1. Good Morning Ladies and Gentlemen. Let me take this opportunity to wish you all a Happy and Fruitful New Year and welcome you to the first MPC press briefing for 2008, and to share with you the assessment of the Monetary Policy Committee on the economy and inflation outlook.

2. Economic activity has been fairly strong in 2007 through the fourth quarter, against the backdrop of rising crude oil prices (reaching the US$100 per barrel mark) and consequent pass-through to domestic prices and increases in utility tariffs, and the lingering uncertainties surrounding the turmoil in financial markets and the US sub-prime crisis. The energy crisis and load-shedding also influenced the economic environment.

3. The Bank’s Composite Index of Economic Activity rose by 3.9 percent in the fourth quarter. For the year as a whole, the index grew by 20.1 percent, slightly below the trend growth rate of 21.1 percent. This growth has been driven mainly by exports, electricity consumption, Deposit Money Banks’ credit to the private sector, increased tourists arrivals, cement sales, and VAT collections. The pace of
manufacturing and port activities however slowed down slightly.

4. Available information on other key real sector indicators show that the economic base is expanding relatively rapidly. Income and corporate tax collections grew by 22.4 percent compared with the level in 2006; workers contribution to social security recorded a growth of over 45 percent; supermarket retail sales, a benchmark for aggregate urban consumer spending increased by 37.0 percent steadily through the first eleven months of the year; and the average number of job offers increased from 717 jobs per month in 2006 to 757 jobs per month in 2007, totaling 8,558 against total recorded lay-offs of 2,783 for the year. This compares with 8,607 job offers, against 5059 lay-offs in 2006.

5. The Bank’s survey of Business and Consumer Confidence shows a slight dip in both business and consumer confidence in the economy during the last quarter of 2007 but remained high, with the softening associated with increases in crude oil prices and utility tariffs. Overall assessments of prospects for improved macroeconomic conditions for 2008 remain strongly positive.
6. Headline Inflation rose to 12.7 percent in December 2007 for the third consecutive month after declining to 10.2 percent in September. The Bank’s measure of core inflation (defined to exclude energy and utility items), also increased to 9.4 percent in December from 8.2 percent in September. Underlying the higher inflation numbers for the fourth quarter is effects of the pass-through of crude oil prices to domestic prices, rising food prices, and increases in utility tariffs.

7. Exchange market conditions were relatively stable. The Ghana cedi lost some ground on the exchange market. Developments in the nominal bilateral exchange rates of the cedi against the three core currencies – the US dollar, the pound sterling and the euro – show that the cedi depreciated against each of the currencies by 5.0, 6.9 and 17.5, percent respectively in 2007. This compares with respective depreciations of 1.1, 14.5 and 12.0 percent in 2006. In trade weighted terms, the cedi depreciated by 7.1 percent, and 3.6 percent in foreign exchange transactions weighted terms.

8. Foreign exchange transactions (i.e. purchases and sales) by banks and forex bureaux in the foreign exchange
market amounted to US$8.42 billion in 2007, 23.6 percent higher than the 2006 level.

9. The robust economic activity during the year 2007 was accompanied by strong growth in bank credit. Credit to the private sector increased by 14.4 percent in the fourth quarter to GH₵3,298.2 million in December, following a growth of 13.5 percent in the third quarter, compared with 12.3 percent in the fourth quarter of 2006. For the year to December 2007, banks' credit to the private sector grew by 59.8 percent (GH₵1,234.2 million) to GH₵3,298.2 million, significantly more rapidly than 42.8 percent (GH₵618.6 million) recorded for the same period in 2006. The rapid expansion in the credit portfolio of banks was funded mainly from increases in deposits. Time and savings deposits increased by 48.1 percent in 2007 to GH₵1,826 million, compared with 27.0 percent a year earlier; and foreign currency deposits rose by 10.0 percent to GH₵992.9 million.

10. The distribution of the increase in credit for the year was broad-based. The Services sector accounted for 27.5 percent, followed by Commerce (22.3 percent), Miscellaneous (18.1 percent), Construction (9.5 percent) and manufacturing (6.2 percent).
11. In general, the fourth quarter of 2007 shows strong asset growth in the banking sector and significant improvement in all the financial soundness indicators. Total assets of the banking system grew by 50.4 percent to GH¢7,795.6 million (56.7 percent of GDP) at the end of December, compared with 41.1 percent recorded for the same period in 2006.

12. The quality of banks’ loan book continued to improve during the year. The Non-Performing Loans (NPLs) ratio declined from 7.9 percent in December 2006 to 6.9 percent in December 2007. Banks’ loan loss provision to gross loans ratio declined from 7.4 percent in December 2006 to 5.9 in December 2007. However, the NPL net of provisions to capital ratio inched up from 4.2 percent in September to 4.8 percent in December 2007, on the back of slower growth in banks’ networth.

13. Average base rate quotations of the banks were revised upwards by 29 basis points between September and December 2007, closing the year within the range of 18.0–21.5 percent. Average lending rates moved marginally upwards by some 9 basis points within the same period to close the year at 19.9–28.0 percent.
14. A survey of credit conditions, the first such survey, showed that generally there is evidence of improved credit conditions in terms of access and terms of credit provision. Banks are increasingly favouring credit to households in the form of consumer loans and small scale enterprises, while credit conditions for mortgages are tightening because of resource constraints in an increasingly competitive environment.

15. Provisional data available indicate that broad money (M2+) grew by 7.5 percent for the fourth quarter of 2007 to close the year at GH₵5,767.4 million, a slowdown from the 21.0 percent for the third quarter, and compares with 17.2 percent for the fourth quarter of 2006. In year on year terms, M2+ grew by 36.3 percent in 2007, compared with 38.8 percent in 2006. Reserve money grew by 17.1 percent for the fourth quarter of 2007, down from the 21.3 percent recorded for the third quarter and compares with 36.3 percent for the fourth quarter of 2006. On year on year basis, reserve money growth was 30.6 percent, down from the 32.3 percent in 2006.

16. Preliminary banking data on the implementation of the Government budget for 2007 indicate that revenue was
relatively buoyant and close to target, while expenditure turned out to be above projections.

- Total revenue and grants (excluding project grants) during the fourth quarter amounted to GH₵1,189.9 million, compared with GH₵1,041.9 million recorded for the third quarter. For the year as a whole, total revenue and grants amounted to GH₵4,317.2 million (30.1 percent of GDP), representing an increase of 25.0 percent in 2007 and some 1.1 percent below the projected outturn for the year.

- Total tax revenue during the fourth quarter amounted to GH₵885.4 million, compared with GH₵783.8 million in the third quarter, bringing total tax revenue for the year to GH₵3.1 billion (22.1 percent of GDP), about 1.4 percent above the projection for 2007, and 26.1 percent over the outturn a year earlier. Non-tax revenue for the year amounted to GH₵112.8 million. The strong growth in tax revenue is an indication of the strength and buoyancy of economic activity and improved tax administration during the year.

- Total Government expenditure (excluding foreign financed capital expenditure) during the fourth quarter
amounted to GH¢1,539.2 million, compared with GH¢1,050.4 million for the third quarter. For the year as a whole, total expenditure amounted to GH¢4,960.1 million (35.2 percent of GDP), representing an increase of 30.3 percent over the spending level in 2006, and some 6.4 percent above the projected level for 2007. Some significant outlays were associated with the energy crisis, including purchases of generation sets as a temporary measure, the hosting of the 50th Independence Anniversary celebrations, the CAN2008 African Cup of Nations Football tournament and African Union Summit. These expenditures amounted to some 2.2 percent of GDP.

- The Government budget deficit (excluding foreign financed capital expenditure) amounted to GH¢349.3 million (2.5 percent of GDP) for the fourth quarter compared with a deficit of GH¢8.5 million (0.1 percent of GDP) for the third quarter. For the year as a whole, government fiscal operations resulted in a deficit of GH¢642.9 million (4.6 percent of GDP), including an estimated GH¢193 million (1.3 percent of GDP) financed by proceeds from the sovereign bond. The deficit was financed on the domestic market to the tune of GH¢668.3 million (4.8 percent of GDP), as divestiture
receipts of GH¢252.9 million fell short of projection by GH¢137.8 million.

17. Total public domestic debt measured by the stock of marketable securities amounted to GH¢2,516.2 million (18.0 percent of GDP) at the end of 2007. This brings total public debt (external and domestic including revaluation stocks) to 48.4 percent of GDP (compared with an established budgetary ceiling of 60 percent), and down from 50.9 percent of GDP recorded in 2006. The increase in the debt stock reflected both in the short-term and medium term securities, which increased by GH¢86.9 million and GH¢727.7 million respectively. This shows the continued shift in investor preference for long-dated instruments, and also reflects the impact of government debt management strategy of restructuring public debt from the short-term into medium term maturities.

18. Interest rates on the auction market broadly declined in 2007 through the third quarter, but firmed up in the fourth quarter of the year.

- In general, interest rates have declined along the yield curve, indicating a continued shift of the yield
curve downwards in line with diminishing inflation expectations

- The benchmark 91-day Treasury bill rate which remained virtually unchanged during the first three quarters of 2007 increased by 20 basis points to 9.8 percent in September and, further, by 80 basis points to 10.6 percent in December 2007.

- The 182-day Treasury bill rate increased to 10.8 percent in December 2007 from 10.2 percent in September.

- The 2-year fixed note rate which shed some 70 basis points in the first quarter of 2007 and moved to 12.8 per cent remained unchanged through December 2007, while the 3-year fixed rate declined by 90 basis points in September 2007 to 12.1 percent in December 2007. The 5-year bond rates rose by 133 basis points to 15 percent in December 2007.

19. On the external front, the commodity markets were marked by a surge in prices of major commodities including as like oil, gold and cocoa.
20. The average weekly price of Brent crude oil closed 2007 at US$94.09 per barrel, following a 20 percent rise in the third quarter. The end-2007 price level represents a 50.4 percent increase over the price level recorded for December 2006. The price of cocoa also closed the year at US$2,202 per tonne, representing an increase of 18.1 percent over the end 2006 price. Gold also ended the year at US$831.16 per ounce, an increase of 33.7 percent over the level in 2006.

21. The core terms of trade declined steadily through the first nine months of the year by a cumulative 11.6 percent. The decline in the fourth quarter was much slower by 9.4 percent, bringing the terms of trade index (January 2002=100) to 31.38 in December 2007, from 38.09 in December 2006.

22. The current estimates of the balance of payments (BOP) indicate that total merchandise exports for the fourth quarter was US$1,070.83 million, a growth of 9.1 percent over the third quarter level of US$981.07 million, and 20.2 percent higher than the level recorded for the corresponding quarter of 2006. For the year as a whole, total merchandise exports amounted to US$4,194.72 million, 12.6 percent higher than the 2006 level.
• Exports of Cocoa beans and products amounted to US$1,103.24 million in 2007 compared with US$1,187.44 million for 2006.

• Gold exports amounted to US$1,733.78 million in 2007 compared with US$1,277.25 million in 2006.

• Non traditional exports amounted to US$1,107.56 million compared with US$1,055.27 million in 2006.

23. Total merchandise imports for the fourth quarter amounted to US$2,218.19 million, marginally lower than the US$2,263.42 million recorded in the third quarter, but 25 percent higher than the level for the corresponding quarter of 2006. Total imports for 2007 therefore amounted to US$8,073.57 million, a 20 percent growth over 2006.

• Oil imports eased back, amounting to US$445.89 million for the fourth quarter, after reaching a high of US$691.54 million in the third quarter. For the year as a whole, oil imports rose to US$2,105.27 million (or 28 percent) over the 2006 level.
• Capital and intermediate goods together accounted for 51.1 percent of total imports in 2007 compared with 51.4 percent for 2006.

24. Trade deficit amounted to US$1,147.36 million in the fourth quarter, compared with a deficit of US$1,282.4 million in quarter three, and US$842.25 million for the fourth quarter in 2006. For the year as a whole, the trade deficit amounted to US$3,878.86 million, compared with US$3,027.0 million for 2006.

• The current account recorded a deficit of US$541.69 million in the fourth quarter of 2007, an improvement over the third quarter level of US$715.14 million. For the year as a whole, the current account deficit widened from US$812.67 million in 2006 (6.5 percent of GDP) to US$1,884.72 million in 2007 (12.9 percent of GDP).

• The overall balance of payments recorded a surplus of US$413.11 million, mainly on account of capital inflows, including proceeds from issue of the debut sovereign bond on the international capital markets. This is compared with a similar surplus of US$415.12 million for 2006.
25. Private inward transfers - received by NGOs, embassies, service providers, individuals etc. - through the banks and finance companies for 2007 amounted to US$6.9 billion, a growth of 19.3 percent over the 2006 level.

- Of the total transfers in 2007, US$1.7 billion (24.9 percent) accrued to individuals, compared to 25.1 percent in 2006.

- Of the transfers through banks, the share of service providers was highest at 31.8 percent in 2007 but lower than the 38.0 percent in 2006.

26. Gross International Reserves (GIR) stood at US$2,836.6 million (including proceeds from the US$750 million sovereign bond issue), and this translates on average into goods and services import cover of 3.1 months.

27. In sum, the disinflation process came under stress especially in the fourth quarter of 2007. The economy withstood the cost price pressures from oil imports, some corrective tariff adjustments in the energy sector, food
inflation, and fiscal stimulus. The external payments position proved resilient, and GDP growth was robust with support from increasingly effective financial intermediation by the banking system.

28. Robust GDP growth was accompanied by an upturn in core inflation requiring some monetary tightening and continued monetary policy vigilance to secure the attainment of low and stable inflation within single digits range in the 18-month horizon. The inflation outlook in the coming months would be shaped by several factors including importantly the execution of the government budget for 2008. Close alignment of public spending with the flow of budgetary resources would capture the intent of the "Growth with Stability Compact" announced in the 2008 budget to minimize downside risks.

29. Given current trends in commodity prices, the stance of macroeconomic policies and the outlook for inflation, the Monetary Policy Committee has decided to maintain the Bank of Ghana Prime Rate at 13.5 percent.

Thank you for your attention