



## Bank of Ghana Monetary Policy Committee Press Release

September 20, 2019

1. Since the last meeting of the MPC in July 2019, global growth has remained subdued attributed to US-China trade tensions and the unresolved Brexit negotiations, as well as geopolitical tensions which impacted on oil prices. These developments have softened business confidence and further weakened investments in advanced economies. In emerging market and developing economies, growth has also weakened partly influenced by the slowdown in global trade and concerns on the US-China trade tensions.

2. Consistent with global growth, global inflation in advanced economies has softened due to sluggish wage growth, and to some extent, lower energy price. Although, inflation is forecast to remain stable in advanced economies, the upsurge in recent geopolitical tensions and loss of oil infrastructure in Saudi Arabia, may temporarily pose some risks to crude oil supplies and exert upward pressure on prices.

3. Global financing conditions remain favourable due to the general accommodative monetary policy stance across most advanced and emerging market economies. The weakened growth momentum underpinning the dovish shift in central bank forward guidance in most advanced economies may keep interest rates low to support growth over the medium-term. Just two days ago, the US Federal Reserve cut interest

rates, the second time since July. The European Central Bank has also lowered interest rates and restarted its asset purchase programme, all in a bid to prop up economic activity. Central banks in most emerging market and developing economies have also followed the same policy direction. These developments may further trigger search for higher yields, especially in emerging market economies with stronger fundamentals.

4. On the domestic front, growth has remained strong and the momentum has been sustained since last year. The latest growth estimates released by the Ghana Statistical Service indicated a 5.7 percent GDP growth in the second quarter of 2019, driven mainly by strong growth in the communication, mining and real estate sectors. The second quarter growth is higher than the 5.4 percent recorded during the same period of last year. Non-oil GDP growth was estimated at 4.3 percent, lower than 5.0 percent recorded in the same review period.

5. The growth in the Bank's updated Composite Index of Economic Activity (CIEA) showed some slight moderation in economic activity. The CIEA recorded an annual growth of 2.1 percent in July 2019, compared with 4.3 percent in the corresponding period of 2018. The key drivers of economic activity during the period were private sector credit expansion, contributions to SSNIT by the private sector, port activity, exports, and domestic VAT. Latest results from the confidence surveys conducted by the Bank of Ghana in August 2019 show that while business sentiments improved significantly reflecting optimism about current and future economic prospects, consumer confidence softened somewhat, reflecting the latest upward adjustments in utility tariffs.

6. Following the revision of the Consumer Price Index by the Ghana Statistical Service to reflect weights from the Ghana Living Standards Survey of 2017 and a revised base year of 2018, a new measure of

headline inflation was estimated at 7.8 percent for August 2019, moving it below the central path of the Bank of Ghana's medium-term inflation target of  $8 \pm 2$  percent. Food inflation was reported at 8.2 percent and non-food inflation was at 7.4 percent. However, underlying inflation, measured by core inflation (CPI excluding utility and energy) inched up slightly, alongside some moderate pick-up in inflation expectations from businesses, consumers, and from the financial sector.

7. On the international commodities market, Brent crude oil traded mixed in August 2019, recording the sharpest decline in the year as global demand weakened amid escalating trade tensions. On a year to date basis, crude oil prices increased by 3.1 percent to an average of US\$59.5 per barrel. The recent geopolitical tensions has exerted some pressures on oil prices, pushing it above US\$60 per barrel. Gold prices rebounded strongly to levels last seen in March 2013, on the back of global growth concerns. On a year to date basis, average gold prices gained 20.0 percent to US\$1,501 per fine ounce. From the beginning of the year to date, cocoa prices have contracted by 0.8 percent to an average US\$2,238.6 per tonne.

8. From January to August 2019, total exports amounted to US\$10,662.1 million while imports was US\$8,017.7 million, resulting in a provisional trade surplus of US\$2,644.4 million (3.9 percent of GDP). This compares to a surplus of US\$1,395.1 million (2.1 percent of GDP) same period last year. The large increase in the trade surplus reflected a contraction of 8.6 percent year-on-year in the import bill (due to benchmark valuation adjustments), while exports went up by 5.1 percent. The trade surplus is expected to positively impact the current accounts with a projected deficit of US\$329.0 million (0.5 percent of GDP) in the

third quarter of 2019, compared with US\$593.0 million (0.9 percent of GDP) a year ago.

9. Gross International Reserves (GIR) increased by US\$1.2 billion to US\$8.2 billion (equivalent to 4.1 months of import cover) as at end August 2019 from US\$7.0 billion (equivalent to 3.6 months of import cover) at the end of December 2018.

10. The foreign exchange market has remained relatively calm. The Ghana Cedi cumulatively depreciated by 9.2 percent in the year to September 18, 2019, compared with 7.0 percent for the corresponding period of 2018. Against the British pound and Euro, the Ghana cedi cumulatively depreciated by 6.9 percent and 6.1 percent respectively, compared with 4.2 percent and 4.9 percent depreciation over the corresponding period. In trade-weighted terms, the real effective exchange rate continued to be broadly aligned with the underlying fundamentals.

11. Provisional data from January to July 2019, shows that total revenue and grants amounted to GH¢26.8 billion (7.7 percent of GDP) compared with the envisaged target of GH¢31.8 billion (9.2 percent of GDP). The revenue shortfalls were mainly from international trade taxes. Total expenditures and arrears clearance grew, in year on year terms, by 22.4 percent to GH¢40.4 billion (11.7 percent of GDP), marginally below the target of GH¢42.9 billion (12.4 percent of GDP). These developments resulted in an overall budget deficit (on a cash basis) of 3.9 percent of GDP against the target of 3.2 percent of GDP. The primary balance also recorded a deficit of 0.7 percent of GDP as against a programmed surplus of 0.1 percent of GDP.

12. In line with these developments, the stock of public debt rose to 59.4 percent of GDP (GH¢205.6 billion) at the end of July 2019 compared with

53.1 percent of GDP (GH¢159.7 billion) at the end of July 2018. Of the total debt stock, domestic debt was GH¢98.4 billion (28.4 percent of GDP), of which GH¢10.7 billion (3.1 percent of GDP) represented bonds issued to support the financial sector clean-up, while external debt was GH¢107.2 billion (31.0 percent of GDP).

13. Growth in broad money (M2+) has slowed considerably in the first eight months of 2019, partly reflecting continuing tight monetary policy stance. Annual growth in M2+ was estimated at 11.8 percent at end-August 2019 compared to 23.1 percent in the same period of 2018. The slower growth in total liquidity mainly reflected sharp moderation in Net Foreign Assets. Annual growth in Reserve Money was 15.0 percent in August 2019, marginally up from 14.2 percent annual growth in the same period of last year.

14. Private sector credit growth has moderated slightly after peaking at 22.1 percent in March 2019 as credit conditions tightened marginally. Annual growth in private sector credit was 13.4 percent in August 2019, compared with 15.8 percent growth in the same period of 2018. In real terms, private sector credit expanded by 5.2 percent. The recent credit conditions survey indicated some tightening of credit stance on loans to enterprises and households despite increased demand for loans as banks continued to improve their credit risk management systems.

15. Money market rates have broadly remained unchanged for both short-dated and long-dated instruments since the last MPC meeting. The 91-day Treasury bill rate has remained steady at 14.7 percent since July 2019 from 13.3 percent a year ago. Similarly, the 182-day instrument is at 15.1 percent from 14.9 percent over the same period a year ago. Rates on the secondary bond market have eased marginally with yields on the 7-

year, 10-year, and 15-year bonds trending down to 19.26, 19.57 and 19.71 percent in August 2019, relative to 19.64, 19.75 and 20.03 percent in June.

16. The weighted average interbank lending rate has remained at 15.2 percent since March 2019, having declined from 16.2 percent in August 2018. Lending rates of banks averaged 23.9 percent in August 2019.

17. The banking sector remains well-capitalised, solvent, liquid, efficient and profitable with improved Financial Soundness Indicators. The latest assessment shows marked improvement in banks' performance which is reflective of the positive impact of the recent reforms. Let me briefly highlight some of the pre- and post-reform key financial indicators. At the start of the reforms in August 2017, total assets were GH¢89.1 billion for a sector that had [36] banks, and two years after the reform process started, total assets have increased to GH¢115.2 billion at end August 2019 even with 23 banks. In the same direction, total deposits have improved from GH¢55.7 billion to GH¢76.0 billion over the same comparative period, reflecting a stronger deposit base owing to more trust and confidence in the banking sector with fewer but stronger banks. Banks are beginning to refocus on their core mandate of financial intermediation based on the strong capital base after recapitalisation. The industry's Capital Adequacy Ratio (CAR), computed in accordance with the new Capital Requirement Directive (CRD) under the Basel II/III capital framework, stands at 19.8 percent in August 2019, well above the 13 percent minimum regulatory benchmark.

18 Asset quality has continued to improve with a decline in the Non-Performing Loans (NPL) ratio from 21.3 percent in August 2018 to 17.8 percent in August 2019. Excluding loans in the 'loss' category, however,

the NPL ratio has declined from 11.7 percent to 8.9 percent over the same comparative period. The NPL ratio is trending in the right direction and is expected to be sustained by continued implementation of the NPL write-off policy, intensified loan recovery efforts, and stronger credit risk management practices.

### **Summary and Outlook**

19 To summarise, the Committee noted the continued slowdown in the global economy. Accordingly, global financing conditions have remained accommodative across both advanced and emerging market economies. The recent downward adjustment in the US Fed Fund rate reveals deep concerns about the pace of growth in the US, and the global economy. The dovish signals from the advanced economies' central banks, the relatively subdued global inflation and the global growth slowdown have worked in concert to ease currency pressures on emerging market economies, including on the Ghana Cedi. In addition, the favourable financing conditions could support non-resident capital inflows and reserve build-up. This should provide support for relative stability in the local currency.

20 On the domestic front, the Committee observed that growth remains strong and the medium-term outlook is positive. The medium-term outlook is expected to be driven by improvements in business sentiments, and expectations of increased production in the oil and gas and mining sectors, and the continued implementation of growth-oriented government flagship projects.

21 On inflation, the Committee's view was that the pace of disinflation had slowed somewhat. The recent underlying inflation trends gauged by

the core inflation and weighted inflation expectations all showed some uptick in August 2019. This gives some indications of emerging pressures coming mainly from the recent upward adjustment of utility tariffs, ex-pump prices and transport fares. The second round effects of these administrative measures would have to be monitored closely over the next quarter.

22 The fiscal situation remains a concern and strengthened efforts would be needed to close the deficit gap. The Committee was concerned about the continued revenue weakness which requires expenditure adjustments to contain a larger than projected budget deficit. This will help underpin investor confidence in the Ghanaian economy and reduce the burden on monetary policy. Global conditions and inflation developments at home have created some policy space for monetary policy which, however, cannot be exploited in the current circumstances. Looking ahead, it is expected that the full implementation of the new tax measures will likely impact revenue performance in the last quarter to help achieve the fiscal deficit target set for the year.

23 Under these circumstances, the Committee has decided to keep the Monetary Policy Rate at 16.0 percent while monitoring developments going forward.



### **Information Note**

The next Monetary Policy Committee (MPC) meeting is scheduled for November 20-22, 2019. The meeting will conclude on Monday, November 25, 2019 with the announcement of the policy decision.

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