Bank of Ghana
Monetary Policy Committee
Press Release

March 26, 2018

1. Ladies and Gentlemen, welcome to the press briefing of the 81st regular meeting of the Monetary Policy Committee held from the 21st to 23rd March, 2018. We present highlights of recent economic developments that shaped the Committee's view on the outlook that informed its decision on the stance of monetary policy going forward.

2. The global economy continues to recover as growth momentum strengthened in the first two months of 2018. The investment-led recovery was aided by favourable financing costs and improved business confidence, providing a substantial boost to capital and consumer spending, pickup in manufacturing activity and trade, with broad support from accommodative monetary policies. Whereas the ongoing expansion is robust in the advanced and emerging market economies, growth remains modest in Sub-Saharan Africa as the three large economies of Nigeria, South Africa and Angola gradually recover.

3. Global inflation is on a gradual upturn in advanced economies, although core inflation remains subdued. This latest development, combined with the closure of output gaps and stronger wage

growth in some advanced countries could lead to faster monetary policy normalization.

4. Prices of Ghana's main primary exports on the international commodity market have rebounded somewhat over the first two months of 2018. Crude oil prices have gained the most since the fourth quarter of 2017 reaching US$69.1 per barrel in January 2018, but have since moderated on the back of increased production and rising US shale output. Gold prices have also performed better, largely driven by a weak US dollar and steady purchase and holdings of gold by central banks. Following some price depression in 2017, on account of excess supply, cocoa prices are gradually on the mend. The main price drivers are strong grind data from Europe, and renewed concerns of adverse short-term weather patterns across the West African sub-region.

5. Broadly, these developments in the external environment continue to transmit favourably to the domestic economy.

6. On the domestic front, the trend decline in prices observed in 2017 continued into the first two months of 2018 in line with the Bank's forecasts. Headline inflation dropped sharply from 11.8 percent in December 2017 to 10.3 percent in January 2018, before edging up marginally to 10.6 percent in February. The uptick in February was occasioned by the upward adjustment of ex-pump prices of petroleum products following rising international crude oil prices. These developments reflect entrenching macroeconomic stability, continued tightness in policy stance, and relative stability in the exchange rate.

7. Since the last MPC, all of the Bank's core measures of inflation broadly declined, suggesting subdued underlying inflation pressures. The Bank's main measure of core inflation, which excludes energy and utility, declined from 12.6 percent in December 2017 to 11.3 percent in February 2018. Also, the weighted inflation expectations by businesses, consumers and the financial sector derived from the Bank's surveys continued to decline indicating that inflation expectations remain well anchored towards the medium term target of 8±2 percent.

8. Initial evidence from high frequency indicators show that the growth momentum experienced in 2017 has continued into 2018. The Bank of Ghana Composite Index of Economic Activity (CIEA) grew by 3.1 percent year-on-year in January. The Bank's confidence surveys conducted in February also indicated positive sentiments on growth prospects, realization of business expectations and general improvements in the economy.

9. The pace of growth in key monetary aggregates has continued to moderate consistent with contained aggregate demand pressures. Annual growth in total liquidity slowed to 12.5 percent in January 2018 from 26.7 percent a year ago (also partly reflecting the reduction in the number of banks in the monetary survey from 34 to 32).

10. There is also a gradual downward migration of all money market interest rates, as well as re-alignment of the yield curve in line with the monetary policy stance since March 2017. The interbank

rate, the rate at which commercial banks lend to each other, declined further to 18.3 percent in February 2018 from 19.3 percent in December 2017 and 25.2 percent a year ago. Also, the interest rates on money market instruments declined, especially at the short-end of the market. In February 2018, rates on the 91-day Treasury bill instrument dropped to 13.3 percent from 15.9 percent in February 2017. Similarly, the 182-day instrument declined sharply to 14.9 percent from 18.5 percent, while the 1-year note also fell to 15.0 percent from 19.0 percent over the same period.

11. The recovery in the private sector credit is still slow. Credit to the private sector grew by 11.7 percent in January 2018 compared with 15.2 percent a year earlier. In real terms, private sector credit expanded by 1.2 percent against 2.1 percent growth in January 2017. The latest credit conditions surveys also showed overall net tightening in credit stance to enterprises. This was attributed to banks' current and expected capital positions as well as changes in the share of adversely classified loans. The credit stance on loans to individuals also tightened as banks continue to repair their balance sheets.

12. The ongoing regulatory reforms in the banking sector are to promote stability of the financial system and to properly position it to support the economic growth agenda. The banking sector as a whole continues to be liquid, profitable and solvent with some modest gains in asset quality. However, there remain few vulnerabilities and the Bank of Ghana expects banks to continue to

implement their recapitalization plans in line with the new minimum capital requirement.

13. The total asset base of banks increased to GH¢95.1 billion in February 2018 indicating an annual growth of 13.7 percent compared with the 15.3 percent recorded in December 2017. The asset growth was mainly funded by deposits which went up by 12.6 percent on a year-on-year basis. The industry's average Capital Adequacy Ratio (CAR) improved to 19.2 percent in February 2018, reflecting efforts by banks to recapitalize.

14. Other financial soundness indicators recorded some improvements. Although the quality of loan portfolio remains a concern, the Non-Performing Loans (NPLs) ratio remained unchanged at 21.6 percent since December 2017 as banks continued to clean their balance sheets. However, adjusting for loan loss provision, the NPLs ratio stood at 10.9 percent in February.

15. Provisional data on government operations indicated an overall budget deficit of 6.0 percent of GDP in 2017, against the target of 6.3 percent. Total revenue and grants was 20.0 percent of GDP, below the target of 21.3 percent and total expenditures, including arrears clearance, was 26.0 percent of GDP below the budgeted estimate of 27.7 percent.

16. The total public debt declined from 73.1 percent of GDP in December 2016 to 69.8 percent of GDP (GH¢142.5 billion) at the

end of 2017. Of the total, domestic debt was GH¢66.7 billion and external debt was GH¢75.8 billion.

17. The maturity profile of domestic debt showed an increase in longer-dated instruments in line with Government's debt management strategy particularly, the re-profiling strategy. By end December 2017, the share of short-dated instruments in total domestic debt had declined to 18.0 percent from 37.6 percent in December 2016, while the share of medium-term instruments rose to 63.1 percent from 38.1 percent.

18. Provisional trade data for the first two months of 2018 indicated a trade surplus of US$584.5 million (1.1% of GDP) on the back of higher export receipts from crude oil. This compares with a trade surplus of US$494.3 million (1.1% of GDP) recorded over the same period in 2017. The trade surplus is expected to translate into a current account surplus in the first quarter of 2018, and further into a strong external position. There was a drawdown in international reserves largely reflecting seasonal foreign exchange flows, planned sovereign bond coupon payments and Energy Sector Levy Act (ESLA) related payments. As a result, Gross International Reserves (GIR) stood at US$6.9 billion (3.8 months of import cover) as at March 20, 2018 compared to US$7.6 billion (4.3 months of import cover) as at December 2017.

19. The foreign exchange market has remained calm over the first quarter of 2018 on the back of subdued demand pressures alongside improved foreign exchange liquidity. Cumulatively, the local currency has appreciated by 0.2 percent against the US

dollar, in the year to March 23, 2018, compared with a depreciation of 5.0 percent during the same period in 2017.

Summary and Outlook

20. In sum, the Committee observed that the pace of global growth has firmed up. Though price pressures are picking up, core inflation in most advanced economies remain subdued. Global financing conditions still remain favourable, sustained by relatively low interest rates in most advanced economies. The outlook for growth, in the near term, is for continued robust expansion towards growth potentials as output gaps gradually close. These notwithstanding, downside risks to global growth exist including the abrupt tightening of global financing conditions, escalating trade protectionism and geopolitical tensions.

21. The strong path of fiscal consolidation in 2017 continued in the first quarter of 2018, with the continuation of the allotment system which aligned expenditures to revenues.

22. Growth prospects for 2018 remain positive and are expected to be supported by crude oil production, gradual recovery in the non-oil sector, and favourable business and consumer sentiments. The pace of growth in economic activity as reflected by the latest update in the CIEA showed some improvements, although still below potential for a number of reasons, including moderated credit growth due to high NPLs, tighter credit conditions and corrections in the balance sheets of the banking sector.

23. The disinflation process continued to firm up over the first two months of the year, with significant moderation in price pressures. Both headline and core inflation broadly trended down, alongside easing inflation expectations, an indication that the disinflation process remains well-anchored. Our latest forecast suggests that the medium-term inflation target of 8±2 percent is within the forecast horizon and we are on course to meeting the inflation target band.

24. The Committee noted that the current inflation forecast provides scope for monetary policy to realign interest rates, translate the disinflation gains achieved so far to the market, and reinforce the fiscal consolidation process by easing the burden of interest payments on the budget. Under these circumstances, the Committee decided to reduce the monetary policy rate by 200 basis points to 18.0 percent.

Information Note

The next Monetary Policy Committee (MPC) meeting is scheduled for May 16 - 18, 2018. The meeting will conclude on Monday, May 21st, 2018 with the announcement of the policy decision.