



BANK OF GHANA
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CONTENTS

| | |
|---|-----------|
| 1. PREFACE..... | 1 |
| 2. EXECUTIVE SUMMARY | 2 |
| 3. CURRENT DEVELOPMENTS | 4 |
| 3.1 Domestic Price Developments..... | 4 |
| (i) Headline Inflation..... | 4 |
| (ii) Core Inflation..... | 5 |
| (iii) Inflation Expectations | 5 |
| 3.2 Domestic Growth Conditions..... | 5 |
| (i) Gross Domestic Product..... | 5 |
| (ii) Composite Index of Economic Activity (CIEA) | 6 |
| (iii) Consumer Confidence..... | 6 |
| (iv) Business Confidence..... | 6 |
| 3.3 Fiscal and Monetary Developments | 7 |
| (i) Fiscal Developments | 7 |
| (ii) Monetary and Financial Developments | 8 |
| (iii) Developments in DMB Credit Allocation..... | 8 |
| (iv) Money and Capital Market Developments | 9 |
| (v) Exchange Rate Developments | 10 |
| 3.4 Global Output and Financial Developments | 11 |
| (i) Global Output Developments..... | 11 |
| (ii) Output Developments in Sub-Saharan Africa | 11 |
| (iii) Global Commodity Prices | 12 |
| (iv) Balance of Payments | 13 |
| 4. The Economic Outlook | 14 |
| 5. Prospects for Inflation | 14 |
| (i) Inflation Outlook..... | 14 |
| (i) Inflation Risk Assessments | 15 |
| 6. Conclusion..... | 16 |
| ANNEXES..... | 17 |

1. PREFACE

The Bank of Ghana's Monetary Policy Report is published twice a year following Monetary Policy Committee (MPC) meetings in May and in November. In between these two Monetary Policy Report publications, abridged Monetary Policy Summaries are published after each MPC meeting. The report discusses key economic factors deliberated on during the policy making process as well as risks and uncertainties to the inflation outlook. The aim of publishing the report and summaries is to provide the public with background materials which served as inputs for the policy decision making process and economic assessments at each MPC session. Through the publication of these documents, Bank of Ghana aims to promote accountability of its decision making and build understanding of the monetary policy formulation process among stakeholders.

Monetary Policy in Ghana

The primary objective of the Bank of Ghana is to pursue sound monetary policies aimed at price stability and creating an enabling environment for sustainable economic growth. Price stability in this context is defined as a medium-term inflation target of 8 percent with a symmetric band of 2 percent. This implies that headline inflation should range between 6 and 10 percent over the medium-term for the economy to grow at its full potential without excessive inflation pressures. Other tasks for the Bank of Ghana include promoting and maintaining a sound financial sector and payment systems through effective regulation and supervision. This is important for intermediation since risks associated with financial markets are taken into account in monetary policy formulation.

Monetary Policy Strategy

To achieve the objective of price stability, Bank of Ghana was granted operational independence to employ whichever policy tools were deemed appropriate to stabilise inflation around the target band. The Bank of Ghana's framework for conducting monetary policy is Inflation Targeting (IT), in which the central bank uses the Monetary Policy Rate (MPR) as the primary policy tool to set the monetary policy stance and anchor inflation expectations in the economy.

The MPC Process

The MPC is a statutorily constituted body by the Bank of Ghana Act to formulate monetary policy. The MPC consists of seven members – five from the Bank of Ghana (including the Governor who acts as the Chairman) and two external members appointed by the Minister of Finance. The MPC meets once in every two months to assess economic conditions and risks to the inflation outlook, after which a policy decision is made on positioning the MPR. Each MPR decision provides a signal of tightening (increase), loosening (decrease) or maintaining (no change) the monetary policy stance. The MPC meeting dates are determined well in advance at the beginning of each year. The policy decision is arrived at by consensus with each member stating reasons underlying a preferred rate decision. An MPC policy statement is published via a press release, and a press conference is held, after each MPC meeting to communicate and explain the decision of the Committee to the financial markets and the general public.

2. EXECUTIVE SUMMARY

The price developments in the first-four months of the year were broadly in line with the Bank's earlier forecasts that inflation would peak in the first quarter of 2016 and, thereafter, decline gradually over the forecast horizon. The May forecast by the Bank reinforced the earlier forecasts which showed that inflation would gradually decline from the second quarter towards the target band by mid-2017, barring any unanticipated shocks. The expected disinflation process is envisioned to be supported by continued monetary policy tightness, keeping on track fiscal consolidation, continued stability in the local currency, gradual improvement in the macro fundamentals, leading to lower of inflation expectations. There are however risks to the inflation outlook. These included unanticipated upward adjustments in utility tariffs and domestic prices of petroleum products as well as possible second round effects from such adjustments on prices. The slow but persistent pickup in food inflation, since August 2014, was also a source of concern for inflation.

At the meetings ended on May 16, 2016, the Committee maintained the monetary policy rate at 26 percent, given that inflation, though moderating, still remained above the medium-term target band of 8 ± 2 percent. Two inflation numbers were released by the Ghana Statistical Service in-between the March and May 2016 MPC meetings. In March, headline inflation increased on the back of the lagged pass-through effect of an upward adjustment in transport costs. The April 2016 release, however, showed disinflation following some moderation in non-food inflation. The monthly price changes also moderated on account of stability in the exchange rate.

Core inflation reflected the trends in headline inflation by declining in April, after moving up in March due to the higher transport costs. Also, inflation expectations have begun to decline. This is reflected by the latest surveys which showed that inflation expectations by consumers, businesses and the financial sector had improved significantly. This favourable outcome was largely due to the current tight policy stance, relative stability in the foreign exchange market and improvement in electricity supply

High frequency data showed that economic activity was slowly picking up. The latest update of the Bank's Composite Index of Economic Activity (CIEA), which is a leading indicator for growth, picked up in the first quarter of 2016, although at a slower pace than a year ago. Indicators that accounted for the increase in the index were industrial consumption of electricity, port activities, cement sales and domestic VAT collections. In addition, the recent confidence surveys of both businesses and consumers reflected positive sentiments on the economy.

The growth outlook was generally positive and contingent on sustained improvements in the electricity supply, continued stability in the foreign exchange market, and additional oil and gas production. However, risks to the growth outlook included tight credit conditions and continued tightness in the fiscal stance. Though the fiscal tightness may moderate aggregate demand pressures, it would provide some support to the disinflation process over the forecast horizon. So far, government fiscal operations had reflected a faster pace of consolidation with the fiscal deficit turning out better than projected for 2015 and the first quarter of 2016.

Developments in emerging market economies, especially China and Brazil, continued to dampen global growth prospects. In particular, the slowdown in the Chinese economy had adversely impacted global trade, investments and capital flows. In advanced economies, growth prospects had diminished. Given

these prevailing conditions, the global growth outlook remained subdued amid tightening financing conditions, especially in commodity exporting countries. These global developments impacted the domestic economy via the trade sector and continued to shape the country's external sector performance.

In the first quarter of 2016, the trade deficit widened on account of lower export receipts, especially for oil and cocoa as both prices and production volumes declined. However, the overall effect on the current account balance was moderated by lower outflows from the services and income account, coupled with improved inward private transfers. The stability of the local currency exchange rate had persisted since August 2015 following policy tightness and improved inflows.

In its assessments, the Committee observed that risks to both the inflation and growth were balanced and kept the policy rate at 26 percent at the May meeting. The Committee, however, acknowledged that maintaining the tight policy stance in the near term, supported by stable exchange rate, continued fiscal consolidation and continued improvement in electricity supply, is necessary in order to sustain a gradual decline in inflation from the second quarter. Currently, headline inflation remains far above the target band and the Committee will continue to monitor developments in the economy, and assess its implications for the inflation forecast and policy outlook. Although the forecast showed that inflation will ease towards the target band by mid-2017, going forward, the MPC stands ready to implement appropriate policies to manage any build-up of inflation pressures given the uncertainties regarding supply side shocks to the economy.

3. CURRENT DEVELOPMENTS

3.1 Domestic Price Developments

(i) Headline Inflation

Headline inflation moved up to 19.2 percent at end-March 2016 from 17.7 percent at end-December 2015. The increase was due to the lagged effects of upward adjustments in electricity (up by 59%) and water (up by 67%) tariffs, increases in domestic petroleum prices (up by 18-27%), transport costs (up by 15%) and their second round effects on other items in the consumer basket. The increase in the rate of inflation during the first quarter of 2016 was broad based. Food inflation, which was 8.0 percent at the end of the last quarter of 2015, increased to 8.3 percent by the end of first quarter of 2016. Similarly, non-food inflation also increased from 23.3 percent to 25.7 percent over the same period.

In April 2016, headline inflation eased to 18.7 percent as the stability in the foreign exchange market and policy tightness continued alongside diminishing pass-through effects of the upward adjustments in the utility tariffs and domestic prices of petroleum products. While increases in food prices persisted, that of non-food eased. The rising food inflation remains a concern for inflation in the immediate outlook. In contrast, the slowdown in non-food inflation is expected to exert downward pressures on inflation in the second quarter, if it persists. The second quarter inflation numbers will inform policy on the extent to which businesses and firms have factored the recent stability in the currency in their overall pricing structure.

On the CPI components, almost all the sub-indices contributed somewhat to the rise in inflation over the first four months of the year. However, the housing and utilities, transport, education and food and beverages sub-components exerted greater upward pressures on inflation, reflecting the upward adjustments in utility tariffs, petroleum product prices and transport fares.

Fig. 1

Headline Inflation (y/y, %)

Headline inflation remains above the target band

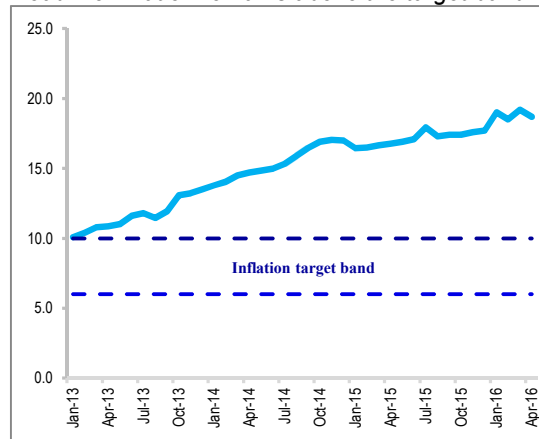


Fig. 2

Food and Non-Food Inflation (y/y, %)

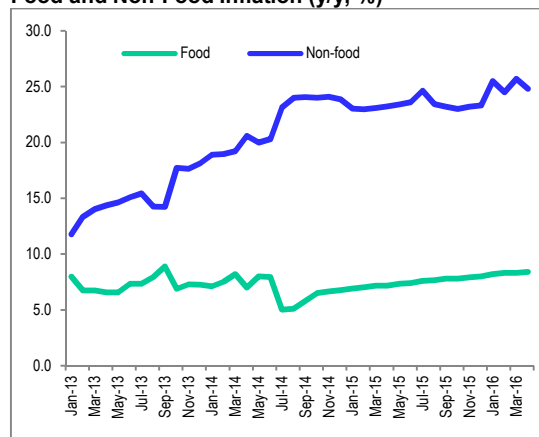
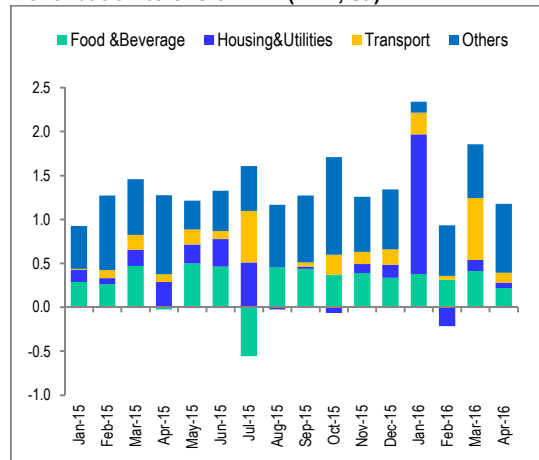


Fig. 3

Contribution to overall CPI (m/m, sa)



In terms of month-to-month changes in consumer prices, inflation in the first quarter of 2016 was higher than the same period a year earlier, reflecting largely the price effects of the utilities, petroleum products and transport. An average monthly increase in inflation of 2.3 percent was recorded for the first quarter of 2016, compared to an average of 1.6 percent for the same period of 2015. Monthly inflation rate, however reduced in April to 1.4 percent, compared with 1.8 percent a year ago. Similarly, the seasonally adjusted sub-indices suggested easing inflation pressures in all the sub-components with the exception of food index.

(ii) Core Inflation

The review period also witnessed a slower pace of increase in core inflation (excluding energy and utility prices) partly due to the stability in the foreign exchange market, tight policy stance and relative improvement in electricity supply. The core inflation declined from 18.6 percent at end-December 2015 to 17.2 percent at end-February 2016, but climbed up in March to 18.1 percent on account of upward adjustment in transport fares, before declining to 17.7 percent in April 2016.

(iii) Inflation Expectations

Similarly, the latest surveys conducted in March and April 2016 showed that consumer, business and financial sector inflation expectations had improved significantly. This favourable outcome was largely due to the current tight policy stance, relative stability in the foreign exchange market and improvement in electricity supply. It is critical at this stage to commit to the tight policy stance and sustained stability in the foreign exchange market in order to further dampen inflation expectations.

3.2 Domestic Growth Conditions

(i) Gross Domestic Product

According to the Ghana Statistical Service, real GDP growth was estimated at 3.9 percent in 2015, compared with 4.0 percent in 2014. The relatively weak growth was attributed to the adverse effects of the prolonged power supply shortages, lower than projected commodity prices, and depreciation of the local currency which affected industry performance. In terms of sector contribution to GDP growth in 2015, the services sector contributed 54.4 percent (51.9%

Fig. 4
Core and Headline Inflation (y/y, %)

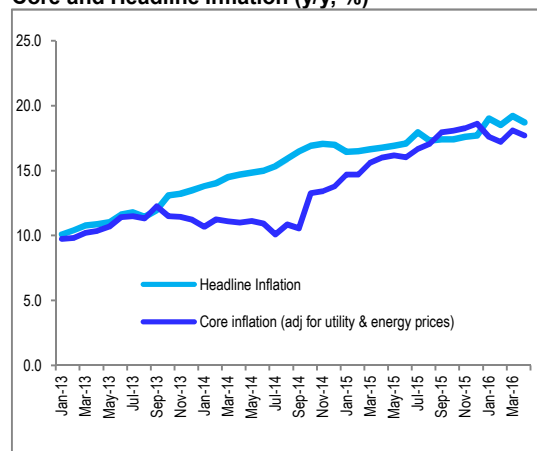


Fig. 5
Inflation expectations gradually trending down (March/April 2016 surveys)

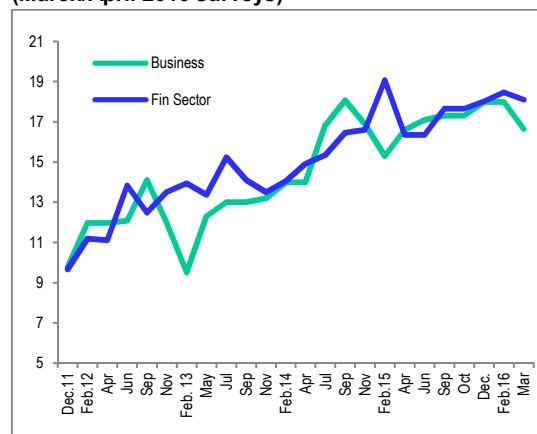
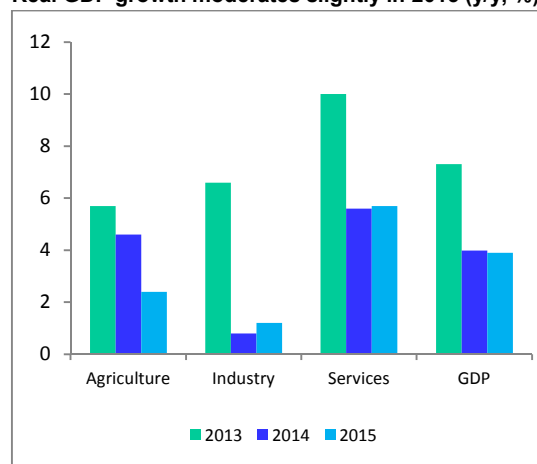


Fig. 6
Real GDP growth moderates slightly in 2015 (y/y, %)



in 2014), followed by industry with 25.3 percent (26.6% in 2014) and agricultural sector with 20.3 percent (21.5% in 2014).

In quarterly terms, real GDP grew by 4.9 percent in the fourth quarter of 2015 against 4.5 percent the same period a year earlier. The relative improvement in economic activity during the fourth quarter largely reflected gains in the power supply situation and stability in the foreign exchange market. By sectors, Industry recorded the highest growth of 7.2 percent in the fourth quarter of 2015, followed by services with 5.2 percent and Agriculture with 4.0 percent growth.

(ii) Composite Index of Economic Activity (CIEA)

The Bank's leading indicator of economic activity—the CIEA—improved to 416.26 in March 2016, from 397.12 in March 2015. This represented a year-on-year growth of 4.8 percent, compared with a growth of 5.8 percent a year earlier. Similarly, the seasonally adjusted real CIEA also picked-up from a year-on-year growth of 4.1 percent in the first quarter of 2016, against 4.0 percent growth during the same period in 2015. Key drivers of the growth in the CIEA in the first quarter of 2016 were port activities, industrial consumption of electricity, cement sales, and domestic VAT.

(iii) Consumer Confidence

Consumer confidence inched up from an index level of 88.2 in February 2016 to 90.1 in April 2016. The rise in April 2016 Consumer Confidence Index suggested that consumers were relatively more optimistic about prospects of the domestic economy compared to sentiments disclosed in February 2016. The improved consumer confidence was occasioned mainly by positive consumer expectations about the broader economy. Consumers also reported relative improvements in welfare conditions, reflecting positive consumer sentiments about household financial situations, willingness to purchase household durables, and some moderation in consumer inflation expectations following the relative stability in the foreign exchange market.

(iv) Business Confidence

The Business Confidence Index went up from an index level of 91.8 in December 2015 to 97.1 in March 2016, driven by relative stability in the foreign exchange market, enhanced prospects for growth, increased capital expenditure and industry performance.

Fig. 7
The pace of growth in the CIEA moderates slightly in the first quarter of 2016 (y/y, %)

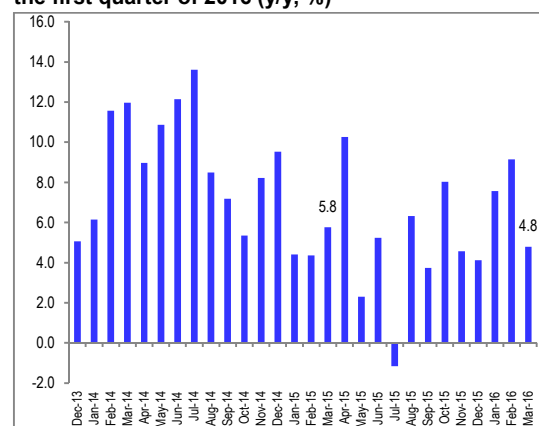


Fig. 8
Consumer Confidence Index improves slightly

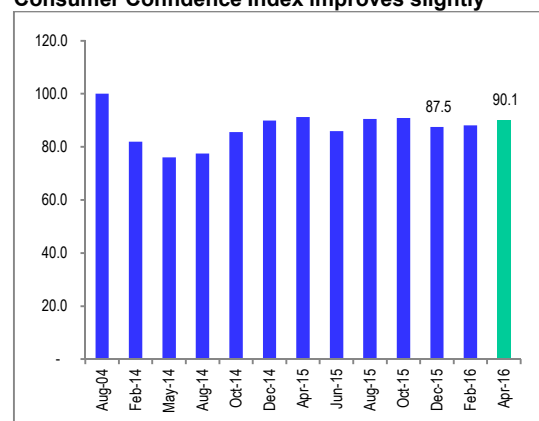
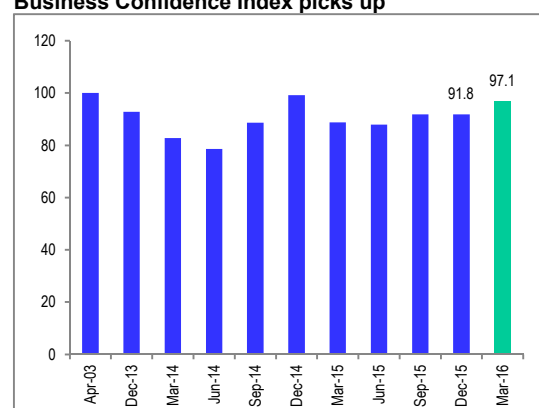


Fig. 9
Business Confidence Index picks up



Also, survey results from the March 2016 edition of business confidence pointed to downward shifts in business inflation expectations. However, businesses expressed concerns about current trends in Deposit Money Banks interest rates, and realization of business expectations for 2016.

3.3 Fiscal and Monetary Developments

(i) Fiscal Developments

Fiscal consolidation remained broadly on track with better outcomes than programmed in 2015 and the first quarter of 2016. For 2015, total revenue and grants amounted to GH¢31.1 billion (22.2% of GDP) compared with a target of GH¢30.5 billion (21.8% of GDP) while total expenditures amounted to GH¢37.3 billion (26.7% of GDP) against a target of GH¢38.0 billion (27.1% of GDP). The fiscal deficit outturn for 2015 was therefore provisionally estimated at 6.7 percent of GDP, lower than the target of 7.0 percent of GDP and confirms the general improvement in the fiscal position since the near 12% budget deficit recorded in 2012.

Similarly, provisional data for the first quarter of 2016 showed faster pace of fiscal consolidation. For the first three months of the year, Total Revenue and Grants amounted to GH¢7.4 billion (4.7% of GDP) compared with a target of GH¢8.4 billion (5.3% of GDP) while total expenditures and arrears clearance stood at GH¢8.1 billion (5.1% of GDP) relative to the target of GH¢10.8 billion (6.8% of GDP). Consequently, the budget outcome was better than programmed with the budget deficit, on cash basis, estimated at 0.4 percent of GDP, lower than the target of 1.5 percent of GDP.

Public debt remains high but seems to have plateaued as fiscal consolidation gains traction. Total public debt stood at US\$26.4 billion (71.6% of GDP) at the end of 2015 compared with US\$24.8 billion (70.2% of GDP) at the end of 2014. Domestic debt accounted for some 40 percent of total public debt in 2015 compared with 44 percent in 2014. The moderation in domestic debt as a share of total public debt could help minimize the potential crowding out effect of the private sector.

Fig. 10

Government Revenues and Expenditures (% GDP)
Strong fiscal consolidation efforts as the deficit/GDP moves from 11.5% in 2012 to 6.7% in 2015

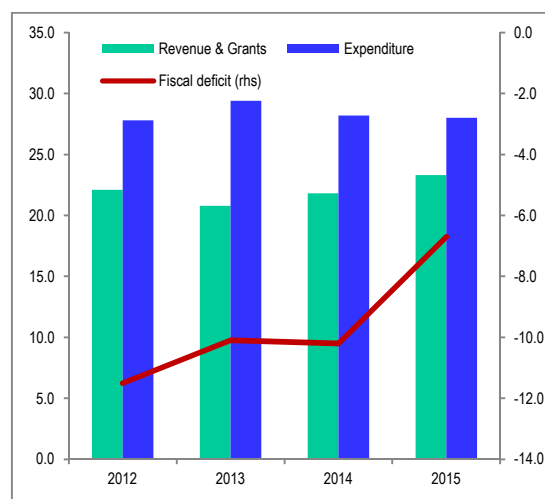
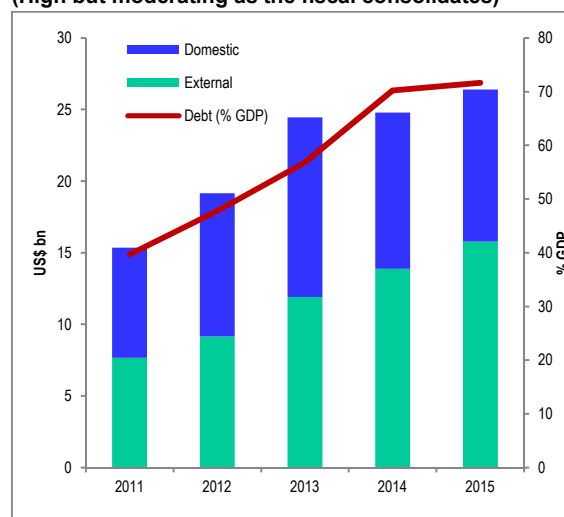


Fig. 11

Public Debt (% GDP)
(High but moderating as the fiscal consolidates)



(ii) Monetary and Financial Developments

Developments in the monetary aggregates showed a declining pace of expansion in money supply on account of the tight monetary policy stance. Broad money supply (M2+) grew, year-on-year, by 18.1 percent in March 2016, down from 31.4 percent and 28.6 percent recorded in March 2015 and December 2015, respectively.

Growth in narrow money (money supply excluding foreign currency deposits) also decreased to 20.8 percent, year-on-year, from 25.5 percent recorded in March 2015. The decline in money supply was reflected in all the components with the exception of demand deposits which grew by 21.1 percent, compared to 19.9 percent in March 2015.

In terms of the sources of growth in money supply in March 2016, Net Domestic Assets (NDA) of the banking system contributed 11.1 percent, down from a contribution of 14.7 percent in March 2015. This was underpinned by intensified mopping up of liquidity through Open Market Operations (OMO), decline in private sector credit as well as a slowdown in net credit to government. The contribution from Net Foreign Asset (NFA) increased to 7.0 percent, from 4.5 percent in March 2015.

Reserve money increased in year-on-year terms to 26 percent in March 2016, from 23.8 percent recorded in March 2015. This was mainly on account of BOG NDA which increased by 11.2 percent, compared with 1.2 percent in the same period of 2015. However, NFA contributed negatively to the reserve money growth on year-on-year basis.

(iii) Developments in DMB Credit Allocation

The annual growth in Deposit Money Banks' (DMB) outstanding credit to the public and private institutions continued to moderate due to the scale back in credit extension as banks took steps to reduce non-performing loans. Nominal annual growth of banks' total outstanding credit declined from 38.5 percent in March 2015 to 12.3 percent in March 2016.

In terms of the various sub-sectors, credit to Export Trade recorded the highest growth of 56.6 percent, followed by

Fig. 12
Broad Money Supply and Components (y/y, %)

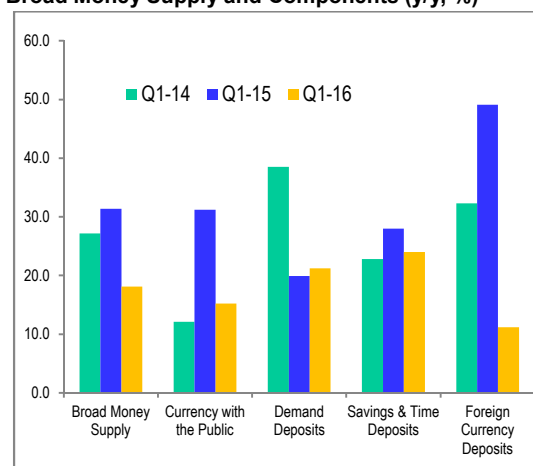


Fig. 13
Reserve Money and Components (y/y, %)

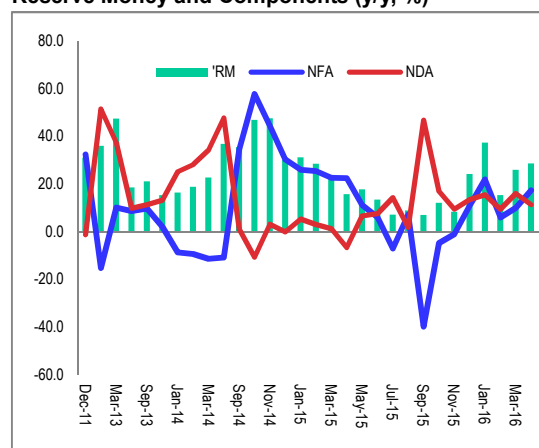
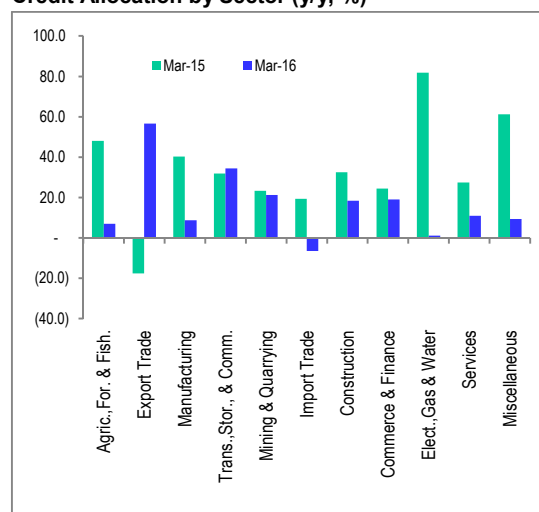


Fig. 14
Credit Allocation by Sector (y/y, %)



credit to Transport, Storage and Communication with 34.4 percent. The rest are: Mining and Quarrying (+21.2%); Commerce and Finance (+19.1%); Construction (+18.4%); Services (+10.9%); Miscellaneous (+9.3%); Manufacturing (+8.8%); Agriculture, Forestry and Fisheries (+7.0%); and Electricity, Gas and Water (+1.2%). The only sub-sector that recorded a negative growth rate in credit allocation was Import Trade which declined by 6.6 percent on year-on-year basis, in March 2016.

Private sector credit grew by 11.2 percent year-on-year, in March 2016, compared with 36.4 percent a year earlier. In real terms, private sector credit declined by 6.7 percent, compared with a growth of 17.0 percent in March 2015. Total outstanding credit stood at GH¢30,186.9 million at the end of March 2016. The private sector accounted for 86.0 percent of the total outstanding credit.

(iv) Money and Capital Market Developments

The Monetary Policy Rate (MPR) of the Bank of Ghana remained unchanged at 26.0 percent since November 2015. In the money market, the interbank interest rate was well aligned within the policy rate corridor.

Short term interest rates in the money market continued to show mixed trends. In the year to April 2016, the 91-day T-bill rate increased by 3.66 bps to 22.77 percent. Over the same period, the 182-day T-bill increased by 12.14 bps to settle at 24.58 percent in April. The rates on the 1-year note remained flat from January 2016, while the 2-year fixed rate notes increased by 1.02 bps to 24.05 percent in April. The yield on the 3-year and 5-year GOG bonds moved down by 25 bps while the 5-year bond went up by 75bps from January 2016 to settle at 24.50 percent and 24.75 percent respectively in April 2016. The interbank weighted average rate increased marginally from 25.31 percent in January 2016, to 25.43 percent in April.

In the first four months of 2016, the Deposit Money Bank's average 3-month time deposit rate remained unchanged at 13.0 percent. The savings rate went up by 42.5 bps from January to end April 2016 at 6.50 percent.

On the capital market, trading activities continued to moderate from January through April 2016. This pushed the

Fig. 15
Private Sector Credit (y/y, %)

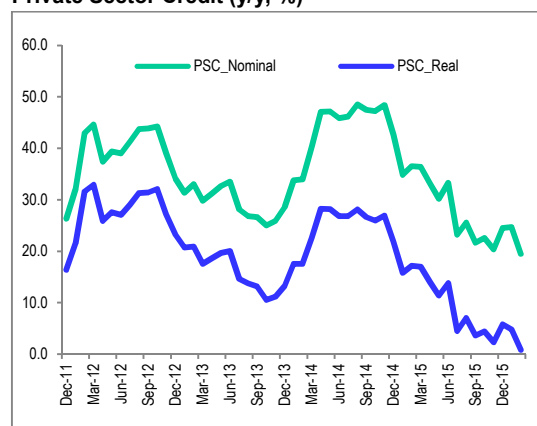


Fig. 16
Monetary Policy Corridor, %

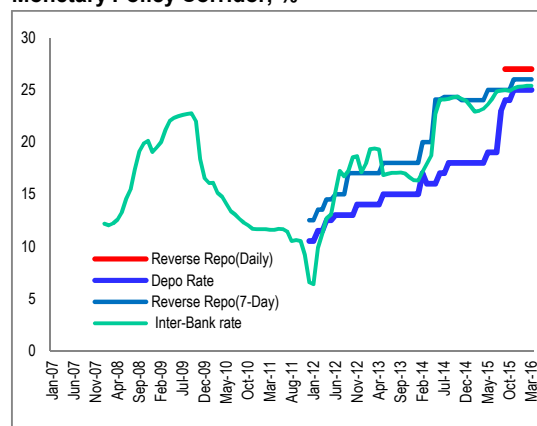
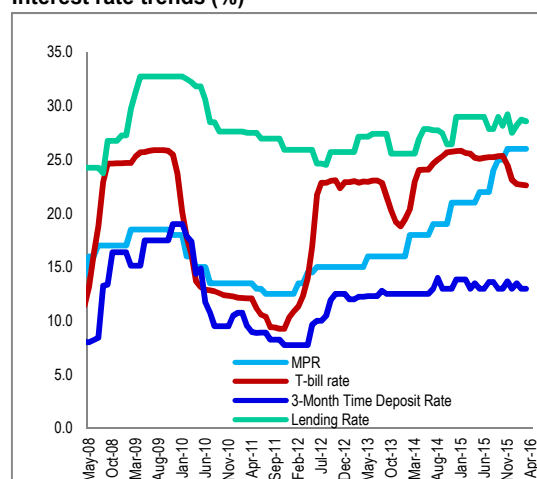


Fig. 17
Interest rate trends (%)



year-on-year and monthly changes in the Ghana Stock Exchange Composite Index (GSE-CI) into negative territory.

The GSE Composite-index lost 4.35 percent (83.24 points) in April 2016 to close at 1,828.78 points. This compared with a loss of 3.05 percent (60.16 points) recorded in March 2016. On a year-on-year basis, the GSE-CI declined by 8.33 percent, compared to a gain of 0.52 percent in the same period of 2015.

(v) Exchange Rate Developments

Domestic Currency market

Developments in the nominal exchange rates of the cedi against the three core currencies – the US dollar, the pound sterling and the euro – showed that from January to April 2016, the cedi cumulatively appreciated by 0.3 percent and 1.5 per cent against the US dollar and the pound respectively, but depreciated by 4.6 per cent against the euro. These compared with depreciation rates of 16.9, 16.3 and 9.2 percent against the US dollar, the pound and the euro respectively in the corresponding period of 2015.

The cedi performance in the year to May 13, 2016 indicated cumulative depreciation of 0.43 percent against the US dollar, at a rate of GH¢3.8115. This compared with 17.3 percent depreciation in the corresponding period of 2015.

Nominal Effective Exchange Rates

(a) *Trade Weighted Index (TWI)*

The major (or core) Trade Weighted Index (TWI, January 2002=100) is an index measure of the nominal value of the cedi relative to Ghana's top three trading currencies combined – the euro, the pound and the dollar. For the month of April 2016, the cedi depreciated by 2.7 index points in trade-weighted terms, compared with 20.2 index points depreciation in April 2015.

(b) *Foreign Exchange Transactions Weighted Index (FXTWI)*

The FXTWI uses the value of total foreign exchange transactions (i.e. purchases and sales) in the three core currencies as weights.

The FXTWI showed that in April 2016, the cedi marginally appreciated in foreign exchange transactions-weighted

Fig. 18

Ghana Stock Market All Share Index moves into negative territory (y/y, %)



Fig. 19

Ghana Cedi-US Dollar – (y/y and m/m changes, %)

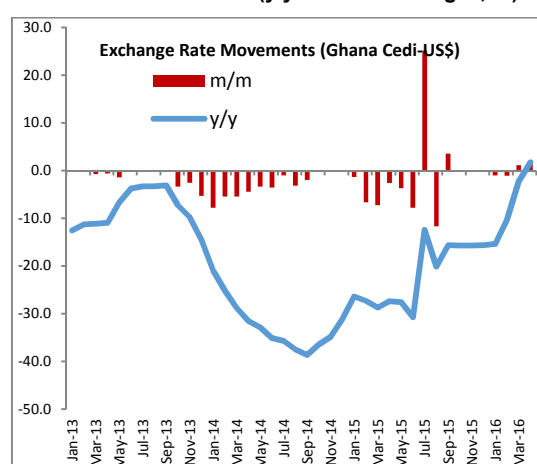
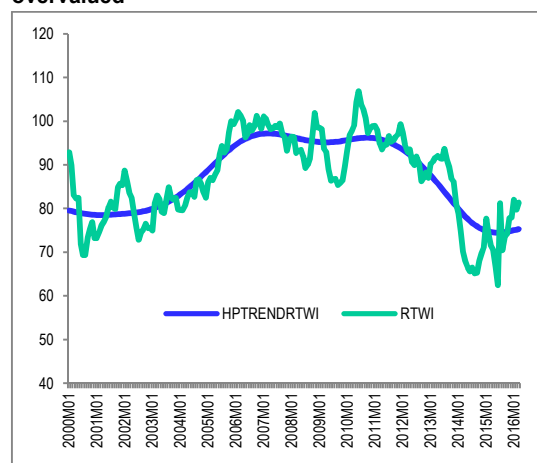


Fig. 20

The Real Trade Weighted Index remains slightly overvalued



terms by 0.1 index points as compared to a depreciation of 16.1 index points in April 2015. The April 2016 value of the index of 40.28 was 0.46 index points above its quarterly trend represented by the 3-months moving average.

Real exchange rate

Over the January – April 2016 period, the cedi's real exchange rate appreciated by 13.3 percent, 21.7 percent and 15.5 percent against the euro, the pound sterling and the US dollar respectively. In April 2015, the cedi's real exchange rate appreciated by 6.1 percent against the Euro, but depreciated by 7.6 percent and 17.0 percent against the pound sterling and the US dollar, respectively.

3.4 Global Output and Financial Developments

The beginning of 2016 witnessed significant increases in risks to the global economy. Financial markets experienced increased volatility, coinciding with sharp decline in commodity prices. Consequently, the global growth prospects remained weak. These developments had direct implications for the domestic economy via the trade and credit channels.

(i) Global Output Developments

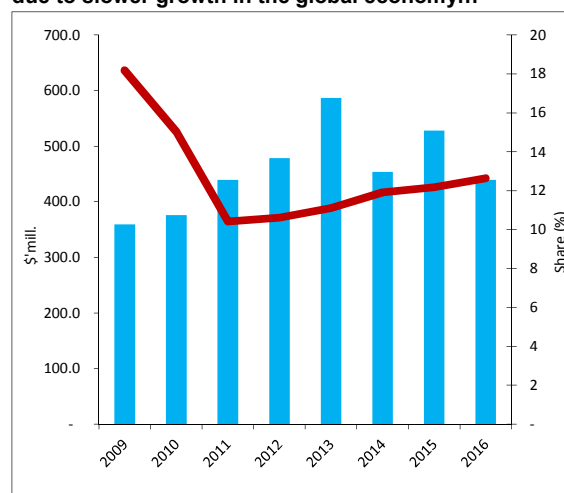
The International Monetary Fund (IMF) and other agents had recently downgraded global growth forecast for global real GDP, highlighting the uncertainty surrounding the already struggling global economy. In the first quarter of 2016, real GDP growth in the US moderated, though labour market conditions continued to improve. Euro area growth was largely supported by monetary easing and declining energy prices, while Japan edged towards recession. In emerging market economies, growth prospects had weakened considerably. Brazil and Russia were in recession and the Chinese economy had slowed as it transitioned to a more sustainable economic model based on services and consumption, though with lower growth potential.

(ii) Output Developments in Sub-Saharan Africa

Real GDP growth across sub-Saharan African countries continued to decelerate as countries adjust to the weakened external environment, lower commodity prices, tighter external financing conditions, amid volatile portfolio flows.

Fig. 21

Ghana: Private inward transfers to individuals through the banks declined in the first quarter of 2016 partly due to slower growth in the global economy...



Nigeria, South Africa, Angola as well as Ghana had experienced relatively slower growth as the adverse effects of declining commodity prices and tight financing conditions took effect. With increased access to international financial markets by some frontier SSA countries, rising foreign currency-denominated debt alongside slower growth could lead to fiscal sustainability challenges.

(iii) Global Commodity Prices

Commodity prices rebounded in April, as indicated by the increase in aggregate commodity prices index by 4.7 percent (IMF's commodity price forecasts, May 12, 2016). This gain was across all the main commodity groups.

Crude Oil

After three consecutive months of losses, global oil price inched up by 9.1 per cent in April 2016, averaging \$40.7 per barrel. This development partly reflected the recent supply disruptions and a decline in US oil production. With the turnaround due to supply disruptions, crude oil prices are likely to maintain the upward trends in the outlook.

The average weekly price of the benchmark Brent crude over the April 2015 – April 2016 period was \$47.29 per barrel, a 42.65 percent decrease from the average price of \$82.45 in the corresponding period a year earlier. On year-to-date basis, the average weekly price increased by 24.8 percent to \$46.85 per barrel.

Cocoa Beans

In the domestic economy, cocoa purchases over the first thirty-one weeks of the 2015/2016 main crop season was 666,778 tonnes, which was 15.6 percent higher than the purchases for first thirty-one weeks of the 2014/2015 main crop season. Cocoa prices would likely to make strong gains through to the end of 2016 as prolonged dry weather, mainly due to El Nino event, continued to affect production. During April 2015– April 2016, the London International Financial Futures Exchange (LIFFE) weekly price development of cocoa witnessed relatively lower fluctuations but increased by 10.4 percent to £2,158.57 per tonne on the average. In terms of the CSCE, the year-to-date weekly price developments fell by 0.7 percent to \$3,205.40 per tonne.

Fig. 22
Commodity Price Indices (2000=100) show slight recovery

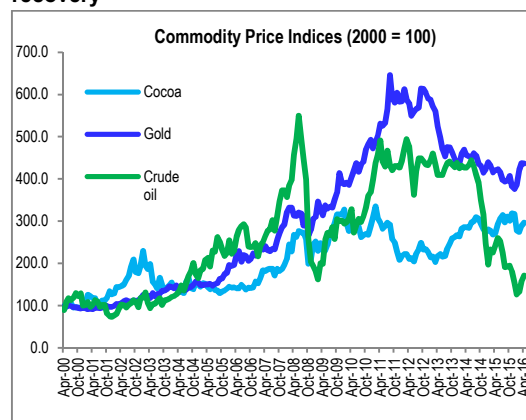


Fig. 23
Weekly Brent Crude Oil prices (Jan-April, \$/bl)

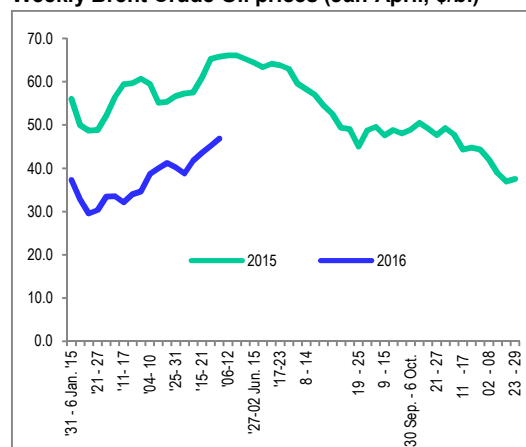
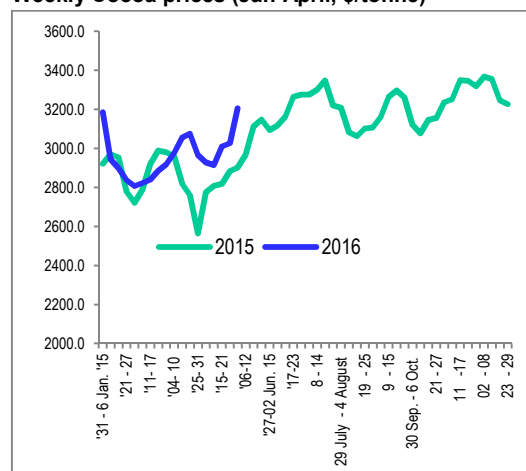


Fig. 24
Weekly Cocoa prices (Jan-April, \$/tonne)



Gold

Metal prices continued on the recovery path and gained 1.6 percent in April 2016, supported by renewed demand and oil price developments. Gold prices made significant gains following increased financial market volatility and the softening of the US dollar. On year-to-date, the average weekly price increased by 19.1 percent to \$1,276.32 per fine ounce.

(iv) Balance of Payments

Preliminary data for the first quarter of 2016 indicated further narrowing of the current account deficit broadly in line with fiscal consolidation and lower commodity prices, especially oil and gold. During the first quarter, the trade deficit widened on account of lower oil prices and volumes for cocoa exports. Export receipts declined by 10.4 percent year-on-year in the first quarter of 2016, while imports recorded a 0.4 percent growth over the same period, explaining the widened trade deficit in the quarter.

The current account deficit improved to an estimated 1.3 percent of GDP, compared with 1.9 percent of GDP deficit in the first quarter of 2015. Improvement in the current account was mainly on account of lower outflows in the services and income account (on the back of lower oil prices), and increased private inward transfers. Similarly, the capital and financial account improved mainly as a result of higher FDI flows and improvement in short-term capital outflows.

However, the overall balance of payments recorded a deficit of \$449 million in the first quarter of 2016, compared with the \$849 million deficit for the same period in 2015. In the recent past, financing the current account deficit with the capital and financial account have become challenging in the light of tighter external financial conditions. These developments have implications for the expected reserve build-up of foreign reserves in the year.

Fig. 25
Weekly Gold prices (Jan-April, \$/fine ounce)

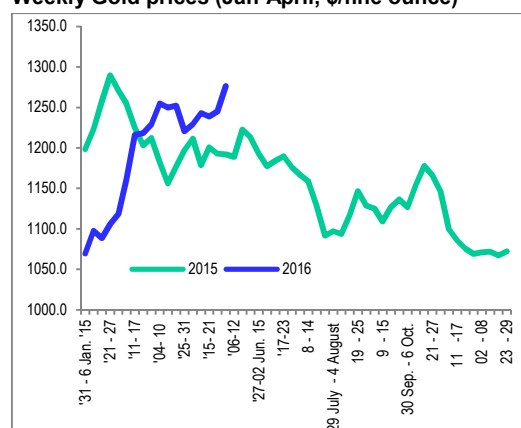


Fig. 26
Exports, Imports and Trade balance (Jan – March, US\$ m)

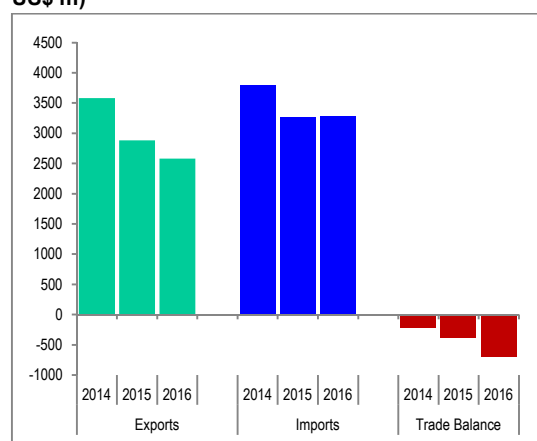
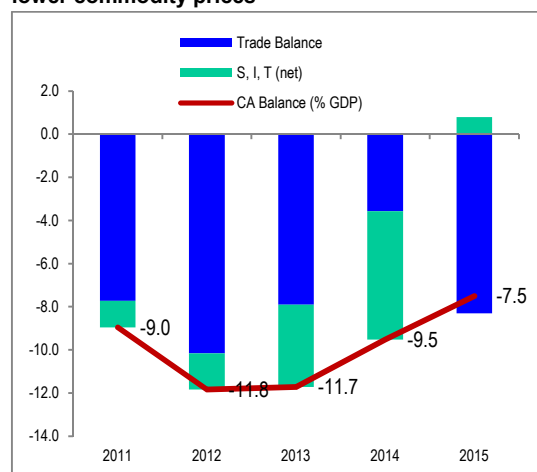


Fig. 27
Current account balance improves following lower outflows in the services and income accounts despite lower commodity prices



4. The Economic Outlook

From the global perspective, there are downside risks to growth which in some aspects is being countered by emerging signs of recovery from some advanced economies. Recession risks, especially in advanced economies remain relatively low on the balance of probability. On the whole, recent trends from high frequency data and leading indicators are consistent with a temporal slowdown in growth rather than a sustained contraction in output.

On the domestic front, continued stability in the foreign exchange market and improved electricity supply are likely to have positive impacts on economic activity from the second quarter of the year. Additionally, a rebound of business and consumer sentiments spurred by expectations of improved growth and declining inflation is expected to boost consumption and investments decisions and in turn, overall growth. Potential risks to the economic outlook however, include the slowdown in the pace of credit expansion to the private sector and persistence in the vulnerability of the external sector reflected in declining exports.

5. Prospects for Inflation

(i) Inflation Outlook

The latest Fan Chart forecasts showed that the current assessment of inflation outlook is not different from the March 2016 forecast round. This is because the underlying assumptions of the key macroeconomic indicators including global growth and inflation, ex-pump prices, fiscal and external sector outlook did not deviate significantly from the March 2016 assessments. The current central path forecast showed that inflation should gradually ease towards the central target band of 8 ± 2 percent by the first half of 2017, unchanged from the March forecast.

The disinflation in the forecast horizon is to be largely driven by the following assumptions,

- *Stable exchange rate ,*
- *Continued fiscal consolidation,*
- *Improvements in growth conditions,*
- *Continued improvement in electricity supply, and*
- *No unanticipated hikes in administered prices.*

Fig. 24
Real GDP is forecast at 5.4% in 2016

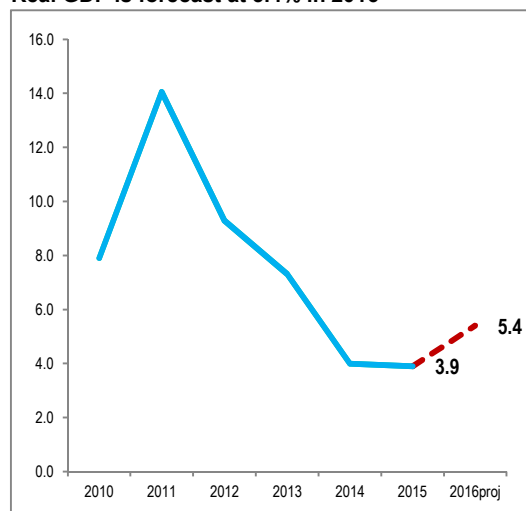
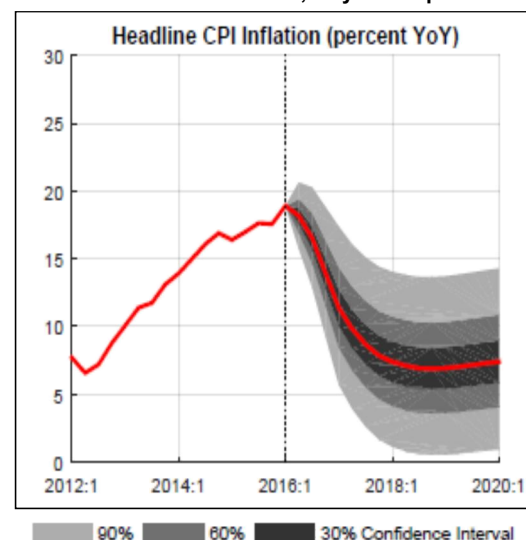


Fig. 25
Inflation FAN Chart Forecast, May 2016 update



These underlying assumptions, together with the tight monetary policy stance are expected to bring inflation back within the target corridor by mid-2017, barring further risks.

In the unlikely situation that the exchange rate, fiscal policy, growth conditions and one-off shocks in the prices of petroleum and utilities deviate significantly from the baseline assumptions, further monetary policy action will be required to counter possible heightening of inflation expectations and worsening of the medium-term inflation outlook.

(i) Inflation Risk Assessments

In assessing the risks to the outlook, the Committee observed that risks to inflation and growth were somewhat balanced.

As for **downside risks**, recent moderation in the headline and core inflation as well as inflation expectations across the sectors bodes well for the disinflation process. The current moderation in inflation and inflation expectations were achieved through the tight policy stance, stability in the currency and improved electricity supply. The relative improvement in the power supply situation, if sustained, could reduce the operational costs of businesses and minimise possible cost-push inflation in the outlook.

Recent trends in the core inflation are indicative of the fact that underlying inflation pressures are moderating, although at a slow pace, and likely to drive down the headline inflation over the forecast horizon. Similarly, inflation expectations are trending down across the sectors and these are expected to reflect in pricing by economic agents in the immediate outlook in the face of anticipated lower cost pressures.

Again, the domestic currency has remained relatively stable against the major trading currencies since the last quarter of 2015 on the back of tight policy stance and improved inflows. This is expected to further push down inflation expectations and transmit to consumer prices in the

coming months through lower import prices. The progress made in the foreign exchange market is expected to continue into the forecast horizon to reinforce the disinflation process as the current tight policy stance is maintained ahead of improved inflows in the second half of 2016.

The fiscal posture was constrained in the first quarter of 2016 in line with the ongoing fiscal consolidation with outcomes better than projected for the first quarter of 2016. This is expected to continue to dampen aggregate demand largely through lowering consumption expenditures and inflation pressures. The progress made so far would have to be sustained through the electoral cycle to complement monetary policy and restore macroeconomic stability. However, there are underlying concerns that would have to be managed to ensure that all the fiscal targets set for the medium term are achieved. These include continued volatility in the commodities market and difficult financing options which could complicate fiscal consolidation efforts.

There are **upside risks** to the outlook and these include the volatile crude oil prices and the extent to which this could impact on the utility and petroleum pricing as well as the associated second round effects on inflation and inflation expectations.

Food inflation has continued to trend up since August 2014, from 5.1 per cent to 8.4 per cent by April 2015 and poses a considerable risk to the inflation outlook. The expectation over the horizon is that food inflation is likely to remain broadly at current levels to the end of the second quarter and gradually trend down during the third quarter but the extent of reduction will depend on the behaviour of rainfall pattern and on-going government interventions.

The external sector remains vulnerable with volatile international financial markets and commodity prices. These are likely to pose additional risks to both inflation and growth in the outlook. In particular, the fragile global financial conditions and continued commodity price volatility could adversely

impact on reserve accumulation and its implications on the exchange rate stability and inflation expectations.

6. Conclusion

In conclusion and taking into account all the factors discussed above, the Committee viewed risks to inflation and growth as balanced, and maintained the MPR at 26 percent at the May 2016. The Committee, however, acknowledged that maintaining the tight policy stance in the near term, supported by stable exchange rate, continued fiscal

consolidation and continued improvement in electricity supply, is necessary in order to sustain a gradual decline in inflation from the second quarter. Currently, headline inflation remains far above the target band and the Committee will continue to monitor developments in the economy, and assess its implications for the inflation forecast and policy outlook. Although the forecast showed that inflation will ease towards the target band by mid-2017, going forward, the MPC stands ready to implement appropriate policies to manage any build-up of inflation pressures given the uncertainties regarding supply side shocks to the economy.

ANNEXES

| Headline, Food and Non-Food Inflation (%) | | | | | | | | | | |
|---|------|------|------|------|------|------|------|------|------|------|
| | 2013 | 2014 | 2015 | | | | 2016 | | | |
| | Dec. | Dec | Mar | Jun | Sep | Dec | Jan | Feb | Mar | Apr |
| Headline Inflation | 13.5 | 17.0 | 16.6 | 17.1 | 17.4 | 17.7 | 19.0 | 18.5 | 19.2 | 18.7 |
| Food Inflation | 7.2 | 6.8 | 7.2 | 7.4 | 7.8 | 8.0 | 8.2 | 8.3 | 8.3 | 8.4 |
| Non-Food Inflation | 18.1 | 23.9 | 23.1 | 23.6 | 23.2 | 23.3 | 25.5 | 24.5 | 25.7 | 24.8 |

Source: Ghana Statistical Service

| Monthly Price Movements (%) | | | | | |
|-----------------------------|-------------|------------|------------|------------|------------|
| | Month | 2013 | 2014 | 2015 | 2016 |
| | Jan | 3.7 | 3.9 | 3.4 | 4.6 |
| | Feb | 0.9 | 1.1 | 1.2 | 0.7 |
| | Mar | 0.5 | 0.9 | 1.0 | 1.7 |
| Q1 | Avg. | 1.7 | 2.0 | 1.9 | 2.3 |
| | Apr | 1.6 | 1.7 | 1.8 | 1.4 |
| | May | 0.7 | 0.9 | 1.0 | |
| | Jun | 1.5 | 1.6 | 1.8 | |
| Q2 | Avg. | 1.3 | 1.4 | 1.5 | |
| | Jul | 1.3 | 1.6 | 2.3 | |
| | Aug | -0.7 | -0.2 | -0.7 | |
| | Sep | -0.7 | -0.2 | | |
| Q3 | Avg. | 0.0 | 0.4 | 0.8 | |
| | Oct | 2.3 | 2.7 | 2.7 | |
| | Nov | 0.8 | 0.9 | 1.0 | |
| | Dec | 1.0 | 1.0 | 1.1 | |
| Q4 | Avg. | 1.4 | 1.5 | 1.6 | |

Source: Ghana Statistical Service and Bank of Ghana computation

| CPI Components (%) | | | | | | | | | | | | |
|---------------------------------|------------|------|------|------|------|------|------|------|------|------------------------------|------------------|------------------|
| | Weight (%) | 2015 | | | | 2016 | | | | Absolute Change in Inflation | | |
| | | Mar | Jun | Sep | Dec | Jan | Feb | Mar | Apr | Apr-16 Mar-16 | Apr-16 Dec-15 | Apr-16 Apr-15 |
| Overall | 100.0 | 16.6 | 17.1 | 17.4 | 17.7 | 19.0 | 18.5 | 19.2 | 18.7 | -0.5 | 1.0 | 1.9 |
| Food and Beverages | 43.9 | 7.2 | 7.4 | 7.8 | 8.0 | 8.2 | 8.3 | 8.3 | 8.4 | 0.04 | 0.4 | 1.2 |
| Non-food | 56.1 | 23.1 | 23.6 | 23.2 | 23.3 | 25.5 | 24.5 | 25.7 | 24.8 | -0.9 | 1.5 | 1.6 |
| Housing, Water, Elect, Gas & Fu | 8.6 | 26.2 | 24.8 | 23.6 | 24.3 | 45.5 | 41.0 | 39.6 | 35.8 | -3.8 | 11.5 | 10.8 |
| Transport | 7.3 | 25.8 | 25.5 | 23.8 | 27.0 | 30.8 | 30.4 | 40.0 | 40.4 | 0.4 | 13.3 | 15.9 |
| Communications | 2.7 | 13.8 | 12.0 | 15.4 | 14.0 | 13.5 | 14.5 | 13.6 | 12.9 | -0.7 | -1.1 | -0.1 |
| Alcoholic Beverages, Tobacco | 1.7 | 20.1 | 20.1 | 20.8 | 19.2 | 17.5 | 16.6 | 15.3 | 15.5 | 0.2 | -3.7 | -5.5 |
| Health | 2.4 | 18.1 | 16.8 | 15.7 | 14.7 | 15.2 | 14.6 | 13.7 | 13.7 | -0.1 | -1.0 | -4.7 |
| Recreation & Culture | 2.6 | 23.1 | 23.5 | 27.0 | 26.9 | 25.0 | 25.3 | 26.7 | 28.1 | 1.4 | 1.2 | 4.9 |
| Hotels, Cafes & Resturants | 6.1 | 18.4 | 19.8 | 18.0 | 18.9 | 18.5 | 16.9 | 15.9 | 14.4 | -1.5 | -4.4 | -6.9 |
| Clothing and footwear | 9.0 | 22.4 | 24.3 | 24.9 | 24.1 | 21.4 | 19.4 | 21.0 | 23.0 | 2.0 | -1.1 | -0.7 |
| Miscellaneous gds & Serv. | 7.1 | 16.3 | 19.2 | 23.0 | 21.7 | 20.0 | 19.7 | 18.3 | 14.8 | -3.6 | -6.9 | -5.5 |
| Fumish, H/H Equipt. Etc | 4.7 | 20.9 | 23.3 | 23.4 | 25.8 | 24.5 | 22.8 | 22.9 | 21.5 | -1.4 | -4.2 | -1.6 |
| Education | 3.9 | 22.9 | 24.6 | 29.6 | 26.8 | 22.2 | 25.4 | 27.7 | 30.9 | 3.1 | 4.1 | 7.9 |

Source: Ghana Statistical Service and Bank of Ghana computation

| Measures of Core Inflation | Relative Importance | 2015 | | | | 2016 | | | |
|--|---------------------|------|------|------|------|------|------|------|------|
| | | Mar | Jun | Sep | Dec | Jan | Feb | Mar | Apr |
| Headline Inflation | 100.0 | 16.6 | 17.1 | 17.4 | 17.7 | 19 | 18.5 | 19.2 | 18.7 |
| Core 1: Inflation excl Energy and Utility | 94.9 | 15.6 | 16 | 17.9 | 18.6 | 17.6 | 17.2 | 18.1 | 17.7 |
| Core 2: Inflation excl Energy and Utility and Volatile Food Items | 77.3 | 18.3 | 18.6 | 19.5 | 20 | 19.1 | 18.7 | 19.7 | 19.2 |
| Core 3: Inflation excl Energy and Utility Volatile Food Items & Transportation | 73.1 | 15.0 | 15.7 | 17.6 | 18.7 | 17.5 | 17.2 | 17.1 | 16.7 |
| Core 4: Inflation excl All Food Items, Energy & Utility | 51.0 | 22.2 | 22.8 | 26.1 | 25.6 | 24.2 | 23.4 | 24.9 | 21.2 |

Source: Bank of Ghana computation

| BILATERAL MOVEMENT OF THE CEDI AGAINST CORE CURRENCIES | | | | | | | | | |
|--|---------------------|--------|--------|--------------|--------------|--------------|--------------------------|-------|-------|
| Month | Monthly Changes (%) | | | | | | Year-on-year changes (%) | | |
| | Gh¢/\$ | Gh¢/£ | Gh¢/€ | Gh¢/\$ | Gh¢/£ | Gh¢/€ | Gh¢/\$ | Gh¢/£ | Gh¢/€ |
| 2014 | | | | | | | | | |
| Jan-14 | 2.3864 | 3.9160 | 3.2469 | -7.8 | -6.2 | -4.6 | -21.1 | -22.8 | -21.0 |
| Feb-14 | 2.5243 | 4.2197 | 3.4676 | -5.0 | -6.7 | -6.1 | -25.3 | -31.1 | -27.6 |
| Mar-14 | 2.6707 | 4.4478 | 3.6479 | -4.8 | -4.5 | -4.4 | -28.8 | -34.3 | -32.1 |
| Apr-14 | 2.7950 | 4.7251 | 3.8509 | -3.7 | -4.8 | -4.5 | -31.6 | -36.1 | -34.5 |
| Cum. Change (%) Jan-Apr | | | | -21.3 | -22.3 | -19.5 | | | |
| 2015 | | | | | | | | | |
| Jan-15 | 3.2436 | 4.8986 | 3.6705 | -1.2 | 1.6 | 6.1 | -26.4 | -20.1 | -11.5 |
| Feb-15 | 3.4745 | 5.3559 | 3.9001 | -6.6 | -8.7 | -6.2 | -27.3 | -21.2 | -11.1 |
| Mar-15 | 3.7472 | 5.5483 | 4.0582 | -6.7 | -3.2 | -3.9 | -28.7 | -19.8 | -10.1 |
| Apr-15 | 3.8493 | 5.9487 | 4.2917 | -2.3 | -6.0 | -5.2 | -27.4 | -20.6 | -10.3 |
| Cum. Change (%) Jan-Apr | | | | -16.9 | -16.3 | -9.2 | | | |
| 2016 | | | | | | | | | |
| Jan-16 | 3.8344 | 5.4541 | 4.1530 | -1.0 | 3.0 | -0.5 | -15.4 | -10.2 | -11.6 |
| Feb-16 | 3.8781 | 5.3866 | 4.2192 | -1.1 | 1.3 | -1.6 | -10.4 | -0.6 | -7.6 |
| Mar-16 | 3.8365 | 5.5161 | 4.3710 | 1.1 | -2.4 | -3.4 | -2.3 | 0.6 | -7.2 |
| Apr-16 | 3.7848 | 5.5347 | 4.3299 | 1.4 | -0.3 | 0.9 | 1.7 | 7.5 | -0.9 |
| Cum. Change (%) Jan-Apr | | | | 0.3 | 1.5 | -4.6 | | | |

Source: Bank of Ghana computation

| MOVEMENTS OF SELECTED CURRENCIES AGAINST THE US DOLLAR (%) | | | | | | | | | | |
|--|--------------------|-------------|--------------|--------------------|----------------|-------------------|------------------|-------------------|------------------|-------------------|
| Pt-to-pt. (%) | Advanced Economies | | | Emerging Markets | | | SSA | | | |
| | Euro Euro zone | Pound UK | Yen Japan | New Lira Turkey | Rupee India | Rand S. Africa | Kwacha Zambia | Gh. Cedi Ghana | Naira Nigeria | Shilling Kenya |
| 2015 | | | | | | | | | | |
| Jan | -5.8 | -3.2 | 0.9 | -0.4 | 1.0 | 0.3 | -12.1 | -1.6 | -0.5 | -1.3 |
| Feb | -2.3 | 1.2 | -0.4 | -0.5 | 0.2 | -6.5 | 0.3 | -0.0 | -0.2 | -6.6 |
| Mar | -4.7 | -2.4 | -1.4 | 0.2 | -0.8 | -10.2 | 6.8 | -1.0 | -4.2 | -7.3 |
| Apr | -0.0 | 0.1 | 0.7 | 0.6 | -0.3 | 3.3 | 14.3 | 2.4 | 0.8 | -2.7 |
| Jan-Mar (Cum) | -12.3 | -4.3 | -0.2 | -2.6 | 0.1 | -4.1 | -14.3 | -16.9 | -8.5 | -3.2 |
| 2016 | | | | | | | | | | |
| Jan | -0.3 | -4.0 | 3.0 | -1.9 | -1.2 | -4.3 | -9.2 | -2.4 | -8.4 | -1.0 |
| Feb | 2.3 | -0.5 | 3.1 | 0.3 | -1.3 | 2.3 | -0.2 | 2.6 | 3.7 | -1.1 |
| Mar | 0.2 | -0.4 | 1.5 | 0.7 | 2.0 | 7.3 | 10.2 | 3.4 | 2.5 | 1.1 |
| Apr | 1.9 | 0.5 | 3.1 | 0.4 | 0.7 | 3.7 | 5.4 | 1.7 | 5.4 | 1.4 |
| Jan-Mar (Cum) | 4.2 | -4.4 | 11.1 | -15.0 | 0.1 | 2.7 | 13.5 | 0.3 | 0.0 | 0.9 |

Source: Reuters and Bank of Ghana computation

| Selected Economic and Financial Indicators | | | | | | | | | |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| | 2014 | Mar-15 | Jun-15 | Sep-15 | Dec-15 | Jan-16 | Feb-16 | Mar-16 | Apr-16 |
| (Annual percentage change; unless otherwise indicated) | | | | | | | | | |
| National Income and Prices | | | | | | | | | |
| Real GDP (quarterly) | 4.5 | 3.6 | 3.3 | 3.7 | 4.9 | n.a | n.a | n.a | n.a |
| Real GDP_non-oil | 4.1 | n.a | n.a | n.a | 4.1 | n.a | n.a | n.a | n.a |
| Consumer price index (end of period) | | | | | | | | | |
| Overall | 17.0 | 16.6 | 17.1 | 17.4 | 17.7 | 19 | 18.5 | 19.2 | 18.7 |
| Food | 6.8 | 7.2 | 7.4 | 7.8 | 8.0 | 8.2 | 8.3 | 8.3 | 8.4 |
| Non-food | 23.9 | 23.1 | 23.6 | 23.1 | 23.3 | 25.5 | 24.5 | 25.7 | 24.8 |
| Exchange rate (\$/¢): (end of period) | | | | | | | | | |
| Exchange rate depreciation (M/M) | -0.09 | -7.28 | -7.6 | -0.04 | -0.34 | -0.96 | -1.1 | 1.14 | 0.92 |
| Exchange rate depreciation (YTD, %) | -31.3 | -14.6 | -26.1 | -13.77 | -15.7 | -0.96 | -2.1 | -0.9 | -0.02 |
| Money and credit | | | | | | | | | |
| Broad money supply (M2+) | 36.8 | 31.4 | 35.5 | 23.3 | 26.1 | 28.7 | 23.0 | 18.1 | na |
| Credit to the private sector | 42.1 | 36.4 | 33.3 | 21.6 | 24.7 | 24.7 | 19.5 | 11.2 | na |
| Real Credit to the private sector | 21.9 | 17.0 | 13.8 | 3.6 | 5.9 | 4.8 | 0.8 | -6.7 | na |
| Interest rates (%) | | | | | | | | | |
| Monetary Policy rate | 21.0 | 21.0 | 22.0 | 25.0 | 26.0 | 26.0 | 26.0 | 26.0 | 26.0 |
| Interbank rate | 23.9 | 23.0 | 24.1 | 23.6 | 25.3 | 23.5 | 25.4 | 25.4 | 25.4 |
| 91-Day treasury bill rate | 25.8 | 25.6 | 25.2 | 25.2 | 23.1 | 22.7 | 22.7 | 22.6 | 22.8 |
| 182-Day treasury bill rate | 26.4 | 26.2 | 25.9 | 25.9 | 24.4 | 24.5 | 24.5 | 24.6 | 24.6 |
| Average lending rate | 29.0 | 29.0 | 29.0 | 29.0 | 27.5 | 28.2 | 28.2 | 28.6 | 32.1 |
| 3-month average Deposit rate | 13.9 | 13.0 | 13.0 | 13.0 | 13.0 | 13.5 | 13.5 | 13.0 | 13.0 |
| <i>lending - deposit rate spread</i> | 15.1 | 16.0 | 16.0 | 16.0 | 14.5 | 14.7 | 14.7 | 15.6 | 19.1 |
| External Sector (cummulative) | | | | | | | | | |
| Current account balance (\$million) | -3,562 | -717.1 | -1,040 | -1,871 | -2,819 | n.a | n.a | -480.7 | n.a |
| <i>per cent of GDP</i> | -9.2 | -2 | -2.9 | -5.2 | -7.8 | n.a | n.a | -1.3 | n.a |
| Trade balance (\$million) | -1,590 | -539 | -1,217 | -2,748 | -3,929 | -249 | -397.9 | -773.7 | -972.8 |
| Commodity prices (International) | | | | | | | | | |
| <i>Cocoa (\$/tonne)</i> | 2,914 | 2,797 | 3,194 | 3,235 | 3,301 | 2,895 | 2,861 | 3,010.1 | 3,084.0 |
| <i>Gold (\$/ounce)</i> | 1,199 | 1,181 | 1,183 | 1,125 | 1,069 | 1,098 | 1,199 | 1,243.0 | 1,242.8 |
| <i>Crude Oil (\$/barrel)</i> | 64.8 | 57.0 | 63.8 | 48.6 | 38.9 | 31.9 | 33.4 | 39.8 | 46.9 |
| Gross Foreign Assets (US\$ m) | | | | | | | | | |
| <i>months of import cover</i> | 5,461.0 | 4,964.5 | 4,539.7 | 4,520.5 | 5,885.0 | 5,838.6 | 5,531.0 | 5,696.0 | 5,951.0 |
| Net International reserves (US\$m) | 3.8 | 3.3 | 2.9 | 2.8 | 3.5 | 3.4 | 3.2 | 3.2 | 3.3 |
| | 3,200.3 | 2,350.9 | 1,593.0 | 1,308.0 | 3,093.7 | 3,079.5 | 2,601.0 | 2,735.0 | 2,860.0 |