BANK OF GHANA
Monetary Policy Report
Vol. 2.1

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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 and growth 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±2 percent. This implies that headline inflation should be aligned within the medium-term target band 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 with efficient 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 (as amended) to formulate monetary policy. The MPC consists of seven members – five from the Bank of Ghana (including the Governor who is the Chairman) and two external members appointed by the Board of the Bank. 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

Price developments in the first-four months of 2017 were broadly in line with the Bank's earlier forecasts which indicated that inflation would continue to trend downwards over the period. The May 2017 forecast by the Bank remained unchanged from the March forecast and inflation is still expected to gradually decline and reach the target band by 2018, barring any unanticipated shocks. The disinflation process is expected to be supported by monetary policy tightness, stability in the local currency and gradual improvement in the macroeconomic fundamentals. Although risks are broadly subdued, unanticipated shocks through administrative price adjustments may threaten the inflation outlook and require some policy actions.

At the MPC meetings which ended on May 22, 2017, the latest data showed that inflation picked up slightly in April, after six consecutive months of decline, reflecting the recent upward adjustment in transport costs. The continued downward trend in inflation is supported by the tight monetary policy stance, stability in the exchange rate and some base effects. Core inflation reflected similar trends and picked up slightly in April due to the higher transport costs after consecutive declines. The latest surveys indicated general easing of inflation expectations. In addition to these trends, volatility in the foreign exchange market observed at the last MPC meeting had eased significantly, supported by improved foreign exchange liquidity conditions and the trade surplus, with a more positive outlook based on significant expected inflows.

High frequency data showed a gradual turnaround in economic activity. The latest update of the Bank's Composite Index of Economic Activity (CIEA), which is a leading indicator for growth, suggested a faster pick up in the first quarter of 2017, relative to the same period last year. Indicators that accounted for the increase in the index were exports, private sector credit, port activities, cement sales and domestic VAT collections. In addition, the recent confidence surveys of both businesses and consumers showed some optimism on the economy's prospects.

Growth is gradually rebounding, evidenced by private sector credit growth, improved business sentiments and easing credit stance. Furthermore, increased oil production from both Jubilee and TEN fields and the coming on stream of further activity in the oil and gas sector from the Sankofa Gye Nyame (SGN) fields by the third quarter should improve the overall growth prospects. However, the growth outlook still remains below potential and downside risks include delay in recovery of commodity prices, operational challenges of crude oil production, and tight fiscal stance. Fiscal tightness may moderate aggregate demand pressures and provide some support to the disinflation process over the forecast horizon.

On the global front, growth prospects have improved for many countries and this is expected to continue through 2018, driven largely by a rebound in manufacturing, consumer confidence, global trade and higher commodity prices. While these conditions could provide some support to trade and growth in the domestic economy, the expected growth momentum in the United States could necessitate a faster pace of interest rate hikes, and in turn tighten global financing conditions with implications for the balance of payments outlook.

In the first four months of 2017, Ghana's trade account turned surplus on account of higher export receipts, especially from gold and crude oil coupled with lower non-oil import growth. This outturn is expected to impact the current account balance positively in the first half of the year.

To conclude the deliberations, the Committee pointed to recent developments which suggest that economic imbalances that existed at the end of 2016 were giving way to stronger fundamentals with economic activity expected to pick up in the period ahead, albeit below potential. The 2017 budget suggests a return to the path of fiscal consolidation which is expected to foster more stable macroeconomic conditions. Rigorous and steadfast implementation of the budget will therefore be critical to the outlook. On inflation, the Committee noted that headline inflation, and inflation expectations have broadly trended downwards supported by the tight policy stance and exchange rate stability. With a stable outlook for exchange rate movements and return to the path of fiscal consolidation, headline inflation is expected to trend towards the medium-term target in 2018, barring any unanticipated shocks. In view of these assessments, the Committee observed that the downside risks to growth outweighed the upside risks to inflation and therefore reduced the policy rate by 100 basis points to 22.5 percent.

3. CURRENT DEVELOPMENTS

3.1 Domestic Price Developments

(i) Headline Inflation

Headline inflation declined from 15.4 percent at end-December 2016 to 12.8 percent in March 2017. The consecutive decline in inflation during the first quarter of 2017 was broad based. Food inflation declined from 9.7 percent at the end of December 2016 to 7.3 percent by the end of March 2017. Similarly, non-food inflation declined from 18.2 percent to 15.6 percent over the same period. The observed disinflation process was influenced largely by monetary policy tightness, favourable base effects and stability in the exchange rate.

In April 2017, headline inflation inched up to 13.0 percent, due to a 15 percent increase in transport fares which took effect from 1st April 2017. The increase was reflected in non-food inflation which went up to 16.3 percent from 15.6 percent in March driven mainly by local non-food items as the upward adjustment in transport fares took effect. Food inflation, however, eased further to 6.7 percent in April 2017, reflecting declines in both local and imported food items.

On the CPI components, most of the sub-indices exerted downward pressure on inflation during April 2017, with the exception of transport, communication and miscellaneous goods and services that exerted greater upward pressures on inflation, reflecting the upward adjustments in transport fares.

In the first quarter of 2017, month-on-month changes in consumer prices were lower than the same period a year earlier, on account of favourable base effects. On the average, monthly inflation eased to 1.6 percent during the first quarter of 2017, from an average of 2.3 percent recorded for the same period in 2016. However, monthly inflation rate rose to 1.6 percent in April 2017, from 1.4 percent recorded in the corresponding period of 2016. Similarly, the seasonally adjusted sub-indices suggested upward inflation pressures in April, which was mainly driven by the transport and medical care sub-components.

Fig. 1
Headline Inflation (y/y, %) *consistently declines*

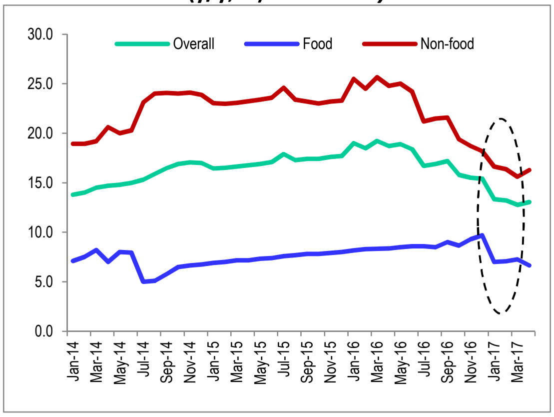


Fig. 2
Month-on-Month Consumer Price Changes (%)

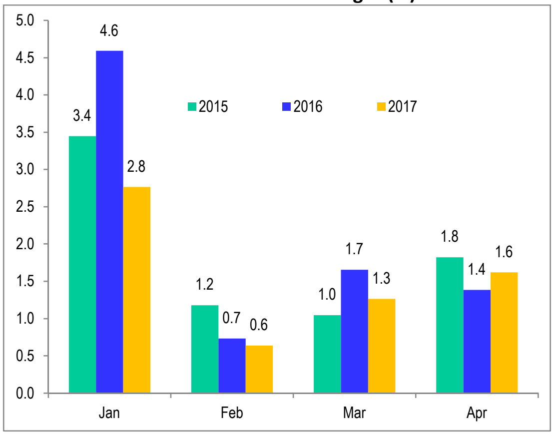
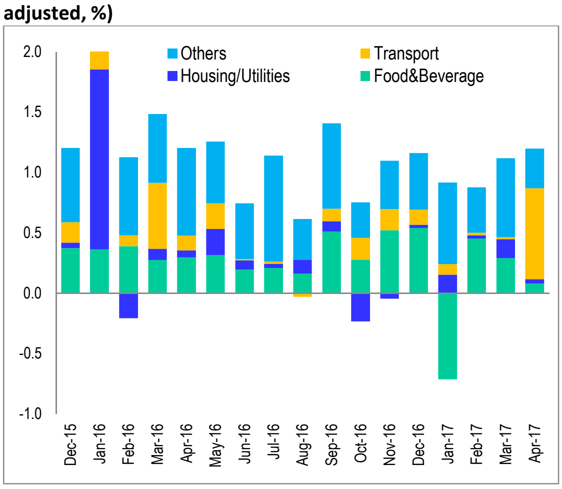


Fig. 3
CPI Components Contribution to Monthly Inflation (seasonally adjusted, %)



(ii) Core Inflation

The review period also witnessed a general decline in core inflation (CPI excluding energy and utility prices) partly due to the tight policy stance and relative stability in the exchange rate. The core inflation declined from 14.6 percent at end-December 2016 to 13.4 percent at end-March 2017, but went up to 13.7 percent in April on account of the upward adjustment in transport fares.

(iii) Inflation Expectations

The latest surveys conducted in April 2017 showed mixed results on inflation expectations. Businesses and the financial sectors' inflation expectations improved significantly, while consumer inflation expectations worsened. The favourable inflation expectations outcome from business and financial sector was largely due to relative stability in the foreign exchange market, tight policy stance, as well as renewed confidence in the economy following the successful election and smooth transition of power. However, the recent upward adjustment in transport fares may have weighed heavily on consumer inflation expectations. This notwithstanding, the overall inflation expectations index (combination of businesses, consumers and financial sector) declined further to 99.7 in April 2017 from 108.7 in February 2017.

3.2 Domestic Growth Conditions

(i) Gross Domestic Product

Provisional GDP estimates from the Ghana Statistical Service showed that the economy expanded by 3.5 percent in 2016, compared to 3.8 percent in 2015. The relative slower growth outturn was mainly attributed to disruptions in oil and gas production and lower than projected commodity prices. In terms of sector contribution to GDP in 2016, the services sector contributed 53.2 percent (54.4% in 2015), followed by industry with 24.2 percent (25.3% in 2015) and agricultural sector with 22.6 percent (20.3% in 2015).

The economy grew by 4.1 percent in the fourth quarter of 2016, compared to 3.9 percent the same period in 2015. The relative improvement in economic activity during the fourth quarter largely reflected improvement in power generation. Services recorded the highest growth of 6.3 percent, followed by Industry (3%) and Agriculture (1.9%).

Fig. 4
Core and Headline Inflation broadly declines..... (%)

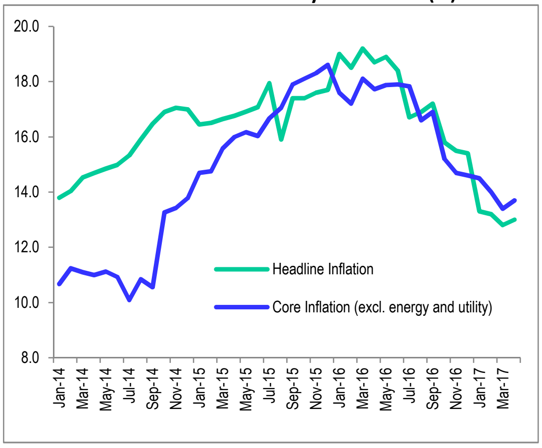


Fig. 5
Aggregated Inflation Expectation Index trending down (June 2010=100)

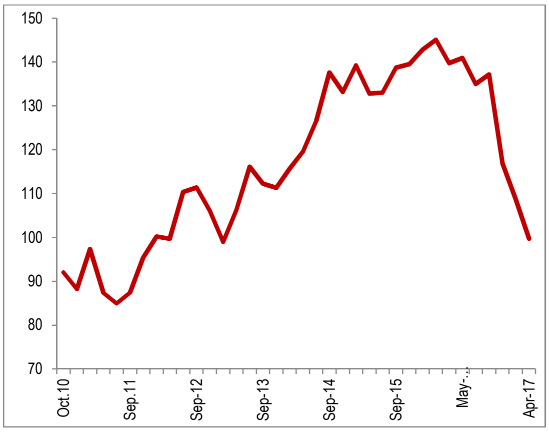
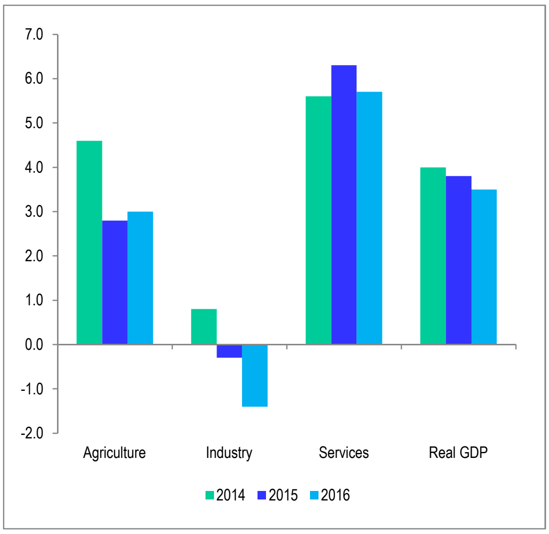


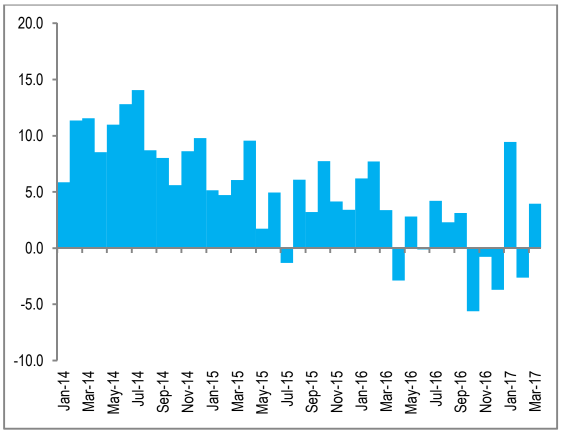
Fig. 6
Real GDP growth weakened further in 2016 (y/y, %)



(ii) Composite Index of Economic Activity (CIEA)

The Bank's leading indicator of economic activity—the CIEA—picked up to a level of 442.33 in March 2017, from 425.48 recorded in March 2016. This represented a year-on-year growth of 4.0 percent, compared with a growth of 3.4 per cent a year ago. The increase in the CIEA during the review period was mainly occasioned by pick-up in DMBs credit to private sector, cement sales, domestic VAT, workers contribution to SSNIT, exports and tourist arrivals.

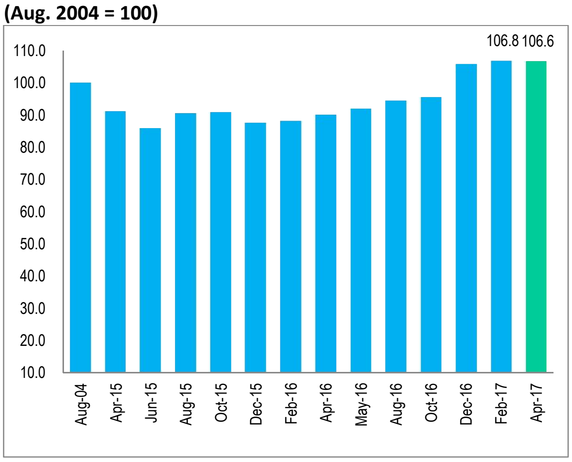
Fig. 7
The pace of growth in the CIEA picks up in the first quarter of 2017 (y/y, %)



(iii) Consumer Confidence

Consumer confidence stabilised at an index level of 106.6 in April 2017. It was 106.8 in February 2017. The marginal moderation of Consumer Confidence in April 2017 was attributed to some softening of consumer's economic outlook and welfare sentiments, as well as waning consumer expectations. Consumers, however, expressed optimism about the current economic situation.

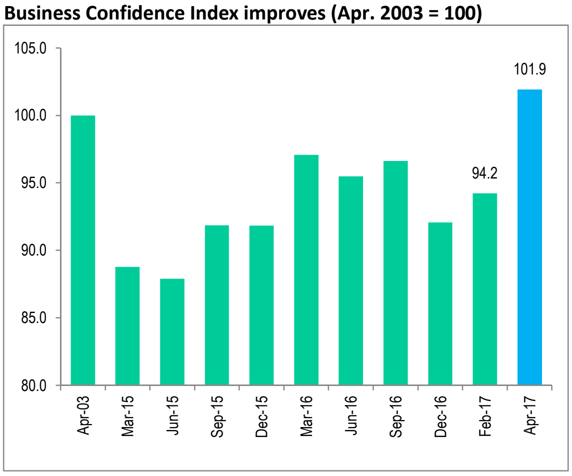
Fig. 8
Consumer Confidence Index moderates slightly (Aug. 2004 = 100)



(iv) Business Confidence

The Business Confidence Index picked up from 94.2 in February 2017 to 101.9 in April 2017, driven by positive prospects for capital outlay, employment, industry performance, sales, profit and bright outlook of the economy in the short to medium term. Businesses were also able to realise most of their expectations. Also, the April 2017 survey results indicated a downward trend in business inflation expectations. However, businesses expressed some concerns about current trends in Deposit Money Banks interest rates and sustaining stability in the foreign exchange market.

Fig. 9
Business Confidence Index improves (Apr. 2003 = 100)

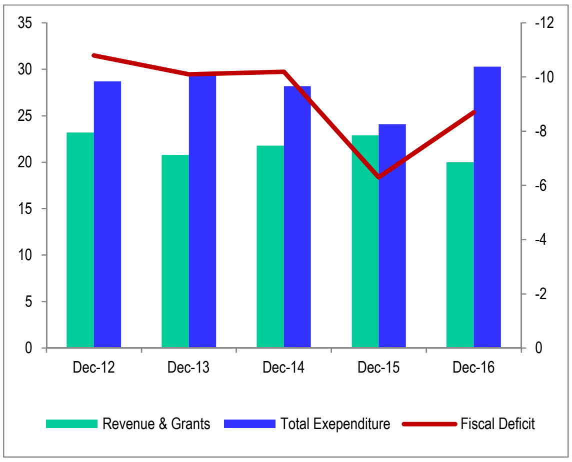


3.3 Fiscal and Monetary Developments

(i) Fiscal Developments

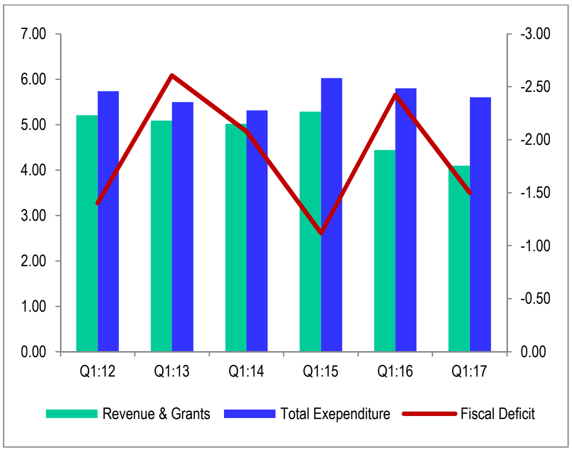
Fiscal consolidation efforts weakened in 2016 on the back of revenue shortfalls and expenditure slippages. Total revenue and grants amounted to GH¢33.7 billion (20% of GDP) compared with a target of GH¢37.9 billion (22.7% of GDP) while total expenditures amounted to GH¢51.1 billion (30.3% of GDP) against a target of GH¢44.0 billion (26.4% of GDP). The fiscal deficit outturn for 2016 was therefore provisionally estimated at 8.7 percent of GDP, on cash basis, higher than the target of 5.0 percent of GDP which confirmed the deviation of the fiscal position from the generally improved trajectory since the near 11 percent deficit recorded in 2012.

Fig. 10
Fiscal consolidation efforts weakened in 2016 resulting in a cash deficit of 8.7% of GDP compared with 6.9% in 2015



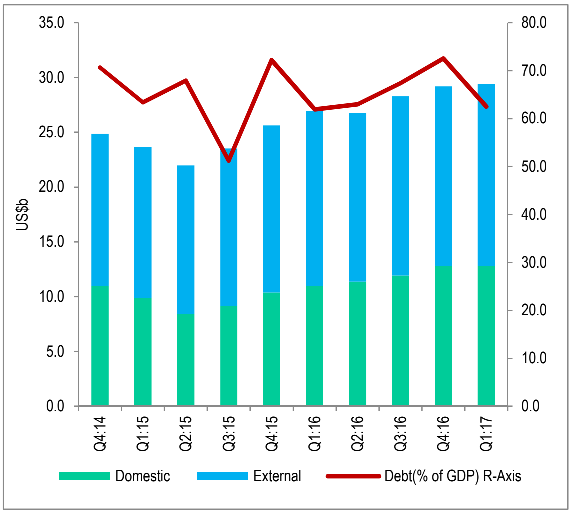
In the first quarter of 2017, however, provisional data showed that the execution of the 2017 budget was broadly in line with the objective of returning to the path of fiscal consolidation following the fiscal slippages of 2016. Government fiscal operations in the first quarter of 2017 indicate a cash deficit of 1.5 percent of GDP, consistent with the set target for the period. This was on the back of improved expenditure alignment to revenues. For the period, total Revenue and Grants amounted to GH¢8.4 billion (4.1% of GDP), representing a 14.3 percent below the target of GH¢9.8 billion (4.8% of GDP), while total Expenditures of GH¢11.4 billion (5.6% of GDP) was also 11.5 percent below the programmed target.

Fig. 11
First quarter 2017 reflected a return to path of fiscal consolidation, deficit/GDP ends at 1.5% of GDP



Total public debt at the end of March 2017 stood at US$29.43 billion (62.5% of GDP) compared with US$26.83 billion (61.5% of GDP) at the end of March 2016. Of the total public debt, the domestic component accounted for 43.4 percent in March 2017 compared with 40.3 percent in March 2016. The rising share of domestic debt in total public debt could help moderate the sensitivity of the public debt to exchange rate volatility.

Fig. 12
Public Debt to GDP ratio stabilizes in Q1:17, compared with Q1:16

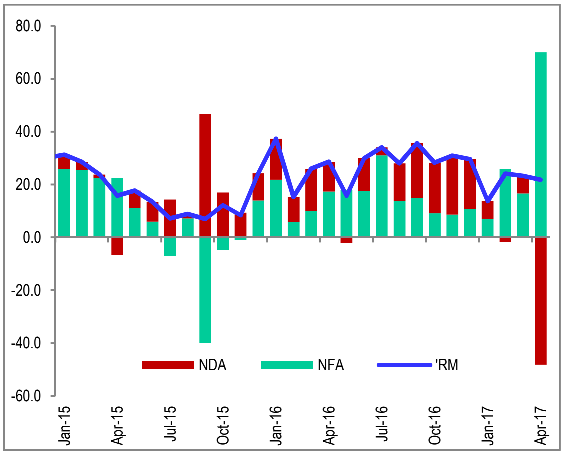


(ii) Monetary and Financial Developments

Annual growth in reserve money slowed to 21.7 percent in April 2017 from 23.2 percent in March. The slower pace of growth was driven mainly by Net Domestic Assets (NDA) of the Bank of Ghana which contracted by 47.8 percent in April 2017, compared with a 6.6 percent growth in March, while Net Foreign Asset (NFA) increased from 16.6 percent to 69.6 percent over the same period in 2016.

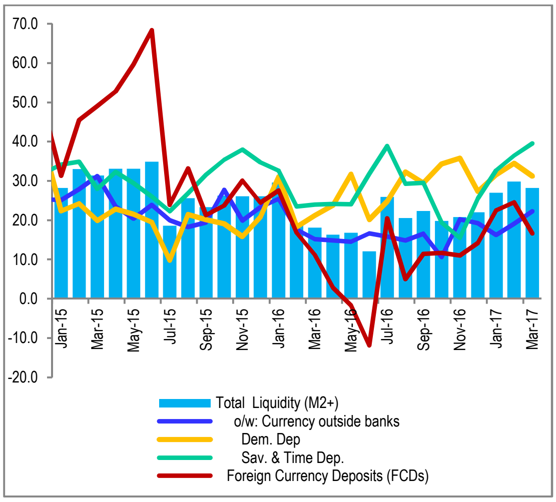
Broad money supply (including foreign currency deposits) growth also moderated 28.2 percent in March 2017 from 29.9 percent in February 2017, but was higher compared to 18.1 percent a year ago. In terms of components, currency in circulation, savings and time deposits grew by 35.6 percent in March 2017 compared to 35.9 percent growth in February. The pace of growth in foreign currency deposits moderated to 16.6 percent in March 2017 compared to a growth of 24.6 percent over the same comparative period. Broad money supply (M2+ excluding foreign currency deposits) grew at a faster pace of 32.5 percent in March 2017 compared to 31.8 percent in February 2017 and 20.8 per cent a year ago.

Fig. 13
Annual reserve money growth moderates (%)



In terms of sources of M2+ growth, NDA of the banking system went up by 23.9 percent in March 2017 compared with 13.7 percent growth in March 2016. This was on account of increases in net claims on government which grew by 10.5 percent in March 2017 against a negative growth of 7.6 percent a year earlier. NFA also recorded an annual growth of 43.5 percent relative to 36.8 per cent growth recorded in March 2016.

Fig. 14
Pace of growth in broad money supply (M2+) increases in y/y terms (%)

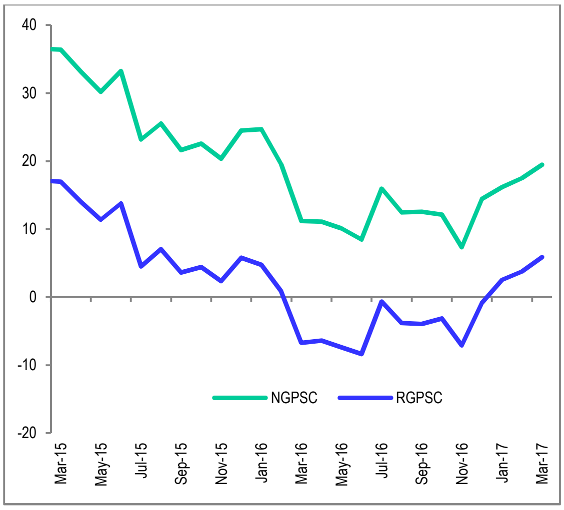


(iii) Developments in DMB Credit Allocation

Banks' outstanding credit to the public and private institutions picked up in March 2017 to 19.3 percent from 12.3 percent in the same month of last year.

Private sector credit growth was 19.4 percent year-on-year against 11.2 percent recorded a year earlier. In real terms, private sector credit growth was 5.9 percent in March 2017, compared with a decline of 6.7 per cent in March 2016. Total outstanding credit stood at GH¢36,001.2 million at the end of March 2017, of which the private sector accounted for 86.1 percent.

Fig. 15
Private sector credit growth rebounds (y/y, %)



In terms of sector distribution of outstanding private sector credit, the Commerce and Finance sector held the largest share of 20.7 percent share followed by Services (20.0%), Construction (11.3%), Miscellaneous (10.1%), Electricity, Gas & Water (9.7%) and Manufacturing (9.0%). The others were Import Trade (6.5%), Transport, Storage and Communication (5.5%), Agriculture, Forestry and Fisheries (3.8%), Mining and Quarrying (2.6%) and Export Trade (0.8%).

(iv) Money and Capital Market Developments

The MPR of the Bank of Ghana was cut by 200 basis points (bps) from 25.5 percent to 23.5 percent in March 2017. In response, the interbank weighted average rate fell by 187 basis points to 23.34 percent in April from 25.21 percent in February. The interbank weighted average rate, therefore, remained well aligned within the policy rate corridor.

Short-term interest rates in the money market continued to show mixed trends. Treasury securities broadly declined in April 2017. Treasury securities broadly declined in March on both month-on-month and year-on-year basis. The 91-day and 182-day Treasury-bill rates as well as the 1-year and 2-year Treasury notes all fell by 41bps, 37bps, 75bps and 33bps respectively on a month-on-month basis. The 7-year bond rate increased by 175bps; while the rates on the 3-year and 5-year notes and the 10-year bond remained unchanged.

On an annual basis, the 91-day and 182-day Treasury-bill rates, the 1-year and 2-year notes, and the 3 and 5-year bonds declined by 629bps, 782bps, 475bps, 305bps, 300bps, and 600bps respectively to 16.47, 16.77, 18.25, 21, 21.5, 18.75 percent. The 7-year bond rate, however, increased by 175bps to 19.75 percent and the 10-year bond which was issued in November 2016 remained unchanged at 19 percent. In April 2017, a 15-year bond was issued at 19.75 percent to lengthen the yield curve.

The interbank weighted average rate experienced a decline of 209bps month on month and fell 151bps on an annual basis to end April 2017 at 23.34 percent. The decline in the rate was in response to the 200bps cut in the policy rate.

Deposit Money Banks' average 3-month time deposit rate was higher by 25bps on monthly and 225bps on annual basis, ending at 15.25 percent in April 2017. The savings rate also went up by 105bps and 150bps on respective monthly and annual basis to end April 2017 at 7.55 percent.

The average lending rate fell by 81bps month-on-month in April 2017 to 30.50 percent. The rate was also down 164bps from 32.14 percent in April 2016. The spread between the 3-month time deposit rate and lending rate decreased by 106bps in April 2017 to 15.25 percent when compared to March 2017 and was also 389bps lower when compared to April 2016.

Fig. 16

Monetary Policy Rate declining (%)

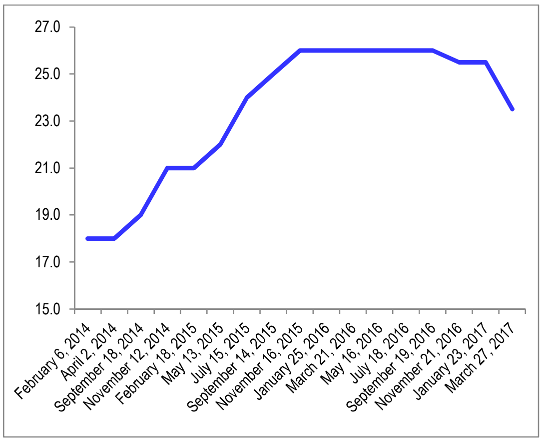


Fig. 17

Monetary Policy Corridor (%)

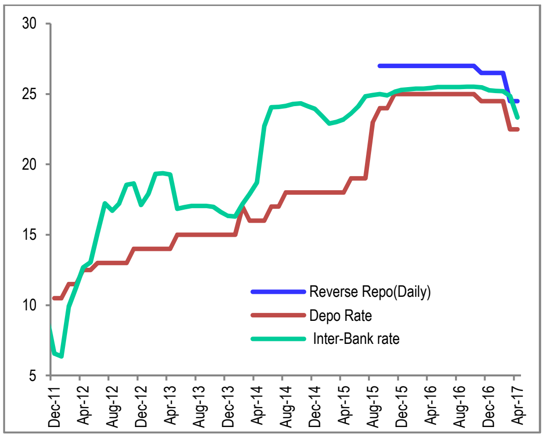
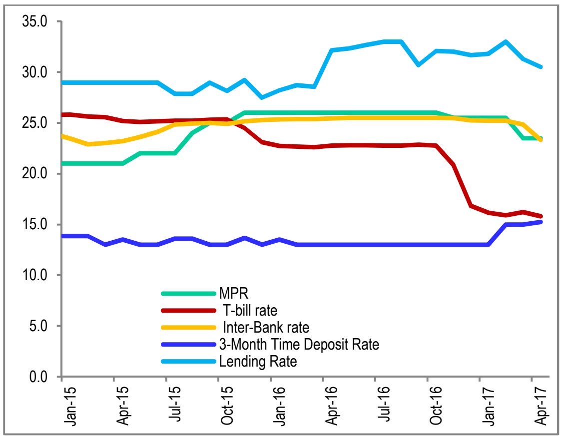


Fig. 18

Interest rate trends (%)



Stock market activities continued to show improvement on year-on-year terms. The market appears to be rebounding as annual changes in the Ghana Stock Exchange Composite Index (GSE-CI) in April moved into positive territory.

The GSE-CI grew by 3.7 percent on a year-on-year basis to close at 1,896.1 points in April 2017. Year-to-date, however, the Index gained 207.04 points from 1,689.1 points in December 2016. On a month-on-month basis, the GSE-CI gained 31.12 points from 1,865.0 points in March 2017.

(v) Exchange Rate Developments

Domestic Currency market

Developments in the nominal exchange rates of the cedi against the three core currencies – the US dollar, the pound sterling and the euro – showed that from January to April 2017, the cedi cumulatively depreciated by 2.7 percent and 4.1 percent against the Euro and the pound respectively, but appreciated by 0.3 percent against the dollar. During the same period in 2016, the cedi had depreciated by 1.6 percent against the pound sterling and appreciated by 0.02 and 3.4 percent against the US dollar and the Euro respectively. The sharp rebound in the currency was attributed to continued tight policy stance, and portfolio inflows amid improved sentiments on the economic prospects.

Real Effective Exchange Rates

The major (or core) Trade Weighted Index (TWI, January 2002=100) is an index measure of the nominal value of the cedi relative to Ghana's top three trading currencies combined – the Euro, the pound and the US dollar. For the month of April 2017, the cedi appreciated by 2.1 index points in trade-weighted terms, compared with 2.78 index points appreciation same period last year.

The Foreign Exchange Trade Weighted Index (FXTWI) uses the value of total foreign exchange transactions (that is, purchases and sales) in the three core currencies as weights. The FXTWI showed that in April 2017, the cedi depreciated in foreign exchange transactions weighted terms by 4.67 index points compared to a depreciation of 7.59 index points in April 2016. The April 2017 value of the index of 80.03 was 4.46 index points above its quarterly trend represented by the 3-months moving average.

Fig. 19
Ghana Stock Market All Share Index moves back to positive territory (y/y, %)

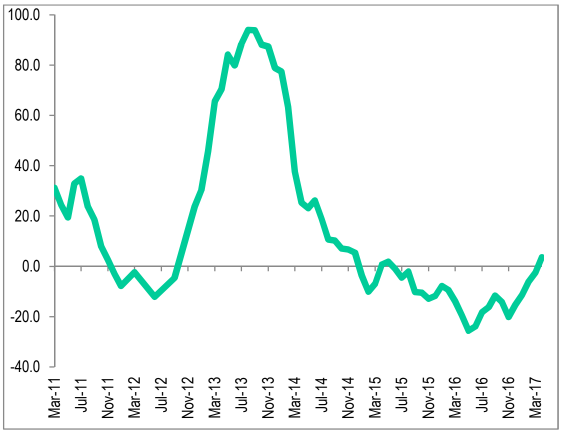


Fig. 20
Ghana Cedi-US Dollar (y/y and m/m changes, %)

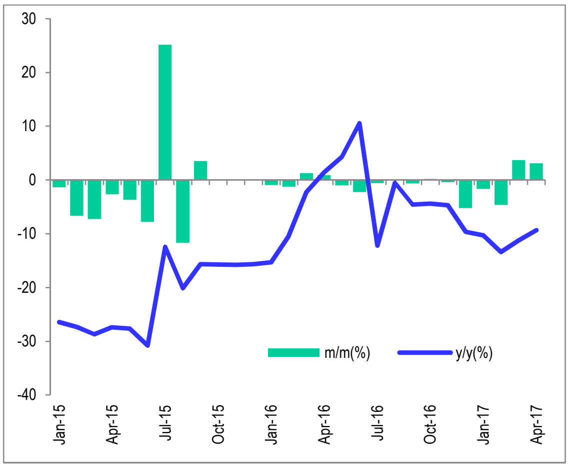
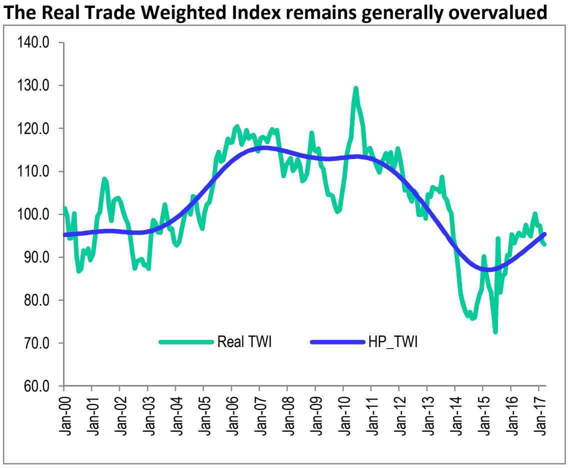
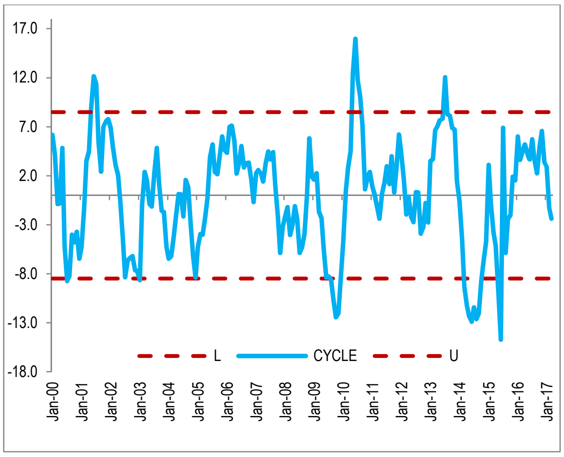


Fig. 21
The Real Trade Weighted Index remains generally overvalued



Over the period, January to April 2017, the cedi's real exchange rate depreciated by 3.1 percent, 3.2 percent and 4.8 percent against the Euro, the pound sterling and the US dollar respectively. In April 2016, the cedi's real exchange rate appreciated by 13.3 percent, 21.7 percent and 15.5 percent against the Euro, pound and the dollar respectively.

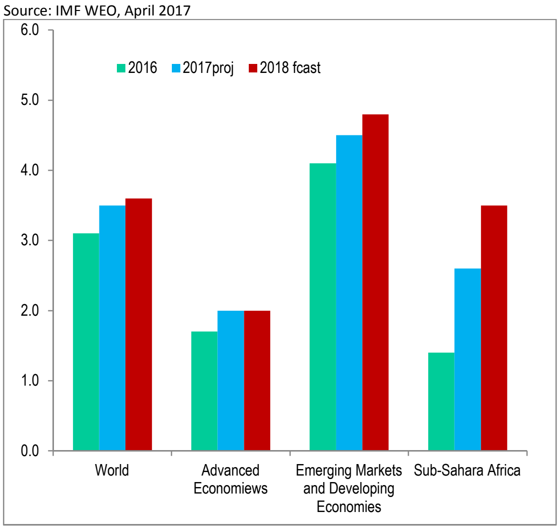
Fig. 22
The Real Trade Weighted Index remains stable within ±1.5 standard deviation



3.4 External Sector Developments

Global economic activity picked up pace in the fourth quarter of 2016 and the momentum is expected to continue throughout 2017. The widespread recovery across many advanced economies is on the back of cyclical recovery in global manufacturing and trade, stronger global momentum in demand, particularly investment, and increased business and consumer confidence. These developments have direct implications for the domestic economy via the trade and credit channels.

Fig. 23
Global Growth Outlook (%)
Source: IMF WEO, April 2017



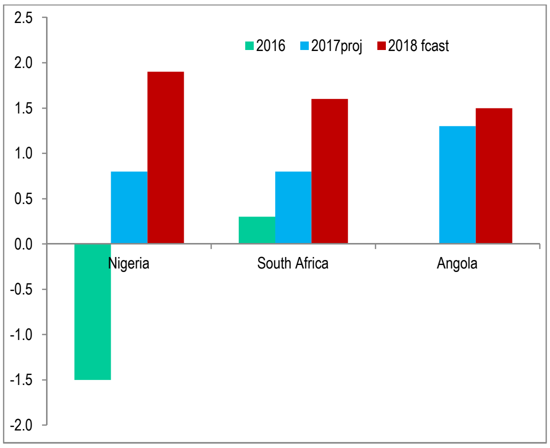
(i) Global Output

The April 2017 update of the IMF World Economic Outlook revised global growth forecasts from 3.1 to 3.4 percent in 2017 citing strong growth in the United States, a rebound in manufacturing, consumer confidence, trade and commodity prices. In the first quarter of 2017, growth in the United Kingdom was resilient despite the uncertainty surrounding the Brexit process. Strong domestic demand in some European countries such as Germany and Spain also contributed to strong recovery in global activity. In emerging market economies such as China, the continued policy support strengthened growth prospects. Brazil's political woes stalled the recovery in the second half of 2016 and may worsen hopes of faster recovery in 2017.

(ii) Output in Sub-Saharan Africa

Real GDP growth continued to decelerate across sub-Saharan African countries due to the weak external environment, low commodity prices, tight external financing amid volatile portfolio flows. Nigeria, South Africa, Angola as well as Ghana experienced slower growth due to the adverse effects of declining commodity prices and tight financing conditions. Growth is projected to recover modestly to 2.6 percent in 2017, but will largely depend on a recovery in oil production in Nigeria, higher public spending ahead of the elections in Angola, and the fading of drought effects in South Africa, alongside continued recovery in commodity prices.

Fig 24
Growth is projected to rebound slightly in the three largest countries in SSA



(iii) Global Commodity Prices

Overall, commodity prices were unchanged in April, declining less than 0.1 percent in the aggregate commodity prices index (IMF's commodity price forecasts, May 12, 2017).

Crude Oil

Crude oil prices were volatile in the first quarter of 2017, fluctuating between US$49 to US$56 per barrel. Rising US crude oil inventories and shale oil supply contributed to the initial decline in crude oil prices in January 2017, while concerns about the commitment of OPEC and non-OPEC producers to the announced cuts in oil production pushed prices upwards at the beginning of April 2017. The updated World Bank Commodity Outlook has projected crude oil prices to average of $55 per barrel (bbl) in 2017 from $43/bbl in 2016 on the back of steady growth in demand, extension of the OPEC and non-OPEC deals to reduce production and expected decline in U.S. crude oil inventories as seasonal refinery demand picks up.

Cocoa Beans

In the domestic economy, Cocoa prices declined by 36.7 per cent on the futures market to settle at US$1,952.6 per tonne in April 2017, compared to US$3,084.0 per tonne recorded same period in 2016. Year to date comparison shows a 13.9 percent decline in cocoa prices from US$2,268.2 per tonne. Cocoa decreased 35 USD/MT or 1.69% to US$2,035 per tonne on Tuesday, May 16 from US$2,070 per tonne in the previous trading session. Cocoa is expected to trade at US$2,090.0 per tonne by the end of the second quarter of 2017, according to consensus view of analysts. In the outlook, cocoa prices are projected to average US$2,400 per tonne in 2017 supported by decline in output in West Africa and a pickup in global demand.

Gold

Gold prices were affected by both demand and supply forces in the first quarter of 2017 dropping marginally to an average of US$1,219/oz from a low of US$1,125/oz in late December 2016, weighed down by the U.S. Fed decision to raise interest rates. Looking forward, gold prices are expected to rise on the back of uncertainty about inflation, deficits, and the level of the dollar and stronger demand from India due to higher incomes, and the demonetization of the 500 and 1000 rupees' notes.

Fig. 25

Weekly Brent crude oil prices rise above 2016 trends (Jan-April, $/bl)

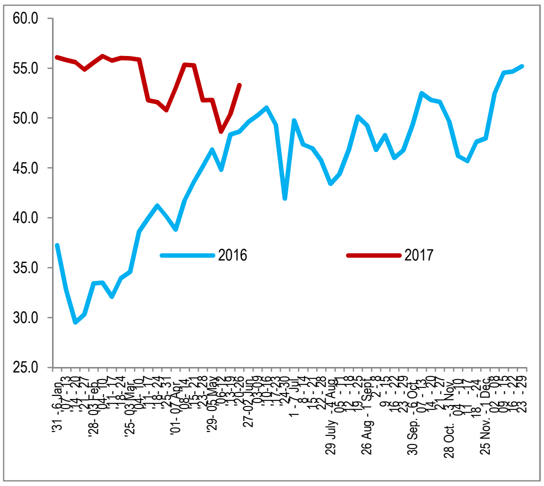


Fig. 26

Weekly Cocoa prices trending below 2016 levels (Jan-April, $/tonne)

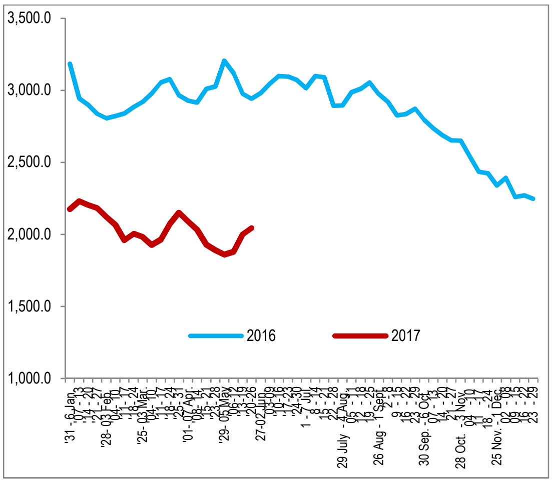
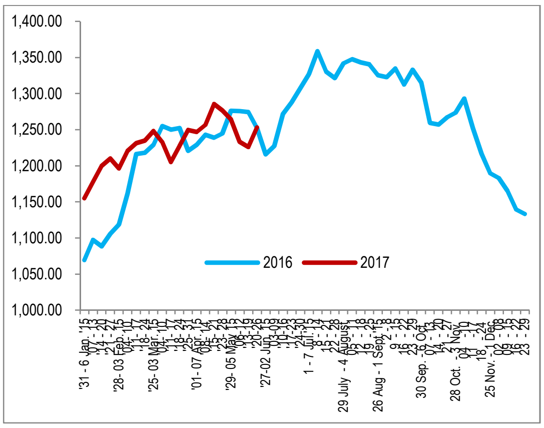


Fig. 27

Weekly Gold prices average around 2016 levels (Jan-April, $/fine ounce)



(iv) Trade Account

Provisional data for the first four months of 2017 pointed to a trade surplus of US$1,145.9 million compared to a deficit of US$935.7 million same period of 2016. This outturn was the result of higher export receipts arising from strong performance in gold and oil exports and a lower import bill.

Merchandise export earnings totalled US$4,924.4 million from January to April 2017, indicating an annual growth of 46.3 percent. The increase resulted mainly from higher earnings in gold and oil exports. Gold production jumped by 81.7 percent year-on-year to 1,796,258 fine ounces, despite a marginal dip by 3.5 per cent in average realised in gold prices. Similarly, the higher crude oil export receipts was primarily attributed to both price and volume effect. The volume of oil exports rose by 136.8 per cent to 15,602,342 barrels, from 6,589,482 barrels a year ago. Similarly, the average realized price of oil increased by 68.2 per cent to US$54.2 per barrel from US$32.2 per barrel recorded in the same period in 2016.

Merchandise imports for the first four months of 2017 amounted to US$3,778.5 million, indicating a 12.2 percent decline from the level recorded in the same period of 2016. Total imports fell on account of a 14.1 percent year-on-year decline in non-oil imports for the first four months of 2017.

The trade surplus outturn of 2.5 percent of GDP in the four months of 2017, compared with a deficit of 2.2 percent same period last year holds a positive outcome for the current account in the first half of 2017. However, the near term risk for the trade sector has to do with volatility in commodity prices, the clamp down on small scale gold mining and operational challenges in crude oil production.

The level of international reserves stood at US$6,384.7 million at the end of April 2017 which was equivalent to 3.7 months of import cover compared to US$4,862.1 million, equivalent to 2.8 months of import cover, at the end of December 2016.

Fig. 28
Trade account turns surplus due to higher export receipts and lower imports
(Jan – April, US$ m)

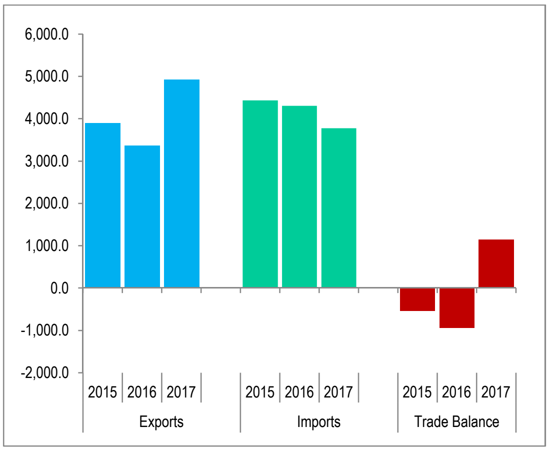


Fig. 29
Improvement in the trade account was reflected by higher gold and crude oil export receipts
(Jan – April, US$ m)

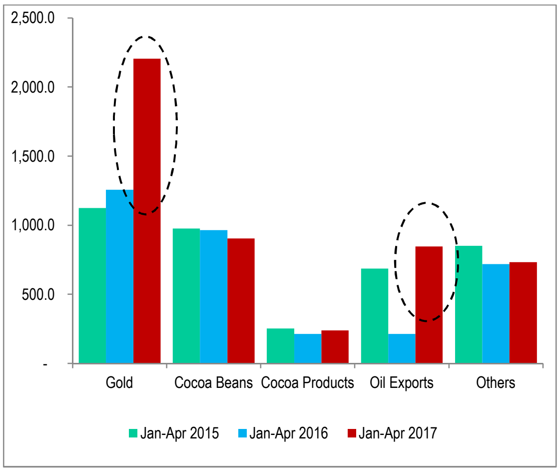
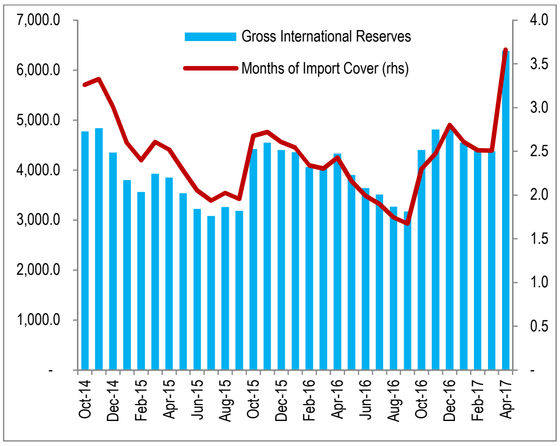


Fig. 29
Gross international reserves (US$m) improves to 3.7 months of import cover in April 2017



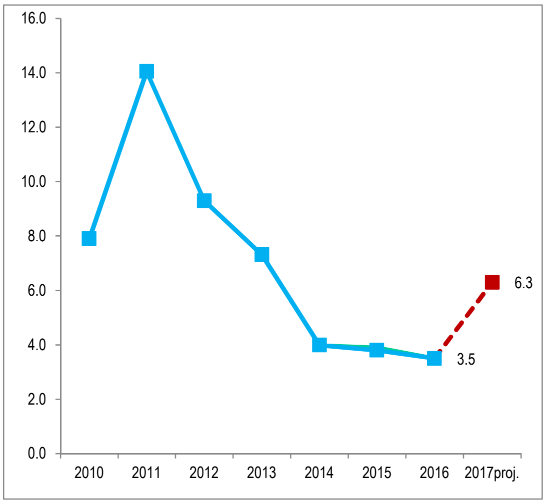
4. Economic Outlook

4.1 Global and Domestic Growth Prospects

From the global perspective, there are downside risks to growth which is partly being countered by emerging signs of recovery from some advanced economies. Recession risks, especially in advanced economies remain relatively low on the balance of probability. On the whole, recent trends from high frequency data and leading indicators are consistent with a temporary slowdown in growth rather than a sustained contraction in output.

On the domestic front, continued stability in the foreign exchange market, increasing pace of private sector credit extension, a rebound of business and consumer sentiments and gradual improvement in the macroeconomic fundamentals are positive developments for growth. Furthermore, increased oil production from both Jubilee and TEN fields and the coming on stream of further activity in the oil and gas sector from the Sankofa Gye Nyame (SGN) fields by the third quarter should improve the overall growth prospects. Downside risks to the growth outlook include potential operational challenges in crude oil production, uncertainties surrounding Ghana's border dispute with Ivory Coast, delayed recovery in commodity prices, and stronger fiscal consolidation which may weaken aggregate demand.

Fig. 30
Real GDP is projected at 6.3% in 2017

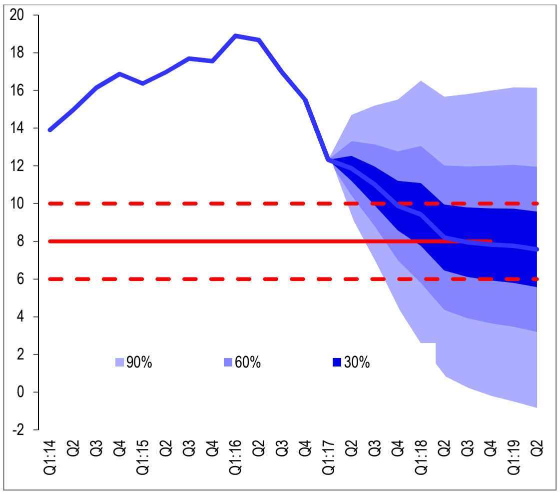


4.2 Prospects for Inflation

(i) Inflation Outlook

Headline inflation continued to decline in the year, despite a blip in April which reflected an upward adjustment in transport fares. Underlying inflation pressures have also eased considerably over the period. At the May 2017 MPC meeting, the revised inflation forecast which incorporated underlying assumptions on global growth, foreign inflation and interest rates, fiscal and external sector outlook did not deviate significantly from the March 2017 assessments. Consequently, the latest Fan chart show that inflation is expected to gradually trend downwards towards the central target band of 8±2 percent in 2018. This forecast is however contingent on tight monetary policy, stability in the foreign exchange market and continued fiscal consolidation.

Fig. 31
The Fan chart forecast show that Inflation is likely to return to target in 2018



Looking ahead therefore, in the unlikely situation that the exchange rate, fiscal policy, growth conditions and one-off shocks through unanticipated administrative price adjustments deviate significantly from the baseline assumptions, the Committee will take the necessary policy actions to dampen inflation pressures and worsening of the medium-term inflation outlook.

(ii) Inflation Risk Assessments

The risks to inflation are generally subdued as the macroeconomic fundamentals improve in the period ahead. However, some **upside risks** to the inflation outlook could emerge from tight global financing conditions and unanticipated increases in administrative prices. On **downside risks**, the downward trend in core inflation and inflation expectations, continued monetary policy tightness, exchange rate stability, favourable developments that will lower cost of production such as tax cuts and some initiatives to boost the agricultural sector will feed into lower food prices and support the disinflation process.

In the first quarter of 2017, the fiscal posture cast a picture of expenditure constraint in line with revenue shortfalls. The continuation of this would dampen aggregate demand pressures and support the disinflation process. Finally, the forecasts point to a negative output gap as growth is likely to remain below potential levels in 2017, suggesting subdued aggregate demand pressures, which is positive for the inflation outlook.

5. Conclusion

Taking into account all the factors discussed above, the Committee judged that the downside risks to growth outweigh the upside risks to inflation, and therefore reduced the policy rate by 100 basis points to 22.5 percent. The Committee, however, acknowledged that maintaining the tight policy stance, supported by stable exchange rate and continued fiscal consolidation, is necessary for the disinflation process to the medium-term target band of 8±2 percent. Currently, headline inflation is slightly above the upper target band and the Committee would continue to monitor risks to the inflation outlook and take the necessary policy action to move headline inflation towards the medium-term target.

ANNEXES

	Headline Inflation (%)			Monthly Changes in CPI (%)		
	Combined	Food	Non-food	Combined	Food	Non-food
Dec-13	**13.5**	**7.2**	**18.1**	**1.0**	**0.6**	**1.3**
Dec-14	**17.0**	**6.8**	**23.9**	**1.0**	**0.7**	**1.1**
Dec-15	**17.7**	**8.0**	**23.3**	**1.1**	**0.8**	**1.2**
2016						
Jan	19.0	8.2	25.5	4.6	5.8	4.0
Feb	18.5	8.3	24.5	0.8	0.6	0.8
Mar	19.2	8.3	25.7	1.7	0.7	1.2
Apr	**18.7**	**8.4**	**24.8**	**1.4**	**1.5**	**1.3**
May	18.9	8.5	25.0	1.1	1.2	1.1
Jun	18.4	8.6	24.2	1.3	1.5	1.2
Jul	16.7	8.6	21.2	0.9	-0.8	1.7
Aug	16.9	8.5	21.5	-0.6	-1.4	-0.3
Sep	17.2	9.0	21.6	0.2	-2.4	1.4
Oct	15.8	8.7	19.4	1.4	-0.2	2.2
Nov	15.5	9.3	18.7	0.8	1.6	0.5
Dec	15.4	9.7	18.2	0.9	1.2	0.8
2017						
Jan	13.3	7.0	16.6	2.8	3.2	2.5
Feb	13.2	7.1	16.4	0.6	0.8	0.6
Mar	12.8	7.3	15.6	1.3	0.9	1.4
Apr	**13.0**	**6.7**	**16.3**	**1.6**	**1.0**	**1.9**

Source: Ghana Statistical Service

Selected Economic and Financial Indicators	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17
(Annual percentage change; unless otherwise indicated)																	
National Income and Prices (Quarterly)																	
Real GDP	3.9	n.a	n.a	4.4	n.a	n.a	1.3	n.a	n.a	3.9	na	na	4.1	na	na	na	na
Real GDP_non-oil	3.3	n.a	n.a	6.3	n.a	n.a	5.6	n.a	n.a	3.9	na	na	3.7	na	na	na	na
Consumer price index (end of period)																	
Overall	17.7	19	18.5	19.2	18.7	18.9	18.4	16.7	16.9	17.2	15.8	15.5	15.4	13.3	13.2	12.8	13.0
Food	8.0	8.2	8.3	8.3	8.4	8.5	8.6	8.6	8.5	9.0	8.7	9.3	9.7	7.0	7.1	7.3	6.7
Non-food	23.3	25.5	24.5	25.7	24.8	25.0	24.2	21.2	21.5	21.6	19.4	18.7	18.2	16.6	16.4	15.6	16.3
Exchange rate ($/¢): (end of period)	3.7944	3.8311	3.8787	3.8304	3.7951	3.8337	3.9230	3.9469	3.9445	3.9709	3.9643	3.9805	4.2002	4.2711	4.4786	4.3173	4.187
Exchange rate depreciation (M/M, %)	-0.20	-0.96	-1.2	1.14	0.92	-1.00	-2.30	-0.40	0.10	-0.66	0.17	-0.41	-4.80	-1.66	-4.63	3.74	3.11
Exchange rate depreciation (YTD, %)	-15.7	-0.96	-2.2	-0.9	-0.02	-1.03	-3.28	-3.67	-3.81	-4.44	-4.29	-4.68	-9.66	-1.66	-6.22	-2.71	0.32
Money and credit																	
Broad money supply (M2+)	26.1	28.7	23.0	18.1	16.1	16.7	12.0	25.9	20.6	22.4	19.8	20.8	22.0	26.6	29.9	28.2	na
Credit to the private sector (y/y %)	24.7	24.7	19.5	11.2	11.1	10.1	8.5	16.0	12.4	12.6	12.1	13.5	14.4	16.2	17.5	19.4	na
Real Credit to the private sector (y/y %)	5.9	4.8	0.8	-6.7	-6.1	-7.4	-8.4	-0.6	-3.8	-2.8	-3.2	-1.8	-0.9	2.5	3.7	5.9	na
Interest rates (%)																	
Monetary Policy rate	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	26.0	25.5	25.5	25.5	25.5	23.5	23.5
Interbank rate	25.3	23.5	25.4	25.4	25.4	25.5	25.5	25.5	25.5	25.5	25.5	25.5	25.3	25.2	25.2	24.9	23.3
91-Day treasury bill rate	23.1	22.7	22.7	22.6	22.8	22.8	22.8	22.8	22.8	22.9	22.8	20.9	16.8	16.2	15.9	16.9	16.5
182-Day treasury bill rate	24.4	24.5	24.5	24.6	24.6	24.6	24.6	24.7	24.7	24.7	24.3	22.6	18.5	17.4	17.0	17.1	16.8
Average lending rate	27.5	28.2	28.2	28.6	32.1	32.3	32.7	33.0	33.0	29.3	32.1	32.0	31.7	31.8	33.0	30.6	29.8
3-month average Deposit rate	13.0	13.5	13.5	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	13.0	15.0	15.0	15.3
lending - deposit rate spread	14.5	14.7	14.7	15.6	19.1	19.3	19.7	20.0	20.0	16.3	19.1	19.0	18.7	18.8	18.0	15.6	14.6
External Sector (cummulative)																	
Current account balance ($million)	-2,819	n.a	n.a	-540.4	n.a	n.a	-1,139.8	n.a	na	-1,915.9	na	na	-2,643.6	na	na	na	na
per cent of GDP	-7.8	n.a	n.a	-1.3	n.a	n.a	-2.7	n.a	na	-4.5	na	na	-6.2	na	na	na	na
Trade balance ($million)	-3,928.9	-249.2	-397.9	-675.4	-972.8	-1,274.9	-1,395.6	-1,665.5	-1,976.1	-1739.8	-2,142.9	-2,221.2	-1,689.2	361.5	573.0	950.7	1145.94
Commodity prices (International)																	
Cocoa ($/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	2,845.7	2,695.0	2,441.7	2,268.4	2,180.2	2,003.0	2,036.4	1,952.6
Gold ($/ounce)	1,069	1,098	1,199	1,243.0	1,242.8	1,256.2	1,275.2	1,338.3	1,339.2	1,326.7	1,274.6	1,237.6	1,151.2	1,192.8	1,233.8	1,231.4	1,270.0
Crude Oil ($/barrel)	38.9	31.9	33.4	39.8	46.9	47.7	49.9	46.6	47.2	47.2	51.4	47.1	54.9	55.5	56.0	52.5	53.7
Gross Foreign Assets (US$ m)	5,884.7	5,838.6	5,531.0	5,696.3	5,951.0	5,498.0	5,199.4	5,049.7	4,903.3	4,788.1	5,917.4	6,099.0	6,161.8	6,401.6	6,248.3	6,243.2	8,289.7
months of import cover	3.5	3.4	3.2	3.3	3.5	3.2	3.0	2.9	2.8	2.8	3.4	3.5	3.5	3.7	3.6	3.6	4.8
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	1,815.1	2,209.0	3,370.8	3,431.0	3,187.5	3,004.2	3,006.6	5,066.7
Non-Performing Loan (NPL)	14.7	14.6	15.6	16.2	18.6	19.3	18.8	19.1	18.6	19.0	19.0	18.8	17.6	18.0	17.7	na	na
Non-Performing Loan (excluding Loss)	6.8	6.5	7.6	8.3	10.4	11.5	10.9	11.0	10.6	10.8	10.2	9.8	8.4	9.0	8.6	na	na