Bank of Ghana
Monetary Policy Committee
Press Release

January 31, 2020

1. Good morning, Ladies and Gentlemen of the media, and welcome to the first MPC press briefing for 2020. The MPC met during the week and deliberated on the recent global and domestic economic conditions, reviewed the latest macroeconomic projections, and subsequently took a decision on the positioning of the Monetary Policy Rate. I present to you the highlights of the meeting.

2. There are signs of recovery in global growth, following an assessment by the IMF of a synchronised slowdown in global growth in the last quarter of 2019. Global growth is now projected to rise from an estimated 2.9 percent in 2019 to 3.3 percent in 2020, and 3.4 percent in 2021. The key risks to the global growth outlook are geopolitical tensions between the US and Iran and worsening of relations between the US and its trading partners with the rising threat of protectionism and vulnerabilities in emerging markets. The outbreak of the Coronavirus poses a new risk to the global economy and its impact is yet to be assessed. The Brexit finally takes effect today and is not expected to adversely affect the global economic outlook.

3. Headline inflation in advanced and emerging market economies remained contained throughout 2019, reflecting moderated wage growth. In response to the low inflation environment, central banks in major advanced economies pursued accommodative monetary policy to support growth. For instance, the major central banks—US Federal Reserve and the European Central Bank, either cut or kept their policy rates unchanged in the second half of 2019. These policy actions contributed significantly to favourable global financing conditions with positive effects on capital flows to emerging and developing market economies as investors searched for higher yields.

4. On the domestic front, headline inflation has remained in single digits since June 2018 and more recently remained steady around the central path of 8.0 percent. The two readings since the last MPC meeting showed that inflation increased to 8.2 percent in November from 7.7 percent in October 2019 due to upward adjustment in some administrative prices. However, it declined to 7.9 percent in December 2019 on the back of lower food prices amidst stable non-food prices. Alongside these trends, the various measures of underlying inflation remained well-contained and the Bank's core inflation (defined to exclude energy and utility) has declined since June 2019, supported by well-anchored inflation expectations.

5. The latest data from the Ghana Statistical Service point to firmer growth during 2019, although at a relatively slower pace than was recorded in 2018. GDP growth outturn for the first three quarters of 2019 averaged 6.0 percent, almost unchanged from the 6.1 percent recorded in the same period of 2018. Similarly, non-oil GDP growth averaged 5.0 percent against 5.9 percent over the same comparative periods. Overall, GDP growth for 2019 is projected to be close to the target of 7.0 percent.

6. Similar to trends in GDP growth, the Bank of Ghana's updated Composite Index of Economic Activity (CIEA) recorded high growth, although at a slower pace than in 2018. The CIEA recorded 3.1 percent year-on-year growth in November 2019, compared with 4.8 percent in the same period of 2018. This was mainly supported by port activity, domestic VAT, and Deposit Money Banks' (DMBs) credit to the private sector. Results from the Bank's latest confidence surveys conducted in December 2019 showed significant improvement in consumer confidence reflecting optimism about current and future economic conditions. Business confidence, on the other hand, softened marginally on account of the exchange rate depreciation in November 2019. However, businesses expressed positive sentiments about industry prospects and declining interest rates.

7. Growth in the key monetary aggregates firmed up in 2019, driven largely by increased accumulation of net foreign assets by the Bank of Ghana. Broad

money supply (M2+) recorded an annual growth of 21.6 percent in December 2019 compared with 15.4 percent a year ago. The increase was mainly reflected in increased deposits, signifying deposit flight to quality, as the clean-up process boosted a return to confidence in the banking sector.

8. DMBs' credit to the private and public sectors rebounded strongly in 2019. Private sector credit grew by 18.3 percent year-on-year to GH¢44.5 billion in December 2019, compared with 10.6 percent in December 2018. In real terms, private sector credit growth was 9.7 percent. Distribution of the credit was broad-based and almost all the key economic sectors recorded higher credit growth in 2019 relative to what was observed in 2018. The major sector beneficiaries were Services with 24.1 percent, Commerce and Finance with 20.9 percent, and Manufacturing with 10.9 percent.

9. Supporting the rebound in credit growth, the Bank's latest credit conditions survey conducted in December 2019 pointed to a net easing in overall credit stance to enterprises. The survey findings also showed that credit demand by enterprises would increase in the first quarter of this year. Underscoring these favourable survey results, the banking sector data showed a significant jump in new advances by 27.3 percent year-on-year to GH¢29.7 billion in 2019.

10. The international commodities market remained buoyant, despite intermittent volatilities in the course of the year. Crude oil prices increased by 13.0 percent year-on-year, driven by OPEC production cuts and other geopolitical factors. Crude oil closed the year at an average of US$65.2 per barrel. Gold prices averaged US$1,481.3 per fine ounce, recording a year-on-year growth of 18.4 percent. The surge in gold prices was attributed mainly to the global economic slowdown and the low interest rate environment in major advanced countries. Cocoa prices averaged US$2,215.4 per tonne in 2019, an increase of 11.6 percent, due to the dry weather conditions which posed some threat to the quality of the bean.

11. These price movements in the country's key export commodities, together with increased export volumes, impacted positively on the external sector. In 2019, total exports increased by 4.6 percent year-on-year to US$15.6 billion, driven mainly by 14.6 percent growth in gold exports and 8.6 percent growth in cocoa beans and products. Imports, on the other hand, grew at a slower pace of 1.5 percent to US$13.3 billion on account of a 4.2 percent growth in non-oil imports, while oil and gas imports contracted by 9.2 percent. These developments resulted in a trade surplus of US$2.3 billion (3.4 percent of GDP) in 2019, compared with US$1.8 billion (2.8 percent of GDP) in the same period of 2018.

12. The trade surplus, together with improvements in net current transfers, especially remittances, resulted in further narrowing of the current account deficit to US$1.7 billion (2.5 percent of GDP) in 2019, compared to a deficit of US$2.0 billion (3.1 percent of GDP) a year ago. The current account deficit was financed by significant inflows into the financial account, driven in large part by foreign direct investments and portfolio investments. Consequently, the overall balance of payments recorded a surplus of US$1.3 billion (2.0 percent of GDP) over the review period, compared with a deficit of US$671.5 million in 2018.

13. Gross International Reserves at the end of December 2019 was US$8.4 billion, providing cover for 4.0 months of imports of goods and services. The reserve level compares with a position of US$7.0 billion, equivalent to 3.6 months of import cover recorded at the end of December 2018.

14. The Ghana cedi depreciated by 12.9 percent against the US dollar in 2019, compared with 8.4 percent depreciation in 2018. Against the British pound and Euro, the Ghana cedi cumulatively depreciated by 15.7 and 11.2 percent respectively, compared with 3.3 and 3.9 percent over the same period in 2018. By January 29, 2020, the Ghana cedi had recovered, appreciating by 0.3 percent compared with a depreciation of 2.5 percent in the same period of 2019.

15. Provisional budget estimates from January to December 2019 indicated that total revenue and grants amounted to GH¢52.97 billion (15.3 percent of GDP)

compared with the projected target of GH¢54.56 billion (15.8 percent of GDP). Total expenditures, including arrears clearance was GH¢67.67 billion (19.6 percent of GDP), below the target of GH¢70.19 billion (20.3 percent of GDP). These developments resulted in an overall fiscal deficit (on a cash basis) of 4.8 percent of GDP, slightly above the target of 4.7 percent of GDP but below the 5.0 percent fiscal rule.

16. In line with these developments, the provisional estimates indicate that the stock of public debt rose to 62.1 percent of GDP (GH¢214.9 billion), at the end of November 2019 compared with 57.9 percent of GDP (GH¢172.9 billion) at the end of November 2018. Of the total debt stock, domestic debt was GH¢102.9 billion, while external debt was GH¢111.9 billion with a share of 52.1 percent in the total public debt.

17. Interest rates on the money market increased slightly across the various maturities of the yield curve. The 91-day Treasury bill rate inched up to 14.7 percent in December 2019 compared with 14.6 percent a year ago. Interest rates on the 182-day instrument also moved up to 15.2 percent, from 15.0 percent over the same period a year ago. In contrast, rates on the secondary bond market broadly declined. Yields on the 7 and 15-year bonds marginally declined to 21.0 and 19.9 percent in December 2019, from respective 21.0 and 21.4 percent in December 2018. The yield on the 10-year bond, however edged up slightly to 21.3 percent from 21.2 percent over the same review period.

18. The weighted average interbank lending rate declined to 15.2 percent in December 2019, from 16.1 percent in the same period a year earlier. In a similar trend, average lending rates compiled from the banking sector marginally declined to 23.6 percent in December 2019, from 23.9 percent in December 2018.

19. A year after the completion of the clean-up and recapitalization exercise, the performance of the banking sector has improved markedly, signifying positive dividends from the reform programme. Enforcement of the new Corporate

Governance Directives issued by the Bank as part of the recent reforms led to several board chairs of banks and CEOs ending their tenure, while Board members who had served for prolonged periods were all replaced.

20. The banking industry has built up a much stronger balance sheet and recorded strong asset growth, improved quality of loans and profitability during the year. All the financial soundness indicators, measured in terms of earnings, liquidity, and capital adequacy remained strong.

21. Total assets of the banking sector increased to GH¢129.06 billion at end-December 2019, representing a 22.8 percent year-on-year growth. The increased total assets was on account of significant growth of 22.2 percent year-on-year in deposits to GH¢83.46 billion underscoring renewed confidence in the banking sector. The industry's Capital Adequacy Ratio, computed in accordance with the Capital Requirement Directive under the Basel II/III capital framework, stood at 17.5 percent at the end of December 2019, and above the 13 percent minimum regulatory benchmark. Asset quality also improved significantly and the NPL ratio declined sharply to 13.9 percent in December 2019 from 18.2 percent in December 2018, reflecting increased loan recoveries, write-offs, and higher credit growth.

22. Payment systems data point to continued expansion in the use of mobile money, further supporting the inclusive financial sector agenda. As at December 2019, total active mobile money accounts stood at 14.5 million, up from 13.1 million a year earlier.

Summary and Outlook

23. In sum, the Committee noted that the synchronised slowdown in the global economy during 2019 is beginning to give way to a recovery, mainly in the emerging market and developing economies and at a modest and uneven pace. The coordinated monetary policy responses of the major central banks to keep interest rates on hold and adopt a dovish monetary policy stance should benefit emerging market economies with solid macroeconomic fundamentals.

24. On the domestic economy, the latest data from the Ghana Statistical Service and the Bank's Composite Index of Economic Activity both show that economic growth continues to remain robust and broad-based, although at a moderated pace relative to 2018. Consumer confidence has rebounded and businesses are fairly optimistic about industry prospects. Strong growth in monetary aggregates reflects significant pickup in aggregate demand, buoyed by a rebound in private sector credit, following the clean-up of the banking sector. Over the medium-term, growth will be supported by the services sector, especially as the banking sector continues to grow stronger and resilient, as well as the continued implementation of growth-oriented programmes in the industry and agricultural sectors of the economy.

25. The external sector performance continued to remain strong, with an improved trade surplus for the third consecutive year. This contributed to further narrowing of the current account deficit and supported additional reserve build-up of US$1.3 billion. This should provide strong buffers to withstand shocks and ensure stability in the foreign exchange market.

26. Fiscal policy has been a source of considerable stimulus. The 2019 budget execution was broadly in line with expectations with the budget deficit outturn almost on target and within the fiscal rule of 5.0 percent of GDP. While acknowledging that there are electoral cycle fiscal risks, strong commitment by the fiscal authorities to stay on the consolidation path should help sustain the stability and growth achieved over the past three years.

27. Overall, the economy presents fairly resilient and robust performance with regards to output growth and a strong trade and payments position. The economy is positioned firmly on the path of stability with inflation forecasted to stay within the medium-term target band of 8 ± 2 percent, barring any unanticipated shocks.

28. Under these circumstances, the Committee viewed risks to the inflation and growth outlook as broadly balanced, and therefore decided to keep the Monetary Policy Rate unchanged at 16.0 percent, while standing ready to take decisive policy actions when necessary to ensure that inflation remains within the target band.

Informational Note

The next Monetary Policy Committee (MPC) meeting is scheduled for March 24-27, 2020. The meeting will conclude on Monday, March 30, 2020 with the announcement of the policy decision.