BANK OF GHANA
Monetary Policy Report
Vol. 2.2

NOVEMBER 2017

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 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 Monetary Policy Rate (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

The Monetary Policy Committee (MPC) of the Bank of Ghana held its 79th meeting in November 2017 and after assessing macroeconomic developments and the outlook decided to lower the Monetary Policy Rate (MPR) by 100 basis points to 20 percent. This leads to a 550 basis points cumulative decline in the policy rate since the beginning of the year. In arriving at the decision, the Committee factored in global and domestic economic conditions.

On the global front, the Committee observed that growth had continued to strengthen broadening beyond advanced economies to include large emerging market economies, while in Sub-Saharan Africa was also slowly recovery. The momentum has been largely sustained by increased demand and recovery in investments and trade. The improved global growth conditions notwithstanding, inflation remained subdued. Although the US Fed had started trimming its balance sheet with the possibility of rate increases in December and in 2018, monetary policy was broadly accommodative in most advanced economies. These favourable external conditions impacted positively on the domestic economy through the financing and trade channels.

Domestic price developments continued to show signs of dampening inflation expectations. Headline inflation measured by the consumer price index has trended down steadily in the year, with the exception of April and August, when inflation ticked up slightly. All the Bank's measures of core inflation also continued to decline, pointing to easing underlying inflation pressures. Inflation expectations edged up slightly in October, reflective of businesses pricing in activities associated with the festive season. Broadly, the disinflation process has been anchored on policy tightness, relative stability in the foreign exchange market and gradual improvement in the macroeconomic fundamentals.

On the dynamics of growth, recent data updates showed strong rebound, driven by crude oil production. Provisional real GDP estimates for the first and second quarters indicated that the economy grew by 6.6 percent and 9.0 percent respectively, while non-oil GDP growth remained sluggish at 3.9 and 4.0 percent respectively. This implies that the negative output gap may still persist. Meanwhile, the latest update to the Bank's Composite Index of Economic Activity, which tracks short term dynamics in economic activity, showed modest growth in September 2017. Still on economic indicators, the October 2017 confidence survey results pointed to improved business and consumer confidence on the back of favourable prospects for industry, household's financial situation and the general economic environment. In the outlook, indications were that the slower non-oil growth may require additional impetus via the implementation of growth-enhancing government policy initiatives, improved credit conditions and sustained electricity supply.

The Committee also acknowledged the relative stability in the foreign exchange market, marked improvement in the balance of payments, as well as reserve build up, all supportive of the inflation outlook. Looking forward the Committee underscored the need to strengthen the current macroeconomic performance by consolidating gains made so far in fiscal adjustment and monetary management to sustain macro stability. The return to the disinflation path augurs well for price stability and the Bank's latest forecast indicated that the horizon for the attainment of the medium-term inflation target of 8±2 percent in 2018 remained unchanged. This forecast is however contingent on sustained improvement in the global and domestic economic environment, including stable oil prices, stability in the foreign exchange market and continuation of the fiscal consolidation process.

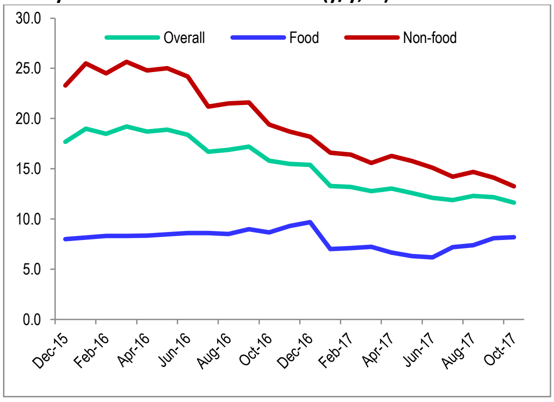
3. CURRENT DEVELOPMENTS

3.1 Domestic Price Developments

(i) Headline Inflation

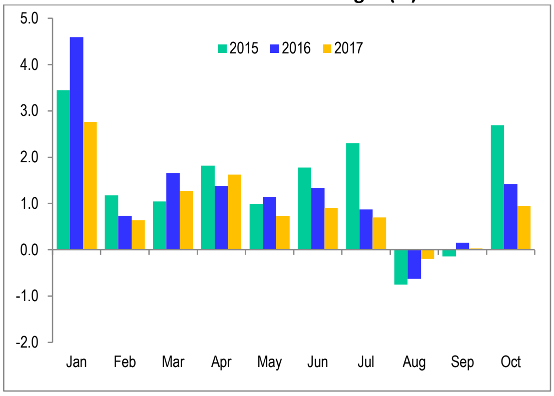
Price developments during the first ten months continued to show signs of dampening inflation pressures. Headline inflation, measured by the consumer price index, declined to 11.6 percent in October 2017, from 12.2 percent in September and 12.3 percent in August, showing a steady decline in inflation since the beginning of the year with the exception of April and August, when inflation ticked up slightly.

Fig. 1
Steady decline in headline Inflation (y/y, %)



The downward trend in inflation was broadly driven by non-food components of the consumer basket. Non-food inflation fell to 13.2 percent in October, from 14.1 and 14.7 percent in September and August respectively. Food inflation, on the other hand, edged up to 8.2 percent from 8.1 and 7.4 percent respectively over the same period. The observed disinflation process was broadly influenced by continued policy tightness, stability in the exchange rate and base drift effects.

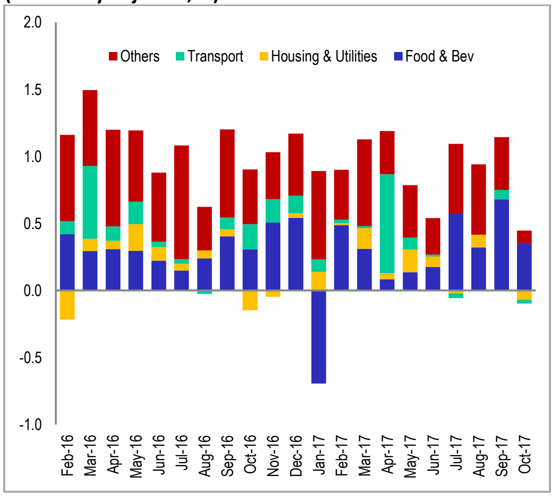
Fig. 2
Month-on-Month Consumer Price Changes (%)



On the CPI components, most of the sub-indices exerted downward pressure on inflation during October 2017, with the exception of hotels, cafes and restaurants, food, and housing and utilities which exerted some marginal upward pressures on inflation.

Consumer prices rose by 0.9 percent on a month-on-month basis in October, after recording no change in September 2017. The monthly change was attributed to a sharp increase of 1.4 percent in non-food items in the overall CPI, while the prices of food items contracted by 0.1 percent. Similarly, seasonally adjusted sub-indices suggested dampening inflationary pressures, which was mainly driven by the permanent sub-components.

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

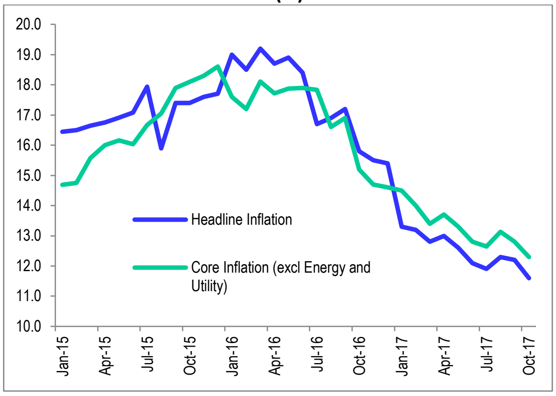


The quarterly averages of monthly changes in inflation declined from 1.6 percent during the first quarter, to 1.1 percent in the second quarter, and further down to 0.2 percent in the third quarter of 2017, same as in the third quarter of 2016 on account of favourable base effects.

(ii) Core Inflation

All the core measures of inflation continued to decline in October, pointing to a downward trend in underlying inflation, well within or close to the end-year inflation target. Core inflation (CPI excluding energy and utility prices) declined to 12.3 percent in October 2017, down from 12.8 percent recorded in the previous month and 13.1 percent in August 2017.

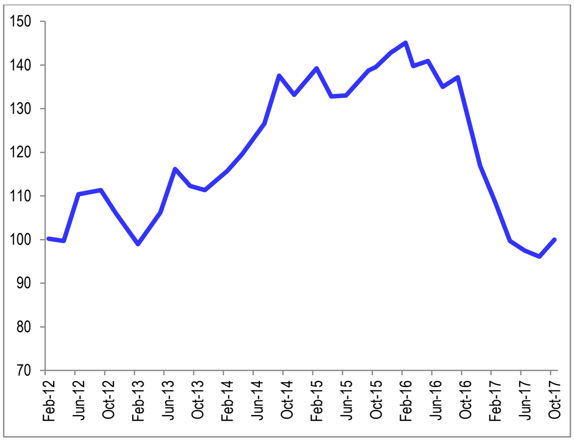
Fig. 4
Core Inflation declines further (%)



(iii) Inflation Expectations

The latest surveys conducted in October 2017 showed a mixed outturn for inflation expectations. Inflation expectations by the financial sectors remained largely subdued, while business and consumer inflation expectations marginally picked up as agents priced in the end-year festivities. The favourable inflation expectations outcome from the financial sector was largely due to the relative stability in the foreign exchange market and optimism about headline inflation trending gradually toward the medium term target. The overall inflation expectations index (combination of businesses, consumers and financial sector) inched up slightly to 100 in October from 96.1 in August 2017.

Fig. 5
Weighted Inflation Expectation Index inches up slightly (June 2010=100)

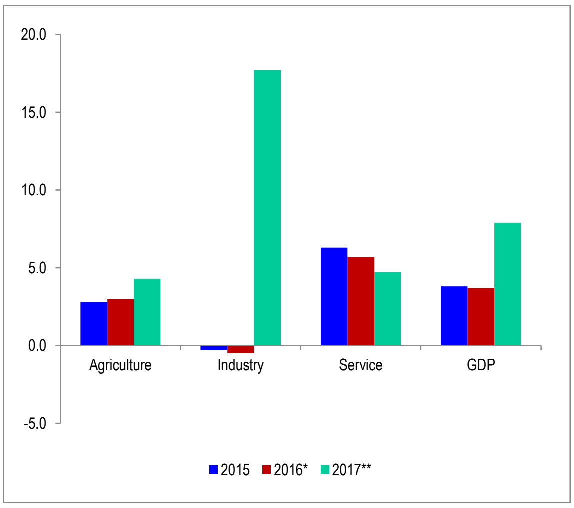


3.2 Domestic Growth Conditions

(i) Gross Domestic Product

The September 2017 release by the Ghana Statistical service (GSS) showed an upward revision of the 2016 real GDP growth outturn to 3.7 percent from the April 2017 revised estimate of 3.5 percent. The revision was attributed to the receipt of higher gold production estimates which resulted in an improved outturn for industry in 2016. The services sector remained dominant in the GDP composition, with a share of 56.8 percent (54.6% in 2015), followed by industry with 25.6 percent (25.1% in 2015) and agricultural sector with 18.9 percent (20.3% in 2015). Overall real GDP growth for 2017 is provisionally estimated at 7.9 percent, with non-oil GDP at 4.8 percent.

Fig. 6
Real GDP growth projection firms up in 2017, supported by oil production (y/y, %)



Developments in the real sector showed an expanding economy. Provisional quarterly GDP estimates suggest that the economy grew by 9.0 percent in the second quarter of 2017, compared to 1.1 percent recorded for the same period in 2016, and 6.6 percent in the first quarter.

The relatively high real growth outturn in the second quarter was largely driven by increased oil and gas production. Industry recorded the highest growth of 19.3 percent, followed by Services (5.6%) and Agriculture (3.4%). Non-oil GDP growth was a modest 4.0 percent in the second quarter compared to 5.5 percent recorded for the same period in 2016.

(ii) Composite Index of Economic Activity (CIEA)

The Bank's updated Composite Index of Economic Activity (CIEA) showed some improvement in the pace of economic activity. The CIEA increased to an index level of 445.20 in September 2017, from 431.40 recorded in September 2016, representing a year-on-year growth of 3.2 percent. This compares with a growth of 3.1 percent for the same period in 2016. The uptick in the CIEA was driven primarily by construction, exports and services.

(iii) Consumer Confidence

The Consumer Confidence Index level broadly remained unchanged at 107.9 in October 2017 compared with the previous Index of 107.6 in August 2017. The slight increase in the index during October was attributed to improving consumer expectations and economic situation sub-indices as well as favourable outlook for the economy.

(iv) Business Confidence

The Business Confidence Index also rose marginally in October 2017 relative to the level recorded in August. The index increased to 101.7 in October, from 101.2 in August 2017. The development was largely influenced by businesses' satisfaction with realisation of sales, profit and other expectations. In addition, businesses were optimistic about favourable growth prospects for industry and the domestic economy as a whole. However, some businesses were concerned about exchange rate movements and slow decline in lending rates.

Fig. 7
Real CIEA growth improves slightly relative to 2016 (y/y, %)

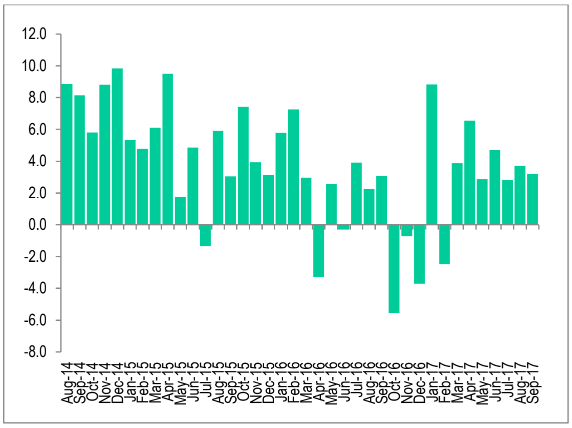


Fig. 8
Consumer Confidence Index remains steady (Aug. 2004 = 100)

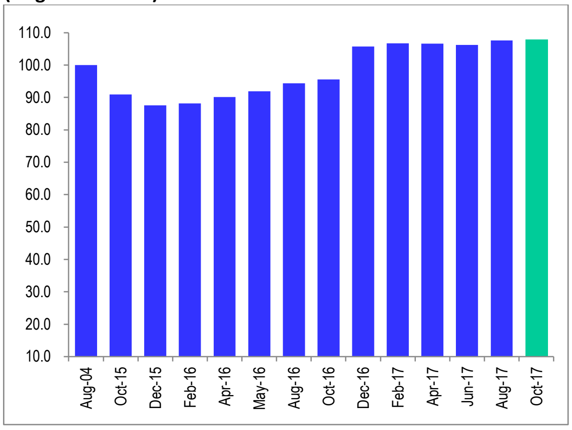
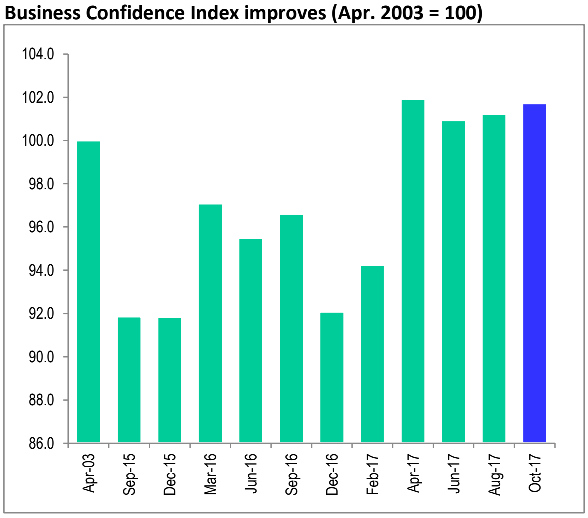


Fig. 9
Business Confidence Index improves (Apr. 2003 = 100)



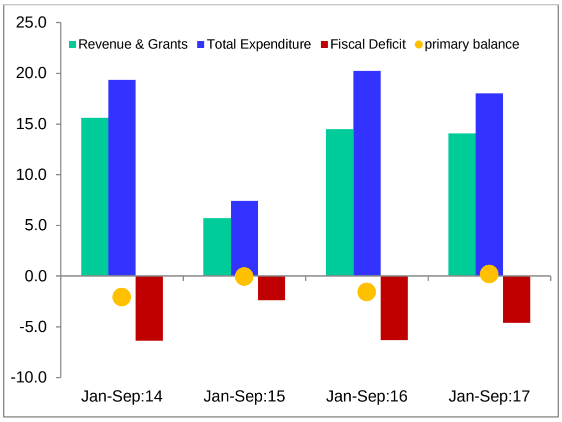
3.3 Fiscal and Monetary Developments

(i) Fiscal Developments

Provisional data on fiscal operations as reported in the 2018 Budget indicated that, fiscal consolidation efforts remained broadly on course despite revenue shortfalls. In the year to September 2017, total revenue and grants amounted to GH¢28.4 billion (14.1% of GDP), below the target of GH¢31.3 billion (15.5% of GDP). Total expenditures, including arrears clearance, also amounted to GH¢36.4 billion (18.0% of GDP) against a target of GH¢38.8 billion (19.2% of GDP). These developments in government fiscal operations resulted in an overall deficit of 4.6 percent of GDP against the target of 4.8 percent.

Fig. 10

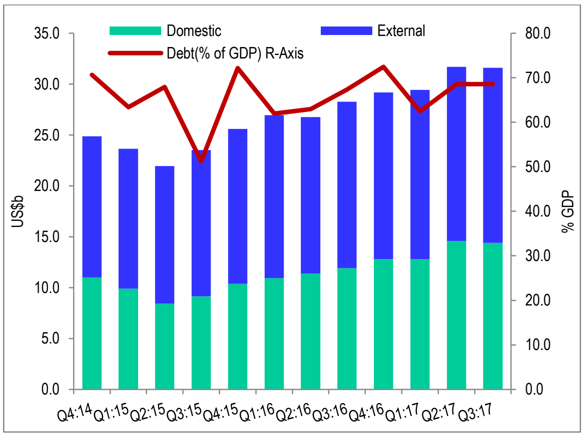
Fiscal consolidation efforts on-going with an overall deficit of 4.6% compared with 6.3% a year ago (% of GDP)



The primary balance has also improved, turning around from a deficit of 1.4% of GDP at the end of 2016 (1.6% of GDP at end September 2016) to a surplus of 0.2% of GDP at the end of September 2017. Financing of the deficit was from domestic instruments amounting to GH¢8.8 billion (4.4% of GDP) against a target of GH¢10.4 billion (5.1% of GDP).

Fig. 11

Public Debt to GDP ratio moderated in the second and third quarters of 2017



Total public debt stood at US$31.6 billion (68.6% of GDP) at the end of September 2017, indicating a marginal increase over the US$31.3 billion (68.2% of GDP) recorded in August 2017. Of the total, domestic debt declined to US$14.4 billion (31.3% of GDP) from US$14.6 billion (31.6% of GDP), while external debt went up to US$17.2 billion (37.0% of GDP) from US$17.1 billion (37.4% of GDP) over the same period.

In the course of the year, the shift of market preferences for long-dated securities became more pronounced, consistent with the re-profiling of government debt instruments. For instance, the share of 91-day and 182-day treasury bills in domestic debt declined from 16.6 percent in December 2016 to 8.4 percent in October 2017. On the other hand, the share of long-dated instruments (7 - 15 years) went up from 0.8 percent in December 2016 to 5.1 percent at the end of October 2017. These developments were also underpinned by a steady decline and realignment of interest rates as well as a downward shift in the yield curve in line with generally declining inflation expectations.

(i) Monetary and Financial Developments

Reserve money growth has been moderate since the beginning of year to October 2017. The annual growth in reserve money declined to 14.4 percent compared with 28.2 percent a year earlier. The slower pace of growth was driven mainly by Net Domestic Assets (NDA) which contracted by 29.1 percent in October 2017, compared with 60.8 percent growth in October 2016, while growth in Net Foreign Asset (NFA) rose from 13.3 percent to 42.6 percent over the same comparative periods.

Broad money supply (M2+, including foreign currency deposits) growth went up by 25.5 percent in October 2017 compared with 19.8 percent in October 2016. The increase in M2+ was on account of a 47.8 percent growth in Net Foreign Assets (NFA), against 29.8 percent growth in the same month of 2016. Meanwhile, Net Domestic Assets of the banking system increased moderately by 18.2 percent relative to 16.8 percent over the same comparative periods as claims on the public sector contracted by 25.9 percent on year-on-year basis.

In terms of components, broad money supply growth was driven largely by savings and time deposits, which recorded a 37.7 percent in October 2017, compared to 19.4 percent growth same period a year earlier. However, the pace of growth in currency with the public was a modest 9.6 percent (10.6% in Oct. 2016). Similarly, demand deposits growth moderated to 30.3 percent (34.3% in Oct 2016) while foreign currency deposits grew by 16.1 percent (11.6% in Oct. 2016). Broad money supply (excluding foreign currency deposits) grew at a faster pace of 28.6 percent in October 2017 compared to 22.7 percent a year ago.

(ii) Developments in DMB Credit Allocation

Annual growth in banks' outstanding credit to the public and private institutions declined sharply to 7.3 percent in October 2017 from 16.9 percent in the same month of last year due to slower credit extension as non-performing loans remained high within the banking sector. Total outstanding credit was GH¢31,648.7 million at the end of October 2017, of which the private sector accounted for 89.9 percent.

Private sector credit growth slowed to 9.4 percent year-on-year in October 2017 against 12.1 percent recorded a year earlier. In real terms, private sector credit contracted by 2.0 percent, compared with contraction by 3.1

Fig. 13
Reserve money growth and Contribution from NFA and NDA (%)

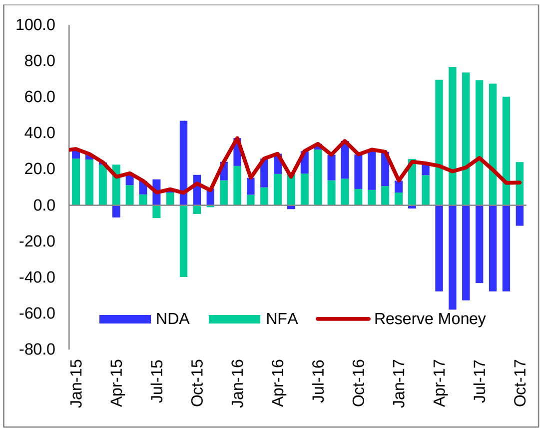


Fig. 14
Composition of broad money supply (M2+) (y/y growth, %)

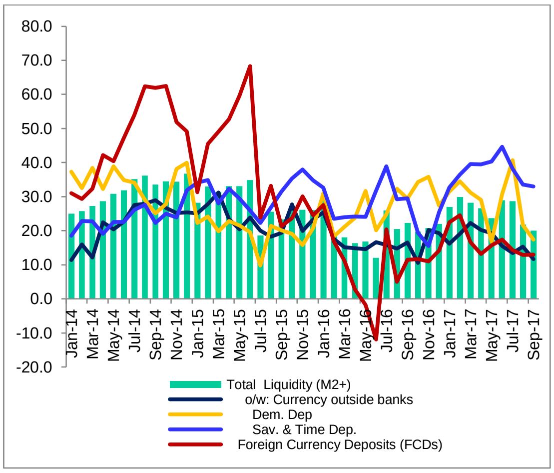
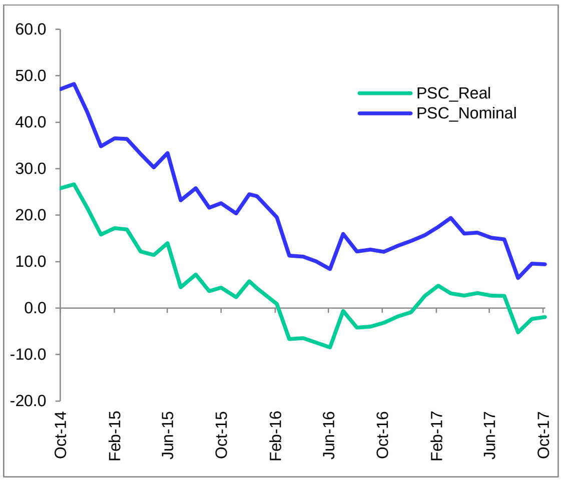


Fig. 15
Private sector credit show gradual improvement (y/y, %)



percent a year earlier. By sector distribution of annual flow of private sector credit, Commerce and Finance held a share of 19.9 percent, followed by Services (10.9%), Construction (8.4%), and Manufacturing (7.5%).

(iii) Money and Capital Market Developments

The monetary policy rate was cut by 100 basis points (bps) to 20.0 percent at the last MPC meeting in November 2017, following an earlier 150 basis points cut in July. Cumulatively, therefore, the policy rate has declined from 25.5 percent in January 2017 to 20.0 percent in November. Interest rates on the money market have followed the declining trend in the policy rate. On the interbank market, the weighted average rate fell to 20.88 percent from 25.23 percent in January 2017, and remained broadly aligned within the policy corridor.

Interest rates in the money market also declined in the year. The 91- and 182-day Treasury-bill rates fell to 13.26 and 13.83 percent in October 2017 from 16.16 and 17.38 percent in January respectively. Similarly, the 1-year and 2-year Treasury notes declined to 15.0 and 17.0 percent from 19.5 and 21.0 percent respectively. The rates on the 3-year and 5-year notes both declined to 18.25 percent from respective 24.0 and 18.75 percent in January.

Deposit Money Banks' average 3-month time deposit rate remained unchanged at 13.0 percent in October 2017. Average lending rates also declined to 29.13 percent from 31.81 percent in January 2017. Accordingly, the spread between the 3-month time deposit rate and lending rates declined to 16.1 percent in October 2017 from 18.8 percent in January.

There has been a strong shift of market preferences for long dated securities in the course of 2017, which is consistent with re-profiling of government debt instruments. This was also underpinned by a steady decline and realignment of interest rates and an upward shift in the yield curve.

Fig. 16
Monetary Policy Rate declines as macro fundamentals improve (%)

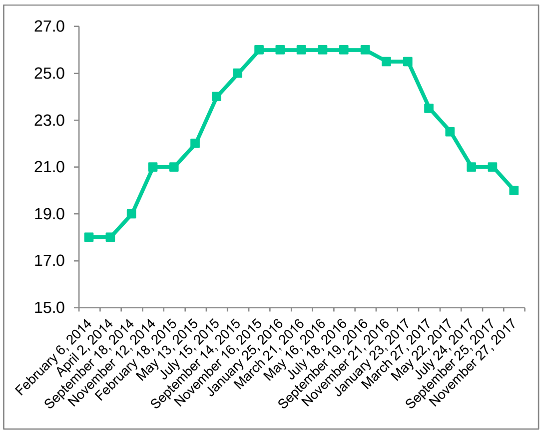


Fig. 17
Monetary Policy Corridor (%)

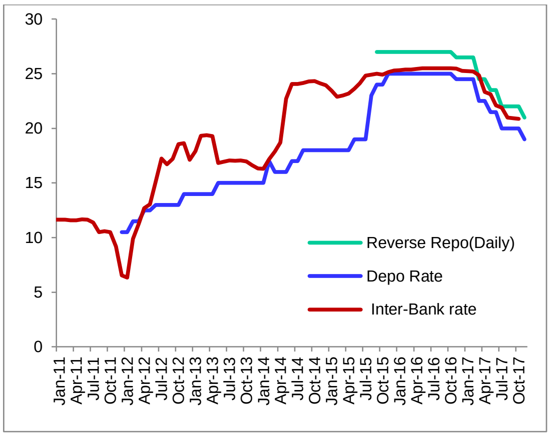
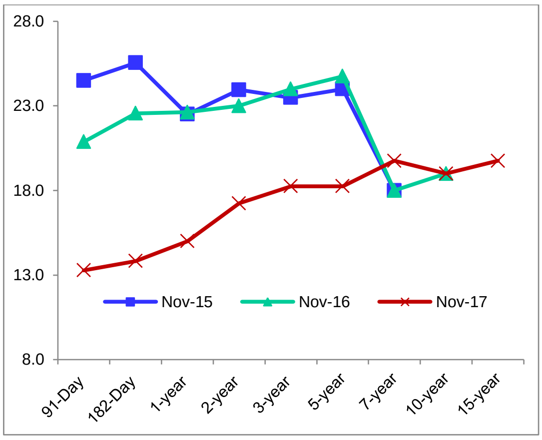


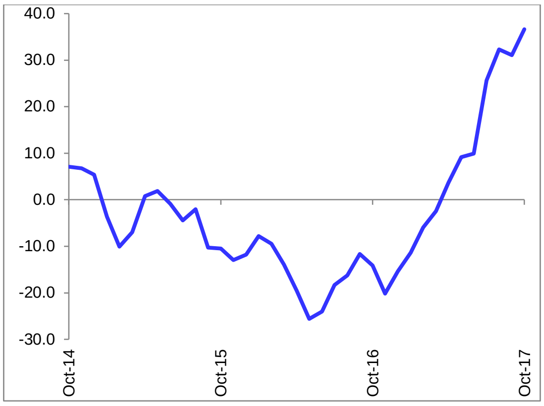
Fig. 18
Yield curve currently upward sloping (%)



Stock market activities gained some momentum in October 2017, as the Ghana Stock Exchange Composite Index (GSE-CI) returned to its upward trend from the dip observed in September 2017. The GSE-CI grew by 36.6 percent on a year-on-year basis to close at 2,361.5 points in October 2017. On year-to-date basis, the index was up by 39.8 percent from 1,689.1 points in December 2016.

Market activities, in terms of volume of sales picked on the stock market during the review month. A total of 12.5 million shares valued at GH¢19.2 million were traded in October.

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

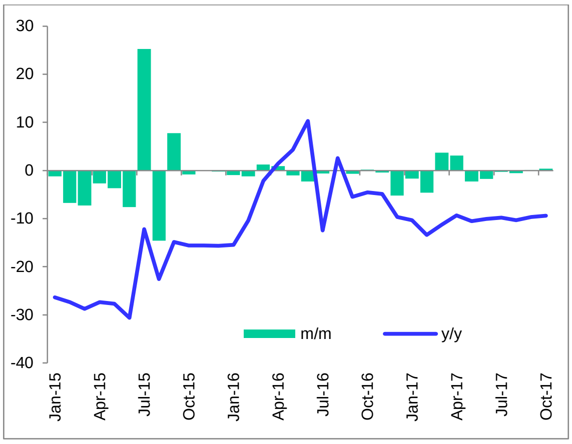


(iv) Exchange Rate Developments

Domestic Currency market

The Cedi has remained relatively stable despite coming under pressure in the first quarter of the year. The stability in the cedi was supported by continued tight policy stance and increased portfolio inflows amid improved sentiments on economic prospects. 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 October 2017, the Cedi cumulatively depreciated by 4.03 percent, 10.38 percent and 12.90 percent against the US dollar, pound sterling and euro respectively. During the same period in 2016, the Cedi had depreciated by 4.29 and 4.22 percent against the dollar and euro, but appreciated by 16.77 percent against the pound sterling.

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

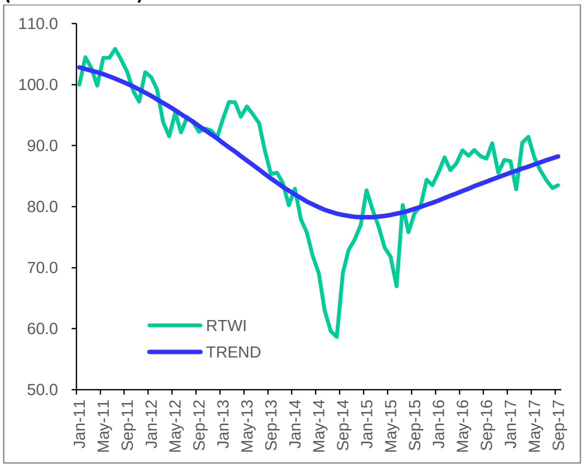


Real Effective Exchange Rates

The major (or core) Trade Weighted Index (TWI), is an index measure of the nominal value of the cedi relative to Ghana's top three trading currencies combined – the euro, pound and US dollar. For the month of September 2017, the Cedi appreciated by 1.06 index points in trade-weighted terms, compared with 0.76 index points depreciation same period last year.

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 September 2017, the Cedi appreciated in foreign exchange transactions weighted terms by 0.67 index points compared to a depreciation of 0.68 index points in September 2016.

Fig. 21
The Real Trade Weighted Index remains generally overvalued (Jan. 2011=100)



Bilateral Real Exchange Rate

Over the period, January to September 2017, the cedi's real exchange rate depreciated by 1.4 percent against the euro, but appreciated by 2.6 percent and 3.5 percent against the pound sterling and the US dollar respectively. In the month of September 2017, the cedi's real exchange rate depreciated by 2.1 percent and 0.6 percent against the Euro and pound sterling respectively, but appreciated by 0.4 percent against the dollar.

3.4 External Sector Developments

Global economic activity strengthened further in the third quarter of 2017 and indications are that the momentum would continue in 2018. 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.

(i) Global Output

The IMF World Economic Outlook October 2017 update revised global growth forecasts for 2017 and 2018 upwards to 3.6 percent and 3.7 percent respectively, 0.1 percentage point higher than the July forecasts. The upward revision of growth forecasts were supported by pickup in investment and rebound in manufacturing, consumer and business confidence, and trade. Strong domestic demand in the USA and some European countries such as Germany and Spain also contributed to strong recovery in global activity. In emerging market economies, higher domestic demand in China and continued recovery in Russia, Turkey and Brazil strengthened growth prospects.

(ii) Output in Sub-Saharan Africa

In Sub-Saharan Africa the recovery process is gradually picking up supported by rebound in oil production in Nigeria, easing of drought conditions in Eastern and Southern Africa, and continued improvement in global conditions. Growth is projected to recover modestly to 2.6 percent in 2017, largely dependent on increased oil production in Nigeria, reversal of the drought conditions in South Africa, a more supportive external environment, alongside continued recovery in commodity prices.

Fig. 22

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

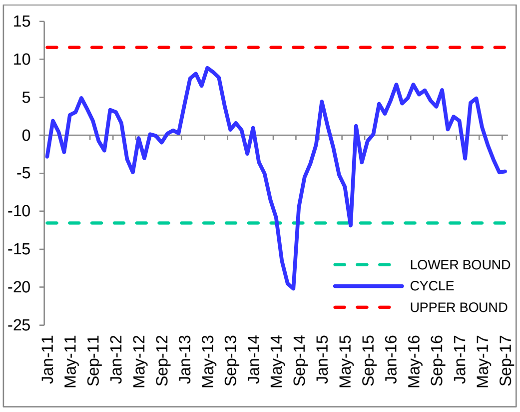


Fig. 23

Global Growth Outlook (%)

Source: IMF WEO, October 2017

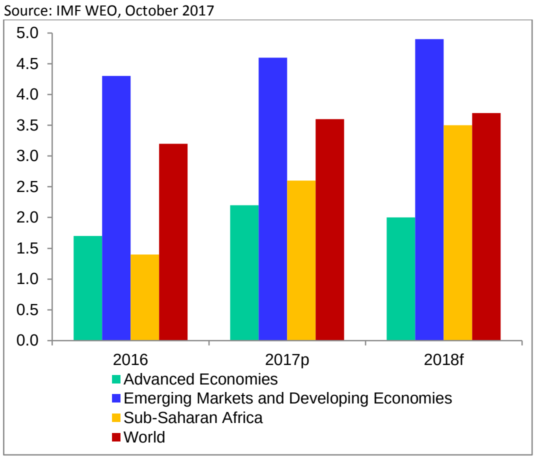
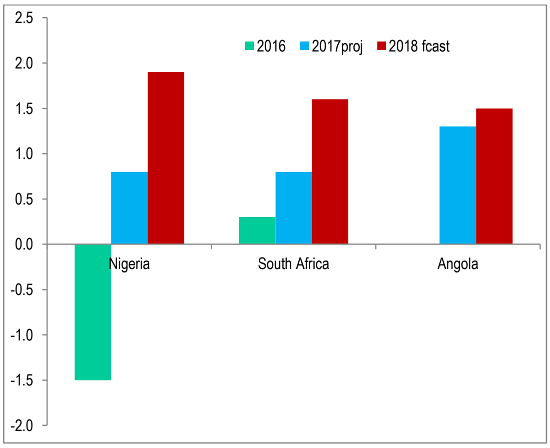


Fig 24

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



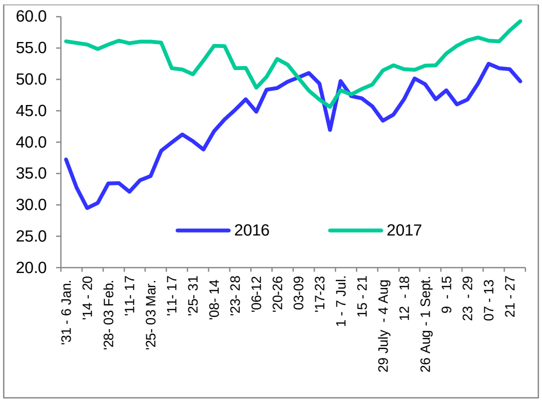
(iii) Global Commodity Prices

Commodity prices traded mix on both the London and New York exchanges in October 2017. Cocoa and oil prices increased whilst prices of gold decreased from the previous month.

Crude Oil

In the third quarter of 2017, crude oil prices rose by 1.6 percent to $50.20 per barrel on average in comparison with the second quarter. Crude oil price movements have been largely influenced by large inventories, recovery in U.S. shale oil production, and expanding output from OPEC members Libya and Nigeria, who were exempted from the initial OPEC production cut deal. In the third quarter, crude oil prices averaged US$50.20/bbl, as the market continued to rebalance. In the outlook, crude oil prices are expected to average US$53 per barrel (bbl) in 2017 (up from US$43/bbl in 2016) and rise further to US$56/bbl in 2018 on strong oil demand and extended OPEC agreement on production cuts, despite projected increases in U.S. shale production.

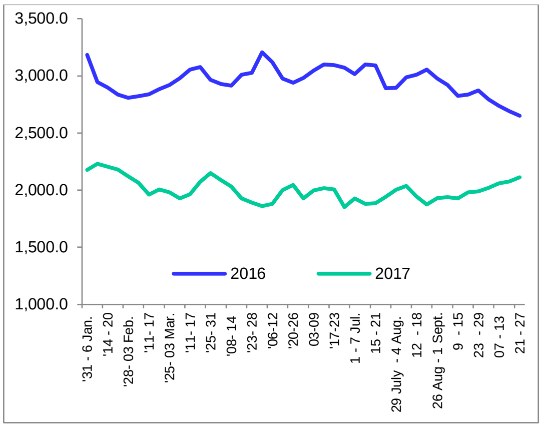
Fig. 25
Weekly Brent crude oil prices trading above 2016 levels (Jan-October, $/barrel)



Cocoa Beans

Cocoa prices stabilized in the first half year but on average, prices were lower than the corresponding period in 2016, reflecting record output by Côte d'Ivoire, the world's largest supplier. In October 2017, cocoa prices averaged US$2,085.00 per tonne, an appreciation of US$115.00 compared to the average price recorded in the previous month (US$1,970 per tonne). Daily cocoa prices for the month of October ranged between US$2,008 and US$2,145 per tonne. In the outlook, a surplus of nearly 0.13 mmt is projected for the 2017/18 season based on strong West African output due to favourable weather and increased production in Latin America. This may impact prices in 2018.

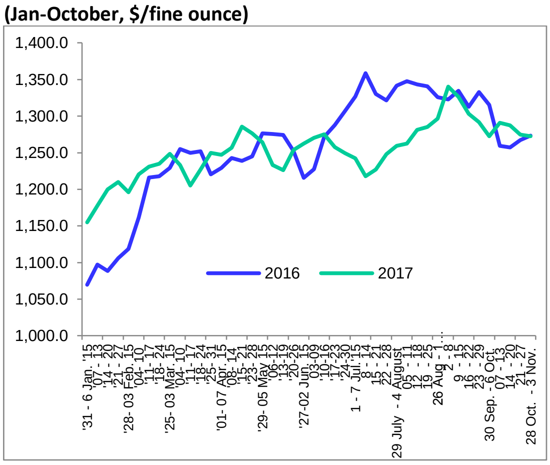
Fig. 26
Weekly Cocoa prices trading below 2016 levels (Jan-October, $/tonne)



Gold

Gold prices rose in the third quarter to near $1,350 per ounce (/oz) in early September, on strong investment demand reflecting a weakening U.S. dollar and heightened geopolitical tensions. However, prices eased in October on a strengthening dollar and expectations of higher U.S. interest rates, as well as speculations on the likely replacement for the US Federal Reserve Chair. The average mid-price of gold traded on the London Bullion market decreased by US$35.20 per fine ounce to settle at US$1,280.62 per fine ounce. In the outlook, the Fed signalling of further rate hikes in 2018 may weaken gold prices.

Fig. 27
Weekly Gold prices averaged around 2016 levels (Jan-October, $/fine ounce)



(iv) Trade Account

Provisional data for the first three quarters of 2017 showed a significant narrowing of the current account deficit, mainly on account of a surplus in the trade balance and higher inflows of private transfers.

By end September 2017, the trade balance had recorded a surplus of US$708 million (1.5% of GDP) on the back of both higher volumes and prices in the case of oil exports and higher production volumes for cocoa and gold exports. Export receipts rose by 25.1 percent year-on-year in the first three quarters of 2017, while imports witnessed a decline of 5.3 percent over the same period. These developments resulted in a trade surplus in the first three quarters of 2017, compared to the deficit of US$1.82 billion recorded same period last year.

The current account deficit for the first three quarters of 2017 improved to an estimated 2.4 percent of GDP, compared to a deficit of 4.9 percent of GDP same time in 2016. The improvement in the current account was mainly the result of the trade surplus and higher inflows of private transfers. The capital and financial account improved mainly as a result of higher portfolio investments inflows in the first three quarters. These developments, together with the significant narrowing of the current account deficit, resulted in an overall balance of payments surplus of US$379 million (0.8% of GDP), compared with a deficit of US$1.4 billion (3.2% of GDP) for the same period in 2016.

Developments in Merchandise Trade (January to October 2017)

The trade account recorded a surplus of US$646.1 million (1.4% of GDP) in the year to October 2017, against a deficit of US$2.0 billion (4.7% GDP) a year earlier. This was attributed to higher export earnings and lower imports. In particular, export earnings totalled US$11.1 billion, compared with US$8.9 billion recorded a year earlier, indicating a 24.4 percent year-on-year growth and driven by higher receipts from gold, crude oil, cocoa beans and products. However, total imports fell by 4.5 percent year-on-year to US$10.4 billion, mainly reflected in the non-oil category.

The level of Gross International Reserves of the Bank increased to US$7.4 billion (4.1 months of import cover) as at 24th November 2017 from a stock position of US$4.9 billion (2.8 months of import cover) at end-December 2016.

Fig. 28
Current account balance improves on the back of trade Surplus (% of GDP)

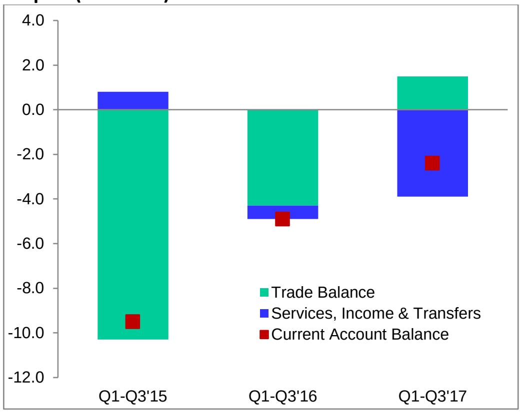


Fig.29
Trade account turns surplus mainly due to higher export receipts (Jan – October, US$ m)

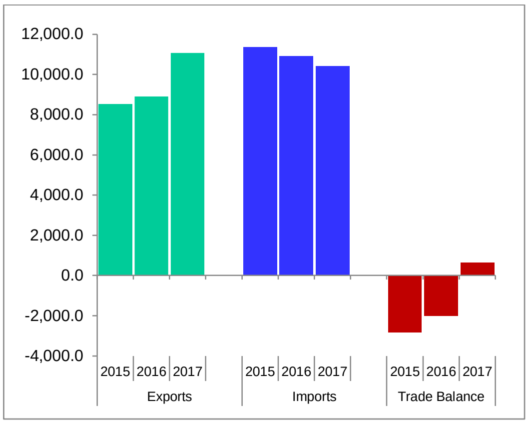
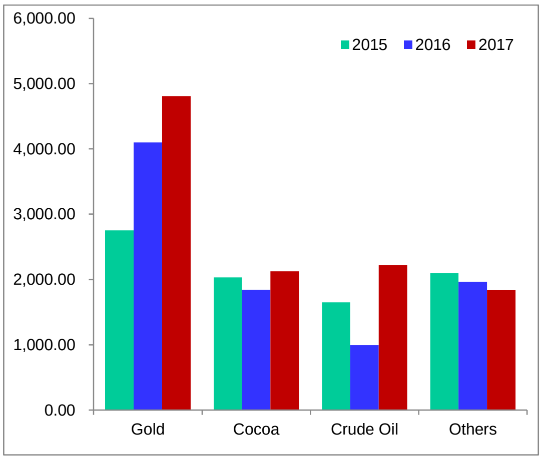


Fig. 30
Improvement in the trade account due to higher gold and crude oil export receipts (Jan – October, US$ m)



4. Economic Outlook

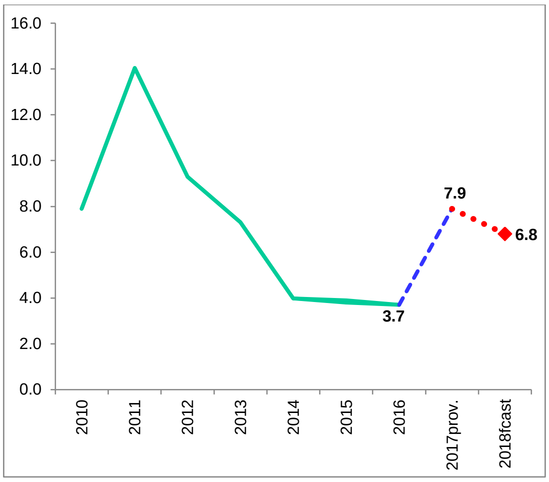
4.1 Global and Domestic Growth Prospects

From the global perspective, there are downside risks to growth which is partly being countered by stronger recovery efforts from some advanced and large emerging market and developing economies. Broadly, global growth over the first three quarters has firmed up the recovery process supported by increased demand, investments and trade. Recent trends from high frequency data and leading indicators are consistent with the growth rebound, which is expected to continue into 2018.

On the domestic front, continued stability in the foreign exchange market, rebound of business and consumer sentiments, implementation of pro-growth government initiatives and gradual improvement in the macroeconomic fundamentals are positive developments for growth. Furthermore, increased oil production and the favourable ITLOS ruling in favour of Ghana is likely to spur activity in the oil and gas sector and boost growth further. Downside risks to the growth outlook include moderated pace of private sector credit growth, tightening of credit stance and shutdown of the Jubilee field in early 2018 for maintenance works.

Fig. 31

Provisional real GDP for 2017 is at 7.9% and projected at 6.8% in 2018 (y/y, %)



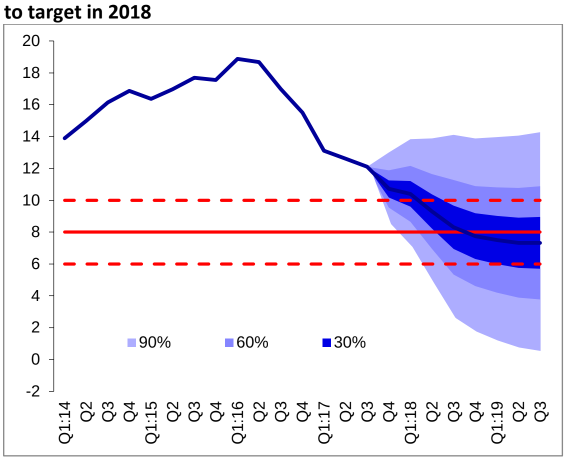
4.2 Prospects for Inflation

(i) Inflation Outlook

Headline inflation during the first ten months of the year continued to decline reflecting subdued inflation expectations, in line with a steady decline in inflation since the beginning of the year with the exception of April and August, when inflation picked up slightly. At the November 2017 MPC round, the outlook for inflation, which incorporated new data such as domestic price developments, revised growth projections and external sector outlook, remained unchanged from the September 2017 assessments. Moreover, the latest fan chart showed that the horizon for the attainment of the medium term target of 8±2 percent in 2018, unchanged since the last forecast. Continued improvement on the global economic front including stability in the foreign exchange market and achievement of the medium-term fiscal targets would reinforce this outcome.

Fig. 32

The fan chart forecast show that Inflation is expected to return to target in 2018



(ii) Inflation Risk Assessments

The risks to the inflation outlook are largely muted at this stage and may continue as the macroeconomic fundamentals continue to improve in the periods ahead. However, some upside risks to the inflation outlook could emerge from rising crude oil prices and tightening global financing conditions. On downside risks, the downward trend in core inflation and continued fiscal consolidation are supportive of the disinflation process. Also, the proposed electricity tariff reforms are expected to feed into lower cost of production while government's commitment towards improving the agriculture sector with policy initiatives could translate into lower food prices going forward and support the disinflation process. In the first ten months of 2017, the fiscal consolidation was on course, and staying the path would dampen aggregate demand pressures and support the disinflation process. Though overall growth has gathered some momentum, non-oil growth remains modest requiring some additional impetus, especially as private sector credit slows alongside tightening of the credit stance on enterprises.

5. Conclusion

In view of the above considerations, the Committee judged that the downside risks to growth as outweighing the upside risks to inflation, and consequently reduced the policy rate by 100 basis points to 20.0 percent.

The Committee, however, acknowledged that continued improvement in the global economic environment including oil price changes, stability in the foreign exchange market, and achieving the medium-term fiscal targets are key to steering inflation to the medium-term target band of 8±2 percent.

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
May	12.6	6.3	15.8	0.7	0.9	0.6
Jun	12.1	6.2	15.1	0.9	1.4	0.6
Jul	11.9	7.2	14.2	0.7	0.2	0.9
Aug	12.3	7.4	14.7	-0.2	-1.2	0.2
Sep	12.2	8.1	14.1	0.0	-1.8	0.9
Oct	***11.6***	***8.2***	***13.2***	***0.9***	***-0.1***	***1.4***

CPI Components (%)									
	Weghts (%)	2016				2017			
		Mar	Jun	Sep	Dec	Mar	Jun	Sep	Oct
Overall	**100.0**	**19.2**	**18.4**	**17.2**	**15.4**	**12.8**	**12.1**	**12.2**	**11.6**
Food and Beverages	**43.9**	**8.3**	**8.6**	**9.0**	**9.7**	**7.3**	**6.2**	**8.1**	**8.2**
Non-food	**56.1**	**25.7**	**24.2**	**21.6**	**18.2**	**15.6**	**15.1**	**14.1**	**13.2**
Alcoholic Beverages, Tobacco	1.7	15.3	15.1	15.7	13.5	13.9	11.7	10.9	9.7
Clothing and footwear	9.0	21.0	22.6	23.2	16.4	18.2	16.6	16.2	17.1
Housing, Water, Elect, Gas & Fuels	8.6	39.6	32.8	28.0	20.2	7.9	7.1	6.1	6.9
Furnish, H/H Equipt. Etc	4.7	22.9	21.4	23.0	18.8	23.5	20.6	17.6	14.4
Health	2.4	13.7	13.9	15.4	18.5	15.8	14.3	12.7	4.8
Transport	7.3	40.0	40.3	27.3	27.2	15.3	22.6	21.9	18.5
Communications	2.7	13.6	12.5	11.3	10.8	11.3	11.1	9.5	10.0
Recreation & Culture	2.6	26.7	27.4	27.6	20.3	23.7	20.8	18.7	16.8
Education	3.9	27.7	33.3	32.5	23.4	17.3	11.0	9.2	9.3
Hotels, Cafes & Restaurants	6.1	15.9	14.9	16.1	13.7	14.2	12.0	11.4	11.9
Miscellaneous goods & services	7.1	18.3	15.5	13.1	14.7	16.7	15.4	15.4	14.5

Source: Ghana Statistical Service

Measures of Core Inflation	Weight %	2016 Mar	2016 Jun	2016 Sep	2016 Dec	2017 Mar	2017 Jun	2017 Sep	2017 Oct
Headline Inflation	100.0	19.2	18.4	17.2	15.4	12.8	12.1	12.2	11.6
Core 1: Inflation excl Energy and Utility	94.9	18.1	17.9	16.9	14.6	13.4	12.8	12.8	12.3
Core 2: Inflation excl Energy and Utility and Volatile Food Items	77.3	19.7	19.3	18.4	15.1	14.0	13.6	13.1	12.4
Core 3: Inflation excl Energy and Utility Volatile Food Items & Transportation	73.1	17.1	16.7	16.9	14.1	14.0	12.2	12.3	11.9
Core 4: Inflation excl All Food Items, Energy & Utility	51.0	24.9	24.3	21.9	17.4	17.1	16.7	15.5	14.5

Interbank Exchange Rate Movements

	GH¢/US$	Movement Monthly (%)	Movement Year-to-Date (%)	GH¢/GBP	Movement Monthly (%)	Movement Year-to-Date (%)	GH¢/Euro	Movement Monthly (%)	Movement Year-to-Date (%)
2016									
Jan	3.8311	-1.0	-0.96	5.4945	2.4	2.40	4.1825	-0.7	-0.74
Feb	3.8787	-1.2	-2.17	5.4068	1.6	4.06	4.2525	-1.6	-2.38
Mar	3.8304	1.3	-0.94	5.5252	-2.1	1.83	4.3456	-2.1	-4.47
Apr	3.7951	0.9	-0.02	5.5361	-0.2	1.63	4.2986	1.1	-3.42
May	3.8337	-1.0	-1.03	5.6097	-1.3	0.30	4.2700	0.7	-2.78
Jun	3.9230	-2.3	-3.28	5.3052	5.7	6.06	4.3623	-2.1	-4.83
Jul	3.9469	-0.6	-3.86	5.1673	2.7	8.89	4.3756	-0.3	-5.12
Aug	3.9445	0.1	-3.81	5.1612	0.1	9.02	4.3968	-0.5	-5.58
Sep	3.9709	-0.7	-4.44	5.1576	0.1	9.09	4.4653	-1.5	-7.03
Oct	3.9643	0.2	-4.29	4.8184	7.0	16.77	4.3345	3.0	-4.22
Nov	3.9805	-0.4	-4.68	4.9754	-3.2	13.09	4.2196	2.7	-1.62
Dec	4.2002	-5.2	-9.66	5.1965	-4.3	8.27	4.4367	-4.9	-6.43
2017									
Jan	4.2711	-1.7	-1.66	5.3489	-2.8	-2.85	4.6073	-3.7	-3.70
Feb	4.4786	-4.6	-6.22	5.5745	-4.0	-6.78	4.7530	-3.1	-6.65
Mar	4.3173	3.7	-2.71	5.3964	3.3	-3.70	4.6164	3.0	-3.89
Apr	4.1867	3.1	0.32	5.4163	-0.4	-4.06	4.5611	1.2	-2.73
May	4.2857	-2.3	-2.00	5.5360	-2.2	-6.13	4.8221	-5.4	-7.99
Jun	4.3629	-1.8	-3.73	5.6651	-2.3	-8.27	4.9750	-3.1	-10.82
Jul	4.3743	-0.3	-3.98	5.7627	-1.7	-9.83	5.1573	-3.5	-13.97
Aug	4.3994	-0.6	-4.53	5.6629	1.8	-8.24	5.2215	-1.2	-15.03
Sep	4.3944	0.1	-4.42	5.8962	-4.0	-11.87	5.1940	0.5	-14.58
Oct	4.3765	0.4	-4.03	5.7984	1.7	-10.38	5.0940	2.0	-12.90

Source: Bank of Ghana

Selected Economic and Financial Indicators	Dec-15	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17
(Annual percentage change; unless otherwise indicated)												
National Income and Prices (Quarterly)												
Real GDP	3.9	3.7	na	na	6.6	na	na	9.0	n.a	n.a	n.a	n.a
Real GDP_non-oil	3.3	5.0	na	na	3.9	na	na	4.0	n.a	n.a	n.a	n.a
Consumer price index (end of period)												
Overall	17.7	15.4	13.3	13.2	12.8	13.0	12.6	12.1	11.9	12.3	12.2	11.6
Food	8.0	9.7	7.0	7.1	7.3	6.7	6.3	6.2	7.2	7.4	8.1	8.2
Non-food	23.3	18.2	16.6	16.4	15.6	16.3	15.8	15.1	14.2	14.7	14.1	13.2
Exchange rate ($/¢): (end of period)	3.7944	4.2002	4.2711	4.4786	4.3173	4.187	4.2857	4.3629	4.3743	4.3994	4.3944	4.3765
Exchange rate depreciation (M/M, %)	-0.20	-4.80	-1.66	-4.63	3.74	3.11	-2.3	-1.8	-0.30	-0.57	0.11	0.4
Exchange rate depreciation (YTD, %)	-15.7	-9.66	-1.66	-6.22	-2.71	0.32	-2.0	-3.7	-3.98	-4.53	-4.42	-4.0
Money and credit												
Broad money supply (M2+)	26.1	22.0	26.6	29.9	28.2	26.6	23.7	28.9	28.7	21.9	20.0	n.a
Credit to the private sector (y/y %)	24.7	14.4	15.7	17.5	19.4	16.1	16.2	15.1	14.8	6.5	9.6	9.4
Real Credit to the private sector (y/y %)	5.9	-0.9	2.6	4.8	3.2	2.7	3.2	2.7	2.6	-5.2	-2.3	-1.9
Interest rates (%)												
Monetary Policy rate	26.0	25.5	25.5	25.5	23.5	23.5	22.5	22.5	21.0	21.0	21.0	21.0
Interbank rate	25.3	25.3	25.2	25.2	24.9	23.3	23.1	22.1	21.9	21.0	20.9	20.9
91-Day treasury bill rate	23.1	16.8	16.2	15.9	16.9	16.5	13.7	12.1	12.3	12.8	13.2	13.3
182-Day treasury bill rate	24.4	18.5	17.4	17.0	17.1	16.8	15.4	13.3	13.0	13.5	14.1	13.8
Average lending rate	27.5	31.7	31.8	33.0	30.6	29.8	29.8	30.8	30.7	29.8	29.0	29.1
3-month average Deposit rate	13.0	13.0	13.0	15.0	15.0	15.3	15.0	14.5	14.5	14.5	13.0	13.0
lending - deposit rate spread	14.5	18.7	18.8	18.0	15.6	14.6	14.8	16.3	16.2	15.3	16.0	16.1
External Sector (cummulative)												
Current account balance ($million)	-2,818.8	-2,832.0	na	na	320.1	na	na	-469.7	n.a	n.a	-952.2	-1,102.0
per cent of GDP	-7.8	-6.6	na	na	0.7	na	na	-1.0	n.a	n.a	-2.0	-2.4
Trade balance ($million)	-3,928.9	-1,689.2	361.5	573.0	1,001.0	1,145.9	1,505.8	1,429.9	1,344.5	1,202.3	1,190.0	646.1
Commodity prices (International)												
Cocoa ($/tonne)	3,301.0	2,268.4	2,180.2	2,003.0	2,036.4	1,952.6	1,952.7	1,956.8	1,929.4	1,947.6	1,970.0	2,085.0
Gold ($/ounce)	1,069.4	1,151.2	1,192.8	1,233.8	1,231.4	1,270.0	1,246.1	1,261.8	1,236.6	1,283.4	1,315.8	1,280.6
Crude Oil ($/barrel)	38.9	54.9	55.5	56.0	52.5	53.7	51.1	47.5	49.2	51.9	55.2	57.5
Gross International Reserves (US$ m)	5,884.7	6,161.8	6,401.6	6,248.3	6,243.2	8,289.7	8,095.9	7,842.0	7,505.8	7,082.6	6,850.7	6,938.5
months of import cover	3.5	3.5	3.7	3.6	3.6	4.8	4.6	4.5	4.3	4.0	3.9	3.9
Net International Reserves (US$ m)	3,093.7	3,431.0	3,187.5	3,004.2	3,006.6	5,066.7	4,891.0	4,648.8	4,447.3	4,146.1	3,810.3	3,903.0
Non-Performing Loan (NPL)	14.7	17.6	18.0	17.7	20.2	19.8	21.7	21.2	20.9	21.9	22.2	21.6
Non-Performing Loan (excluding Loss)	6.8	8.4	9.0	8.6	11.3	10.5	12.4	11.3	11.1	11.3	10.7	10.5