Bank of Ghana
Monetary Policy Committee
Press Release

January 28, 2019

1. Ladies and Gentlemen, welcome to the press briefing of the 86th regular meeting of the Monetary Policy Committee (MPC). We present the highlights of recent 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 economic expansion is estimated to have moderated since the third quarter of 2018. Early indications point to a further slowdown in the last quarter, amid uncertainty about resolution of trade tensions, potential impact of the partial US government shutdown on growth and likely ramifications of the on-going Brexit negotiations. In emerging markets and developing economies, the growth outturn has been mixed. While economic activity in China and India were relatively strong, growth contracted in Argentina and Turkey, reflecting the adverse effects of the recent financial turmoil triggered by the strengthening US dollar and other geo-political factors.

3. Global inflation remained relatively stable through the year. In advanced economies, headline inflation was largely contained around the 2.0 percent target in the last quarter of 2018, while core inflation remained subdued. Among emerging market economies, inflation was

fairly well-anchored, partly reflecting the recent decline in international crude oil prices.

4. The growing uncertainty in global growth could result in a slower than anticipated normalization of monetary policy in both the US and EU, as well as in China, in 2019. It is also expected that external financing conditions, especially for emerging markets and frontier economies, will continue to be tight.

5. On the domestic front, the disinflation process continued in 2018. Headline inflation trended downwards from 11.8 percent in December 2017 to 9.4 percent in December 2018, remaining broadly anchored within the medium-term target band of 8±2 percent. This has been supported by the relatively tight monetary policy stance maintained throughout the year. Underlying inflationary pressures are similarly well-contained as all the Bank's measures of core inflation point to a general easing, and further underpinned by well-anchored inflation expectations of both consumers and businesses.

6. Developments in the real sector indicated firm growth trends in 2018, although at a slower pace compared to 2017, but in line with projections made at the beginning of the year. Real GDP growth in the first three quarters of 2018 averaged 6.1 percent, compared with 9.1 percent for the same period in 2017. Similarly, non-oil GDP growth averaged 5.9 percent against 6.1 percent over the same comparative period. Overall, GDP growth for 2018 is projected to expand by 5.6 percent.

7. The Bank's updated Composite Index of Economic Activity (CIEA) also picked up, although at a slower pace than in 2017. The CIEA

recorded an annual growth of 3.1 percent in November 2018, compared with 8.3 percent for the same period of 2017. Notwithstanding the developments in the CIEA, evidence from the business and consumer surveys showed some rebound in confidence and optimism about performance of the domestic economy.

8. Price movements in the international commodities market were mixed in 2018. On a year-to-date basis, crude oil prices rose by 25.4 percent to an average of US$80.6 per barrel for the period ending October due largely to supply cuts amidst geopolitical factors and other output disruptions. However, prices fell sharply in the last two months of the year due to global growth concerns and improved supply. The year ended with an average price of US$57.7 per barrel.

9. Gold prices remained relatively stable for the 12-month period to December 2018, averaging US$1,251.1 per ounce on the back of a strong dollar, hawkish Fed stance and stronger US economic growth. Cocoa prices bounced back strongly supported by reduced output in West Africa due to hot weather conditions as well as increased demand. Cocoa closed the year at an average price of US$2,256.3 per tonne, representing an annual growth of 18.5 percent.

10. As a result, the trade balance recorded a larger surplus of US$1.8 billion (2.7% of GDP) in 2018, compared with a surplus of US$1.2 billion (2.0% of GDP) in 2017. This translated into a further narrowing of the current account deficit to 3.2 percent of GDP in 2018 from 3.4 percent of GDP in 2017. The current account outturn, together with a lower net capital inflows, resulted in an overall balance of payments deficit of US$671.5 million (1.0% of GDP) for the year 2018 compared with a surplus of US$1.1 billion (1.9% of GDP) in 2017.

Consequently, the Gross International Reserves (GIR) declined from US$7.6 billion (4.3 months of import cover) at the end of December 2017 to US$7.0 billion (3.7 months of import cover) in 2018.

11. The global financial developments, in particular the strengthening of the US dollar and increased risk aversion, adversely impacted the currency markets in emerging market and frontier economies, including Ghana. In addition to increased domestic demand pressures, the Cedi cumulatively depreciated by 8.4 percent in 2018, compared with 4.9 percent in 2017. However, the Cedi depreciated more moderately against the pound and euro by 3.3 percent and 3.9 percent respectively, compared with 12.9 percent and 16.2 percent depreciation in 2017. In trade-weighted terms, the real effective exchange rate remained aligned with the underlying fundamentals.

12. The performance of the budget, based on preliminary banking data, indicated an overall deficit (on cash basis) of 3.8 percent of rebased GDP in 2018. Total revenue and grants amounted to GH¢42.3 billion compared with the programmed target of GH¢45.8 billion. Total expenditures was GH¢53.7 billion, marginally below the target of GH¢53.8 billion. The deficit was financed from both domestic and external sources.

13. The stock of public debt at the end of November was 57.9 percent of GDP (GH¢172.9 billion) compared with 54.5 percent of GDP (GH¢140.0 billion) in the same period of 2017. Of the total debt stock, GH¢9.8 billion (or 3.2% of GDP) represented bonds issued to protect depositors funds. The external debt component was GH¢86.3 billion with a share of 49.9 percent in the total debt.

14. Growth in monetary aggregates has generally slowed in the year, consistent with the disinflation process. Annual growth in broad money supply (M2+) remained broadly unchanged at 16.5 percent at end-December 2018 compared to 16.7 percent in the same period of 2017. The moderated pace of growth in total liquidity reflected sharp contraction in Net Foreign Assets (NFA) of the banking sector, a departure from Net Domestic Assets driven growth last year. Annual growth in Reserve Money slowed sharply to 4.6 percent in December 2018, against 13.2 percent annual growth in the same period of last year.

15. Private sector credit growth on the other hand continues to recover following the sharp dip to 2.4 percent in March 2018. Annual growth in private sector credit for 2018 was 10.6 percent compared with 13.4 percent growth a year earlier. In real terms, private sector credit expanded by 1.1 percent in 2018. The latest credit conditions survey showed a tightening stance on loans to enterprises during the last two months of 2018. However, the survey results project an easing of banks' credit stance over the first quarter of 2019 in line with their enhanced capital levels.

16. Developments in the money market reflect an upward trend in interest rates at both the short-end and medium-term segments of the market. The 91-day Treasury bill rate moved up to 14.6 percent In December 2018 from 13.3 percent a year ago. Similarly, the 182-day instrument increased to 15.0 percent from 13.8 percent. Also, rates on the secondary bond market have increased significantly, reflecting tight financing conditions. The yields on the 7-year, 10-year and 15-year

bonds jumped to 21.0, 21.2 and 21.4 percent in December 2018, from 16.3, 16.7 and 17.2 percent respectively a year ago.

17. The weighted average interbank lending rate, that is, the rate at which commercial banks lend to each other, however, declined to 16.1 percent in December 2018 from 19.3 percent same period last year, reflecting the monetary policy stance. Similarly, average lending rates of banks also declined to 26.9 percent from 29.3 percent over the same comparative periods.

18. The recapitalization exercise ended in December 2018 with a total of 23 banks meeting the minimum requirement. These banks are sound, liquid and well-capitalized, and well-positioned to translate the gains made so far from two years of far-reaching reforms to the rest of the economy. At the end of December 2018, total assets of the banking sector grew by 14.7 percent year-on-year to GH¢107.3 billion. Going forward, growth in industry assets is expected to rebound as banks deploy their newly-injected capital towards financial intermediation.

19. Key financial soundness indicators have also improved. In particular, the industry's solvency, measured by the Capital Adequacy Ratio (CAR), has increased to 21.9 percent at the end of December 2018, significantly above the prudential requirement of 10 percent. Asset quality also improved, with the Non-Performing Loans (NPL) ratio declining to 18.2 percent from 21.6 percent over the same comparative period and largely reflecting implementation of BoG's loan-loss write-off policy. Other key financial soundness indicators remain positive and are projected to improve.

Summary and Outlook

20. To summarise, the Committee observed that the year 2018 ended on a solid note with a more consolidated banking sector as weaker and undercapitalised banks that posed risks to financial stability were removed. This enhanced the efficiency and profitability of the remaining banks and has restored confidence and resilience in the banking sector, with the banks now better positioned to support private sector-led growth in the Ghanaian economy.

21. The clean-up exercise has also protected deposits of over 1.5 million depositors with deposits of GH¢11.6 billion. This includes deposits of savings and loans companies, rural and community banks, investment fund managers, pension funds, and life insurance companies with the banks. Looking ahead, there will be a need to focus on reducing the high NPLs in the sector and addressing the risks associated with the high degree of interconnectedness in the financial system which will require close monitoring to ensure financial stability.

22. The Committee noted government's decision to create and strengthen institutions to provide the needed structures to underpin the commitment to fiscal and financial stability as Ghana concludes the IMF-supported ECF programme. In particular, the passage of the Fiscal Responsibility Act, and the establishment of the Fiscal Council, the Financial Stability Council, as well as the reconstituted Economic Policy Coordinating Committee (EPCC) should anchor fiscal policy and help entrench the macroeconomic gains achieved over the last two years.

23. The Committee also noted that external financing conditions remain tight and uncertain, presenting financing risks to the budget with implications for the exchange rate. This calls for a recalibration of the financing policy mix towards more domestic financing by domestic investors to reduce the burden on exchange rate, reserve accumulation and monetary policy.

24. The Committee also observed that domestic growth remains fairly robust and in line with projections. Over the medium-term, growth prospects are positive and would be supported by increased oil production and easing of credit stance. With the recently ended recapitalization, banks are also better-positioned to support economic activity.

25. The Committee also noted that inflation has steadily declined from 15.4 percent at the end of 2016, to 11.8 percent in 2017 and further down to 9.4 percent in 2018, supported in large part by non-food inflation. The Bank's latest forecast shows that inflation will remain within the target band of 8±2 percent over the forecast horizon, barring any unanticipated shocks.

26. The Committee noted that immediate risks to the disinflation path are well contained, and the current conditions provide scope to translate some of the gains in the macro stability to the economy. Under the circumstances, the Committee decided to reduce the policy rate by 100 basis points to 16 percent.

INFORMATION NOTE

The next MPC Meeting is scheduled for March 20 – 22, 2019. The meeting will conclude on Monday, 25 March, 2019 with the announcement of the policy decision.