



# **Bank of Ghana Monetary Policy Committee Press Release**

**September 24, 2018**

1. Ladies and Gentlemen of the Press, it is my pleasure to welcome you to this morning's press conference of the 84th regular meeting of the Monetary Policy Committee (MPC). The Committee has reviewed recent economic developments and I present the highlights of the discussions that informed the decision on the stance of monetary policy.
2. On the global economy, growth momentum continued to be steady through the second quarter of 2018 supported by a rebound in economic activity in advanced economies (in particular, US, UK and Japan). Growth in Emerging Markets and Developing Economies (EMDEs) is stable but there are lingering concerns for EMDEs about tighter financing conditions and rising global protectionism. Financial markets have become generally concerned about uncertainties in international trade policies, oil price increases, and the impact of a stronger dollar on exchange rates. As a result, EMDEs have witnessed capital flow reversals as investors become more focused on country-specific vulnerabilities.
3. Global inflation is slowly trending upwards. While in advanced economies inflation edged up, supported by rising oil prices and tightening of labour market conditions, it remained generally well-anchored in EMDEs. The ongoing trade tension between the United States and China is also of concern and further escalation of the tensions will have implications for global trade, including on Ghana.

4. Since the MPC meeting in July, the Ghana Statistical Service (GSS) has produced two reports on inflation which shows inflation varying between 9.6 and 9.9 percent. From the rate of 10 percent recorded in June 2018, inflation eased to 9.6 percent in July and then edged up to 9.9 percent in August. Food inflation turned in at 7.9 percent in August from 7.3 percent recorded in June 2018 while non-food inflation eased to 10.8 percent from a rate of 11.2 percent in June 2018.
5. The Bank of Ghana's measure of core inflation, defined to exclude price changes of energy and utility items from the consumer basket, followed a similar pattern. This core measure also declined from 11 percent recorded in June 2018 to 10.6 percent and then rose to 10.8 percent in August.
6. Economic activity has continued to strengthen. The Bank's real Composite Index of Economic Activity (CIEA) recorded an annual growth of 6.6 percent in July 2018, the highest in eight months, compared to 2.1 percent in the corresponding period of 2017. This was mainly supported by strong export growth, domestic VAT, industrial consumption of electricity, and tourist arrivals. Overall, GDP growth is expected to remain steady and broad-based, estimated at some 6.8 percent by end-2018.
7. Measures of business and consumer confidence surveys conducted in August by the Bank of Ghana showed an easing of confidence. While news of the depreciation of the local currency dominated the headlines, businesses were also concerned about the potential impact of the recent volatility in the exchange rate on their operations.
8. Provisional data on fiscal operations from January to June indicated that the overall budget deficit of 2.8 percent of GDP was on target. Total revenue and grants amounted to about GH¢22.0 billion, equivalent to 9.1 percent of GDP, and below the programmed target of 9.5 percent. Total expenditures, including arrears clearance, was GH¢27.9 billion representing 11.5 percent of GDP, which was also below the target of 12.1 percent. The deficit was financed from both

domestic and external sources, amounting to GH¢ 3.4 billion and GH¢ 3.7 billion, respectively.

9. Total public debt decreased from 67.4 percent of GDP (GH¢137.5 billion) in July 2017 to 65.9 percent of GDP (GH¢159.4 billion) at the end of July 2018. Of the total debt stock, domestic debt was GH¢73.8 billion accounting for 46.3 percent and external debt was GH¢85.5 billion with a share of 53.7 percent.
10. Growth in the monetary aggregates generally slowed down in line with the disinflation process and the financial sector restructuring. Broad money supply (M2+) grew by 23.1 percent year-on-year at end August 2018 to GH¢73.7 billion, compared with a growth of 24.9 percent in the same period last year. The growth in broad money was driven by increases in the net domestic assets (NDA) of the banking sector. In a similar direction, the annual growth in reserve money was 14.2 percent in August, compared with 19.7 percent in August 2017 and this was reflected in a decline in the commercial banks reserves with the Bank of Ghana.
11. Private sector credit growth continues to recover, although at a moderate pace as the ongoing balance sheet restructuring by the banks continues. Private sector credit in August 2018 grew by 15.8 percent year-on-year compared with 6.5 percent a year earlier. In real terms, private sector credit expanded by 5.4 percent in August against a contraction of 5 percent over the same period last year.
12. The latest credit conditions survey shows a tightening in banks' credit stance on loans to both households and enterprises as banks continue to repair their balance sheet and also build their capital base.
13. Money market interest rates across the maturities generally tightened in August 2018. The 91-day Treasury bill rate increased to 13.3 percent from 12.8 percent a year ago. Similarly, the 182-day instrument increased to 13.9 percent from 13.5 percent. Rates on the secondary government bond market have begun to increase as well, reflecting tight financing conditions. The yields on the 7-year,

10-year and 15-year bonds all moved upwards to 19.1, 19.2 and 19.2 percent in August 2018 from 18.1, 15.5 and 18.2 percent, respectively, in June.

14. On the other hand, the weighted average interbank rate, the rate at which commercial banks lend among themselves, declined further to 16.2 percent in August 2018 from 21.0 percent a year ago. The average lending rates of the banks declined to 27 percent in August 2018 from 29.8 percent in August 2017.
15. The banking system continues to be profitable, sound and well-capitalized. Total assets increased by 21.5 percent to GH¢104.6 billion in August 2018. Of the total, advances constituted 32.3 percent. The industry's capital adequacy ratio of 19.1 percent is significantly above the prudential requirement of 10.0 percent. Banks reduced their operating expenses in response to a decline in both interest and non-interest income. The quality of loans improved, as industry NPLs ratio eased to 21.3 percent in August 2018 from 21.9 percent for the corresponding period in 2017. The Bank of Ghana has approved a loan write-off of GHC1.2 billion for the industry, which should reduce the NPL ratio significantly to 18.4 percent.
16. On the international commodities markets, crude oil prices rose by 6.9 percent on a year-to-date basis to an average of US\$73.8 per barrel in August 2018 due to supply constraints amidst geopolitical tensions. Gold prices softened by 9.8 percent on year-to-date basis to US\$1,200.94 per fine ounce as the US dollar strengthened further. Cocoa prices continue to recover due to cut back in global production forecasts and increased demand, with prices increasing to US\$2,208 per tonne in August 2018, representing a year-to-date growth of 13.8 percent.
17. These price developments, together with improved production outturns, especially in crude oil, translated into a positive trade balance. Provisional estimates of the trade account recorded a surplus of US\$1.4 billion (2.7% of GDP) at the end of August 2018, reflecting higher export receipts from crude oil. The current account, for the first half of 2018, recorded a deficit of US\$301 million (0.6% of GDP) compared to a deficit of US\$181 million (0.4% of GDP) for the same period of 2017. The current account outturn together with a relatively lower net capital and financial accounts resulted in an overall balance of

payments deficit of US\$371.6 million for the first half of 2018 compared with a surplus of US\$1.2 billion in the corresponding period of 2017.

18. Gross International Reserves (GIR) declined from US\$7.6 billion (equivalent to 4.3 months of import cover) at the end of December 2017 to US\$ 6.7 billion as at September 20, 2018, equivalent to 3.6 months of import cover. GIR is projected to increase in the last quarter of the year as the cocoa loan proceeds are disbursed.
19. The strengthening of the US dollar in the international markets has exerted pressure on currencies in EMDEs, including Ghana. In the year to September 20<sup>th</sup>, the cedi cumulatively depreciated by 7.3 percent, performing better than observed in peer EMDEs (see attached charts). In the same period last year, the currency depreciated by 4.7 percent. The cedi depreciated by 5.5 percent and 5.5 percent against the pound and the Euro respectively over the same period.
20. The cedi remains competitive as indicated by developments in the real effective exchange rate. The real effective exchange rate, in trade-weighted terms, remained within the desired band, indicating that they are broadly aligned with the underlying fundamentals.

## **Summary and Outlook**

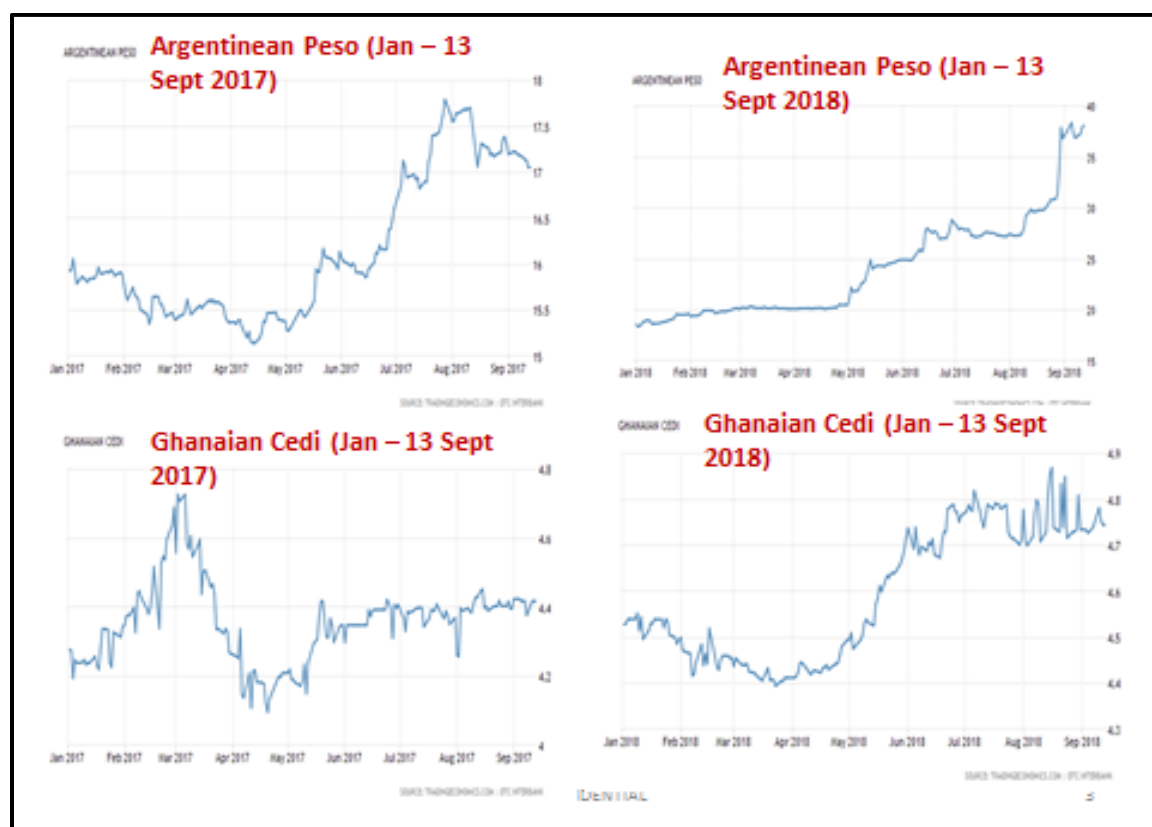
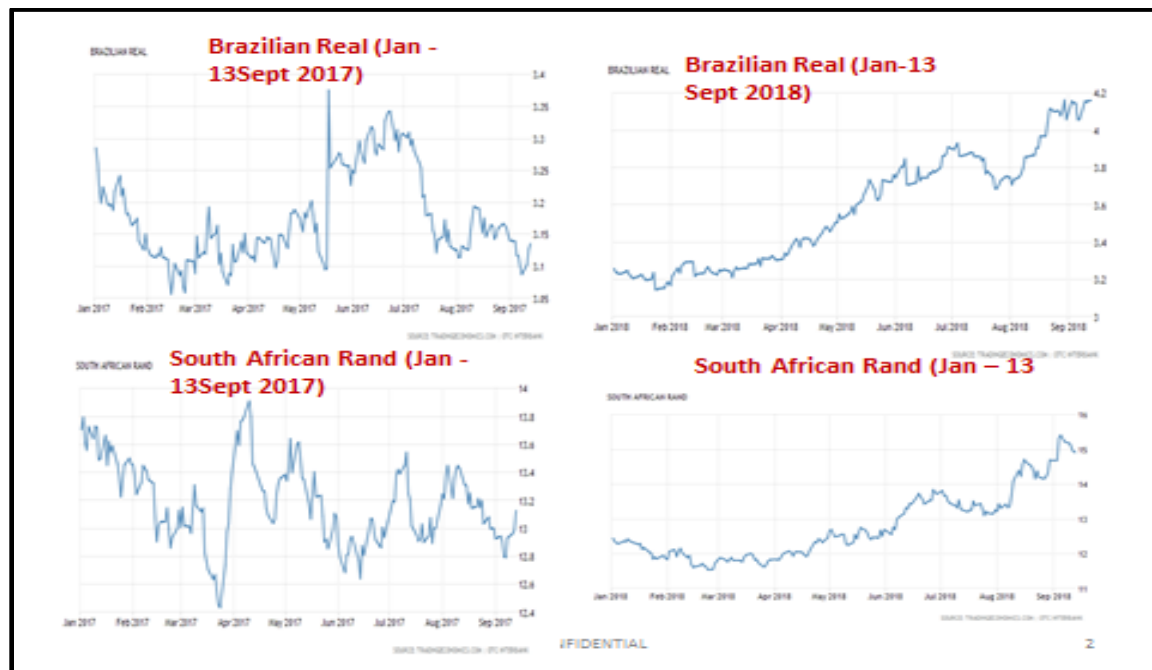
21. To summarize, global growth has been firm and is expected to remain steady, supported by a rebound of growth in the advanced economies. However, the outlook in the near-term is projected to be moderated amidst concerns about rising global protectionism, a stronger US dollar and tighter financing conditions especially for emerging and frontier market economies, which could lead to more stress in currency markets.
22. On domestic growth, the Committee observed that the expectation was for steady growth over the medium term. The Bank's leading indicator of economic activity confirms fairly robust growth. However, the economic environment

shows some uncertainty about the impact of the global developments on domestic economic growth with higher petrol prices, and exchange rate depreciation. The Committee also noted the tightening credit stance on loans to households and enterprises as banks continue to clean up their books and the apparent decline in consumer and business confidence.

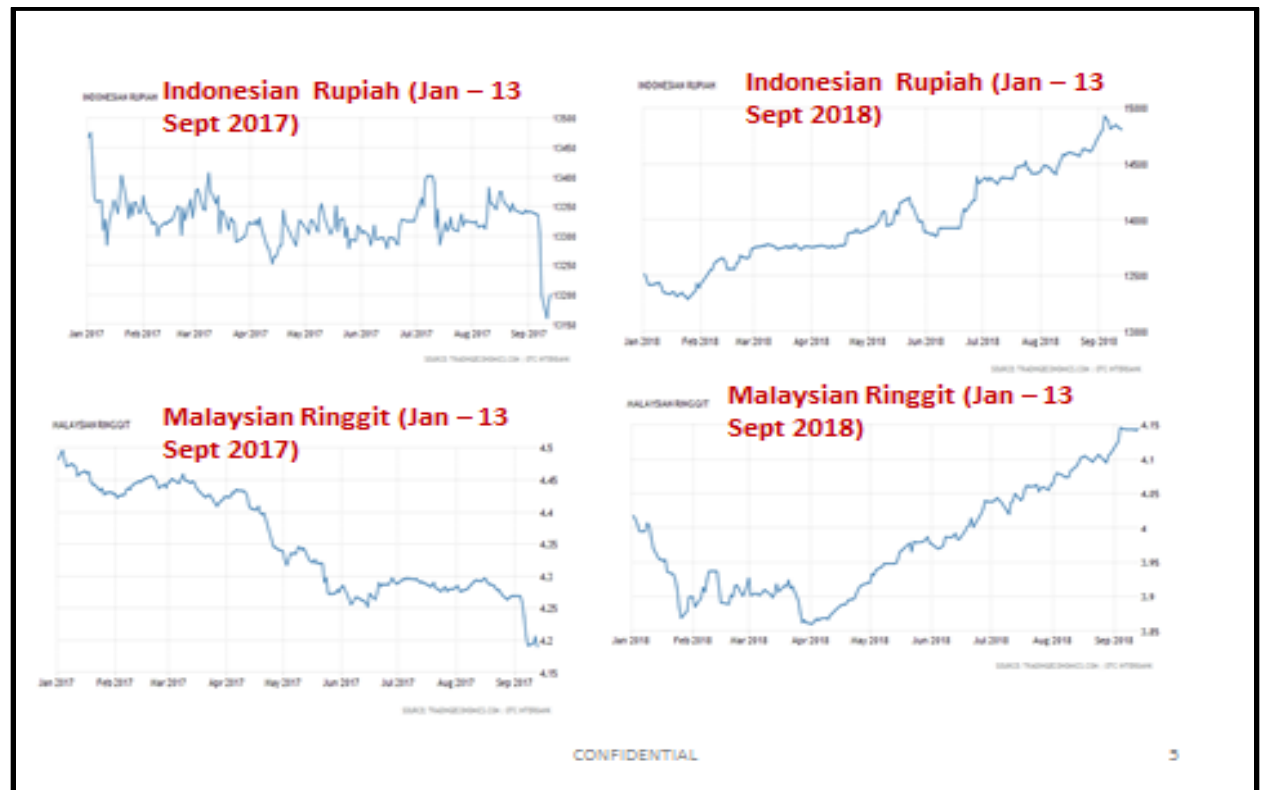
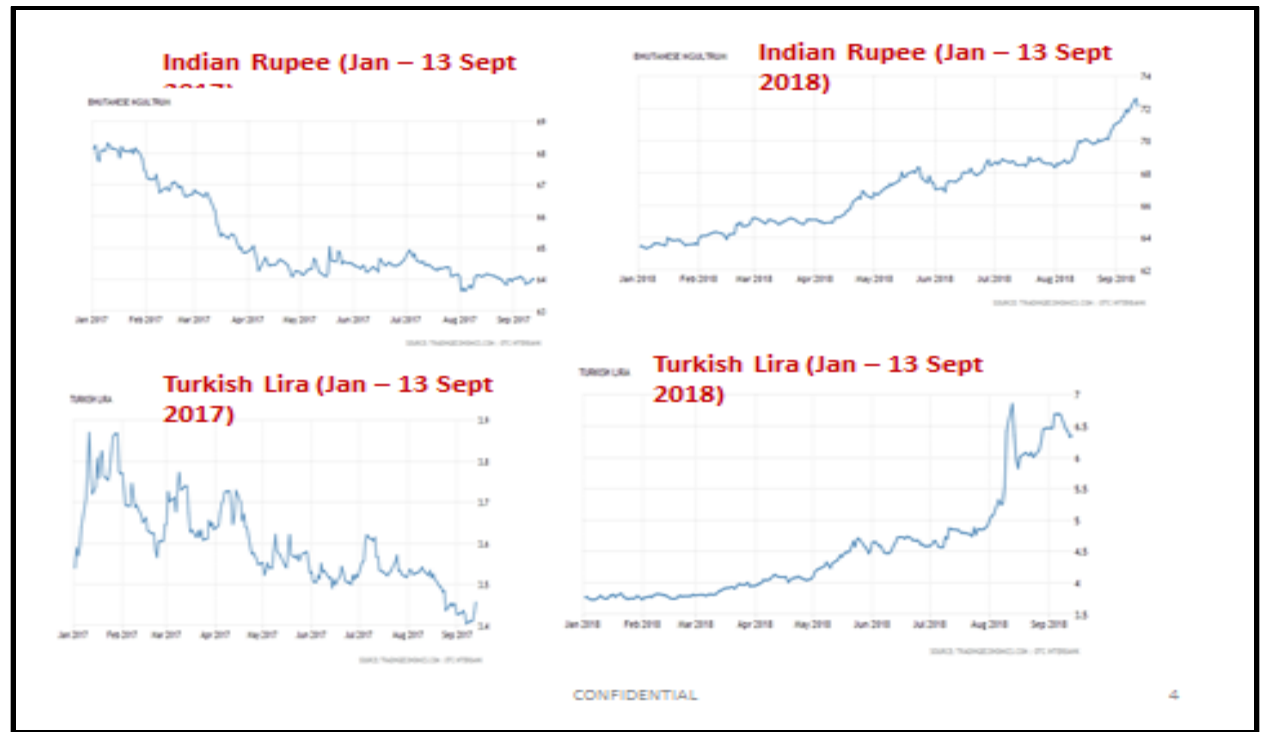
23. Budget implementation for the year so far has been characterized by revenue under-performance. However, the new revenue measures that were introduced during the mid-year budget review are expected to help close the gaps. To help minimize any inherent risk in the fiscal framework, extreme vigilance would be required to keep the fiscal consolidation process ongoing including ensuring that expenditures are re-aligned to revenue flows to ensure the attainment of end-year fiscal targets.
24. Notwithstanding the above developments, the outlook is for continued relatively stable macroeconomic conditions. The recently signed cocoa syndication loan of US\$1.3 billion should bring in additional foreign exchange to further boost our international reserves and provide some cushion against any further pressures. Ghana will also benefit from the recent sovereign credit rate upgrade by Standard and Poor's which should lead to a reduction in Ghana's sovereign risk premium, reduce the cost of borrowing and minimize rollover risks.
25. The most recent forecasts, at this MPC round show some marginal elevation of the disinflation path taking into account the possible second round effects of the recent increases in petroleum prices, exchange rate depreciation, effects of recent increases in taxes, pick up in global inflation as well as the effects of the tight global financing conditions. These ordinarily would have warranted some adjustment in the policy rate.
26. Given these considerations and weighing the balance of risks the committee decided to keep the policy rate unchanged but will continue to monitor closely developments in the coming months and take the appropriate policy actions to address any potential threats to the inflation outlook.

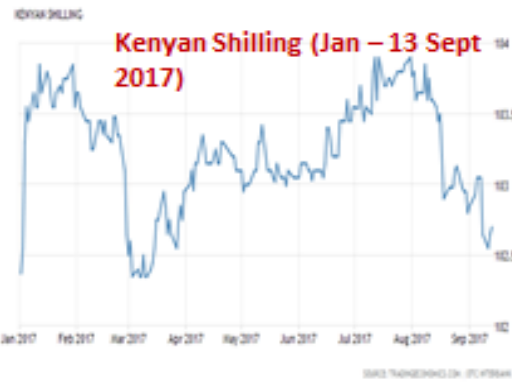
### **Information Note**

The next Monetary Policy Committee (MPC) meeting is scheduled for November 21-23, 2018. The meeting will conclude on Monday, November 26th, 2018 with the announcement of the policy decision.









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