Bank of Ghana
Monetary Policy Committee
Press Release

November 22, 2021

The Monetary Policy Committee, last week, held its 103rd meeting, the last meeting for the year. The Committee deliberated on recent global and domestic macroeconomic conditions since the September 2021 meeting, and assessed risks to the inflation and growth outlook. A summary of the developments and key considerations that the Committee considered in arriving at its decision is provided below:

1. The growth recovery in the global economy has persisted notwithstanding the softened momentum observed in the third quarter of 2021, which is largely attributed to supply chain bottlenecks and concerns about renewed COVID-19 outbreaks. The International Monetary Fund, has subsequently in October, marginally lowered its earlier 2021 global growth forecast from 6.0 percent to 5.9 percent. This forecast is however, conditioned on the evolution of the COVID-19 pandemic and new waves of infection especially in Europe, progress with the global vaccination drive, and supportive financing conditions.

2. Global price pressures, on the other hand, have intensified with headline inflation rising above targets in several advanced and emerging market economies. The rise in inflation broadly reflects rising energy prices, resurgence in global demand, and supply chain constraints. Although the rise in inflation was deemed transitory in the first half of 2021, it is becoming embedded, raising policy uncertainties in the outlook. The Federal Reserve Bank has started tapering its asset purchase programmes to contain the inflation threat. In Emerging Market and Developing Economies (EMDEs), increased commodity and food prices, supply bottlenecks and pass-through to exchange rate depreciation resulted in rising inflation. While some EMDEs have raised their policy rates to contain inflationary pressures, others have adopted a wait-and-see attitude to further observe the price dynamics.

3. Despite the policy uncertainty introduced as a result of mounting inflationary pressures, global financing conditions remain supportive of growth. In the financial markets, long-term bond yields have increased amid growing concerns about the above-target inflation trends across several advanced economies. In EMDEs, financing conditions have tightened to some extent, reflecting the rise in policy rates

to contain rising inflation, rising long-term bond yields in Advanced Economies (AEs), strengthening of the US dollar, and widening sovereign spreads in some vulnerable frontier economies. Additionally, capital flows to emerging market and developing economies have become volatile due to concerns about the strength of the global recovery and rising inflationary pressures. These developments — the recovery in global growth conditions, rising global inflation trends, and volatility in capital flows — are likely to have spillover effects on the Ghanaian economy, mainly through their potential impacts on trade, portfolio flows, external financing, and exchange rate movements.

4. On the domestic front, economic activity during the third quarter continues to point to sustained recovery from the pandemic. The Bank's updated Composite Index of Economic Activity (CIEA) recorded an annual growth of 11.2 percent in September 2021, compared with 10.8 percent and 4.2 percent in the corresponding periods of 2020 and 2019, respectively. The stronger growth in the CIEA was driven by domestic VAT, industrial consumption of electricity, port activity, imports, and air-passenger arrivals. Construction activities, however, slowed down somewhat.

5. The results of the latest confidence surveys signalled continued improvement in both business and consumer sentiments. Businesses met short-term company targets and were optimistic about company and industry prospects as the yuletide approaches, despite concerns about high cost of raw materials and exchange rate depreciation. Similarly, consumer confidence improved on account of positive economic prospects.

6. Provisional data at the end of October 2021 show a marked slowdown in the pace of expansion of key monetary aggregates. Broad money supply (M2+) recorded an annual growth of 14.5 percent in October 2021 relative to 29.9 percent in the corresponding period of 2020. The moderation was explained by a 19.5 percent year-on-year contraction in Net Foreign Assets of the banking system, despite the 21.4 percent growth in Net Domestic Assets. Reserve money went up by 25.9 percent compared with 26.1 percent growth over the same review period.

7. The banking sector remains sound, and well-capitalised with strong growth in total assets, investments and deposits. In the first ten months of the year, total assets increased by 16.1 percent to GH¢173.8 billion, reflecting strong growth in investments in government securities by 25.5 percent to GH¢83.4 billion. The gradual growth in gross advances has continued, with 8.9 percent growth as at end October 2021 compared to the end-June position of 5.2 percent growth. Deposits grew by 17.2 percent year-on-year to GH¢117.4 billion on the back of strong liquidity flows.

8. The industry's Capital Adequacy Ratio of 19.8 percent as at end-October 2021 was well above the current regulatory minimum threshold of 11.5 percent. Core liquid assets to short-term liabilities was 24.6 percent in October 2021 compared with 27.0 percent in October 2020. Net interest income grew by 15.2 percent to GH¢10.5 billion, compared with 19.9 percent growth over the same review period. Net fees and

commissions recorded a stronger growth of 22.9 percent to GH¢2.3 billion, relative to 6.1 percent growth for same period last year, reflecting continued recovery in trade finance-related and other ancillary businesses of banks. Accordingly, total operating income grew by 14.3 percent to GH¢14.1 billion, marginally lower than the previous year's growth of 16.6 percent. Operating costs increased by 11.0 percent, relative to the 9.9 percent growth for same period in 2020. Growth in loan loss provisions, however, moderated to 6.5 percent as at end-October 2021 from 18.9 percent a year ago. These developments resulted in profit before tax of GH¢6.0 billion, representing a year-on-year growth of 21.8 percent at the end of October 2021.

9. The Covid-related policy measures and regulatory reliefs remain in place and have provided enough support to enable the banks withstand shocks. Trends in the private sector indicate some modest recovery in credit extension, although the year-on-year comparison suggests sluggishness, which broadly reflects the lingering pandemic-related risk aversion on the part of credit institutions. Annual nominal growth in private sector credit slowed to 10.1 percent in October 2021 compared with 13.4 percent a year ago. In real terms, private sector credit contracted marginally by 0.8 percent compared with a 3.0 percent growth, recorded over the same review period. New loans and advances for the year thus far by banks, totalled GH¢28.4 billion in the year to October 2021, marginally above the GH¢27.1 billion for the same period in 2020.

10. Asset quality has improved somewhat in the course of the year. The Non-Performing Loans (NPL) ratio declined to 16.4 percent in October 2021 from 17.3 percent recorded in August 2021. A year ago, however, the NPL ratio was 15.3 percent in October 2020.

11. On the money market, interest rates generally trended downwards over the review period. The 91-day and 182-day Treasury bill rates declined to 12.5 percent and 13.2 percent respectively in October 2021, from 14.05 percent and 14.11 percent, respectively in October 2020. Similarly, the rate on the 364-day instrument decreased to 16.2 percent from 17.0 percent over the period. Except for rates on the 3-year, 15-year and 20-year bonds which remained unchanged at 19.0 percent, 19.8 percent and 20.2 percent respectively, rates on the other medium to long-term instruments generally declined during the period. On the secondary market, however, rates have started increasing across the spectrum of the yield curve.

12. On the interbank market, the weighted average rate declined to 12.7 percent from 13.6 percent, largely reflecting improved liquidity conditions, which transmitted to lending rates. Average lending rates of banks declined to 20.3 percent in October 2021 from 21.3 percent in October 2020, consistent with developments in the interbank market.

13. Recent price developments show elevated pressures on headline inflation in the second half of 2021. The two readings since the last MPC meeting pointed to a sharp increase in headline inflation from 9.7 percent in August 2021 to 10.6 percent in September and further up to 11.0 percent in October. This indicates that currently inflation is out of the medium-term target band of 8±2 percent by 1 percent. The rise in inflation for October 2021 was largely driven by non-food prices, which increased from 9.9 percent in September to 11.0 percent in October 2021, while food inflation dipped from 11.5 percent in September to 11.0 percent in October 2021.

14. Similar to the trends in headline inflation, underlying inflation pressures are also increasing. All the Bank's core measures of inflation increased over the period. The main core inflation measure, which excludes energy and utility, increased from 9.5 percent in August 2021 to 10.0 percent in September and further up to 10.4 percent in October 2021. In addition, the weighted inflation expectations index, which captures inflation sentiments of consumers, businesses and the financial sector, also picked up significantly in October 2021.

15. Provisional data on budget execution for the period January to September 2021 indicated an overall broad cash fiscal deficit of 7.7 percent of GDP, against the programmed target of 7.4 percent of GDP. The higher-than-programmed deficit was on the back of revenue shortfalls. The corresponding primary balance was a deficit of 1.9 percent of GDP compared to the target deficit of 1.7 percent of GDP. Over the period, total revenue and grants amounted to GH¢47.2 billion (10.8 percent of GDP), below the projected GH¢51.3 billion (11.7 percent of GDP). Total expenditures and arrears clearance amounted to GH¢76.5 billion (17.4 percent of GDP), which was below the programmed target of GH¢80.9 billion (18.4 percent of GDP).

16. These developments impacted the stock of public debt which increased to 77.8 percent of GDP (GH¢341.8 billion) at the end of September 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¢178.1 billion (40.5 percent of GDP), while the external debt was GH¢163.7 billion (37.3 percent of GDP).

17. International commodity prices reflected mixed trends in the year to October 2021. Crude oil prices rose sharply driven by the interplay of increased global demand as economies reopened and supply shortfalls. On a year-to-date basis, the average price of crude oil went up by 65.9 percent to US$83.3 per barrel in October 2021. The average price of cocoa also increased marginally by 2.0 percent to trade at US$2,632.4 per tonne due to projected shortfalls for the 2021/22 season. Gold prices however declined by 4.4 percent to average US$1,775.7 per fine ounce in October 2021, due to pressures from the strong US dollar.

18. External sector developments in the first nine months of 2021 showed that lower trade surplus and higher investment income outflows continued to weigh down on the current account balance.

19. Total merchandise exports was estimated at US$11.0 billion, compared with US$10.8 billion in the third quarter of 2020. Export receipts of cocoa beans and products and crude oil went up by 31.1 percent and 26.5 percent, respectively, while gold exports declined by 23.4 percent on account of lower production. Total merchandise imports amounted to US$10.1 billion compared with US$9.2 billion a year earlier. Of this, non-oil imports accounted for US$8.2 billion compared with US$7.9 billion, over the same review period. Oil and gas imports amounted to US$1.9 billion, relative to US$1.3 billion, reflecting a rebound in economic activity from the pandemic-related effects in 2020. Based on these developments, the trade account recorded a lower surplus of US$938 million compared with US$1.6 billion surplus recorded in the third quarter of 2020.

20. The lower trade surplus, together with the higher investment income outflows arising from increased interest payments, profits and dividend repatriation, resulted in a widened current account deficit of US$1.9 billion in the third quarter of 2021, compared with US$1.2 billion same time last year. Private individual transfers, however, remained firm and stable with net inflows amounting to US$2.6 billion during the period.

21. The capital and financial account recorded a surplus of US$3.7 billion, stemming mainly from higher foreign direct investments, portfolio flows, and the IMF SDR allocation. These flows were more than sufficient to finance the current account deficit resulting in an overall balance of payments surplus of US$1.7 billion compared with a deficit of US$334 million, same period of last year.

22. At the end of October 2021, Gross International Reserves stood at US$10.8 billion, equivalent to 4.9 months of import cover. This compares with the reserve level of US$8.6 billion, representing 4.0 months of import cover at the end of December 2020. The strong reserve position provided some buffers for the local currency despite pressures in the third quarter due to strong foreign exchange demand from the corporate sector, importers, and offshore investors. Cumulatively, while the Ghana Cedi depreciated by 2.6 percent and 1.1 percent against the US Dollar and Pound Sterling, respectively in the year to November 17, 2021, the Ghana Cedi appreciated by 5.6 percent against the Euro. In the same period of 2020, the Ghana Cedi recorded depreciations of 3.1 percent, 3.3 percent, and 8.3 percent against the US Dollar, the Pound Sterling, and the Euro, respectively.

Summary and Outlook

23. The global economy has continued to recover but the intensity of supply constraints, including slack in the labour markets and shortages in intermediate goods, has moderated the pace of growth. Inflationary pressures are becoming embedded in most advanced and emerging market economies with potential implications for the current supportive financing conditions driving the recovery. Increased concerns about the

strength of the recovery and the stronger US dollar has exerted currency pressures in some emerging market and frontier economies. Consequently, policy rates in some emerging market countries have been hiked to counter rising inflation. Sovereign spreads widened in October and November 2021 in some African economies, especially Ghana, due largely to investor sentiments on the sustainability of the current fiscal stance. Market expectations are for global growth to accelerate and inflation to moderate by mid-2022, with supportive financing conditions in Advanced and Emerging Market Developing Economies over the medium-term. Overall, the risk to the near-term global outlook is tilted to the downside in the wake of the resurgence in Covid-19 transmission rates in some advanced countries and pre-mature monetary policy normalization due to persistent price pressures.

24. In the domestic economy, the Committee assessed that the recovery in the real sector was progressing at a steady pace. High frequency economic indicators reflect increased momentum in the pace of economic activity, close to pre-pandemic levels. Consumer and business sentiments have turned around, driven by perceived improvements in economic prospects, although consumers expressed concerns about current household finances. Credit to the private sector is beginning to expand, albeit at a slow pace. The COVID-19 related macro-prudential measures, still in force, remain supportive of the recovery process, steadily driving up new advances over the period. The recovery in credit is expected to continue on the back of anticipated net ease in credit stance by banks and increased demand.

25. Regarding the financial sector, the banking industry recorded sustained growth in total assets, investments and deposits. Profitability in the industry declined slightly and key financial soundness indicators such as liquidity and solvency, remain healthy. The outlook remains positive, although sluggish credit growth remains a risk to real sector recovery. Results from the latest stress tests show a banking sector that remains resilient to mild and moderate stress conditions. The potential effects of a prolonged pandemic on the banking sector particularly on asset quality, however, needs to be monitored carefully to inform policy measures. The Committee decided that macroprudential policy measures and regulatory reliefs announced at the onset of the pandemic should remain in place to support a more robust recovery of the economy.

26. The country's sovereign bond spreads widened markedly over the period as investor sentiments shifted based on fiscal and debt sustainability concerns, prompting some sell-offs by investors with spillovers on the domestic foreign exchange market. This triggered some currency pressures in the past two months as demand for the U.S. dollar increased. However, the adequate reserve levels provided some buffers and supported a much slower depreciation pace compared with pre-pandemic levels. In the outlook, the Committee is of the view that the strong reserve buffer level should provide some assurance to the market and help abate investor concerns, as the country's external payment position remains strong.

27. Headline inflation has risen consistently from the low of 7.5 percent in May 2021 to 11.0 percent in October driven by both food and non-food price increases. In addition, all the Bank's core measures of inflation have increased, indicating broad-based underlying inflation pressures, with the potential of de-anchoring inflation expectations. Currently, headline inflation is above the upper limit of the medium-term target band and the Committee noted significant risks to the inflation outlook. These risks include rising global inflation, high energy prices, uncertainties surrounding food prices and investor behaviour. The Committee further noted that these elevated inflationary risks, require prompt policy action to re-anchor inflation expectations to safeguard the central bank's price stability objective.

28. Given these considerations, the Committee therefore decided to raise the policy rate by 100 basis points to 14.5 percent.

Informational Note

The first Monetary Policy Committee (MPC) meeting for 2022 is scheduled for 25 to 28, January 2022. The meeting will conclude on Monday, 31st January 2022 with the announcement of the policy decision.