BANK OF GHANA

Monetary Policy Committee

Press Release

November 2015

1. Ladies and gentlemen, you are welcome to the last MPC press briefing for 2015. We concluded our 67th regular meetings and I present the policy decision arrived at and highlights of deliberations that informed the decision.

2. The Committee has decided to increase the policy rate from **25** to **26** percent.

3. The latest release by the Ghana Statistical Service (GSS) puts inflation at 17.4 percent in October, same as in September and up from 17.3 percent in August. This indicates some moderation in price movements over the past three months, supported by tight monetary policy stance, the appreciation of the exchange rate in July as well as falling international crude oil prices.

4. This notwithstanding, the current level of inflation and the latest inflation expectations remain far above the medium term target band of 8±2 percent. Core inflation (CPI inflation excluding energy and utility prices), which typifies underlying inflation, has also continued to rise over the period. Also, there are imminent upside risks to the inflation outlook such as worsening external financial conditions and the planned utility tariff adjustments which are now likely to be higher than anticipated during the last MPC.

5. On a year-to-date basis, the Ghana cedi depreciated by 15.5 percent as at October 2015 compared with 31.2 percent in the corresponding period of 2014. Going forward, maintaining a tight monetary policy stance will reinforce the relative stability in the foreign exchange market and dampen risks related to the external financial conditions.

6. Assessment of current economic conditions show that though monetary policy remains tight, some additional tightening is required to re-anchor the displaced inflation expectations. This, together with the on-going fiscal consolidation, is expected to break the high inflation inertia. Our current forecasts show that without any additional policy adjustment, inflation is likely to drift farther away from the target band and lengthen the forecast horizon into late 2017.

7. The Bank's Real Composite Index of Economic Activity (CIEA) for September 2015 indicates a slower pace of growth compared with the same period in 2014. However, in the medium term, growth conditions are expected to recover, supported by a turnaround in the energy situation, increased production of oil and gas and a general improvement in the macroeconomic environment as inflation starts trending down.

8. Fiscal consolidation remains on track. For the first nine months of the year the overall budget balance registered a cash deficit of 5.1 percent of GDP which is within the programme target of 5.7 percent. Maintaining the fiscal consolidation efforts would complement the tight monetary policy stance for the attainment of the medium term inflation target. This would, in turn, help create conditions for long term sustainable growth.

9. Risks from the global environment have heightened, driven mainly by slower growth prospects in China and other emerging market economies. Also, commodity prices continue to decline amidst tightening financial conditions. These have resulted in increased depreciation of currencies ranging from 19 percent to about 48 percent year-to-date in most commodity exporting countries. The transmission of these risks presents clear threats to the balance of payments outlook.

10. For the first ten months of 2015, the overall balance of payments position, as measured by the change in net international reserves, worsened to a deficit of US$378 million, compared with a surplus of US$181.6 million for the corresponding period of 2014. At the end of October 2015, gross foreign assets stood at US$5.7 billion (3.4 months of imports). The current account balance for the first nine months recorded a deficit equivalent to 5.4 percent of GDP.

11. In summary, the Committee noted that overall, the risks to the inflation outlook were on the upside, with a likelihood of a further drift away from the medium term target, hence its decision on the monetary policy rate. The Committee will continue to monitor developments in the economy and take appropriate action if necessary, including the possibility of lowering the policy rate once inflation expectations are well-anchored.

Information Note

The next Monetary Policy Committee (MPC) meeting is scheduled for Friday January 22, 2016. The meeting will conclude on Monday January 25, 2016 with an announcement of the policy decision.