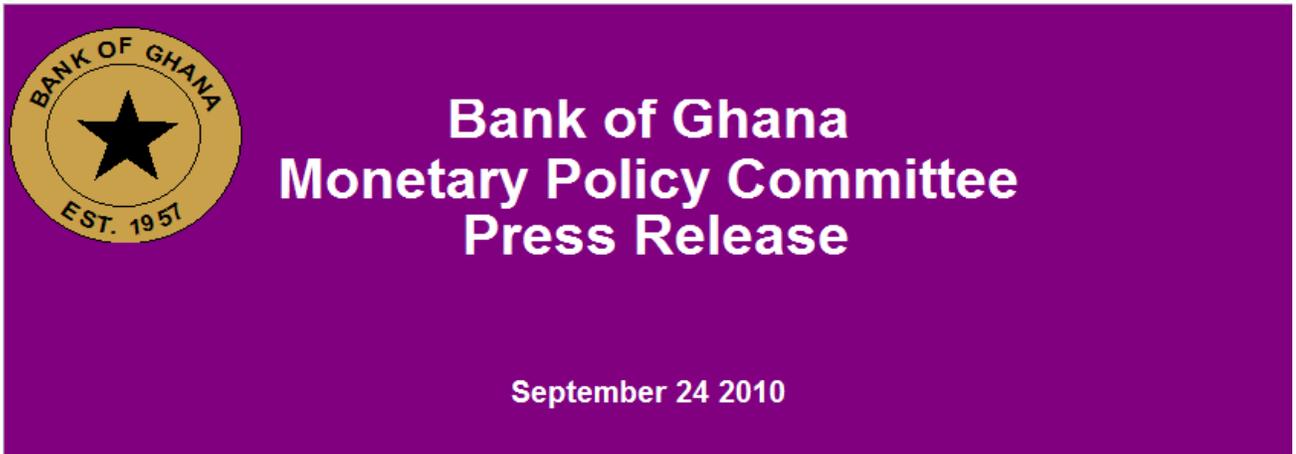


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1. Ladies and Gentlemen of the Media, welcome to the press briefing of the 41st meeting of the Monetary Policy Committee.
2. The Committee reviewed developments in the economy up to September as well as the domestic and external outlook. We reviewed global developments, domestic inflationary trends, the execution of the 2010 budget, growth prospects, business and consumer confidence, developments in the financial system and the external sector.
3. Almost a year after most advanced economies started putting in place stimulus economic packages and adopting unconventional monetary policy tools to address weak economic conditions and prevent a global depression, conditions in most of these economies are yet to return to normal. There is continued sluggishness in the world economy, especially in the United States and Europe's debt crisis is causing some uncertainty.

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Output and Inflation

4. The Ghana Statistical Service has now stated that the GDP growth rate for 2009 was 4.1 percent and not the 4.7 percent it had earlier projected. While the Agricultural sector in 2009 grew at the same pace as it did in 2008, the industrial and services sectors grew at a slower pace, thus contributing to the lower than anticipated growth.
5. At the July 2010 Monetary Policy Committee meeting, the indication from trends in the Bank of Ghana's Composite Index of Economic Activity (CIEA) at the end of the first quarter of 2010 was that economic activity had begun to pick up. This trend has continued to date. As at July 2010, the index had recorded a real growth of 3.5 percent compared with a growth of 2.5 percent for the corresponding period of 2009.
6. Overall Business Confidence has been positive for most of the year although there was a marginal dip in August 2010. Businesses assessment of trends in interest rate and consumer price movements were favourable. However businesses were less optimistic about the realization of government's growth target for the year.
7. After declining marginally in the June 2010 survey round, overall consumer confidence rebounded during August 2010 driven largely by an improved economic environment, declining inflation situation and improved food supply conditions.

8. The inflation rate announced by the Ghana Statistical Service in August and September all confirm the declining trend in the rate of inflation. The CPI for July 2009 was 9.46 percent, down on the June 2010 rate of 9.52 per cent and then marginally down to 9.44 percent for August 2010. The overall inflation rate has therefore eased from almost 16 percent at the end of December 2009 to 9.4 percent at the end of August 2010. Food inflation has dropped from 11.8 percent to 5.3 percent while Non-food inflation fell from 18.8 percent to 12.3 percent during the same period.

Government's Budgetary Operations

9. Data on government transactions through the Bank of Ghana show that at the end of August 2010 the budget recorded a narrow deficit, on a cash basis, of GH¢1.24 billion (4.8 per cent of GDP) marginally exceeding the target of GH¢1.21 billion (4.7 per cent of GDP). The overall deficit, together with the TOR financing of GH¢445.0 million resulted in an overall Net Domestic Financing (NDF) of GH¢1.6 billion (6.2% of GDP). Although this was within the ceiling of GH¢1.7 billion (6.5% of GDP) for the end of the third quarter, the full implementation of the Single Spine Salary Scheme and the settlement of existing arrears would have changed this picture.

Interest Rate Structure

10. Developments in Money Market activities since the July 2010 meeting continue to reflect the easing of inflation expectations. A strong non-resident investor demand has contributed to the lengthening of the average maturity.

- Interest rates declined over the entire spectrum of the yield curves with observed further shifts towards long-dated instruments. The share of the short-dated government securities went down to 38.8 per cent in August 2010 from 39.8 per cent in June 2010.
 - Between June and August 2010, the 91-day Treasury bill rate declined from 12.9 percent to 12.7 percent. The 182-day Treasury bill rate also declined from 13.4 per cent to 13.1 per cent.
 - The rate on the 1-year note fell from 13.8 percent to 13.4 percent. That for the 2-year fixed rate note also dropped from 13.9 percent to 13.4 per cent.
 - The 3-year fixed rate which was 15.7 per cent in June went down to 14.3 per cent in August 2010.
 - Over the same period, the interbank overnight rate, which reflect the rate at which commercial banks borrow and lend from each other, fell further from 13.2 per cent to 12.3 per cent.
11. Deposit money banks average base and lending rates witnessed declines over the period. Between June and August, the average base rate quotations of the banks declined by 153 basis points to 27.1 per cent while average lending rates declined by 213 basis points to 28.5 per cent over the same period.
12. The average deposit rates of the commercial banks reduced from 9.5 per cent in June to 8.9 per cent in August.

13. During the period June to August 2010 therefore, commercial banks' spreads, defined as the difference between the average lending rates and the average deposit rate, narrowed by 1.2 percentage points.

Banking Sector Developments

14. The total assets of the banking industry grew from GH ¢14.0 billion at the end of December 2009 to GH ¢15.1 billion by the end of July 2010. This represents a growth in the total asset base by 7.8 per cent. The banking sector continued to be well capitalised, profitable and liquid. However, the current level of non-performing loans (adversely classified loans) is impacting on the balance sheet of the banks.

15. The banking industry's capital adequacy ratio (CAR), which is a measure of the industry's ability to withstand unexpected losses, increased from 14.9 percent in December 2009 to 19.1 percent in July 2010.

16. Non Performing Loans (NPL), a measure of commercial banks loan portfolio quality and defined as the ratio of loan losses to gross advances showed a marginal improvement during the first 7-months of the year. The NPL's which stood at 16.2 percent in December 2009, peaked at 20 per cent in February and has since improved to a position of 18.2 percent in July 2010.

17. The latest credit conditions survey by the Bank of Ghana show a general net easing of credit conditions for enterprises, with a shift from small and medium scale enterprises (SMEs) to large enterprises. The survey also shows that banks increased credit to households. However credit for

mortgages tightened in August 2010. Reductions in margins on average loans and maximum size of loan/credit lines were the main contributing factors for the easing of the credit stance for large enterprises and for consumer credits.

18. Real annual DMBs credit to the private sector declined by 3.8 per cent at end-July 2010 compared with a growth of 11.6 per cent at the end of July 2009.

External Sector Developments

19. The Balance of payments (BOP) for the first half of the year showed an improved performance relative to the position a year earlier. Provisional estimates for the first half of 2010 recorded a surplus of US\$199.7 million, which compares favourably with a deficit of US\$625.9 million registered during the corresponding period of 2009. This development in the balance of payments is due to a marked improvement in the financial and capital account which more than compensated for a worsening in the current account.
20. For the first eight months of the year, the balance on the trade account was provisionally estimated at US\$2.0 billion, compared to US\$1.5 billion for the similar period of 2009. Exports improved by 44.8 percent to US\$5.1 billion. The strong export performance was the result of increases in both volume and price of gold and cocoa.
21. Imports increased by 35.6 percent to US\$7.1 billion. Oil and non-oil imports increased by 59.3 percent and 31.1 percent to US\$1.3 billion and US\$5.8 billion respectively.

22. Gross International Reserves of the Bank of Ghana improved by US\$286.3 million to US\$3.3 billion at the end of August 2010. The increase was partially accounted for by the BOP surplus of US\$200.0 million recorded in the first half of the year. The reserve was enough to cover 2.8 months of imports of goods and services.
23. The Ghana cedi appreciated by 2.1 per cent, 7.8 per cent and 15.4 percent against the dollar, sterling and euro respectively, on year-on-year terms, as at the end of August 2010. The combined developments in the cedi against the three core currencies showed a nominal effective appreciation of 3.2 percent in trade-weighted terms over the January – August 2010 period. This compares with effective depreciation of 9.7 percent over the corresponding period in 2009.

Summary and Conclusions

24. To conclude, developments in the global economy show that the world economy is yet to fully recover from the effects of the recession. While growth conditions in China and other Asian economies remain modestly strong, Europe's economy is beginning to register some growth while the United States economy is still weak. The outlook for crude oil prices remains benign. In the view of the committee, the impact of future impulses from potential crude oil prices to the domestic economy may thus pose no immediate threat to inflation at this stage.
25. The Committee identified some rigidities in the banking sector that inhibit the effective transmission of monetary policy. Of particular concern are

the large deposits of some public agencies within the banking system. The Committee urges the fiscal and monetary authorities to collaborate to resolve this problem.

26. On the domestic economy, the Committee is of the view that the decline in inflation over the past twelve months may continue into October 2010 and further into 2011, although at a slower pace anchored on lower food prices and a stable exchange rate. These initial conditions are expected to help contribute favourably in ensuring that inflation stays within target. While acknowledging that inflation will ease over the horizon, there are some elements of risks and uncertainties that could impact on the scenario.

27. The major risk is the potential impact of fiscal-driven aggregate demand pressures on the economy. At the July 2010 MPC meeting vulnerabilities in the fiscal outlook were enumerated. Added to the risks in the fiscal outlook are renewed wage pressures from the public sector and its impact on Government expenditures. These demands would have to be moderated and managed to ensure that the fiscal programme remains within acceptable targets.

28. On growth, the Committee noted that the economy was currently operating below its potential. Current developments in the Bank of Ghana's Composite Index of Economic Activity point to weak conditions. The sluggish pace in economic activity has implications for economic growth in the non-oil sector in 2010. The anticipated slow growth in the GDP in 2010, emanating from signals in the CIEA implies that the

process of fiscal consolidation may be delayed as tax revenue targets may not be achieved.

29. On the basis of the balance of risks, the Committee has decided to maintain the Monetary Policy Rate at 13.5 per cent.

Thank You