Bank Of Ghana

MONETARY POLICY REPORT

January 2022

The Monetary Policy Report highlights the economic and financial sector assessments that the Monetary Policy Committee considered prior to the policy decision during the 104th meeting held in January 2022.

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 use 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 (Amendment) Act, Act 2016 (Act 918) 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 meeting dates are determined at the beginning of each year. The MPC meets bi-monthly to assess economic conditions and risks to the inflation outlook, after which a policy decision is made on positioning the MPR. Each decision signals a monetary policy stance of tightening (increase), easing (decrease) or no change (stay put). The policy decision is arrived at by consensus with each member stating reasons underlying a preferred MPR decision. Subsequently, the decision is announced at a press conference held after each MPC meeting and a press release issued to financial markets and the general public.

OVERVIEW

Despite the strong recovery in recent times, global growth momentum could moderate in the near-term on the back of the relentless supply chain bottlenecks, high input costs and pandemic-related uncertainties. With sustained price pressures, most central banks are also poised to tighten monetary policy which may result in higher interest rate regimes in the global economy. Therefore, rising long-term bond yields and a strong U.S. Dollar will characterise overall financial conditions. The spill over of these events could translate to currency pressures, especially in emerging market economies with weak fundamentals and large foreign currency debt, which could become evident in the course of 2022. Financing needs will subsequently rise and pose challenges for sustaining the growth recovery in the face of rising inflation and unsustainable debt levels.

On the domestic front, the revised quarterly GDP growth numbers affirm the strength of the post-COVID recovery. All the Bank's high frequency economic indicators have picked up and are currently at near pre-pandemic levels. Business sentiments have improved and the information content derived from the Purchaser's Managers Index all point to some optimism among industry players. Consumer confidence, however, waned on account of negative feedback from the significant increase in ex-pump petroleum price adjustments in the second half of the year and new tax measures announced in the context of the 2022 budget. Private sector credit growth is steadily picking up but remains negative in real terms. The expectation is for the banks to continue providing new advances to the economy to support private sector credit growth and boost economic activity. These favourable conditions are expected to persist in 2022.

The 2021 budget implementation remained broadly in line with expectations. However, fiscal and debt sustainability concerns have triggered unfavourable credit rating decisions and spilled over to the external sector, which may further exacerbate the already elevated inflationary expectations. Ghana's sovereign bond spreads have widened significantly and led to a *de facto* closure to the International Capital Markets with implications for financing of the 2022 budget. In response to these, a 20 percent cut in expenditures has been announced which should help provide for some correction, avoid the opening up of macroeconomic imbalances, and further deepen the fiscal consolidation agenda. Additionally, this fiscal policy should shift the consolidation process away from a revenue-led one, to one which encapsulates both revenue and expenditure measures, signalling stronger commitment to keeping the deficit under check. The expenditure cut has been well received in the bond markets and decisive implementation of this fiscal correction will significantly define the outlook and mitigate the rising risk premium, as debt stabilizes. A steadfast implementation of the proposed measures will be needed to safeguard stability, foster credibility, and re-anchor inflation expectations.

Headline inflation has remained above the upper band of the medium-term target of 8±2 percent since September 2021. Additionally, all the core inflation measures and inflation expectations have increased, which points to heightened underlying inflation pressures. The latest forecast shows that inflation would likely remain above target in the near-term, driven by both external and domestic factors, and only return to target in about four quarters ahead. The key risks to the inflation outlook include: rising crude oil prices and its transmission to ex-pump petroleum prices and transportation costs, rising global inflation, food price uncertainties, and the fiscal outlook. The Monetary Policy Committee (MPC) envisaged this scenario when it raised the policy rate in November 2021 to contain the inherent aggregate demand pressures likely to drive prices in the outlook. The Committee was of the view that the dynamics associated with the November 2021 policy rate hike were yet to fully transmit to the economy and expected the decisive implementation of the fiscal correction measures, especially the 20 percent cut in expenditure to help moderate the upside risks to the inflation outlook. Given these considerations, the Bank's MPC maintained the policy rate at 14.5 percent.

1. Global Economic Developments

1.0 Highlights

- *The global economy has continued to recover, but the momentum is expected to slow down in the near term, reflecting persisting supply bottlenecks, rising input costs and the continued effects of the pandemic.*

- *Price pressures continue to build up in several advanced and emerging market economies, primarily due to the sharp rise in energy prices and existence of supply bottlenecks.*

- *Financial conditions remain supportive in advanced economies, but are likely to tighten during 2022, amid expectation of policy rate hikes due to persisting inflationary pressures.*

- *Persisting inflationary pressures and expected rate hikes in the U.S. may continue to strengthen the dollar and exert pressure on some EMDE currencies.*

1.1 Global Growth Developments

The global economic recovery from the pandemic has continued since mid-2020, reflecting monetary and fiscal policy support as well as the successful implementation of public health measures and intensification of vaccination campaigns, especially in advanced economies. The recovery is, however, weaker in EMDEs than advanced economies owing to slower vaccination progress and more muted policy support. Available data showed that economic activity in advanced and EMDEs moderated in the third quarter of 2021 and this was expected to continue into the fourth quarter, largely due to supply bottlenecks, rising input costs, and effects of the COVID pandemic. Also, the emergence of the Omicron variant and the potential for further tightening of some restrictions have created more uncertainty about the progression of the COVID-19 virus, which likely weighed on consumer and business confidence. Other headwinds that may affect growth projections are China's "Zero COVID" policy, which can potentially worsen the supply chain disruptions, monetary tightening in some EMDEs, possible rate hikes in advanced economies, and rising commodity prices.

In the outlook for 2022, the IMF projects some moderation of global growth from 5.9 percent in 2021 to 4.4 percent in 2022 (Table 1.1). This revision largely reflects a forecast markdown for the United States and China. Global growth is expected to slow to 3.8 percent in 2023, 0.2 percentage points higher than in the previous forecast. The upward revision largely reflects some growth pickup after the current drags dissipate in the second half of 2022. The growth forecast is conditioned on the decline in adverse health outcomes in most countries by end-2022, predicated on improved vaccination rates worldwide and improvements in global supply chains.

Table 1.1: **Real GDP Growth in Advanced and Emerging Market Economies**

	Year over Year					
	Estimate		Projections		Difference from October 2021 WEO Projections 1/	
	2020	2021	2022	2023	2022	2023
World Output	**–3.1**	**5.9**	**4.4**	**3.8**	**–0.5**	**0.2**
Advanced Economies	**–4.5**	**5.0**	**3.9**	**2.6**	**–0.6**	**0.4**
United States	–3.4	5.6	4.0	2.6	–1.2	0.4
Euro Area	–6.4	5.2	3.9	2.5	–0.4	0.5
Germany	–4.6	2.7	3.8	2.5	–0.8	0.9
France	–8.0	6.7	3.5	1.8	–0.4	0.0
Italy	–8.9	6.2	3.8	2.2	–0.4	0.6
Spain	–10.8	4.9	5.8	3.8	–0.6	1.2
Japan	–4.5	1.6	3.3	1.8	0.1	0.4
United Kingdom	–9.4	7.2	4.7	2.3	–0.3	0.4
Canada	–5.2	4.7	4.1	2.8	–0.8	0.2
Other Advanced Economies 3/	–1.9	4.7	3.6	2.9	–0.1	0.0
Emerging Market and Developing Economies	**–2.0**	**6.5**	**4.8**	**4.7**	**–0.3**	**0.1**
Emerging and Developing Asia	–0.9	7.2	5.9	5.8	–0.4	0.1
China	2.3	8.1	4.8	5.2	–0.8	–0.1
India 4/	–7.3	9.0	9.0	7.1	0.5	0.5
ASEAN-5 5/	–3.4	3.1	5.6	6.0	–0.2	0.0
Emerging and Developing Europe	–1.8	6.5	3.5	2.9	–0.1	0.0
Russia	–2.7	4.5	2.8	2.1	–0.1	0.1
Latin America and the Caribbean	–6.9	6.8	2.4	2.6	–0.6	0.1
Brazil	–3.9	4.7	0.3	1.6	–1.2	–0.4
Mexico	–8.2	5.3	2.8	2.7	–1.2	0.5
Middle East and Central Asia	–2.8	4.2	4.3	3.6	0.2	–0.2
Saudi Arabia	–4.1	2.9	4.8	2.8	0.0	0.0
Sub-Saharan Africa	–1.7	4.0	3.7	4.0	–0.1	–0.1
Nigeria	–1.8	3.0	2.7	2.7	0.0	0.1
South Africa	–6.4	4.6	1.9	1.4	–0.3	0.0

Source: IMF, WEO, January Outlook

1.2 Global Price Developments

Headline inflation has continued to run above target in several advanced and emerging market economies, primarily due to a sharp rise in energy prices, owing to increased demand and constrained supply. Crude oil spot prices declined in November, amid concerns regarding the emergence of the new Omicron variant, but rose sharply in December and January 2022, driven by demand and supply factors. On the demand side, the impact of the Omicron variant is expected to be mild and short-lived as the world becomes better at managing COVID-19. Additionally, a steady economic outlook in advanced economies and EMDEs will continue to lend support to oil prices. On the supply side, global oil output rebounded slower than expected, owing to production constraints and muted response by Shale oil producers. The FAO Food Price Index (FFPI) for December 2021, however, dropped by 0.9 percent from November, driven by declines in all the sub-indices except dairy. Excluding these volatile components, underlying inflation also picked up in both advanced and emerging market and developing economies, reflecting supply constraints, recovery in global demand as economies re-opened and lagged effects of exchange rate depreciation.

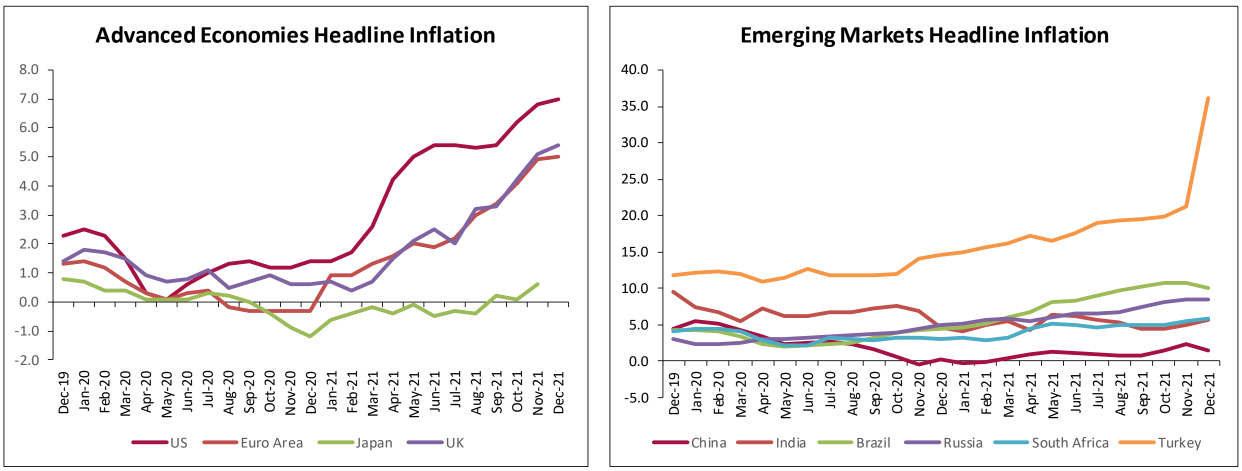
Elevated inflation is expected to persist for longer than envisaged, with ongoing supply chain disruptions and high energy prices continuing into 2022. The IMF projects inflation to remain elevated in the near term, averaging 3.9 percent in advanced economies and 5.9 percent in EMDEs in 2022, before declining in 2023.

In the Euro Area, market and survey-based measures of longer-term inflation expectations remain anchored around the 2 percent target. According to the IMF, if medium-term inflation expectations remain well-anchored and the pandemic eases its grip, higher inflation should fade as supply chain disruptions ease.

Also, as monetary policy tightens, and demand rebalances away from goods-intensive consumption towards services, inflationary pressures should wane. The rapid increase in fuel prices is also expected to moderate during 2022–23, to help contain headline inflation. Similarly, food prices are expected to increase at a slower pace of about 4.5 percent in 2022 and decline in 2023.

In EMDEs, price pressures arising mainly from weaker currencies, supply bottlenecks, and rising commodity prices will continue to push up inflation, which may remain elevated during much of 2022. In anticipation of these prolonged pressures, some EMDEs have hiked policy rates, while others await more data for similar actions in the near term.

Figure 1.1: Headline Inflation in Advanced and Emerging Market Economies (%)



Source: BOG/Trading Economics

1.3 Global Financial Market Developments

Overall financial conditions remain supportive of the growth process in advanced economies but are expected to tighten in 2022, amid expectation of policy rate hikes by major central banks and rising long-term bond yields due to persisting inflationary pressures. As shown in Table 1.2, major central banks, except for the United Kingdom, continue to maintain accommodative monetary policy stances despite strong inflationary pressures but have signalled rate hikes in the near term. Some EMDEs have already hiked policy rates to contain inflation.

Tapering and policy rate hike signals pushed up longer-term bond yields in major advanced economies in October and early November 2021. However, by December, long-term bond yields in the U.S., Euro Area, Japan, and the U.K. remained relatively subdued, which suggest anchored longer-term inflation expectations despite rising inflation. Nonetheless, persisting supply bottlenecks and rising energy prices may de-anchor long-term inflation expectations and push up long-term bond yields. Equity prices initially increased, supported by corporate earnings, but uncertainty about the rapid spread of the Omicron variant caused some volatility in equity prices. Financial conditions in EMDEs have tightened somewhat due to a combination of factors including: policy rate hikes in countries such as Russia, Brazil and Chile; the strengthening U.S. Dollar; rising U.S. interest rates; and increased sovereign spreads in some countries amid growing concerns about inflationary pressures. Estimates from the Institute of International Finance showed that portfolio flows to EMDEs stood at US$16.9 billion in December 2021, up marginally from US$13.7 billion in November, reflecting concerns about higher inflation and potential interest rate hikes.

In the outlook, financial conditions are likely to tighten somewhat in 2022 on the back of expected policy rate hikes by central banks.

Risks to the outlook in the near-term are tilted to the downside. On the downside, the Omicron variant and new more transmissible COVID-19 variants may emerge and weigh on global growth. Also, the persistence in inflation, due perhaps to supply bottlenecks and rising energy prices, can potentially de-anchor inflation expectations and trigger an earlier and sharper monetary policy tightening in many economies. Such an outcome may trigger financial market re-pricing and expose vulnerabilities in EMDEs. On the upside, analysts believe the unwinding of household savings would boost spending and enhance the pace of global recovery.

Table 1.2: Monetary Policy Stance of Selected Central Banks

	Key Rate	Previous (%)	Current (%)	Forecast	Inflation Rate (Dec. 2021)	Real rate	Infl Target	Overall Fiscal Deficit (2020,% of GDP)	GDP Growth (Dec.2020)	GrossDebt/GDP(2020,%)
U.S	Federal Funds Rate	0.25	0.25	0.25	7	-6.75	2%	-14.9	-3.6	133.9
Euro Area	Refinancing Rate	0	0	0	5	-5	< 2%	-7.2	-6.4	97.5
UK	Bank Rate	0.1	0.25	0.1	5.4	-5.15	2%	-12.5	-9.7	104.5
Japan	short term policy rate	-0.1	-0.1	-0.1	0.6	-0.7	2%	-10.3	-4.6	254.1
Russia	Benchmark rate	7.5	8.5	7.25	8.39	0.11	4%	-4	-3	19.3
India	Benchmark rate	4	4	4	5.59	-1.59	4±2%	-12.8	-7.3	89.6
Brazil	Selic rate	7.75	9.25	9.25	10.06	-0.81	4.5±1.5%	-13.4	-4.1	98.9
Turkey	One week repo rate	15	14	14	36.08	-22.08	5±2%	-5.3	1.8	39.8
Malaysia	Policy Rate	1.75	1.75	1.75	3.3	-1.55	3% - 4%	-5.1	-5.6	67.4
Indonesia	Policy Rate	3.5	3.5	3.5	1.87	1.63	3.5% ± 1%	-5.9	-2.1	36.6
Chile	Benchmark Interest Rate	2.75	4	4	7.2	-3.2	3±1%	-7.1	-5.8	32.5
Ghana	Monetary Policy Rate	13.5	14.5	14.5	12.6	1.9	8±2%	-15.7	0.4	78.9
South Africa	Repo Rate	3.5	3.75	3.5	5.9	-2.15	3% -6%	-10.8	-6.4	69.4
Nigeria	Monetary Policy Rate	11.5	11.5	11.5	15.63	-4.13	6% -9%	-5.8	-1.8	35.0
Kenya	Policy Rate	7	7	7	5.73	1.27	2.5-7.5%	-8.1	-0.3	67.6
Zambia	Policy Rate	8.5	9	8.5	16.4	-7.4	9%	-12.9	-2.8	128.7
Morocco	Policy Rate	1.5	1.5	1.5	2.6	-1.1		-7.6	-6.3	75.4

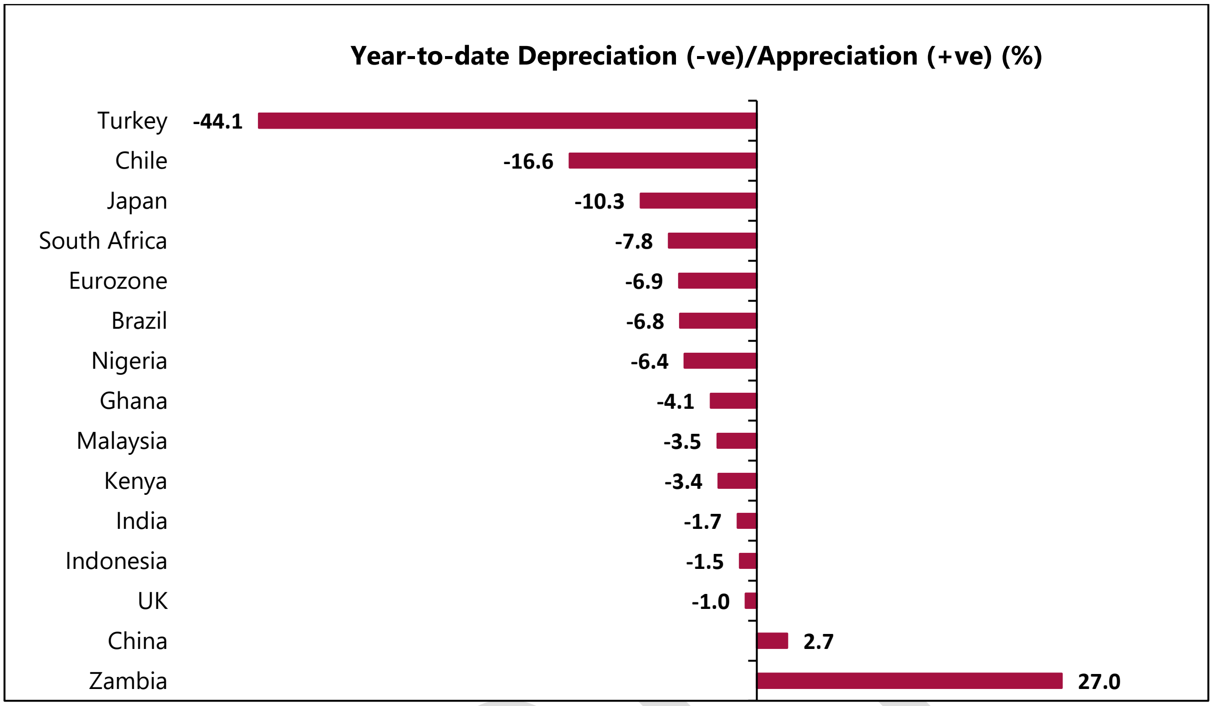
Source: GDP Growth (World Bank); Debt/GDP (IMF); Policy Rates (Trading Economics), December 2021 inflation in red

Note: *The blue colour indicates unchanged monetary policy rate; the real rate is the policy rate minus the ex-post inflation rate.*

1.4 Currency Markets

On the international currency market, the US Dollar index edged lower at the start of 2022 as concerns about the Omicron variant waned, favouring riskier currencies. The U.S. Dollar index strengthened in November and December 2021 amid fears that the sharp rise in inflation would push the Federal Reserve to fast forward the policy rate hike decision. Monetary policy divergence is set to remain the dominant driver of currency markets going into 2022. The U.S. Fed has signalled tighter policy rates in 2022. Other economies such as the Euro Area and Japan have signalled intentions to keep rates low in the near term despite the price pressures. Thus, the diverging policy should favour the U.S. dollar in 2022. The stronger U.S. Dollar had varying degrees of impact on EMDE currencies in 2021 depending on country-specific vulnerabilities. The Kwacha remained the best performing currency, supported by an IMF's Extended Credit Facility (ECF) of US$1.4 billion agreed with the government of Zambia. (Figure 1.2). The Turkish Lira remained the worst performing currency amid concerns about fiscal dominance.

Figure 1.2: Performance of Selected Currencies against the US Dollar



Source: Bank of Ghana/Bloomberg

In the domestic currency market, the Ghana Cedi came under some pressure during the last quarter of 2021, driven by strong demand for forex from the corporate sector, offshore investors and seasonal demand for inventory stocking. The pressures were partly moderated by the Bank's FX forward auctions and some inflows from mining and remittances.

In the interbank market, the Ghana Cedi depreciated by 4.1 percent and 3.1 percent against the U.S. Dollar and Pound, respectively, but appreciated by 3.5 percent against the Euro on a year-to-date basis. This is against a depreciation of 3.9 percent, 7.1 percent and 12.1 percent against the Dollar, the Pound and the Euro, respectively, during the same period in 2020 (Table 1.3). The Ghana Cedi performed better in December 2021 on a year-to-date basis compared to the same period from 2017-2019, but marginally below the 2020 performance. Also, the Ghana Cedi was less volatile during the first 13 transaction days in 2022 compared to the same period from 2017-2019.

In relation to the major trading partners' currency movements, the Ghana Cedi appreciated by 1.47 percent in nominal trade weighted terms but depreciated by 3.68 percent in nominal Forex transactions weighted terms, on a year-to-date basis (Table 1.4). This is against the depreciation of 11.58 percent in nominal trade weighted terms and a depreciation of 4.84 percent in nominal foreign exchange transaction weighted terms respectively over the same period in 2020.

Table 1.3: Interbank Exchange Rates

	US$/GHC*	Monthly depreciation/ appreciation	Year-to-Date depreciation/ appreciation	GBP/GHC*	Monthly depreciation/ appreciation	Year-to-Date depreciation/ appreciation	Euro/GHC*	Monthly depreciation/ appreciation	Year-to-Date depreciation/ appreciation
2019									
Jan	4.9506	-2.6	-2.64	6.5121	-5.2	-5.24	5.6824	-3.0	-2.98
Feb	5.1752	-4.3	-6.86	6.8703	-5.2	-10.18	5.8799	-3.4	-6.24
Mar	5.0834	1.8	-5.18	6.6166	3.8	-6.73	5.7084	3.0	-3.42
Apr	5.0881	-0.1	-5.27	6.6318	-0.2	-6.95	5.7001	0.1	-3.28
May	5.2011	-2.2	-7.33	6.5640	1.0	-5.99	5.7973	-1.7	-4.90
June	5.2590	-1.1	-8.35	6.6787	-1.7	-7.60	5.9831	-3.1	-7.86
July	5.2570	0.0	-8.31	6.4267	3.9	-3.98	5.8528	2.2	-5.80
Aug	5.2814	-0.5	-8.74	6.4296	0.0	-4.02	5.8094	0.7	-5.10
Sep	5.3161	-0.7	-9.33	6.5412	-1.7	-5.66	5.7956	0.2	-4.87
Oct	5.3372	-0.4	-9.69	6.9010	-5.2	-10.58	5.9445	-2.5	-7.26
Nov	5.5254	-3.4	-12.77	7.1322	-3.2	-13.48	6.0785	-2.2	-9.30
Dec	5.5337	-0.1	-12.90	7.3164	-2.5	-15.66	6.2114	-2.1	-11.24
2020									
Jan	5.5274	0.1	0.11	7.1924	1.7	1.72	6.0476	2.7	2.71
Feb	5.2949	4.4	4.51	6.7881	6.0	7.78	5.8048	4.2	7.00
Mar	5.4423	-2.7	1.68	6.7583	0.4	8.26	5.9752	-2.9	3.95
Apr	5.6010	-2.8	-1.20	7.0584	-4.3	3.66	6.1276	-2.5	1.37
May	5.6203	-0.3	-1.54	6.9186	2.0	5.75	6.2406	-1.8	-0.47
June	5.6674	-0.8	-2.36	7.0038	-1.2	4.46	6.3613	-1.9	-2.36
July	5.6782	-0.2	-2.54	7.4050	-5.4	-1.20	6.6944	-5.0	-7.21
Aug	5.6848	-0.1	-2.66	7.5997	-2.6	-3.73	6.7916	-1.4	-8.54
Sep	5.7027	-0.3	-2.96	7.3585	3.3	-0.57	6.6786	1.7	-7.00
Oct	5.7100	-0.1	-3.09	7.3913	-0.4	-1.01	6.6703	0.1	-6.88
Nov	5.7139	-0.1	-3.15	7.6426	-3.3	-4.27	6.8559	-2.7	-9.40
Dec	5.7602	-0.8	-3.93	7.8742	-2.9	-7.08	7.0643	-3.0	-12.07
2021									
Jan	5.7604	0.0	0.00	7.8996	-0.3	-0.32	6.9929	1.0	1.02
Feb	5.7374	0.4	0.40	7.9945	-1.2	-1.50	6.9545	0.6	1.58
Mar	5.7288	0.2	0.55	7.8717	1.6	0.03	6.7122	3.6	5.25
Apr	5.7322	-0.1	0.49	7.9222	-0.6	-0.61	6.8958	-2.7	2.44
May	5.7473	-0.3	0.22	8.1672	-3.0	-3.59	7.0268	-1.9	0.53
June	5.7626	-0.3	-0.04	7.9590	2.6	-1.07	6.8333	2.8	3.38
July	5.8011	-0.7	-0.71	8.0633	-1.3	-2.35	6.8808	-0.7	2.67
Aug	5.8517	-0.9	-1.56	8.0482	0.2	-2.16	6.9068	-0.4	2.28
Sep	5.8663	-0.2	-1.81	7.9140	1.7	-0.50	6.7952	1.6	3.96
Oct	5.9009	-0.6	-2.38	8.0816	-2.1	-2.57	6.8231	-0.4	3.54
Nov	5.9172	-0.3	-2.65	7.9054	2.2	-0.39	6.7346	1.3	4.90
Dec	6.0061	-1.5	-4.09	8.1272	-2.7	-3.11	6.8281	-1.4	3.46

Source: Bank of Ghana Staff Calculations

Table 1.4: Nominal Effective Exchange Rate

	2018=100		Monthly CHG(%)		Year-to-Date (%)	
	FXTWI	TWI	FXTWI	TWI	FXTWI	TWI
			2020			
Jan-20	27.66	31.90	0.20	1.0	0.20	0.98
Feb-20	28.90	33.54	4.31	4.90	4.51	5.83
Mar-20	28.14	32.71	-2.72	-2.54	1.91	3.43
Apr-20	27.35	31.93	-2.89	-2.46	-0.92	1.06
May-20	27.24	31.53	-0.41	-1.26	-1.34	-0.18
Jun-20	26.98	30.98	-0.94	-1.79	-2.28	-1.97
Jul-20	26.80	29.66	-0.67	-4.45	-2.97	-6.51
Aug-20	26.73	29.27	-0.26	-1.35	-3.24	-7.94
Sep-20	26.71	29.68	-0.10	1.39	-3.35	-6.44
Oct-20	26.68	29.78	-0.08	0.34	-3.43	-6.07
Nov-20	26.60	29.14	-0.31	-2.18	-3.75	-8.39
Dec-20	26.33	28.31	-1.05	-2.94	-4.84	-11.58
			2021			
Jan-21	26.34	28.45	0.04	0.47	0.04	0.47
Feb-21	26.44	28.64	0.40	0.67	0.44	1.14
Mar-21	26.55	29.36	0.39	2.45	0.83	3.57
Apr-21	26.48	28.78	-0.25	-1.99	0.59	1.64
May-21	26.36	28.26	-0.46	-1.86	0.13	-0.18
Jun-21	26.37	28.93	0.04	2.33	0.17	2.15
Jul-21	26.19	28.71	-0.70	-0.78	-0.52	1.39
Aug-21	25.98	28.60	-0.81	-0.40	-1.34	1.00
Sep-21	25.87	28.92	-0.39	1.13	-1.74	2.12
Oct-21	25.80	28.84	-0.27	-0.28	-2.02	1.85
Nov-21	25.79	29.28	-0.07	1.47	-2.08	3.29
Dec-21	25.39	28.73	-1.56	-1.89	-3.68	1.47

Source: Bank of Ghana Staff Calculations

Note: TWI and FXTWI are index measures of the value, in nominal terms, of the cedi relative to Ghana's top three currencies: Euro, the Pound and the US dollar.

In real bilateral terms, the Ghana Cedi appreciated by 0.9 percent, 9.6 percent and 3.4 percent respectively against the Dollar, the Euro and the Pound Sterling on a year-to-date basis. Comparatively, for the corresponding period in 2020, the Cedi's real exchange rate appreciated by 4.6 percent and 2.3 percent against the Dollar and the Pound Sterling, respectively, whiles depreciating by 2.4 percent against the Euro over the same period in 2020 (Table 1.5).

Table 1.6 shows the real effective exchange rate movements of the Cedi against the three major currencies (i.e., U.S. Dollar, the Euro and Pound). On a year-to-date basis, the Cedi appreciated by 7.9 percent in real trade weighted terms and by 1.7 percent in real forex transaction weighted terms in December 2021. These compares with an appreciation of 4.0 percent in real FX transaction weighted terms and a depreciation of 1.0 percent in real trade weighted terms.

Table 1.5: Real Bilateral Exchange Rate

	RER Index (Jan.18=100)			MONTHLY CHANGE (Index)			Year-to-Date (%)		
	EUR	GBP	USD	EUR	GBP	USD	EUR	GBP	USD
					2020				
Jan-20	99.7	94.7	88.0	3.6	2.2	1.4	3.6	2.2	1.4
Feb-20	105.0	101.9	92.2	5.0	7.1	4.5	8.4	9.1	5.9
Mar-20	102.3	103.3	90.8	-2.6	1.3	-1.5	6.1	10.3	4.5
Apr-20	103.1	102.2	91.8	0.7	-1.1	1.1	6.8	9.3	5.5
May-20	103.2	105.6	93.1	0.1	3.3	1.4	6.8	12.3	6.8
Jun-20	101.8	105.3	93.4	-1.3	-0.3	0.4	5.6	12.0	7.2
Jul-20	97.8	99.7	92.5	-4.1	-5.6	-1.0	1.7	7.1	6.2
Aug-20	96.4	97.4	91.7	-1.5	-2.3	-0.9	0.3	4.9	5.4
Sep-20	97.6	99.9	91.1	1.2	2.4	-0.7	1.5	7.3	4.8
Oct-20	98.6	99.8	91.1	1.0	0.0	0.1	2.5	7.2	4.8
Nov-20	96.4	97.3	91.1	-2.3	-2.6	0.0	0.3	4.8	4.8
Dec-20	93.9	94.8	90.9	-2.7	-2.7	-0.2	-2.4	2.3	4.6
					2021				
Jan-21	95.3	95.6	91.6	1.4	0.9	0.8	1.4	0.9	0.8
Feb-21	96.7	95.0	92.3	1.4	-0.6	0.8	2.9	0.3	1.6
Mar-21	99.6	96.8	92.7	2.9	1.8	0.4	5.7	2.1	2.0
Apr-21	98.04	97.3	93.3	-1.6	0.6	0.7	4.2	2.6	2.6
May-21	96.61	94.5	93.2	-1.5	-3.0	-0.1	2.8	-0.3	2.5
Jun-21	100.4	97.6	93.3	3.7	3.2	0.1	6.5	2.9	2.6
Jul-21	101.3	98.1	93.8	1.0	0.5	0.5	7.3	3.4	3.1
Aug-21	100.8	97.8	92.9	-0.5	-0.2	-0.9	6.9	3.1	2.2
Sep-21	102.5	99.6	92.6	1.6	1.8	-0.4	8.4	4.9	1.9
Oct-21	102.09	97.38	92.06	-0.4	-2.3	-0.6	8.0	2.7	1.3
Nov-21	104.81	100.57	92.40	2.6	3.2	0.4	10.4	5.8	1.6
Dec-21	103.81	98.13	91.75	-1.0	-2.5	-0.7	9.6	3.4	0.9

Source: Bank of Ghana Staff Calculations

Table 1.6: Real Effective Exchange Rate for Major Trade Partners

RTWI and FXRTWI						
	INDEX (2018=100)		MONTHLY CHG		Year-to-Date (%)	
	RFXTWI	RTWI	RFXTWI	RTWI	RFXTWI	RTWI
2020						
Jan-20	88.96	97.60	1.6	3.2	1.6	3.2
Feb-20	93.29	102.89	4.6	5.1	6.2	8.2
Mar-20	91.87	100.78	-1.6	-2.1	4.7	6.2
Apr-20	92.81	101.43	1.0	0.6	5.7	6.8
May-20	94.07	101.97	1.3	0.5	6.9	7.3
Jun-20	94.29	100.93	0.2	-1.0	7.2	6.4
Jul-20	93.05	97.23	-1.3	-3.8	5.9	2.8
Aug-20	92.15	95.84	-1.0	-1.5	5.0	1.4
Sep-20	91.72	96.90	-0.5	1.1	4.6	2.5
Oct-20	91.85	97.70	0.1	0.8	4.7	3.3
Nov-20	91.64	95.74	-0.2	-2.0	4.5	1.3
Dec-20	91.20	93.56	-0.5	-2.3	4.0	-1.0
2021						
Jan-21	91.97	94.79	0.8	1.3	0.8	1.3
Feb-21	92.70	95.92	0.8	1.2	1.6	2.5
Mar-21	93.30	98.38	0.6	2.5	2.3	4.9
Apr-21	93.78	97.34	0.5	-1.1	2.8	3.9
May-21	93.50	95.97	-0.3	-1.4	2.5	2.5
Jun-21	93.92	99.15	0.5	3.2	2.9	5.6
Jul-21	94.40	99.99	0.5	0.8	3.4	6.4
Aug-21	93.62	99.46	-0.8	-0.5	2.6	5.9
Sep-21	93.47	100.83	-0.2	1.4	2.4	7.2
Oct-21	92.91	100.27	-0.6	-0.6	1.8	6.7
Nov-21	93.46	102.69	0.6	2.3	2.4	8.9
Dec-21	92.75	101.60	-0.8	-1.1	1.7	7.9

Source: Bank of Ghana Staff Calculations

1.5 Global Economic Outlook and Risks

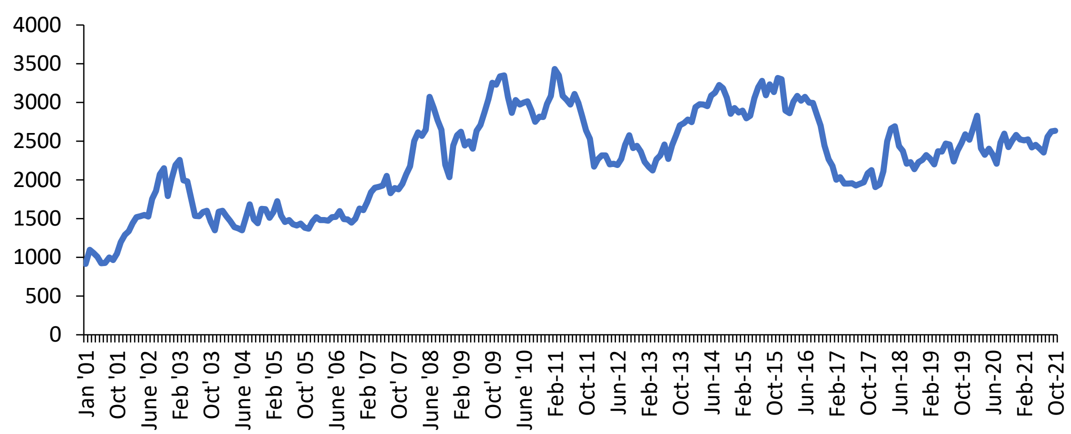
Global economic recovery is continuing, but incoming data points to softening momentum in the fourth quarter of 2021 largely due to supply bottlenecks. Headline inflation is expected to remain elevated in the near term but will decline in the course of 2022 as supply constraints ease and energy prices decline. However, supply bottlenecks and rising input costs may prove more persistent than anticipated, possibly leading to de-anchoring of inflation expectations and wage growth. Central banks may respond with monetary policy tightening, with implications for global financing conditions. Vulnerable EMDEs with large foreign currency debt and financing needs would be particularly exposed. Additionally, price pressures, mainly from weaker currencies, supply bottlenecks, and rising commodity prices, will continue to build. The pass-through of these pressures to headline inflation may persist during much of 2022 in some EMDEs. Policymakers may therefore face the challenge of sustaining the recovery in the face of rising inflation and unsustainable debt levels.

2. External Sector Developments

2.0 Commodity Price Trends

Cocoa futures settled at an average price of US$2,482 per tonne in December 2021, down by 0.9 percent relative to the previous month, on concerns about weakening global economic recovery due to the new Omicron variant. Compared to the same time last year, prices dropped by 3.9 percent.

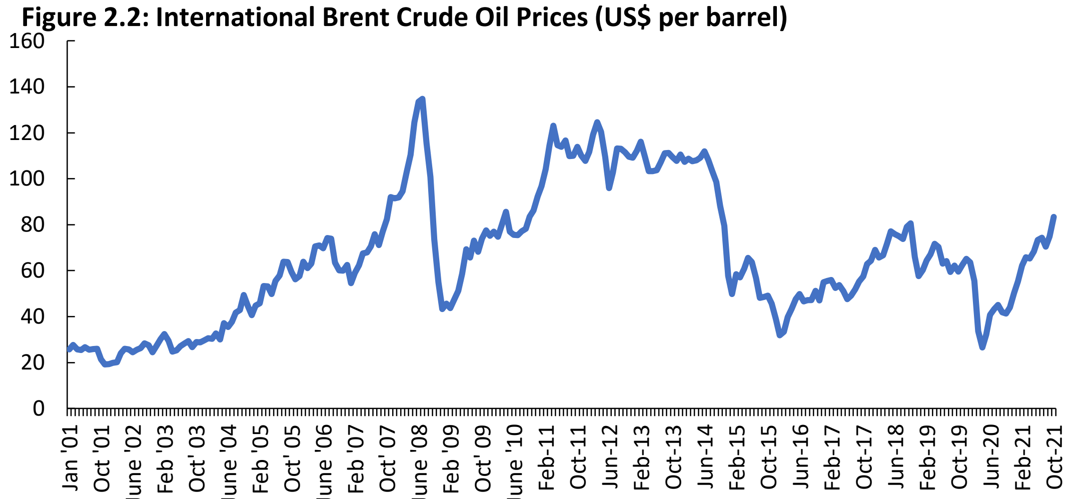
Figure 2.1: International Cocoa prices (US$/metric tonnes)



Source: Trading Economics

Regarding crude oil prices, the market was generally bullish throughout the year with the benchmark Brent closing the year at an average price of US$74.8 per barrel in December 2021 compared to an average price of US$50.23 per barrel in December 2020. For the year, Brent crude averaged US$70.8 per barrel as against US$43.2 per barrel in 2020. Major tailwinds that supported prices included production restraint by OPEC+, recovering demand, and underinvestment by U.S. oil producers.

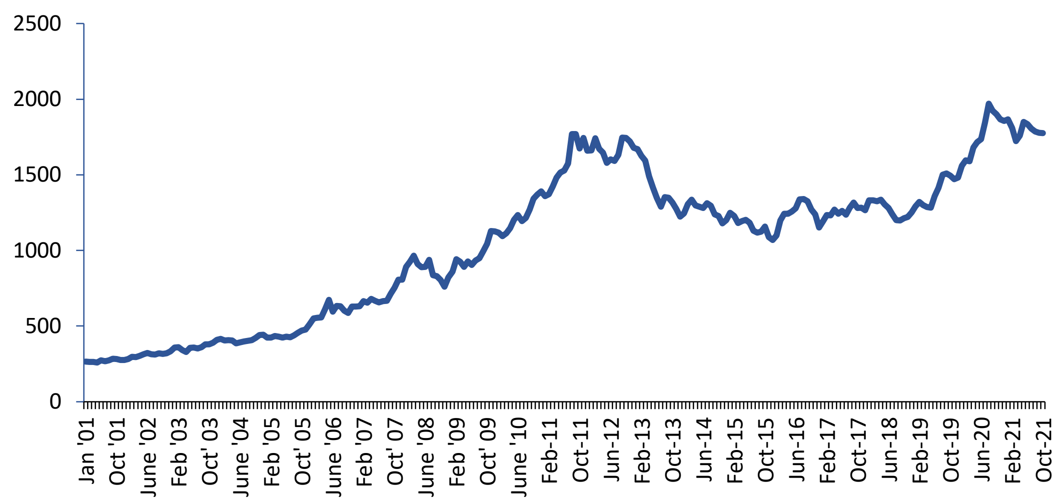
Figure 2.2: International Brent Crude Oil Prices (US$ per barrel)



Source: Trading Economics

Gold prices rallied on the heels of the uncertainty surrounding the rapidly spreading Delta and Omicron variants, and the threat they posed to global economic recovery. However, the Fed's asset tapering weighed on the bullion. Spot gold prices posted losses during the month of December as a strong U.S. Dollar dented the appeal of gold. Gold prices ended the year approximately 4 percent lower than 2020, closing at US$1,822.54 per fine ounce.

Figure 2.3: International Gold Prices (US$ per fine ounce)



Source: Trading Economics

2.1 Commodities Price Index

The weighted average price of Ghana's three major commodity exports – cocoa, gold, and crude oil – eased for the second consecutive month into December 2021. The drop in the overall index was largely influenced by the crude oil sub-index, with gold and cocoa sub-indices contributing marginally to the decline. The crude oil, gold and cocoa sub-indices fell 7.4, 1.5 and 0.9 percent respectively, resulting in a dip in the overall index by 2.8 percent.

Figure 2.4: Commodities Price Index

Source: BOG Staff Computation

2.2 Trade Balance

The trade account recorded a lower surplus of US$1.1 billion during the year compared with a surplus of US$2.0 billion recorded for the corresponding period of 2020. The decline in the trade balance was due to a higher import outturn, driven mainly by increased demand for refined petroleum products imports during the year. Consistent with a pick-up in economic activities, total imports rose by 3.0 percent year-on-year to US$13.6 billion. Both non-oil imports and oil imports rose during the year by 6 percent and 8.5 percent, respectively. With regard to exports, earnings amounted to US$14.4 billion, up by 1.8 percent. The marginal growth in exports was, however, below the pre-pandemic growth of 5.9 percent. Improved receipts from cocoa and crude oil boosted exports performance notwithstanding the decline in gold receipts. Gold earnings declined sharply from US$6.8 billion in 2020 to US$5.1 billion in 2021 largely as a result of a 26.8 percent shortfall in output.

2.3 Current Account

Developments in the trade account, together with higher investment income outflows arising from increased interest payments, profits and dividend repatriation, resulted in a widened current account deficit of US$2.5 billion at the end of 2021, compared with US$2.1 billion recorded at the same time last year. Private individual transfers, however, remained stable with net inflows amounting to US$3.3 billion during the period.

2.4 Capital and Financial Accounts

During the year, there were significant inflows into the financial account, amounting to US$3.3 billion. Major sources of inflows were Foreign Direct Investment, Eurobond proceeds, and IMF-SDR allocation. These inflows were more than enough to finance the current account deficit. Consequently, Ghana’s overall balance of payment at the end of 2021 recorded a surplus of US$510 million compared with a surplus of US$377.5 million recorded in 2020.

2.5 International Reserves

The stock of Gross International Reserves, during 2021, increased to US$9.7 billion at the end of December 2021, equivalent to 4.4 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.

2.6 Outlook for Three Major Export Commodities

So far into the 2021/22 crop season, cocoa beans arrivals from West Africa’s major cocoa producers remain below last year’s arrivals and may remain below expectations, thereby lending support to cocoa futures prices in upcoming months. The new Omicron variant has raised concerns about a possible slowdown in global economic growth. These fears about weakening global economic activity might weigh on cocoa futures in the months ahead. Nearby cocoa futures prices in January - March are forecast to average US$2,435-US$2,510 a tonne compared with US$2,549 a year earlier.

The global oil market will be subject to significant uncertainties in 2022, notably due to the resurgence of the COVID-19 pandemic and its effects on economic growth, oil demand, and the production decisions of OPEC+. Restrictions imposed to mitigate the spread of COVID-19 before the emergence of the Omicron variant raise the possibility of a decline in global oil consumption, leading to downward pressures on oil prices. These factors, among others, could keep oil prices volatile between US$71 and US$79 per barrel during the year.

Gold will be particularly relevant for investors in 2022 as a risk hedge. In the outlook, the bullion may be confronted with two key headwinds, namely high nominal interest rates and a potentially stronger dollar in 2022. These negative effects may be offset by some supporting factors such as high inflation, market volatility related to COVID-19, geopolitics, and robust demand from central banks and jewelry consumers. Bullion's performance will be dependent on which factors outpace the other. Gold prices are expected to trade between US$1,500 and US$1,850 per fine ounce.

2.7 BOP Outlook for 2022

Initial projections under the baseline scenario suggest a drawdown in reserves in 2022 based on a projected widening in the current account deficit and lower inflows into the financial account. The expected deterioration in the current account will be driven by a lower trade surplus, and higher outflows in the investment and services account.

In the financial account, preliminary estimates show a very sharp drop in net inflows. This development is largely due to lack of market access because of expected tight and unfavourable external financing conditions and concerns about domestic macroeconomic conditions, including high debt levels and uncertainty about the fiscal situation.

Table 2.1: Trade Balance (US$ million)

	2019 Jan - Dec	2020 Jan - Dec	Prov 2021 Jan - Dec	Abs Y/Y Chg	Rel Y/Y Chg
Trade Bal (% GDP)	**3.4**	**2.8**	**1.6**		
Trade Balance	**2,256.8**	**2,043.0**	**1,107.6**	**-935.4**	**-45.8**
Total Exports	**15,667.5**	**14,471.5**	**14,736.2**	**264.7**	**1.8**
Gold ($'M)	6,229.7	6,799.1	5,083.1	-1,716.0	-25.2
Volume (fine ounces)	4,490,399	3,854,012	2,820,094	-1,033,917.5	-26.8
Unit Price ($/fine ounce)	1,387.3	1,764.2	1,802.5	38.3	2.2
Cocoa Beans ($'M)	1,451.4	1,480.2	1,780.4	300.2	20.3
Volume (tonnes)	590,368	585,679	704,178	118,498.4	20.2
Unit Price ($/tonne)	2,458.4	2,527.3	2,528.4	1.1	0.0
Cocoa Products ($'M)	837.0	848.0	1,070.7	222.7	26.3
Volume (tonnes)	280,742	273,334	320,788	47,453.8	17.4
Unit Price ($/tonne)	2,981.5	3,102.3	3,337.7	235.4	7.6
Crude Oil ($'M)	4,493.1	2,910.6	3,947.7	1,037.1	35.6
Volume (barrels)	70,054,551	67,458,206	55,415,848	-12,042,358.0	-17.9
Unit Price ($/bbl)	64.1	43.1	71.2	28.1	65.1
Other Exports	2,656.4	2,433.6	2,854.2	420.6	17.3
ow: Non-Traditional Exports	1,845.7	1,879.1	2,291.0	411.9	21.9
Total Imports	**13,410.7**	**12,428.6**	**13,628.7**	**1,200.1**	**9.7**
Non-Oil	10,990.4	10,538.0	10,909.5	371.5	3.5
Oil and Gas	2,420.3	1,890.5	2,719.2	828.6	43.8
of which : products	1,892.7	1,492.9	2,499.4	1,006.5	67.4
Crude ($'M)	358.0	219.9	85.0	-134.9	-61.3
Volume (barrels)	5,698,082.0	5,591,704.2	1,168,941.7	-4,422,762.5	-79.1
Unit Price ($/bbl)	62.8	39.3	72.7	33.4	84.9
Gas ($'M)	169.6	177.7	134.7	-43.0	-24.2
Volume (MMBtu)	23,764,532.3	24,600,816.6	17,905,989.5	-6,694,827.1	-27.2
Unit Price ($ mmBtu)	7.1	7.2	7.5	0.3	4.2

Source: Bank of Ghana

3. Real Sector Developments

3.0 Overview

Domestic economic activity continued to reflect sustained economic recovery from the adverse effects of the COVID-19 pandemic. The latest high frequency indicators recorded broad-based improvement compared to last year. Domestic VAT collections, retail sales, industrial consumption of electricity, private sector contributions to social security, cement sales, vehicle registration and passenger arrivals at the airport all improved in the review period.

3.1 Economic Growth

The domestic economy continued its strong recovery from the COVID-related economic downturn. The latest Ghana Statistical Service update showed that Real GDP growth for the first three quarters of 2021 averaged 5.3 percent, compared with an average contraction of 0.6 percent recorded in the same period of 2020. Similarly, non-oil GDP growth averaged 6.9 percent, against a contraction of 0.3 percent over the same comparative period. Overall, GDP growth for 2021 is projected to exceed the target of 4.4 percent.

3.2 Trends in Real Sector Indicators (high frequency data)

Consumer Spending

Consumer spending, as gauged by domestic VAT collections and retail sales, posted a positive performance in November 2021, compared with the corresponding period in 2020. Domestic VAT collections increased by 24.0 percent on a year-on-year basis to GH¢568.30 million, from GH¢458.46 million. On a month-on-month basis, domestic VAT collections improved by 5.7 percent. Cumulatively, total domestic VAT went up by 28.2 percent for the first eleven months of 2021 to GH¢6,155.52 million, compared with GH¢4,800.96 million for the same period of last year.

Retail sales increased by 10.4 percent (year-on-year) to GH¢145.10 million in November 2021, up from the GH¢131.41 million recorded in the same period in 2020. In the year to November 2021, retail sales grew by 23.5 percent to GH¢1,262.19 million, reflecting improvement in household spending during the review period.

Manufacturing Activities

Activities in the manufacturing sub-sector, gauged by trends in the collection of direct taxes and private sector workers' contributions to the Social Security and National Insurance Trust (SSNIT) Pension Scheme (Tier-1), recorded a mixed performance in November 2021. Total Direct Taxes collected decreased by 15.3 percent (year-on-year) to GH¢1,609.11 million in November 2021, relative to GH¢1,900.43 million recorded same period in 2020. Cumulatively, total Direct Taxes collected for the first eleven months of 2021 went up by 27.6 percent to GH¢22,712.90 million. In terms of contributions of the various sub-tax categories, Income tax (PAYE and self-employed) accounted for 50.7 percent, Corporate tax accounted for 39.1 percent, while "Other Tax Sources" contributed 10.2 percent.

Total private sector workers' contribution to the SSNIT Pension Scheme (Tier-1) increased by 33.8 percent in year-on-year terms to GH¢243.43 million in November 2021, from GH¢181.90 million collected during the corresponding period in 2020. In cumulative terms, the contribution for the first eleven months of 2021 improved by 13.1 percent to GH¢2,369.13 million.

Construction Sector Activities

Activity in the construction sub-sector, proxied by the volume of cement sales, improved by 4.4 percent (year-on-year) in November 2021 to 339,879.30 tonnes, up from 325,691.10 tonnes recorded a year ago. On a month-on-month basis, total cement sales increased by 7.0 percent in November 2021. Cumulatively, cement sales from January to November 2021 went up by 9.3 percent to 3,766,435.69 tonnes. The improvement in total cement sales was due to an uptick in construction activities during the review period.

Vehicle Registration

Transport sector activities, proxied by vehicle registration by the Driver and Vehicle Licensing Authority (DVLA), improved by 57.3 percent to 20,140 in November 2021, from 12,803 vehicles registered during the corresponding period of 2020. Cumulatively, vehicles registered by DVLA within the first eleven months of 2021 rose by 32.6 percent to 261,775.

Industrial Consumption of Electricity

Consumption of electricity by industries went up by 20.9 percent on a year-on-year basis during the period under review. Industries consumed 271.52 gigawatts of power in November 2021, as against 224.61 gigawatts recorded for the corresponding period in 2020. In cumulative terms, electricity consumption by industries for the first eleven months of 2021 increased by 13.0 percent to 2,848.38 gigawatts from 2,520.49 gigawatts for the corresponding period a year ago. The improvement in power consumption was mainly due to increased industrial activity by manufacturing companies during the review period.

Passenger Arrivals at the Airport

International passenger arrivals increased significantly in November 2021 to 66,680 compared with 32,136 in November 2020. On a month-on-month basis, passenger arrivals went up by 7.9 percent. The sharp year-on-year increase reflected the easing of travel restrictions over the review period. Cumulatively, passenger arrivals for the first eleven months of 2021 went up by 76.8 percent to 548,546 arrivals.

Ports and Harbours Activity

International trade at the country's two main harbours (Tema and Takoradi), as measured by laden container traffic for inbound and outbound containers, improved during the period under review. Total container traffic grew marginally by 1.9 percent (year-on-year), to 65,082 in November 2021, up from 63,861 for a similar period in 2020. In cumulative terms, total container traffic for the first eleven months of 2021 rose by 13.7 percent to 708,961, compared with 623,489 for the corresponding period of last year. The relative improvement in port activities was due to an uptick in international trade activities as global COVID-restrictions eased over the review period.

Advertised Jobs

The number of jobs advertised in selected print[1] and online[2] media, which partially gauges labour demand in the economy, decreased in December 2021 relative to the corresponding period a year ago. In total, 2,588 job adverts were recorded as compared with 3,157 for the same period in 2020, indicating a decline of 18.0

[1] The Daily Graphic newspaper was used to represent print media because it is the most widely circulated daily.

[2] These are job adverts posted on the websites of the 10 main online job advertising/employment companies.

percent (year-on-year). On a month-on-month basis, however, the number of job vacancies in December increased by 2.9 percent. The year-on-year decline in the number of jobs advertised reflected some of the difficulties faced by businesses as a result of the coronavirus pandemic. Cumulatively, the number of jobs advertised in 2021 increased marginally by 1.2 percent to 34,484 from 34,066 recorded in 2020.

Private Sector Pension Contributors

Total number of private sector SSNIT contributors, which partially gauges employment conditions, improved to 820,297 (up by 11.7% year-on-year) in November 2021 compared with 734,132 for the same period in 2020. Cumulatively, for the first eleven months of 2021, the total number of private sector contributors increased by 14.0 percent to 9,397,216 from 8,241,940 recorded over the corresponding period in 2020.

3.3 Composite Index of Economic Activity (CIEA)

The Bank's updated Composite Index of Economic Activity (CIEA) recorded an annual growth of 10.2 percent in November 2021, compared with 11.9 percent in the corresponding period of 2020.

3.4 Consumer and Business Surveys

The consumer and business confidence surveys conducted in December 2021 signalled mixed sentiments. Consumer confidence softened while business confidence improved over the review period.

The Consumer Confidence Index dipped from 93.9 in October to 88.1 in December 2021 on account of recent increases in ex-pump petroleum prices and the announcement of new tax measures in the 2022 budget. The Business Confidence Index, on the other hand, increased from 95.5 in October to 98.4 in December 2021. The improved business sentiments were driven by the achievement of short-term company targets and optimism about companies' growth prospects.

3.5 Real Sector outlook

Real sector activity is expected to continue to recover, although still below potential. In the outlook, activity is expected to improve in the medium term on the back of positive real sector expectations and rising foreign demand. However, there are potential risks in the outlook.

3.5.1 Risks to the Growth Outlook

- ***Global growth developments***

Increased vaccine rollouts, continuous fiscal support and still accommodative monetary policy in Advanced Economies could trigger stronger growth for 2022 than anticipated. However, the Omicron variant and other variants may call for additional control measures that could heighten supply bottlenecks and therefore moderate the recovery. Financial stress, emanating from early withdrawal of monetary accommodation amid rising inflation concerns in Advanced Economies, may also pose some challenges to the global recovery. Also, rising debt levels, possible monetary policy tightening and slower-than-anticipated vaccine access and rollouts in some EMDEs may drag the recovery.

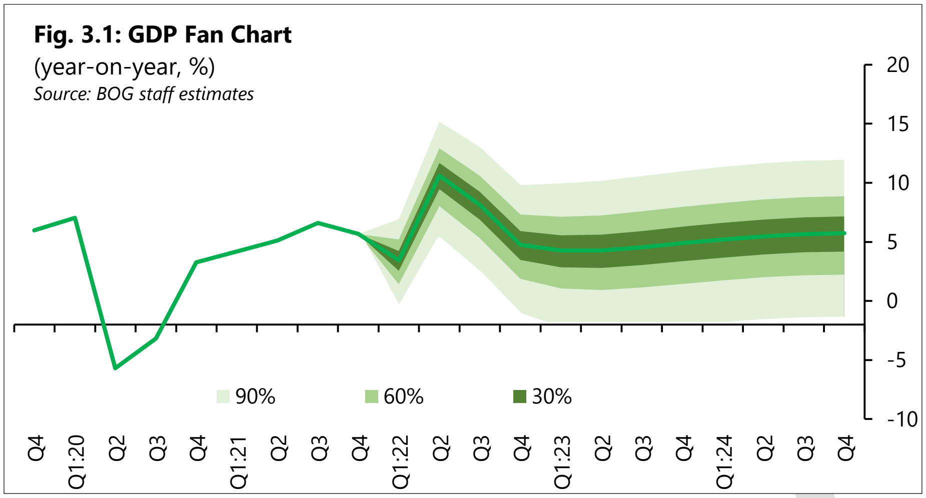


Fig. 3.1: GDP Fan Chart
(year-on-year, %)
Source: BOG staff estimates

- ***Rising Commodity Prices***

Crude oil prices have remained strong on the global market amid anticipated strong global recovery. As a net exporter of oil, these developments will benefit the ongoing domestic recovery in Ghana. In addition to crude oil prices, the bullish outlook for cocoa prices in 2021 on the back of recovery in cocoa demand due to reopening of economies will benefit domestic recovery through trade. On the downside, the bearish outlook for gold prices as a result of rising yields in the U.S., on the back of the policy normalization in response to rising inflation, could reduce appetite for the precious metal. Also, continuous strengthening of the U.S. Dollar could dampen the safe-haven appeal for gold.

- ***Uncertainties surrounding food production***

As a result of delayed rainfall and input supply challenges (e.g. insufficient fertilizer) faced in 2021, there were shortfalls in food production. Also, there were outbreaks of Bird Flu disease leading to a ban on movements of poultry and poultry products within and from affected regions, and also a ban on importation from affected countries. These developments may lead to a decline in agriculture sector contribution to growth in 2022.

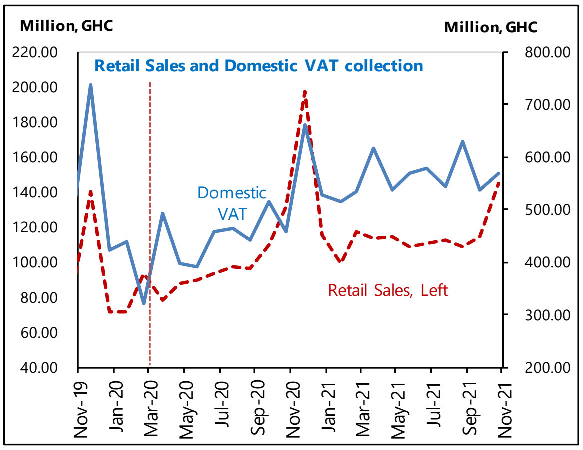
- ***Improved Confidence and Sentiments***

The latest Bank of Ghana surveys show increased business confidence, which may lead to increase private sector investment. However, weak consumer sentiments and subdued private sector credit may drag growth.

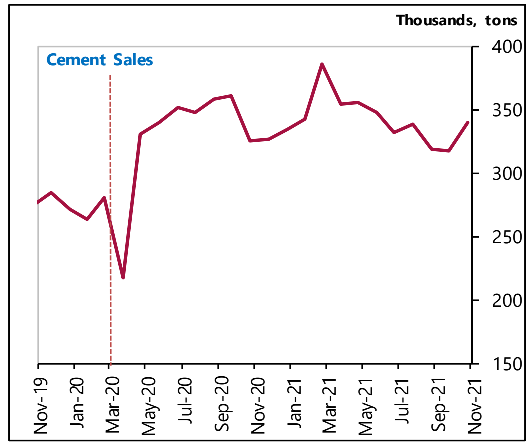
Figure 3.2: Indicators of Economic Activity

Panel 1:
Ghana Leading Indicators of Economic Activity
Impact of COVID-19 on Real Sector Indicators

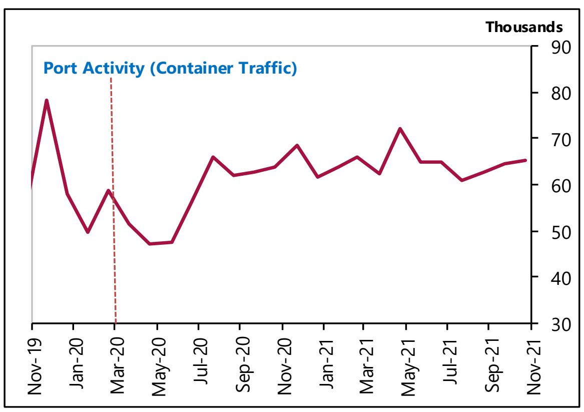
...Domestic consumption, proxied by retail sales and domestic VAT collections, improved in November 2021...



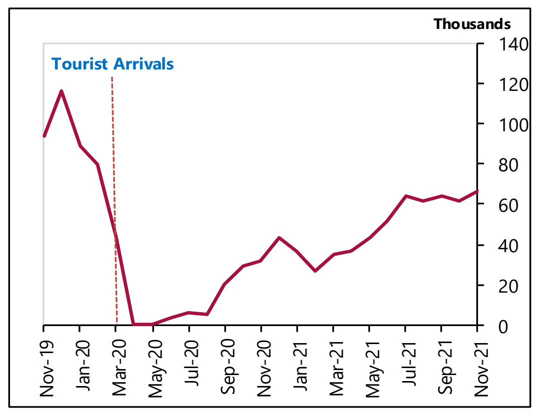
...Construction activities, proxied by cement sales, increased in November 2021...



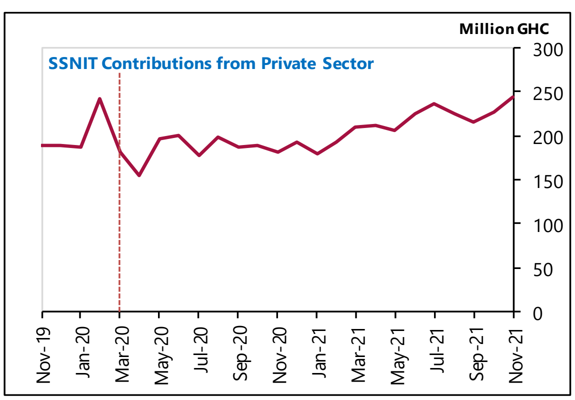
...Port activity inched up in November 2021...



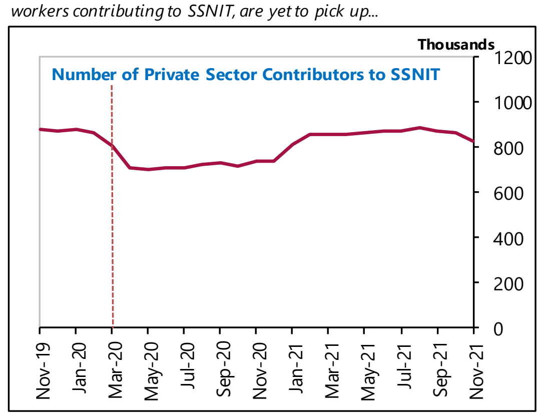
...Tourist arrivals went up in November 2021, but remains below pre-pandemic levels...



...Labour market conditions improved in November 2021...



...Labour hiring conditions, proxied by the number of private sector workers contributing to SSNIT, are yet to pick up...

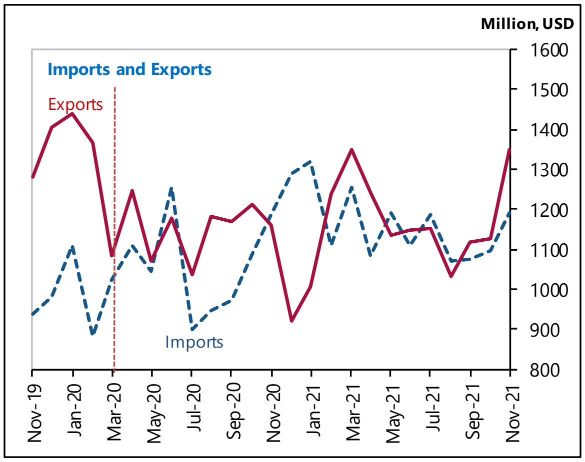


Sources: Bank of Ghana, Various Stakeholders

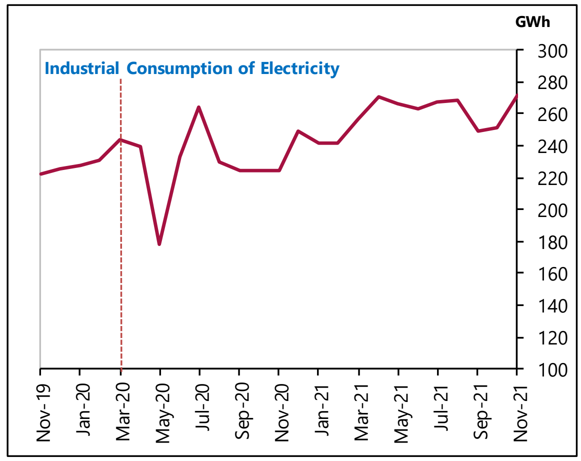
Figure 3.2: Indicators of Economic Activity (ctd.)

Panel 2:
Ghana Leading Indicators of Economic Activity
Impact of COVID-19 on Real Sector Indicators

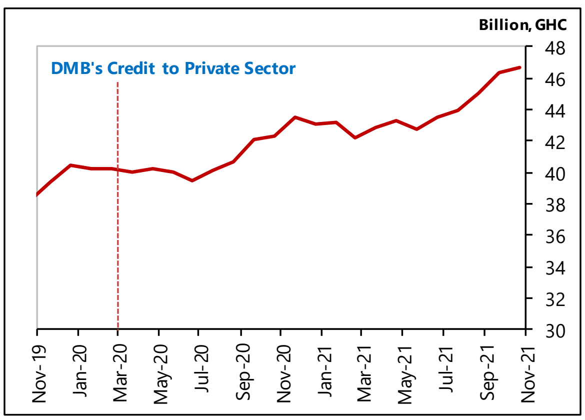
...Exports and imports went up in November 2021...



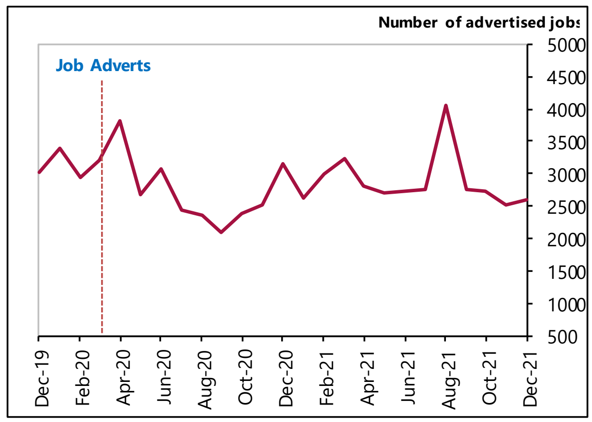
...Industrial activity, proxied by industrial consumption of electricity, increased...



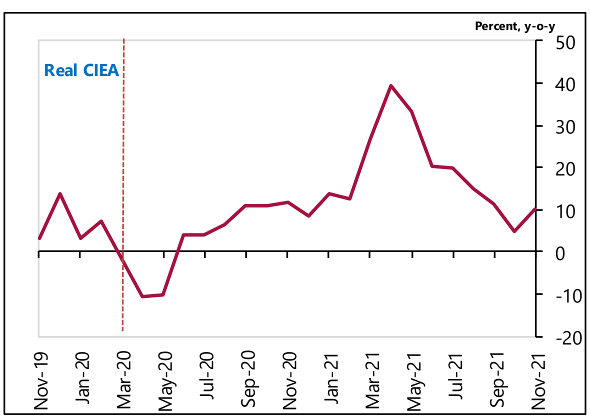
...Commercial banks' credit to the private sector improved in November 2021...



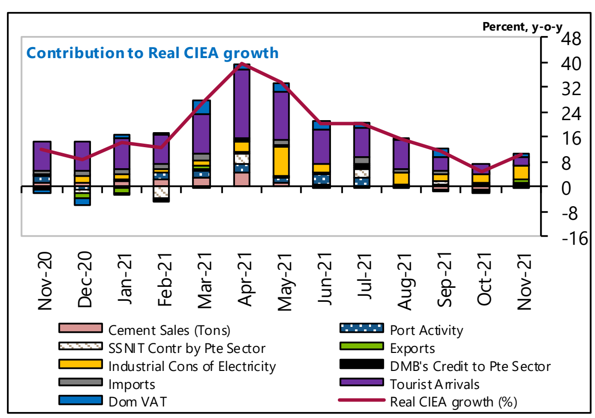
...Demand for labour, proxied by the number of job adverts (in print and online media), inched up in December 2021...



...On a year-on-year basis, the real CIEA grew by 10.2 percent in November 2021, compared with 5.0 percent in October 2021, and 11.9 percent growth in November 2020...



...The growth in the real CIEA was mainly driven by a pick-up in Industrial Consumption of Electricity, Tourist Arrivals, SSNIT Contributions from the Private Sector, Domestic VAT, Exports, Cement Sales and Imports...

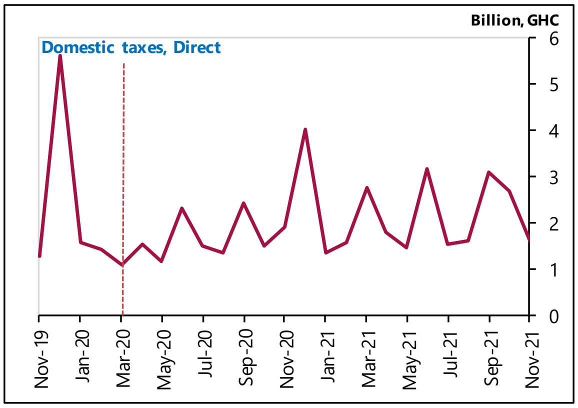


Source: Bank of Ghana, Various Stakeholders

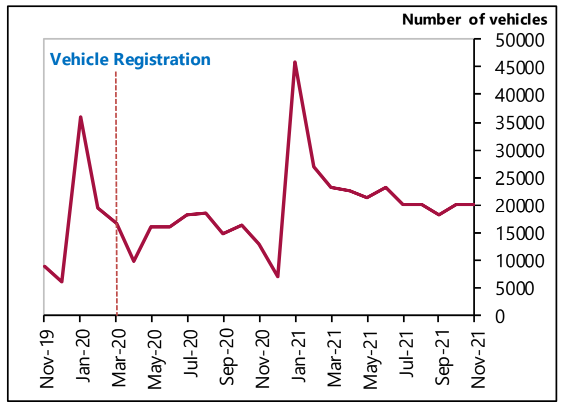
Figure 3.2: Indicators of Economic Activity (ctd.)

Panel 3:
Ghana Leading Indicators of Economic Activity
Impact of COVID-19 on Real Sector Indicators

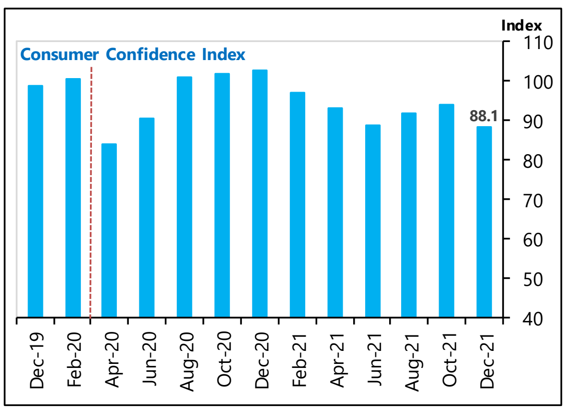
...Domestic tax collection decreased in November 2021...



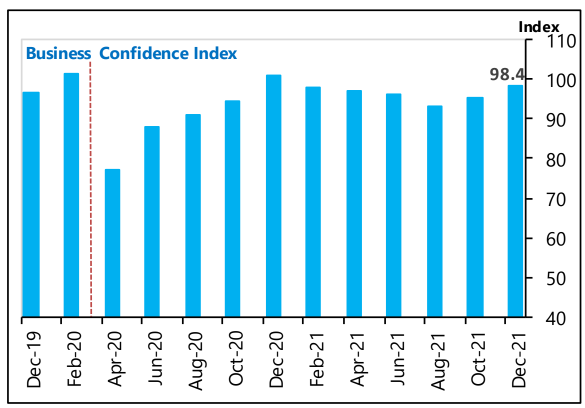
...Vehicle registration steadied in November 2021...



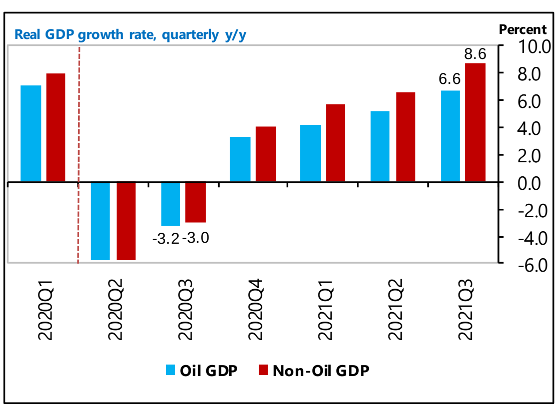
...Consumer confidence softened due to recent increases in ex-pump petroleum prices and the announcement of new tax measures in the 2022 budget...



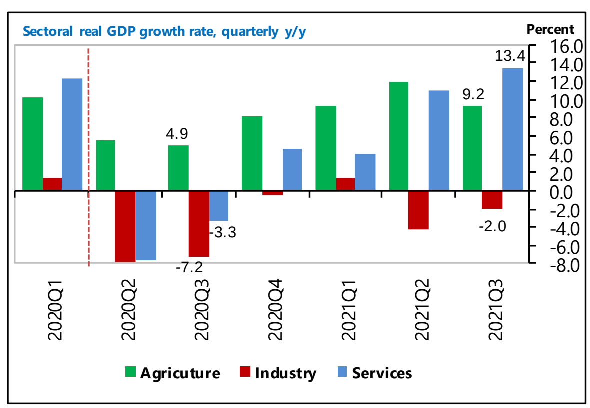
...Business confidence improved as businesses' met their short-term targets and were optimistic about company and growth prospects...



...Real Oil and Non-Oil GDP grew by 6.6 percent and 8.6 percent respectively in 2021Q3, compared with contractions of 3.2 percent and 3.0 percent respectively in the corresponding period of 2020...



...The Services sector was the main driver of growth in 2021Q3, recording a growth rate of 13.4 percent...



Source: Bank of Ghana, Various Stakeholders

4. Monetary and Financial Developments

4.0 Overview

Trends in monetary aggregates showed moderation in the pace of growth in broad money supply (M2+), due to contraction in the Net Foreign Assets (NFA) of the depository corporations' sector and a slowdown in growth in Net Domestic Assets. Developments in interest rates showed mixed trends, while the Ghana Stock Exchange (GSE) Composite Index continued to show improved performance of the stock market, on the back of positive investor sentiments, amidst strong earnings performance by companies across a broad range of sectors.

4.1 Developments in Monetary Aggregates

Money Supply

Developments in monetary aggregates showed significant moderation in broad money supply (M2 +) in December 2021, largely driven by a contraction in the Net Foreign Assets (NFA) of the depository corporations' sector. The Net Domestic Assets (NDA), however, expanded during the review period, although, at a slower pace relative to December 2020. Growth in M2+ declined to 12.55 percent in December 2021 from 29.58 percent in December 2020. The contribution of NFA to the growth of M2+ decreased from negative 2.90 percent to negative 6.88 percent, while the contribution of the NDA decreased from 32.52 percent to 19.39 percent, over the same comparative period.

In terms of annual growth rates, NFA contracted by 44.97 percent in December 2021 relative to 12.08 percent contraction in December 2020, while NDA expanded by 23.13 percent compared with 41.96 percent, over the same comaprative period.

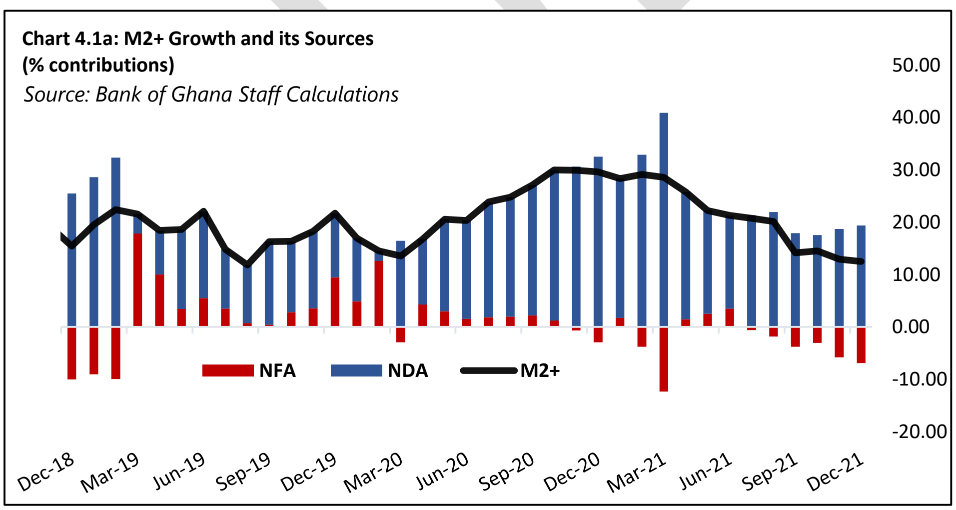


Chart 4.1a: M2+ Growth and its Sources (% contributions)
Source: Bank of Ghana Staff Calculations

Chart 4.1b: Banking Sector NDA and its Sources; per cent contributions

Source: Bank of Ghana Staff Calculations

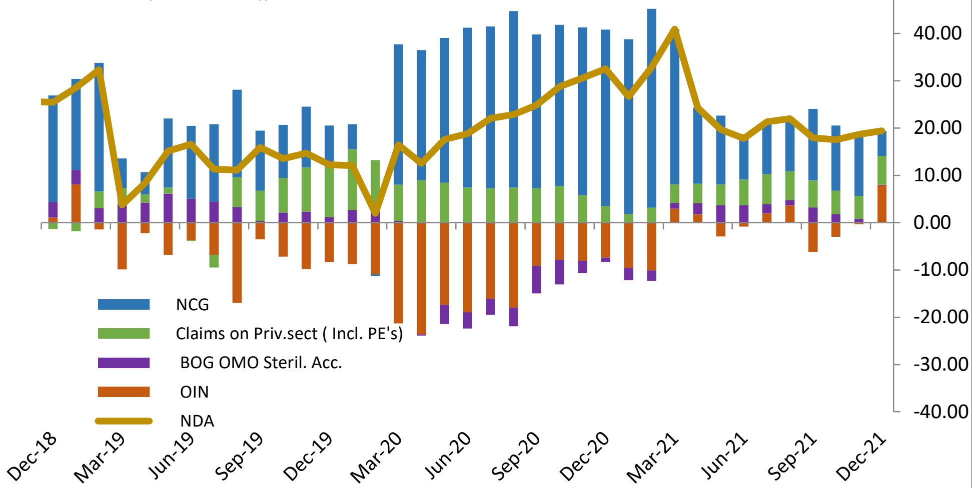
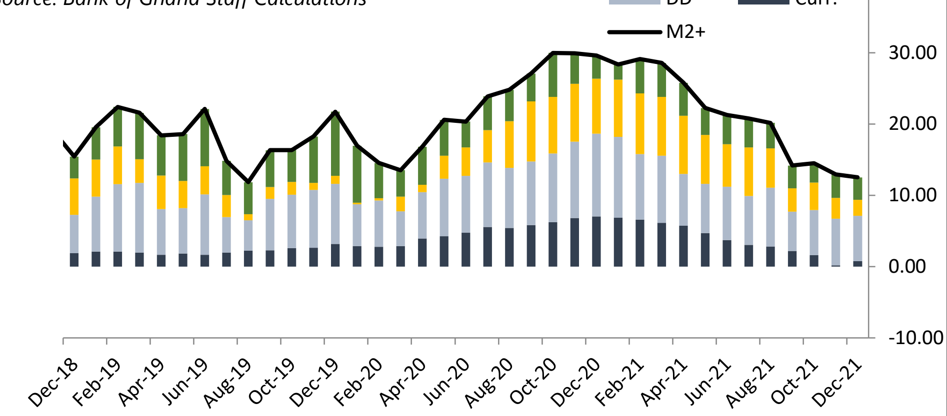


Chart 4.2: M2+ growth and its components (% contributions)

Source: Bank of Ghana Staff Calculations



The decrease in the contribution of NDA to M2+ growth was mainly driven by lower Net Claims on Government (NCG) relative to 2020. On the other hand, contribution of claims on public and private sectors to M2+ growth increased during the period under review, while the stock of BOG bills held by Deposit Money Banks (DMBs) declined marginally.

Analysis of the components of M2+ over the period showed that the moderation in the growth in M2+ reflected in decreased distributions to all the components of M2+ comprising: Currency Outside Banks (CURR), Demand Deposits (DD), Savings and Time Deposits (STD) and Foreign Currency Deposits (FCD).

4.2 Reserve Money

Annual growth in Reserve Money (RM) declined marginally to 20 percent in December 2021, from 24.87 percent recorded in the corresponding period of 2020. The moderation in the pace of growth in RM was largely due to a contraction in the Net Foreign Assets (NFA) of Bank of Ghana (BOG), reflecting the seasonal demand for foreign exchange in the fourth quarter, and the increased BOG interventions on the foreign exchange market to mute the pressures on the domestic currency. The Net Domestic Assets (NDA), however grew, albeit at a slower pace. The contribution of the NFA to the growth in RM was negative 8.94 percent in December 2021, relative to negative 22.49 percent recorded in the corresponding period of 2020. On the other hand, the contribution of the NDA was 28.94 percent compared with 47.51 percent, over the same comparative period. The growth in NDA during the review period largely reflects a significant decline in Other Liabilities of the Other Items (Net) (OIN) as well as marginal decrease in the stock of BOG bills. Growth in the NDA was also supported by the increase in the Net Claims on Deposit Money Banks (DMBs), reflecting net reverse repo transactions. In contrast, Net Claims on Government contracted on the back of a net build-up in Government deposits with the Central Bank to moderate the growth in the NDA.

Chart 4.3a: RM Growth and Annual Percent Contribution from NFA and NDA

Source: Bank of Ghana Staff Calculations

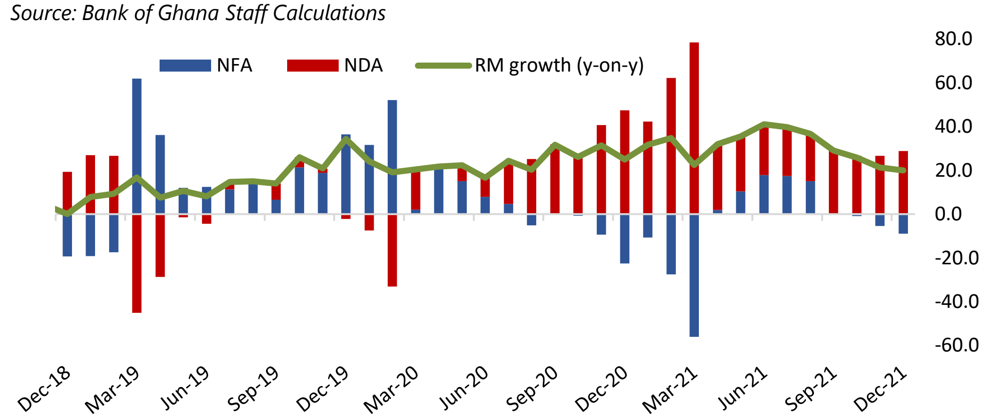
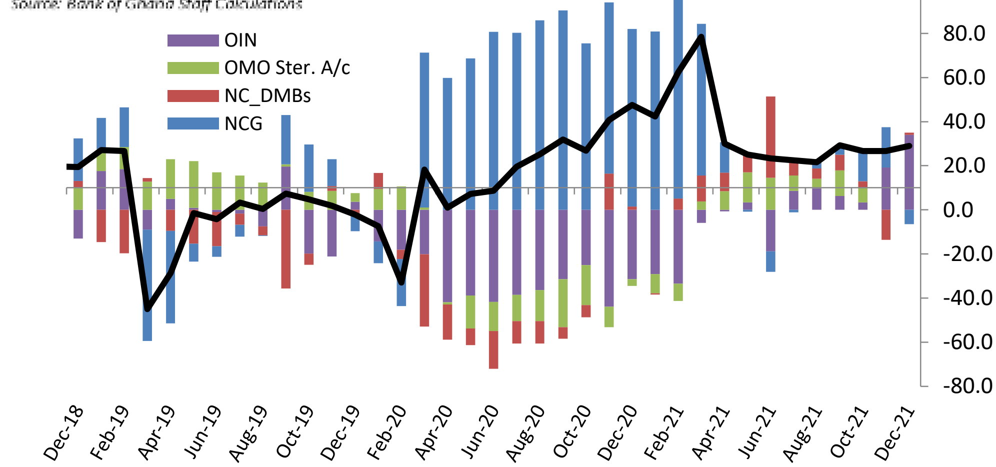


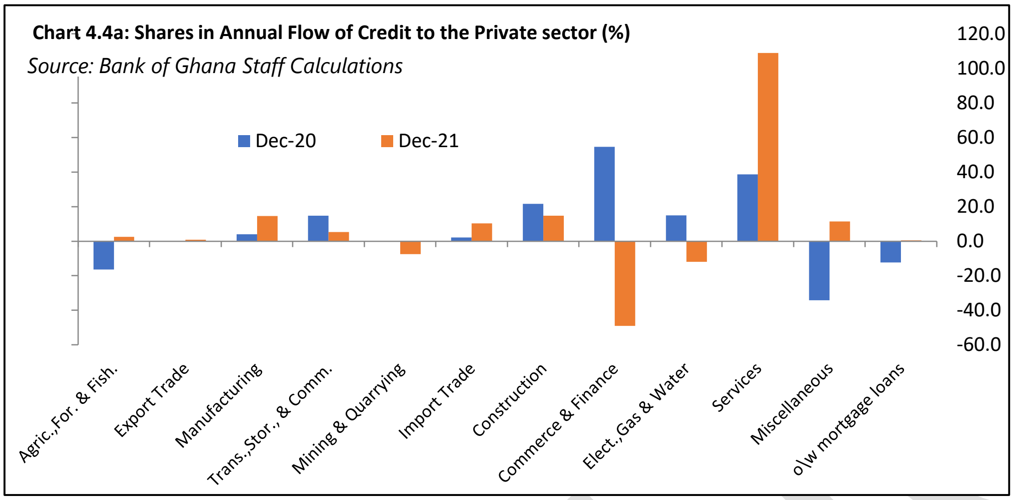
Chart 4.3b: BOG NDA and its Sources; Annual Percent Contributions

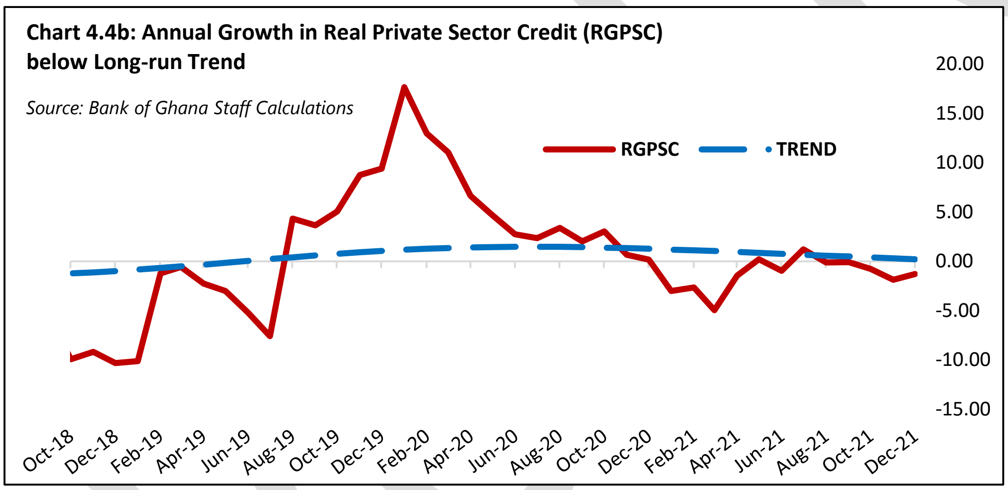
Source: Bank of Ghana Staff Calculations



4.3 Deposit Money Banks' (DMBs') Credit Developments

DMBs' credit to the private sector and public institutions increased by GH¢5,998.28 million (12.56%) in December 2021 compared with GH¢2,599.02 million (5.75%) recorded in December 2020. Credit to the private sector increased by GH¢4,852.39 million (11.15%) in December 2021 compared with GH¢4,168.27 million (10.59%) recorded in the corresponding period of 2020. The marginal increase in the growth in private sector credit reflects gradual recovery in economic activities following the easing of pandemic-related restrictions, and the impact of COVID-19 regulatory measures implemented by the Bank of Ghana. Private sector credit accounted for 80.90 percent of total flow of credit extended to both private and public institutions in December 2021 relative to 160.38 percent recorded in the corresponding period of 2020. Credit flow to the private sector remained concentrated in four sectors: services; construction; manufacturing; and import trade.





Outstanding credit to the private sector at the end of December 2021 was GH¢48,385.58 million, compared with GH¢43,533.19 million recorded in December 2020. In real terms, private sector credit contracted by 1.29 percent in December 2021 compared with a marginal growth of 0.17 percent, recorded in the corresponding period of 2020. The contraction in real credit was mainly due to sustained price pressures. Real growth in private sector credit has remained below the long-run trend since August 2021.

4.5 Money Market Developments

Monetary Policy Rate, Repo, Interbank, Treasury bill and Bond rates

Developments in interest rates broadly showed mixed trends across the spectrum of yield curves. The 91-day and 182-day Treasury bill rates declined to 12.49 percent and 13.19 percent, respectively, in December 2021, from 14.08 percent and 14.13 percent in December 2020. Similarly, the rate on the 364-day instrument decreased marginally to 16.46 percent from 16.98 percent over the same comparative period. Rates on the 2-year and 5-year bonds increased to 19.75 percent and 21 percent, respectively, from 18.50 percent and 19.85 percent while rates on 3-year, 6-year, 7-year and 10-year bonds decreased by 25bps, 70bps, 240bps and 5bps, respectively, to settle at 19 percent, 18.80 percent, 18.10 percent and 19.75 percent. The rates on the 15-year and 20-year bonds, however, remained unchanged at 19.75 percent and 20.20 percent, respectively, over the same comparative period.

The weighted average interbank rate declined to 12.68 percent from 13.56 percent, induced by persistent structural liquidity on the interbank market. This transmitted to the retail end of the market, with average lending rates of banks declining marginally to 20.04 percent in December 2021 from 21.20 percent recorded in the corresponding period of 2020.

Chart 4.5: Interest Rates (%)

Source: Bank of Ghana

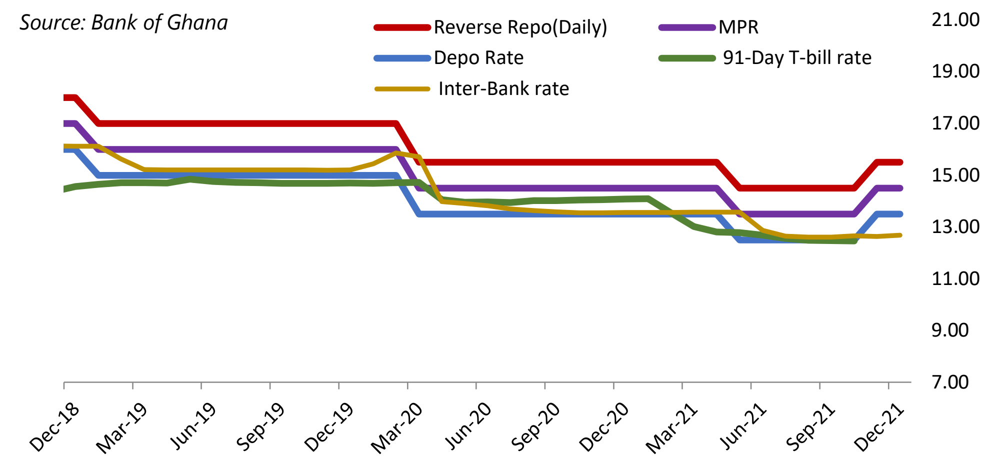
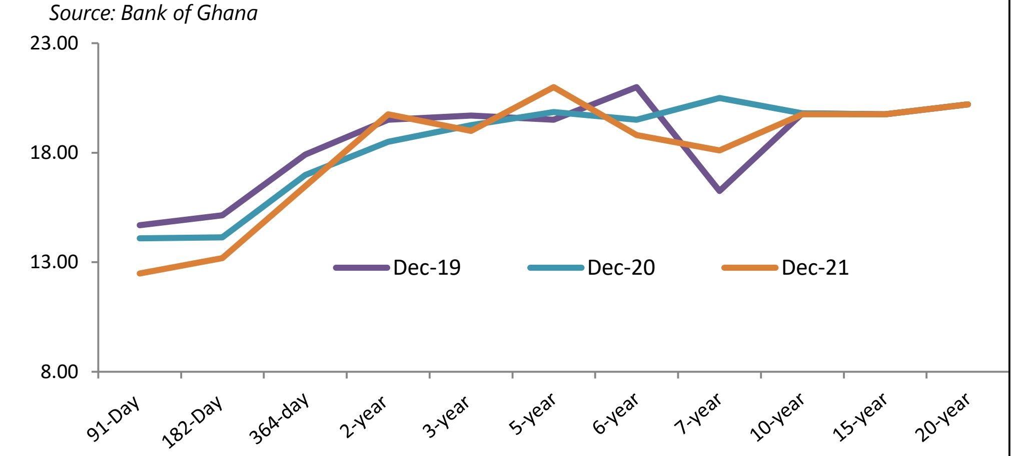


Chart 4.6: Yield Curve (%)

Source: Bank of Ghana



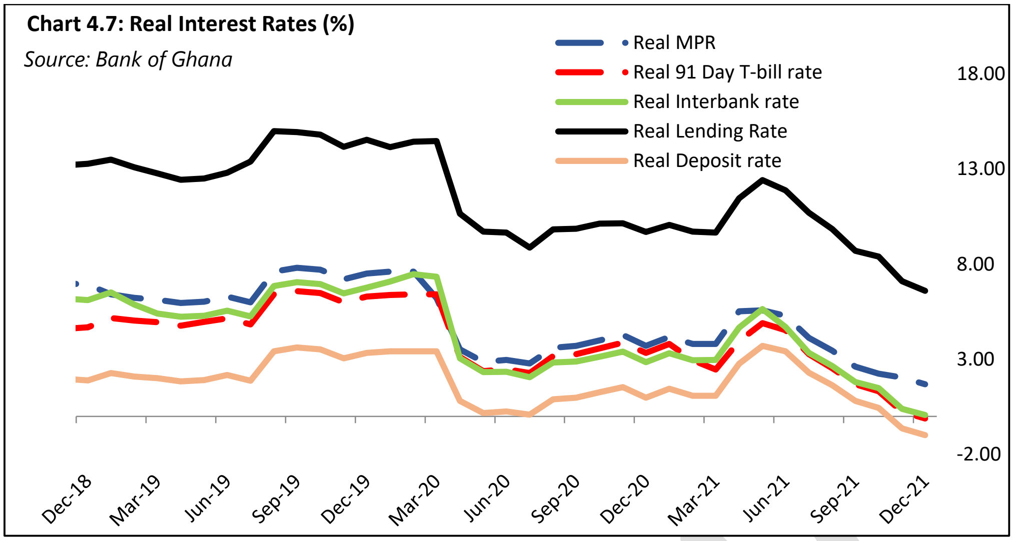


Chart 4.7: Real Interest Rates (%)
Source: Bank of Ghana

4.6 Stock Market Developments

The Ghana Stock Exchange Composite Index (GSE-CI) increased to 2,789.34 points in December 2021 from 1,941.59 points recorded in the corresponding period of 2020. This translates into a 43.66 percent gain in December 2021 compared with a loss of 13.98 percent in December 2020. The GSE-Financial Stocks Index (GSE-FSI) closed at 2,151.85 points, representing a gain of 20.70 percent compared to a loss of 11.73 percent, over the same comparative period in 2020.

The sectors that contributed to the year-on-year growth were: Finance, Food & Brewery, Agriculture, Distribution and IT. The stock market's improved performance was on the back of rebound in investor confidence, underpinned by strong earnings performance of listed companies, policy support, as well as the relaxation of pandemic-related restrictions.

Total market capitalisation of the GSE at the end of December 2021 was GH¢64.5 billion, representing a growth of 18.61 percent (GH¢10.12 billion), compared to 4.25 percent contraction in December 2020. The improvement in market capitalization was largely on account of capital gains.

Table 4.1: Performance of GSE

Performance of Ghana Stock Exchange (Table 2)											
							Changes Y-O-Y		Y-T-D	Nov. over Dec.	
	Dec-19	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	2020	2021	2021	2020	2021
GSE CI	2257.15	1941.59	2213.29	2643.67	2855.29	2789.34	-13.98	43.66	43.66	6.76	-2.70
GSE FI	2019.65	1782.76	1845.92	1871.41	2055.20	2151.85	-11.73	20.70	20.70	9.86	2.89
Market Capitalization	56791.25	54374.86	57162.18	61331.40	64170.83	64495.21	-4.25	18.61	18.61	2.43	0.05

Source: Ghana Stock Exchange and Bank of Ghana Staff Calculations

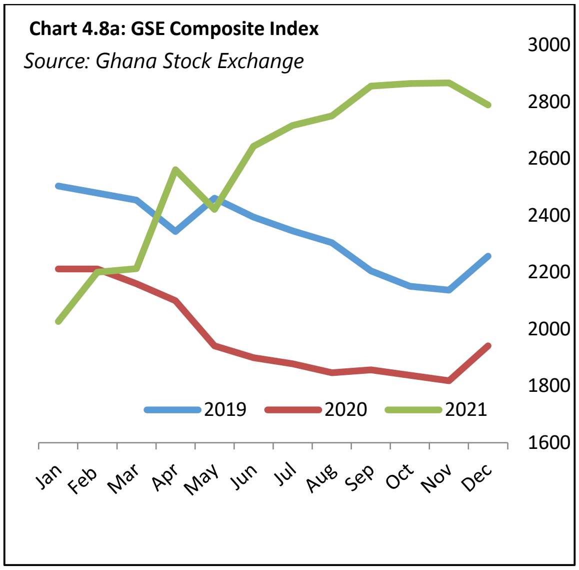


Chart 4.8a: GSE Composite Index
Source: Ghana Stock Exchange

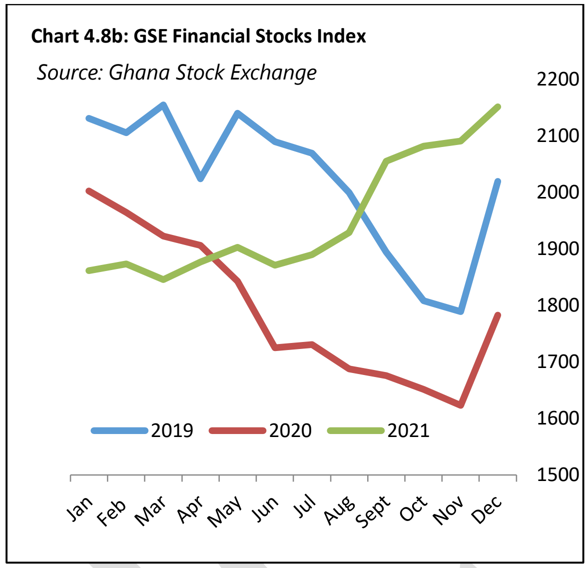


Chart 4.8b: GSE Financial Stocks Index
Source: Ghana Stock Exchange

4.7 Conclusion

Developments in monetary aggregates showed significant moderation in the pace of growth in broad money supply (M2+), largely driven by contraction in the Net Foreign Assets (NFA) of the depository corporations' sector. The Net Domestic Assets (NDA), however, expanded to drive growth in M2+, albeit, at a slower pace. Annual growth in reserve money declined marginally, largely due to contraction in the Net Foreign Assets of Bank of Ghana, reflecting the seasonal demand for foreign exchange in the fourth quarter, and the increased interventions on the foreign exchange market to mute the pressures on the domestic currency.

Growth in credit to the private sector improved marginally in nominal terms, reflecting the gradual recovery in economic activities following the easing of pandemic-related restrictions, supported by COVID-19 regulatory measures implemented by the Bank of Ghana. However, sustained price pressures weighed on real private sector credit. Developments in interest rates broadly showed mixed trends across the spectrum of yield curves. The weighted average interbank rate declined, induced by persistent structural liquidity on the interbank market. This transmitted to the retail end of the market, reflecting in a marginal decline in lending rates.

The Ghana Stock Exchange (GSE) Composite Index showed improved performance in December 2021 on the back of a rebound in investor confidence, underpinned by strong earnings performance of listed companies, policy support, as well as the relaxation of pandemic-related restrictions.

Appendix Table 4.2

		Dec-19	Mar-20	Jun-20	Sep-20	Oct-20	Dec-20	Mar-21	Jun-21	Sep-21	Oct-21	Nov-21	Dec-21
	Appendix 1: Sources of Growth in Total Liquidity (M2+) (millions of Ghana cedis unless otherwise stated)												
1	Net Foreign Assets	21293.01	26544.12	21888.34	19306.29	18723.76	18598.06	15096.87	25384.55	15199.51	15304.21	10207.78	10302.96
	Bank of Ghana	20622.55	27685.53	20458.68	16557.47	17493.65	14121.48	11740.53	25033.84	16504.31	17247.01	13208.55	11018.62
	Commercial Banks	670.46	(1141.41)	1429.66	2748.81	1230.11	4476.57	3356.35	350.71	(1304.80)	(1942.80)	(3000.77)	(715.67)
2	Net Domestic Assets	71682.47	66360.95	78610.57	89828.09	94135.93	101923.76	104348.34	96506.78	109397.09	113926.79	121438.14	125295.07
3	ow: Claims on government (net)	34214.54	42196.66	53676.32	61087.88	64047.15	68965.59	72637.59	63281.84	77648.30	79598.07	84223.26	75314.27
4	ow: Claims on Private sector(Incl. PE's)	49713.15	49344.15	49693.32	50986.20	52893.27	52943.18	53021.45	55112.28	57167.35	58428.89	58613.20	60279.46
	BOG OMO Sterilisation Acc.	(4924.64)	(6212.52)	(8376.85)	(9866.83)	(9870.92)	(5789.95)	(5122.11)	(4666.44)	(6321.65)	(7805.91)	(7844.64)	(5654.59)
5	Total Liquidity (M2+)	92975.47	92905.07	100498.91	109134.38	112859.69	120521.82	119445.22	121891.32	124596.60	129231.01	131645.92	135598.03
6	ow: Broad Money Supply (M2)	69973.10	71097.88	76951.84	84864.02	87833.39	94491.75	93226.01	94210.69	96838.70	101128.67	102961.93	105779.55
7	ow: Foreign Currency Deposits(¢million)	23002.37	21807.18	23547.07	24270.36	25026.30	26030.07	26219.21	27680.63	27757.90	28102.33	28684.00	29818.48
	Change from previous year (in per cent)												
8	Net Foreign Assets	51.69	(8.21)	6.22	10.99	5.99	(12.66)	(43.13)	15.97	(21.27)	(18.26)	(39.85)	(44.61)
9	Net Domestic Assets	14.98	25.40	24.96	31.18	36.10	42.19	57.24	22.77	21.78	21.02	21.89	22.93
10	ow: Claims on government (net)	24.18	135.76	111.14	84.39	85.88	101.57	72.14	17.90	27.11	24.28	22.64	9.21
11	ow: Claims on Private sector(Incl. PE's)	19.73	14.69	14.19	13.93	14.53	6.50	7.45	10.90	12.12	10.47	10.78	13.86
12	ow: BOG OMO Sterilisation Acc.	14.76	4.02	(52.39)	(103.26)	(85.08)	(17.57)	17.55	44.29	35.93	20.92	10.66	2.34
12	**Total Liquidity (M2+)**	21.73	13.52	20.33	27.09	29.97	29.63	28.57	21.29	14.17	14.51	12.91	12.51
13	Broad Money Supply (M2)	16.13	12.74	22.13	30.66	30.74	35.04	31.12	22.43	14.11	15.14	12.27	11.95
14	Foreign Currency Deposits (FCDs)	42.65	16.17	14.82	16.01	27.35	13.16	20.23	17.55	14.37	12.29	15.25	14.55
	Cummulative change from previous year end (in per cent)												
15	Net Foreign Assets	51.69	24.66	2.80	(9.33)	(12.07)	(12.66)	(18.83)	36.48	(18.28)	(17.72)	(45.12)	(44.61)
16	Net Domestic Assets	14.98	(7.42)	9.66	25.31	31.32	42.19	2.38	(5.31)	7.33	11.78	19.15	22.93
17	o/w: Claims on government (net)	24.18	23.33	56.88	78.54	87.19	101.57	5.32	(8.24)	12.59	15.42	22.12	9.21
18	Broad Money(M2+)	21.73	(0.08)	8.09	17.38	21.39	29.63	(0.89)	1.14	3.38	7.23	9.23	12.51
	Annual per cent contribution to money growth												
19	Net Foreign Assets	9.50	(2.90)	1.53	2.23	1.22	(2.90)	(12.32)	3.48	(3.76)	(3.03)	(5.80)	(6.88)
20	NDA	12.23	16.43	18.80	24.86	28.75	32.53	40.89	17.81	17.93	17.54	18.71	19.39
21	Total Liquidity (M2+)	21.73	13.52	20.33	27.09	29.97	29.63	28.57	21.29	14.17	14.51	12.91	12.51
	Memorandum items												
22	Reserve Money	28896.02	28486.64	25546.83	30338.05	31611.83	36124.78	34904.63	36063.64	39156.13	39785.36	40353.04	43300.02
23	NFA ($million)	3847.88	4877.37	3862.15	3385.46	3279.12	3228.72	2635.26	4405.05	2590.99	2593.54	1725.10	1715.42
24	Currency ratio	0.18	0.17	0.17	0.18	0.19	0.21	0.19	0.18	0.18	0.18	0.17	0.19
25	**FCD/M2+**	0.25	0.23	0.23	0.22	0.22	0.22	0.22	0.23	0.22	0.22	0.22	0.22
26	**FCD/Total Deposit**	0.29	0.28	0.27	0.26	0.26	0.26	0.26	0.27	0.26	0.26	0.26	0.26
27	RM multiplier	2.42	2.50	3.01	2.80	2.78	2.62	2.67	2.61	2.47	2.54	2.55	2.44

Source: Bank of Ghana Staff Caluculations

	Appendix 2: Sources of Growth in Reserve Money (millions of Ghana cedis unless otherwise stated)	Dec-19	Mar-20	Jun-20	Sep-20	Oct-20	Dec-20	Mar-21	Jun-21	Sep-21	Oct-21	Nov-21	Dec-21
1	Net Foreign Assets (NFA)	20622.55	27685.53	20458.68	16557.47	17493.65	14123.29	11740.53	25033.84	16504.31	17247.01	13208.55	11018.62
2	Net Domestic Assets (NDA)	8273.47	801.11	5088.15	13780.58	14118.18	22001.49	23164.10	11029.80	22651.82	22538.35	27144.49	32281.40
	Of which:												
3	ow: Claims on government (net)	8468.74	12879.65	21714.12	29869.65	29479.99	31731.12	32502.58	19340.81	31179.41	33808.99	37795.94	29389.54
4	Claims on DMB's (net)	5302.04	(2256.75)	(2294.88)	(1386.09)	(419.84)	5736.58	1069.52	2624.76	740.36	538.07	882.16	2725.48
5	OMO Sterilisation Account.	(4924.64)	(6212.52)	(8376.85)	(9866.83)	(9870.92)	(5789.95)	(5122.11)	(4666.44)	(6321.65)	(7805.91)	(7844.64)	(5654.59)
6	Reserve Money (RM)	28896.02	28486.64	25546.83	30338.05	31611.83	36124.78	34904.63	36063.64	39156.13	39785.36	40353.04	43300.02
7	ow:Currency	14358.06	13647.53	14817.44	16406.21	17709.26	20889.63	19324.74	19092.40	18812.37	19497.85	19507.98	21816.17
8	DMB's reserves	11850.56	11925.43	7720.71	10722.08	10449.30	11860.85	12090.54	13360.30	16392.25	16277.89	16879.98	17235.93
9	Non-Bank deposits	2687.40	2913.68	3008.68	3209.76	3453.26	3374.30	3489.35	3610.94	3951.50	4009.62	3965.09	4247.91
	Change from previous year (in per cent)												
10	Net Foreign Assets	61.58	1.85	9.30	(0.28)	(0.92)	(31.52)	(57.59)	22.36	(0.32)	(1.41)	(11.81)	(22.65)
11	Net Domestic Assets	(5.32)	(122.72)	59.55	114.51	90.69	165.93	2791.49	116.77	64.37	59.64	48.48	47.83
12	ow: Claims on government (net)	(17.05)	(446.75)	438.50	229.94	179.54	274.69	152.36	(10.93)	4.38	14.68	19.29	(7.38)
13	Claims on DMB's (net)	6.32	140.85	258.09	(609.79)	143.40	(8.20)	147.39	410.14	153.41	228.16	83.75	(17.48)
14	OMO Sterilisation Account.	14.76	4.02	(52.39)	(103.26)	(85.08)	(17.57)	17.55	44.29	35.93	20.92	10.66	2.34
15	**Reserve Money (RM)**	34.39	20.41	16.62	31.75	26.14	25.02	22.53	41.17	29.07	25.86	21.33	20.00
16	ow:Currency	20.24	20.87	36.69	43.66	44.00	45.49	41.60	25.24	14.67	10.10	1.08	4.44
	Cumulative change from previous year end (in per cent)												
17	Net Foreign Assets (NFA)	61.58	34.25	(0.79)	(19.71)	(15.17)	(30.93)	(17.58)	75.74	15.86	21.08	(7.27)	(22.65)
18	Net Domestic Assets (NDA)	(5.32)	(90.32)	(38.50)	66.56	70.64	163.95	6.07	(49.49)	3.73	3.21	24.30	47.83
19	o/w: Claims on government (net)	(17.05)	52.08	156.40	252.70	248.10	274.69	2.43	(39.05)	(1.74)	6.55	19.11	(7.38)
20	Reserve Money (RM)	34.39	(1.42)	(11.59)	4.99	9.40	25.02	(3.38)	(0.17)	8.39	10.13	11.84	20.00
	Annual per cent contribution												
21	Net Foreign Assets	36.56	2.12	7.95	(0.20)	(0.65)	(22.49)	(55.97)	17.91	(0.18)	(0.78)	(5.32)	(8.94)
22	Net Domestic Assets (NDA)	(2.16)	18.29	8.67	31.95	26.79	47.51	78.50	23.26	29.24	26.64	26.65	28.94
23	RM growth (y-o-y)	34.39	20.41	16.62	31.75	26.14	25.02	22.53	41.17	29.07	25.86	21.33	20.00

Source: Bank of Ghana Staff Calculations

5. Banking Sector Developments

5.0 Overview

An assessment of the banking sector as at end-year 2021 showed strong performance, underpinned by sustained growth in total assets. The expansion in the industry's assets size was on the back of increased liquidity flows from deposits, shareholders' funds and borrowings. Credit growth picked up during the last quarter of 2021, but overall credit level and other indicators of financial intermediation remained below pre-pandemic levels due to the lingering effects of COVID-19 on the credit environment.

New advances by banks have been robust, supported by the regulatory reliefs and policy measures introduced at the onset of the pandemic in 2020. The latest Credit Conditions Survey (CCS) points to a potential increase in demand for credit but banks have projected a tightened credit stance over the next two months.

Financial Soundness Indicators (FSIs) remained healthy, with strong solvency, liquidity and profitability indicators. The industry's Non-Performing Loans (NPL) ratio, however, inched up due mainly to the pandemic-induced loan repayment challenges. The latest stress tests show that banks are resilient to mild to moderate stress conditions, supported by strong capital and liquidity buffers.

The outlook of the banking sector remains positive as banks are expected to consolidate their performance in 2022. The sluggish credit growth and asset quality concerns remain the main risks in the banking sector. It is expected that credit growth will pick up to support the ongoing recovery, based on the projected increase in credit demand from the latest CCS.

5.1 Banks' Balance Sheet

Total assets of the banking industry increased by 20.4 percent (year-on-year) to GH¢179.8 billion as at December 2021, higher than the 15.8 percent growth recorded in the same period of 2020 due to strong growth in investment. The asset growth reflected the rebound in economic activities during the period under review. The growth in total assets was on account of increase in domestic assets by 23.4 percent, while foreign assets contracted by 13.9 percent. As a result, the share of domestic assets in total assets increased from 91.9 percent in December 2020 to 94.2 percent in December 2021 while the share of foreign assets in total assets declined to 5.8 percent from 8.1 percent during the same period (Table 5.1).

Investments in Treasury bills and securities continue to be the preferred asset choice of banks during the pandemic, evidenced by banks' portfolio reallocation in favour of these less risky assets as at end-December 2021. The share of bills, securities, and equity in total assets increased to 46.2 percent from 43.1 percent, on account of the 29.0 percent (year-on-year) growth in these investments in December 2021, relative to the sluggish growth in credits.

Growth in gross loans and advances continued to pick up in spite of the pandemic-induced sluggish credit demand and supply conditions. Gross loans and advances recorded a year-on-year increase of 12.6 percent to GH¢53.8 billion as at end-December 2021, higher than the 5.8 percent growth recorded in the previous year. Following a similar trend, net loans and advances (gross loans adjusted for provisions and interest in suspense) also recorded a growth of 12.8 percent to GH¢47.1 billion, compared with a 4.6 percent growth in December 2020. The COVID-related regulatory reliefs and policy measures, however, continued to support new lending activities. New Advances extended by the banking sector to the economy in 2021 was GH¢36.4 billion, registering a growth of 6.8 percent compared with new advances of GH¢34.1 billion extended in 2020.

Table 5.1: Key Developments in DMBs' Balance Sheet

				Y-on-Y Growth (%)			Shares (%)	
	Dec-20	Oct-21	Dec-21	Dec-20	Oct-21	Dec-21	Dec-20	Dec-21
TOTAL ASSETS	**149,322**	**173,835**	**179,804**	**15.8**	**16.1**	**20.4**	***100.0***	***100.0***
A. Foreign Assets	12,137	8,165	10,451	17.0	(21.1)	(13.9)	*8.1*	*5.8*
B. Domestic Assets	137,186	165,670	169,352	15.7	18.9	23.4	*91.9*	*94.2*
Investments	64,424	83,416	83,120	33.4	25.5	29.0	*43.1*	*46.2*
i. Bills	14,197	23,758	20,285	(5.2)	21.1	42.9	*9.5*	*11.3*
ii. Securities	49,992	59,435	62,613	52.0	27.4	25.2	*33.5*	*34.8*
Advances (Net)	41,804	44,849	47,143	4.6	8.8	12.8	*28.0*	*26.2*
of which Foreign Currency	12,217	13,624	13,779	0.8	10.5	12.8	*8.2*	*7.7*
Gross Advances	**47,769**	**51,580**	**53,767**	**5.8**	**8.9**	**12.6**	***32.0***	***29.9***
Other Assets	6,463	7,498	8,117	26.1	15.8	25.6	*4.3*	*4.5*
Fixed Assets	5,015	5,206	5,283	7.8	9.6	5.3	*3.4*	*2.9*
TOTAL LIABILITIES AND CAPITAL	**149,322**	**173,835**	**179,804**	**15.8**	**16.1**	**20.4**	***100.0***	***100.0***
Total Deposits	**103,808**	**117,430**	**121,057**	**24.4**	**17.2**	**16.6**	***69.5***	***67.3***
of which Foreign Currency	26,926	29,816	29,013	12.2	14.7	7.8	*18.0*	*16.1*
Total Borrowings	14,512	20,610	22,040	(29.0)	14.6	51.9	*9.7*	*12.3*
Foreign Liabilities	8,236	10,803	11,955	(17.0)	16.6	45.2	*5.5*	*6.6*
i. Short-term borrowings	3,497	4,216	5,388	(47.9)	(1.1)	54.1	*2.3*	*3.0*
ii. Long-term borrowings	3,991	5,448	5,493	39.7	24.9	37.6	*2.7*	*3.1*
iii. Deposits of non-residents	748	1,139	1,074	109.9	78.8	43.7	*0.5*	*0.6*
Domestic Liabilities	119,797	138,328	142,103	18.1	15.3	18.6	*80.2*	*79.0*
i. Short-term borrowing	4,999	9,803	10,026	(48.8)	29.1	100.6	*3.3*	*5.6*
ii. Long-term Borrowings	2,025	1,142	1,133	80.8	(35.5)	(44.0)	*1.4*	*0.6*
iii. Domestic Deposits	103,060	116,291	119,982	24.0	16.8	16.4	*69.0*	*66.7*
Other Liabilities	9,753	12,143	11,896	30.4	10.0	22.0	*6.5*	*6.6*
Paid-up capital	9,757	9,950	10,165	1.3	1.6	4.2	*6.5*	*5.7*
Shareholders' Funds	21,249	23,653	24,811	20.8	15.6	16.8	*14.2*	*13.8*

Source: Bank of Ghana

Growth in industry deposits was sustained with a year-on-year growth of 16.6 percent to GH¢121.1 billion as at end-December 2021. This was lower than the 24.4 percent growth recorded a year earlier (Table 5.1) arising from the COVID-19 fiscal stimulus, and payments to contractors, SDI depositors and clients of SEC-licensed fund managers in 2020.

Due to the slowdown in deposits growth, banks relied on additional liquidity from borrowings to support growth in total assets. Total borrowings increased by 51.9 percent in 2021, compared with a contraction of 29.0 percent in 2020. The increase in growth in total borrowings was more on account of an increase in short-term borrowings both from foreign and domestic sources.

The industry's shareholders' funds position remained strong, indicative of a strong capital base within the banking sector to withstand shocks. Although lower than the previous year, shareholders' funds grew by 16.8 percent to GH¢24.8 billion as at end-December 2021, compared to the 20.8 percent growth in December 2020. The slower growth in shareholders' funds this year relative to last year reflects, in part, the marginal slowdown in profit growth this year as well as the lifting of restrictions on dividend payments by banks put in place at the height of the pandemic. The strong shareholders' funds position continues to support the stability and resilience of the banking sector.

Overall, the banking industry recorded a strong balance sheet position in December 2021 on the back of increased liquidity flows from deposits, shareholders' funds, and borrowings. The lingering effect of the pandemic, however, continued to constrain a stronger credit growth and contributed to the continuous reallocation of liquidity flows into investments.

5.1.1 Asset and Liability Structure

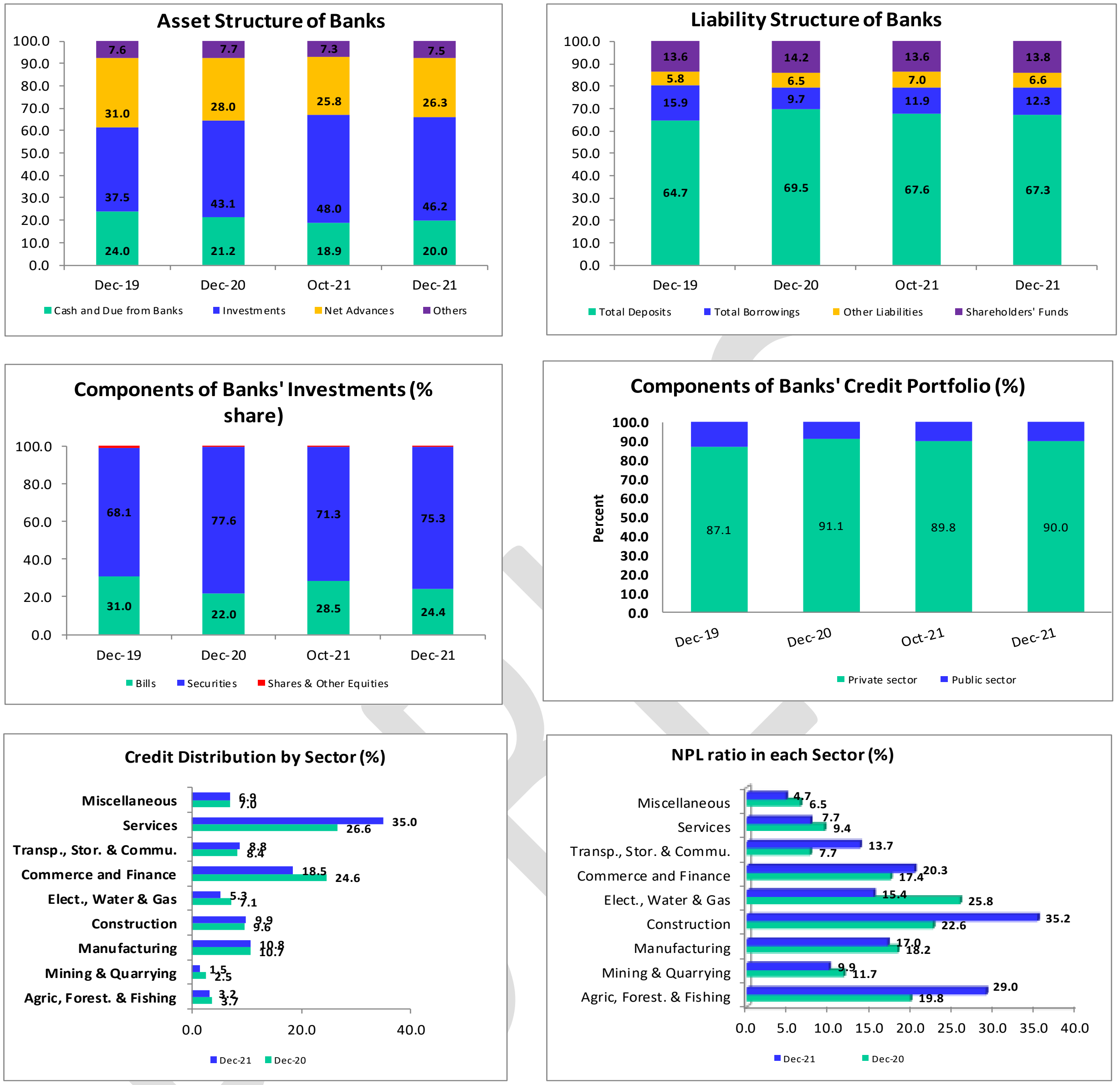
The asset structure of the industry's balance sheet continued to reflect banks' preference for less risky assets due to the pandemic-induced elevated credit risks and high Government borrowing requirements to close the fiscal gap. The share of Investments in total assets accordingly increased from 43.1 percent in 2020 to 46.2 percent in 2021, while the proportion of loans and advances (net) in total assets declined to 26.2 percent from 28.0 percent over the same period. The share of "Cash and Due from Banks" also declined marginally from 21.2 percent to 20.0 percent, as banks continued to channel liquidity flows into investments. The share of non-earning assets (fixed assets and other assets) declined from 7.7 percent to 7.5 percent during the review period (Annexes Table 5.1).

On the liability side, deposits continued to dominate the funding mix of banks, although its share declined to 67.3 percent from 69.5 percent over the review period due to its relatively slower growth in 2021. The rebound in growth in borrowings translated into an increased share of 12.3 percent in December 2021 compared to 9.7 percent a year earlier. Following a relatively slower growth in profits after tax, shareholders' funds moderated marginally to 13.8 percent from 14.2 percent. The share of "Other Liabilities" increased marginally to 6.6 percent in December 2021 from 6.5 percent in the previous year (Annexes Table 5.1).

5.1.2 Share of Banks' Investments

The portfolio allocation of banks' investments as at end-year 2021 remained skewed towards long-term debt instruments (securities). Securities accounted for the largest proportion of banks' total investments, but its share declined marginally from 77.6 percent in 2020 to 75.3 percent in 2021 following the decline in its growth rate from 52.0 percent to 25.2 percent over the review period. The share of short-term bills in total investments increased from 22.0 percent to 24.4 percent during the same comparative periods. The share of equity investments, however, remained small, declining marginally to 0.3 percent in December 2021 from 0.4 percent in December 2020 (Figure 5.1).

Figure 5.1: Developments in Banks' Balance Sheet & Asset Quality



Source: Bank of Ghana Staff Calculations

5.2 Credit Risk

The banking sector's exposure to credit risk was slightly elevated due to the lingering adverse impact of COVID-19 on borrowers' capacity to repay their loans. Consequently, the non-performing loans (NPL) ratio of the sector inched up from 14.8 percent in 2020 to 15.2 percent in 2021 on the back of impairment of some facilities by some banks during the period.

5.2.1 Credit Portfolio Analysis

The stock of gross loans and advances amounted to GH¢53.9 billion at end-year 2021, representing an annual growth of 12.9 percent, compared to 5.8 percent growth in 2020. Private sector credit, which accounts for the biggest share of total credit (90% of total credit), recorded a marginal increase in growth from 10.6 percent to 11.5 percent during the review period. The Public Sector experienced significant improvement in credit growth contrary to the contraction in credit to this sector in 2020. Public sector credit increased by 27.1 percent in 2021 from a contraction of 27.0 percent in 2020 while its share in total credit inched up to 10.0 percent from 8.9 percent during the same comparative period (Annexes Tables 5.2 & 5.4).

In terms of sector classification of credit allocation, the services sector held the largest share of 35.0 percent in total credit as at end-year 2021. This was followed by the commerce and finance sector and the manufacturing sectors with respective shares of 18.5 percent and 10.8 percent (Figure 5.1). These three sectors therefore accounted for 64.3 percent of total credit in 2021 compared with 61.9 percent in December 2020. The remaining share of 35.7 percent was distributed across five other economic sectors in various proportions (Figure 5.1). The mining and quarrying sector was the lowest recipient of industry credit with a share of 1.5 percent at end-year 2021, compared with a 2.5 percent share in the previous year.

5.2.2 Off-Balance Sheet Activities

Banks recorded an increase in off-balance sheet transactions (comprising largely trade finance and guarantees) in 2021 relative to 2020. Total off-balance sheet transactions amounted to GH¢17.5 billion as at end-year 2021, representing a 39.6 percent annual growth, compared to the 11.7 percent growth a year ago. Accordingly, banks' contingent liabilities as a percentage of total liabilities increased to 11.3 percent from 9.6 percent during the review period. This development reflected gradual recovery in economic activity and resumption of cross-border trading activities in 2021 (Annexes Table 5.3).

5.2.3 Asset Quality

Asset quality risks have remained elevated this year compared to last year due to repayment challenges associated with the COVID-19 pandemic as well as some bank-specific loan recovery challenges. The NPL ratio increased from 14.8 percent in December 2020 to 15.2 percent in December 2021. This was attributed to the combined effect of an increase in the stock of NPLs by 16.0 percent to GH¢8.2 billion, as well as a modest growth in the stock of gross loans by 12.6 percent over the period. The adjusted NPL ratio (excluding the fully provisioned loan loss category) however, improved to 5.8 percent from 6.5 percent in the previous year, an indication that the increase in the NPL ratio was due to a build-up of loss category loans.

The rise in the NPL ratio was mainly driven by a marginal increase in the private sector NPL ratio from 15.9 percent in December 2020 to 16.2 percent in December 2021, while the public sector NPL ratio increased from 3.3 percent to 6.1 percent over the same period. The increase in the industry NPL ratio reflected mainly in the construction; agriculture, forestry and fishing; transport, storage and communication; and the commerce and finance sectors. The NPL ratio of the construction and the agriculture, forestry and fishing, and the commerce and finance sectors increased by 12.7 percentage points, 9.2 percentage points and 2.9 percentage points to 35.2 percent, 29.0 percent and 20.3 percent, respectively, during the review period. Additionally, the transport, storage and communication sector recorded an increase in its NPL ratio by 6.0 percentage points to 13.7 percent over the same comparative period. All other economic sectors recorded declines in the NPL ratios during the review period with the greatest improvement in the quality of the loan portfolio attributed to the electricity, water and gas sector (Figure 5.1).

5.3 Financial Soundness Indicators (FSIs)

The financial soundness indicators as at December 2021 remained healthy, underpinned by strong solvency, liquidity and profitability indicators. The sector also has sufficient capital and liquidity buffers to absorb mild to moderate credit and liquidity risks, going forward.

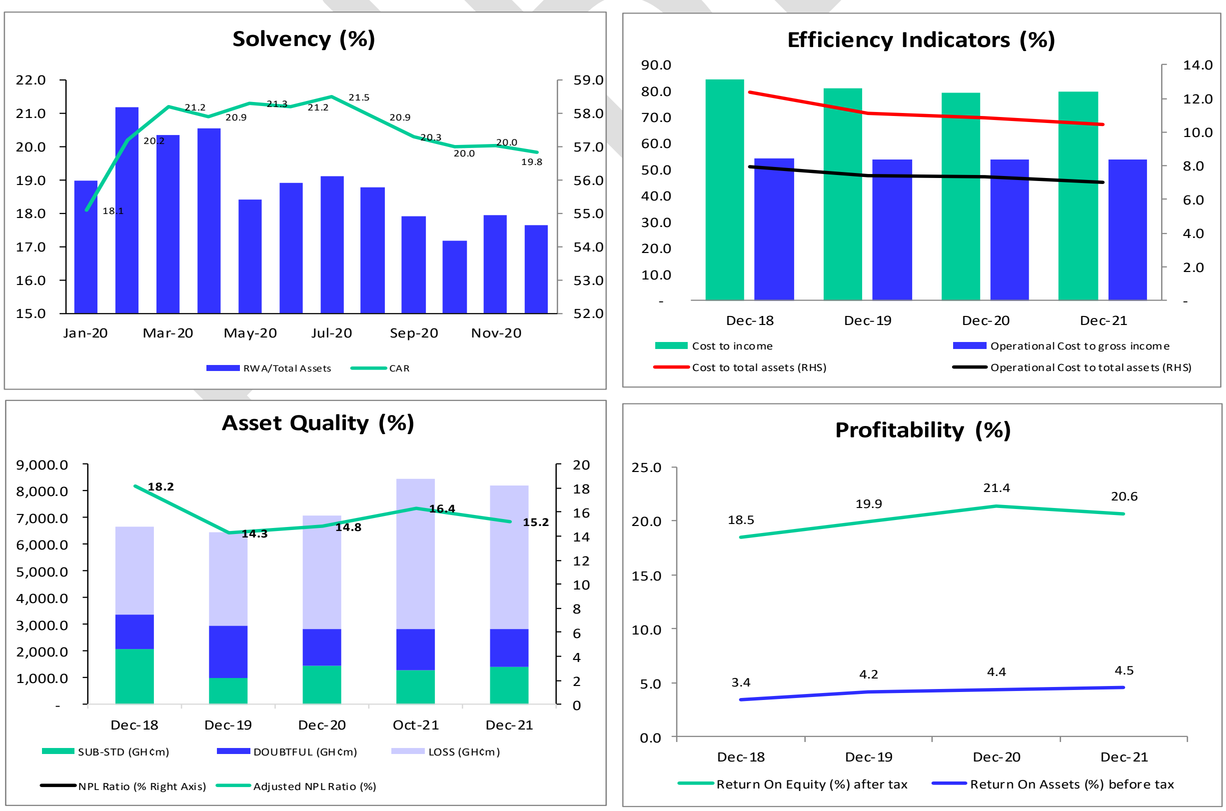
5.3.1 Liquidity Indicators

The industry's liquidity position remains strong despite the marginal decline in core liquidity experienced during the review period. The ratio of core liquid assets (mainly cash and due from banks) to total deposits moderated from 30.4 percent in 2020 to 29.7 percent in 2021. Similarly, the ratio of core liquid assets to total assets declined marginally from 21.2 percent to 20.0 percent over the same comparative period. However, the broad liquid assets to total deposits ratio increased from 92.3 percent to 98.2 percent while the broad liquid assets to total assets ratio increased from 64.1 percent to 66.1 percent over the review period. The increase in the broad measures partly reflects the increase in investments in 2021 (Annexes Table 5.5).

5.3.2 Capital Adequacy Ratio (CAR)

The industry's solvency position remained strong, with a CAR of 19.6 percent as at end-year 2021, well above the current revised regulatory minimum of 11.5 percent. The higher CAR enhances the ability of banks to deepen intermediation and shows that banks have adequate buffers to absorb any potential credit risks from increased lending during the current uncertain operating environment.

Figure 5.2: Key Financial Soundness Indicators (FSIs)



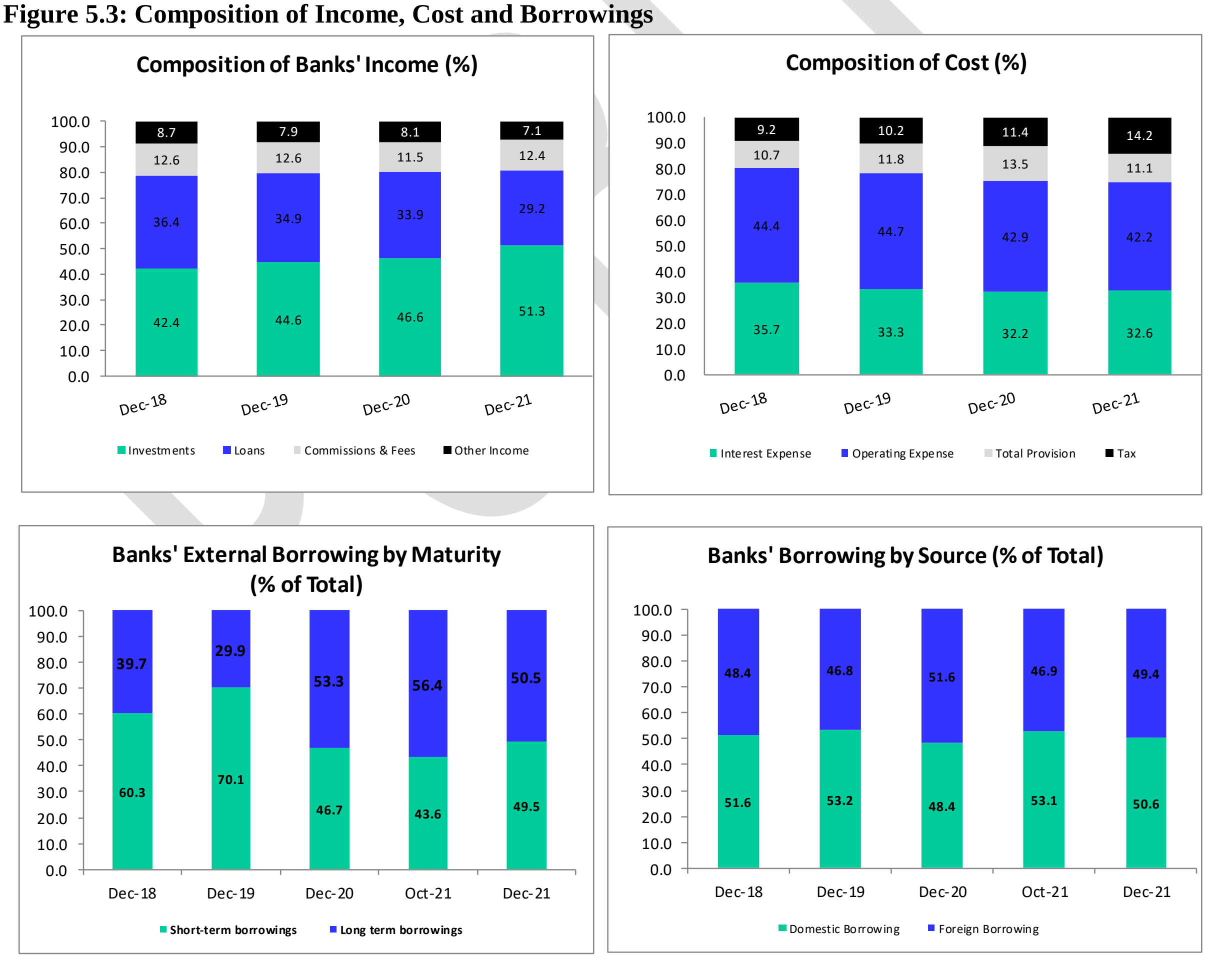
Source: Bank of Ghana Staff Calculations

5.3.4 Profitability

Profitability performance of the sector remained robust in 2021, despite the dip in the growth rate of profits. Profit before tax recorded a growth rate of 22.1 percent in 2021, relative to the 27.2 percent attained in the previous year, but profit after tax saw a relatively larger decline due to the financial sector recovery levy. The growth outturns for key income lines of banks contributed to the sustained profit performance. However, an increase in the growth of interest expenses, associated with the growth in deposits and borrowings in 2021, culminated in a lower growth in net interest income. Net interest income grew by 14.5 percent in 2021 compared to a growth of 20.9 percent in 2020. The strong growth in contingent liabilities and trade finance activities supported the growth in net fees and commissions by 24.8 percent in 2021, higher than the increase of 5.0 percent in 2020.

Growth in operating expenses was higher at 14.2 percent in 2021 relative to the 8.2 percent growth a year earlier, driven by both higher growth in staff costs and other operating expenses. Total provisions, however, contracted by 4.7 percent as at end-December 2021 from the 28.0 percent growth recorded a year ago, mainly due to the reversal of over-provisioning at the height of the pandemic in 2020. (Annexes Table 5.7 and Figure 5.3).

Figure 5.3: Composition of Income, Cost and Borrowings



Source: Bank of Ghana Staff Calculations

(a) Return on Assets and Return on Equity

The sector's Return on Assets (ROA) improved to 4.5 percent from 4.4 percent during the comparative period. However, banks' Return on Equity (ROE) declined marginally to 20.6 percent in 2021 from 21.4 percent in 2020, reflecting the moderation in profit after tax growth during the reference period (Figure 5.2 and Annexes Table 5.6).

(b) Interest Margin and Spread

Banks' interest spreads declined marginally from 11.7 percent at the end of 2020 to 11.3 percent at the end of 2021 on the back of marginal declines in gross yields (from 17.1% to 16.6%) as interest payable was unchanged at 5.4 percent. These observed trends mirrored the marginal decline in interest rates for most of 2021. Accordingly, the sector's interest margin to total assets dipped marginally from 7.5 percent to 7.1 percent, while the interest margin to gross income ratio also declined marginally from 54.9 percent from 54.5 percent during the period.

The ratio of gross income to total assets (asset utilisation) moderated to 13.1 percent from 13.7 percent. The industry's profitability ratio also recorded a marginal decline to 20.2 percent in 2021 from 20.8 percent in the review period (Annexes Table 5.6).

(c) Composition of Banks' Income

Income from investments remained the largest component of banks' income streams in 2021, accounting for more than half of banks' income (51.3 percent), an increase from 46.6 percent in 2020. The share of interest income from loans, however, declined from 33.9 percent to 29.2 percent, in line with developments in credit growth and lower lending rates during the review period. The share of banks' income from fees and commissions, however, increased to 12.4 percent from 11.5 percent, due to the higher growth of net fees and commissions in 2021. The share of other income, however, declined to 7.1 percent from 8.1 percent during the period under review (Figure 5.3).

5.3.5 Operational Efficiency

The banking sector was relatively cost efficient during the review period as the key efficiency indicators remained adequate, with only marginal changes during the period. The cost-to-income ratio moved from 79.2 percent in December 2020 to 79.8 percent in December 2021, but the cost-to-total assets ratio improved marginally from 10.8 percent to 10.5 percent. The operational cost to gross income ratio also moved marginally from 53.7 percent to 53.8 percent, while the operational cost to total asset ratio improved marginally from 7.3 percent to 7.1 percent (Figure 5.2).

5.3.6 Banks' Counterparty Relationships

Banks' offshore activities recorded a decline in performance in the review period. Banks' offshore balances contracted by 23.8 percent in December 2021, compared to a growth of 13.3 percent a year earlier, from contractions in both nostro balances and placements. Nostro balances declined by 26.3 percent compared with a growth of 1.0 percent in December 2020, while the growth of 31.9 percent recorded a year earlier in placements contracted to 21.1 percent in December 2021. In line with this trend, the ratio of offshore balances to net worth dipped to 33.8 percent from 51.8 percent during the review period (Annexes Table 5.8).

The share of banks' external borrowings in total borrowings declined to 49.4 percent in December 2021 from 51.6 percent in December 2020, while that of domestic borrowing increased to 50.6 percent from 48.4 percent during the review period. Banks' external borrowings were largely long-term in nature, although they declined from 53.3 percent to 50.5 percent over the review period. The share of short-term funds in total external borrowing, however, increased to 49.5 percent from 46.7 percent over the review period (Figure 5.3).

5.4 Credit Conditions Survey

Banks reported a net tightening in the overall credit stance on loans to enterprises during the December 2021 Credit Conditions Survey relative to the October 2021 survey round. The net tightening in the overall credit stance to enterprises was on the back of a tightened stance on short-term enterprise loans. Banks project a further tightening in the overall credit stance on enterprise loans in the first two months of 2022, in line with past trends. The expected net tightening in the stance on corporate loans is from a projected net tightening in the stance on loans to all sub-categories of enterprise loans.

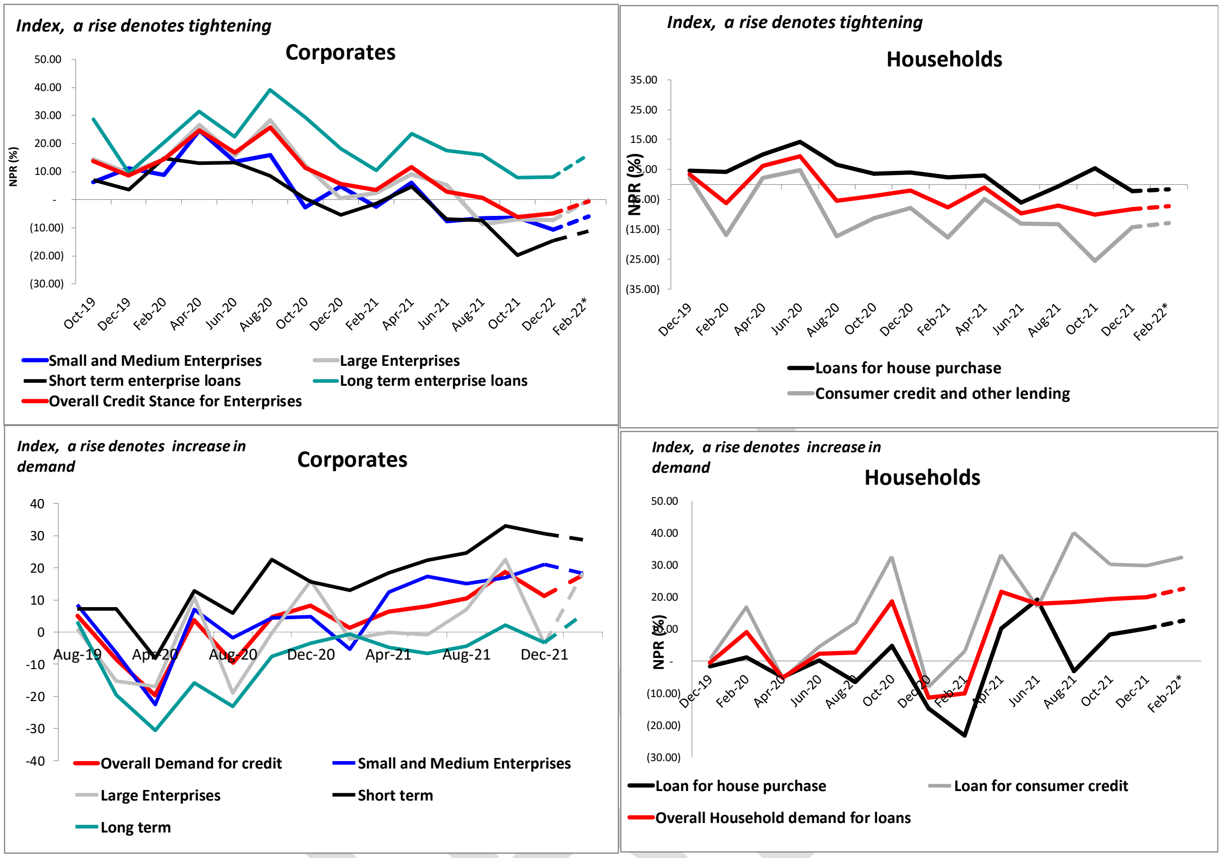
Banks' stance on loans to households also tightened during the last two months of 2021 largely due to a net tightened stance on loans for consumer purchases and other lending. The tightened stance by banks on loans for consumer credit and other lending at year-end partly reflected the earlier anticipated increase in demand for loans by households during the Yuletide. Banks project the overall stance on loans to households to tighten further during the first two months of the year from a projected net marginal tightening on the stance on consumer credit and mortgages.

The December 2021 survey pointed to a net decline in the overall demand for credit by enterprises. Credit demand by enterprises, although lower relative to the previous survey period, remained positive and is projected to be stronger in the January and February 2022. The net decline in the enterprise demand for credit reflected largely the sharp decline in demand for loans by large enterprises during the last two months of 2021.

The overall demand for credit by households, however, increased from higher demand for mortgage loans while demand for consumer credit and other lending was unchanged over the survey period. For the next two months, banks indicated a much stronger pickup in the demand for credit by enterprises from all the sub-components of enterprise credit, while demand for credit by households is also expected to rebound over the same period (Figure 5.4).

Banking sector inflation expectations increased during the current survey round, indicating that banks expect inflation to increase six months ahead. The observed pick up in actual inflation contributed to the increase in inflation expectations by the banking sector. Banks, however, expect lending rates to remain broadly unchanged six months ahead.

Figure 5.4: Credit Conditions Survey Results



Source: Bank of Ghana Staff Calculations

5.5 Conclusion and Outlook

The banking sector's remained solvent, liquid, and profitable, with sufficiently strong capital buffers in 2021. Sustained growth was recorded in total assets, investments, credits, deposits and profits. The financial soundness indicators also remained healthy although the NPL ratio inched up. Overall credit growth performance, although improving, was still below pre-pandemic levels. The policy measures and regulatory reliefs have, and will continue so the sector can intermediate effectively and boost the recovery process. The outlook for the banking industry remains positive and projections of an expected increase in credit demand should help support private sector credit in 2022.

ANNEXES

Table 5. 1: Asset and Liability Structure of the Banking Sector

	Dec-18	Dec-19	Dec-20	Oct-21	Dec-21
Components of Assets (% of Total)					
Cash and Due from Banks	26.0	24.0	21.2	18.9	20.0
Investments	36.3	37.5	43.1	48.0	46.2
Net Advances	30.3	31.0	28.0	25.8	26.3
Others	7.3	7.6	7.7	7.3	7.5
Components of Liabilities and Shareholders' Funds (% of Total)					
Total Deposits	65.0	64.7	69.5	67.6	67.3
Total Borrowings	14.1	15.9	9.7	11.9	12.3
Shareholders' Funds	14.0	13.6	14.2	13.6	13.8
Other Liabilities	6.9	5.8	6.5	7.0	6.6

Bank of Ghana Staff Calculations

Table 5.2: Credit Growth

Economic Sector	Gh¢million				y/y growth (%)	
	Dec-19	Dec-20	Oct-21	Dec-21	Dec-20	Dec-21
Public Sector	**5,805**	**4,236**	**5,261**	**5,382**	**-27.0**	**27.1**
Private Sector	**39,365**	**43,533**	**46,332**	**48,540**	**10.6**	**11.5**
- Private Enterprises	28,812	32,756	33,300	34,726	13.7	6.0
o/w Foreign	3,777	3,844	4,394	4,919	1.8	28.0
Indigeneous	25,035	28,912	28,906	29,806	15.5	3.1
- Households	9,410	9,557	11,480	12,366	1.6	29.4
Gross Loans	**45,170**	**47,769**	**51,594**	**53,922**	**5.8**	**12.9**

Bank of Ghana Staff Calculations

Table 5.3: Contingent Liability

GHCM	Dec-18	Dec-19	Dec-20	Oct-21	Dec-21
Contingent Liabilities (GH¢M)	10,062.0	11,440.4	12,289.3	16,532.8	17,485.5
Growth (y-o-y)	18.4	16.2	11.7	44.8	39.6
% of Total Liabilities	11.1	10.3	9.6	11.0	11.3

Bank of Ghana Staff Calculations

Table 5.4: Distribution of Loans and NPLs By Economic Sector (Percent)

	Dec-19		Dec-20		Oct-21		Dec-21	
	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs
a. Public Sector	**12.9**	**3.2**	**8.9**	**2.0**	**10.2**	**4.0**	**10.0**	**4.0**
i. Government	5.3	0.3	3.4	0.6	4.9	1.8	5.2	1.9
ii. Public Institutions	3.0	0.2	2.8	0.0	2.3	0.0	1.9	0.0
iii. Public Enterprises	4.5	2.7	2.6	1.3	3.1	2.2	2.9	2.1
b. Private Sector	**87.1**	**96.8**	**91.1**	**98.0**	**89.8**	**96.0**	**90.0**	**96.0**
i. Private Enterprises	63.8	82.4	68.6	88.5	64.5	87.4	64.4	86.5
o/w Foreign	8.4	8.3	8.0	4.8	8.5	7.9	9.1	9.2
Indigeneous	55.4	74.1	60.5	83.7	56.0	79.5	55.3	77.2
ii. Households	20.8	8.5	20.0	7.8	22.3	7.0	22.9	7.9
iii. Others	2.5	5.9	2.6	1.7	3.0	1.6	2.7	1.6

Bank of Ghana Staff Calculations

Table 5.5: Liquidity Ratios

	Dec-18	Dec-19	Dec-20	Oct-21	Dec-21
Liquid Assets (Core) - (GH¢'million)	27,366.3	30,915.91	31,586.0	32,822.33	35,955.78
Liquid Assets (Broad) -(GH¢'million)	65,128.3	78,771.79	95,774.7	116,015.99	118,853.50
Liquid Assets to total deposits (Core)-%	40.1	37.0	30.4	28.0	29.7
Liquid Assets to total deposits (Broad)- %	95.4	94.4	92.3	98.8	98.2
Liquid assets to total assets (Core)- %	26.0	24.0	21.2	18.9	20.0
Liquid assets to total assets (Broad)- %	62.0	61.1	64.1	66.7	66.1

Source: Bank of Ghana Staff Calculations

Table 5.6: Profitability Indicators (%)

	Dec-18	Dec-19	Dec-20	Dec-21
Gross Yield	15.5	17.9	17.1	16.6
Interest Payable	5.9	6.1	5.4	5.4
Spread	9.6	11.8	11.7	11.3
Asset Utilitisation	14.7	13.7	13.7	13.1
Interest Margin to Total Assets	7.1	7.2	7.5	7.1
Interest Margin to Gross income	48.7	52.4	54.9	54.5
Profitability Ratio	15.6	18.8	20.8	20.2
Return On Equity (%) after tax	18.5	19.9	21.4	20.6
Return On Assets (%) before tax	3.4	4.2	4.4	4.5

Source: Bank of Ghana Staff Calculations

Table 5.7: DMBs' Income Statement Highlights

	(GH ¢'million)				Y-on-y Growth (%)		
	Dec-18	Dec-19	Dec-20	Dec-21	Dec-19	Dec-20	Dec-21
Interest Income	12,130	14,055	16,417	18,959	15.9	16.8	15.5
Interest Expenses	-4,632	-4,783	-5,208	-6,123	3.3	8.9	17.6
Net Interest Income	**7,499**	**9,272**	**11,209**	**12,836**	**23.6**	**20.9**	**14.5**
Fees and Commissions (Net)	1,940	2,237	2,349	2,932	15.3	5.0	24.8
Other Income	1,332	1,392	1,646	1,663	4.5	18.2	1.0
Operating Income	10,771	12,901	15,204	17,431	19.8	17.9	14.6
Operating Expenses	-5,772	-6,412	-6,938	-7,921	11.1	8.2	14.2
Staff Cost (deduct)	-3,016	-3,458	-3,671	-4,254	14.7	6.2	15.9
Other operating Expenses	-2,756	-2,954	-3,267	-3,667	7.2	10.6	12.2
Net Operating Income	**4,999**	**6,489**	**8,266**	**9,510**	**29.8**	**27.4**	**15.0**
Total Provision (Loan losses, Depreciation & others)	-1,398	-1,709	-2,188	-2,086	22.3	28.0	(4.7)
Income Before Tax	**3,601**	**4,780**	**6,078**	**7,424**	**32.7**	**27.2**	**22.1**
Tax	-1,201	-1,462	-1,835	-2,660	21.7	25.5	44.9
Net Income	**2,400**	**3,318**	**4,243**	**4,765**	**38.3**	**27.9**	**12.3**
Gross Income	15,403	17,684	20,412	23,554	14.8	15.4	15.4

Source: Bank of Ghana Staff Calculations

Table 5.8: Developments in Offshore Balances

	Dec-18	Dec-19	Dec-20	Oct-21	Dec-21
Offshore balances as % to Networth	55.5	55.3	51.8	27.5	33.8
Annual Growth in Offshore balances (%)	10.8	19.2	13.3	-30.7	-23.8
Annual Growth in Nostro Balances (%)	0.0	61.4	1.0	-38.8	-26.3
Annual Growth in Placement (%)	21.4	-14.3	31.9	-18.5	-21.1

Source: Bank of Ghana Staff Calculations

6. Fiscal Developments

6.1 Highlights of Government Budgetary Operations (Broad Coverage)

Government fiscal operations for 2021 indicated that:

- *Revenue remained below the expected target.*
- *Government expenditure and arrears clearance was broadly within the target.*
- *The fiscal deficit at the end of the year was 9.7 percent of GDP, against the target of 9.4 percent of GDP.*
- *The primary balance recorded a deficit of 2.0 percent of GDP and was on target.*
- *The overall fiscal deficit was financed from both domestic and external sources.*
- *The stock of public debt at the end of 2021 was equivalent to 78.4 percent of GDP, compared with 76.1 percent of GDP at the end of December 2020.*

6.2 Total Revenue and Grants

The pace of revenue mobilisation remained below target, reflecting in both tax and non-tax revenues.

Total Revenue & Grants for 2021 was GH¢67,878.7 million (15.4% of GDP), lower than the target of GH¢72,477.4 million (16.5% of GDP). This outturn represented 93.7 percent of the 2021 target and recorded a year-on-year growth of 23.1 percent. During the review period, domestic revenue totalled GH¢66,696.44 million (15.2% of GDP), below the target of GH¢71,012.22 million (16.2% of GDP). The revenue outcomes reflected mixed performances for both tax and non-tax proceeds.

Of the total revenue and grants:

- **Tax revenue,** comprising taxes on income & property, taxes on domestic goods and services, and international trade taxes, all summed up to GH¢55,172.59 million (12.6% of GDP), lower than the target of GH¢55,834.84 million (12.7% of GDP). This represented a negative deviation of 1.2 percent.

- **Taxes on income and property** was GH¢27,969.73 million (6.4% of GDP). This outturn was 6.6 percent below the target of GH¢29,932.72 million (6.8% of GDP), with most of the key tax components missing their respective targets. However, company taxes on oil and other direct taxes fell below their respective targets by 3.9 and 3.5 percent.

- **Taxes on Domestic Goods and Services,** consisting of Domestic VAT, Excise Duty, GET Fund Levy, National Health Insurance Levy (NHIL) and Communication Service Tax (CST), for 2021 totalled GH¢23,567.03 million (5.4% of GDP), and about 3.8 percent lower than the target. On year-on-year terms, the collection represented a growth of 32.5 percent.

- **International trade taxes,** comprising mainly import duties, was GH¢6,752.52 million (1.5% of GDP) and exceeded the target of GH¢6,613.52 (1.5% of GDP) by 2.1 percent. This tax type also recorded a year-on-year growth of 22.5 percent.

- **Tax refunds** of GH¢3,116.69 million was lower than the target of GH¢3,423.33 million for 2021, but recorded a year-on-year growth of 20.5 percent.

- **Non-Tax revenue** for the period under review was GH¢7,369.34 million, representing 71.5 percent of the target. The outturn represented a year-on-year growth of 10.5 percent. The underperformance was largely due to lower than budgeted lodgements and retentions, resulting mainly from lower collection efforts by some MDAs. Lower dividend payments against budgeted targets also contributed to this development.

- **Other revenue measures made up of ESLA proceeds, COVID-19 Levy, as well as Sanitation and Pollution Levy** raked in a total of GH¢3,706.1 million. This fell short of the target of GH¢4,205.1 million by 11.9 percent.

- Government received **project grants** to the sum of GH¢1,182.22 million, significantly lower than the envisaged target of GH¢1,465.1 million by 19.3 percent. This outturn was also lower than the GH¢1,228.7 million recorded in the corresponding period of 2020, thus reflecting a year-on-year decline of 3.8 percent.

6.3 Total Expenditures

Government spending (and arrears clearance) was broadly within the expected target.

Total expenditures & arrears clearance for 2021 was GH¢110,401.70 million (25.1% of GDP), below the target of GH¢113,750.23 million (25.9% of GDP). This outturn was 97.1 percent of the target and represented a year-on-year growth of 10.3 percent.

Compensation of Employees (including wages and salaries, pensions & gratuities, and other wage-related expenditure) totalled GH¢31,663.3 million, higher than the target of GH¢31,490.8 million. In terms of fiscal flexibility, compensation of employees constituted 47.5 percent of domestic revenue mobilized at the end of 2021, lower than the 52.4 percent recorded in the corresponding period of 2020.

- **Use of Goods and Services** for the period under review was GH¢8,624.1 million, higher than the expected target of GH¢8,523.2 million. The outturn was 1.2 percent above the target and also represented a year-on-year decline of 16.7 percent.

- **Total interest payments** of GH¢33,619.3 million was higher than the envisioned target of GH¢32,528 million. Domestic interest payments accounted for 78.9 percent of the total interest payments, while external interest payments constituted the remaining 21.1 percent. Total interest payments constituted 50.4 percent of domestic revenue, up from 45.6 percent in the corresponding period of 2020.

- **Grants to other Government units** made up of National Health Fund, Education Trust Fund (GET Fund), Road Fund, Energy Fund, District Assemblies Common Fund (DACF), Retention of IGFs, Transfer to GNPC and other earmarked Funds, all summed up to GH¢13,314.2 million. This was lower than the envisioned target of GH¢18,081.4 million and represented a shortfall of 26.4 percent. It, however, recorded a year-on-year growth of 12.1 percent.

- **Other Expenditure, made up of ESLA Transfers and COVID-19 related expenditure** for 2021, totalled GH¢4,537.7 million, which was 33.2 percent below the target of GH¢6,791.9 million.

- **Capital expenditures** of GH¢15,541.5 million (3.5% of GDP) for the review period was higher than the envisaged target of GH¢12,222.1 million (2.8% of GDP) by 27.2 percent. This outturn represented a year-on-year growth of 28.6 percent. Foreign-financed capital expenditure accounted for 65.7 percent of the total, with domestic financed capital expenditure making up the remaining 34.3 percent.

Table 6.1: Total Revenue and Grants

Million Ghana Cedis	2019 JAN-DEC OUTTURN	2020 JAN-DEC OUTTURN	2021 JAN-DEC OUTTURN	2021 JAN-DEC PROG	2021 OUTTURN/ PROG %	2021 Y-O-Y GROWTH
I. REVENUES						
Total Revenue & Grants	**53,379.61**	**55,132.25**	**67,878.66**	**72,477.36**	93.65	23.12
(per cent of GDP)	15.27	14.31	15.40	16.50		
Domestic Revenue	**52,393.49**	**53,903.55**	**66,696.44**	**71,012.22**	93.92	23.73
Tax Revenue	**42,774.60**	**44,452.26**	**55,172.59**	**55,834.84**	98.81	24.12
Taxes on Income and Property	**22,683.10**	**23,570.15**	**27,969.73**	**29,932.72**	93.44	18.67
Company Taxes	10,567.41	11,425.72	13,305.78	14,734.56	90.30	16.45
Company Taxes on Oil	925.65	792.48	933.18	971.00	96.10	17.75
Other Direct Taxes	11,190.05	11,351.95	13,730.77	14,227.15	96.51	20.96
TAXES ON DOMESTIC GOODS AND SERVICES	**17,151.66**	**17,792.09**	**23,567.03**	**22,711.94**	103.76	32.46
Excises	3,919.20	4,403.84	4,988.61	5,338.39	93.45	13.28
VAT	9,330.10	9,207.49	12,283.14	11,114.38	110.52	33.40
National Health Insurance Levy (NHIL)	1,745.21	1,804.50	2,494.70	2,373.88	105.09	38.25
GET Fund Levy	1,744.81	1,816.82	2,496.29	2,388.55	104.51	37.40
Communication Service Tax	412.34	559.44	528.36	607.67	86.95	-5.55
COVID-19 Health Levy	0.00	0.00	775.93	889.07	87.27	
TAXES ON INTERNATIONAL TRADE	**5,410.01**	**5,513.81**	**6,752.52**	**6,613.52**	102.10	22.47
Imports	5,410.01	5,513.81	6,752.52	6,613.52	102.10	22.47
Exports	0.00	0.00	0.00	0.00		
Tax Refunds	-2,470.18	-2,586.68	-3,116.69	-3,423.33	91.04	20.49
SOCIAL CONTRIBUTIONS	**153.25**	**45.72**	**448.40**	**670.02**	66.92	880.69
SSNIT Contribution to NHIL	153.25	45.72	448.40	670.02		
NON-TAX REVENUE	**7,567.58**	**6,667.32**	**7,369.34**	**10,302.23**	71.53	10.53
OTHER REVENUE	**1,898.05**	**2,738.93**	**3,706.10**	**4,205.13**	88.13	35.31
GRANTS	**986.12**	**1,228.70**	**1,182.22**	**1,465.14**	80.69	-3.78
Project grants	986.12	1,228.70	1,182.22	1,465.14	80.69	-3.78
Programme grants	0.00	0.00	0.00	0.00		

Source: Ministry of Finance

Table 6.2: Total Expenditures

Million Ghana Cedis	2019 JAN-DEC OUTTURN	2020 JAN-DEC OUTTURN	2021 JAN-DEC OUTTURN	2021 JAN-DEC PROG	2021 OUTTURN/ PROG %	2021 Y-O-Y GROWTH
II. EXPENDITURE (including Arrears clearance & Discrepancy)	**70,271.45**	**100,052.78**	**110,401.70**	**113,750.23**	**97.06**	**10.34**
Total Expenditure	**67,856.11**	**96,400.43**	**107,435.97**	**110,050.23**	**97.62**	**11.45**
(percent of GDP)	19.4	25.0	24.5	25.0		
Compensation of Employees	22,219.03	28,268.93	31,663.29	31,490.82	100.55	12.01
Wages & Salaries	19,479.34	25,047.39	29,310.57	26,800.70	109.36	17.02
(percent of GDP)	5.6	6.5	6.7	6.1		
Social Contributions	2,739.69	3,221.55	2,352.72	4,690.12	50.16	-26.97
Use of Goods and Services	6,169.60	7,388.31	8,624.11	8,523.19	101.18	16.73
Interest Payments	19,769.26	24,599.26	33,619.32	32,528.02	103.35	36.67
Domestic	15,209.47	18,352.06	26,515.20	25,032.27	105.92	44.48
External	4,559.79	6,247.19	7,104.12	7,495.75	94.78	13.72
Subsidies	124.24	168.12	135.93	247.68	54.88	-19.15
Grants to Other Government Units	11,423.60	11,881.96	13,314.16	18,081.39	73.63	12.05
Social Benefits	100.49	150.08	0.00	165.08	0.00	-100.00
Other Expenditure	1,898.05	11,860.90	4,537.66	6,791.90	66.81	-61.74
Capital Expenditure	6,151.84	12,082.87	15,541.50	12,222.14	127.16	28.62
Domestic Financed	2,528.50	4,811.21	5,330.20	4,109.74	129.70	10.79
Foreign Financed	3,623.33	7,271.66	10,211.30	8,112.39	125.87	40.43
Overall Balance (Commitment)	**-14,476.50**	**-41,268.19**	**-39,557.31**	**-37,572.87**	**105.28**	**-4.15**
(percent of GDP)	-4.14	-10.71	-9.00	-8.60		
Arrears clearance (net change)	-730.00	-1,443.23	-2,343.56	-3,700.00	63.34	62.38
Overall Balance (Cash)	**-15,206.50**	**-42,711.41**	**-41,900.88**	**-41,272.87**	**101.52**	**-1.90**
(percent of GDP)	-4.35	-11.08	-9.54	-9.39		
Discrepancy	-1,685.34	-2,209.12	-622.17	0.00		-71.84
Overall balance (incl. Divestiture and Discrepancy)	**- 16,891.8**	**- 44,920.5**	**- 42,523.0**	**- 41,272.9**	**103.0**	**- 5.3**

Source: Ministry of Finance

6.4 Budget Balance and Financing

The fiscal deficit for 2021 was equivalent to 9.7 percent of GDP, above the target of 9.4 percent of GDP.

Government budgetary operations resulted in an overall budget deficit of GH¢42,523 million (9.7% of GDP) at the end of 2021. This was higher than the expected target of GH¢41,272.9 million (9.4% of GDP). In addition, the primary balance for the period under review recorded a deficit of 2.0 percent of GDP, achieving its target for the year in review.

The overall fiscal deficit of GH¢42,523 million was financed mainly from domestic and external sources. Domestic financing (net) was GH¢23,892.3 million (5.4% of GDP), substantially lower than the target of GH¢26,506.5 million (6.0% of GDP). Foreign financing, on the other hand, was a net inflow of GH¢12,481.1 million (2.8% of GDP), lower than the target of GH¢15,874.3 million (3.6 % of GDP).

Table 6.3: Budget Balance and Financing

Million Ghana Cedis	2019 JAN-DEC OUTTURN	2020 JAN-DEC OUTTURN	2021 JAN-DEC OUTTURN	2021 JAN-DEC PROG
Revenue & Grants	**53,379.61**	**55,128.44**	**67,878.66**	**72,477.36**
Expenditure	**67,856.11**	**96,400.43**	**107,435.97**	**110,050.23**
Overall balance (commitment)	**-14,476.50**	**-41,271.99**	**-39,557.31**	**-37,572.87**
(percent of GDP)	*-4.06*	*-10.76*	-9.00	-8.60
Discrepancy	-1,685.34	-2,182.65	-622.17	0.00
Overall balance (incl. Divestiture and Discrepancy)	**-16,891.84**	**-44,897.88**	**- 42,523.0**	**- 41,272.9**
(percent of GDP)	-4.74	-11.71	-9.70	-9.40
Financing	**16,891.84**	**44,920.54**	**42,523.0**	**41,272.9**
Foreign (net)	**5,041.08**	**31.25**	**12,481.1**	**15,874.3**
Borrowing	16,283.77	14,098.14	25,601.3	31,156.9
Project loans	2,637.21	6,042.96	9,029.1	6,647.3
Program loans	0.00	398.75	776.2	-
Sovereign Bond	13,646.56	7,656.44	15,796.0	24,509.6
Amortization (due)	-11,242.69	-14,066.89	- 13,120.2	- 15,282.6
Exceptional Financing (IMF SDR Allocation)	**0.0**	**0.0**	**1,779.48**	**0.0**
Domestic (net)	**13,087.15**	**45,643.04**	**23,892.3**	**26,506.5**
Banking	2,787.73	27,441.72	7,061.0	18,934.8
Bank of Ghana	-5,889.67	22,562.38	- 1,681.5	-
Comm. Banks	8,677.40	4,879.34	-	6,127.4
Non-banks	10,299.43	15,925.86	8,742.5	18,934.8
Other Domestic	0.00	2,275.46	16,831.3	6,796.1
o/w Stabilization Fund	-609.63	-359.15	- 599.2	- 775.5
Other Financing			**5,938.0**	
Ghana Petroleum Funds	**-147.95**	**1,104.11**	**- 909.1**	**- 332.4**
Transfer to Ghana Petroleum Funds	-964.98	-595.48	- 909.1	- 1,107.9
Transfer from Stabilization Fund	817.02	1,699.59	-	775.5
o/w Heritage Fund	-355.34	-236.33	- 310.0	- 332.4
Sinking Fund	**-996.00**	**-572.88**	**-**	**- 775.5**
Contingency Fund	**0.00**	**-1,203.72**	**- 658.8**	**-**

Source: Ministry of Finance

6.5 Public debt analysis

The stock of public debt was equivalent to 78.4 percent of GDP at the end of 2021 compared with 76.1 percent of GDP at the end of 2020.

The stock of public debt increased to GH¢344.6 billion at the end of November 2021 from GH¢291.8 billion at the end of 2020. In terms of GDP, the total public debt as at end-November 2021 was 78.4 percent, higher than the 76.1 percent registered in December 2020.

The domestic component of total public debt was GH¢179.4 billion (40.8% of GDP), representing a year-to-date increase of 19.6 percent and accounting for 52.1 percent of the total public debt at the end of

November 2021, a little over the 51.4 percent recorded in December 2020. The increase in domestic debt was driven by increases of GH¢5.9 billion and GH¢22 billion, respectively, in the short- and medium-term instruments. In terms of the holding structure, the year-to-date rise in the domestic debt reflected in increased holdings in the Banking and Non-Bank sectors.

On year-to-date basis, external debt increased by GH¢23.4 billion from GH¢141.8 billion (37.0% of GDP) at the end of December 2020 to GH¢165.1 billion (37.6% of GDP) as at November 2021. External debt also constituted 47.9 percent of total public debt at the end of November 2021, compared to 48.6 percent in December 2020.

Table 6.4: Public Debt

	2020 DECEMBER	2021 MARCH	2021 JUNE	2021 SEPTEMBER	2021 NOVEMBER	NOV 21 - DEC 20 CHANGE
TOTAL DOMESTIC DEBT (GH¢ m)	**150,008.8**	**164,028.9**	**172,966.9**	**178,106.3**	**179,400.5**	**28,097.6**
SHORT TERM	16,861.0	20,666.9	23,086.5	23,778.7	22,823.1	5,962.0
MEDIUM-TERM	90,385.7	100,303.5	105,782.0	110,248.7	112,446.0	22,060.3
LONG-TERM	42,540.4	42,836.9	43,876.8	43,692.2	43,742.2	1,201.8
STANDARD LOANS	221.6	221.6	221.6	386.7	389.2	167.6
HOLDINGS OF DOMESTIC DEBT GH¢m)	**150,008.8**	**164,028.9**	**172,966.9**	**178,106.3**	**179,400.5**	**29,391.7**
BANKING SYSTEM	76,914.6	82,221.5	86,422.4	90,376.3	89,642.4	12,727.8
NON-BANK	45,380.0	49,836.4	52,721.9	55,365.3	60,059.1	14,679.1
FOREIGN SECTOR (Non-Resident)	27,714.2	31,971.0	33,822.5	32,364.8	29,699.0	1,984.8
TOTAL EXTERNAL (US$ m)	**24,715.8**	**24,598.8**	**28,072.1**	**27,888.0**	**27,898.3**	**3,182.6**
MULTILATERAL	8,280.2	8,122.9	8,302.4	8,182.7	8,086.4	(193.8)
BILATERAL	3,805.1	3,671.9	3,911.9	3,852.2	3,797.5	(7.6)
COMMERCIAL	12,630.5	12,804.0	15,857.9	15,853.1	16,014.5	3,384.0
TOTAL EXTERNAL(GH¢ m)	**141,796.8**	**140,993.0**	**161,813.5**	**163,652.2**	**165,163.8**	**23,366.9**
TOTAL PUBLIC DEBT (GH¢ m)	**291,805.6**	**305,021.9**	**334,780.3**	**341,758.5**	**344,564.3**	**52,758.7**
EXCHANGE RATE (End Period Selling MOF)	**5.7371**	**5.7317**	**5.7642**	**5.8682**	**5.9202**	
MEMORANDUM ITEMS						
NOMINAL GDP (GH¢ m)	**383,486.1**	**439,381.4**	**439,381.4**	**439,381.4**	**439,381.4**	
TOTAL DEBT /GDP RATIO (%)	**76.09**	**69.42**	**76.19**	**77.78**	**78.42**	
EXTERNAL DEBT/GDP	*37.0*	*32.1*	*36.8*	*37.2*	*37.6*	
DOMESTIC DEBT/GDP	*39.1*	*37.3*	*39.4*	*40.5*	*40.8*	
EXTERNAL DEBT/TOTAL DEBT	*48.6*	*46.2*	*48.3*	*47.9*	*47.9*	
DOMESTIC DEBT/TOTAL DEBT	*51.4*	*53.8*	*51.7*	*52.1*	*52.1*	

Source: Ministry of Finance

6.6 Conclusion and Outlook

The provisional fiscal data shows that the revenue outturn for the review period was behind target at the end of 2021 and expenditures seemed well contained. Consequently, the deficit at the end of the period was marginally above target.

Going forward, there is the need to carefully balance fiscal consolidation with growth initiatives by coordinating both fiscal and monetary policies more effectively to achieve the desired macro-economic benefits. Government's recent proposal of up to 20 percent cut in discretionary spending could support consolidation but must be tactfully executed in order not to affect growth-oriented programmes.

Appendix 6.1: Fiscal indicators

Million Ghana Cedis	2019 JAN-DEC OUTTURN	2020 JAN-DEC OUTTURN	2021 JAN-DEC OUTTURN	2021 JAN-DEC PROG
Taxes on income and property	**22,683.10**	**23,728.56**	**27,969.73**	**29,932.72**
per cent of GDP	6.4	6.2	6.4	6.8
Taxes on goods and services	**17,151.66**	**17,792.09**	**23,567.03**	**22,711.94**
per cent of GDP	4.8	4.6	5.4	5.2
Taxes on international trade	**5,410.01**	**5,513.81**	**6,752.52**	**6,613.52**
per cent of GDP	1.5	1.4	1.5	1.5
Tax revenue including oil	**42,774.60**	**44,447.77**	**59,251.33**	**61,261.90**
per cent of GDP	12.0	11.6	13.5	13.9
Tax revenue excluding oil	**40,597.23**	**42,404.80**	**51,093.85**	**50,407.78**
per cent of GDP	12.1	11.5	11.6	11.5
Nontax revenue	**7,567.58**	**6,667.32**	**7,369.34**	**10,302.23**
per cent of GDP	2.1	1.7	1.7	2.3
Domestic revenue including oil	**52,393.49**	**53,899.74**	**66,696.44**	**71,012.22**
per cent of GDP	14.7	14.1	15.2	16.2
Domestic revenue excluding oil	**50,216.11**	**51,856.77**	**62,617.70**	**65,585.17**
per cent of GDP	15.0	14.0	14.3	14.9
Grants	**986.12**	**1,228.70**	**1,182.22**	**1,465.14**
per cent of GDP	0.3	0.3	0.3	0.3
Total revenue and grants	**53,379.61**	**55,132.25**	**67,878.66**	**72,477.36**
per cent of GDP	15.3	14.3	15.4	16.5
Compensation of Employees	**22,219.03**	**28,268.93**	**31,663.29**	**31,490.82**
per cent of GDP	6.2	7.4	7.2	7.2
Goods and services	**6,169.60**	**7,388.31**	**8,624.11**	**8,523.19**
per cent of GDP	1.7	1.9	2.0	1.9
Interest payments	**19,769.26**	**24,599.26**	**33,619.32**	**32,528.02**
per cent of GDP	5.5	6.4	7.7	7.4
Subsidies	**124.24**	**168.12**	**135.93**	**247.68**
per cent of GDP	0.03	0.04	0.03	0.06
Non-Financial Assets (Capital Expenditure)	**6,151.84**	**12,082.87**	**15,541.50**	**12,222.14**
per cent of GDP	1.7	3.2	3.5	2.8
Total expenditure & net lending	**67,856.11**	**96,400.43**	**107,435.97**	**110,050.23**
per cent of GDP	19.0	25.1	24.5	25.0
Overall Budget Balance	**-16,891.84**	**-44,897.88**	**- 42,523.0**	**- 41,272.9**
per cent of GDP	-4.7	-11.7	-9.7	-9.4
Domestic Expenditure	**46,148.86**	**66,712.17**	**66,696.44**	**71,012.22**
per cent of GDP	12.9	17.4	15.2	16.2
Domestic Primary Balance	**6,244.62**	**-12,812.43**	**2,468.92**	**1,602.41**
per cent of GDP	1.8	-3.3	0.6	0.4
Primary Balance	**2,877.41**	**-20,298.62**	**-8,903.72**	**-8,744.85**
per cent of GDP	0.8	-5.3	-2.0	-2.0

Source: Ministry of Finance

7. Inflation Outlook and Analysis

7.0 Overview

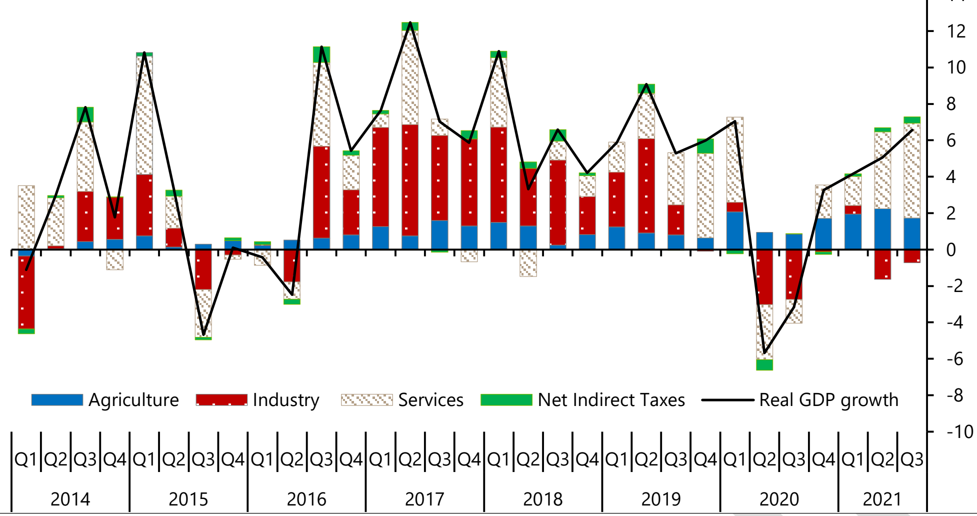
The global growth momentum moderated somewhat in the last quarter of 2021, owing to continued supply chain bottlenecks and renewed concerns about the economic impact of the more transmissible Omicron COVID-19 variant. The January 2022 update of the World Economic Outlook released by the International Monetary Fund shows a downward revision of global growth projections for 2022 from 4.9 percent to 4.4 percent, due to growth downgrades for the United States and China. The forecast is contingent on supportive financing conditions and muted evolution of the COVID-19 pandemic amid new waves of infection and mutations of the virus.

Global price pressures intensified in 2021, primarily due to sharp increases in energy prices, rising demand pressures, and the persistent supply chain disruptions. As a result, headline inflation across several Advanced and Emerging Market economies rose above target. These price trends have triggered reversals of the accommodative policies put in place to stimulate recovery from the pandemic. In the United States, the Federal Reserve Bank has continued with the tapering of its asset purchase programme and signalled its intention to bring forward planned rate hikes in 2022 to address rising underlying inflationary pressures. Similarly, policymakers in several emerging market economies continue to stay on the path of policy tightening in response to rising inflation. Beginning in the last quarter of 2021, emerging market economies such as Chile and Brazil have raised policy rates to contain rising inflation, while others have signalled their intention to raise policy rates if price pressures persist much longer than anticipated.

Global financial conditions began tightening in the second half of 2021 and are expected to tighten further in 2022. The expectation of higher policy rates by major central banks has driven up long-term bond yields. Spreads on sovereign bonds have widened, especially for Emerging Markets (EMs) and frontier economies with weak fundamentals. Additionally, capital flows to EMs and developing economies have become volatile due to expectations about higher U.S. interest rates and a strengthening of the U.S. Dollar.

On the domestic stage, the economy continued its strong recovery from the COVID-related economic downturn. The latest release by the Ghana Statistical Service showed that Real GDP growth for the first three quarters of 2021 averaged 5.3 percent, compared with an average contraction of 0.6 percent recorded in the same period of 2020 (Fig. 7.1). Similarly, non-oil GDP growth averaged 6.9 percent against a contraction of 0.3 percent over the same comparative period. Overall, GDP growth for 2021 is projected to exceed the target of 4.4 percent. The Bank's updated Composite Index of Economic Activity (CIEA) recorded an annual growth of 10.2 percent in November 2021, compared with 11.9 percent in the corresponding period of 2020. The key drivers of economic activity during the period were increased industrial production, consumption, exports, construction activities and air-passenger arrivals. The Bank's latest confidence surveys conducted in December 2021 signalled mixed sentiments. While consumer confidence softened because of recent increases in ex-pump petroleum prices and the announcement of new tax measures in the 2022 budget, business sentiments, on the other hand, improved. The improved business sentiments were driven by the achievement of short-term company targets and optimism about companies' growth prospects.

Fig 7.1: Contribution to Real GDP Growth
(Year-on-Year, %)
Source: GSS and BOG staff calculations



7.1 Domestic Price Developments

Headline inflation rate increased further to 12.6 percent in December 2021 for the seventh consecutive month, from 12.2 percent in November 2021, surpassing the levels recorded at the height of the COVID-19 pandemic. This was largely on account of higher non-food price pressures due to the pass-through of upward fuel price adjustments and exchange rate pressures in the last quarter. On a year-on-year basis, food inflation slowed to 12.8 percent in December from 13.1 percent in November, while non-food inflation firmed up to 12.5 percent, from 11.6 percent over the period.

Headline inflation trended below the central path for the first half of the year, but increased steadily in the second half of the year, reaching 12.6 percent in December from 7.5 percent in May 2021 (Fig. 7.2). Non-food inflation firmed up from 9.2 percent in May 2021 to 12.5 percent in December 2021 and food inflation also rose sharply from 5.4 percent to 12.8 percent over the same period. The upward trajectory of inflation in the second half of 2021 reflected food supply challenges, rising crude oil prices, and some pass-through effects of exchange rate depreciation in the last quarter.

In line with the trends in overall inflation, underlying inflation pressures heightened. All the Bank's core measures of inflation rose over the period, pointing to broad-based underlying inflationary pressures. The Bank's main core measure of inflation, which excludes energy and utilities, increased to 11.8 percent in December 2021 from 11.4 percent in November (Fig 7.3), indicating strong underlying inflation pressures in December.

Fig 7.2: Headline Inflation at 12.6 percent
(Year-on-Year, %)
Source: GSS and BOG

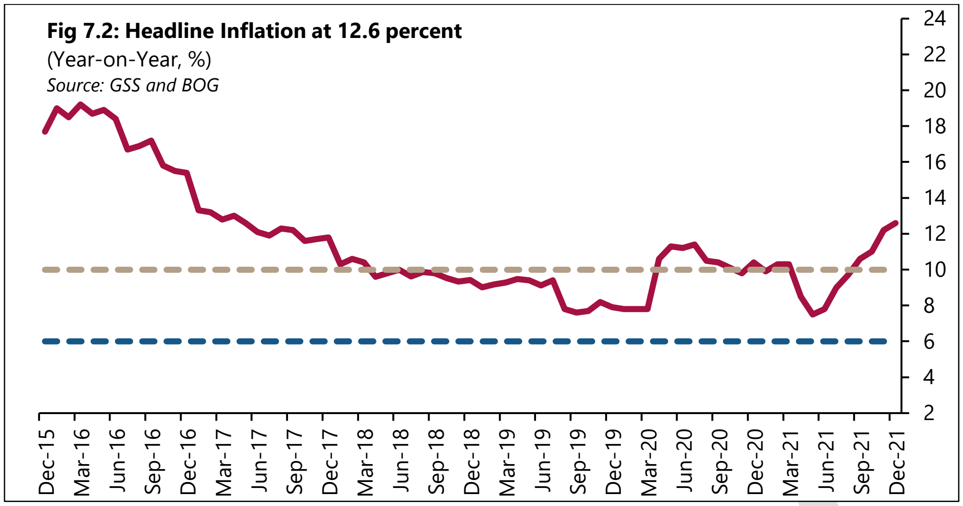


Fig 7.3. Core vs Headline Inflation
(Year-on-Year, %)
Source: GSS and BOG

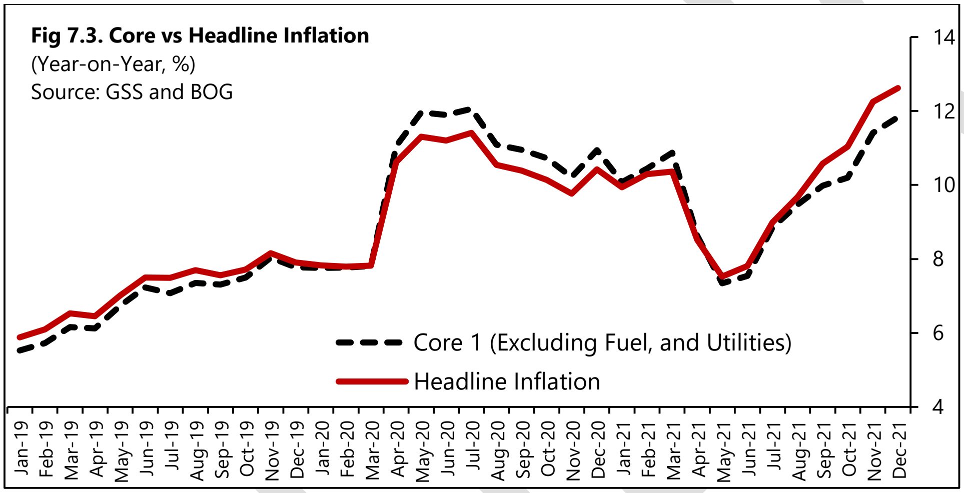


Fig 7.4: Food and Non-Food Inflation
(Month-on-Month, %)
Source: GSS and BOG

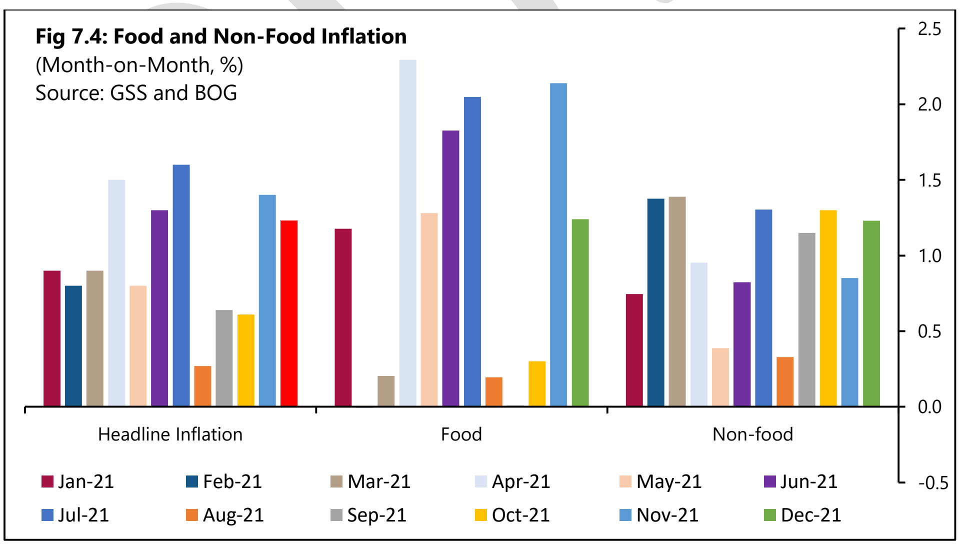
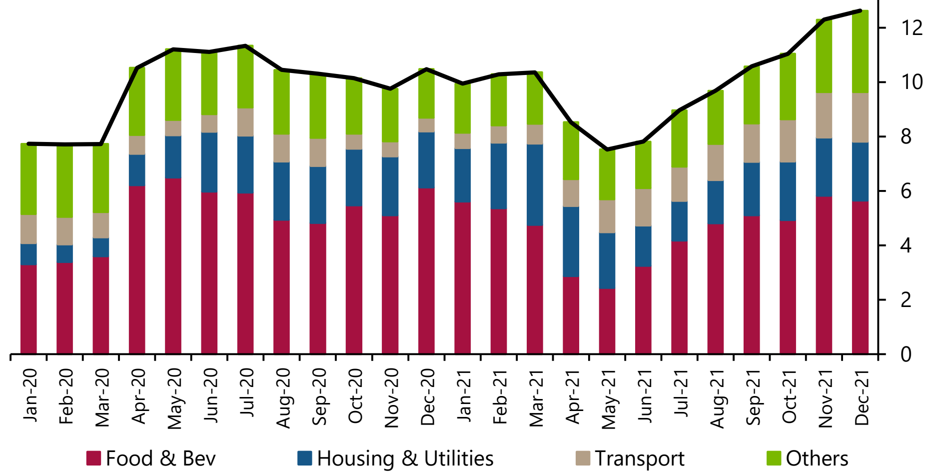


Fig 7.5: Headline inflation decomposition
(year-on-year, %)
Source: GSS and BOG



On a month-on-month basis, prices increased by 1.2 percent in December, slower than the 1.4 percent recorded in November 2021 but higher than 0.9 percent and 0.3 percent registered in the same period of 2020 and 2019, respectively. Monthly food inflation eased to 1.2 percent in the last month of 2021 from 2.1 percent in the preceding month. On the contrary, monthly non-food inflation rose to 1.2 percent in December 2021 from 0.9 percent in the prior month (Fig. 7.4).

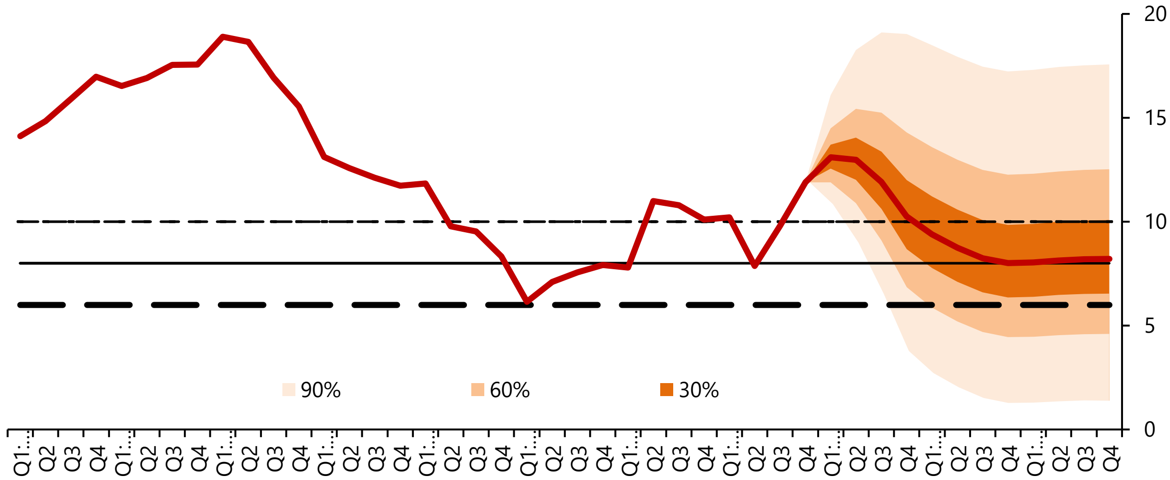
Food price increases were the major driver of inflation in the second quarter of 2021 (Fig. 7.5), reflecting adverse climatic factors, fertilizer supply constraints and the bird flu disease outbreak, which necessitated a ban on movement in and out of poultry farms. In the last quarter of 2021, non-food inflation picked up significantly on the back of exchange rate depreciation, upward revisions in fuel prices due to rising international crude oil prices and consequently higher transport fares.

7.2 Inflation Outlook

In the outlook, headline inflation is projected to remain above the upper band of the medium-term target in the near-term, unchanged from the November forecast, driven by the elevated global inflation, rising crude oil prices and its associated second-round effects, and uncertainties surrounding food prices. The elevated inflation profile in the near-term is projected to be broad-based, driven by both food and non-food inflation. Headline inflation is, however, expected to return to target over the next four quarters as supply disruptions ease and the recent tightening in monetary policy begins to transmit to the economy. Imported inflation is forecast to remain strong with global inflation above trend and is expected to exert some upward pressures on domestic prices in the near-term before easing as policy normalization begins to moderate price pressures in the medium term.

Production costs in both the food and non-food sectors are forecast to remain low due to lower domestic activity and imported input costs in real terms. Over the medium term however, production costs are projected to gradually increase as the economy recovers. Real sector activities are expected to continue to recover in the medium term due to easing of pandemic-related restrictions and a still supportive global demand environment.

Fig. 7.6: Inflation to return to the target band at the end of 2022 (year-on-year, %)
Source: Bank of Ghana Staff Forecast



7.3 Risks to the Inflation Outlook

The assessment of risks to the inflation outlook from global economic conditions, domestic economic activity and prices suggests that the balance of risks to the inflation outlook are broadly skewed to the upside. The key risks as assessed during the January MPC meetings were:

- ***Global inflation***

Global price pressures intensified in both advanced and emerging and developing economies in 2021. Inflation continues to run above target in several advanced and emerging market economies, reflecting the surge in commodity prices, supply chain dislocations and strong aggregate demand pressures following relaxation of pandemic-induced restrictions. Price pressures from the elevated global inflation are expected to lift domestic inflation via the imported price channel in the near-term. Over the medium term, global inflation is expected to ease to target as monetary policy tightens and demand-supply imbalances abate.

- ***Domestic economic activity***

Economic activity reflects continued recovery from the pandemic-induced slowdown in the growth momentum in 2020. The latest Ghana Statistical Service update showed that Real GDP growth for the first three quarters of 2021 averaged 5.3 percent, compared with an average contraction of 0.6 percent recorded in the same period of 2020. Similarly, non-oil GDP growth averaged 6.9 percent, against a contraction of 0.3 percent over the same comparative period. High frequency data from the Bank's updated Composite Index of Economic Activity (CIEA) further signalled strong growth impulses towards the end of the year, recording an annual growth of 10.2 percent in November 2021, compared with 11.9 percent in the corresponding period of 2020. Notwithstanding the favourable growth conditions, the existence of spare capacity in the economy is expected to moderate the impact of the recovery in activity on headline inflation.

- ***Uncertainties surrounding food prices***

Food production has been negatively impacted by adverse supply shocks which have contributed to the observed increase in price pressures observed in the second half of 2021. Some of these shocks emanated from delayed rainfall, high cost of inputs (fertilizer), high transport costs and demand pressures from neighbouring countries. The persistence of these supply-side constraints could further increase upside risks to inflation in the near term.

- ***Rising ex-pump petroleum prices***

The rise in the ex-pump petroleum prices on the back of rising crude oil prices risks causing an upward adjustment in transport fares which could possibly lead to further second-round impacts on domestic prices in the near term. This could lift inflation expectations in the outlook, thereby increasing inflationary pressures.

- ***Fiscal Position***

Concerns about the fiscal and debt position resulted in an unfavourable credit rating decision by Fitch Ratings which caused a widening in the sovereign bond spread. The fiscal authorities have responded by announcing a 20 percent cut in expenditures as well as the implementation of revenue measures announced in the 2022 budget. It is envisaged that the implementation of the measures and the commitment to expenditure controls will signal Ghana's commitment to keep the deficit under control and curb external pressures that may emanate as a result of concerns about the fiscal position.

- ***Exchange rate pressures***

Some pass-through from the currently observed seasonal first quarter pressure on the Ghana cedi to domestic prices is expected in the near-term. However, as the exchange rate pressures abate into the second quarter, inflationary pressures from these sources are expected to ease.

7.4 Conclusion

Headline inflation is currently at 12.6 percent, above the upper band of the medium-term target band of 8±2 percent. The latest baseline forecast presented at the January MPC round projects inflation to remain above the medium-term target band of 8±2 over the next four quarters, barring any unforeseen shocks.

Appendix Table 7.1: Headline Inflation

	Headline Inflation (%)			Monthly Changes in CPI (%)		
	Combined	Food	Non-food	Combined	Food	Non-food
Dec-18	**9.4**	**8.7**	**9.8**	**1.1**	**1.3**	**1.0**
Dec-19	**7.9**	**7.2**	**8.5**	**0.3**	**-0.6**	**1.0**
2020						
Mar	7.8	8.4	7.4	0.8	1.6	0.3
Jun	11.2	13.8	9.2	1.0	0.1	1.8
Sept	10.4	11.2	9.8	-0.2	-0.5	0.1
Nov	9.8	11.7	8.3	0.3	0.3	0.3
Dec	10.4	14.1	7.7	0.9	1.5	0.4
2021						
Jan	9.9	12.8	7.7	0.9	1.2	0.7
Feb	10.3	12.3	8.8	0.8	0.0	1.4
Mar	10.3	10.8	10.0	0.9	0.2	1.4
Apr	8.5	6.5	10.2	1.5	2.3	1.0
May	7.5	5.4	9.2	0.8	1.3	0.4
Jun	7.8	7.3	8.2	1.3	1.8	0.8
Jul	9.0	9.5	8.6	1.6	2.0	1.3
Aug	9.7	10.6	8.7	0.3	0.2	0.3
Sept	10.6	11.5	9.9	0.6	0.0	1.2
Oct	11.0	11.0	11.0	0.6	0.3	1.3
Nov	12.2	13.1	11.6	1.4	2.1	0.9
Dec	12.6	12.8	12.5	1.2	1.2	1.2

Source: Ghana Statistical Service

Appendix Table 7.2: CPI Components

CPI Components (%)		2020					2021				
	Weghts (%)	Jun	Sept	Oct	Nov	Dec	Jun	Sept	Oct	Nov	Dec
Overall	100.0	11.2	10.4	10.1	9.8	10.4	7.8	10.6	11.0	12.2	12.6
Food and Beverages	43.1	13.8	11.2	12.6	11.7	14.1	7.3	11.5	11.0	13.1	12.8
Non-food	56.9	9.2	9.8	8.3	8.3	7.7	8.2	9.9	11.0	11.6	12.5
Alcoholic Beverages, Tobacco	3.7	8.6	9.0	6.7	5.9	6.0	6.5	8.1	10.0	9.2	9.6
Clothing and footwear	8.1	7.3	8.0	7.0	7.4	7.9	6.0	6.8	7.7	8.4	8.6
Housing and Utilities	10.2	21.3	20.3	20.2	21.0	20.1	14.2	18.7	20.6	20.5	20.7
Household Equipment and Maintenance	3.2	4.9	4.9	4.4	4.4	4.7	4.7	6.3	7.3	8.4	9.6
Health	0.7	7.8	8.9	5.7	3.7	6.0	6.0	4.6	5.2	7.5	6.0
Transport	10.1	6.3	10.1	5.3	5.3	4.8	13.4	13.6	14.9	16.0	17.6
Information and Communication	3.6	6.3	6.8	6.7	6.5	7.0	4.9	6.6	7.8	8.0	9.0
Recreation & Culture	3.5	5.8	3.4	2.5	2.8	1.8	3.6	6.8	7.2	10.6	11.4
Education	6.5	4.1	4.2	3.8	2.3	0.2	0.9	0.9	0.9	1.0	1.0
Restaurants and Accommodation	4.6	5.8	7.0	7.1	7.2	5.4	4.8	3.2	4.0	4.4	8.9
Insurance and Finacial services	0.2	3.5	2.0	2.1	2.1	3.3	5.5	7.1	7.1	7.1	6.3
Personal care & Miscellaneous goods	2.4	5.4	4.6	3.4	3.4	3.8	4.5	7.2	8.5	9.1	10.6

Source: Ghana Statistical Service