



1. Since the last Monetary Policy Committee meeting, information and data that have become available point to improving economic fundamentals and an outlook for inflation and growth for the near term that is much better than forecast earlier in the year, with strong signals that the disinflation process is firmly taking hold.

2. Government finances have continued to improve. Robust revenue generation with expenditure kept within budgeted levels resulted in a sharp reduction in the fiscal deficit, a large decline in the domestic public debt/GDP ratio, and a cutback in the domestic borrowing requirements of the Central Government. Debt relief and disbursement from donors have been close to amounts pledged and coordinated under the Multi-Donor Budget Support System. Net domestic financing of the government budget at the end of November 2003 indicates a surplus of some ₵132.5 billion (1.0 percent of projected revenue) compared to a deficit of ₵2,242 billion for the same period in 2002, and the zero target established for the current budget year.

3. The monetary aggregates have also continued to slow down towards levels that signal significant reduction in the liquidity overhang from the preceding year and in line with policy targets. Year-on-year growth in reserve money declined from 42.6 percent in December 2002 to 26.0 percent in November 2003. Similarly, broad money (M2+) growth had been curtailed by some 15 percentage points in December 2002 to 35.0 percent by September 2003 (the latest date for which comprehensive data for the banking system is currently available).

4. The external payments position has improved substantially. This was aided by a large cocoa harvest combined with cyclically favourable cocoa and gold prices and significantly increased inflows of other foreign exchange in the form of remittances and other private transfers. Provisional figures for the first three quarters of the year show improved trade and current account positions.

- Merchandise trade recorded a deficit of \$342.5 million, which was much below the deficit of \$854.0 million initially projected

for the year as a whole as import growth was 2 per cent (in US dollar terms).

-- Export proceeds from cocoa beans and products totalled \$660.0 million, close to 40 percent more than the amount recorded for the whole of 2002.

-- Gold exports rose by 17 percent in value and 6.8 percent in volume terms.

- The external current account balance (including official transfers) showed a surplus of \$244.0 million over the nine-month period through September, whereas a deficit of \$131.0 million was projected for 2003.
- Private inward remittances – transfers received from NGOs, religious groups, individuals etc. – channelled through the banks and finance companies amounted to \$1,558 million for January-September 2003, a 60.0 percent increase over the same period in 2002. The transfers added considerable forex liquidity to the interbank foreign exchange market.

- The strong performance of the external sector has helped to build up gross reserves to an unprecedented level of \$1.25 billion, equivalent to 3.7 months of imports. This has surpassed the target of 2.3 months set initially earlier in the year.

5. The cedi has shown reduced volatility on the foreign exchange market. And the depreciation that has occurred has been at a much reduced pace (by 4.5 percent, 9.0 percent and 20.8 percent against the dollar, the pound and the euro respectively) since the beginning of the year, compared with the depreciation rates for 2002 (13.4 percent, 20.7 percent and 25.4 percent respectively). The movements of the cedi on the foreign exchange market have been in the context of sharp realignments of the major currencies on the international exchange markets, with the euro and pound significantly appreciating against the US dollar, all principal trading partner currencies.

6. Economic activity picked up in the second half of the year. The Bank of Ghana's Composite Index of Economic Activity, a new indicator designed to track real sector activity (based on trends in output of selected key enterprises, industrial electricity

consumption, domestic VAT collections, port activity, external trade private sector social security contributions,) shows economic activity on the upswing. The Bank's forward-looking survey for November 2003 also shows increasing business confidence and declining inflation and exchange rate expectations.

7. Credit to the private sector also picked up significantly in the third quarter. Year-on-year growth in credit to the private sector increased from 22.5 per cent in June to 47.5 per cent in September 2003, representing an increase of 16.5 per cent in real terms after a decline in the preceding quarter. The increase in private sector credit was significant in the agricultural, manufacturing, domestic trade, import and export sectors.

8. The Consumer Price inflation slowed for the sixth consecutive month in October. Headline inflation fell from a peak of 30.0 percent in April to 24.6 percent in October, with three successive monthly declines in the index led mostly by seasonal drop in food prices. Average monthly inflation was virtually insignificant (-0.03 percent) in the third quarter of 2003, the lowest since 1999 and in contrast to the average monthly increase of 1.2 percent recorded in the second quarter. The developments in

prices indicate that the end-year inflation target of 22.0 percent is likely to be met.

9. With the reduced inflationary expectations and aided by reduced funding of the government's domestic borrowing requirements on the auction market, interest rates on the money market, which had peaked in June, began to fall sharply in the third quarter. And, market preference has been shifting in favour of long-dated government maturities. The share of 91-day Treasury Bills declined from some 50 percent in December 2002 to some 46.0 percent by October while the shares of 182-day increased from 27.0 percent to 31.0 percent.

- The benchmark 91-day Treasury bill rate moved from 34.0 percent at the end of June to 18.5 percent in December 2003.
- Interbank money market rates also declined from 27.0 percent in June 2003 to around 19.0 percent at end November 2003.
- Commercial bank base rates, after initially lagging, have also followed the pattern, dropping from around an average of 32.0 percent to 28.5 percent.

10. The outlook for inflation is to be shaped by the 2004 budget framework and the supporting monetary policy stance, which should provide the basis for the consolidation of the gains made thus far in 2003. Important as well would be external sector developments with downside risks inherent in world oil and cocoa prices. Cocoa output for the 2003/2004 season is projected at 500,000 tonnes, about the same level as for the 2002/2003 season. Cocoa prices have, however, softened, falling from £1,123 per tonne in August to £875.0 per tonne by November 2003. But gold prices have remained firm while output is projected to increase in 2004. International oil prices however are presently above the OPEC range of US\$22-US\$28 potentially adding to the oil import bill in 2004. The timeliness of donor inflows and shifts in the alignments of the major international currencies are also a source of risk.

11. The balance of risks, given continued fiscal consolidation and structural reforms, however, remains in favour of diminished inflationary expectations and placing the economy more firmly on the path to low and stable inflation and growth.

**12.** In the circumstances of risks, the Monetary Policy Committee has decided to reduce the Bank of Ghana Prime Rate from 24.0 percent to 21.5 percent.