



Bank of Ghana Monetary Policy Committee Press Release

November 26, 2018

Ladies and Gentlemen of the Press, welcome to this morning's press conference following the 85th regular meeting of the Monetary Policy Committee (MPC) and the last for the year. The Committee has reviewed recent economic developments and I present highlights of the discussions that informed the decision on the stance of monetary policy.

1. The strong growth momentum in advanced economies appears to be moderating amid escalating trade tensions, rising global inflation pressures and financial market volatility. In Emerging Markets and Developing Economies (EMDEs), growth prospects have weakened considerably reflecting country-specific vulnerabilities and tighter financing conditions. The normalization of monetary policy in the U.S. strengthened the U.S. Dollar, triggering portfolio reversals, and resulting in weaker local currencies in emerging markets.
2. Global inflation has been steadily rising, supported by tightening labour market conditions, but core inflation remains largely subdued.

In emerging market economies, inflation remains broadly well-anchored. In the near term, global inflation pressures are expected to pick up further on concerns of diminishing spare capacity and rising inflation expectations.

3. On the domestic front, the disinflation process has continued but at a slower pace. Headline inflation decelerated to 9.5 percent in October 2018, well within the target band of 8 ± 2 percent. The decline in inflation observed in the year so far has been driven in large part by a steady decline in non-food inflation, on the back of relatively tight monetary policy stance. Non-food inflation fell by 3.9 percentage points to 9.8 percent in October 2018, the lowest since July 1992. A similar trend was observed in all the core measures of inflation monitored by the Bank of Ghana, indicating easing underlying inflation pressures. Business and financial sector inflation expectations remained broadly unchanged.
4. Economic activity continues to pick-up although the trend remains below potential. The Bank's real Composite Index of Economic Activity (CIEA) recorded an annual growth of 4.2 percent in September 2018, compared with 4.0 percent in the corresponding period of 2017. This was mainly supported by exports, industrial consumption of electricity, private sector credit expansion, domestic VAT, and key manufacturing sales. The latest business and consumer confidence survey conducted in October 2018 showed some softening of sentiments.

5. Overall rebased GDP growth for 2018 is projected at 5.6 percent, based on the half-year performance of the economy, with strong quarterly GDP growth turning in at 5.4 percent for the first two quarters of the year. This compares with an overall growth of 8.1 percent recorded in 2017. Non-oil GDP is also projected to expand at 5.8 percent, compared with 4.6 percent in 2017.
6. Provisional data on the execution of the budget indicated an overall fiscal deficit of 3.0 percent of rebased GDP in September 2018, above the target of 2.6 percent, as revenue and grants were below the programme target. Total revenue and grants amounted to GH¢32.2 billion (10.8% of rebased GDP) compared with the programmed target of GH¢35.6 billion (11.9% of rebased GDP). Total expenditures, including arrears clearance was GH¢41.3 billion (13.8% of rebased GDP), marginally below the target of GH¢ 43.4 billion (14.5% of rebased GDP). The deficit was financed from both domestic and external sources.
7. Total public debt increased to 57.2 percent of GDP (GH¢170.8 billion) at the end of September 2018 from 54.1 percent of rebased GDP (GH¢138.8 billion) in the same period a year earlier. Of the total, domestic debt was GH¢84.2 billion, out of which the bonds issued to assist in the financial sector clean-up amounted to GH¢9.9 billion or 3.2 percent of rebased GDP. The external debt component was GH¢86.6 billion with a share of 50.7 percent in the total debt.

- 8.** Growth in monetary aggregates has generally slowed in the year, consistent with the disinflation process. Broad money supply (M2+) grew by 17.2 percent year-on-year at end-October 2018 to GH¢74.6 billion compared to a 25.5 percent annual growth recorded in the same period last year. The slower growth in broad money was influenced by declines in Net Foreign Assets (NFA) and Net Domestic Assets (NDA) of the banking sector. Similarly, annual growth in Reserve Money has decelerated sharply to 4.3 percent in October 2018, compared with 14.4 percent for same period last year.
- 9.** The latest credit conditions survey shows an easing of credit stance with increases in banks' credit and loans to both households and enterprises as banks continue to strengthen their balance sheet and the deadline for meeting the minimum capital approaches. As a result, private sector credit has continued to recover, but at a moderate pace. Private sector credit grew by 11.4 percent in October 2018 compared with a growth of 14.9 percent in October 2017. In real terms, private sector credit expanded by 1.7 percent compared with 2.9 percent over the same period in 2017.
- 10.** There have been marginal increases in money market interest rates across the maturity spectrum. In October 2018, the 91-day Treasury bill rate increased to 13.6 percent from 13.3 percent a year ago. Similarly, the 182-day instrument increased to 14.4 percent from 13.8 percent. Rates on the secondary bond market also increased, reflecting tight financing conditions. The yields on the 7-year, 10-year and 15-year bonds all edged up to 19.3, 19.3 and 19.5 percent in

October 2018 from 17.5, 17.4 and 17.9 percent respectively, in October 2017.

- 11.** The weighted average interbank lending rate, that is, the rate at which commercial banks lend to each other, however, declined to 16.2 percent in October 2018 from 20.9 percent a year ago, in line with the monetary policy rate. The average lending rates of banks also declined to 26.9 percent in October 2018 from 29.1 percent a year ago, consistent with the marginal increase in credit to the private sector.
- 12.** The key Financial Sector Indicators (FSIs) have broadly shown improvements since the last MPC meeting, reflecting gains from the on-going reforms in the sector. The gains are expected to further increase after the recapitalization process is completed in December 2018. The industry's total assets increased to GH¢106.3 billion in October 2018, representing a year-on-year growth of 19.6 percent. Of the total assets, advances and investments constituted 33.4 percent and 40.3 percent respectively. The latest FSIs show that the banking system remains solvent, sound and profitable. The industry's solvency, measured by the Capital Adequacy Ratio (CAR), improved to 20.0 percent in October 2018 from 18.0 percent in the same period of last year, well-above the prudential requirement of 10.0 percent. Asset quality has also improved marginally, indicated by the decline in the NPL ratio to 20.1 percent in October 2018 from 21.6 percent in October 2017.

- 13.** On the international commodities markets, crude oil prices rose by 40.9 percent on a year-to-date basis to an average of US\$73.4 per barrel in October 2018 largely due to demand growth concerns. However, since then, the price of crude oil has dropped below US\$60.0 per barrel, the first time since last year. On cocoa, the combined effect of a higher than expected main crop output and a stronger U.S. dollar, resulted in a softening of cocoa prices to US\$2,152.3 per tonne in October 2018, representing a year-to-date contraction of 24.5 percent. On the other hand, gold price inched up by 2.9 percent on year-to-date basis to US\$1,286.30 per fine ounce on the back of increased purchases by some central banks.
- 14.** These developments in the key export prices, together with higher production outturns, impacted positively on the trade account. Provisional estimates show a trade surplus of US\$1.7 billion (2.6% of rebased GDP) at the end of October 2018, compared with a trade surplus of US\$730.8 million (1.2% of rebased GDP) recorded in October 2017. Consequently, the current account deficit narrowed to US\$934 million (1.4% of rebased GDP) in the year to September 2018 from US\$1.2 billion (2.0% of rebased GDP) over the same period last year. The current account outturn, together with a relatively lower net capital and financial surplus, resulted in an overall balance of payments deficit of US\$757 million, compared with a surplus of US\$379 million over the same comparative period.
- 15.** Gross International Reserves (GIR) stood at US\$ 6.4 billion (equivalent to 3.3 months of import cover) as at end-October 2018,

compared with US\$7.6 billion (equivalent to 4.3 months of import cover) at the end of December 2017. The latest reserve position (as at 19th November, 2018) was US\$6.9 billion, equivalent to 3.6 months of import cover.

16. The strengthening of the US dollar in the international markets has exerted pressure on currencies in emerging markets and frontier economies, including Ghana. In the year to November 22nd, the cedi cumulatively depreciated by 7.8 percent, compared with 4.6 percent depreciation in the same period last year. The cedi has also depreciated by 3.2 percent and 3.1 percent against the pound and the euro respectively over the same period, compared with depreciation of 11.1 percent and 14.4 percent respectively in the same period of 2017. In real terms, the cedi remained broadly in line with the underlying fundamentals. The real effective exchange rate, in trade-weighted terms, remained within the band of ± 2 percent standard deviation.

Summary and Outlook

17. Ladies and Gentleman, to summarize, global growth momentum moderated in the second half of the year, with some divergence between the U.S. and other advanced economies. In the medium-term, steady growth is expected in most advanced economies as output gaps narrow alongside normalization of monetary policies. For emerging market and frontier economies, growth is projected to moderate on the back of heightened risks emanating from tightening

global financing conditions, trade tensions and country-specific vulnerabilities.

- 18.** On the domestic economy, growth has remained modest but the negative output gap is expected to close at a fast pace over the medium-term. This will be supported by further increases in crude oil production. In particular, with the resolution of the Ghana/Cote d'Ivoire maritime dispute and the commencement of oil production by new oil companies is expected to provide an added boost to the economy. As a result, GDP is projected to record an average growth of 7.0 percent over the medium-term. Similarly, non-oil GDP growth is expected to average 6.6 percent.
- 19.** In addition, the 2019 Budget Statement seeks to provide some fiscal impulse to boost economic expansion, especially in the non-oil sector, which is positive for the growth outlook. This is on top of the expected increase in activity in the real sector of the economy after the bank recapitalization exercise.
- 20.** While execution of the 2018 budget has been affected by lower-than-expected revenue, all indications are that the fiscal consolidation is broadly on track. The 2019 budget focuses on improving efficiency in revenue administration to underscore the continuation of the fiscal consolidation process over the medium-term. This would require extra vigilance and disciplined economic management to protect the gains made so far.

- 21.** As Ghana completes the IMF-supported ECF programme, the full burden of entrenching macroeconomic stability will rest on domestic policymakers and there will be the need for more effective monetary and fiscal policy coordination. In particular, steps to legislate a fiscal policy rule that caps the deficit at 5.0 percent of GDP together with the setting up of a Fiscal Council should help to bring certainty and thereby promote confidence in the economic outlook.
- 22.** The financial system, dominated by the banking sector, continues to be sound, well-capitalized and resilient. Recent stress tests of the banking sector showed across board improvements in the system's resilience, even though some residual risks remain due to high NPL ratios, relatively high level of concentration of exposures in a few banks, related party exposures, weaknesses in some specialised deposit-taking institutions, and the high level of interconnectedness both among group structures and across the various sub-sectors in the financial sector. On-going reforms by the Bank of Ghana, including supervisory vigilance and strict enforcement of prudential regulations, are expected to address these residual risks, restore confidence in the financial sector, and should bolster the capacity of banks to lend to support the growing Ghanaian economy.
- 23.** Ladies and Gentlemen, although inflation is forecasted to remain within the medium-term target band, the latest assessment shows that there are underlying pressures including risks from the continuing

escalating global trade tensions, steady rise in global inflation, further hikes in US interest rates, and a stronger US dollar. On the downside, the recent significant decline in crude oil prices since mid-October 2018 by about 24 percent could lower ex-pump prices, and help moderate the risks going forward.

24. In the circumstances, the Committee decided to maintain the policy rate at 17 percent.

Update on Bank Recapitalisation and SDIs

25. The deadline for the bank recapitalisation is unchanged at end-year 2018. The Bank of Ghana has been closely monitoring and working with the banks towards their recapitalisation efforts. We are happy to note that many banks are close to meeting the new minimum capital requirement and a few are concluding discussions on mergers. We will communicate the outcome when the exercise is completed. We expect 2019 to commence with a well-capitalised and robust banking system with no weak institutions.
26. The Bank of Ghana is monitoring the savings and loans and MFIs and is aware of pockets of distressed institutions in the sector. We are working closely with the Ministry of Finance on a plan to resolve these problems in the sector with a view to restoring trust and confidence.

Information Note

The next Monetary Policy Committee (MPC) meeting is scheduled for January 23-25, 2019. The meeting will conclude on Monday, January 28, 2019 with the announcement of the policy decision.

PUBLIC