equivalent to 0.4 percent of GDP. This was on the back of an improved trade surplus of US$794.4 million (1.2% of GDP) and a net outflow of US$500 million in the services and income account. The positive outturn in the current account balance, together with significant inflows into the capital and financial account, driven mainly by the March 2019 Eurobond issue, resulted in a balance of payments surplus of US$3.0 billion (4.4% of GDP) for the first quarter of 2019.

12. These developments improved Ghana's Gross International Reserves (GIR) to US$9.9 billion (equivalent to 5.1 months of import cover) as at end-March 2019 from US$7.0 billion (equivalent to 3.6 months of import cover) at the end of December 2018. As at end of April 2019, the Gross International Reserves was US$9.3 billion (4.7 months import cover), largely on account of energy-related debt payments and higher obligations associated with externally held domestic debt payments.

13. The domestic currency market has calmed down since the recent bout of volatility in the first quarter, while other emerging market economies currently appear to be facing some volatility on the global currency market. This is due to the supportive fundamentals as well as improved supply in foreign exchange following the recent Eurobond issue.

14. In the year to May 23, 2019, the Ghana Cedi cumulatively depreciated by 5.8 percent, compared with 0.2 percent for the corresponding period of 2018. However, against the other major currencies, the depreciation was more moderate. Against the British pound and Euro, the Ghana cedi cumulatively depreciated by 4.7 percent and 3.3 percent respectively, compared with 1.4 percent and 2.6 percent appreciation respectively over the same corresponding periods. In trade-weighted terms, the real effective exchange rate remained broadly aligned with the underlying fundamentals.

15. On the execution of the budget, provisional data for the first quarter of 2019, showed an overall deficit (on cash basis) of 1.8 percent of GDP against the target

of 1.4 percent of GDP and a primary deficit of 0.8 percent of GDP compared to a targeted deficit of 0.3 percent of GDP. The higher-than-projected fiscal deficit outturn was due to the lower-than-projected domestic revenue collections which were not accompanied by expenditure rationalization. The revenue shortfalls were mainly from personal income taxes, import duties and levies, and non-tax revenues. Over the quarter, total revenue and grants amounted to GH¢10.1 billion compared with the programmed target of GH¢12.4 billion. Total expenditures was GH¢16.5 billion, slightly below the target of GH¢17.3 billion, and representing a 37.7 percent annual growth.

16. In line with the above developments, the stock of public debt rose to 57.5 percent of GDP (GH¢198.0 billion) at the end of March 2019 compared with 49.5 percent of GDP (GH¢147.9 billion) at the end of March 2018. Of the total debt stock, GH¢11.0 billion (or 3.2% of GDP) represented bonds issued to support the financial sector clean-up.

17. Growth in broad money (M2+) remained generally stable over the 12-month period to April 2019, reflecting continuing strong expansion of the economy. Annual growth of M2+ was 18.5 percent in April 2019 compared with 17.5 percent a year earlier. The growth in total liquidity was supported by expansion in Net Foreign Assets, reflecting the impact of the Eurobond inflow. Annual growth in Reserve Money however slowed to 7.9 percent in April 2019 compared with 14.8 percent annual growth in April 2018.

18. Private sector credit growth continued to gain traction as banking sector liquidity improved supported by the recapitalization exercise. Annual growth in private sector credit was up by 19.8 percent in April 2019, compared with 5.6 percent growth in the same period of 2018. On a year-to-date basis, private sector credit recorded a 5.1 percent growth in April 2019, compared with a contraction of 4.0 percent last year. In real terms, private sector credit expanded by 9.4 percent. Furthermore, the Bank's latest credit conditions survey showed a net easing of credit stance on loans alongside increased demand for loans by enterprises and households.

19. Development on the money market to the end of April 2019, generally reflect marginal downward changes in interest rates on Government instruments between February and April 2019, reflecting a shift to foreign financing of the budget after the Eurobond issuance. The 91-day Treasury bill rate has stabilised at 14.7 percent between February and April 2019, up from 13.3 percent in April 2018. Similarly, rate on the 182-day instrument was stable at 15.1 percent for the same period, compared with 13.9 percent in April 2018. On the secondary bond market, yields on the 7-year, 10-year, and 15-year bonds moderated from 20.98, 21.1, and 21.4 percent in February 2019 to 19.8, 19.97 and 20.7 percent in April.

20. The weighted average interbank lending rate, which shows the rate at which commercial banks lend to each other, also dropped to 15.2 percent in April 2019 from 17.5 percent, following trends in the monetary policy rate. In the same direction, average lending rates of banks declined, though moderately, to 27.7 percent from 28.2 percent over the same comparative period.

21. The latest assessment of the banking sector shows that the sector has become more resilient and is well-capitalised, solvent and liquid. Stress test results point to additional capital and liquidity buffers in the event of shocks from exchange rate and interest rate movements. Profitability is also on the rise as banks deploy their additional capital on interest earning assets. There is also evidence of strong deposit growth in the industry pointing to a return of confidence in the banking sector.

22. Over the first four months of 2019, banks total assets amounted to GH¢109.9 billion, representing an annual growth of 12.4 percent. The growth in total assets was funded mainly from deposits which grew by 19.6 percent year-on-year to GH¢73.1 billion. The industry's financial soundness indicators have improved, with the Capital Adequacy Ratio (CAR) at 21.4 percent in April 2019, significantly higher than the prudential requirement of 10.0 percent. Under the new Bank of Ghana Capital Requirement Directive (CRD), the CAR was 17.4 percent compared with the 13.0 percent prudential requirement (inclusive of a 3% buffer under the CRD).

23. Asset quality however remains a key challenge and a major constraint to credit expansion in the banking sector. Although the Non-Performing Loans (NPL) ratio has declined from 23.5 percent in April 2018 to 18.9 percent in April 2019, it remains high and points to the industry's exposure to credit risk. To help reduce the NPL ratio further, banks are working to strengthen their credit risk management practices and loan recovery efforts.

Summary and Outlook

24. In sum, the Committee observed that global growth has moderated with downward revisions for both advanced and emerging market economies. The slower pace of growth is expected to continue over the first half of 2019 underpinned by escalating trade and geo-political tensions. Although core inflation remains subdued, global inflation has picked up slightly on the back of higher oil prices. Forecasts show that inflationary pressures are expected to remain contained, influenced by moderate wage growth and concerns about the health of the global economy. The accommodative monetary policy stance by most advanced economies broadly offers some scope for favourable global

financing conditions. This could have positive implications for emerging market and frontier economies with strong macro fundamentals as investors search for higher yields. These developments could impact positively on Ghana through the trade and credit channels.

25. On the domestic front, economic growth remains steady and is projected to gain some additional momentum over the horizon, supported by crude oil production. Early indications already show that economic activity in the first quarter is picking up pace as evidenced by the Bank's CIEA. Other factors such as improving business sentiments and credit growth are supportive of growth in the outlook.

26. On fiscal developments, the Committee noted that implementation of the budget in the year to April 2019, shows continued challenges with revenue mobilization alongside increased pace of spending which poses some risks to the fiscal outlook. Expenditure pressures have been exacerbated by payments associated with the energy sector. These are exerting financing pressures on government and more stepped-up efforts would be required to ensure total realignment of expenditures to revenues.

27. The Committee observed strong external sector developments in the first quarter, emanating from a strong trade surplus outturn and improved inflows into the capital and financial account. In the outlook, the trade balance is expected to record surpluses, bolstered by the oil sector and a pickup in private transfers to support an improving current account balance. However, there are also significant outflows associated with energy-related debt, bond maturity and coupon payments which would have to be managed over the rest of the year.

28. On the inflation outlook, the Committee noted that the recent exchange rate pass-through has slowed the disinflation process, leading to a slightly elevated inflation profile as shown in the latest forecasts. However, core inflation remains subdued and inflation expectations fairly anchored.

29. Under the circumstances, the Committee decided to keep the monetary policy rate unchanged at 16 percent. The Committee will continue to closely monitor both global and domestic developments and stands ready to take appropriate measures if necessary to maintain price stability.

Information Note

The next Monetary Policy Committee (MPC) meeting is scheduled for July 17-19, 2019. The meeting will conclude on Monday, July 22, 2019 with the announcement of the policy decision.