Bank of Ghana
Monetary Policy Committee
Press Release

May 21, 2018

1. Ladies and Gentlemen of the press, we welcome you to this morning's Press Conference on the 82nd meeting of the Monetary Policy Committee (MPC). The Committee undertook a review of the macroeconomic situation against the background of developments in the global economy, assessment of the pace of economic growth, the execution of the 2018 budget and the outlook for inflation.

2. Global growth is expected to strengthen in the short term supported by positive business and consumer confidence and expectations of stronger profitability. The higher growth will speed up exit from unconventional monetary policies in the advanced countries. Although global financing conditions remain favourable, the strengthening of the US dollar, rising oil prices and US long-term yields are beginning to exert pressures on emerging market currencies and could have implications on frontier economies.

3. Global inflation increased in the first quarter of 2018, though core inflation remained sluggish. Inflation picked up in major advanced economies and most commodity-importing emerging markets due to higher oil prices and narrowing output gaps. However, inflation eased in key commodity exporting economies as the impact of past currency depreciation waned. Though core inflation in advanced economies was sluggish, indications are that it could pick up gradually, as wage dynamics start reflecting tighter labour markets.

4. At home, economic activity remains strong as non-oil growth continued to show signs of a rebound following the slowdown in the last few years. We have however observed some moderation in economic activity in the first quarter of 2018 as measured by leading indicators monitored by the Bank. For instance, the Bank's Composite Index of Economic Activity (CIEA) recorded a 2.3 percent year-on-year growth in the first quarter of 2018, compared with 4.5 percent over the same period last year. However, the latest business and consumer confidence surveys show continued optimism based on improving macroeconomic fundamentals and realization of expectations, despite lingering concerns on employment opportunities by consumers.

5. The pace of growth in key monetary aggregates moderated as aggregate demand pressures remained subdued. Annual growth in broad money supply (including foreign currency deposits) slowed to 17.5 percent in April 2018 from 26.6 percent last year.

6. On fiscal operations, the provisional March 2018 data indicates that budget execution is in line with programme, but early indications from April banking data underscores the need for ramping up revenue mobilization to match the corresponding expenditure flows. Provisional data for the first quarter of 2018 show that revenue and grants amounted to GH¢9.4 billion (3.9% of GDP), representing 86.6 percent of target. Total expenditures amounted to GH¢12.9 billion (5.2% of GDP) and 94.3 percent of the target for the period. These developments resulted in an overall cash deficit of 1.3 percent of GDP, in line with the target for the first quarter of 2018 and same for the corresponding period of 2017.

7. The total public debt declined from 69.8 percent of GDP (GH¢142.5 billion) at the end of 2017 to 60.0 percent of GDP (GH¢145.0 billion) at the end of February 2018, reflecting a higher GDP base. Of the total, domestic debt was GH¢68.2 billion (47.0% of total debt) and external debt was GH¢76.8 billion (53.0% of total debt).

8. The favourable external developments from last year continued into the first quarter of 2018. Prices of Ghana's major exports have firmed up across board. Crude oil prices have increased by 11.5 percent since the beginning of the year to an average of US$71.7 per barrel in April 2018 due to oil supply constraints amid geopolitical and trade tensions. Similarly, gold prices gained 5.4 percent to US$1,334.9 per fine ounce, supported by rising inflation expectations, pick-up in jewellery demand and general trade tensions. Cocoa prices are also rebounding due to improved grinding data and cut back in cocoa production. Cocoa prices firmed up by 39.8 percent to US$2,664.0 per tonne in April 2018.

9. These developments translated into positive trade and current account balances. Provisional external trade balance for the first four months of 2018 was a surplus of US$1.1 billion (2.2% of GDP) reflecting higher export receipts, mainly from crude oil. This compares with a surplus of US$1.2 billion (2.5% of GDP) recorded over the same period in 2017.

10. The current account also recorded a surplus of 0.5 percent of GDP in the first quarter of 2018. However, the capital and financial account recorded a net outflow which more than offset the current account surplus, resulting in an overall balance of payments deficit of 1.2 percent of GDP compared to a deficit of 0.9 percent of GDP in the same period last year.

11. The Gross International Reserves (GIR) position at the end of March 2018 was a drawdown of US$513.9 million in line with the projected cashflow for the period. However, the recent Eurobond issued has raised the level of international reserves to US$8.1 billion (4.4 months of import cover) as at 17th May, 2018, providing enough cushion against any potential external vulnerabilities.

12. In line with the strong external payments position, sustained improvement in the macro fundamentals and improved liquidity, the foreign exchange market has remained calm. The cedi appreciated by 0.02 percent against the US dollar in the year to 18th May, 2018 compared to a depreciation of 0.97 percent in the same period of last year. Despite the marginal nominal appreciation of the cedi against the US dollar, the real effective exchange rate (in trade-weighted terms) depreciated by 0.9 percent over the first four months of the year showing that the cedi remains competitive and broadly aligned with the underlying fundamentals.

13. There is evidence to show that some stabilisation and consolidation especially with respect to inflation and exchange rate expectations are taking hold. The fiscal and monetary policy mix and the corrective measures implemented to put the economy back on track are beginning to yield positive results. Headline inflation has declined steadily from 11.8 percent in December 2017 to 9.6 percent in April 2018, the lowest since 2013 and within the medium-term target band of 8±2 percent.

14. Underlying inflation pressures have also been contained as reflected in the Bank's core measures of inflation and inflation expectations. The main core inflation measure, which excludes energy and utility, declined from 12.6 percent in December 2017 to 10.4 percent in April 2018, converging toward the headline inflation. Evidence from the weighted inflation expectations by businesses, consumers and the financial sector also support the above.

15. Money market interest rates have continued to ease. In April 2018, rates on the 91-day Treasury bill instrument declined to 13.3 percent from 16.5 percent a year ago. Similarly, the 182-day instrument declined to 13.9 percent from 16.8 percent, while the 1-year note also dropped to 15.0 percent from 18.3 percent over the same comparative periods. Also, the weighted average interbank rate, the rate at which commercial banks lend to each other, declined further to 17.5 percent in April 2018 from 23.3 percent a year ago.

16. Private sector credit extension, though recovering, remains subpar due to on-going balance sheet restructuring by banks and adjustment of the monetary data to exclude the resolved banks. As a result, growth in credit to the private sector was 5.6 percent year-on-year in April 2018 compared with 16.1 percent a year earlier. In real terms, private sector credit contracted by 3.6 percent in April 2018 against 2.6 percent growth in the same period of 2017.

17. These notwithstanding, the latest credit conditions survey showed an overall net easing in banks' credit stance on loans to both households and enterprises. This was attributed to the improved macroeconomic environment – declining monetary policy rate and anchored expectations. In addition, new advances (loan demand) in the banking sector rose by 27.6 percent year-to-date in April 2018 compared with 1.3 percent growth in the same period last year.

18. The banking sector remains liquid and solvent with evidence of new capital injection as banks strategize to implement recapitalisation plans in line with the new minimum capital requirement. The total asset base of banks increased to GH¢97.8 billion in April 2018 indicating an annual growth of 15.7 percent compared with the 30.9 percent growth recorded in April 2017. The asset growth was mainly funded by deposits which went up by 15.7 percent on a year-on-year basis. The industry's average Capital Adequacy Ratio (CAR) improved to 18.2 percent in April 2018 against 17.4 percent last year, reflecting efforts by banks to recapitalize.

19. Overall, financial soundness indicators of the banking industry measured in terms of earnings, liquidity, and capital adequacy improved moderately but the quality of loan portfolio remains a concern. The Non-Performing Loans (NPLs) ratio increased to 23.4 percent in April 2018 from 21.6 percent in December 2017. Adjusting for loan loss provision, the NPLs ratio increased to 12.3 percent from 10.1 percent in December 2017. The rise in NPLs reflects the migration of some legacy loans to non-performing category.

Summary and Outlook

20. To summarise, global conditions remain generally positive, with continued robust recovery and accommodative monetary policy stance alongside generally subdued core inflation. However, downside risks exist, including faster tightening of global financing conditions, trade protectionism and geopolitical tensions.

21. Global financing conditions for emerging markets are changing as oil prices rise, the US dollar strengthens and US interest rates rise. These developments can moderate capital inflows and exert pressure on domestic currencies as already seen in some emerging market economies. In Ghana, the strong economic fundamentals including on-going fiscal adjustment, improved current account balances, declining inflation rates and relatively high domestic real interest rates, should combine to preserve competitiveness of our local currency bond market.

22. The Bank's leading indicator of economic activity suggests a slower pace of growth in the first quarter of 2018. There are however prospects of a gradual rebound over the medium-term. This is expected to be supported by the favourable external environment and policy initiatives to boost growth. The business environment is generally favourable due to the relative stability of the cedi, reduction in interest rates and the continued disinflation process. Although private sector credit growth remains below expectations, there are emerging signs of recovery evidenced by increased new loan advances and easing credit conditions.

23. Fiscal operations indicate continued consolidation in the first quarter although revenue concerns remain. There is a need to strengthen revenue mobilisation efforts to help finance government priority programmes and increase the pace of arrears clearance to mitigate the spill over effects on the financial sector.

24. Both headline and core inflation have broadly trended downwards, indicating easing underlying inflation pressures. Additionally, weighted inflation expectations across the sectors have continued to decline. Headline inflation trended within the medium-term target of 8±2 percent and the forecast points to sustained disinflation over the horizon, barring unanticipated shocks.

25. Under the circumstances, the Committee noted that the risks to the inflation outlook are subdued in the forecast horizon. While global and domestic developments do not yet pose a threat to inflation in the near term, recent changes in global financing conditions and its impact on emerging market asset classes requires some vigilance.

26. Consequently, the Committee decided to reduce the monetary policy rate by 100 basis points to 17 percent. The Committee, however, stands ready to take the appropriate policy measures to address any potential threats to the disinflation path.

<u>Information Note</u>

The next Monetary Policy Committee (MPC) meeting is scheduled for July 18 – 20, 2018. The meeting will conclude on Monday, July 23rd, 2018 with the announcement of the policy decision.