



HIGHLIGHTS  
PRESS RELEASE

# 105<sup>TH</sup> MPC MEETING

MARCH 2022

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# 1 | GLOBAL GROWTH FACES DOWNSIDE RISKS



1

The Russia-Ukraine war has introduced new uncertainties which have complicated the growth outlook and aggravated the Covid-related supply bottlenecks.

2

Elevated global price pressures have persisted, triggered by higher food and crude oil prices, and supply chain disruptions.

3

Global financing conditions have tightened as key central banks raised policy rates to counter rising inflation.

4

The combined effect of these developments could lead to further downgrades in global growth projections, increase investor uncertainty, and lead to capital outflows from emerging and frontier economies, like Ghana.





## 2 | GEOPOLITICAL TENSIONS DRIVE UP COMMODITY PRICES



1

Average crude oil prices increased by 25.0 percent on a year-to-date basis to US\$93.5 per barrel in February 2022, due to geopolitical tensions and increased demand pressures.



2

Cocoa prices rose to US\$2,659.5 per tonne in February 2022 compared with US\$2,545.9 per tonne a month earlier, as concerns about dry weather conditions boosted prices.



3

Gold prices rose by 3.3 percent to US\$1,849.5 per ounce in the year to February 2022, as geopolitical tensions drove up demand for the safe-haven metal.





# 3 | TRADE SURPLUS DECLINES AS INCREASE IN IMPORTS FAR-OUTWEIGH GAINS IN EXPORTS



- 1 Total exports amounted to US\$2.7 billion, compared with US\$2.6 billion as at February 2021
- 2 The jump in export receipts was driven mainly by a 35 percent increase in crude oil exports, benefitting from price effects as volumes declined.
- 3 Imports grew by 7.9 percent to US\$2.3 billion compared with US\$2.2 billion same period last year, on the back of 80.1 percent growth in oil and gas imports.
- 4 These developments translated to a lower trade surplus of US\$404.9 million in the first two months of 2022, compared with US\$432.7 million in the first two months of 2021.



# 4 | RUSSIA-UKRAINE WAR TO IMPACT NEGATIVELY ON THE EXTERNAL SECTOR



1

On average, about 2.5 percent of Ghana's total non-oil imports have originated from Russia and Ukraine and around 0.4 percent of Ghana's total exports are destined to Russia and Ukraine.

2

The main import items from Russia are grains, wheat flour and fertilizers and Ghana's main exports to Russia are cocoa beans and products.

3

Major imports from Ukraine are iron ore and steel, and manganese is the major item exported to Ukraine.

4

These have important implications for the supply and prices of these major items.





# 5 | MARGINAL DECLINE IN RESERVES AMID FOREIGN EXCHANGE MARKET VOLATILITY



1

Gross International Reserves was US\$9,547.96 million at the end of February 2022, providing cover for 4.3 months of imports of goods and services. At end December 2021, reserves stood at US\$9,695.22 million, equivalent to 4.4 months of import cover.

2

The first few months of the year was characterized by increased volatility in the foreign exchange market, driven by demand pressures, which tightened forex liquidity.

3

Consequently, the Ghana Cedi depreciated by 14.6 percent against the US dollar, and 11.6 percent each against the Pound Sterling and Euro as at 15th March 2022.

4

In the same period of 2021, the Ghana Cedi appreciated by 0.6 percent and 3.4 percent against the US Dollar and the Euro, and depreciated by 1.0 percent against the Pound Sterling.



# 6 | DOMESTIC GROWTH CONDITIONS ARE FAIRLY STRONG, DESPITE A DIP IN BUSINESS AND CONSUMER SENTIMENTS



1

The Bank's Composite Index of Economic Activity (CIEA) grew by 4.2 percent in January 2022 compared to 13.9 and 3.4 percent in the corresponding periods of 2021 and 2020.

2

Consumer confidence dipped due to concerns about the persistent increases in fuel prices and transportation fares, and rising inflation.

3

Business sentiments declined over concerns about the impact of inflation and exchange rate depreciation on their short-term targets and profitability for 2022.





# 7 | HEIGHTENED INFLATIONARY PRESSURES PERSIST



1

Inflation rose sharply to 15.7 percent in February 2022, 5.7 percentage points outside the medium-term target band.

2

Rising food prices, upward adjustments in petroleum prices and transport fares, and exchange rate depreciation pass-through all contributed to inflation.

3

Both core inflation and weighted inflation expectations have increased substantially, reflecting heightened underlying inflationary pressures.





# 8 | BUDGET DEFICIT FOR 2021 ABOVE TARGET



1

The overall broad fiscal deficit (cash, excluding financial sector clean-up costs) was 9.7 percent of GDP, against the programmed target of 9.4 percent of GDP.

2

Total revenue and grants amounted to GH¢67.9 billion (15.4% of GDP), below the projected GH¢72.5 billion (16.7% of GDP).

3

Total expenditure amounted to GH¢110.4 billion (25.1% of GDP), below the programmed target of GH¢113.8 billion (25.9% of GDP).

4

The stock of public debt increased to 80.1 percent of GDP at the end of December 2021, compared with 76.0 percent of GDP in December 2020.



# 9 | MONEY MARKET INTEREST RATES BROADLY INCREASE



1

The 91-day and 182-day Treasury bill rates have inched up to 12.8 percent and 13.3 percent respectively, in February 2022, from 12.5 percent and 13.2 percent December 2021.

2

The rate on the 3-year bond increased from 19 percent to 20.5 percent, while that for the 2-year and 5-year bond remained unchanged at 19.75, and 21 percent, respectively.

3

Banks' average lending rates inched up marginally to 20.52 percent in February 2022 from 20 percent recorded in December 2021.





# 10 | BANKING INDUSTRY PERFORMANCE REMAINS STRONG



1

Sustained growth in total assets, investments, and deposits. Key financial soundness indicators such as profitability, liquidity and solvency remain healthy.

2

Total assets grew by 23.5 percent to GH¢187.8 billion in February 2022, compared to a growth of 18.5 percent in the previous year.

3

Asset quality improved, with the Non-Performing Loans (NPL) ratio at 14.4 percent end-February 2022, compared with 15.3 percent in February 2021.

4

The Capital Adequacy Ratio of the Industry was 19.6 percent at end-February 2022, well above the current 11.5 percent regulatory minimum threshold.



# 11 | PRIVATE SECTOR CREDIT REBOUNDS IN LINE WITH ECONOMIC ACTIVITY



- 1 Private sector credit recorded a year-on-year growth of 17.1 percent in February 2022 compared to 7.4 percent in the same period of 2021.
- 2 In real terms, private sector credit grew by 1.2 percent relative to a contraction of 2.7 percent year-on-year.
- 3 The latest credit conditions survey revealed a tightened credit stance on loans to enterprises. However, demand for credit by households and small and medium sized enterprises are projected to increase in the medium-term.





# 12 | THE MPC HIKES POLICY RATE BY 2.5% TO 17% DUE TO SIGNIFICANT UPSIDE RISKS TO INFLATION



## In taking the decision, the Committee noted that:

1

Profound uncertainty and fragility in the global economy, reflected by aggravated supply disruptions, elevated inflationary pressures, and tightening global financial conditions.

2

On the domestic economy, fiscal policy implementation has come under strain, reflecting embedded rigidities in the fiscal framework.

3

Headline inflation has risen sharply with upside risks to the outlook. Both headline and core inflation are significantly above the upper limit of medium-term target band of  $8 \pm 2$  percent.

4

The Bank's latest forecast still depicts an elevated inflation profile in the near term. Under these circumstances, the Committee decided to increase the policy rate from 14.5 percent to 17 percent.



# 13 | ADDITIONAL POLICY MEASURES



**In addition, the Bank of Ghana will, effective April 1, 2022, enforce the following measures in relation to universal banks:**

**1**

The Cash Reserve Ratio is increased to 12 percent;

**2**

The Capital Conservation Buffer is reset to the pre-pandemic level of 3 percent, making the Capital Adequacy Ratio a total of 13 percent; and

**3**

The provisioning rate for loans in the Other Loans Exceptionally Mentioned (OLEM) category is reset to the pre-pandemic level of 10 percent.

