



1. You are most welcome to this press briefing. I should say that this meeting is taking place at a critical time when the global economy is facing arguably its worst crisis since the great depression. The MPC has reviewed the implications for the economy, which I will share with you in this MPC round.

2. Ladies and Gentlemen, latest information point to continued momentum in economic activity over the year. The Bank's Composite Index of Economic Activity (CIEA) continues to show strong growth into the third quarter of 2008, recording an increase of 6.8 percent. This represents an expansion by 25.4 percent in year on year terms, and was above trend for the last years. The increase in the index was broad-based and reflected growth in all the major sub-components.

3. The latest consumer price inflation numbers released by the Ghana Statistical Service (GSS) showed that headline inflation which rose steadily to 18.4 percent at the end of June 2008, fell in three consecutive months to 17.9 percent in September. Food inflation fell from 17.7 percent at the end of June 2008 to 17.0 percent in September and non-food inflation fell from 18.9 percent to 18.5 percent during the same period.

4. The Bank's measure of core inflation (defined to exclude energy and utility) which was 12.8 percent at the end of June 2008 has declined steadily to 11.6 percent at the end of September 2008.

5. Both the Bank's business and consumer confidence surveys show improved indicators and a rebound of both business and consumer confidence after the softening observed in the past successive surveys. Overall assessment of economic prospects was generally quite positive.

6. Evidence from other real sector indicators also point to increased pace in economic activity. Cement production for the first eight months of the year amounted to 1,649,190 metric tons, a growth of 17.1 percent over the level of

1,408,083 metric tons for the same period in 2007. Benchmark retail sales recorded a growth of 40.3 percent compared with sales for the same period in 2007. Labour market statistics showed relatively strong demand for labour with a total of 9,498 jobs advertised, compared with 5,980 for the same period in 2007.

7. The generally strong performance of the economy reflected in the activities of the non financial corporate sector. Financial data released by listed companies for the period ended September 2008 point to strong turnover and profits by companies in manufacturing, distribution, and agricultural activities, driven mainly by cost control measures and efficiency in operations, and aggregate demand growth.

8. Credit to the private sector and public institutions continued at a rapid pace into the third quarter of 2008. For the 12-month period to August 2008 credit to the private sector and public institutions increased by GH¢1,627.8 million (46.6 percent) compared with GH¢1,368.3 million (64.4 percent) recorded for the same period in 2007. The private sector accounted for GH¢1,572.5 million (96.6 percent) of the total credit flow, and this raised private sector credit outstanding to the equivalent of GH¢4,303.0 million.

- In real terms credit to the private sector grew at an annual rate of 33.4 percent, some easing from 41.8 percent recorded at the end of 2007 and 43.9 percent for the corresponding period in August 2007.
- Distribution of the annual credit flow was somewhat broad-based, with the services sector accounting for 39.9 percent, commerce and finance (16.3 percent), miscellaneous (12.6 percent), manufacturing (7.7 percent), and construction (7.6 percent). All the other sectors recorded increases of between 0.3 per cent and 5.4 per cent, but their relative shares declined.
- Enterprises accounted for 73 percent of the increase in credit to the private sector over the 12-month period, and up from 67 percent for

the same period in 2007. The share of households eased to 22 percent from 31 percent.

9. The latest credit conditions survey by the Bank of Ghana show a general net tightening of credit conditions for enterprises, with a shift in accommodation from corporates to small and medium scale enterprises (SMEs). Evidence also continues to show that banks increased availability of credit to households but credit for house purchases tightened in the third quarter of 2008, against the background of strong demand for credit by SMEs and households.

10. The banking system continued to show strong asset growth and profitability during the year through September 2008. Total assets of the banking industry stood at GH¢9,676.8 million in September 2008 (a growth of 36.0 percent), compared with GH¢7,114.1 million (56.2 percent) for the same period in 2007. The growth in assets was funded mainly by deposits which amounted to GH¢6,238.6 million (an annual growth of 45.2 percent). This may be compared with a deposit growth of 42.7 percent for the same period in 2007. There was however, an increase in total borrowings (domestic and foreign borrowings) from GH¢1,075.9 million in the year to September 2007 to GH¢1,256.1 million in the year to September 2008.

11. All the financial soundness indicators of the banking industry, measured in terms of earnings, portfolio quality, liquidity, and capital adequacy remained strong into the third quarter of 2008. Non-Performing Loans (NPL) ratio and the NPL net of provision both edged down over the quarter from 8.7 percent and 12.7 percent respectively in June 2008 to 7.6 percent and 9.2 percent in September 2008 respectively. Similarly, loan loss provision to gross loans ratio also edged down from 6.2 percent to 5.9 percent over the same period. Banks' solvency remained robust at 13.9 percent in September 2008, up from the 13.8 percent in June 2008. Generally, all the banks maintained capital adequacy ratios within the prudential limits, (with ratios in the range of 10.1 percent and 19.6 percent).

12. On the execution of the 2008 budget, provisional banking data for the first nine months of 2008 show that revenue growth has been strong and in line with budget forecast and the pace of economic activity.

13. Total revenue and grants for the period January to September 2008 amounted to GH¢3,451.5 million (21.1 percent of GDP) compared with GH¢3,127.3 million (22.4 percent of GDP) for the corresponding period in 2007. Of this amount, grants accounted for GH¢428.4 million (2.6 percent of GDP) compared with the budgetary estimate of GH¢338.5 million and GH¢499.2 million (3.6 percent of GDP) recorded for the same period in 2007.

14. Total expenditure (excluding externally financed capital expenditure) for the period amounted to GH¢4,782.5 million (29.4 percent of GDP) compared with GH¢3,382.0 million (24.2 percent of GDP) in 2007. The Government budget recorded a narrow fiscal deficit (excluding externally financed capital expenditure) of GH¢686.4 million (4.2 percent of GDP) compared with GH¢293.6 million (2.1 percent of GDP) registered for the same period in 2007.

15. The borrowing requirement of the narrow fiscal deficit of GH¢686.4 million, and a net foreign loan repayment of some GH¢278.9 million were mainly financed from the domestic economy to the tune of GH¢547.6 million (3.4 percent of GDP) and GH¢471.8 million of the sovereign bond proceeds mainly to cover investment in energy.

16. The stock of domestic debt (gross) which was GH¢3,708.2 million (26.5 percent of GDP) at the end of 2007 increased to GH¢4,144.8 million (25.4 percent of GDP) in September 2008. External debt stood at US\$4,030.0 million (28.1 percent of GDP) at the end of September 2008, up from US\$3,590.4 million (24.9 percent of GDP) at the end of December 2007, with most of the increase (US\$470.0 million) being on account of multilateral and bilateral creditors. This brings total public debt at the end of September 2008 to US\$7,683.4 million (53.5 percent of GDP), up from US\$7,411.7 million (51.4 percent of GDP) at end of the 2007.

17. Provisional data available show annual broad money (M2+) growth at the end of August 2008 of 40.7 percent, up from 35.0 percent recorded for the same period in 2007 and 36.3 percent at the end of December 2007.

18. The third quarter of 2008 has seen significant shifts in preferences on the money market away from medium to long term dated instruments, with falling average maturities. This reflects increases in inflation and inflation expectations in the past few months. These shifts have come along with significant re-alignments of interest rates on the money market.

- At end of September 2008, the share of the short-dated securities (91 and 182 days instruments) in the outstanding stock of government securities increased by 14.1 percent to 34.6 percent after declining progressively from a high of 56.2 percent in December 2005 to 20.5 percent in December 2007. The other instruments especially the 1-year note and 2-year fixed note shed 10.3 percentage points and 4.1 percentage points of their shares respectively.
- The benchmark 91-day treasury bill rate increased to 24.58 percent in the third quarter from 16.32 percent in the second quarter. The 182-day Treasury bill rate similarly rose sharply in the third quarter to 26.04 percent, continuing the uptrend from the first quarter. The 1-year-note and the 2-year fixed rate note followed similar patterns, ending at 20 percent and 21 percent respectively.
- The overnight interbank rate similarly firmed-up significantly by 504 bps in the third quarter to 19.52 percent.
- Average base rate quotations of the banks were revised upward by 337 bps to 25.63 per cent in the third quarter in the range of 19.5 – 27.8 percent, on top of the 258 bps revision in the second quarter of 2008.
- Similarly, average lending rates were revised upward by 202 bps in the third quarter to 26.38 percent within the range 15 – 34.0 per cent.

19. External sector developments show some slowdown in the price of the principal export commodities on the international market. The average realized price of cocoa beans exports fell to US\$2,671.0 per tonne at the end of September 2008. Average export price of Gold also fell by 2.5 percent to US\$889.69 per ounce at the end of September 2008 from US\$912.1 at the end of June 2008.

20. The average realized weekly price per barrel of the benchmark Brent crude oil closed September at US\$110.7, representing 57 percent increase in year-on-year terms. The price of crude oil has since fallen significantly and was US\$61.79 per barrel as at October 27, 2008.

21. The strong pace in economic activity showed in significant growth in both exports and imports through the first nine months of the year.

22. Total merchandise exports at the end of September 2008 stood at US\$4,017.5 million, an average annual growth of 30.8 percent.

- Exports of cocoa beans and products amounted to US\$1,160.9 million, compared with US\$910.8 million for the same period in 2007 (an annual growth of 27.5 percent). Cumulative cocoa purchases for the 2007/2008 season through the end of September 2008 amounted to 758,908 tonnes, against a forecast of 650,000 tonnes for the entire crop season.
- Gold exports for the first nine months amounted to US\$1,751.0 million compared with US\$1,247.4 million for the same period in 2007.
- Non-traditional exports for the period January to September 2008 amounted to US\$716.9 million, compared with US\$586.7 million for the same period in 2007.

23. Total merchandise imports for the period amounted to US\$7,514.1 million, an annual growth of 31.3 percent.

- Non-oil imports grew by 38.3 percent on year on year basis and amounted to US\$5,807.2 million and accounted for 77.3 percent of total imports, compared with 73.4 percent (US\$4,198.8 million) for the same period in 2007. Capital and intermediate goods account for close to 70 percent of total non-oil import bill for the period compared with 68 percent for 2007.
- Oil import bill for the period January to September 2008 was US\$1,706.8 million, compared with US\$1,523.9 million for the same period in 2007.

24. The merchandise trade deficit for the period January to September 2008 is provisionally estimated at US\$3,496.5 million, compared with US\$2,695.0 million for 2007. The current account is provisionally estimated to have recorded a deficit of US\$2,500.9 million, compared with a deficit of US\$1,544.9 million for the same period in 2007. Net capital inflows are estimated to be US\$2,203.5 billion, (US\$901.3 million for 2007) of which some US\$1864 million in private capital including FDI flows.

25. The overall balance recorded a deficit of US\$716.8 million for the period January to September 2008, compared with a deficit of US\$566.9 million for the same period in 2007, and was financed mainly by drawdown of reserves including the balances of sovereign bond proceeds of US\$750 million that accrued in the last quarter of 2007. For the year as whole given the trends in current account and capital inflows essentially seasonal credits associated with cocoa exports, the overall balance of payments deficit is projected to narrow to US\$490 million compared to a surplus of US\$413.1 million in 2007.

26. Gross international reserves position at the end of September 2008 was US\$2,270.2 million. This compares with US\$1,811.34 million in September 2007 and represents 2.3 months cover of imports of goods and services.

27. There was increased activity on the foreign exchange market as well as re-alignments of exchange rates during the third quarter of 2008. Total purchases and sales in the foreign exchange market by banks and forex bureaux between January and September 2008 amounted to US\$6.6 billion (8.2 percent increase over 2007 level). Total purchases over the period showed a 21.4 percent increase, and total sales also increased by 24.5 percent relative to the levels of the preceding year.

28. Private inward transfers – received by NGOs, embassies, service providers, individuals etc. - through the banks in the first nine months of 2008 amounted to US\$6.5 billion, which represents 35.6 percent increase over those for the corresponding period of 2007, which were in turn 13.4 percent increase over the transfers through banks for the same period in 2006.

- Of the total transfers, US\$1,224.9 million (or 18.9 percent) accrued to individuals, compared with US\$1,196.2 million (25.0 percent) in 2007.

29. There was some significant movements in the exchange rate of the cedi to the major international currencies in the third quarter of 2008, following from similar movements in the first half of 2008. Developments in the nominal bilateral exchange rates of the cedi against the three core currencies – the US dollar, the pound sterling and the euro – show that for January-September 2008, the cedi depreciated, cumulatively, against all three core currencies by 15.8, 6.2 and 14.0 percent respectively. This compares with respective depreciations of 5.0, 6.9 and 17.5 percent in the corresponding period in 2007. The result was a real effective depreciation of 6.0 percent in trade-weighted terms with the index at 98.7 (Jan 2002=100).

30. The GSE All-share index gained 65.0 percent (4,291 points) to end September 2008 at 10,890.8 points. This compares with an increase of 13.4 percent in the first nine month of 2007 and 3.7 percent for the same period in 2006. Total market capitalization increased significantly by 46.5 percent

(GH¢5,751.0 million) to GH¢18,120.7 million in the first nine months of 2008, driven mainly by price appreciation and rights issues.

Outlook

31. Ladies and Gentlemen, the past three months of the year has seen extraordinary turmoil in international financial markets, and the onset of recession in industrial countries that is now spreading their effects globally. The crisis has seen the collapse of major financial institutions, highly volatile stock markets, sharp fluctuations in exchange rates, large depreciation of currencies of certain emerging market economies and sharp reversals in capital flows and diminished investor appetite and lost confidence in counterparty trading, for fears of exposure to toxic assets and general contagion. These have spurred Governments and central banks to take extraordinary steps and coordinated policy measures to shore up the financial system. The measures include large injections of liquidity, capitalization and partial nationalization of banks, the provision of government guarantees to assure depositors. There have been coordinated interest rate cuts by major central banks in the industrialized countries (including Bank of England, ECB, the Federal Reserve Bank) to counter global recessionary pressures. And yet there remains great uncertainty with regard to the depth of the financial market crisis, and the possible extent and duration of the recession and its impact on economies generally.

32. A number of emerging market countries in Asia and Latin America, and Eastern Europe and some industrialized countries have so far been affected by the contagion, via the channel of capital flows, and reduction in the funding for the current account deficits, and exposure of their banking systems to globally and internationally active banks.

33. We have reviewed the possible channels of transmission of the crisis to the domestic environment. From our assessment of the recent performance of the economy, the effect of the turmoil has so far been limited.

34. On the financial sector, one possible link is through the banks' exposure to counterparties in the form of nostro balances and placements (investments) abroad. Our review shows that DMBs nostro balances and placements, by way of exposure, are currently within internationally acceptable prudential limits and are with reputable financial institutions. And, the industry's low net open position (a measure of foreign exchange risk) indicates that the banking system is not over exposed.

35. Moreover, outstanding external borrowing by banks, as a source of funding their activities, is less than 5 percent of total bank funding requirements, an indication of their predominant reliance on domestic deposits. Also, given the existing levels of outstanding borrowing, only a recall of a significant proportion (in excess of 50 percent) in exceptional circumstances, would have a material impact on the capital adequacy ratios of banks in the industry.

36. Existing credit lines are a possible source of some pressure. Our data shows that banks maintain credit lines with reputable financial institutions that amount to less than 5 percent of existing total trade, which means that a freeze would be a source of some funding pressures.

37. All these mean that the resilience of the economy to the effects of the fallout of the financial market turmoil appears robust, barring major shifts in the dynamics of the markets. The stock market, for example, has continued to deliver a strong performance.

38. With regard to the impact on the macroeconomy over the medium to long term, one powerful channel is through the commodity markets as aggregate demand slows down with the global recession. Assuming cocoa and gold prices were to soften by some 25 percent, and oil prices were to move back to around US\$80 per barrel, this would entail an income loss of 2.4 percent of GDP. There could also be some tightening of donor flows and remittances, and more generally reduced appetite for investment in developing countries. And all these would have implication for prices, macroeconomic balances, and prospects for growth.

39. For the year 2008, the current assessment is that economic activity has continued to be at a reasonably fast pace with strong export growth and underpinned by expansion in domestic demand and fiscal stimulus.

40. While credit conditions have tightened somewhat, credit to the private sector and demand for credit by both households and enterprises continue to be strong.

41. Inflation has started to ease back towards the disinflation path, with core inflation easing more rapidly. The year may close with headline inflation at around 17 percent before returning close to 10 percent in the last quarter of 2009. Available information points to the economy recording a real GDP growth rate of about 6.6 percent in 2008, before easing according to forecast to some 6.3 percent in 2009. The reduction in oil prices is stabilizing and re-enforcing diminishing inflation expectations.

42. The uncertainties in the outlook and the experience from the turmoil in the financial markets underscore the continued need for sound fiscal and monetary policies with margin for policy flexibility and measures that would bolster the competitiveness of the economy to secure private investment and donor flows, ensure a robust and well supervised financial sector, reduce vulnerability to shocks, and strengthen the basis for growth in an environment of macroeconomic stability.

43. With recent developments in the market, especially crude oil, the risks to growth and inflation are now more balanced.

44. In the circumstances, the Monetary Policy Committee (MPC) has decided to maintain the Prime Rate at 17.0 percent.

Thank you all for your attention.