Bank of Ghana
Monetary Policy Committee
Press Release

September 27 2021

Good Morning, Ladies and Gentlemen of the Media. Let me welcome you all to the 102nd press briefing of the Monetary Policy Committee (MPC) and the Fifth in the year. The MPC met last week to deliberate on recent global and domestic macroeconomic conditions, and to assess risks to the inflation and growth outlook. Below is a summary of the developments and key considerations that the Committee took into account in arriving at its decision.

1. Since the last MPC meeting in July 2021, the global economic recovery has continued, notwithstanding the spread of the Delta variant of the COVID-19 virus, and production constraints stemming from supply chain bottlenecks arising from the pandemic. The International Monetary Fund projects global growth of 6.0 percent in 2021 and around 4.9 percent in 2022, supported by policy measures and vaccination programmes, which have allowed the removal of restrictions and reopening of more economies. Although the global economic outlook point to a rebound in 2021, these forecasts are subject to the evolution of the COVID-19 pandemic including the spread of emerging variants of the virus and the pace of vaccination campaigns around the world, and continued policy support.

2. Global financial conditions have broadly remained supportive of the recovery process largely due to the continued accommodative stance of major central banks. Policy rates in major advanced economies are expected to remain low despite emerging inflationary pressures and stronger growth rebound. Yields on longer-dated bonds have declined in recent months amid concerns about the potential impact of the Delta variant of the COVID-19 virus on the global economic recovery, while sovereign spreads in emerging markets and developing

economies have remained relatively compressed. The US Federal Reserve has now provided more clarity on the timing of scaling back its asset purchase programme, indicating that it is likely to begin in November 2021 and complete the process by mid-2022. However, previous uncertainties associated with the timing of the tapering of asset purchase programmes by the US Fed and other Central Banks in Advanced Economies have weighed on equity prices and capital flows to Emerging Market and Developing Economies, exerting some downward pressures on local currencies.

3. Global price developments data show a sharp rise in headline inflation above target in several Advanced and Emerging Market Economies, on account of higher energy prices, disruptions to supply chains and increased aggregate demand pressures as economies re-open, alongside supply side constraints. There is however, the general assessment that headline inflation will revert to target over the medium-term, supported by continued slack in labour market conditions and restraint in wage growth.

4. These developments—the recovery in global growth conditions, the tightening of global financing conditions, and rising global inflation trends—are likely to have spillover effects on the Ghanaian economy, mainly through their potential impacts on trade, portfolio flows, financing, and exchange rate movements.

5. On the domestic economy, developments continue to point to sustained recovery in economic activity following the downturn at the peak of the pandemic. The latest data from Ghana Statistical Service indicate a stronger pick up in the annual GDP growth to 3.9 percent in the second quarter of 2021, from the 3.1 percent recorded in the first quarter, and a 5.7 percent contraction recorded in the same period of 2020. Non-oil GDP, for the same period, grew by 5.2 percent, compared with a contraction of 5.8 percent recorded for the same period in 2020. The stronger growth performance in the second quarter reflects the sharp rebound experienced in the cocoa sub-sector which grew by 27.6 percent; supported by equally stronger growth of 18.7 percent in Hotels & Restaurants, 13.8 percent in Real Estate, and 10.7 percent in trade. This stronger performance was however, moderated by a contraction of 18.9 percent in the mining and quarrying sub-sector, on account of a 10.8 percent contraction in the production of oil and gas.

6. The Bank's update of the Composite Index of Economic Activity (CIEA) for July 2021 reflected continued recovery in domestic economic activity. The real CIEA recorded a 20.0 percent year-on-year growth in July 2021, compared with 20.2 percent in June 2021, and 3.9 percent growth in July 2020. The growth in the indicators were somewhat broad-based with port activity, imports, domestic VAT, and air-passenger arrivals accounting for the increase.

7. The Ghana Purchasing Managers Index[1] fell in August 2021 mainly on the back of rising input costs. The decline in the Purchasing Managers Index was consistent with the results of the Bank's latest confidence surveys, conducted in August 2021, and which indicated some softening of business sentiments. The survey results revealed the inability of businesses to meet their short-term company targets driven by high input costs, unavailability of raw materials, weak consumer demand, and rising labour costs. Consumer confidence, on the other hand improved, reflecting optimism about current and future economic conditions.

8. The pace of growth in total liquidity moderated in August 2021. Broad money supply (M2+) increased, on a year-on-year basis, by 20.2 percent in August 2021, compared with the 24.8 percent growth recorded in August 2020. The slower growth was due to a contraction in the Net Foreign Assets (NFA) of the banking sector. Reserve money, on the other hand, increased significantly by 36.7 percent, compared with 20.2 percent over the same comparative period, largely reflecting the net build-up in the Bank's foreign reserves, higher cocoa purchases than anticipated, and continued implementation of COVID-related policy measures.

9. The banking sector remained strong and well-capitalised, with stronger growth in total assets, investments and deposits. Total assets increased by 16.7 percent to GH¢166.4 billion as at end-August 2021, driven mainly by a 28.0 percent year-on-year growth in investments to GH¢80.3 billion. Growth in gross advances rose by 8.7 percent as at August 2021 from the end-June position of 5.7 percent. Strong liquidity flows during the period resulted in a 21.8 percent annual growth in total deposits to GH¢111.6 billion.

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1 The Ghana Purchasers Managers' Index (PMI) is computed by IHS Markit in collaboration with Stanbic Bank Ghana. The PMI is a composite index based on five sub-components, namely, New Orders, Output, Employment, Suppliers' Delivery Times, and Stock of Items Purchased, and the data is obtained from survey questionnaires administered to about 400 private sector companies across agriculture, construction, industry, services and wholesale & retail sectors

10. Financial Soundness Indicators (FSIs) have remained strong over the period. The industry's Capital Adequacy Ratio was 20.7 percent at the end of August 2021, well-above the regulatory minimum threshold of 11.5 percent. Core liquid assets to short-term liabilities was 24.7 percent in August 2021 compared with 29.0 percent a year ago. Over the same comparative period, net interest income grew by 17.9 percent to GH¢8.3 billion, marginally lower than the 18.7 percent growth a year ago. Net fees and commissions grew strongly by 21.8 percent to GH¢1.85 billion, higher than the growth of 8.9 percent for same period last year, reflecting the continued recovery in trade finance-related and other ancillary businesses of banks. Total operating income rose by 15.7 percent, marginally below the corresponding growth rate of 17.0 percent. Cost control measures within the banking sector continued to support profit performance with operating costs increasing by 9.0 percent, lower than the 12.1 percent increase for same period in 2020. Loan loss provisions also increased by 5.3 percent, compared with the 29.5 percent growth a year ago. Profit before tax accordingly increased by 27.4 percent to GH¢4.9 billion, higher than the growth of 19.2 percent a year ago.

11. Private sector credit growth has not fully recovered to pre-pandemic levels due to lingering supply-side risk aversion from the shock of the pandemic as well as slower-than-expected growth in demand for loans that are backed by bankable projects. Annual nominal growth in private sector credit slowed to 9.5 percent in August 2021 compared with 14.3 percent, in the corresponding period of 2020. Similarly, real private sector credit contracted marginally by 0.1 percent compared to a growth of 3.4 percent, recorded over the same comparative period.

12. New loans and advances by banks totalled GH¢21.6 billion in the year to August 2021, marginally above the GH¢20.7 billion for the same period in 2020. The Non-Performing Loans (NPL) ratio increased from 15.5 percent in August 2020 to 17.3 percent in August 2021, reflecting in part the general pandemic-induced repayment challenges as well as some bank-specific loan recovery challenges.

13. The latest stress tests conducted on the banking sector show that banks remained resilient under mild to moderate stress conditions supported by the

strong capital and liquidity buffers and the regulatory reliefs introduced during the pandemic. In addition, results from the latest Credit Conditions Survey point to a potential increase in demand for credit over the next two months. Commercial banks have also indicated a likely softening of their credit stance to households and firms in the coming months, a development that may translate into higher credit growth to support the ongoing recovery process.

14. The Specialized Deposit-Taking Institutions (SDIs) and Non-Bank sub sectors continued to reflect gains after the clean-up process. In July 2021, the balance sheet of the Savings and Loans, Finance Houses, Rural and Community Banks and Micro-Finance Institutions improved, compared with July 2020. This was driven by a strong growth of 27.0 percent in deposits relative to 15.7 percent growth in July 2020, and gross advances also increased by 17.3 percent compared with a contraction of 19.3 percent over the same comparative period.

15. Price developments indicate an increase in the general price level during the third quarter of 2021. Two readings since the last MPC meeting showed significant increase in headline inflation from 7.8 percent in June 2021, to 9.0 percent in July, and further up to 9.7 percent in August, closer to the upper limit of the medium-term target band. The upward trajectory of inflation was mainly driven by a surge in food prices over the period. Food inflation increased from 7.3 percent in June to 9.5 percent in July, and then to 10.6 percent in August 2021. Non-food inflation also rose marginally from 8.2 percent, 8.6 percent, and then 8.7 percent over the same comparative months.

16. The above trends are beginning to reflect in underlying inflation as all the Bank's core measures of inflation increased over the period. The core inflation measure, which excludes energy and utility, increased from 7.5 percent in June 2021 to 8.9 percent in July, and then to 9.5 percent in August. The weighted inflation expectations index also picked up in July 2021, reflecting higher inflation expectations by businesses, consumers and the financial sector.

17. Provisional data on the budget execution for the period January to July 2021 indicated an overall broad cash fiscal deficit of 6.1 percent of GDP, against the target of 5.7 percent of GDP. This was due to higher revenue shortfalls. The

corresponding primary balance was a deficit of 1.9 percent of GDP compared to the target deficit of 1.3 percent of GDP. Over the period, total revenue and grants amounted to GH¢34.3 billion (7.8 percent of GDP), below the projected GH¢38.8 billion (8.8 percent of GDP). Total expenditures and arrears clearance amounted to GH¢61.1 billion (13.9 percent of GDP), which was below the programmed target of GH¢63.8 billion (14.5 percent of GDP).

18. These developments impacted the stock of public debt which increased to 76.4 percent of GDP (GH¢335.9 billion) at the end of July 2021, compared with 76.0 percent of GDP (GH¢291.6 billion) at the end of December 2020. Of the total debt stock, domestic debt was GH¢173.4 billion (39.5 percent of GDP) while the external debt was GH¢162.5 billion (37.0 percent of GDP).

19. Money market interest rates continued on the downward path across the yield curve. The 91-day and 182-day Treasury bill rates declined to 12.5 percent and 13.3 percent respectively, in August 2021, from 14.0 percent and 14.1 percent respectively, in August 2020. Similarly, the rate on the 364-day instrument decreased marginally to 16.2 percent from 16.9 percent over the same comparative period. Except for rates on the 15-year and 20-year bond which remained unchanged at 19.8 percent and 20.2 percent, respectively, rates on all other medium- to long-term instruments generally declined.

20. The weighted average inter-bank rate declined to 12.6 percent from 13.6 percent, largely reflecting improved liquidity conditions on the inter-bank market, which had transmitted to lending rates. Consequently, average lending rates of banks declined marginally to 20.5 percent in August 2021 from 21.4 percent recorded in the same period of 2020, consistent with developments in the inter-bank market.

21. International prices of the three major export commodities reflected mixed trends in the year to August 2021. Crude oil prices have remained bullish on account of OPEC+ production cuts which has led to steady draws on global oil inventories. The average price of crude oil went up by 40.4 percent on a year-to-date basis to US$70.5 per barrel in August 2021. Gold prices declined by 3.9 percent to average US$1,789.6 per fine ounce in August 2021, due to pressure

from the strong US dollar. The average price of cocoa also decreased marginally by 1.0 percent to trade at US$2,555.9 per tonne due to ample supply from major cocoa producers.

22. These price developments, together with production changes, impacted the trade account over the first eight months of the year. Total export receipts increased by 2.4 percent on a year-on-year basis to US$9.9 billion supported by higher prices realised from gold (up by 6.2 percent), cocoa (up by 4.2 percent), and crude oil prices (up by 58.1 percent). However, the impacts were moderated by a sharp decline in the volume of gold and crude oil exports by 20.9 and 20.1 percent on a year-on-year basis respectively, despite the 23.9 percent growth in volumes of cocoa beans exports. Total imports, on the other hand, increased by 8.6 percent to US$8.98 billion. This was driven mainly by a 58.5 percent increase in the value of refined petroleum products imports arising from increased demand as the economy returned to normalcy from last year's lockdown period. The higher import bill relative to export receipts resulted in a lower trade surplus of US$874.8 million in the year to August 2021, compared with a surplus of US$1.4 billion recorded in the same period of 2020.

23. Gross International Reserves stood at US$11.4 billion (equivalent to 5.2 months of import cover), at the end of August 2021. The strong reserves build-up over the review period provided some buffer to the local currency, which came under some demand pressures from commerce, manufacturing, and energy sectors as economic activity picked up in the third quarter. Cumulatively, available data as at September 22, 2021 shows that the Ghana Cedi recorded a depreciation of 1.8 percent against the US dollar, compared with a depreciation of 3.0 percent for the same period of 2020. The Ghana cedi also depreciated by 1.6 percent against the Pound Sterling but appreciated by 2.7 percent against the Euro over the same period.

Summary and Outlook

24. The Committee noted that the recovery in global economic activity has continued, although unevenly spread across regions and countries. But, uncertainties regarding the continued spread of the Delta variant of the COVID-19 virus, variations in policy stimulus programmes, and low access to vaccines in emerging market and frontier economies may weaken near-term growth

prospects. Global inflationary pressures are expected to be strong in the near-term. However, the factors driving headline inflation are judged to be temporary. The still sizeable spare capacity in the global economy and the slackness in labour market conditions would restrain wage growth and prevent a significant and sustained pick-up in underlying inflation. Inflation is expected to return to their target over the medium-term as the spare capacity is eroded. Global financing conditions remain generally supportive of the recovery process, despite rising inflationary pressures. However, the strengthening of the US dollar, rising US inflation, rising long-term bond yields, and anticipated earlier-than-expected tapering of bond purchase programmes by central banks in Advanced Economies have heightened uncertainties in the outlook. In some Emerging and Frontier Economies, particularly, those with high fiscal deficits and debt vulnerabilities, these developments have triggered capital flow reversals, with associated currency pressures.

25. On the domestic front, the Committee was of the view that growth continues to recover from the impact of the pandemic. High frequency economic indicators point to continued recovery in economic activity, even though below pre-pandemic levels. Although consumer confidence picked up, weakening business sentiments, stemming from supply disruptions, is adversely impacting input costs, driving down short-term company prospects. While credit to the private sector saw a marginal pickup, the trends remain below expectations largely on account of pandemic-related risk aversion. The COVID-19 related macro-prudential measures, put in place by the Bank of Ghana, will be maintained for the time being to support full recovery in economic activity.

26. The banking sector balance sheet performance remains strong with sustained growth in total assets, investments and deposits. Profitability levels remain high, with profit growth driven by increased income growth. Financial soundness indicators remain broadly sound, although credit risk appears elevated and needs to be carefully monitored. Bolstered by strong capital and liquidity buffers, banks are expected to withstand mild to moderate credit risk shocks emanating from deterioration in asset quality. Banks continue to increase their investments in high-yielding Government securities to improve their earnings while moderating their credit risk due to uncertainties in the business

environment. The Committee also took note of the fact that the trend of increased domestic financing of the deficit (driven by high-yielding Govt paper held largely by banks) was crowding out credit to the private sector.

27. The external payments position remained strong despite the decline in the trade surplus due to a stronger import growth and a widening current account deficit which has been adequately financed with external inflows from portfolio and foreign direct investments. The Ghana Cedi has performed strongly with a year-to-date depreciation of 1.8 percent. The country's higher sovereign spread has not shifted foreign investor behaviour as net monthly purchases of securities on both the debt and equity markets remain relatively favourable. In the outlook, rising interest rates in advanced economies on account of tapering may pose some risks. However, the strong reserve build-up and foreign exchange inflows from the recent SDR allocation and the expected syndicated cocoa loan proceeds should help to cushion currency pressures in the near-term.

28. The latest data suggests that fiscal consolidation efforts appear to be on track, but with some inherent risks associated with wage settlements and energy sector payments, amid low revenue mobilization. In addition, debt sustainability concerns remain, which warrants additional fiscal consolidation efforts, carefully balanced with sustainable growth strategies and efficient debt management strategies. The expectation on fiscal policy implementation in the remaining months of the year will be shaped by revenue collection efforts and strict alignment of expenditures with revenue inflows to ensure attainment of the fiscal deficit target for the year.

29. Inflation has risen sharply over the last two readings, driven mainly by sustained food price increases. Although food inflation has pushed overall inflation close to the upper limit of the band, core inflation remains relatively subdued. In the view of the Committee, the increase in inflation is mainly due to food inflation which is expected to abate with the onset of the harvest season. This notwithstanding, the latest forecast indicates that inflation will remain within the medium-term target band, but closer to the upper limit in the near-term, in the absence of further unexpected shocks. A close monitoring of the inflation situation is however warranted to respond swiftly to prevent potential second

round effects on headline inflation from the rising food inflation. The Committee stands ready to respond appropriately as needed if this particular risk materialises.

30. Given these considerations, and the fairly balanced risks to inflation and growth in the outlook, the Committee decided to keep the policy rate at 13.5 percent.

Informational Note

The last Monetary Policy Committee (MPC) meeting for 2021 is scheduled for November 17 - 19, 2021. The meeting will conclude on Monday, November 22, 2021 with the announcement of the policy decision.