Bank of Ghana
Monetary Policy Committee
Press Release

November 25, 2019

1. Welcome, Ladies and Gentlemen of the Media to the 91st and last MPC press briefing for the year. On behalf of the Bank of Ghana and the Monetary Policy Committee, let me extend my appreciation to you all for sustaining this process. I present highlights of the discussions and subsequent positioning of the Monetary Policy Rate.

2. Global economic growth continues to be dominated by US-China trade tensions, unresolved Brexit negotiations, and geopolitical tensions which impacted crude oil prices. These developments heightened policy uncertainties, weighed down on business confidence, dampened investment spending and industrial production, and have resulted in a synchronized growth slowdown across major advanced economies. Growth in emerging market and developing economies has also weakened slightly, reflecting the decline in global trade mainly due to the trade tensions.

3. Headline inflation in advanced economies and emerging market economies have remained relatively subdued on account of sluggish wage growth, lower energy prices and contained underlying inflation. In response to these conditions, central banks in major advanced economies have pursued accommodative monetary policy to support growth. The US Federal Reserve has cut rates on three occasions with the last rate cut announced during the October 2019 meeting. The European Central Bank, on the other hand, has decided to keep interest rates on hold until inflation converges towards target. These policy actions by key central banks have helped maintain favourable global financing conditions.

4. On the domestic front, growth momentum continues to remain strong and has been sustained since last year. The Bank’s updated Composite Index of Economic Activity (CIEA) continues to show a steady pick-up in economic activity. The CIEA recorded an annual growth of 4.4 percent in September 2019, compared with 5.8 percent in the corresponding period of 2018. The key drivers of economic activity during the period were port activity, domestic consumption, tourist arrivals and DMB's credit to the private sector.

5. Results from the Bank of Ghana’s latest confidence surveys, conducted in October 2019, pointed to improved business sentiments. Business confidence has rebounded, due mainly to favourable company and industry prospects, positive growth outlook and declining lending rates. Consumer sentiments, on the other hand, remained broadly unchanged from the previous survey.

6. Developments in monetary aggregates are consistent with the trends in aggregate demand. Growth in broad money (M2+) remained strong during the year. In year-on-year terms, growth in M2+ was 16.3 percent in October 2019. Reserve money also expanded in the review period. Growth in reserve money went up by 26.1 percent, compared with 4.3 percent over the same comparative period.

7. Commercial banks' credit to the private sector has also continued to improve. Annual growth in private sector credit was 14.0 percent in October 2019, compared with 11.4 percent for the same period of 2018. In real terms, private sector credit expanded by 5.9 percent compared with 1.7 percent over the same comparative period. The latest credit conditions survey conducted by the Bank in October 2019 pointed to an ease in the credit stance on loans to households. However, credit stance on loans to enterprises tightened, reflecting continuous efforts by the commercial banks to safeguard the quality of their loan portfolio through improved due diligence and credit risk management.

8. The three readings of inflation since the release of the rebased Consumer Price Index by the Ghana Statistical Service show that inflation has remained below its central path of 8 percent. Headline inflation declined from 7.8 percent in August 2019 to 7.6 percent in September, and has since inched up to 7.7 percent in October on the back of the recent upward adjustment in administrative prices of electricity and water. Looking ahead, inflation is projected to stay within the medium-term target of 8±2 percent over the forecast horizon. Inflation expectations for businesses, consumers, and the financial sector, appear to be well-anchored within single digits despite a slight pick-up in the Bank's measure of core inflation (headline inflation excluding fuel and utilities).

9. On the international commodities market, data shows that crude oil prices fell 3.8 percent on a year-to-date basis to close at an average of US$59.8 per barrel for October 2019. The decline was on account of investor concerns about the unrelenting US-China trade tensions and continued build-up in US crude inventories. Gold prices slipped marginally to US$1,490.9 per fine ounce after trading above the US$1,500 per ounce for two successive months on the back of dovish monetary policy stance by major central banks. On a year to date basis, gold prices gained 18.9 percent. The average price of cocoa increased by 11.2 percent to settle at US$2,475 per tonne in October 2019. This was mainly supported by increased third quarter grinding data which serves as proxy for demand.

10. These favourable commodity price developments, together with increased production volumes, impacted positively on the trade account. In the period January to September 2019, exports stood at US$11.7 billion (3.3 percent annual growth) while imports started recovering, reaching US$10.0 billion (2.5 percent annual growth). These developments resulted in a further improvement of the trade surplus which stood at US$1.68 billion (2.5 percent of GDP), compared with US$1,557.32 (2.4 percent of GDP) in the same period in 2018. Current transfers improved, resulting in a further lowering of the current account deficit to US$829.5 million (1.2 percent of GDP), compared to a deficit of US$1.0 billion (1.5 percent of GDP) in the same period of 2018. The current account deficit was financed by significant inflows into the financial account, reflecting mainly the Eurobond proceeds and cocoa loan inflows. The overall balance of payments recorded a surplus of US$878.9 million (1.3 percent of GDP) over the review period, compared with a deficit of US$757.0 million (1.2 percent of GDP) in the previous year.

11. Gross International Reserves (GIR) increased by US$1.67 billion to US$8.70 billion as at November 15, 2019, providing cover for 4.2 months of imports. This compares with the end-December 2018 position of US$7.02 billion (equivalent to 3.6 months of import cover).

12. The foreign exchange market has continued to remain calm since the sharp depreciations in the first quarter of the year. As at November 21, 2019, the Ghana cedi has depreciated by 10.4 percent against the US dollar compared with an 8.1 percent depreciation for the corresponding period in 2018. Against the British pound and euro, the Ghana cedi cumulatively depreciated by 11.2 percent and 7.4 percent respectively, compared with 2.6 percent and 2.8 percent over the corresponding period in 2018. In trade-weighted terms, the real effective exchange rate continued to be broadly aligned with the underlying fundamentals.

13. Provisional data on the execution of the budget from January to September 2019 indicated that total revenue and grants amounted to GH¢36.3 billion (10.5 percent of GDP) compared with the projected target of GH¢42.0 billion (12.1 percent of GDP). The revenue shortfalls were from both tax and non-tax sources. Total expenditures, including arrears clearance was GH¢51.0 billion (14.8 percent of GDP), below the target of GH¢56.1 billion (16.0 percent of GDP). These developments resulted in an overall fiscal deficit (on a cash basis) of 4.5 percent of GDP against the target of 4.1 percent of GDP for the period. The primary balance also recorded a deficit of 0.3 percent of GDP against a programmed surplus of 0.1 percent of GDP. The deficit was financed from both domestic and external sources.

14. In line with these developments, the stock of public debt rose to 60.3 percent of GDP (GH¢208.6 billion), at the end of September 2019 compared with 56.8 percent of GDP (GH¢170.8 billion) at the end of September 2018. Of the total debt stock, domestic debt was GH¢101.4 billion, of which GH¢11.2 billion (3.8 percent of GDP) represented bonds issued to support the financial sector clean-up, while external debt was GH¢107.2 billion, with a share of 51.4 percent in the total public debt.

15. Money market rates inched up marginally across the spectrum of the yield curve. The 91-day Treasury bill rate has averaged around 14.7 percent since July 2019 to date, compared with 13.6 percent in July 2018. Similarly, interest rates on the 182-day instrument is around 15.1 percent, up from 14.4 percent over the same comparative periods. Rates on the secondary bond market have also remained stable with marginal changes in yields. Yields on the 7, 10 and 15-year bonds went up to 19.8, 19.9, and 20.3 percent in October, from 19.3, 19.3 and 19.5 percent respectively, same period a year earlier.

16. The weighted average interbank lending rate has remained at 15.2 percent since May 2019, having declined from 16.2 percent in October 2018. In a similar trend, the average lending rates compiled from the banking sector have marginally declined to 23.7 percent in October 2019, from 23.9 percent in October, 2018.

17. The banking sector continues to be solvent, liquid and profitable and the latest stress tests results conducted on the sector shows resiliency to shocks. The industry's financial soundness indicators (FSIs) also continued to improve as banks adhered to sound banking practices following the reforms. The industry's Capital Adequacy Ratio (CAR), computed in accordance with the new Capital Requirement Directive (CRD) under the Basel II/III capital framework, stood at 18.9 percent in October 2019, well above the 13 percent minimum regulatory benchmark. Asset quality has also recorded some improvements with a decline in the Non-Performing Loans (NPL) ratio to 17.3 percent in October 2019 from 20.1 percent in October 2018. Adjusting for the fully-provisioned loss category, the industry's NPL ratio declined further to 8.1 percent from 11.4 percent over the same comparative periods. The industry's NPL ratio is projected to further decline as banks intensify loan write-offs and recovery efforts.

18. Increased innovation and technological changes in the payment ecosystem have supported the Bank's objective of promoting inclusive finance. Access to finance especially among the unbanked segment of the population has improved on account of financial institutions and financial technology companies' joint deployment of mobile based products and services. Currently, there are sixteen (16) FinTechs that have partnered with financial institutions in the provision of mobile based products. In addition, the completion of the mobile money interoperability project has supported the financial inclusion drive. Total value of transactions through the interoperability platform was GH¢95.4 billion in September 2019 compared with GH¢32.6 billion in September 2018.

19. As at September 2019, total mobile money accounts in existence stood at almost 32 million and this has provided opportunity for financial institutions to expand on the delivery of services to economic agents. Financial institutions are currently delivering digital credit and savings as well as providing alternative digital channels for their customers with the view to making payment convenient and accessible.

20. As a further boost to the development of the e-payments ecosystem, the Bank of Ghana, in line with Section 10 of the Payment Systems and Services Act 2019 (Act 987), has granted GCB Bank (Ghana) Limited authorization to issue electronic money similar to what is popularly known as "mobile money". In its issuance of electronic money, GCB Bank would create electronic value backed by equivalent cash to provide customers with access to electronic wallets through Unstructured Supplementary Service Data channel (USSD), the bank's Application (APP), Quick Respond Code (QR code) and Automated Teller Machines (ATMs). GCB Bank plans to leverage on its 189-branch network to offer its own agency banking services.

Summary and Outlook

21. In summary, the Committee noted the synchronized growth slowdown across advanced economies and its potential spill over effects on emerging market and developing countries. In addition to subdued inflation, recent assessments indicate that the global economy is in a low growth, low interest rate environment. Major central banks have therefore shifted towards accommodative monetary policy stance which will likely persist until signs of growth emergence or inflation pick-up becomes evident. These developments have triggered favourable global financing conditions as investors search for yield in emerging market and frontier economies with strong fundamentals, underscoring the need to further consolidate the macroeconomic gains and to position the economy to benefit from the favourable external financing conditions.

22. In the domestic economy, the indicators of economic activity are exhibiting strong trends. The Banks' CIEA has shown steady growth alongside favourable business and consumer sentiments. GDP growth is projected at 7.0 percent at year end, supported by expectations of increased production in the mining sectors, and the continued implementation of growth-oriented government flagship projects. Private sector credit growth is rebounding and will support growth in the outlook.

23. The external sector position remains strong. The trade account has recorded large surpluses for two consecutive years, with the first three quarters of 2019 following the same trend. This has contributed to further narrowing of the current account deficit and improved prospects for additional reserve build-up of about US$1.0 billion by the end of the year. This should provide strong buffers to withstand external sector vulnerabilities in the year ahead. The strong external position and improved foreign inflows have supported the local currency's movements against the major trading currencies. Some relative stability was achieved in the third quarter on the back of inflows from the mining sector and remittances.

24. The overall stance of the 2019 budget was geared towards sustaining the consolidation process and growth. However, execution of the budget in the first three quarters of 2019 indicates some risks to the fiscal consolidation path which was achieved over the past two years. Primarily, the fiscal performance has been constrained by significant revenue under-performance, posing threats to the overall fiscal outturn. Re-aligning the fiscal deficit to the end-year targets will require expenditure rationalization. This must be underpinned by value-for-money principles to create the necessary fiscal space to support government's flagship projects.

25. The latest forecast shows that inflation will remain within the target band over the forecast horizon, barring any unforeseen shocks. Inflation expectations, derived from the surveys, remain fairly anchored in single digits and core inflation (excluding energy and utilities) is expected to remain at low levels.

26. In view of the Committee's assessment, risks to the inflation outlook were broadly balanced, therefore the Committee decided to maintain the policy rate at 16 percent while monitoring developments going forward.

ADDITIONAL POLICY MEASURES

27. In addition to the assessment of macroeconomic conditions, the Monetary Policy Committee undertook a deep review of the banking sector's lending practices. Following the recapitalization of banks, a rebound and gradual pick-up in credit extension by banks is taking place. To give impetus to stronger credit growth and facilitate the deepening of financial intermediation, the MPC sought to better understand the factors that limit access to credit, inhibit the monetary policy transmission process and the reasons for the high lending rates of universal banks. These factors have over the years acted to limit access to credit, kept cost of credit high to households and businesses, and posed challenges to the attainment of higher economic growth.

28. Data presented to the Committee revealed that factors such as high operating costs of banks stemming from operational inefficiencies, inadequate disclosures of the risk premium factors in the cost of credit determination, the existence of high NPLs and government's appetite for domestic borrowing would have to be addressed comprehensively to help lower lending rates and improve on the transmission of policy changes to the real economy in support of higher and robust economic activity.

To be able to achieve this, the Bank of Ghana is, for a start, exploring a number of new prudential and market conduct regulatory measures to help foster more competition in the banking sector and in the process help lower lending rates:

(i) To further provide increased activity in the small and medium enterprise (SME) sector, the Bank of Ghana is setting aside 2 percent of the banks' primary reserve to support targeted lending to SMEs as part of the Enterprise Credit Scheme announced in the 2020 budget. These funds will be held at Bank of Ghana and will be available to banks that participate in the scheme.

(ii) To also support and strengthen the growth of credit to the private sector, the Bank of Ghana will explore the possibility of setting a minimum loan to deposits ratio to ensure that more deposits mobilized by banks are channeled to viable private sector projects. The Bank of Ghana will hold further consultations with the banking industry to determine the impact of such a regulatory measure, and if warranted, determine the level of such a ratio and appropriate monitoring and enforcement mechanisms to promote its effectiveness. The Bank of Ghana is putting in measures to reinforce the existing credit infrastructure by, among other things, strengthening enforcement of the credit bureau system under proposed Regulations to be made by Parliament pursuant to the Credit Reporting Act of 2007 (Act 726), and further strengthening the collateral enforcement mechanism under a new Borrowers and Lenders Bill to improve the quality of loans made by banks as well as facilitate recovery of loans and collateral.

(iii) The Bank of Ghana will be working closely with banks to ensure that banks do not pass on their operational inefficiencies and overhead costs to their clients. To do this, steps will be taken to align compensation with overall bank performance by linking it to clear parameters including the quality of a bank's assets. Bank of Ghana will scrutinize compensation policies for Chief Executive Officers and key management personnel as well as Board of Directors of universal banks. To ensure transparency, banks will be required to publish Value Added Statements disclosing details of the compensation packages of key management personnel and Boards of Directors separately from total employee compensation.

(iv) To further deepen transparency in the determination of lending rates, banks will be required to develop and publish a clear framework on the risk premium build-up that impacts on an individual borrowers' credit profiles. This is expected to provide borrowers with a more-informed basis for negotiating lending rates with their banks, and enhance transparency in the credit delivery process as well as promote responsible credit behaviour from borrowers.

29. In an increasingly digitized environment, the Bank of Ghana has evaluated its role in a digital economy. The Central Bank is in discussion with key stakeholders to explore a pilot project (in a sandbox environment) on central bank digital currency with the possibility of issuing the e-cedi in the near future.

Informational Note

The next Monetary Policy Committee (MPC) meeting is scheduled for January 22-24, 2020. The meeting will conclude on Monday, January 27, 2020 with the announcement of the policy decision.