Bank of Ghana
Monetary Policy Committee
Press Release

November 27, 2017

1. Ladies and Gentlemen, welcome to the press briefing of the 79th regular meeting of the Monetary Policy Committee (MPC), the last for the year. We present highlights of economic developments that have shaped the Committee's view of the outlook and informed its decision on the stance of monetary policy going forward.

2. Global growth has strengthened further since the last MPC meeting, sustained by strong growth in demand and recovery in investments and trade. The recovery process has also expanded beyond advanced economies to include large emerging market economies. Growth in sub-Saharan Africa is also slowly rebounding. The improved global growth conditions notwithstanding, inflation remains subdued. Although the US Fed has started trimming its balance sheet with the possibility of rate increases in December and in 2018, monetary policy in other advanced countries remains broadly accommodative. These favourable external

conditions could impact positively on the domestic economy through the financing and trade channels.

3. Price developments during the first 10 months of the year continued to show signs of dampening inflation expectations. Headline inflation measured by the consumer price index was 11.6 percent for October 2017, a reflection of a steady decline in inflation since the beginning of the year with the exception of April and August, when inflation ticked up slightly. All the Bank's indices of core inflation continued to decline in October, pointing to a downward trend in underlying inflation, well within or close to the end year inflation target.

4. Prices of Ghana's major export commodities continued to firm up in the international commodities market. In particular, crude oil prices have strengthened in recent weeks reflecting geopolitical tensions, supply constraints and strong demand. Also, the price of gold moderated slightly, though still high, as the global economic recovery gained traction. However, cocoa prices remain depressed by excess supply due to favourable weather patterns across the West African sub-region.

5. Developments in the real sector show an expanding economy. Provisional real GDP estimates from the Ghana Statistical Service showed that the economy grew by 6.6 percent and 9.0 percent in the first

and second quarters respectively, and is projected to end the year at 7.9 percent driven mainly by the oil sector. Non-oil GDP growth was 3.9 percent in the first quarter and 4.0 percent in the second quarter. Meanwhile, the Bank's updated Composite Index of Economic Activity recorded an annual growth of 3.2 percent in September 2017, compared to 3.1 percent in the same period last year.

6. The Bank's latest confidence surveys conducted in October pointed to improved business and consumer confidence in the economy. These reflect the favourable prospects for industry, household's financial situation and improvement in the general economic environment.

7. Developments in the monetary aggregates showed increased total liquidity in the economy, mainly driven by net foreign assets of the Bank of Ghana. Broad money supply (M2+) grew by 22.6 percent on a year-on-year basis in October 2017, relative to 19.8 percent annual growth a year ago. Deposit Money Bank's credit to the private sector continued to expand but at a slower pace, recording an annual growth of 9.4 percent as against a growth of 12.1 percent over the same comparative period.

8. The moderated pace of credit growth is evidenced by some tightening of credit stance within the banking system. In the latest credit conditions survey conducted in October, deposit money banks indicated a net

tightening of credit stance on loans to enterprises, as banks clean up their loan books. However, credit stance for loans to households for consumer credit and mortgages eased.

9. The banking sector remains liquid and solvent although non-performing loan ratio remains high. Total asset base of banks increased to GH¢88.9 billion in October 2017, representing an annual growth of 20.5 percent compared to 23.7 percent same period last year. The growth in assets was mainly funded by deposits which went up by 18.2 percent on a year-on-year basis.

10. The quality of banks' loan portfolio has improved marginally since the last MPC meeting. The Non-Performing Loans (NPLs) ratio declined from 21.9 percent in August to 21.6 percent at the end of October. Similarly, NPL ratio net of provisions declined from 11.3 percent to 10.5 percent. The industry's Capital Adequacy Ratio (CAR) averaged 15.0 percent at the end of September 2017, significantly above the 10.0 percent prudential requirements.

11. Provisional data on fiscal operations as reported in the 2018 Budget indicated an overall deficit of 4.6 percent of GDP in the year to September 2017, against the target of 4.8 percent. Total revenue and grants was 14.1 percent of GDP, below the target of 15.5 percent while total expenditures, including arrears clearance, was 18.0 percent of GDP

below the budgeted estimate of 19.2 percent. Financing of the deficit was from domestic instruments.

12. Total public debt stood at GH¢138.9 billion (68.6% of GDP) at the end of September 2017 from GH¢138.1 billion (68.3% of GDP) in August 2017. Of the total, domestic debt declined to GH¢63.3 billion while external debt went up to GH¢75.5 billion. Of the domestic debt, the share of the 91-day and 182-day treasury bills declined from 16.6 percent in December 2016 to 8.4 percent in October 2017. On the other hand, the share of long dated instruments (7 - 15 years) went up from 0.8 percent in December 2016 to 5.1 percent at the end of October 2017.

13. The strong shift of market preferences for long dated securities became more pronounced this year consistent with the re-profiling of government debt instrument, and was underpinned by a steady decline and realignment of interest rates as well as a downward shift in the yield curve in line with generally declining inflation expectations.

14. The external payments position shows resilience and improvements in the trade and the current accounts balances. The first three quarters of 2017 recorded a trade surplus which translated into a lower current account deficit of US$1.1 billion (2.4% of GDP) compared with a deficit of US$2.1 billion (4.9% of GDP) in the previous year. The capital and

financial account also recorded positive net inflows, estimated at US$1.7 billion (3.7% of GDP) which was sufficient to offset the current account deficit. As a result, the overall balance of payments for the first nine months, recorded a surplus of US$379.0 million (0.8% of GDP) and will increase further in the fourth quarter.

15. Latest estimates of trade data suggest that in the year to October 2017, the trade account has recorded a surplus of US$646.1million (1.4% of GDP), compared to a deficit of US$2.0 billion (4.7% of GDP) over the same period in the previous year. The significant improvements recorded in the trade account is attributed to higher export receipts from gold, cocoa and oil due to increased production, coupled with lower imports.

16. Foreign exchange market conditions have remained broadly stable supported by improved liquidity conditions, despite increased demand pressures observed over the past two weeks. In the year to 23rd November 2017, the Ghana cedi has cumulatively depreciated by 4.6 percent against the US dollar, unchanged from the pace of depreciation recorded in the corresponding period of 2016.

17. Gross International Reserves (GIR) of Bank of Ghana increased to US$7.4 billion (4.1 months of import cover) as at 24th November 2017

from a stock position of US$6.2 billion (3.5 months of import cover) in December 2016.

Summary and Outlook

18. In sum, the indicators of economic activity and business and consumer confidence remain strong. Inflation expectations remain subdued, with core inflation measures in line to achieving the medium term inflation objective. And, the cedi has remained relatively stable on the foreign exchange market, despite recent movements which are not a reflection of the underlying fundamentals.

19. The balance payments position remains robust with a projected trade surplus and reduced current account deficit in 2017 and on track to build up over US$700 million additional reserves this year alone, to bring total gross international reserves to US$7.4 billion.

20. The initial fragilities in the banking sector have largely been contained and efforts are being made to strengthen the sector, including enhancing supervision and increasing the minimum capital requirements to ensure stronger and well-capitalized banks that can support the government's transformational agenda.

21. Looking forward, the prospects are for strengthening the current macroeconomic performance by consolidating gains made so far in fiscal adjustment and prudent monetary management, underscoring the policy commitment to macro-stability.

22. The Committee observed a return to the disinflation path with the Bank's latest forecast indicating that the horizon for the attainment of the medium term inflation target of 8±2 percent in 2018 remains unchanged. This forecast is however contingent on continued improvement in the global economic environment including oil price changes, stability in the foreign exchange market and achieving the medium-term fiscal targets.

23. There are indications that the oil-induced growth is gaining momentum, while the slower non-oil growth remains a concern and may require additional impetus to boost overall growth towards its full potential. However, recent developments such as the implementation of growth-enhancing government policy initiatives, positive sentiments from businesses and consumers as well as improvement in electricity supply are supportive of non-oil growth. These notwithstanding, slower private sector credit expansion and tightening credit stance on enterprises could dampen the growth momentum.

24. Under the circumstances, the Committee decided to reduce the policy rate by 100 basis points to 20 percent.

Information Note

The next Monetary Policy Committee (MPC) meeting is scheduled for January 17 – 19, 2018. The meeting will conclude on Monday, January 22, 2018 with the announcement of the policy decision.