BANK OF GHANA
Monetary Policy Report
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CONTENTS

1. PREFACE

The Bank of Ghana's Monetary Policy Report is published twice a year following Monetary Policy Committee (MPC) meetings in May and in November. In between these two Monetary Policy Report publications, abridged Monetary Policy Summaries are published after each MPC meeting. The report discusses key economic factors deliberated on during the policy making process as well as risks and uncertainties to the inflation outlook. The aim of publishing the report and summaries is to provide the public with background materials which served as inputs for the policy decision making process and economic assessments at each MPC session. Through the publication of these documents, Bank of Ghana aims to promote accountability of its decision making and build understanding of the monetary policy formulation process among stakeholders.

Monetary Policy in Ghana

The primary objective of the Bank of Ghana is to pursue sound monetary policies aimed at price stability and creating an enabling environment for sustainable economic growth. Price stability in this context is defined as a medium-term inflation target of 8 percent with a symmetric band of 2 percent. This implies that headline inflation should range between 6 and 10 percent over the medium-term for the economy to grow at its full potential without excessive inflation pressures. Other tasks for the Bank of Ghana include promoting and maintaining a sound financial sector and payment systems through effective regulation and supervision. This is important for intermediation since risks associated with financial markets are taken into account in monetary policy formulation.

Monetary Policy Strategy

To achieve the objective of price stability, Bank of Ghana was granted operational independence to employ whichever policy tools were deemed appropriate to stabilise inflation around the target band. The Bank of Ghana's framework for conducting monetary policy is Inflation Targeting (IT), in which the central bank uses the Monetary Policy Rate (MPR) as the primary policy tool to set the monetary policy stance and anchor inflation expectations in the economy.

The MPC Process

The MPC is a statutorily constituted body by the Bank of Ghana Act to formulate monetary policy. The MPC consists of seven members – five from the Bank of Ghana (including the Governor who acts as the Chairman) and two external members appointed by the Minister of Finance. The MPC meets once in every two months to assess economic conditions and risks to the inflation outlook, after which a policy decision is made on positioning the MPR. Each MPR decision provides a signal of tightening (increase), loosening (decrease) or maintaining (no change) the monetary policy stance. The MPC meeting dates are determined well in advance at the beginning of each year. The policy decision is arrived at by consensus with each member stating reasons underlying a preferred rate decision. An MPC policy statement is published via a press release, and a press conference is held, after each MPC meeting to communicate and explain the decision of the Committee to the financial markets and the general public.

2. EXECUTIVE SUMMARY

At the September meeting, the Monetary Policy Committee of the Bank of Ghana decided to keep the monetary policy rate at 26 percent, and affirmed its commitment to take any necessary policy action to bring inflation back within the medium-term target band of 8±2 percent by mid-2017.

The decision of maintaining the policy rate reflects the September forecast which also assessed new available data on some economic indicators. The underlying assumptions for the forecast were:

- Widening negative output gap after adjusting for the revised GDP forecast for 2016 [expected to dampen inflation pressures through weaker aggregate demand];
- Slightly overvalued local currency (in real terms) [to support disinflation process];
- Marginal narrowing of the inflation gap after adjusting for the sharp decline in the July inflation numbers;
- Tight fiscal stance over the forecast horizon [expected to lower inflation pressures on the back of weaker aggregate demand];
- Improvement in risk premiums as sovereign spreads moderate; and
- Weak foreign demand with low foreign inflation and interest rates pointing to downside risks from the global economy.

Following these, the September forecast showed a slight inward shift to the second quarter of compared to the July forecast round. The shift in horizon was largely accounted for by the underlying assumptions of much tighter fiscal consolidation, lower growth and sustained stability in the foreign exchange market. These together with earlier assumptions of tight credit conditions, easing inflation expectations, no hikes in administered prices as well as continued improvement in the electricity supply, are expected to drive inflation down to the medium term target band of 8±2 percent by the mid-2017.

Recent price developments suggest that headline inflation is gradually trending downwards in line with forecasts but is still high relative to the target. The downturn is reflected in both food and non-food components. Food inflation, which had increased steadily for 25 months, declined for the first time in August mainly on account of favourable seasonal impact. Non-food inflation, however, remained sticky within a tight band of 24 – 25 percent before falling sharply to 21.2 percent in July as favourable base effects set in. In line with these trends, core inflation (headline inflation adjusted for energy and utilities) is also on a descent suggesting subdued underlying inflation pressures.

Provisional estimates suggest that pace of economic activity has moderated since the beginning of the year evidenced by data from both the Bank of Ghana and the Ghana Statistical Service (GSS). The quarterly real GDP numbers from the GSS show some moderation in the pace of growth, largely due to contraction in Industry, despite some positive growth in the Services and Agricultural sectors. In particular, the decline in industrial output partly reflects the lingering effects of the power supply constraints and crude oil production challenges associated with FPSO Kwame Nkrumah. These challenges are however phasing out and we should begin to see some gradual turnaround in industrial activities. Similarly, the Bank's Composite Index of Economic Activity (CIEA), which provides early indication of economic activity, has moderated. In view of these developments, the GSS revised its earlier real GDP projections for 2016 downwards from 5.4 percent to 4.1 percent, citing lower crude oil production and power supply bottlenecks. The downward revision is broadly in line with the model forecast which assumes a widening negative output gap for this year, until 2017 when economic conditions stabilise and the TEN oil fields are on full stream.

Taking into account new information since the July 2016 meeting, the MPC decided to maintain the policy rate while alluding to risks that may threaten the inflation outlook over the forecast horizon. The major risks were identified as unanticipated shocks emanating from ex-pump petroleum prices and utility tariff adjustments. This is because the intermittent upward adjustments in petroleum products and utility prices and their second round effects have broadly hindered the anticipated steady declines in inflation since the beginning of the year. However, continued stability in the foreign exchange market has helped moderate inflation pressures and eased inflation expectations. Heading towards the fourth quarter, the local currency is expected to remain relatively stable on the back of inflows from the pre-export cocoa facility, Eurobond issuance and development partners. The central path inflation forecast assumed marginal volatilities in the ex-pump prices as future crude oil prices are projected to remain fairly stable for the rest of the year. If these assumptions do not materialise, the inflation outlook could be compromised albeit in the short-term.

3. CURRENT DEVELOPMENTS

3.1 Domestic Price Developments

(i) Headline Inflation

The rate of inflation has declined sharply since the last review in May 2016 due to continued cedi stability, tighter credit conditions and easing underlying inflation pressures. From the peak of 19.2 percent in the first quarter of 2016 (17.7% in Dec. 2015), the pace of inflation has broadly slowed down. Inflation which stood at 18.9 percent in May 2016 declined to 18.4 percent in June and further down to 16.7 percent in July, driven by the tight policy stance and favourable base effects arising from the upward revision in petroleum products a year earlier. In August however, inflation rose marginally to 16.9 percent, mainly from non-food inflation.

The trends in inflation was influenced by developments in both food and non-food inflation. Food inflation which had increased steadily for 25 months declined for the first time in August mainly on account of favourable seasonal impact. Food inflation increased to 8.3 percent by March 2016 (8.0% in Dec. 2015), and then to 8.6 percent by June and July, before declining to 8.5 percent in August 2016. The ongoing harvest season is expected to instigate lower food prices in the immediate future.

Non-food inflation rose to 25.7 percent at the end of March 2016 from 23.3 percent in December 2015 and remained within a tight band of 24 – 25 percent till June 2016 reflecting volatilities in ex-pump petroleum products prices. In July, non-food inflation declined sharply to 21.2 percent and picked up marginally in August to 21.5 percent as the earlier supply side effects waned, currency stability impacted and favourable base effects set in.

Analysis of the contributions from the sub-indices to the overall consumer price index showed somewhat moderation in almost all the sub-indices since May 2016, with the exception of education, medical care & expenses and recreation & culture which exerted slightly higher upward pressures on inflation.

Fig. 1
Headline Inflation (y/y, %)
Headline inflation still above target band, despite some moderation…

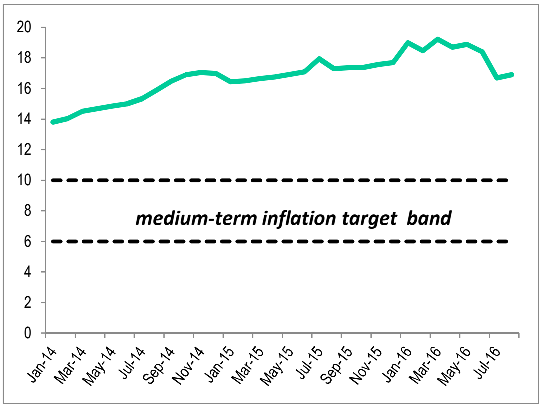


Fig. 2
Food and Non-Food Inflation (y/y, %)

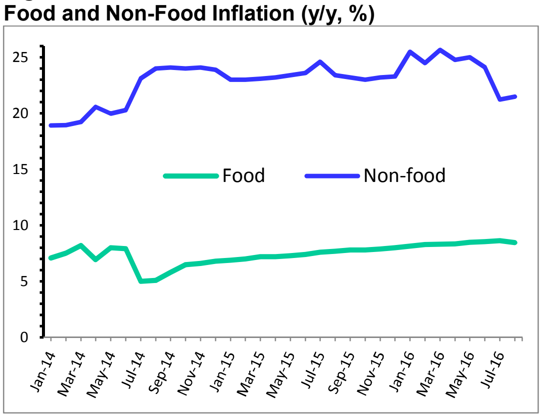
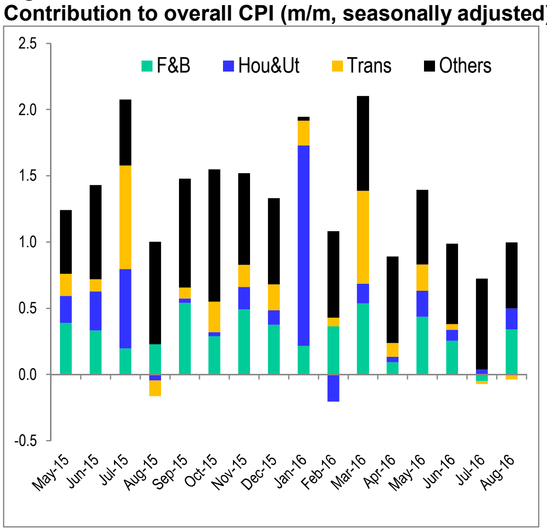
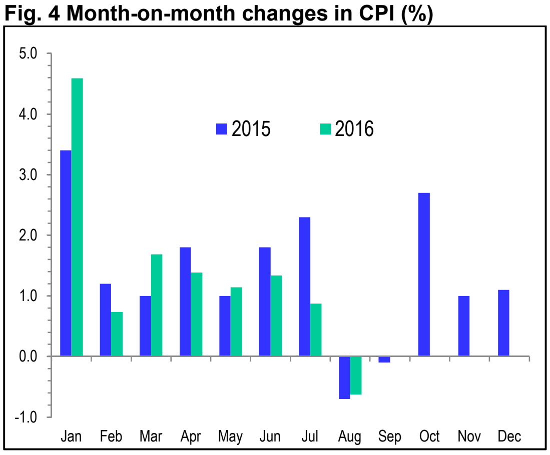


Fig. 3
Contribution to overall CPI (m/m, seasonally adjusted)



In terms of month-to-month changes in consumer prices, inflation in the first quarter of 2016 was higher than the same period a year earlier, largely reflecting the price effects of adjustments in the utilities, petroleum products and transport. An average monthly increase in inflation of 2.3 percent was recorded for the first quarter of 2016, compared to an average of 1.6 percent for the same period of 2015. Monthly inflation rate, however reduced in April to 1.4 percent, compared with 1.8 percent a year ago. Similarly, the seasonally adjusted sub-indices suggested easing inflation pressures in all the sub-components with the exception of food index.

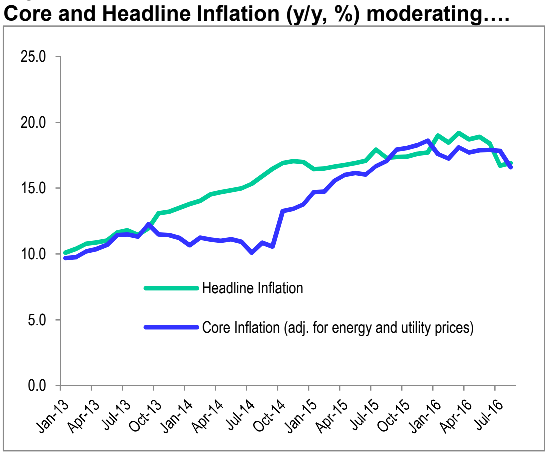
Fig. 4 Month-on-month changes in CPI (%)



(ii) Core Inflation

The core measure of inflation, which excludes energy and utility prices, declined in the review period, suggesting subdued underlying inflation pressures as currency stability is maintained and second round effects of earlier supply side shocks waned. Core inflation stabilised at 17.9 percent in May and June 2016 but declined marginally in July to 17.8 percent and further down to 16.6 percent in August, reflecting the sharp declines in prices of core items in the consumer basket. All the other measures of core inflation also declined over the period, indicating some easing of underlying inflation pressures. In August, the pace of increase in the core measures of inflation slowed significantly and ranged between 16.6 – 21.9 percent. This compares with core inflation measures of between 17.8 – 24 percent in July 2016.

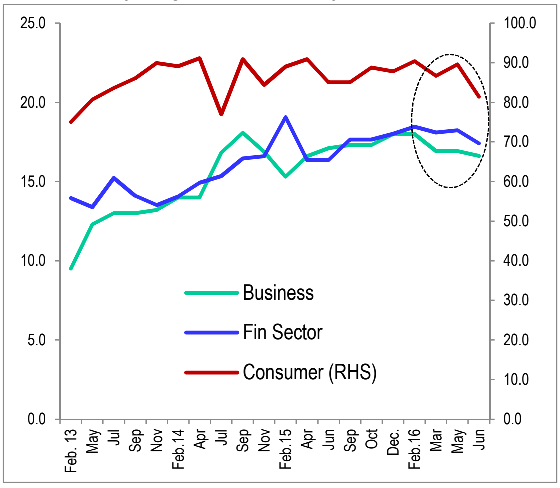
Fig.5
Core and Headline Inflation (y/y, %) moderating….



(iii) Inflation Expectations

On measures of inflation expectations, the Bank of Ghana's July/August 2016 round of surveys indicated significant improvement in the inflation expectations across the consumers, businesses and the financial sector. This was attributed to the continued stability in the exchange rate, improving electricity supply and a general improvement in the macroeconomic environment in the survey months. Sustaining the improving macroeconomic environment is expected to further dampen inflation expectations and in turn, support the disinflation process.

Fig. 6
Inflation expectations gradually trending down across sectors (July/August 2016 surveys)



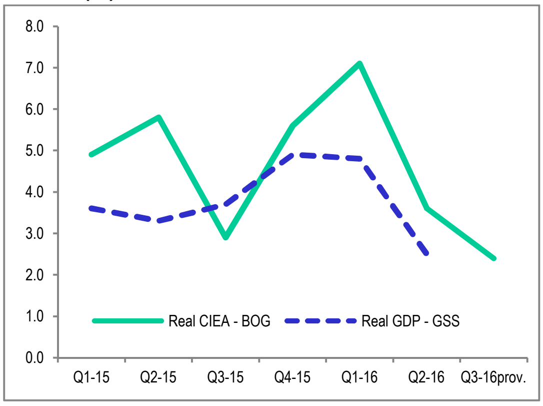
3.2 Domestic Growth Conditions

(i) Gross Domestic Product

The September GDP newsletter release by the GSS indicates that real GDP growth slowed to 2.5 percent in the second quarter, compared with 4.8 percent growth in the first quarter. The relatively weak growth in the second quarter was attributed to a 5 percent contraction in Industry, dragged down by the mining and quarrying subsector which contracted by 29 percent. Meanwhile, the other two main sectors, Services and Agriculture recorded annual growth rates of 6.1 percent and 4.1 percent respectively.

In terms of sector distribution to GDP, Services contributed 61.8 percent (60.9% in Q1), followed by Industry with 26.2 percent (26.4% in Q1) and Agriculture with 12.0 percent (25.7% in Q1).

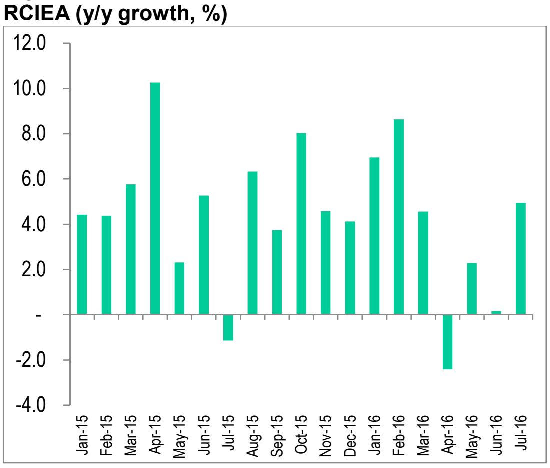
Fig. 7
Quarterly year-on-year growth continues to moderate in 2016 (%)



(ii) Composite Index of Economic Activity (CIEA)

The Bank's CIEA improved to 410.80 in July 2016, from 391.45 in July 2015. This represented an annual real growth of 4.9 percent compared with a contraction of 1.1 percent for the same period last year. The seasonally adjusted CIEA also inched-up to 395.78 in July 2016 from 392.41 in July 2015, suggesting a real growth of 5.8 percent, against a contraction of 2.4 percent same period last year. The key drivers of the growth in the CIEA were port Activities and industrial consumption of electricity.

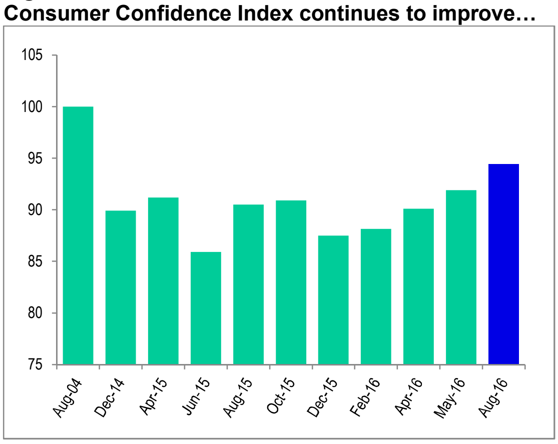
Fig. 8
RCIEA (y/y growth, %)



(iii) Consumer Confidence

The Consumer Confidence Index read 94.4 in August 2016 (Aug-04 = 100), up from 91.9 in May 2016. The uptick in consumer confidence was mainly due to favourable responses to current and expected changes in consumer prices, and enhanced sentiments about the current as well as expected economic situation. Consumers were, however, less optimistic about current household financial situation. On the intent to spend, consumers signalled they were unlikely to purchase household durables.

Fig. 9
Consumer Confidence Index continues to improve…



(iv) Business Confidence

The June 2016 edition of the Business Confidence Surveys pointed to a decline in the Business Confidence Index level to 95.5, from 97.1 in March 2016. The softening of business sentiments was mainly on account of moderated perception of the general economic situation, and unrealized expectations of business growth and industry performance. Businesses, however, were optimistic about current movements in prices.

3.3 Fiscal and Monetary Developments

(i) Fiscal Developments

The latest revisions to the fiscal data revealed stronger fiscal consolidation than earlier estimates for end-2015. The overall fiscal deficit ended at 6.3 percent of GDP instead of the provisional estimates of 6.7 percent of GDP, and compared with the target of 7.0 percent of GDP. The overall deficit is projected to end 2016 at 5.0 percent of GDP, against an initial forecast of 5.3 percent, reflecting mainly the upward adjustment of the projected nominal GDP from GH¢158.5 billion to GH¢166.8 billion in 2016.

However, provisional data for the first half of the year suggests that the execution of the budget is ahead of programme driven mainly by significant shortfall in government revenues reflected in the underperformance of income and property taxes and oil revenue. For the first six months of the year, Total Revenue and Grants amounted to GH¢15.6 billion (9.4% of GDP) compared with a target of GH¢18.1 billion (10.8% of GDP) while total expenditures and arrears clearance stood at GH¢20.8 billion (12.5% of GDP) relative to the target of GH¢22.3 billion (13.4% of GDP). As a result, the overall budget deficit was estimated at 3.1 percent of GDP, higher than the target of 2.6 percent of GDP. The deficit was financed mostly from domestic sources that included a drawdown on government deposits with the Bank of Ghana.

Major risks to the fiscal outlook include uncertainties in the international oil market, continued weakness in tax revenue mobilization and wage pressures. The materialization of these risks could slow the pace of fiscal consolidation and inhibit efforts to sustain macroeconomic stability. With government expenditures broadly contained, sustaining the fiscal consolidation process (which is critical to attaining the

Fig. 10
Business sentiments have softened slightly as the Business Confidence Index declines….

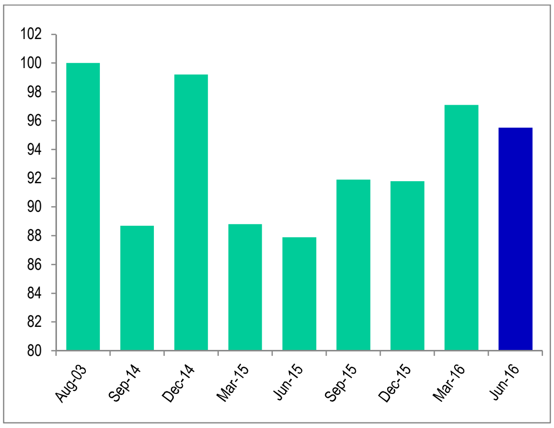


Fig. 11

Government Revenues and Expenditures (% GDP)
The first half year deficit was 3.1% of GDP, compared with 2.3% in the same period of 2015

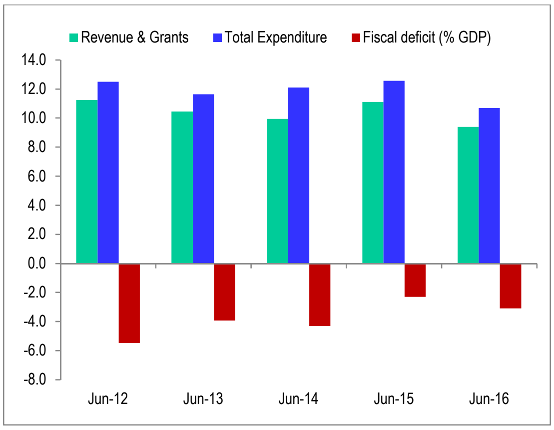
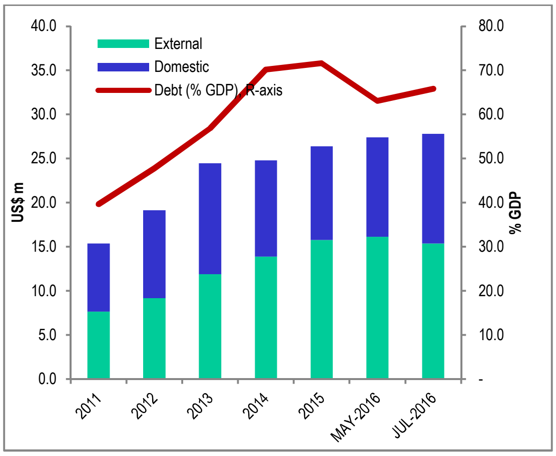


Fig. 12
Public Debt (% GDP) moderates in 2016 due to exchange rate stability and higher projected nominal GDP



medium-term inflation target) hinges on improved revenue mobilization in the second half of the year.

Available data indicates that the total public debt stood at US$27.8 billion (65.9% of GDP) at the end of July 2016, compared with US$26.4 billion (71.6% of GDP) at the end of December 2015. Of the total, Domestic debt accounted for almost 45 percent, compared with some 40 percent share in 2015. The rising share of domestic debt in total public debt is a positive development for long term debt sustainability for two main reasons. First, it would help minimize the potential impact of unanticipated redemptions, and secondly, lower the sensitivity of the public debt profile to exchange rate volatility.

(ii) Monetary and Financial Developments

Developments in the monetary aggregates showed some expansion in July compared to same period last year. Broad money supply (M2+) grew, year-on-year, by 25.9 percent in July 2016, compared with 18.6 percent in July 2015 but lower than the 28.6 percent annual growth recorded in December 2015. The increased in broad money supply was partly due to base drift effects as the cedi appreciated sharply in July 2015 relative to same period in 2016, thus minimising the year-on-year impact of foreign currency deposit on broad money supply.

Growth in narrow money (money supply excluding foreign currency deposits) also grew by 28 percent, year-on-year, against 16.7 per cent in July 2015 but lower than 30.1 percent recorded in December 2015. The trend in money supply growth was reflected in all the components with the exception of foreign currency deposits which grew at a slower pace by 20.4 per cent, compared to 23.9 per cent in July 2015 largely due to the stability in the domestic currency. In terms of sources of growth in broad money supply, Net Domestic Assets (NDA) of the banking system contributed 11.7 percent, down from 18.8 per cent in July 2015. Meanwhile, the contribution from Net Foreign Asset (NFA) increased significantly from negative 0.2 percent in July 2015 to 14.2 per cent in July 2016 due to significant increase in the NFA of the banking system.

Fig. 13
Components of Broad Money Supply (M2+) (y/y growth, %)

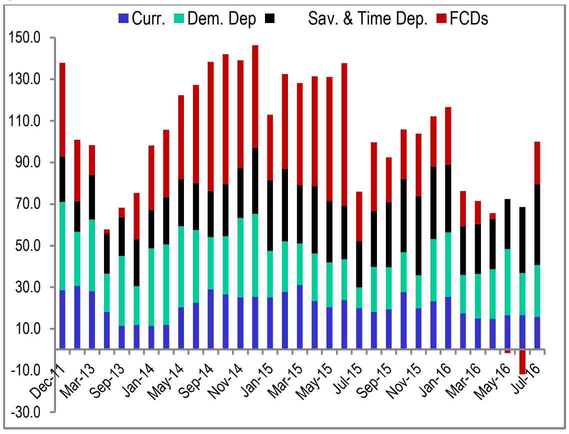


Fig. 14
NFA and NDA contribution to annual growth in Reserve Money (%)

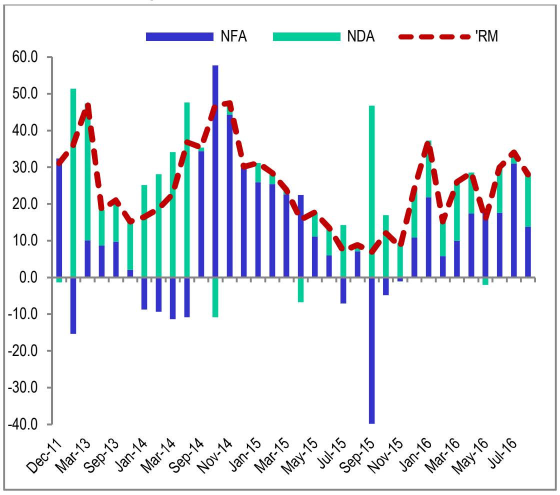
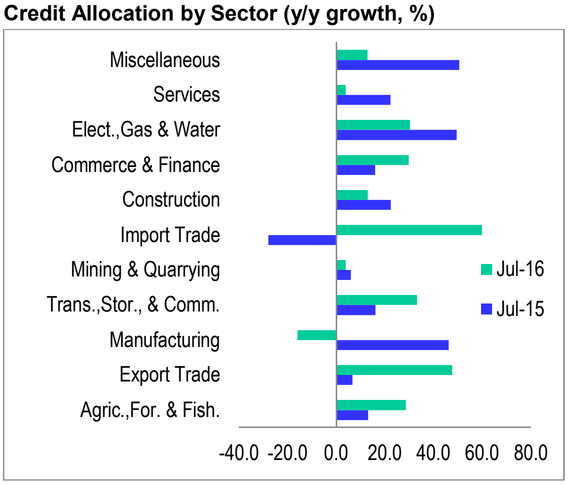


Fig. 15
Credit Allocation by Sector (y/y growth, %)



(ii) Developments in DMB Credit Allocation

The annual growth in Deposit Money Banks' (DMB) outstanding credit to the public and private institutions continued to moderate in an environment of tight policy stance and rising non-performing loans. Nominal annual growth of banks' total outstanding credit declined from 23.6 percent in July 2015 to 17.1 percent in July 2016.

In terms of the sub-sectors, credit to Import Trade recorded the highest growth of 59.9 per cent, followed by Export Trade which grew by 47.7 per cent. The rest are Transport, Storage, & Communication (33.1%); Electricity, Gas and Water (30.3%); Commerce & Finance (29.8%); Agriculture, Forestry & Fisheries (28.5%); Construction (12.9%); Miscellaneous (12.9%); Mining & Quarrying (3.8%); and Services (3.8%). Credit to Manufacturing, however, recorded a negative growth of 16 percent.

Private sector credit grew by 16 percent year-on-year, in July 2016, compared with 23.2 percent a year earlier. In real terms, private sector credit contracted by 0.6 percent year-on-year, compared with some 4.5 percent growth recorded in July 2015. Total outstanding credit stood at GH¢32,085.9 million at the end of July 2016, of which the private sector accounted for 87.5 percent.

(iii) Money and Capital Market Developments

The Monetary Policy Committee of the Bank left the Monetary Policy Rate (MPR) unchanged at 26.0 percent at the September meetings. In the view of the Committee, headline inflation was still high, compared with the medium term inflation target, hence the need to maintain the tight policy stance. Consequently, the interbank interest rate remained well aligned within the policy rate corridor. Interest rates in the money market however, continued to show mixed trends.

Cumulatively from January to July 2016, the 91-day Treasury bill rate decreased by 34.5 bps to 22.77 per cent. However, the 182-day T-bill rate went up by 25 bps to settle at 24.65 per cent. Similarly, rates on 1-year and 2-year notes increased by 25 and 70 bps respectively over the same period. Yields on the 3-year and 5-year GOG bonds also went up by respective 100 bps and 75 bps to settle at 24.50

Fig. 16
Private sector credit in nominal and real terms (y/y growth, %)

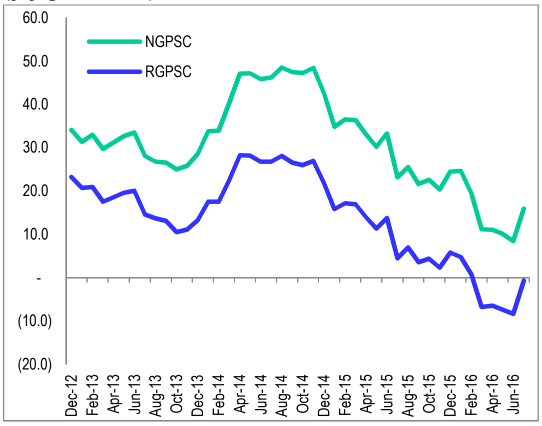


Fig. 17
Monetary Policy Corridor, %

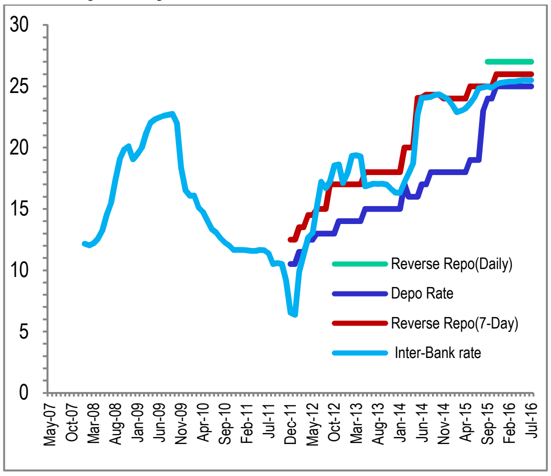
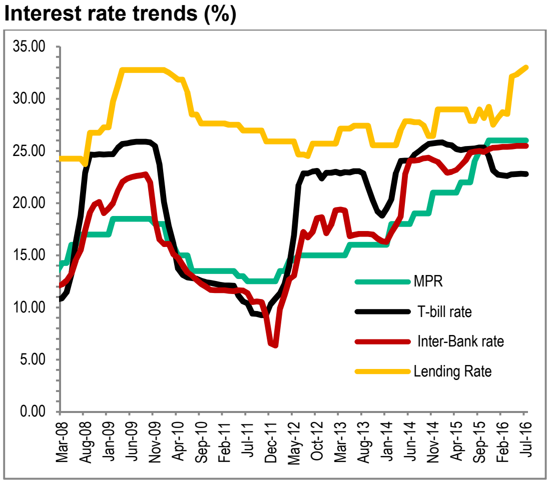


Fig. 18
Interest rate trends (%)



and 24.75 percent respectively. The interbank weighted average rate increased marginally from 25.31 percent in January 2016, to 25.5 percent in July 2016.

Deposit Money Bank's average 3-month time deposit rate remained unchanged at 13.0 percent, while the savings rate went up marginally from 6.08 percent in December 2015 to 6.50 percent at the end of July 2016.

In the year to August, trading activities on the capital market, continued at a moderated pace, keeping the index in the negative territory. On year-on-year basis, the Ghana Stock Exchange Composite Index (GSE-CI) declined by 23.2 percent, compared to a 2.1 percent decline in the same period of 2015. On monthly basis, the GSE Composite-index gained 9.1 points in August 2016 (or 0.5% growth) to close at 1,805.4 points. This compares with a loss of 3.05 points (or 1.2% decline) recorded in August 2015.

(iv) Exchange Rate Developments

Domestic Currency market

Developments in the nominal bilateral exchange rates showed that cumulatively from January to August 2016, the cedi depreciated by 3.8 percent and 6.0 percent against the US dollar and the Euro respectively, but appreciated by 8.0 percent against the pound sterling. These compare with cumulative depreciation by 18.4, 17.4 and 11.3 percent against the US dollar, the pound and the Euro respectively over the corresponding period of 2015.

The cedi performance in the year to September 30, 2016 indicated cumulative depreciation by 4.4 percent to the US dollar. This compares favourably with 14.8 percent depreciation in the same period of 2015.

Nominal Effective Exchange Rates

(a) Trade Weighted Index (TWI)

The Trade Weighted Index (TWI) is determined by the nominal value of the cedi relative to Ghana's top three trading currencies using total merchandise trade as weights. Over the first eight months, the TWI depreciated by 5.1 index points compared with a depreciation of 8.6 index points over the corresponding period in 2015.

Fig. 19
Ghana Stock Market All Share Index shows an upturn from the negative territory (y/y growth, %)

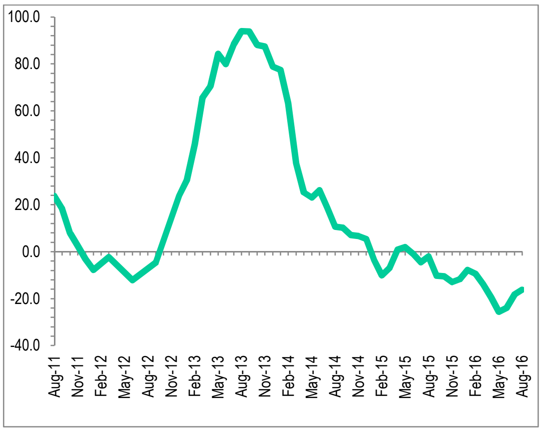


Fig. 20

Exchange rate stability holds firm… (y/y and m/m growth, %)

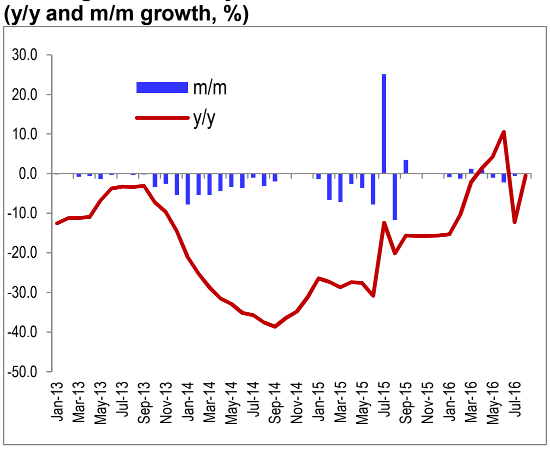
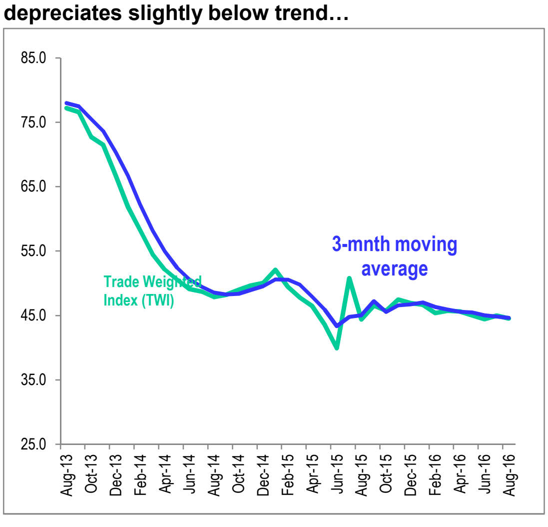


Fig. 21
The Core Trade Weighted Index for the Cedi depreciates slightly below trend…

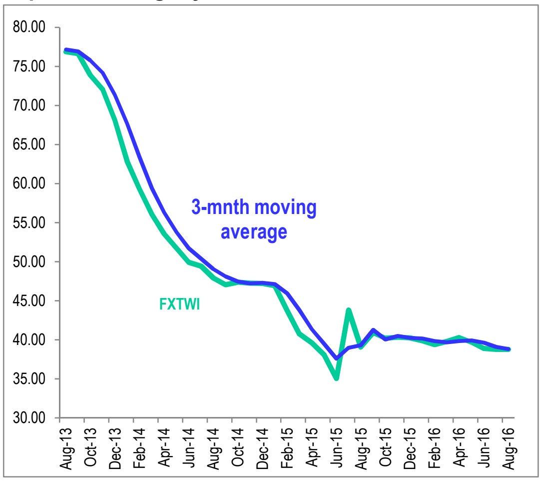


The August 2016 value of the TWI ended at 44.52, and was 0.12 index points below the quarterly trend represented by the 3-month moving average.

(b) Foreign Exchange Transactions Weighted Index (FXTWI)

Similar to the TWI, the FXTWI is computed using the value of foreign exchange transactions (purchases and sales) in the three core currencies as weights. In the year to August, the FXTWI showed that the cedi depreciated in foreign exchange transactions-weighted terms by 3.7 index points as compared to a depreciation of 14.8 index points in the corresponding period in 2015. The August 2016 index value of 38.76 was 0.05 index point below its quarterly trend represented by the 3-month moving average.

Fig. 22
The Core FX Trade Weighted Index for the Cedi depreciated slightly below trend….



Real exchange rate

In real terms, the exchange rate appreciated by 15.2, 37.3 percent and 14.9 percent in the year to August 2016 against the euro, the pound sterling and the dollar respectively. For the corresponding period in 2015, the cedi's real exchange rate appreciated by 11.8 percent and 0.5 percent against the euro and pound, but depreciated by 6.4 percent against the dollar.

3.4 Global Output and Financial Developments

The global growth prospects have weakened further following the UK vote to leave the EU. In Sub-Sahara Africa (SSA), the IMF's World Economic Outlook update in July 2016 sharply marked down growth projections, citing the challenging external macroeconomic and financial environment which has potential consequences for the domestic economy.

(i) Global Output Developments

Global growth prospects have weakened further after the better-than expected performance in the first quarter of 2016. In advanced economies, growth prospects have softened activities in emerging economies indicate some recovery. The major financial turbulence which occurred after Brexit has somewhat dissipated. High frequency data released since the Brexit vote have been particularly resilient in UK. However, the macroeconomic and financial effects of the ‘Brexit’ vote will fully emerge when the UK activates the Article 51 in 2017.

Economic activities in emerging market economies are gaining some cyclical momentum as uncertainties recede. Growth projections for 2017 point to a gradual emergence from recession across countries such as Brazil, Russia and South Africa. In SSA, growth prospects have been dampened by a combination of continued slowdown in commodity prices and weak global trade, as well as tighter external financing conditions.

Risks to the global economy are tilted to the downside and the fallouts from the Brexit vote, after the UK triggers the Article 51 clause, poses the biggest threat to the global outlook.

(ii) Global Commodity Prices

The commodity price index fell by 0.1 percent in August, as marginal gains in energy and metal prices were more than offset by decreases in agriculture prices (IMF’s commodity price forecasts, September 15, 2016).

Crude Oil

Crude oil prices averaged $46.76 per barrel in the year to August 2016, partly reflecting output disruptions. The average weekly price of the benchmark Brent crude over the period August 2015–August 2016 was $43.57 per barrel, presenting a 36.9 percent price decline from the average price of $68.99 over the same period a year ago. Owing to OPEC's supply cuts and lower demand, crude oil price is projected to stabilise around $40 - $50 per barrel.

Cocoa Beans

Weekly cocoa price movements on the London International Financial Futures Exchange (LIFFE) market were less volatile between the periods August 2015 to August 2016. On year-on-year basis, cocoa prices recorded a growth of 10.5 percent ending at £2,227.68 per tonne in August 2016. On the Coffee, Sugar and Cocoa Exchange (CSCE), the US dollar price of cocoa declined marginally by 0.6 percent to $2,904.00 per tonne on year-to-date basis.

Fig. 23
Commodity Price Indices (2000=100)
September recorded some marginal declines in gold and cocoa prices

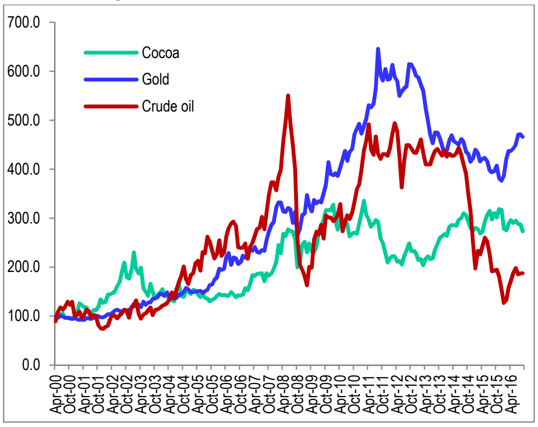


Fig. 24
Weekly Brent Crude Oil prices broadly range below 2015 levels ($/barrel)

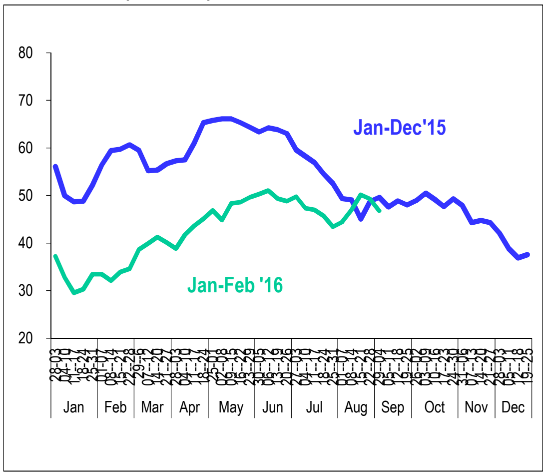
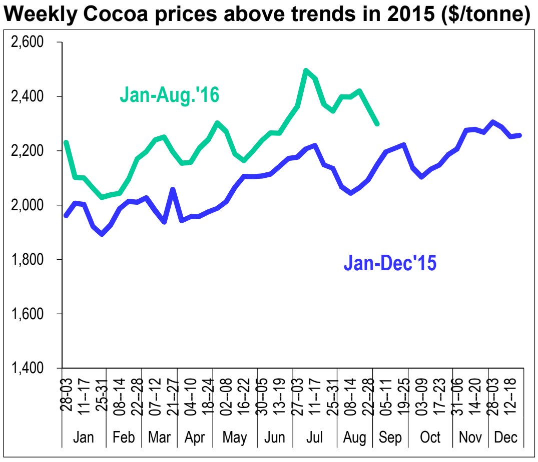


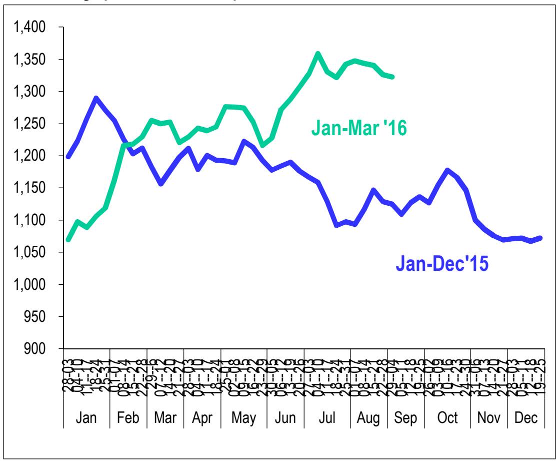
Fig. 25
Weekly Cocoa prices above trends in 2015 ($/tonne)



Gold

Gold prices has recovered somewhat in 2016, reflecting the growing incidence of volatility in global financial markets and the weaker US dollar against major currencies. The average weekly price increased marginally by 0.5 percent on year-on-year basis to $1,203.46 per fine ounce in August 2016. On year to date basis, the average weekly price increased by 10.1 percent to $1,319.39 fine ounce.

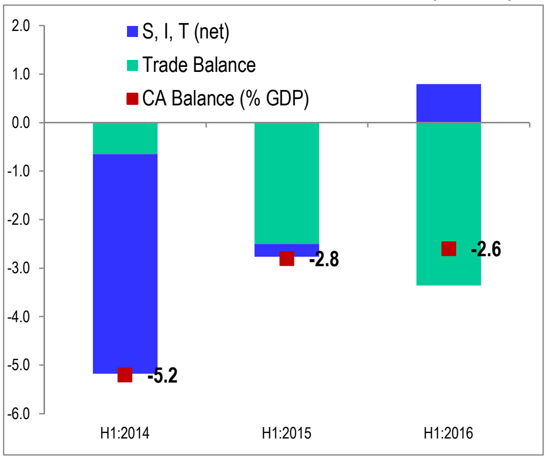
Fig. 26
Weekly Gold prices moved above 2015 trends in February ($/fine ounce)



(iii) Balance of Payments

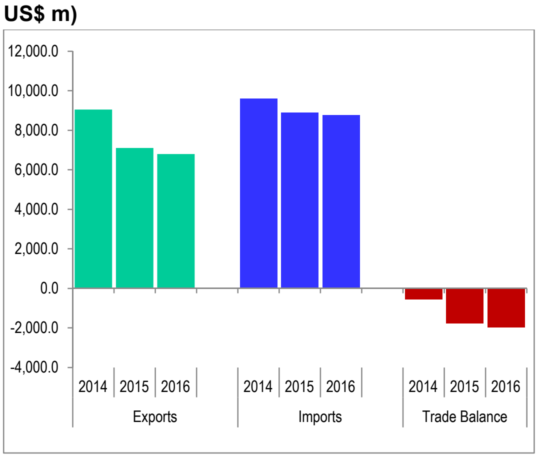
Provisional data showed a narrowing of the current account deficit, due to improvement in services. During the first half of 2016, the trade deficit deteriorated on the back of lower export earnings, especially for crude oil (both low price and volume effect) and cocoa (low volume effect). On year-on-year basis, export receipts declined by 9.4 percent in the first half, while imports declined marginally by 0.5 percent over the same period. Together, these developments resulted in a widening of the trade deficit in the first half of 2016 relative to the same period last year.

Fig. 27
Current account balance improves on the back of lower outflows from the services account (% GDP)



Despite the widening of the trade deficit, the current account deficit improved to an estimated 2.6 percent of GDP, mainly as a result of lower net outflows in the services and income account (on the back of lower oil prices). This compared favourably with the current account deficit of 2.8 percent of GDP in the first half of 2015. The capital and financial account improved mainly as a result of higher Foreign Direct Investment (FDI) and Portfolio investment inflows. However, the improvement in the capital and financial account for the was not enough to finance the current account deficit, resulting in an overall balance of payments deficit of US$798 million for the first half of 2016, against a deficit of US$1,606 million for the same period last year.

Fig. 28
Exports, Imports and Trade balance (Jan – August, US$ m)



Merchandise Trade for January – August, 2016

For the first eight months of 2016, the trade account provisionally recorded a deficit of US$1,976.1 million, compared to a deficit of US$1,778.4 million over the same period in 2015. The worsening trade balance continued to be driven by lower export earnings which more than offset the marginal decline in total imports over the period.

Merchandise export earnings for the period January to August 2016, totalled US$6,792.9 million, down from US$7,101.9 million recorded for the same period in 2015. The decrease in export receipts was mainly attributed to lower earnings from crude oil, cocoa beans and products, and 'other' exports. The provisional estimates of the value of merchandise imports amounted to US$8,769.0 million for the eight months in 2016, indicating a 1.3 percent decline in level recorded for the same period of 2015.

4. Growth Outlook

In the updated World Economic Outlook, the IMF projects slower growth in 2016, reflecting a more subdued outlook for advanced economies after the UK voted to leave the EU and weaker than expected growth in the United States. These developments have contributed to downward pressures on global interest rates, inflation and consequently the accommodative stance in monetary policy across major central banks is expected to prolong.

On the domestic front, the Ghana Statistical Service has revised downwards the 2016 growth projections to 4.1 percent, from the earlier forecast of 5.4 percent. The downward revision was based on lower gold and crude oil production forecasts, power supply bottlenecks and continued fiscal consolidation. By sectors, Agriculture is projected to grow at 3.6 percent (from 3.5%), Industry growth was revised downward to 0.8 percent growth (from 7%) due to the lower gold and oil production estimates, and Services growth remained almost unchanged at 6.0 percent, against earlier forecast of 5.9 percent.

5. Inflation Outlook

(i) Inflation Outlook

The latest Fan Chart forecast showed a slight inward shift in the inflation outlook compared to the July forecast round. Although the outturn from the July forecast round were broadly consistent with expectations, changes in the September forecast have been largely accounted for by the underlying assumptions of much tighter fiscal consolidation, lower growth conditions and sustained stability in the foreign exchange market over the forecast horizon.

Fig. 29
2016 GDP Growth projections revised downwards (y/y, %)

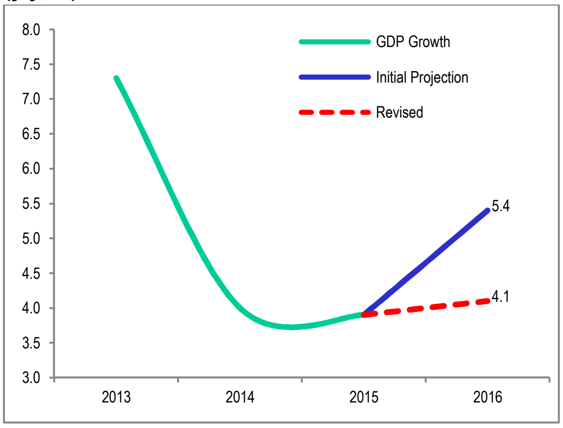


Fig. 30
2016 projected growth rates by Sector (%)

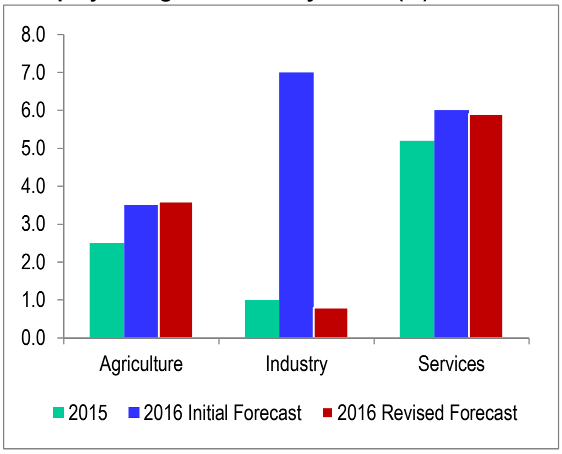
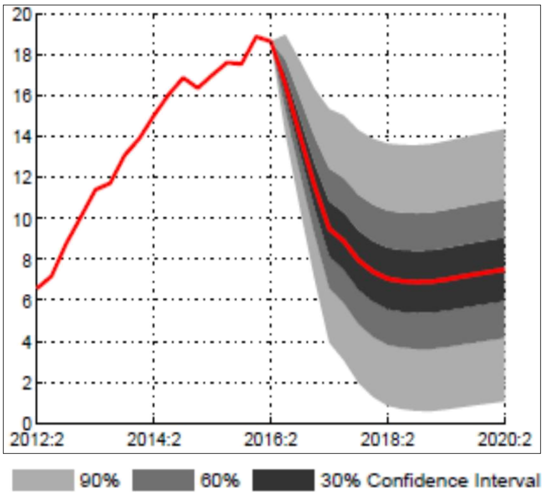


Fig. 31
Inflation FAN Chart Forecast, September 2016 update



The changes in the forecast assumptions together with earlier assumptions of tight credit conditions, easing inflation expectations, no unanticipated hikes in administered prices as well as continued improvement in the electricity supply, are expected to drive inflation down towards the medium term target band of 8±2 percent by the mid-2017. The MPC of the Bank of Ghana would not hesitate to take the appropriate policies, if warranted, to ensure that inflation moves within the target band of 6.0 – 10.0 percent by mid-2017.

(i) Inflation Risk Assessments

The risks to the outlook for inflation remain broadly unchanged from the last MPC; however, such risks may act in different directions.

On the **downside**, continued decline in core inflation and inflation expectations across the sectors are expected to actualise into lower inflation in the coming months. Further improvement in the core inflation and inflation expectations are needed to sustain the disinflation in the forecast horizon and this would require that the tight policy stance, stability in the currency, and improved power supply is continued in the immediate future.

Also, the developments in food prices during the harvest season will determine the extent to which food prices will evolve in September and October as the food season was derailed by the delays in rainfall. A good bumper harvest would dampen food prices and exert less pressure on inflation in the coming months.

The exchange rate which has been one of the key drivers of inflation in the recent past has continued to remain stable since August 2015. The stability of the currency is expected to be sustained in the forecast horizon, supported by the continued policy tightness, proceeds from the recently issued Eurobond, inflows from donors and the pre-export finance facility for cocoa. Again, the success achieved in breaking the cyclical exchange rate pressures in the first half year needs to continue into 2017. This will require maintaining the tight policy stance complemented by the enforcement of repatriation of export proceeds into the banking system to boost supply of foreign exchange. These, together with build-up of reserves especially during the last quarter of the year, will support the currency in the first half year of 2017 and dampen any possible price effects from cedi depreciation.

On the **upside**, the risks from the global economy remain driven by slower growth prospects in China, volatile commodity prices, as well as expected monetary policy tightening by the US Fed. These have the potential to transmit to the domestic economy through the trade and financing channels with implications for the balance of payments, budget execution and inflation. These risks could be mitigated by maintaining policy tightness while leveraging on expected huge inflows during the last quarter of the year to strengthen the stability of the domestic currency. Again, the expected increase in oil production from the TEN fields in 2016 and beyond would mitigate some of the shocks to the current account from those exogenous risks and thereby improve the external position of the country and stabilise the exchange rate.

In spite of the increased commitment to fiscal consolidation, some major risks to the fiscal outlook exist. These include the uncertainties in the international oil market; continued shortfalls in tax revenue mobilisation which is further worsened with slower pace of economic activity as well as emerging wage pressures. The materialisation of these risks could slow down the pace of fiscal consolidation and hinder efforts to restore macroeconomic stability.

The intermittent adjustments in the petroleum products and utility prices and their second round effects have broadly hindered the anticipated steady declines in inflation since the beginning of the year. Going forward, the uncertainty in the crude oil prices remains, although the currency stability is expected to hold supported by the foreign inflows in the last quarter of the year. These will help minimise increases in petroleum product prices and utility tariffs. The central path forecast assumed marginal volatilities in the ex-pump prices as future crude oil prices are expected to remain within tight range for the rest of the year. Anything short of this could distort the forecast albeit in the short-term. On the utilities, it is not yet clear at this stage if the current prices represent under/over pricing. However, the key drivers in the formula have somewhat been stable since the last review in the first quarter of 2016 with the exception of the generation mix which shifted more to crude from gas.

6. Conclusion

Taking into account all these factors, the Committee viewed risks to inflation and growth as balanced, and maintained the MPR at 26 percent at the September 2016 meeting. The Committee, however, acknowledged that maintaining the tight monetary policy stance, supported by exchange rate stability and continued fiscal consolidation is needed to sustain the disinflation process over the forecast horizon.

ANNEXES

Headline, Food and Non-Food Inflation (%)

	2013	2014	2015				2016			
	Dec.	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Jul	Aug
Headline Inflation	13.5	17.0	16.6	17.1	17.4	17.7	19.2	18.4	16.7	16.9
Food Inflation	7.2	6.8	7.2	7.4	7.8	8.0	8.3	8.6	8.6	8.5
Non-Food Inflation	18.1	23.9	23.1	23.6	23.2	23.3	25.7	24.1	21.2	21.5

Source: Ghana Statistical Service

Monthly Price Movements (%)

	Month	2013	2014	2015	2016
	Jan	3.7	3.9	3.4	4.6
	Feb	0.9	1.1	1.2	0.7
	Mar	0.5	0.9	1.0	1.7
Q1	**Avg.**	**1.7**	**2.0**	**1.9**	**2.3**
	Apr	1.6	1.7	1.8	1.4
	May	0.7	0.9	1.0	1.1
	Jun	1.5	1.6	1.8	1.3
Q2	**Avg.**	**1.3**	**1.4**	**1.5**	1.3
	Jul	1.3	1.6	2.3	0.9
	Aug	-0.7	-0.2	-0.7	-0.6
	Sep	-0.7	-0.2	-0.1	
Q3	**Avg.**	**0.0**	**0.4**	**0.5**	
	Oct	2.3	2.7	2.7	
	Nov	0.8	0.9	1.0	
	Dec	1.0	1.0	1.1	
Q4	**Avg.**	**1.4**	**1.5**	**1.6**	

Source: Ghana Statistical Service and Bank of Ghana computation

CPI Components (%)											
	Relative Importance (%)	2015		2016					Absolute Change in Inflation		
		Aug	Dec	Apr	May	Jun	Jul	Aug	Aug-16 Jul-16	Aug-16 Dec-15	Aug-16 Aug-15
Overall	**100.0**	**17.3**	**17.7**	**18.7**	**18.9**	**18.4**	**16.7**	**16.9**	**0.2**	**-0.8**	**-0.4**
Food and Beverages	**43.9**	**7.6**	**8.0**	**8.4**	**8.5**	**8.6**	**8.6**	**8.5**	**-0.1**	**0.5**	**0.9**
Non-food	**56.1**	**23.4**	**23.3**	**24.8**	**25.0**	**24.2**	**21.2**	**21.5**	**0.3**	**-1.8**	**-1.9**
Housing, Water, Elect, Gas & Fuels	8.6	23.5	24.3	35.8	35.7	32.8	25.4	28.1	2.6	3.8	4.6
Transport	7.3	25.3	27.0	40.4	40.9	40.3	27.2	27.4	0.1	0.3	2.0
Communications	2.7	14.1	14.0	12.9	13.3	12.5	13.0	12.0	-1.0	-1.9	-2.1
Alcoholic Beverages, Tobacco	1.7	21.5	19.2	15.5	16.0	15.1	16.4	14.6	-1.9	-4.6	-7.0
Health	2.4	16.5	14.7	13.7	13.9	13.9	14.6	14.2	-0.3	-0.4	-2.2
Recreation & Culture	2.6	25.9	26.9	28.1	27.9	27.4	28.3	27.2	-1.1	0.3	1.3
Hotels, Cafes & Resturants	6.1	20.6	18.9	14.4	14.4	14.9	15.5	15.1	-0.4	-3.8	-5.5
Clothing and footwear	9.0	25.1	24.1	23.0	22.8	22.6	24.3	22.8	-1.4	-1.3	-2.2
Miscellaneous gds & Serv.	7.1	20.7	21.7	14.8	15.4	15.5	17.1	14.2	-2.9	-7.5	-6.5
Furnish, H/H Equipt. Etc	4.7	24.9	25.8	21.5	21.8	21.4	23.0	22.0	-1.1	-3.8	-3.0
Education	3.9	25.6	26.8	30.9	32.3	33.3	35.4	34.1	-1.3	7.3	8.4

Source: Ghana Statistical Service and Bank of Ghana computation

Measures of Core Inflation	Relative Importance	2015				2016			
		Mar	Jun	Sep	Dec	Mar	Jun	Jul	Aug
Headline Inflation	**100.0**	16.6	17.1	17.4	17.7	19.2	18.4	16.7	16.9
Core 1: Inflation excl Energy and Utility	**94.9**	15.6	16.0	17.9	18.6	18.1	17.9	17.8	16.6
Core 2: Inflation excl Energy and Utility and Volatile Food Items	**77.3**	18.3	18.6	19.5	20.0	19.7	19.3	19.2	17.8
Core 3: Inflation excl Energy and Utility Volatile Food Items & Transportation	**73.1**	15.0	15.7	17.6	18.7	17.1	16.7	17.9	16.6
Core 4: Inflation excl All Food Items, Energy & Utility	**51.0**	22.2	22.8	26.1	25.9	24.9	24.3	24.0	21.9

Source: Bank of Ghana computation

BILATERAL MOVEMENT OF THE CEDI AGAINST CORE CURRENCIES									
Month				Monthy Changes (%)			Year-on-year changes (%)		
	Gh¢/$	Gh¢/£	Gh¢/€	Gh¢/$	Gh¢/£	Gh¢/€	Gh¢/$	Gh¢/£	Gh¢/€
2015									
Jan-15	3.2436	4.8986	3.6705	-1.2	1.6	6.1	-26.4	-20.1	-11.5
Feb-15	3.4745	5.3559	3.9001	-6.6	-8.7	-6.2	-27.3	-21.2	-11.1
Mar-15	3.7472	5.5483	4.0582	-6.7	-3.2	-3.9	-28.7	-19.8	-10.1
Apr-15	3.8493	5.9487	4.2917	-2.3	-6.0	-5.2	-27.4	-20.6	-10.3
May-15	3.9976	6.1048	4.3609	-3.1	-2.1	-1.4	-27.6	-18.7	-8.1
Jun-15	4.3364	6.8335	4.8489	-6.3	-8.7	-9.0	-30.8	-25.3	-15.6
Jul-15	3.4648	5.4211	3.8256	18.6	19.0	21.5	-12.4	-5.4	6.1
Aug-15	3.9231	6.0261	4.3938	-10.8	-9.2	-13.2	-20.1	-13.8	-6.1
Cum. Change (%) Jan-Aug				-18.4	-17.4	-11.3			
2016									
Jan-16	3.8311	5.4945	4.1825	-1.0	3.0	-0.5	-15.3	-10.8	-12.2
Feb-16	3.8787	5.4068	4.2525	-1.2	1.7	-1.6	-10.4	-0.9	-8.3
Mar-16	3.8304	5.5252	4.3456	1.2	-2.2	-2.1	-2.2	0.4	-6.6
Apr-16	3.7951	5.5361	4.2986	0.9	-0.2	1.0	1.4	7.5	-0.2
May-16	3.8337	5.6097	4.2700	-1.0	-1.3	0.6	4.3	8.8	2.1
Jun-16	3.9230	5.3052	4.3623	-2.3	5.7	-2.0	10.5	28.8	11.2
Jul-16	3.9469	5.1831	4.3756	-0.6	2.5	-0.3	-12.2	4.6	-12.6
Aug-16	3.9445	5.1612	4.3968	0.1	0.5	-0.5	-0.5	16.8	-0.1
Cum. Change (%) Jan-Aug				-3.8	8.8	-6.0			

Source: Bank of Ghana computation

MOVEMENTS OF SELECTED CURRENCIES AGAINST THE US DOLLAR (%)											
Pt-to-pt. (%)	Advanced Economies			Emerging Markets				SSA			
	Euro	Pound	Yen	Yuan	Rupee	Real	Rand	Kwacha	Gh. Cedi	Naira	Shilling
	Euro zone	UK	Japan	China	India	Brazil	S. Africa	Zambia	Ghana	Nigeria	Kenya
2015											
Jan	-5.8	-3.2	0.9	-0.4	1.0	0.3	-12.1	-2.2	-1.3	-0.8	-1.0
Feb	-2.3	1.2	-0.4	-0.5	0.2	-6.5	0.3	-4.2	-6.6	-6.5	-0.1
Mar	-4.7	-2.4	-1.4	0.2	-0.8	-10.2	6.8	-7.8	-7.3	-1.3	-0.3
Apr	0.0	0.1	0.7	0.6	-0.3	3.3	14.3	-0.8	-2.7	0.0	-1.8
May	3.1	3.2	-1.1	0.0	-1.6	-0.8	3.9	1.9	-3.7	0.0	-3.1
Jun	0.7	0.8	-2.3	0.0	-0.1	-1.6	-7.2	-0.9	-7.8	0.0	-2.3
Jul	-2.0	-0.1	0.3	0.0	0.3	-3.6	-5.1	-4.4	25.2	0.2	-2.5
Aug	1.3	0.1	0.3	-2.1	-2.4	-8.3	-12.5	-5.3	-11.7	0.0	-1.2
Jan-Aug (Cum)	***-9.6***	***-0.4***	***-2.9***	***-2.4***	***-3.7***	***-24.9***	***-13.8***	***-21.7***	***-18.4***	***-8.2***	***-11.7***
2016											
Jan	-0.3	-4.0	3.0	-1.9	-1.2	-4.3	-4.3	-3.2	-1.0	0.3	-0.1
Feb	2.3	-0.5	3.1	0.3	-1.3	2.3	2.3	-1.1	-1.2	0.0	0.3
Mar	0.2	-0.4	1.5	0.7	2.0	7.3	7.3	2.2	1.3	0.0	0.5
Apr	1.9	0.5	3.1	0.4	0.7	3.7	3.7	16.0	0.9	0.0	0.3
May	-0.3	1.5	0.6	-0.8	-0.7	0.6	0.6	-4.3	-1.0	0.0	0.5
Jun	-0.7	-2.3	3.4	-1.0	-0.6	3.5	3.5	-6.1	-2.3	-30.4	-0.4
Jul	-1.6	-7.5	1.1	-1.3	0.1	4.3	4.3	7.9	-0.6	-9.6	-0.2
Aug	1.4	-0.3	2.9	0.5	0.4	2.3	2.3	-2.2	0.1	2.5	-0.1
Jan-Aug (Cum)	***3.0***	***-12.6***	***20.3***	***-3.0***	***-0.6***	***21.1***	***8.8***	***7.5***	***-3.8***	***-35.4***	***0.8***

Source: Reuters and Bank of Ghana computation

Selected Economic and Financial Indicators									
	2015	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16
(Annual percentage change; unless otherwise indicated)									
National Income and Prices									
Real GDP	3.9	n.a	n.a	4.8	n.a	n.a	2.5	n.a	n.a
Real GDP_non-oil	4.1	n.a	n.a	6.7	n.a	n.a	6.2	n.a	n.a
Consumer price index (end of period)									
Overall	17.7	19	18.5	19.2	18.7	18.9	18.4	16.7	16.9
Food	8.0	8.2	8.3	8.3	8.4	8.5	8.6	8.6	8.5
Non-food	23.3	25.5	24.5	25.7	24.8	25.0	24.2	21.2	21.5
Exchange rate ($/¢): (end of period)	3.7944	3.8311	3.8787	3.8304	3.7951	3.8337	3.9230	3.9389	3.9445
Exchange rate depreciation (M/M)	-0.20	-0.96	-1.2	1.14	0.92	-1.00	-2.30	-0.40	0.10
Exchange rate depreciation (YTD, %)	-15.7	-0.96	-2.2	-0.9	-0.02	-1.03	-3.28	-3.67	-3.81
Money and credit									
Broad money supply (M2+)	26.1	28.7	23.0	18.1	16.1	16.7	12.0	25.9	na
Credit to the private sector	24.7	24.7	19.5	11.2	11.1	10.1	8.5	16.0	na
Real Credit to the private sector	5.9	4.8	0.8	-6.7	-6.1	-7.4	-8.4	-0.6	na
Interest rates (%)									
Monetary Policy rate	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0
Interbank rate	25.3	23.5	25.4	25.4	25.4	25.5	25.5	25.5	25.5
91-Day treasury bill rate	23.1	22.7	22.7	22.6	22.8	22.8	22.8	22.8	22.8
182-Day treasury bill rate	24.4	24.5	24.5	24.6	24.6	24.6	24.6	24.7	24.7
Average lending rate	27.5	28.2	28.2	28.6	32.1	32.3	32.7	33.0	33.0
3-month average Deposit rate	13.0	13.5	13.5	13.0	13.0	13.0	13.0	13.0	13.0
lending - deposit rate spread	14.5	14.7	14.7	15.6	19.1	19.3	19.7	20.0	20.0
External Sector (cummulative)									
Current account balance ($million)	-2,819	n.a	n.a	-480.7	n.a	n.a	-1,095.0	n.a	na
per cent of GDP	-7.8	n.a	n.a	-1.3	n.a	n.a	-2.6	n.a	na
Trade balance ($million)	-3,928.9	-249.2	-397.9	-773.7	-972.8	-1,274.9	-1,397.9	-1,665.5	-1,976.1
Commodity prices (International)									
Cocoa ($/tonne)	3,301	2,895	2,861	3,010.1	3,084.0	3,014.4	3,070.5	2,998.9	2,993.5
Gold ($/ounce)	1,069	1,098	1,199	1,243.0	1,242.8	1,256.2	1,275.2	1,338.3	1,339.2
Crude Oil ($/barrel)	38.9	31.9	33.4	39.8	46.9	47.7	49.9	46.6	47.2
Gross Foreign Assets (US$ m)	5,885.0	5,838.6	5,531.0	5,696.0	5,951.0	5,498.0	5,199.4	5,050.2	4,903.2
months of import cover	3.5	3.4	3.2	3.2	3.3	3	2.8	2.7	2.6
Net international reserves (US$m)	3,093.7	3,079.5	2,601.0	2,735.0	2,860.0	2,624.4	2,337.5	2,221.4	2,062.0
Fiscal (as at eop)									
Net Domestic Financing (GHS Million)	3,814.9	967.7	2,620.9	3,394.5	4,097.2	5,365.6	5,646.9	7,898.0	10,099.1
Per cent of GDP	2.9	0.6	1.7	2.1	2.6	3.4	3.56	4.74	6.06
Banking Sector									
Non-Performing Loan (NPL)	14.7	14.6	15.6	16.2	18.6	19.3	18.8	19.1	18.6
Non-Performing Loan(Excluding Loss)	6.8	6.5	7.6	8.3	10.4	11.5	10.9	11.0	10.6