BANK OF GHANA

MONETARY POLICY REPORT

March 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 105th meeting held in March 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.

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Overview

The Russia-Ukraine war has heightened uncertainty in the global outlook, aggravated the Covid-related supply bottlenecks, triggered higher crude oil prices, and elevated inflation expectations, compounding the already high global inflationary pressures. Global financing conditions have tightened as key central banks raised policy rates to counter rising inflation. 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 with weak fundamentals.

Domestic growth conditions remain fairly strong despite signs of weakening consumer and business sentiments in the first two months of 2022. The steady increase in private sector credit growth has continued, with positive growth implications. The strong banking sector performance has continued, with sustained growth in total assets, investments and deposits. Key financial soundness indicators such as profitability, liquidity and solvency remain healthy. Asset quality improved slightly, although there are upside risks to the outlook, requiring continued monitoring to address early signs of stress within the sector.

The Sovereign credit rating downgrades of Ghana by Fitch and Moody's led to widened yield spreads on both cedi-denominated Government of Ghana bonds and the country's Eurobonds. These downgrades reflected market and investor concerns about fiscal and debt sustainability. Consequently, the Ghana Cedi came under severe pressure as offshore investors exited positions in domestic securities at a time when domestic demand for forex had increased, reflecting both real and speculative demand. This caused the exchange rate to overshoot its long-term trend. The strengthening of the US Dollar, forex liquidity pressures, uncertainties regarding budget implementation, portfolio reversals by non-residents, and some speculative pressures were the key contributory factors.

The combination of tighter global financing conditions, exchange rate pressures, and elevated inflation posed some policy challenges to the outlook. Headline inflation rose sharply to 15.7 percent in February 2022, and both headline and core inflation were significantly above the upper limit of the medium-term target band of 8±2 percent. The uncertainty surrounding price developments and its impact on economic activity subsequently weighed down business and consumer confidence. Upside risks to inflation have therefore mounted and include petroleum price adjustments and transportation costs, and exchange rate depreciation. The Bank's latest forecast still depicted an elevated inflation profile in the near term, with inflation falling within the medium-term target band within a year.

Fiscal policy implementation has come under strain, reflecting embedded rigidities in the fiscal framework which will require extensive structural reforms to free fiscal space and restore both fiscal and debt sustainability. In particular, revenue performance has been slow to align with projections, while expenditure remains rigid downwards despite the strong efforts to cut expenditure by 20 percent as announced by the Government. These developments have resulted in financing constraints which would have to be swiftly resolved to achieve the announced fiscal consolidation.

Under these circumstances, the Monetary Policy Committee decided to increase the policy rate by 250 basis points to 17 percent. In addition to the upward policy rate adjustment, the following measures were taken in relation to universal banks effective April 1, 2022: (i) the Cash Reserve Ratio was increased to 12 percent; (ii) the Capital Conservation Buffer was reset to the pre-pandemic level of 3 percent, making the Capital Adequacy Ratio a total of 13 percent; and (iii) the provisioning rate for loans in the Other Loans Exceptionally Mentioned (OLEM) category was reset to the pre-pandemic level of 10 percent.

1. Global Economic Developments

1.0 Highlights

- *Global growth has continued to recover, but faces multiple challenges in the near term.*

- *The elevated global price pressures have persisted, driven by sharp increases in food and crude oil prices, and supply chain disruptions. The Russia-Ukraine war has exacerbated these price pressures, and pushed energy and commodity prices to record high levels.*

- *The shift towards less accommodative policies by major central banks to contain inflationary pressures has resulted in tighter global financing conditions.*

- *Persisting inflationary pressures and expectation of rate hikes in the U.S. have continued to strengthen the dollar, putting pressure on some EMDE currencies.*

1.1 Global Growth Developments

Global growth has continued to recover, supported by accommodative monetary policies, fiscal stimulus packages, and the waning effects of the COVID-19 virus around the world. However, global economic activity faces multiple challenges ahead, reflecting new geopolitical events such as the Russia-Ukraine war. These challenges have further heightened uncertainties and caused a surge in commodity prices, persisting supply chain bottlenecks on manufacturing output, withdrawal of monetary policy stimulus in some major advanced economies, and vulnerabilities associated with rising debt stocks, especially in emerging market and developing economies.

These challenges are expected to weigh on global growth in the near term. The updated World Economic Outlook report by the IMF in January 2022 projects a decline in global growth from 5.9 percent in 2021 to 4.4 percent in 2022 (Table 1.1). This growth downgrade excludes the impact of the Russia-Ukraine war on global growth. Hence, further moderation of projected global growth estimates is likely if the war prolongs.

Risks to the growth outlook in the near term are tilted to the downside. Many countries have rolled back COVID-19 restrictions in recent months due to the sharp drop in caseloads. However, the Russia -Ukraine war has led to a sharp rise in energy and food prices. The higher energy and food prices may weigh on consumption and investment spending. Meanwhile, supply chain constraints have persisted and will continue to increase input costs and weigh on manufacturing output. Finally, many central banks have either hiked their policy rates or have indicated their preparedness to hike policy rates in the near term if inflationary pressures continue to build. Such withdrawal of monetary accommodation will impact near-term growth prospects.

Table 1.1: World Economic Outlook Projections

(Percent change, unless noted otherwise)	Year over Year					
	Estimate		Projections		Difference from October 2021 WEO Projections	
	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 2022 Update

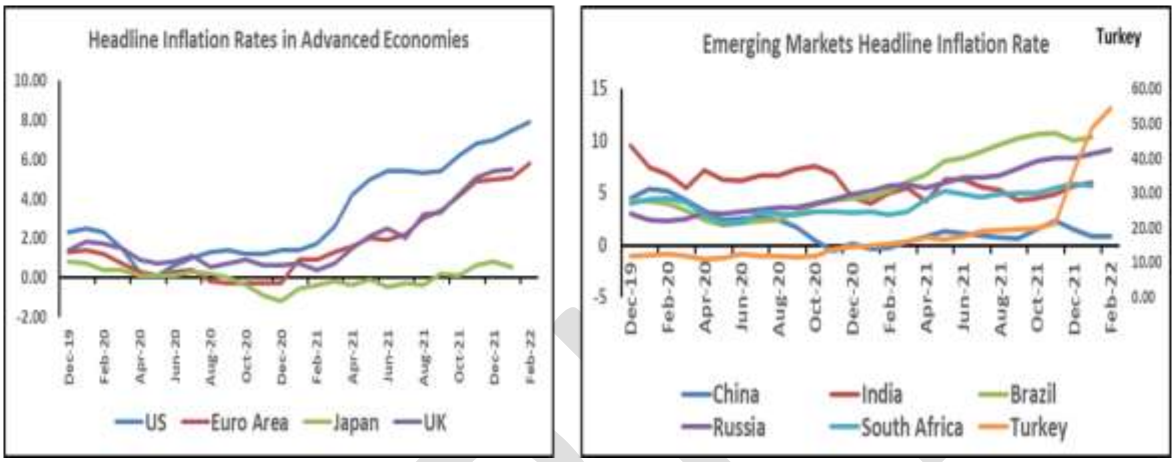
1.2 Global Price Developments

Global price pressures remained elevated, driven by sharp increases in energy and food prices, rising demand pressures as countries re-opened post-Covid, and the persistent supply-chain disruptions. The Russia-Ukraine war has exacerbated these price pressures, and pushed energy and commodity prices to record high levels. The Food and Agriculture Organisation's Food Price Index (FFPI) went up 3.9 percent from January and 20.7 percent above its level a year ago, driven by increases in vegetable oil, dairy, cereal and meat sub-indices.

Price pressures have broadened beyond the volatile items such as food and energy due partly to higher input costs, exchange rate depreciation and stronger demand. As a result, headline inflation across several Advanced and Emerging Market economies has moved above target, prompting monetary policy responses to help prevent inflation from becoming embedded. The U.S. Federal Reserve Bank has, for the first time since 2018, raised its policy rate by 25 basis points to 0.50 percent, with further guidance that it would step up its incremental policy rate adjustment by 0.50 percent if inflation becomes endemic. The Bank of England has also raised its policy rate by another 25 basis points in the year to 0.75 percent. Similarly, policymakers in several emerging market and developing economies have moved towards policy tightening in response to rising inflation and currency pressures.

Looking ahead, elevated inflation is expected to persist for longer than envisaged, reflecting the effects of the Russia-Ukraine war on energy and food prices and ongoing supply chain disruptions. The IMF projects inflation to remain elevated in the near term, averaging 3.9 percent in advanced economies and 5.9 percent in Emerging Markets and Developing Economies (EMDEs) in 2022, before declining 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 Markets Developments

Global financial conditions will continue to tighten in the near term as central banks in both advanced and emerging market and developing economies shift their focus towards less accommodative policies to contain price pressures. The expectations 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. Also, the increasing concerns about the emerging geopolitical risks has triggered pronounced declines in equity prices in 2022, while capital flows to EMDEs have become volatile due to expectations about higher U.S. interest rates and a strengthening of the U.S. dollar.

Looking ahead, inflationary pressures will remain high in the near term, supported by higher energy and food prices and persisting supply chain bottlenecks. The ongoing Russia-Ukraine war may exacerbate these price pressures and force central banks around the world to raise policy rates more aggressively than previously anticipated. Some EMDE central banks have already hiked their policy rates while others have left the door open to do so if necessary. The expectation of policy rate hikes to counter inflation is pushing up long-term government bond yields in advanced economies, while geopolitical risks have also weighed on stock prices in recent months. Finally, the ongoing policy normalization in advanced economies and the stronger dollar will slow portfolio flows to EMDEs with adverse implications for their currencies. For these reasons, we expect global financial conditions to remain tight in the near term.

Table 1.2: Monetary Policy Stance of Selected Central Banks

	Key Rate	Previous (%)	Current (%)	Forecast	Inflation Rate (Feb. 2022)	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	7.9	-7.65	2%	-14.9	-3.6	133.9
Euro Area	Refinancing Rate	0	0	0	5.8	-5.8	< 2%	-7.2	-6.4	97.5
UK	Bank Rate	0.25	0.5	0.5	5.5	-5	2%	-12.5	-9.7	104.5
Japan	short term policy rate	-0.1	-0.1	-0.1	0.5	-0.6	2%	-10.3	-4.6	254.1
Russia	Benchmark rate	9.5	20		9.17	10.83	4%	-4	-3	19.3
India	Benchmark rate	4	4	4	6.01	-2.01	4±2%	-12.8	-7.3	89.6
Brazil	Selic rate	9.25	10.75	10.75	10.38	0.37	4.5±1.5%	-13.4	-4.1	98.9
Turkey	One week repo rate	14	14	14	54.44	-40.44	5±2%	-5.3	1.8	39.8
Malaysia	Policy Rate	1.75	1.75	1.75	2.3	-0.55	3% - 4%	-5.1	-5.6	67.4
Indonesia	Policy Rate	3.5	3.5	3.5	2.06	1.44	3.5% ± 1%	-5.9	-2.1	36.6
Chile	Benchmark Interest Rate	4	5.5	5.5	7.8	-2.3	3±1%	-7.1	-5.8	32.5
Ghana	Monetary Policy Rate	14.5	14.5		15.7	-1.2	8±2%	-15.7	0.4	78.9
South Africa	Repo Rate	3.75	4	4	5.7	-1.7	3% -6%	-10.8	-6.4	69.4
Nigeria	Monetary Policy Rate	11.5	11.5	11.5	15.6	-4.1	6% -9%	-5.8	-1.8	35
Kenya	Policy Rate	7	7	7	5.08	1.92	2.5-7.5%	-8.1	-0.3	67.6
Zambia	Policy Rate	9	9	9	14.2	-5.2	9%	-12.9	-2.8	128.7
Morocco	Policy Rate	1.5	1.5	1.5	3.1	-1.6		-7.6	-6.3	75.4

Source: Growth rate (World Bank); Debt/GDP (IMF); Policy Rates (Trading Economics).

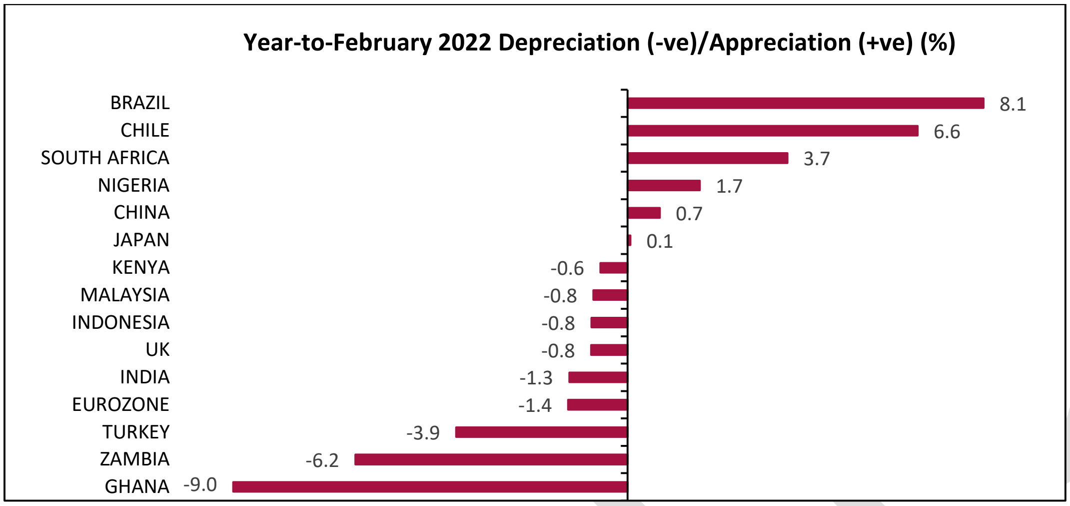
1.4 Currency Markets

On the international currency market, the US dollar index rose sharply in recent months, driven by expectation that the U.S. Federal Reserve will raise its policy rate to curb rising inflation. The US Dollar will strengthen further going into the second quarter due to a number of reasons. First, the dollar will be boosted by the strength of the U.S. recovery. Also, the Federal Reserve raised interest rates by 25 basis points in March 2022 and signalled its intention to do more in the coming months. Finally, the Russia-Ukraine war will benefit the US Dollar's safe-haven status. Other economies such as the Euro Area and Japan have signalled intentions to keep rates low in the near term despite existing price pressures. Thus, the diverging policy should favour the U.S. Dollar in the near term. However, progress with negotiation in respect of the Russia-Ukraine war may remove the safe-haven advantage. A stronger U.S. Dollar would exert varying degrees of impact on EMDE currencies depending on country-specific vulnerabilities (Figure 1.3). The surge in commodity prices supported currencies of commodity exporters such as Nigeria, Chile and South Africa.

In the domestic currency market, there was increased volatility in the foreign exchange market driven by demand pressures from offshore secondary market activities, corporate sectors, oil importers and weakened sentiments due to the downgrade by the rating agencies. These factors tightened forex liquidity which was partly eased by the regular foreign exchange auctions and inflows from the mining sector and remittances.

In the interbank market, the Ghana Cedi depreciated by 9.0 percent, 8.2 percent and 7.9 percent against the U.S. Dollar, the Pound Sterling and the Euro, respectively on a year-to February 2022. Comparatively, the Ghana Cedi appreciated by 4.5 percent, 7.8 percent and 7.0 percent respectively against the U.S. Dollar, the Pound Sterling and the Euro over the same period in 2021 (Table 1.3). The Ghana Cedi performed better in February 2020 on a year-to-date basis compared with the same period from 2017-2019. Also, the Ghana Cedi was more volatile during the first 48 transaction days in 2022 compared with the same period from 2017-2019.

Figure 1.2: Performance of Selected Currencies against the US Dollar



Source: Bank of Ghana and Bloomberg

In relation to the major trading partners' currency movements, the Ghana Cedi depreciated by 8.7 percent in nominal trade weighted terms and 9.8 percent in nominal Forex transactions weighted terms, on a year-to-date basis (Table 1.4). This was against an appreciation of 1.1 percent in nominal trade weighted terms and 0.4 percent in nominal foreign exchange transaction weighted terms over the same period in 2021.

Table 1.3: Movement of the Cedi against the Dollar, Pound Sterling and the Euro

	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
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
2022									
Jan	6.0236	-0.3	-0.29	8.0882	0.5	0.48	6.7506	1.1	1.15
Feb	6.6004	-8.7	-9.00	8.8568	-8.7	-8.24	7.4100	-8.9	-7.85

Source: Bank of Ghana Staff Calculations

Table 1.4 Nominal Effective Exchange Rate

	2018=100		Monthly Change (%)		Year-to-Date (%)	
	FXTWI	TWI	FXTWI	TWI	FXTWI	TWI
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	-0.19
Jun-21	26.37	28.93	0.03	2.33	0.16	2.15
Jul-21	26.19	28.71	-0.69	-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
2022						
Jan-22	25.34	28.94	-0.18	0.72	-0.18	0.72
Feb-22	23.13	26.44	-9.56	-9.44	-9.76	-8.65

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 1.1 percent, 2.7 percent and 2.5 percent respectively against the Dollar, the Euro and the Pound Sterling on a year-to-date basis in January 2022. Comparatively, for the corresponding period in 2021, the Cedi's real exchange rate appreciated by 0.8 percent, 0.9 percent and 1.4 percent against the Dollar, the Pound Sterling and the Euro, respectively (Table 1.5).

Table 1.5 Real Bilateral Exchange Rates

	RER Index (Jan.18=100)			Monthly Change (Index)			Year-to-Date (%)		
	EUR	GBP	USD	EUR	GBP	USD	EUR	GBP	USD
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	97.35	93.3	-1.6	0.6	0.7	4.2	2.6	2.6
May-21	96.6	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	101.33	98.06	93.75	1.0	0.5	0.5	7.3	3.4	3.1
Aug-21	100.86	97.82	92.94	-0.5	-0.2	-0.9	6.9	3.1	2.2
Sep-21	102.45	99.62	92.60	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	8.4	4.9	1.9
Nov-21	104.81	100.57	92.40	2.6	3.2	0.4	8.0	2.7	1.3
Dec-21	103.81	98.13	91.75	-1.0	-2.5	-0.7	10.4	5.8	1.6
2022									
Jan-22	106.65	100.67	92.81	2.7	2.5	1.1	2.7	2.5	1.1

Source: Bank of Ghana Staff Calculations

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 2.5 percent in real trade weighted terms and by 1.3 percent in real forex transaction weighted terms in January 2022. This compared with an appreciation of 1.3 percent in real trade weighted terms and 0.8 in real FX transaction weighted terms over the same period in 2021.

Table 1.6 Real Trade Weighted Exchange Rate

	RTWI and FXRTWI					
	INDEX (2018=100)		Monthly Change		Year-to-Date (%)	
	RFXTWI	RTWI	RFXTWI	RTWI	RFXTWI	RTWI
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	93.36	95.97	-0.5	-1.4	2.3	2.5
Jun-21	93.38	99.15	0.0	3.2	2.3	5.6
Jul-21	94.40	99.99	1.1	0.8	3.4	6.4
Aug-21	93.62	99.46	-0.8	-0.5	2.6	6.0
Sep-21	93.47	100.83	-0.2	1.3	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
2022						
Jan-22	93.96	104.16	1.3	2.5	1.3	2.5

Source: Bank of Ghana Staff Calculations

1.5 Global Economic Outlook and Risks

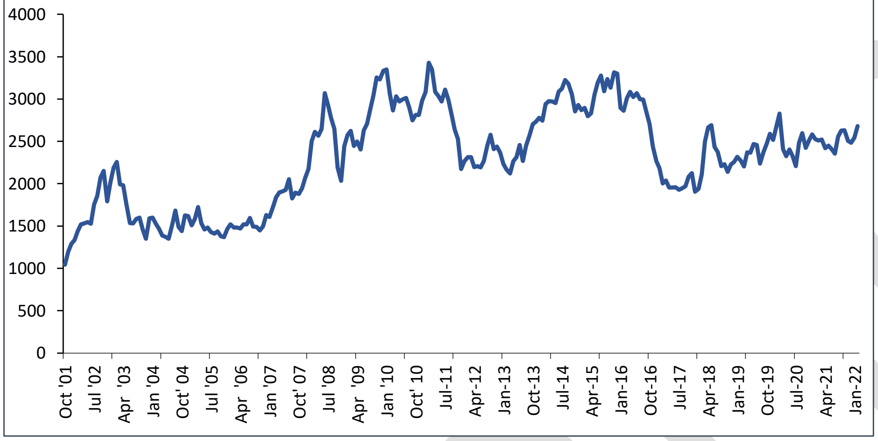
Global economic recovery is continuing but faces multiple challenges in the near term. Headline inflation is expected to remain elevated in the near term but will decline in the course of 2022 as supply constraints ease and energy prices decline. However, supply bottlenecks and rising input costs may prove more persistent than anticipated, possibly leading to de-anchoring of inflation expectations and wage growth. Central banks have shifted their focus to less accommodative stances to contain rising inflation. The expectation of policy rate hikes has pushed up long-term bond yields. Thus, we expected a tight global financial conditions in the near term. 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$2,681 per tonne in February 2022, up by 5.3 percent relative to the previous month. Compared to the same period last year, prices increased by 6.9 percent. Prices were supported by a significant drop in production from Ghana and concerns about dry weather conditions.

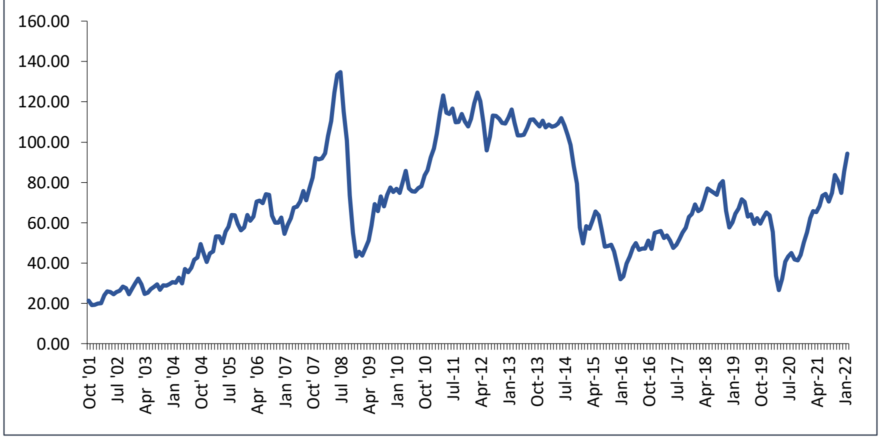
Figure 2.1: International Cocoa Prices (US$/metric tonnes)



Source: Reuters

Brent closed the month of February at an average price of US$94.28 per barrel, representing a gain of 26.0 percent year-to-date and 51.4 percent year-on-year. The surge in crude oil prices benefited largely from recovery in demand amid supply restraint and geopolitical tension between Russia and Ukraine.

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



Source: Reuters

Spot gold prices recorded some gains during the month of February, increasing by 2.2 percent month-on-month to settle at an average price of US$1,857.11 per fine ounce. From the beginning of the year to end February 2022, the yellow metal gained 3.7 percent as escalating geopolitical tensions boosted investors demand for the safe-haven metal. On year-on-year basis, gold gained 2.6 percent on the back of growing global inflationary concerns, pushing the yellow metal into positive territory.

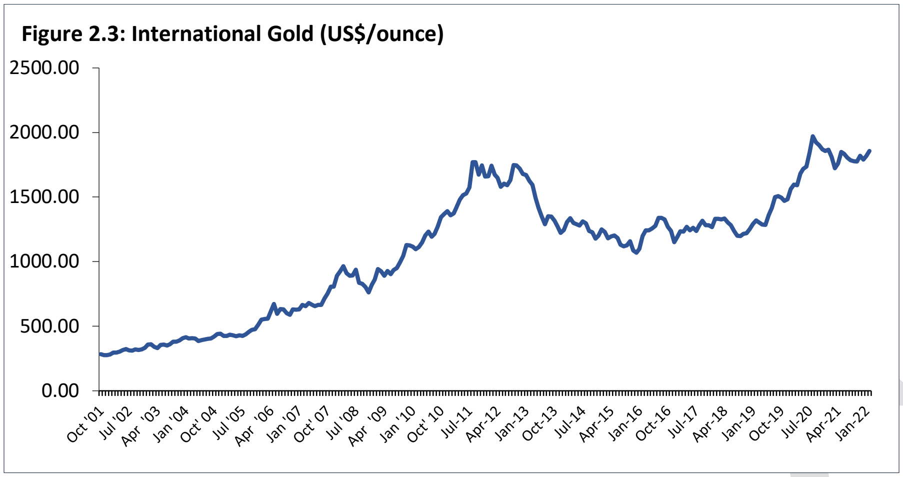


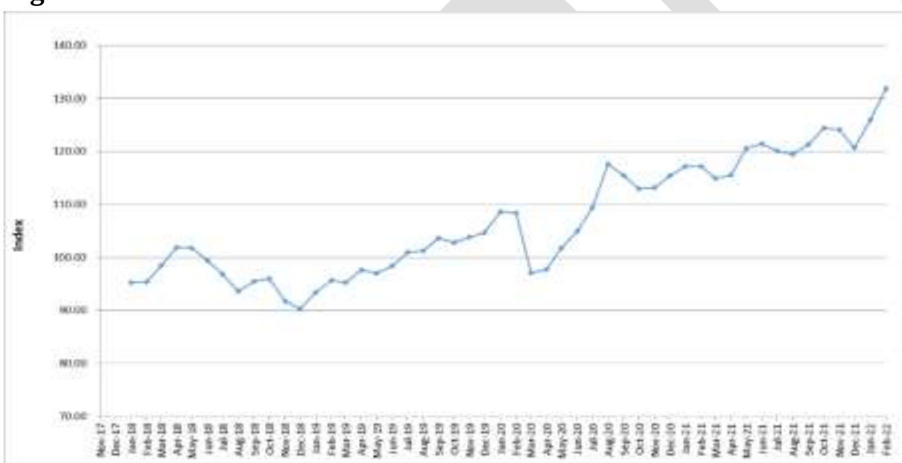
Figure 2.3: International Gold (US$/ounce)

Source: Reuters

2.1 Commodities Price Index

The weighted average price of the three major commodities exported by Ghana (cocoa, gold and crude oil) continued the uptrend increasing by 4.7 percent in February 2022. The rise in the overall index was led by crude oil (10.3%), followed by cocoa (5.3%) and gold (2.2%).

Figure 2.4: Commodities Price Index



Source: BOG Staff Computation

2.2 Trade Balance

The trade account continued to remain in a surplus, albeit declining. For the first two months of 2022, the trade surplus amounted to US$404.9 million, lower than a surplus of US$432.69 million for the corresponding period of 2021. The decline in the trade balance was mainly due to a higher import growth relative to exports growth. Imports grew by 7.9 percent year on year to US$2.3 billion. The increase in imports was driven mainly by oil imports that rose by 80.1 percent with non-oil imports decreasing by 5.53 percent. With regard to exports, earnings grew by 5.5 percent to US$2.7 billion. Improved earnings from crude oil, aluminium alloys and other exports, including non-traditional exports, boosted exports performance notwithstanding some decline in gold and cocoa receipts.

2.3 International Reserves

Gross International Reserves at the end of February 2022 was US$9,547.96 million, providing cover for 4.3 months of imports. The reserve level compares with the end-December 2021 position of US$9,695.22 million, equivalent to 4.4 months of import cover.

2.4 External Sector Outlook

The Russia Ukraine war is likely to impact negatively on Ghana's external sector, particularly in the area of some key construction and agricultural commodities. In recent past, an average of 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. The main import items from Russia are grains, wheat flour and fertilizers. In 2021, around 28.7 percent of Ghana's grains imports came from Russia and for the first two months of 2022, grains imports from Russian accounted for 31.2 percent of the total grain imports. And about 50.0 percent and 39.2 percent of flour and fertilizer imports respectively, were sourced from Russia in the first two months of 2022. Ghana's main exports to Russia are cocoa beans and products and it accounted for 0.2 percent of total cocoa exports. These have important implications for the supply and prices of these major items imported from Russia.

Ghana's major imports from Ukraine are iron ore and steel accounting for over 60 percent of the total iron ore and steel imports. As a result of this fact, the construction industry will likely face some challenges in terms of supply disruptions and prices of steel and iron ore imports. With regards to exports, manganese is the major item exported to Ukraine and for the first two months of 2022, manganese shipment to Ukraine accounted for around 12 percent of the total manganese exports. Over the past few years, manganese exports to Ukraine has accounted for over 20 percent of the total manganese exports.

On the commodities front, the current cocoa season witnessed a slow start and, despite the mild Harmattan, severe dryness is being experienced in the main producing countries of West Africa. Although it is anticipated that the weather condition might improve, global production for this season is expected to be lower compared to the level recorded for the preceding crop year. Nonetheless, uncertainties remain in the near term. Resurgence of new infections and emergence of new variants combined with recent geopolitical tensions could slow economic recovery. As a result, demand for cocoa could dampen with implications for prices.

The global oil market is going through turbulent times. As the world economy was about to recover from the ravages of the COVID-19 pandemic, the Russia-Ukraine war has increased the uncertainty about the economic outlook. Oil prices have soared mainly due to sanctions on Russia. Prices in the coming months will depend on the extent to which existing and future sanctions on Russia will affect the country's contribution to the global energy supply.

For gold, the market currently is facing two main opposing forces. The on-going geopolitical tension will be supportive of gold while potential for higher interest rates globally may weigh on gold. The direction of gold in the coming months is therefore uncertain and it depends on where the market will focus.

Appendix Table 2.1: Trade Balance (US$ million)

	2020 Jan - Feb	2021 Jan - Feb	Prov 2022 Jan - Feb	Abs Y/Y Chg	Rel Y/Y Chg
Trade Balance	***791.0***	***432.7***	***404.9***	**-27.8**	**-6.4**
Trade Bal (% GDP)	***1.2***	***0.6***	***0.5***		
Total Exports	***2,801.6***	***2,594.6***	***2,737.2***	**142.7**	**5.5**
Gold ($'M)	985.9	931.2	885.2	-46.0	-4.9
Volume (fine ounces)	625,514	508,295	480,016	-28,279	-5.6
Unit Price ($/fine ounce)	1,576.2	1,832.0	1,844.1	12.1	0.7
Cocoa Beans ($'M)	559.3	532.2	439.2	-93.0	-17.5
Volume (tonnes)	226,668	197,523	169,590	-27,932	-14.1
Unit Price ($/tonne)	2,467.7	2,694.3	2,589.6	-104.7	-3.9
Cocoa Products ($'M)	157.0	169.2	157.6	-11.6	-6.8
Volume (tonnes)	49,074	49,570	49,885	315	0.6
Unit Price ($/tonne)	3,199.0	3,413.5	3,160.1	-253.4	-7.4
Crude Oil ($'M)	681.8	510.2	688.8	178.6	35.0
Volume (barrels)	11,440,215	8,645,078	7,686,980	-958,098	-11.1
Unit Price ($/bbl)	59.6	59.0	89.6	30.6	51.8
Other Exports	417.5	451.8	566.4	114.6	25.4
o/w: Non-Tradional Exports	349.0	372.4	464.8	92.5	24.8
Total Import	***2,010.6***	***2,161.9***	***2,332.3***	**170.4**	**7.9**
Non-Oil	1,635.8	1,823.4	1,722.6	-100.8	-5.5
Oil and Gas	374.8	338.5	609.7	271.2	80.1
of which: Products	293.8	311.3	578.8	267.5	85.9
Crude Oil ($'M)	53.1	2.1	9.8	7.7	362.4
Volume (barrels)	843,770	36,888	108,572	71,684	194.3
Unit Price ($/bbl)	62.9	57.3	90.0	32.7	57.1
Gas ($'M)	27.9	25.1	21.1	-4.0	-15.9
Volume (MMBtu)	3,805,828	3,390,466	2,719,684	-670,782	-19.8
Unit Price ($ mmBtu)	7.3	7.4	7.7	0.4	4.8

Source: Bank of Ghana

3. Real Sector Developments

3.0 Overview

Domestic economic activity continued to show signs of recovery from the adverse effects of the COVID-19 pandemic. The latest high frequency indicators recorded broad-based improvement in most key real sector indicators in January 2022 compared to a year ago. Domestic VAT collections, retail sales, industrial consumption of electricity, private sector contributions to social security, vehicle registration and tourist arrivals all improved. Cement sales, however, contracted in the review period.

3.1 Trends in Real Sector Indicators

Consumer Spending

Consumer spending, proxied by domestic VAT collections and retail sales, posted a positive performance in January 2022, compared with the same period in 2021. Domestic VAT collections increased by 8.3 percent on a year-on-year basis to GH¢571.46 million, but dipped by 15.9 percent on a month-on-month basis in January 2022 from GH¢679.11 million recorded in the preceding month.

Retail sales increased by 7.1 percent (year-on-year) to GH¢123.65 million in January 2022, up from GH¢115.47 million recorded in the same period in 2021. Compared to December 2021, however, retail sales declined by 45.1 percent. The relative year-on-year improvement in retail sales reflected increased household consumption 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 positive performance in January 2022. Total Direct Taxes collected increased by 4.3 percent (year-on-year) to GH¢1,430.76 million in January 2022, relative to GH¢1,371.72 million recorded in January 2021. On a month-on-month basis, total Direct Taxes collected for January 2022 declined by 72.2 percent from GH¢5,148.92 million collected in December 2021. In terms of contributions of the various sub-tax categories, Income tax (PAYE and self-employed) accounted for 45.3 percent, Corporate tax accounted for 43.4 percent, while "Other Tax Sources" contributed 11.3 percent.

Total private sector workers' contribution to the SSNIT Pension Scheme (Tier-1) went up by 28.6 percent in year-on-year terms to GH¢230.16 million in January 2022, from GH¢178.92 million collected during the corresponding period in 2021.

Construction Sector Activities

Activity in the construction sub-sector, proxied by the volume of cement sales, declined by 6.0 percent (year-on-year) in January 2022 to 314,654.79 tonnes, compared with 334,700.22 tonnes recorded a year ago. On a month-on-month basis, total cement sales dipped by 5.9 percent in January 2022 compared with 334,344.22 tonnes recorded in December 2021. The decline in total cement sales was due to a slowdown in construction activities during the review period.

Vehicle Registration

Transport sector activities, gauged by new vehicle registrations by the Driver and Vehicle Licensing Authority (DVLA), improved by 9.6 percent to 50,374 in January 2022, from 45,963 vehicles registered during the corresponding period of 2021. On a month-on-month basis, DVLA vehicle registrations rose significantly in January 2022, in line with seasonal trends (see Panel 3).

Industrial Consumption of Electricity

Consumption of electricity by industries went up by 11.7 percent on a year-on-year basis, during the period under review. Industries consumed 269.43 gigawatts of power in January 2022, as against 241.24 gigawatts recorded for the corresponding period in 2021. On a month-on-month basis, electricity consumed by industries in January 2022 increased marginally by 1.5 percent from 265.38 gigawatts utilised in December 2021. 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 by 52.8 percent to 56,285 in January 2022, compared with 36,838 arrivals recorded a year ago. On a month-on-month basis, passenger arrivals declined by 34.2 percent. The year-on-year increase in passenger arrivals reflected the continuous easing of travel restrictions in the country.

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 0.9 percent, year-on-year, to 62,062 in January 2022, up from 61,500 for a similar period in 2021. On a month-on-month basis, total container traffic decreased by 4.1 percent when compared to 64,727 recorded in December 2021. The relative year-on-year 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 February 2022 relative to the corresponding period a year ago. In total, 2,746 job adverts were recorded as compared with 2,999 for the same period in 2021, indicating a decline of 8.4 percent (year-on-year). On a month-on-month basis, the number of job vacancies in February 2022, however, increased by 4.6 percent. Cumulatively, the number of jobs advertised in the first two months of 2022 decreased by 4.4 percent to 5,370 from 5,618 recorded in the corresponding period of 2021. 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.

Private Sector Pension Contributors

Total number of private sector SSNIT contributors, which partially gauges employment conditions, improved to 828,061 (up by 2.4% year-on-year) in January 2022 compared with 808,301 for the same period in 2021. On a month-on-month basis, total number of private sector SSNIT contributors decreased by 4.1 percent from the 863,094 individuals recorded in December 2021.

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

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

3.2 Composite Index of Economic Activity (CIEA)

The Bank's updated Composite Index of Economic Activity (CIEA) recorded an annual growth of 4.2 percent in January 2022, compared with 13.9 percent recorded in the corresponding period of 2021.

3.3 Consumer and Business Surveys

The consumer and business confidence surveys conducted in February 2022 revealed a softening of sentiments with business confidence declining by a greater extent. The Consumer Confidence Index eased from 88.1 in December 2021 to 87.4 in February 2022 on account of the persistent increases in fuel prices, increases in transportation fares and rising inflation. Businesses were concerned about the impact of these on macroeconomic conditions as well as on their short-term targets and profitability for 2022. Consequently, the Business Confidence Index dipped from 98.4 in December 2021 to 88.8 in February 2022.

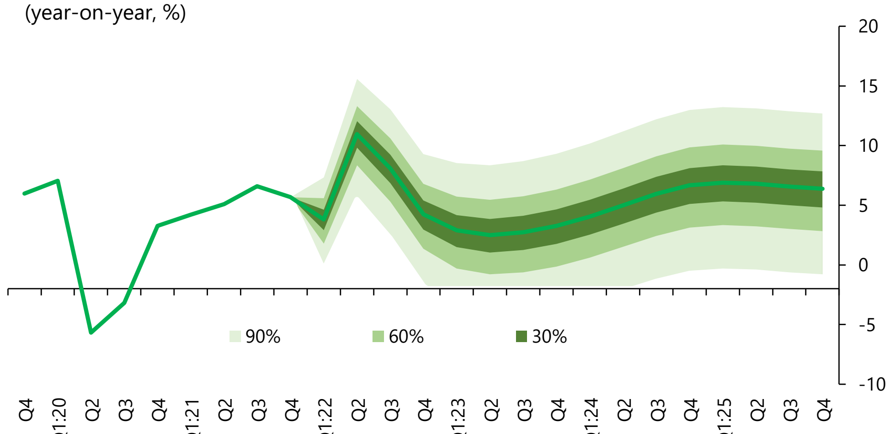
3.4 Real Sector Outlook

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, tighter monetary conditions and the on-going fiscal consolidation are likely to moderate the pace of the recovery in the forecast horizon.

3.4.1 Risks to the Growth Outlook

Global growth for 2022 is projected to be moderated according to the forecast from the IMF's World Economic Outlook (WEO), January 2022. Increased geopolitical tensions and imposition of sanctions on Russia due to the Russia-Ukraine conflict could have dire consequences on global oil and gas prices in the outlook. On the domestic front, growth momentum is expected to moderate in the first half of 2022 due to the rising input costs triggered by the upward adjustments in petroleum prices. Also, the latest Bank of Ghana surveys results indicated softened consumer and business confidence, which may affect private sector production plans and investments. This notwithstanding, the gradual rebound in private sector credit will continue to drive the growth process in the near term.

Figure 3.1: GDP Fan Chart
(year-on-year, %)

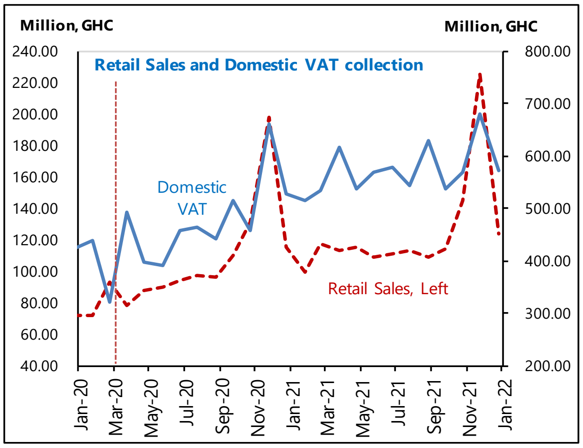


Source: Bank of Ghana Staff Forecast

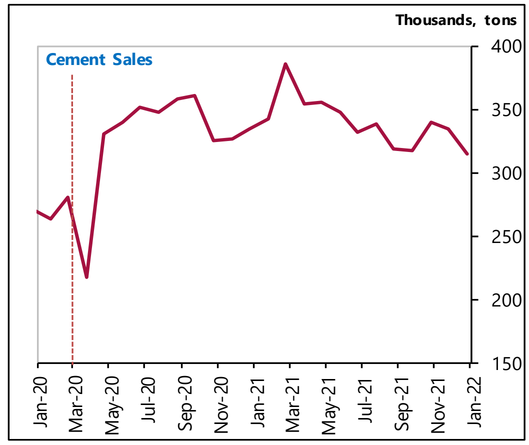
Figure 3.2: Indicators of Economic Activity

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

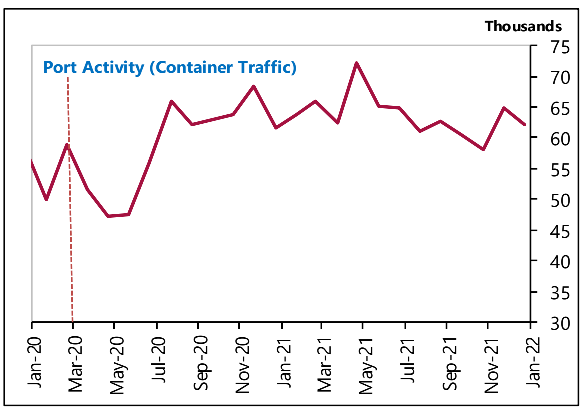
...Domestic consumption, proxied by retail sales and domestic VAT collections, dipped in January 2022...



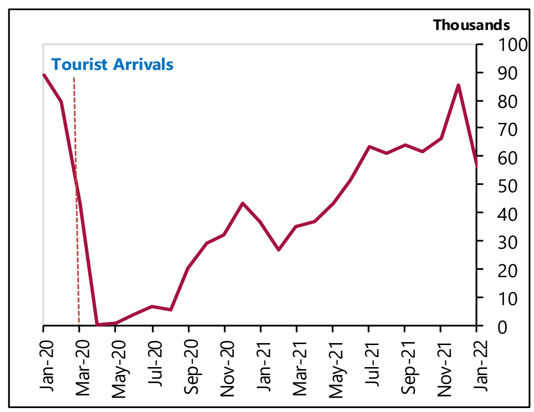
...Construction activities, proxied by cement sales, declined in January 2022...



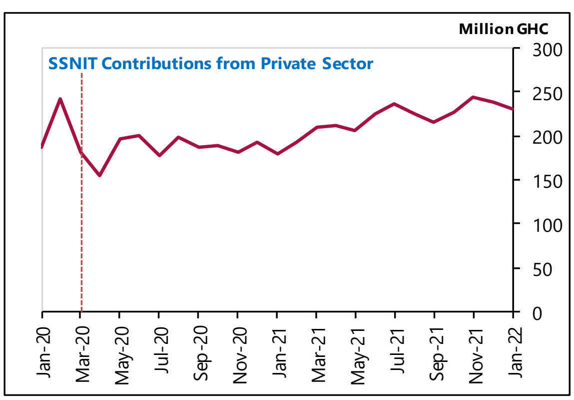
...Port activity dipped in January 2022...



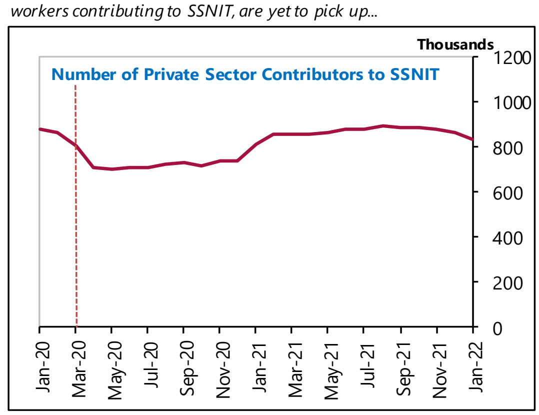
...Tourist arrivals went down in January 2022...



...Labour market conditions softened in January 2022...



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

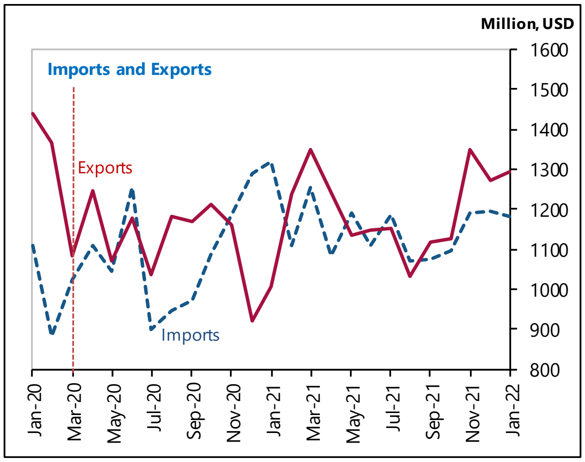


Sources: Bank of Ghana, Various Stakeholders

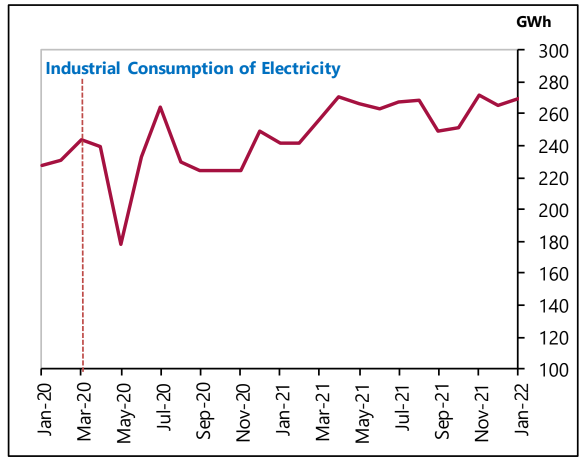
Figure 3.2: Indicators of Economic Activity (ctd.)

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

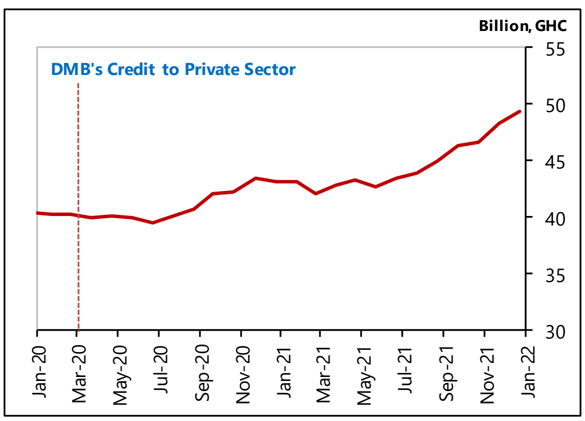
...Unlike imports, exports picked up in January 2022...



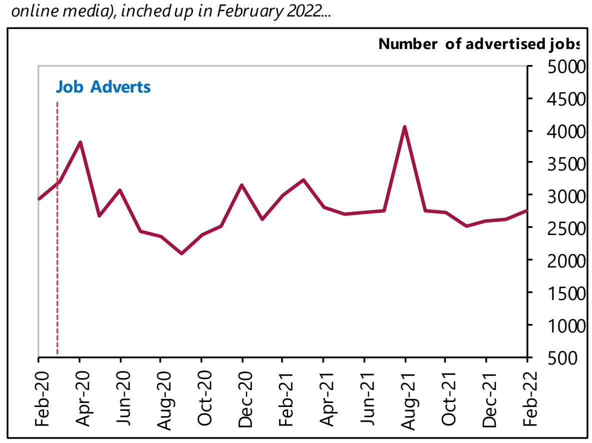
...Industrial activity, proxied by industrial consumption of electricity, increased...



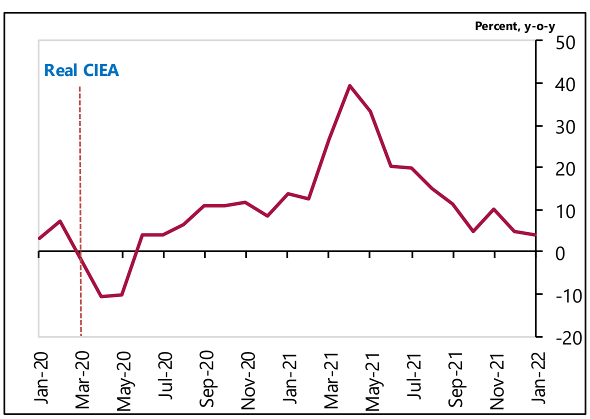
...Commercial banks' credit to the private sector improved in January 2022...



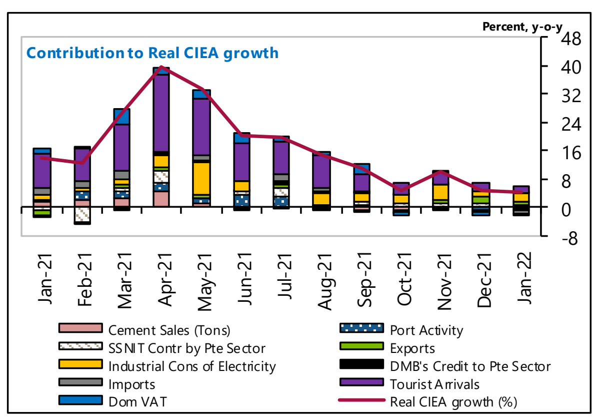
...Demand for labour, proxied by the number of job adverts (in print and online media), inched up in February 2022...



...On a year-on-year basis, the real CIEA grew by 4.2 percent in January 2022, compared with 13.9 percent in January 2021...



...The growth in the real CIEA was mainly driven by a pick-up in Industrial Consumption of Electricity, Tourist Arrivals, Exports, SSNIT Contributions from the Private Sector, and DMB's Credit to the Private Sector...

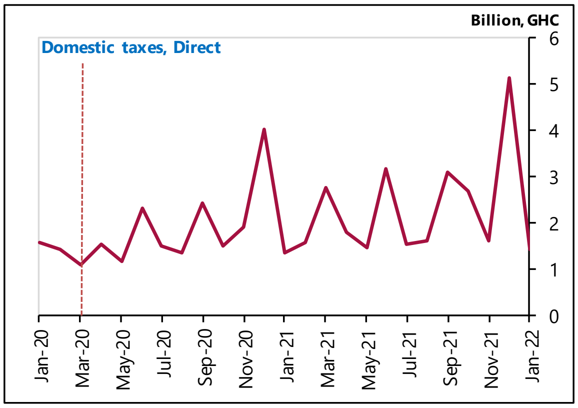


Source: Bank of Ghana, Various Stakeholders

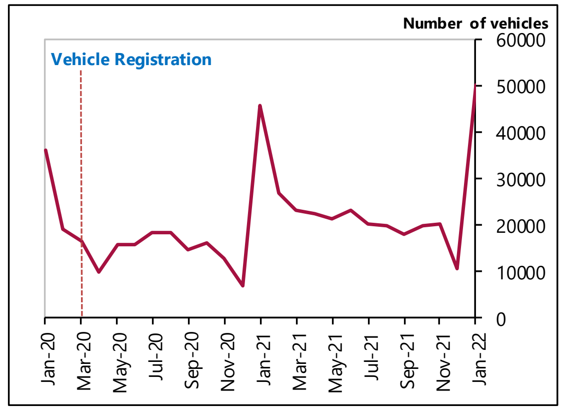
Figure 3.2: Indicators of Economic Activity (ctd.)

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

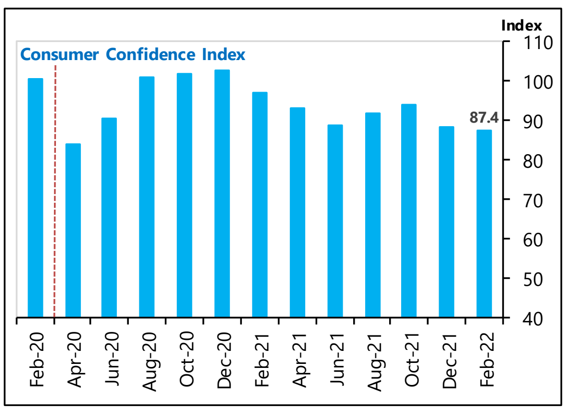
...Domestic tax collection declined in January 2022...



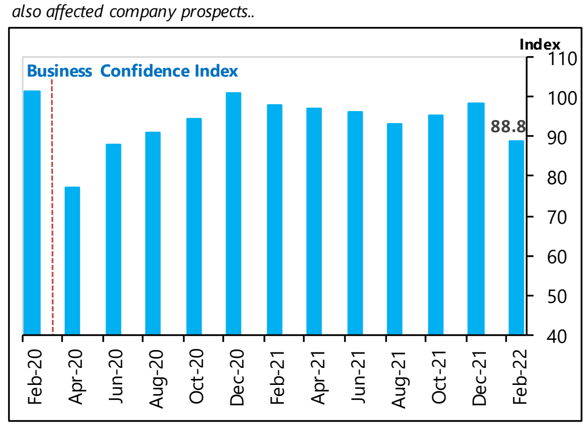
...Vehicle registration increased significantly in January 2022...



...Consumer confidence softened on account of the persistent increases in fuel prices, increases in transportation fares and rising inflation...



...Business confidence declined due to the perceived deterioration of macroeconomic conditions as well as unrealised short-term targets which also affected company prospects..



Source: Bank of Ghana, Various Stakeholders

4. Monetary and Financial Developments

4.0 Overview

Annual growth in broad money supply (M2+) showed significant moderation in February 2022, mainly driven by contraction in the Net Foreign Assets of the banking sector even though the Net Domestic Assets expanded. Developments on the money market broadly showed rising interest rates across the entirety of the yield curve, while the Ghana Stock Exchange (GSE) Composite Index recorded a moderate loss, on year-to-date basis, driven by a variety of factors including the re-imposition of capital gains tax on securities listed on the GSE, which is inducing some investors to switch to Government securities.

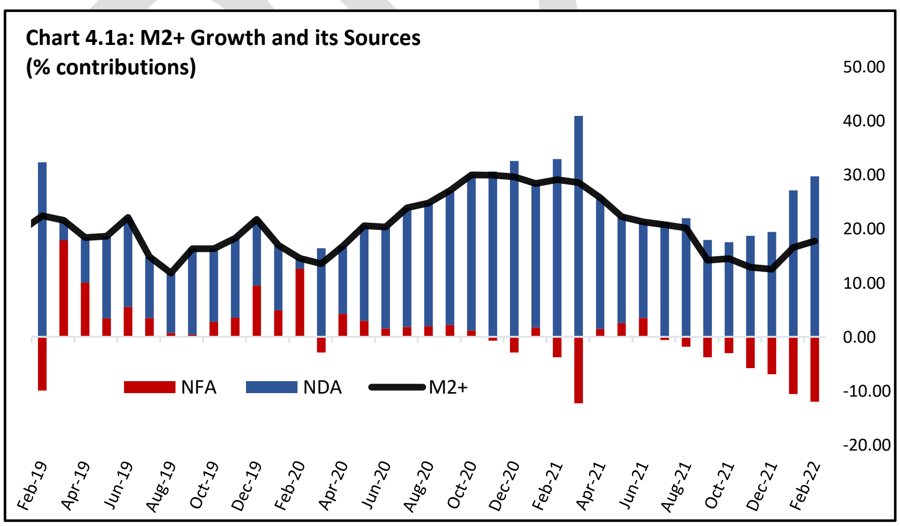
4.1 Developments in Monetary Aggregates

Money Supply

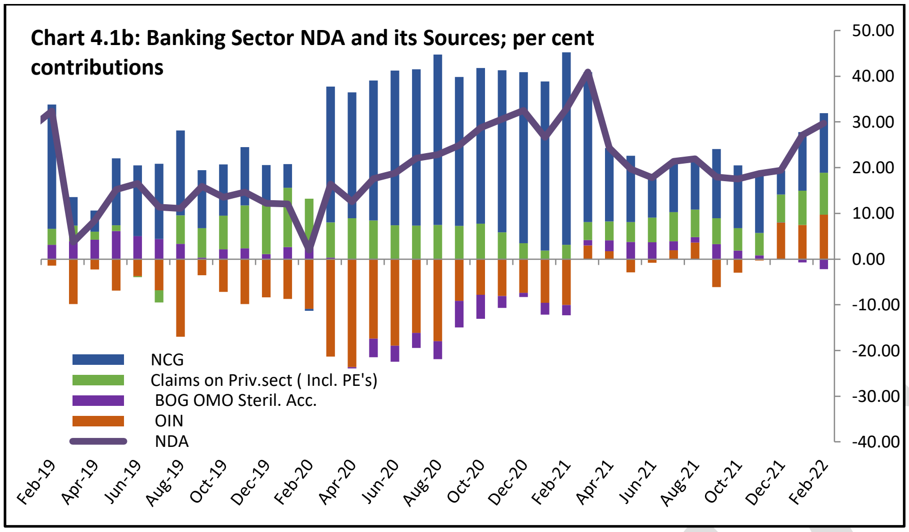
Growth in broad money supply (M2+) showed significant moderation in February 2022, mainly driven by contraction in the Net Foreign Assets (NFA) of the banking sector, even though the Net Domestic Assets (NDA) expanded, albeit at a slower pace. Growth in M2+ declined to 17.71 percent in February 2022 from 29.10 percent in February 2021. The contribution of NFA in the growth of M2+ decreased from *negative* 3.78 percent to *negative* 12.01 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 74.35 percent in February 2022 relative to 15.36 percent contraction in February 2021, while the NDA expanded by 35.44 percent compared with 43.63 percent, over the same comaprative period (Chart 4.1a and Appendix Table 1).

The decrease in the contribution of NDA in the growth of M2+ was mainly driven by a slower pace of growth of Net Claims on Government (NCG) relative to 2021. On the other hand, contributions of claims on public and private sectors to the growth in M2+ increased during the period under review, while the contribution of stock of BOG bills held by Deposit Money Banks (DMBs) increased, albeit marginally, over the same comparative period (Chart 4.1b, and Appendix Table 1).

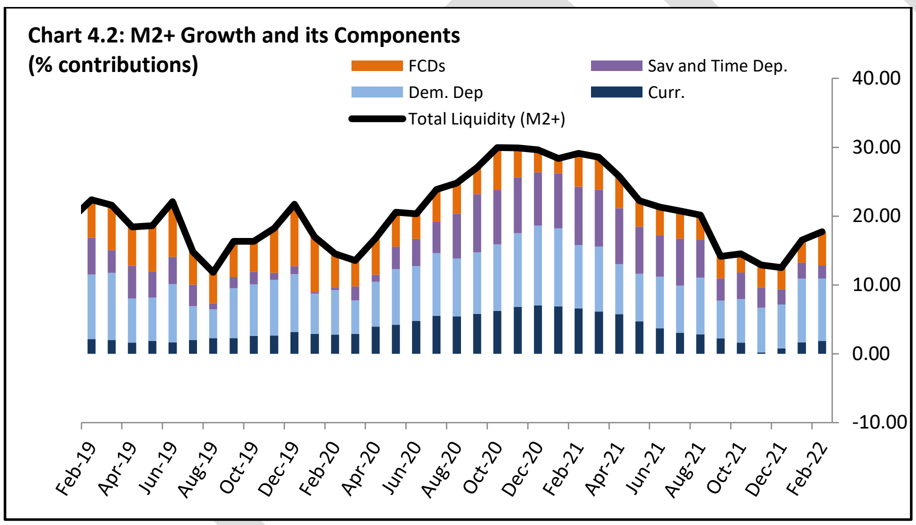


Source: Bank of Ghana Staff Calculations



Source: Bank of Ghana Staff Calculations

Analysis of the components of M2+ over the period showed that the moderation in the growth in M2+ reflected in decreased distributions to Currency Outside Banks (CURR), Demand Deposits (DD), and Savings and Time Deposits (STD), relative to same period in 2021; distribution to Foreign Currency Deposits (FCD), however, increased over the same comparative period (Chart 4.2; Appendix Table 1).



Source: Bank of Ghana Staff Calculations

4.2 Reserve Money

Annual growth in Reserve Money (RM) declined significantly to 21.89 percent in February 2022, from 34.83 percent recorded in the corresponding period of 2021. The moderation in the pace of growth in RM was mainly due to a contraction in the Net Foreign Assets of Bank of Ghana, reflecting increased demand for balance of payments support, and intensified BOG interventions on the foreign exchange market to mute the pressures on the domestic currency. The contribution of NFA to the growth in RM was *negative* 17.79 percent in February 2022, relative to *negative* 27.47 percent recorded in the corresponding period of 2021. On the other hand, the contribution of the Net Domestic Assets (NDA) was 39.69 percent compared with 62.30 percent, over the same comparative period. The decline in the contribution of NDA to the growth in RM was largely driven by decreases in contributions of Net Claims on Government (NCG), and Net Claims on DMBs (NC_DMBs). Contributions of Other Items (Net) (OIN), however, increased to moderate the decline in the NDA. (Chart 4.3a, 4.3b, and Appendix 2).

Chart 4.3a: RM Growth and Annual Percent Contribution

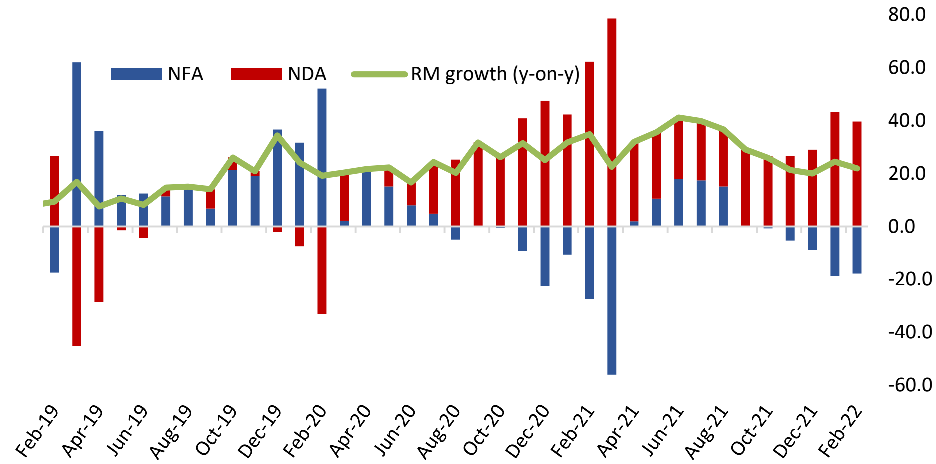
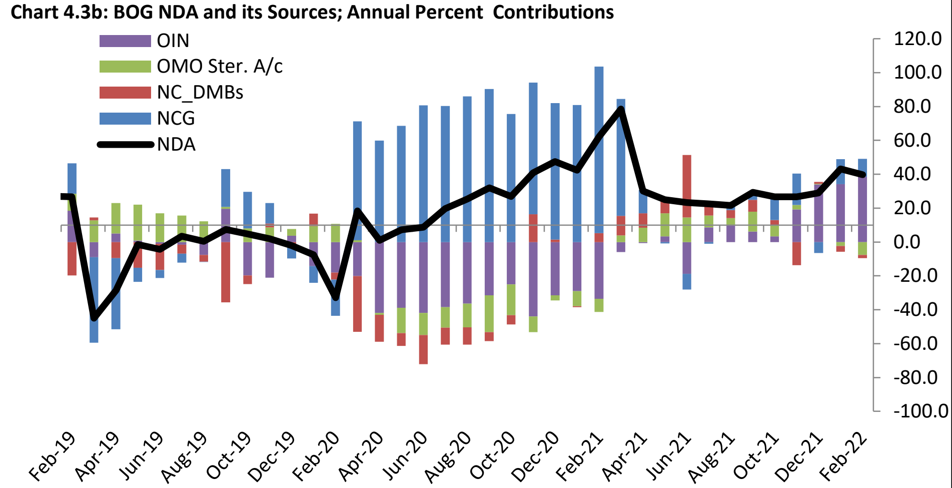


Chart 4.3b: BOG NDA and its Sources; Annual Percent Contributions



Source: Bank of Ghana Staff Calculations

4.3 Deposit Money Banks Credit Developments

DMBs' credit to the private sector and public institutions increased by GH¢8,694.64 million (18.3%) in February 2022 compared with GH¢1,664.71 million (3.6%) recorded in February 2021. Credit to the private sector increased by GH¢7,377.21 million (17.1%) in February 2022 compared with GH¢2,968.51 million (7.4%) recorded in the corresponding period of 2021. The significant increase in the growth in private sector credit reflected the rebound in economic activities and the sustained impact of COVID-19 regulatory measures implemented by the Bank of Ghana. Private sector credit accounted for 84.85 percent of total flow of credit extended to both private and public institutions in February 2022, relative to 178.3 percent recorded in the corresponding period of 2021. Credit flow to the private sector remained concentrated in four sectors: services; construction; manufacturing; and import trade (Chart 4.4a).

Outstanding credit to the private sector at the end of February 2022 was GH¢50,593.35 million, compared with GH¢43,216.14 million recorded in February 2021. In real terms, private sector credit grew marginally by 1.2 percent in February 2022 compared with a 2.6 percent contraction recorded in the corresponding period of 2021. Real growth in private sector credit was slightly above the long-run trend (Chart 4.4b).

Chart 4.4a: Shares in Annual Flow of Credit to the Private sector (%)

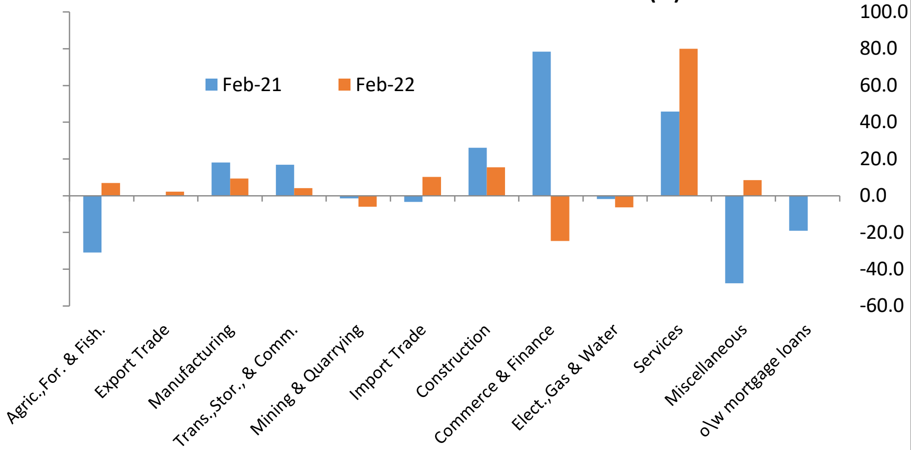
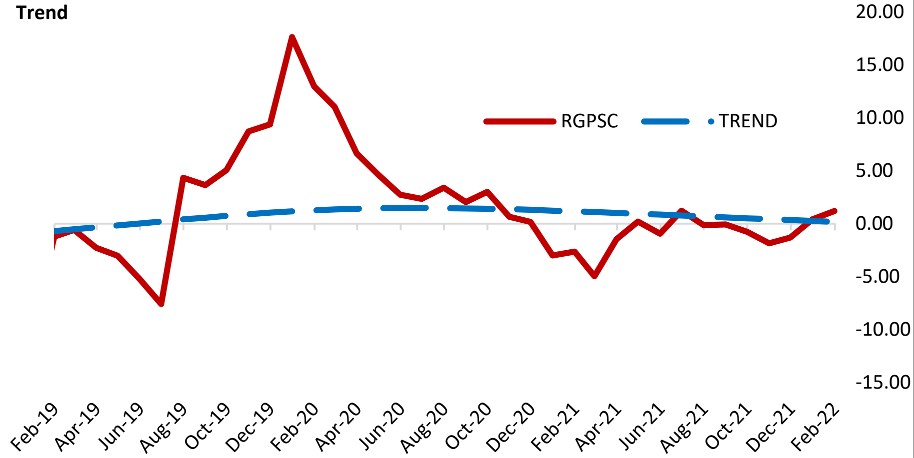


Chart4. 4b: Annual Growth in Real Private Sector Credit (RGPSC) above Long-run Trend



Source: Bank of Ghana Staff Calculations

4.5 Money Market Developments

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

Developments on the money market broadly showed rising interest rates across the entirety of the yield curve. Over the period December 2021 to February 2022, the 91-day and 182-day Treasury bill rates have inched up to 12.8 percent and 13.3 percent respectively. The respective rates in December 2021 were 12.5 percent and 13.2 percent; the rate on the 364-day instrument also went up from 16.5 percent to 16.97 percent; 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.

The weighted average interbank rate inched up from 12.68 percent in December 2021 to 12.96 percent in February 2022. The increase in rates on the interbank market was transmitted to the retail end of the market, resulting in average lending rates of banks inching up marginally to 20.52 percent in February 2022 from 20.04 percent recorded in December 2021. In real terms, money market interest rates declined, reflecting sustained price pressures in February 2022 (Charts 4.5, 4.6 and 4.7).

Chart 4.5: Interest Rates and Inflation

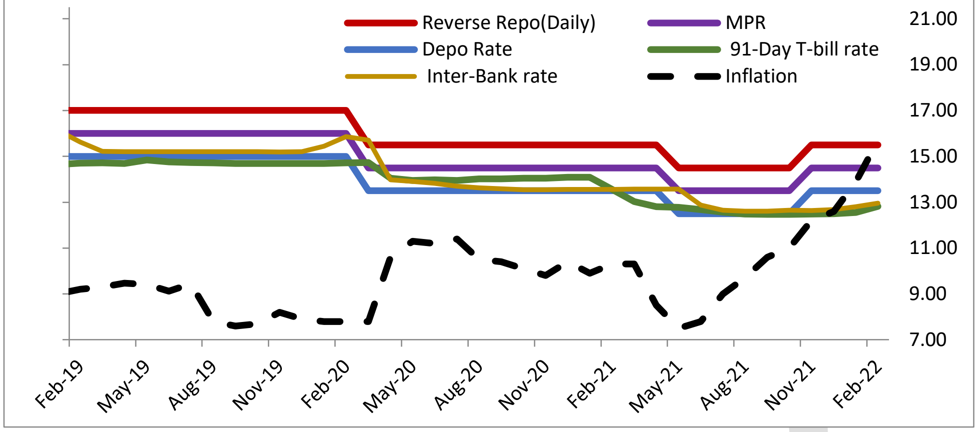


Chart 4.6: Yield Curve (Y-O-Y)

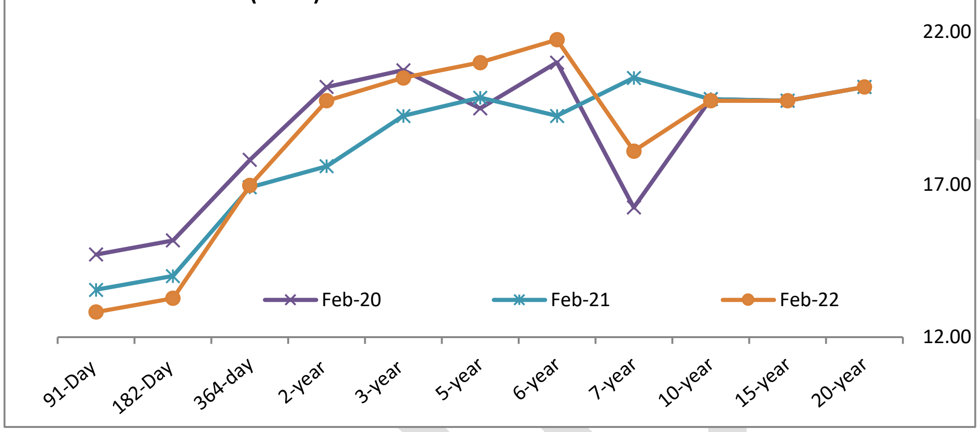
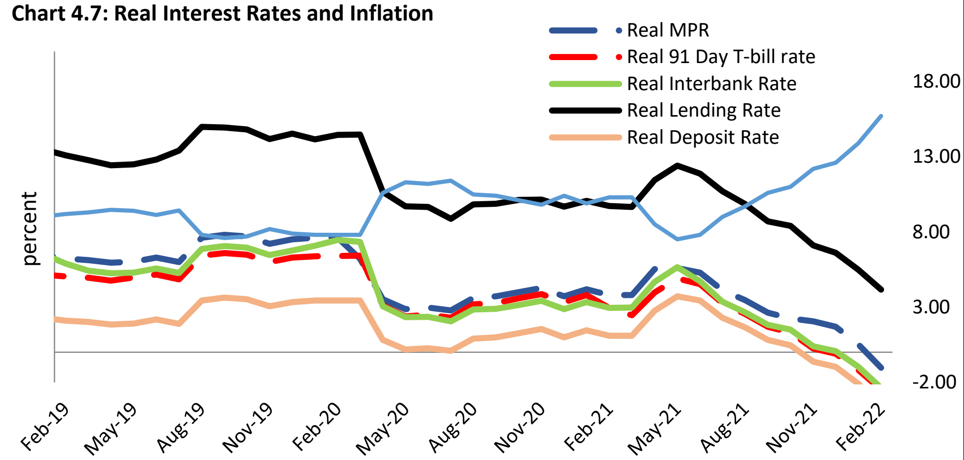


Chart 4.7: Real Interest Rates and Inflation



Source: Bank of Ghana

4.6 Stock Market Developments

The Ghana Stock Exchange Composite Index (GSE-CI) increased to 2696.45 points in February 2022 from 2200.92 points recorded in the corresponding period of 2021. This translates into a year-on-year gain of 22.5 percent in February 2022 compared to a loss of 0.5 percent in February 2021. The GSE-Financial Stocks Index (GSE-FSI) closed at 2118.96 points, representing a gain of 18.86 percent compared to a loss of 4.7 percent, over the same comparative period in 2021.

The sectors that contributed to the year-on-year growth were the Finance, Food & Brewery, Agriculture, Distribution, and Information Technology. On year-on-year basis, the stock market's improved performance was on the back of rebound in investor confidence, underpinned by policy support, as well as the relaxation of pandemic-related restrictions, particularly, in 2021.

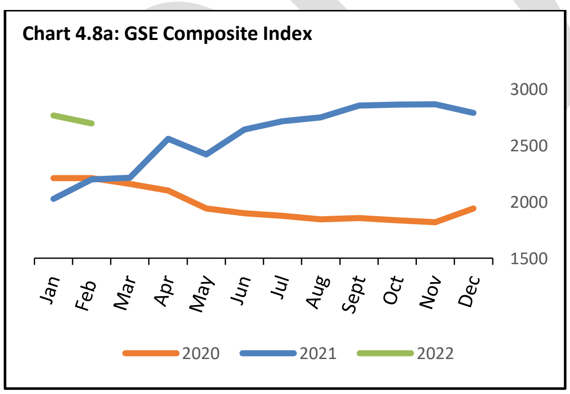
The year-to-date performance, however, showed a loss in the index of about 3.33 percent. The year-to-date loss is attributed to the re-imposition of capital gains tax on securities listed on the GSE, inducing some investors to switch to Government securities. Other factors include selling pressures, poor performance of some companies, relatively higher yields on fixed income securities, uncertainty induced by inflation and exchange rate pressures, as well as portfolio reversals.

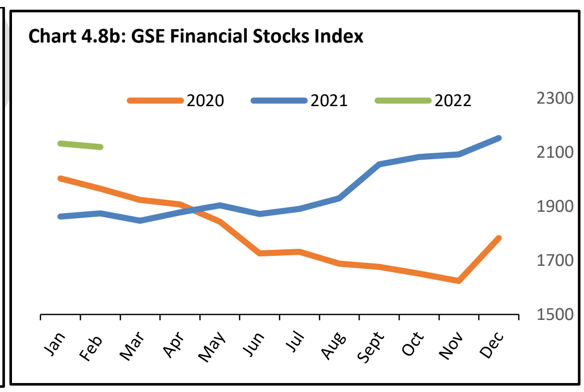
Total market capitalisation of the GSE at the end of February 2022 was GH¢62.88 billion representing a growth of 15.7 percent (GH¢5.73 billion), compared with a growth of 1.1 percent in February 2021. The year-on-year improvement in market capitalization was largely on account of capital gains. Total market capitalization, however, declined by 2.5 percent, on year-to-date basis, driven by declines in share prices (Table 4.1, Charts 4.8a, 4.8b).

Table 4.1: Performance of GSE

Performance of Ghana Stock Exchange (Table 2)														
										Changes Y-O-Y		Y-T-D	Jan over Feb	
	Feb-20	Dec-20	Feb-21	Mar-21	Jun-21	Sep-21	Dec-21	Jan-22	Feb-22	2021	2022	2022	2021	2022
GSE CI	2211.89	1941.59	2200.92	2213.29	2643.67	2855.29	2789.34	2766.8	2696.45	-0.50	22.51	-3.33	8.57	-2.54
GSE FI	1964.60	1782.76	1873.31	1845.92	1871.41	2055.20	2151.85	2131.9	2118.96	-4.65	18.86	-1.53	0.64	-0.61
Market Capitalization	56529.36	54374.86	57152.18	57162.18	61331.40	64170.83	64495.21	64097.80	62881.97	1.10	15.65	-2.50	3.29	-1.90

Source: Ghana Stock Exchange and Bank of Ghana Staff Calculations





Source: Ghana Stock Exchange

4.7 Conclusion

Growth in broad money supply (M2+) showed significant moderation in February 2022, mainly driven by contraction in the Net Foreign Assets (NFA) of the banking sector, while the Net Domestic Assets (NDA) expanded albeit at a slower pace. Annual growth in reserve money declined significantly, mainly due to a contraction in the Net Foreign Assets of Bank of Ghana. The moderation in the pace of growth reflects increased demand for balance of payments support, and BOG interventions on the foreign exchange market to mute the pressures on the domestic currency.

Growth in credit to the private sector improved significantly in nominal terms, reflecting the rebound in economic activities and the sustained impact of COVID-19 regulatory measures implemented by the Bank of Ghana. However, sustained price pressures weighed on real private sector credit, which recorded moderate growth relative to a contraction in the same period last year. Developments on the money market broadly showed rising interest rates across the entirety of the yield curve.

The Ghana Stock Exchange Composite Index (GSE-CI) continued to show improved performance, on year-on-year basis, on the back of rebound in investor confidence, underpinned by policy support, as well as the relaxation of pandemic-related restrictions, particularly in 2021. However, on year-to-date basis, the GSE-CI recorded a loss on account of the re-imposition of capital gains tax on securities listed on the GSE, inducing some investors to switch to Government securities. Other factors include selling pressures, poor performance of some companies, relatively higher yields on fixed income securities, inflation, and exchange rate pressures, as well as portfolio reversals.

Appendix Table 4.2

	Appendix 1: Sources of Growth in Total Liquidity (M2+) (millions of Ghana cedis unless otherwise stated)	Dec-19	Dec-20	Feb-21	Mar-21	Jun-21	Sep-21	Dec-21	Jan-22	Feb-22
1	Net Foreign Assets	21293.01	18598.06	19132.59	15096.87	25384.55	15199.51	10302.96	6527.59	4908.33
	Bank of Ghana	20622.55	14121.48	15460.68	11740.53	25033.84	16504.31	11018.62	9349.10	9154.33
	Commercial Banks	670.46	4476.57	3671.92	3356.35	350.71	(1304.80)	(715.67)	(2821.51)	(4246.00)
2	Net Domestic Assets	71682.47	101923.76	99334.89	104348.34	96506.78	109397.09	125295.07	130946.70	134536.04
3	ow: Claims on government (net)	34214.54	68965.59	69687.64	72637.59	63281.84	77648.30	75314.27	83212.36	85117.84
4	ow: Claims on Private sector(Incl. PE's)	49713.15	52943.18	53228.16	53021.45	55112.28	57167.35	60279.46	61542.78	64080.22
	BOG OMO Sterilisation Acc.	(4924.64)	(5789.95)	(5824.25)	(5122.11)	(4666.44)	(6321.65)	(5654.59)	(6779.17)	(8548.60)
5	Total Liquidity (M2+)	92975.47	120521.82	118467.48	119445.22	121891.32	124596.60	135598.03	137474.29	139444.38
6	ow: Broad Money Supply (M2)	69973.10	94491.75	92071.18	93226.01	94210.69	96838.70	105779.55	108231.31	107281.63
7	ow: Foreign Currency Deposits(¢million)	23002.37	26030.07	26396.31	26219.21	27680.63	27757.90	29818.48	29242.98	32162.74
	Change from previous year (in per cent)									
8	Net Foreign Assets	51.69	(12.66)	(15.36)	(43.13)	15.97	(21.27)	(44.61)	(65.61)	(74.35)
9	Net Domestic Assets	14.98	42.19	43.63	57.24	22.77	21.78	22.93	32.27	35.44
10	ow: Claims on government (net)	24.18	101.57	124.07	72.14	17.90	27.11	9.21	22.22	22.14
11	ow: Claims on Private sector(Incl. PE's)	19.73	6.50	5.72	7.45	10.90	12.12	13.86	16.87	20.39
12	ow: BOG OMO Sterilisation Acc.	14.76	(17.57)	(54.64)	17.55	44.29	35.93	2.34	(14.31)	(46.77)
12	**Total Liquidity (M2+)**	21.73	29.63	29.10	28.57	21.29	14.17	12.51	16.53	17.71
13	Broad Money Supply (M2)	16.13	35.04	31.91	31.12	22.43	14.11	11.95	16.85	16.52
14	Foreign Currency Deposits (FCDs)	42.65	13.16	20.18	20.23	17.55	14.37	14.55	15.35	21.85
	Cummulative change from previous year end (in per cent)									
15	Net Foreign Assets	51.69	(12.66)	2.87	(18.83)	36.48	(18.28)	(44.61)	(36.64)	(52.36)
16	Net Domestic Assets	14.98	42.19	(2.54)	2.38	(5.31)	7.33	22.93	4.51	7.38
17	o/w: Claims on government (net)	24.18	101.57	1.05	5.32	(8.24)	12.59	9.21	10.49	13.02
18	Broad Money(M2+)	21.73	29.63	(1.70)	(0.89)	1.14	3.38	12.51	1.38	2.84
	Annual per cent contribution to money growth									
19	Net Foreign Assets	9.50	(2.90)	(3.78)	(12.32)	3.48	(3.76)	(6.88)	(10.56)	(12.01)
20	NDA	12.23	32.53	32.88	40.89	17.81	17.93	19.39	27.08	29.71
21	Total Liquidity (M2+)	21.73	29.63	29.10	28.57	21.29	14.17	12.51	16.53	17.71
	Memorandum items									
22	Reserve Money	28896.02	36124.78	35439.73	34904.63	36063.64	39156.13	43300.02	44963.72	43197.72
23	NFA ($million)	3847.88	3228.72	3334.72	2635.26	4405.05	2590.99	1715.42	1083.67	743.64
24	Currency ratio	0.18	0.21	0.20	0.19	0.18	0.18	0.19	0.19	0.18
25	**FCD/M2+**	0.25	0.22	0.22	0.22	0.23	0.22	0.22	0.21	0.23
26	**FCD/Total Deposit**	0.29	0.26	0.27	0.26	0.27	0.26	0.26	0.25	0.27
27	RM multiplier	2.42	2.62	2.60	2.67	2.61	2.47	2.44	2.41	2.48

Source: Bank of Ghana Staff Caluculations

	Appendix 2: Sources of Growth in Reserve Money (millions of Ghana cedis unless otherwise stated)	Dec-19	Dec-20	Feb-21	Mar-21	Jun-21	Sep-21	Dec-21	Jan-22	Feb-22
1	Net Foreign Assets (NFA)	20622.55	14123.29	15460.68	11740.53	25033.84	16504.31	11018.62	9349.10	9154.33
2	Net Domestic Assets (NDA)	8273.47	22001.49	19979.06	23164.10	11029.80	22651.82	32281.40	35614.62	34043.39
	of which:									
3	ow: Claims on government (net)	8468.74	31731.12	32158.06	32502.58	19340.81	31179.41	29389.54	36255.78	35960.11
4	Claims on DMB's (net)	5302.04	5736.58	1254.30	1069.52	2624.76	740.36	2725.48	416.85	617.25
5	OMO Sterilisation Account.	(4924.64)	(5789.95)	(5824.25)	(5122.11)	(4666.44)	(6321.65)	(5654.59)	(6779.17)	(8548.60)
6	Reserve Money (RM)	28896.02	36124.78	35439.73	34904.63	36063.64	39156.13	43300.02	44963.72	43197.72
7	ow:Currency	14358.06	20889.63	19447.00	19324.74	19092.40	18812.37	21816.17	21864.93	21658.07
8	DMB's reserves	11850.56	11860.85	12554.09	12090.54	13360.30	16392.25	17235.93	18896.48	15757.61
9	Non-Bank deposits	2687.40	3374.30	3438.64	3489.35	3610.94	3951.50	4247.91	4202.31	5782.04
	Change from previous year (in per cent)									
10	Net Foreign Assets	61.58	(31.52)	(31.83)	(57.59)	22.36	(0.32)	(22.65)	(41.95)	(40.79)
11	Net Domestic Assets	(5.32)	165.93	454.30	2791.49	116.77	64.37	47.83	77.97	70.40
12	ow: Claims on government (net)	(17.05)	274.69	412.35	152.36	(10.93)	4.38	(7.38)	17.23	11.82
13	Claims on DMB's (net)	6.32	(8.20)	1290.59	147.39	410.14	153.41	(17.48)	74.42	50.79
14	OMO Sterilisation Account.	14.76	(17.57)	(54.64)	17.55	44.29	35.93	2.34	(14.31)	(46.78)
15	**Reserve Money (RM)**	34.39	25.02	34.83	22.53	41.17	29.07	20.00	24.49	21.89
16	ow:Currency	20.24	45.49	45.20	41.60	25.24	14.67	4.44	9.84	11.37
	Cumulative change from previous year end (in per cent)									
17	Net Foreign Assets (NFA)	61.58	(30.93)	9.47	(17.58)	75.74	15.86	(22.65)	(15.15)	(16.92)
18	Net Domestic Assets (NDA)	(5.32)	163.95	(9.19)	6.07	(49.49)	3.73	47.83	10.33	5.46
19	o/w: Claims on government (net)	(17.05)	274.69	1.35	2.43	(39.05)	(1.74)	(7.38)	23.36	22.36
20	Reserve Money (RM)	34.39	25.02	(1.90)	(3.38)	(0.17)	8.39	20.00	3.84	(0.24)
	Annual per cent contribution									
21	Net Foreign Assets	36.56	(22.49)	(27.47)	(55.97)	17.91	(0.18)	(8.94)	(18.71)	(17.79)
22	Net Domestic Assets (NDA)	(2.16)	47.51	62.30	78.50	23.26	29.24	28.94	43.20	39.69
23	RM growth (y-o-y)	34.39	25.02	34.83	22.53	41.17	29.07	20.00	24.49	21.89

Source: Bank of Ghana Staff Calculations

5. Banking Sector Developments

5.0 Overview

The banking sector posted a strong performance during the first two months of 2022, on the back of sustained increases in total assets and deposits. The industry's assets recorded a higher growth, funded by increased borrowings, as well as liquidity flows from deposits and shareholders' funds during the period. The observed pickup in credit growth recorded during the last quarter of 2021 continued into the first two months of this year, with gross advances recording its highest annual growth in almost two years, though slightly lower than the growth recorded in the period immediately prior to the pandemic. On a year-to-date basis, the growth in gross advances in 2022 was also substantially higher than what was recorded during the same period in prior years, supporting the observed pickup in economic activity.

The industry's new advances for the first two months of the year was also significantly higher than what was recorded during the same period last year bolstered by the increased liquidity within the industry. Although the pickup in the credit growth indicators during the period under review was partly on account of the bloating effect of the revaluation of foreign currency loans into Ghana Cedis from the high depreciation, the domestic currency denominated loans also recorded increases, reflecting improved credit extension in response to the pickup in aggregate demand. Credit is projected to continue to record steady growth as the latest Credit Conditions Survey (CCS) project a pickup in credit demand by households and enterprises over the next two months, although banks' overall stance on loans is projected to record a net tightening on the back of the uncertainties in the macroeconomic outlook.

The Financial Soundness Indicators (FSIs) remained healthy, with strong solvency, liquidity and profitability indicators. The industry's Non-Performing Loans (NPL) ratio also declined during the period under review from both a slowdown in the accumulation of NPLs as well as a higher growth in credit. Results from the stress tests of the industry continue to 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 stable and positive, although the current macroeconomic challenges present major risks in the medium term. The banking sector will therefore be closely monitored to effectively detect and address early warning signals from a possible spill-over of macroeconomic challenges to the sector. This will help sustain the sector's performance going forward.

5.1 Banks' Balance Sheet

Total assets of the banking industry grew by 23.5 percent (year-on-year) to GH¢187.8 billion as at February 2022, well-above the 18.5 percent growth recorded in the same period of 2021. The higher growth in the industry's assets was broadly in line with the observed pickup in economic activity during the period. Growth in domestic assets was higher at 27.1 percent in February 2022 from 19.1 percent in February 2021, while foreign assets contracted by 21.9 percent from a growth of 11.1 percent during the same review period. The contraction in the growth of foreign assets largely reflected the observed slowdown in banks' offshore activities from declines in both nostro balances and placements. Consequently, the share of foreign assets in total assets declined to 4.6 percent from 7.3 percent, while that of domestic assets increased to 95.4 percent from 92.7 percent during the reference period (Table 5.1).

Investments (comprising bills, securities and equity) remained the largest component of total assets as at end-February 2022, though its rate of growth slowed from 45.9 percent in February 2021 to 30.2 percent.

The share of investments in total assets increased to 47.1 percent from 44.7 percent, still reflecting banks' continued portfolio reallocation in favour of these less risky assets in a bid to moderate their exposure to increased credit risks from the protracted effects of the COVID-19 pandemic.

The observed uptick in credit growth recorded during most of 2021 continued into the first two months of 2022. The industry's gross loans and advances increased from GH¢47.6 billion in February 2021 to GH¢56.3 billion, representing a year-on-year growth of 18.3 percent from the modest 3.6 percent growth recorded during the same period in 2021. As expected, net loans and advances (gross loans adjusted for provisions and interest in suspense) also recorded a higher growth of 20.4 percent in February 2022 from the low 2.2 percent growth in February 2021. The foreign currency component of net advances also recorded a higher growth of 25.6 percent from 1.5 percent during the same reference period, largely attributable to the revaluation effect from the sharp depreciation of the Ghana Cedi particularly during the first two months of the year. New lending by banks also increased sharply by 70.7 percent to GH¢8.0 billion during the first two months of the year from GH¢4.7 billion during the same period in 2021. In sum, the industry witnessed appreciable activity in its credit portfolio as at February 2022, in consonance with the observed pickup in economic activity as indicated by the Banks' Composite Index of Economic Activity (CIEA) and the growth trends from the real sector of the economy.

Table 5.1: Key Developments in DMBs' Balance Sheet

				Y-on-Y Growth (%)		year-to-date growth (%)		Shares (%)	
	Feb-21	Dec-21	Feb-22	Feb-21	Feb-22	Feb-21	Feb-22	Feb-21	Feb-22
TOTAL ASSETS	**152,034.6**	**179,803.6**	**187,761.6**	**18.5**	***23.5***	**1.8**	***4.4***	***100.0***	***100.0***
A. Foreign Assets	11,094.2	10,451.4	8,667.7	11.1	*(21.9)*	(8.6)	*(17.1)*	*7.3*	*4.6*
B. Domestic Assets	140,940.4	169,352.2	179,093.9	19.1	*27.1*	2.7	*5.8*	*92.7*	*95.4*
Investments	67,940.0	83,120.1	88,475.5	45.9	*30.2*	5.5	*6.4*	*44.7*	*47.1*
i. Bills	19,522.4	20,284.6	23,369.7	46.6	*19.7*	37.5	*15.2*	*12.8*	*12.4*
ii. Securities	48,178.7	62,613.1	64,887.4	46.9	*34.7*	(3.6)	*3.6*	*31.7*	*34.6*
Advances (Net)	41,372.0	47,143.3	49,808.5	2.2	*20.4*	(1.0)	*5.7*	*27.2*	*26.5*
of which Foreign Currency	12,234.4	13,778.8	15,360.4	1.5	*25.6*	0.1	*11.5*	*8.0*	*8.2*
Gross Advances	**47,563.2**	**53,767.3**	**56,257.8**	**3.6**	***18.3***	**(0.4)**	***4.6***	***31.3***	***30.0***
Other Assets	7,450.0	8,117.3	9,280.2	35.0	*24.6*	15.3	*14.3*	*4.9*	*4.9*
Fixed Assets	5,026.4	5,282.9	5,273.1	6.5	*4.9*	0.2	*(0.2)*	*3.3*	*2.8*
TOTAL LIABILITIES AND CAPITAL	**152,034.6**	**179,803.6**	**187,761.6**	**18.5**	***23.5***	**1.8**	***4.4***	***100.0***	***100.0***
Total Deposits	**103,975.1**	**121,056.7**	**122,935.2**	**25.1**	***18.2***	**0.2**	***1.6***	***68.4***	***65.5***
of which Foreign Currency	27,749.3	29,012.8	31,614.6	19.5	*13.9*	3.1	*9.0*	*18.3*	*16.8*
Total Borrowings	14,250.7	22,040.0	25,477.6	(23.4)	*78.8*	(1.8)	*15.6*	*9.4*	*13.6*
Foreign Liabilities	8,002.8	11,955.0	13,816.3	(20.5)	*72.6*	(2.8)	*15.6*	*5.3*	*7.4*
i. Short-term borrowings	3,222.7	5,387.5	6,720.1	(52.3)	*108.5*	(7.8)	*24.7*	*2.1*	*3.6*
ii. Long-term borrowings	3,907.0	5,493.2	5,790.0	30.7	*48.2*	(2.1)	*5.4*	*2.6*	*3.1*
iii. Deposits of non-residents	873.1	1,074.2	1,306.3	168.2	*49.6*	16.8	*21.6*	*0.6*	*0.7*
Domestic Liabilities	121,762.3	142,102.8	147,377.7	21.8	*21.0*	1.6	*3.7*	*80.1*	*78.5*
i. Short-term borrowing	5,072.0	10,025.9	11,864.9	(35.1)	*133.9*	1.5	*18.3*	*3.3*	*6.3*
ii. Long-term Borrowings	2,049.0	1,133.3	1,102.6	94.8	*(46.2)*	1.2	*(2.7)*	*1.3*	*0.6*
iii. Domestic Deposits	103,101.9	119,982.4	121,628.9	24.6	*18.0*	0.0	*1.4*	*67.8*	*64.8*
Other Liabilities	11,649.4	11,896.4	13,738.8	39.7	*17.9*	19.4	*15.5*	*7.7*	*7.3*
Paid-up capital	9,757.2	10,165.1	10,166.2	(0.1)	*4.2*	(0.0)	*0.0*	*6.4*	*5.4*
Shareholders' Funds	22,159.4	24,810.6	25,610.1	21.2	*15.6*	4.3	*3.2*	*14.6*	*13.6*

Source: Bank of Ghana

Growth in the industry's deposits remained robust, recording a year-on-year increase of 18.2 percent to GH¢122.9 billion as at end-February 2022, relative to the 25.1 percent growth recorded during the same period last year (Table 5.1). The slowdown in the growth of the industry's deposits was reflected in both domestic deposits (from 24.6% to 18.0%) and deposits of non-residents (from 168.2% to 49.6%). The slower growth in the industry's deposits was compensated for by a sharp increase in banks' borrowings during the period under review. Total borrowings by banks (foreign and domestic) increased by 78.8 percent to GH¢25.5 billion in February 2022 from GH¢14.3 billion in February 2021 (representing a 23.4% contraction). The increased borrowings were almost evenly split between foreign and domestic sources, increasing by 75.6 percent and 82.1 percent respectively, whereas in terms of tenors, they were more tilted towards the short end of the market.

The industry continued to maintain a strong shareholders' funds (comprising paid-up capital and reserves) position despite the moderation in the growth of reserves. Total shareholders' funds increased by 15.6 percent to GH¢25.6 billion as at end-February 2022, lower than the 21.2 percent growth recorded a year ago. The industry's paid-up capital, however, recorded a rebound in growth of 4.2 percent to GH¢10.2 billion in February 2022 from the mild 0.1 percent contraction recorded in February 2021. The industry's reserves, however, recorded a slower growth of 24.5 percent from 45.6 percent during the same review period. The industry's shareholders' funds position continues to provide adequate support for its stability and resilience.

On the whole, the banking sector posted a strong balance sheet position as at end-February 2022, stemming from a higher growth in total assets and sustained increases in deposits and borrowings. Credit growth picked up during the period and is expected to continue to grow, albeit at a slower pace due to the projected net tightened credit stance by banks and also the monetary policy measures (namely, the increase in the Cash Reserve Ratio from 8% to 12% and the increase in the Capital Conservation Buffer to 3%) introduced to moderate the aggregate demand pressures that are partly fuelling the rise in inflation and the depreciation of the Ghana Cedi. The high levels of deposits, borrowings and capital still offer the sector enough scope for lending.

5.1.1 Asset and Liability Structure

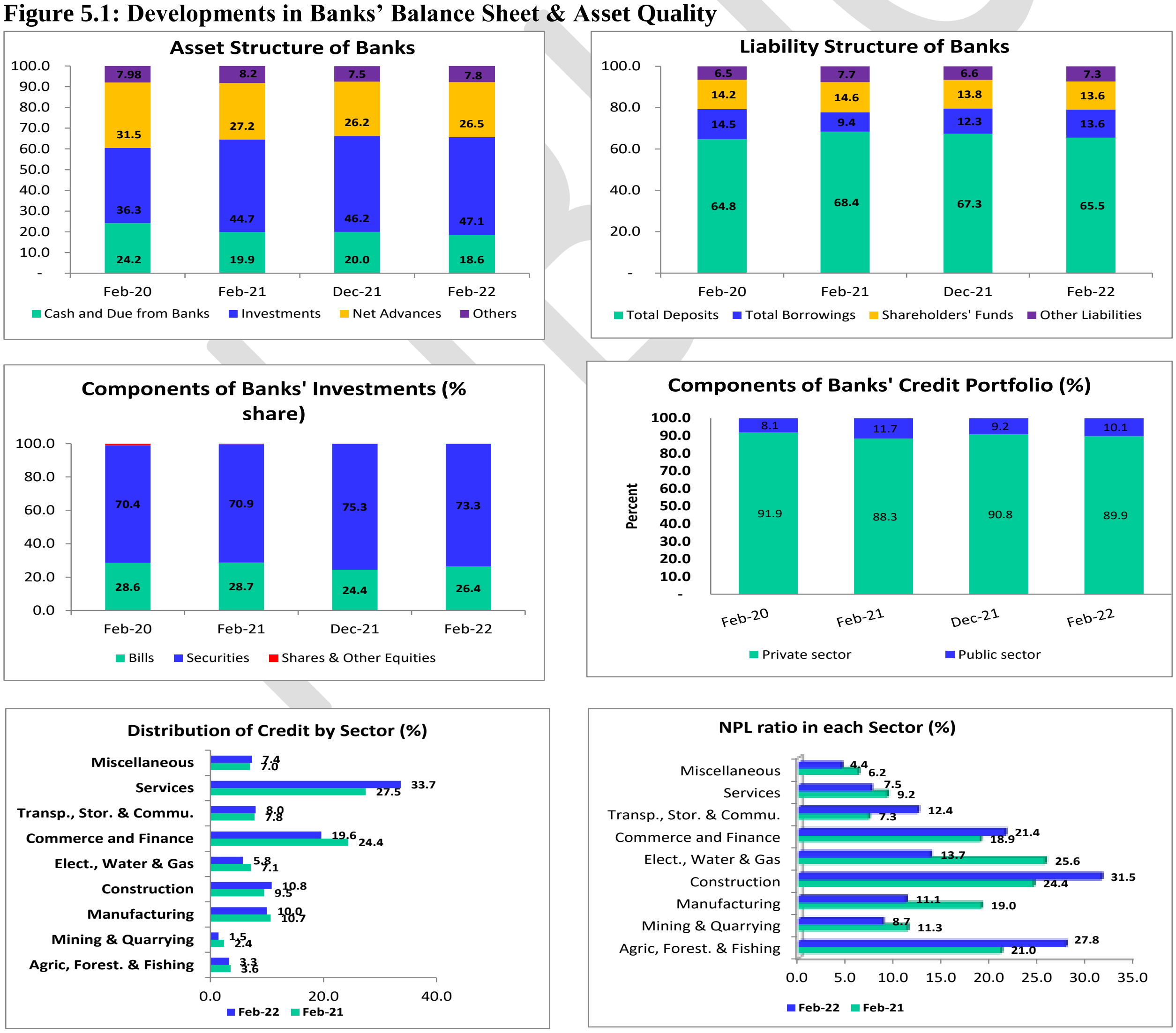
The asset and liability structure of the banking industry during the review period remained tilted towards less risky assets. Investments continued to dominate the asset mix, with an increased share of 47.1 percent in February 2022, compared with 44.7 percent in February 2021. Loans and advances (net) remained the second largest component of banks' assets, recording a lower share of 26.5 percent in February 2022 from 27.2 percent during the same period last year. The share of "Cash and Due from banks" also declined marginally during the period from 19.9 percent to 18.6 percent, while a similar moderation in share was recorded in banks' non-earning assets (fixed assets and other assets) from 8.2 percent to 7.8 percent (Annexes Table 5.1).

On the liability side, deposits remained the main source of funding for banks. However, the share of deposits in the banks' pool of funds moderated to 65.5 percent in February 2022 from 68.4 percent in February 2021, following the slowdown in the growth of deposits during the review period. The share of borrowings, on the other hand, increased to 13.6 percent from 9.4 percent, reflecting the sharp increase in the industry's borrowing during the reference period. With the increased share of borrowings, the respective shares of Shareholders' funds and other liabilities declined. While the share of Shareholders' funds declined by 100 basis points to 13.6 percent from 14.6 percent that of other liabilities declined marginally to 7.3 percent from 7.7 percent over the same review period (Annexes Table 5.1).

5.1.2 Share of Banks' Investments

The maturity profile of banks' investments remains tilted towards the long end of the market in search of higher yields. This is evidenced by the increasing share of securities or long-term debt instruments in banks' stock of investments relative to short-term investments or bills. As a result, the share of securities increased to 73.3 percent in February 2022 from 70.9 percent, while that of bills declined to 26.4 percent from 28.7 percent. As already indicated, banks' appetite for securities as against bills is as a result of the higher interest rates on the long-term instruments, as rates on money market instruments have persistently been low, yielding negative real rates of returns with the increase in the inflation rate to 15.7 percent in February 2022. However, with the hike in the Monetary Policy Rate (MPR), it is expected that the other money market rates will move in tandem to encourage increased investments in the short end of the market. The share of equity investments remained flat at 0.3 percent from 0.4 percent during the period under review (Figure 5.1).

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



Source: Bank of Ghana Staff Calculations

5.2 Credit Risk

The industry's exposure to credit risk moderated during the period under review as reflected in the decline in the NPL ratio.

5.2.1 Credit Portfolio Analysis

Gross loans and advances totalled GH¢56.3 billion at end-February 2022, representing an annual growth of 18.3 percent, compared to 3.6 percent growth in February 2021. Private sector credit recorded a higher growth of 17.1 percent to GH¢50.6 billion in February 2022 compared with 7.4 percent growth during the corresponding period in the previous year. Public sector credit also recorded a rebound in growth by 30.3 percent to GH¢5.7 billion from GH¢4.3 billion (representing a contraction of 23.0%) in the previous year. The bulk of the industry's credit continues to be allocated to the private sector, accounting for 89.9 percent of the industry's credit as at February 2022, 100-basis points decline from the 90.9 percent share recorded a year ago. Accordingly, the public sector recorded a 1 percentage point increase in its credit allocation to 10.1 percent from 9.1 percent during the same reference period (Annexes Tables 5.2 & 5.4).

On a year-to-date basis, gross loans and advances increased by 4.4 percent in 2022, a recovery from the 0.4 percent contraction recorded during the same period in 2021. The higher year-to-date growth in gross loans and advances came from a rebound in the growth of credit to the private sector (comprising private enterprises and households) to 4.3 percent in 2022 from the 0.7 percent contraction in 2021, as well as a higher growth in credit to the public sector from 2.6 percent to 5.3 percent during the same review period. The pickup in the growth of credit to the private sector went to indigenous private enterprises, while credit to households contracted by 0.7 percent during the period, after recording a growth of 7.6 percent in the corresponding period last year (Annexes Table 5.2).

In terms of sectorial distribution of credit, the services sector continued to have the largest share of outstanding credit of 33.7 percent, followed by the commerce and finance sector with 19.6 percent and construction with 10.8 percent (Figure 5.1). These top three sectors together accounted for 64.1 percent of total credit at end-February 2022 compared with 61.4 percent for the same three sectors during the corresponding period in 2021. The other economic sectors accounted for the remaining 35.9 percent in various proportions in February 2022 from 38.6 percent a year ago (Figure 5.1). The mining and quarrying sector remained the lowest recipient of industry credit, with its share declining further to 1.5 percent at end-February 2022, from 2.4 percent in February 2021 (Figure 5.1).

5.2.2 Off Balance Sheet Activities

Banks increased their off-balance sheet transactions (comprising largely trade finance and guarantees) during the period under review compared with a year ago. Off-balance sheet transactions (contingent liabilities) amounted to GH¢19.1 billion as at end-February 2022, representing a 41.2 percent annual growth, compared to the modest 7.4 percent growth during the same period in 2021. As a result, banks' contingent liabilities as a percentage of total liabilities increased to 11.8 percent from 9.2 percent during the review period (Annexes Table 5.3). On a year-to-date basis, off-balance sheet transactions have increased by 9.3 percent this year compared with 3.1 percent contraction during the same period last year, reflecting more trade finance-related activities as well as the impact of the depreciation of the Ghana Cedi during the period.

5.2.3 Asset Quality

The industry's asset quality improved year-on-year, evidenced by the decline in the NPL ratio, despite the nominal increase in the stock of NPLs to GH¢8.1 billion in February 2022 from GH¢7.3 billion in February 2021. The decline in the NPL ratio was on the back of a slowdown in the growth of the NPLs stock to 11.2 percent from 15.1 percent, while the stock of loans, which forms the base of the NPL ratio, recorded a higher growth of 18.3 percent from 3.6 percent during the same review period. When adjusted for the fully provisioned loan loss category, the industry's adjusted NPL ratio also declined sharply from 6.6 percent to 4.9 percent, one of the lowest ratios the industry has recorded in a long time (Figure 5.2).

The lower NPL ratio came on the back of a decline in the private sector NPL ratio to 15.3 percent in February 2022 from 16.5 percent in February 2021, while the public sector NPL ratio doubled to 6.4 percent from 3.2 percent during the same reference period. The sectors that recorded declines in their NPL ratios during the period under review included Services (from 9.2% to 7.5%), Electricity, water and gas (from 25.6% to 13.7%), manufacturing (from 19.0% to 11.1%), and mining and quarrying (from 11.3% to 8.7%). On the other hand, the sector that recorded the highest increase in its NPL ratio was construction (from 24.4% to 31.5%), followed by agriculture, forestry and fishing (21.0% to 27.8%), then transportation, storage and communication (from 7.3% to 12.4%) and then commerce and finance (from 18.9% to 21.4%). The sector with the lowest NPL ratio is the services sector, though it is the highest recipient of the industry's loans, while the construction sector, the third largest recipient of industry loans, has the highest NPL ratio (Figure 5.1).

The extension of the loan repayment moratoria deadline by the Bank of Ghana to December 31, 2022 will further cushion customers severely impacted by the pandemic and help moderate the adverse impact of the pandemic on banks' asset quality.

5.3 Financial Soundness Indicators

The key financial soundness indicators (FSIs) as at February 2022 pointed to a liquid, profitable, and solvent sector with adequate capital buffers to absorb mild to moderate credit and liquidity shocks.

5.3.1 Liquidity Indicators

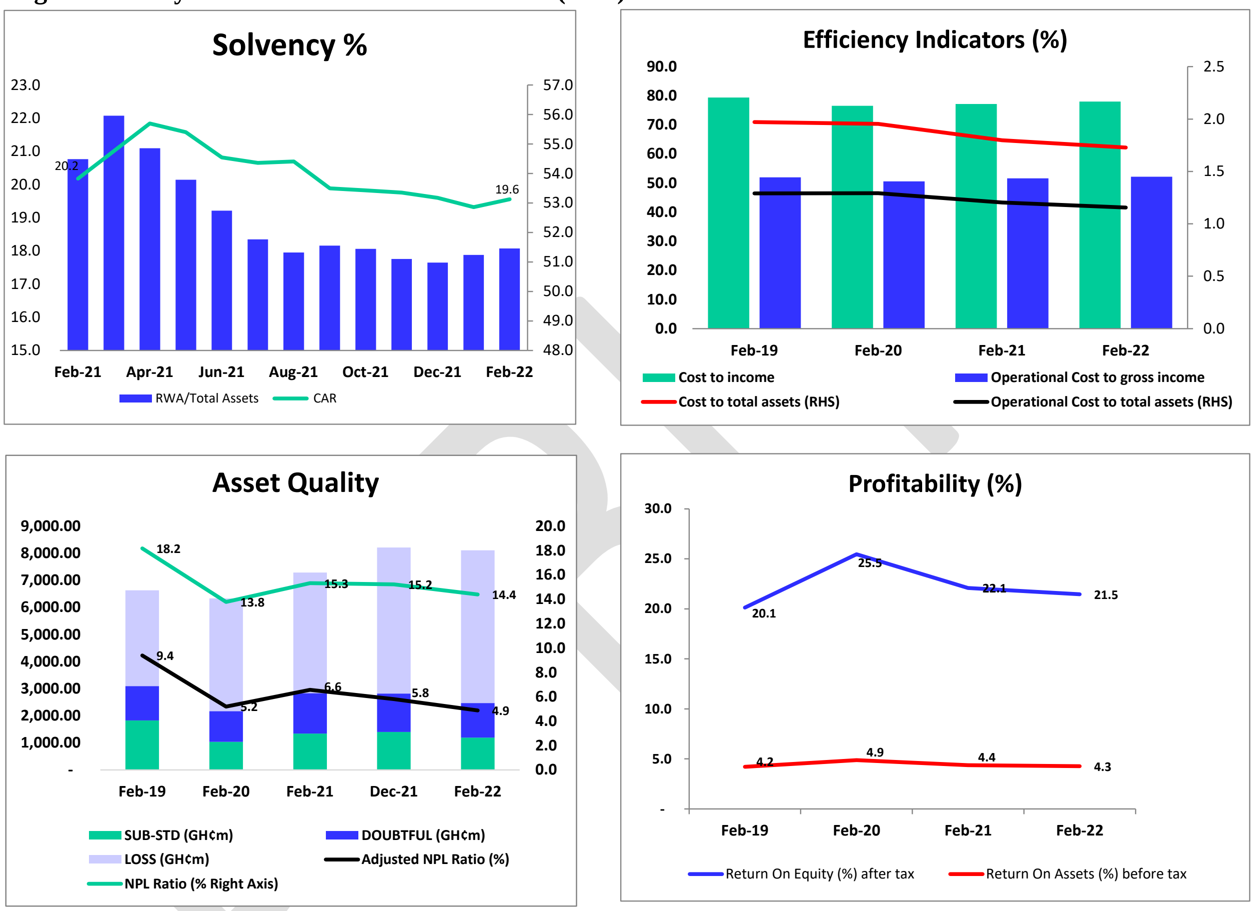
The industry maintained adequate liquidity levels during the period under review, despite the sustained moderations in core liquidity relative to broad liquidity. The ratio of core liquid assets (mainly cash and due from banks) to total deposits moderated to 28.4 percent in February 2022 from 29.1 percent during the same period last year, while the ratio of core liquid assets to total assets declined to 18.6 percent from 19.9 percent during the same reference period (Annexes Table 5.5). On the other hand, the broad liquidity indicators increased on the back of the increase in the share of medium-to-long-term instruments in the investment mix of banks. Accordingly, the ratio of broad liquid assets to total assets increased to 65.6 percent in February 2022 from 64.4 percent in February 2021, while broad liquid assets to total deposits rose to 100.2 percent from 94.2 percent during the review period (Annexes Table 5.5).

5.3.2 Capital Adequacy Ratio (CAR)

The Capital Adequacy Ratio (CAR) of the banking industry stood at 19.6 percent in February 2022, well above the current regulatory minimum of 11.5 percent, pointing to a highly solvent sector. The higher capital adequacy ratio (above the regulatory threshold) continues to highlight banks' improved capacity to expand lending and absorb any potential losses from the increased lending using their capital buffers, during the current uncertain operating environment.

Bank of Ghana has announced the reset of the Capital Conservation Buffer (CCB) to the pre-pandemic level of 3.0 percent, making the minimum required Capital Adequacy Ratio a total of 13.0 percent effective 1st April, 2022. Our assessments show that this will have minimal impact on the scope of lending by the banks since almost all the banks are already maintaining capital adequacy ratios of 13.0 percent and above.

Figure 5.2: Key Financial Soundness Indicators (FSIs)



Source: Bank of Ghana Staff Calculations

5.3.4 Profitability

The banking industry maintained its profitability during the first two months of the year, recording significant increases in both profit-before-tax and profit-after-tax this year compared with the same period last year.

Net interest income moderated in growth to 10.3 percent in February 2022 from 10.9 percent a year ago, on the back of a higher growth in interest expense from 6.4 percent to 18.7 percent, moderated somewhat by the modest increase in the growth of interest income from 9.5 percent to 12.9 percent during the period under review. The increase in the interest expense of banks during the period under review can be explained by the higher share of borrowings (which are usually more expensive relative to savings and demand deposits) in the funding mix of banks. On the other hand, the uptick in the growth of interest income is attributable to the marginal increases in the interest rates on money market instruments as well as the increased credit levels.

Net fees and commissions income recorded a slower growth of 11.8 percent from 13.7 percent a year ago, whereas other income recorded a sharp increase of 95.5 percent to GH¢383.2 million from GH¢196.0 million (16.5% contraction) during the same review period. The changes in the different income lines culminated in an increase in the industry's operating income to GH¢3.1 billion in February 2022 from GH¢2.6 billion, representing a growth of 16.9 percent from 8.7 percent in the prior year. Similarly, gross income increased to GH¢4.2 billion (17.3% year-on-year growth) from GH¢3.5 billion (8.1% year-on-year growth) during the period under review.

Figure 5.3: Composition of Income, Cost and Borrowings

Source: Bank of Ghana Staff Calculations

The industry's operating expenses also increased significantly by 21.3 percent in February 2022, after recording a mild contraction of 0.3 percent during the same period in 2021, from increases in both staff costs and other operating expenses. Despite the improved income performance, the increase in operating expenses moderated the growth in net operating income to 13.3 percent in February 2022 compared with the 17.1 percent growth recorded in the corresponding period last year. Total provisions (comprising loan losses, depreciation and others) also contracted in growth by 4.1 percent in February 2022 after increasing sharply by 62.2 percent in February 2021.

Putting all together, the industry's profit-before-tax (PBT) increased by 19.1 percent during the first two months of 2022 to GH¢1.3 billion, from GH¢1.1 billion, equivalent to a growth of 7.3 percent during the corresponding period in 2021. Similarly, growth in profit-after-tax (PAT) recorded a higher growth of 12.9 percent to GH¢912.6 million from GH¢808.0 million (5.9% growth) during the same period a year ago (Annexes Table 5.7 and Figure 5.3).

(a) Return on Assets and Return on Equity

Despite the higher growth in the industry's profit before tax and profit after tax, the sector's key profitability indicators, Return on Equity (ROE) and Return on Assets (ROA), recorded marginal declines during the period under review from increases in their bases, namely average shareholders' funds and average total assets, respectively. Return on Assets (ROA) moderated to 4.3 percent in February 2022 from 4.4 percent in February 2021 while Return on Equity (ROE) dipped to 21.5 percent from 22.1 percent during the same reference period (Figure 5.2 and Annexes Table 5.6).

(b) Interest Margin and Spread

Banks' interest spread declined marginally to 1.7 percent in February 2022 from 1.9 percent in February 2021 on the back of marginal declines in both gross yields (from 2.8% to 2.5%) and interest payable (from 0.9% to 0.8%). Following this, the sector's interest margin to total assets dipped marginally from 1.3 percent to 1.2 percent, while the interest margin to gross income ratio declined to 53.2 percent from 56.6 percent during the period under review.

The ratio of gross income to total assets (asset utilisation) also moderated to 2.2 percent from 2.3 percent, while profitability ratio declined marginally to 22.0 percent in February 2022 from 22.8 percent in February 2021 (Annexes Table 5.6).

(c) Composition of Banks' Income

Investment income remained the largest component of banks' income as at February 2022, although its share moderated to 48.5 percent from 51.1 percent during the same period a year ago. Interest income from loans constituted the second largest source of banks' income, bringing in a lower share of 30.6 percent compared with 31.1 percent during the same comparative period. The share of banks' income from fees and commissions also moderated to 11.7 percent from 12.3 percent, in line with the slower growth of fees and commissions. The share of other income increased to 9.2 percent from 5.5 percent during the period under review (Figure 5.3).

5.3.5 Operational Efficiency

The industry remained broadly cost efficient during the period under review, despite the slight uptick in operational cost relative to income. The cost-to-income ratio of the industry inched up to 78.0 percent in February 2022 from 77.2 percent in February 2021, while cost-to-total assets improved marginally to 1.7 percent from 1.8 percent during the period under review. Following the increase in operating expenses during the reference period, the ratio of operational cost to total income increased marginally to 52.2 percent from 51.7 percent, while that of operational cost to total assets remained unchanged at 1.2 percent during the period under review (See Figure 5.2).

5.3.6 Banks' Counterparty Relationships

Banks' offshore activities declined significantly during the review period. Total offshore balances contracted by 25.8 percent in February 2022, compared to a growth of 6.8 percent a year earlier, from contractions in both nostro balances and placements. Nostro balances contracted by 25.4 percent compared with a growth of 15.3 percent in February 2021, while industry placements with foreign counterparties recorded a sharper contraction of 26.4 percent from the 1.9 percent recorded during the same period in the prior year. Following these declines, the ratio of offshore balances to net worth dipped to 28.6 percent from 44.5 percent during the review period (Annexes Table 5.8).

The share of banks' external borrowings in total borrowings moderated to 49.1 percent in February 2022 from 50.0 percent in February 2021, while that of domestic borrowing increased to 50.9 percent from 50.0 percent during the review period. Banks' external borrowings were largely short-term in nature, with the share of short-term borrowings in total external borrowing increasing to 53.7 percent from 45.2 percent, while that of long-term borrowings declined to 46.3 percent from 54.8 percent over the review period (Figure 5.3).

5.4 Credit Conditions Survey

Results from the February 2022 credit conditions survey pointed to a net tightening in overall credit stance on loans to both enterprises and households. This net tightened credit stance reflected in all components of enterprise loans. The tightened stance reflects the uncertainty surrounding the performance of the economy stemming from the sharp depreciation of the Ghana Cedi and the rise in inflation rate. Banks have projected further tightening in the overall stance on loans to enterprises over the next two months, also to be driven by net tightening in the stance on all the categories of enterprise loans.

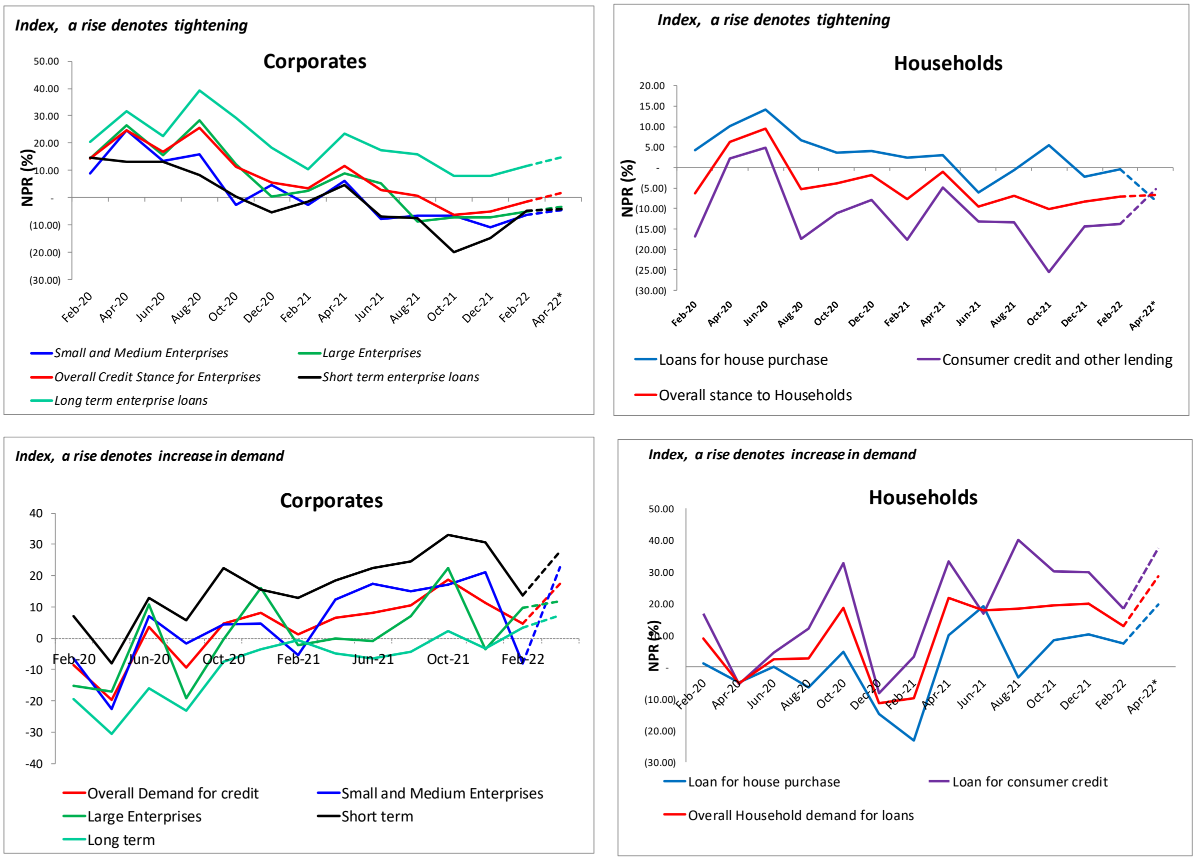
Similarly, the overall credit stance on household loans recorded a net tightening during the survey period, driven by net tightening in the credit stance for both categories of household loans, namely, mortgages and consumer credit. Over the next two months, banks project a further net tightening in the stance on loans to households, which will be reflected in loans for consumer credit, while the stance on loans for house purchase is projected to record a net ease in stance during the forecast period.

On the demand side, demand for loans by enterprises recorded a net decline during the current survey period from declines in the demand for loans by SMEs as well as demand for short term enterprise loans, while demand for loans by large enterprises and demand for long term enterprise loans recorded net increases. Banks project overall demand for loans by enterprises to recover over the next two months, driven by net increases in the demand for all sub-categories of enterprise loans.

For households, overall demand for loans also recorded a net decline during the current survey period driven by declines in the demand for both categories of household loans. Similar to enterprises, demand for loans by households is projected to pick up from net increases in the demand for both consumer credit and the demand for mortgages or house purchases (Figure 5.4).

Banking sector inflation expectations increased during the current survey round, indicating that banks expect inflation to increase six months ahead. The pick-up in actual inflation, fluctuation in the Ghana Cedi and uncertainty surrounding the performance of the economy 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 remained solvent, liquid, and profitable, with most banks maintaining strong capital buffers during the first two months of the year. Sustained growth was recorded in total assets, investments, credits, deposits and profits. The financial soundness indicators also remained healthy during the period, alongside decline in the NPL ratio. The industry is expected to maintain its strong performance going forward, although asset quality needs close monitoring.

Annexes

Table 5.1: Asset and Liability Structure of the Banking Sector

	Feb-19	Feb-20	Feb-21	Dec-21	Feb-22
Components of Assets (% of Total)					
Cash and Due from Banks	23.5	24.2	19.9	20.0	18.6
Investments	39.9	36.3	44.7	46.2	47.1
Net Advances	29.2	31.5	27.2	26.2	26.5
Others	7.4	8.0	8.2	7.5	7.8
Components of Liabilities and Shareholders' Funds (% of Total)					
Total Deposits	66.0	64.8	68.4	67.3	65.5
Total Borrowings	13.1	14.5	9.4	12.3	13.6
Shareholders' Funds	14.6	14.2	14.6	13.8	13.6
Other Liabilities	6.3	6.5	7.7	6.6	7.3

Bank of Ghana Staff Calculations

Table 5.2: Credit Growth

Economic Sector	Gh¢million				y/y growth (%)		year-to-date growth(%)	
	Feb-20	Feb-21	Dec-21	Feb-22	Feb-21	Feb-22	Feb-21	Feb-22
Public Sector	**5,645.48**	**4,347.05**	**5,381.75**	**5,664.48**	**-23.0**	**30.3**	**2.6**	**5.3**
Private Sector	**40,254.42**	**43,216.14**	**48,540.17**	**50,615.39**	**7.4**	**17.1**	**-0.7**	**4.3**
- Private Enterprises	30,157.62	31,644.35	34,725.73	36,868.78	4.9	16.5	-3.4	6.2
o/w Foreign	3,629.31	4,118.07	4,919.43	5,127.72	13.5	24.5	7.1	4.2
Indigeneous	26,528.31	27,526.28	29,806.31	31,741.06	3.8	15.3	-4.8	6.5
- Households	8,882.51	10,279.02	12,365.96	12,285.53	15.7	19.5	7.6	-0.7
Gross Loans	**45,899.9**	**47,563.2**	**53,921.9**	**56,279.9**	**3.6**	**18.3**	**-0.4**	**4.4**

Bank of Ghana Staff Calculations

Table 5.3: Contingent Liability

	Feb-19	Feb-20	Feb-21	Dec-21	Feb-22
Contingent Liabilities (GH¢)	9,733.0	10,716.0	11,912.5	17,485.5	19,109.3
Growth (y-o-y)	8.1	17.2	7.4	39.6	41.2
% of Total Liabilities	10.5	9.7	9.2	11.3	11.8

Bank of Ghana Staff Calculations

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

	Feb-20		Feb-21		Dec-21		Feb-22	
	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	**12.3**	**2.9**	**9.1**	**1.9**	**10.0**	**4.0**	**10.1**	**4.5**
i. Government	5.6	0.2	3.7	0.5	5.2	1.9	5.1	1.9
ii. Public Institutions	2.6	0.2	2.6	0.0	1.9	0.0	1.9	0.0
iii. Public Enterprises	4.0	2.5	2.8	1.4	2.9	2.1	3.1	2.5
b. Private Sector	**87.7**	**97.1**	**90.9**	**98.1**	**90.0**	**96.0**	**89.9**	**95.5**
i. Private Enterprises	65.7	82.7	66.5	87.9	64.4	86.5	65.5	86.5
o/w Foreign	7.9	9.1	8.7	4.1	9.1	9.2	9.1	8.6
Indigeneous	57.8	73.6	57.9	83.8	55.3	77.2	56.4	78.0
ii. Households	19.4	8.5	21.6	8.6	22.9	7.9	21.8	7.4
iii. Others	2.6	5.9	2.7	1.6	2.7	1.6	2.6	1.6

Bank of Ghana Staff Calculations

Table 5.5: Liquidity Ratios

	Feb-19	Feb-20	Feb-21	Dec-21	Feb-22
Liquid Assets (Core) - (GH¢'million)	25,551.82	31,021.6	30,216.39	35,955.78	34,872.54
Liquid Assets (Broad) -(GH¢'million)	68,593.36	77,142.6	97,917.44	118,853.50	123,129.55
Liquid Assets to total deposits (Core)-%	35.56	37.3	29.06	29.70	28.37
Liquid Assets to total deposits (Broad)- %	95.45	92.8	94.17	98.18	100.16
Liquid assets to total assets (Core)- %	23.46	24.2	19.87	20.00	18.57
Liquid assets to total assets (Broad)- %	62.99	60.1	64.40	66.10	65.58

Source: Bank of Ghana Staff Calculations

Table 5.6: Profitability Indicators (%)

	Feb-19	Feb-20	Feb-21	Feb-22
Gross Yield	2.8	3.1	2.8	2.5
Interest Payable	1.0	1.0	0.9	0.8
Spread	1.9	2.1	1.9	1.7
Asset Utilitisation	2.5	2.6	2.3	2.2
Interest Margin to Total Assets	1.3	1.4	1.3	1.2
Interest Margin to Gross income	53.1	55.2	56.6	53.2
Profitability Ratio	20.3	23.3	22.8	22.0
Return On Equity (%) after tax	20.1	25.5	22.1	21.5
Return On Assets (%) before tax	4.2	4.9	4.4	4.3

Source: Bank of Ghana Staff Calculations

Table 5.7: DMBs' Income Statement Highlights

	Feb-19	Feb-20	Feb-21	Feb-22	Feb-20	Feb-21	Feb-22
	(GH ¢'million)				Y-on-y Growth (%)		
Interest Income	2,179.4	2,659.2	2,910.5	3,286.3	22.0	9.5	12.9
Interest Expenses	741.75	849.75	904.31	1,073.59	14.6	6.4	18.7
Net Interest Income	**1,437.7**	**1,809.4**	**2,006.2**	**2,212.7**	**25.9**	**10.9**	**10.3**
Fees and Commissions (Net)	323.3	382.8	435.4	486.8	18.4	13.7	11.8
Other Income	203.0	234.7	196.0	383.2	15.6	(16.5)	95.5
Operating Income	1,964.0	2,426.9	2,637.6	3,082.7	23.6	8.7	16.9
Operating Expenses	991.65	1,175.94	1,172.36	1,422.53	18.6	(0.3)	21.3
Staff Cost (deduct)	545.69	645.37	647.11	775.86	18.3	0.3	19.9
Other operating Expenses	445.96	530.58	525.25	646.67	19.0	(1.0)	23.1
Net Operating Income	**972.4**	**1,250.9**	**1,465.2**	**1,660.2**	**28.6**	**17.1**	**13.3**
Total Provision (Loan losses, Depreciation & others)	210.90	224.66	364.46	349.36	6.5	62.2	(4.1)
Income Before Tax	**761.5**	**1,026.3**	**1,100.7**	**1,310.8**	**34.8**	**7.3**	**19.1**
Tax	211.80	263.50	292.70	398.27	24.4	11.1	36.1
Net Income	**549.7**	**762.8**	**808.0**	**912.6**	**38.8**	**5.9**	**12.9**
Gross Income	2,705.8	3,276.6	3,541.9	4,156.3	21.1	8.1	17.3

Source: Bank of Ghana Staff Calculations

Table 5.8: Developments in Offshore Balances

	Feb-19	Feb-20	Feb-21	Dec-21	Feb-22
Offshore balances as % to Networth	53.7	50.5	44.5	33.8	28.6
Annual Growth in Offshore balances (%)	7.5	7.7	6.8	-23.8	-25.8
Annual Growth in Nostro Balances (%)	-31.2	40.0	15.3	-26.3	-25.4
Annual Growth in Placement (%)	67.9	-12.9	-1.9	-21.1	-26.4

Source: Bank of Ghana Staff Calculations

6. Fiscal Developments

6.0 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 80.1 percent of GDP, compared with 76.0 percent of GDP at the end of December 2020.*

6.1 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. In line with this, 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.

6.2 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.

6.3 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).

6.4 Public Debt

The stock of public debt was equivalent to 80.1 percent of GDP at the end of 2021 compared with 76 percent of GDP at the end of 2020.

The stock of public debt increased to GH¢351.8 billion at the end of December 2021 from GH¢291.6 billion at the end of 2020. In terms of GDP, the total public debt was 80.1 percent, higher than the 76.0 percent registered in December 2020.

The domestic component of total public debt was GH¢181.8 billion (41.4% of GDP), representing a 19.9 percent annual growth and accounting for 48.3 percent of the total public debt at the end of 2021, a little over the 51.4 percent recorded in December 2020. External debt also increased to GH¢170.0 billion (38.7% of GDP) at the end of 2021 from GH¢141.8 billion (37.0% of GDP) as of December 2020. External debt also constituted 51.7 percent of total public debt at the end of December 2021, compared to 48.6 percent in December 2020.

6.5 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. In the outlook, 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 outcomes. Government's recent proposal of up to 20 percent cut in discretionary spending is expected to support the consolidation efforts.

AppendixTable 6.1: 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

7. Inflation Outlook and Analysis

7.0 Overview

The global environment has changed dramatically since the start of the year, reflecting new geopolitical events of the Russia-Ukraine war, which has further heightened uncertainties. Global growth currently faces downside risks including the effect of geopolitical tensions on commodity prices, additional supply chain bottlenecks on manufacturing output, withdrawal of monetary policy stimulus in some major advanced economies, and vulnerabilities associated with rising debt stocks, especially in emerging market and developing economies. The updated World Economic Outlook report by the IMF projects a decline in global growth from 5.9 percent in 2021 to 4.4 percent in 2022. This growth downgrade excludes recent developments of the Russia-Ukraine war. Hence, further moderation of projected global growth estimates is likely, under prolonged conditions of the war.

The elevated global price pressures have persisted, driven by sharp increases in food and crude oil prices and supply chain disruptions. The Russian-Ukraine war has exacerbated these price pressures and pushed energy and commodity prices to record high levels. As a result, headline inflation across several Advanced and Emerging Market economies has moved above target, prompting monetary policy responses to prevent the dislodgement of inflation expectations. The U.S. Federal Reserve Bank has, for the first time since 2018, raised its policy rate by 25 basis points to 0.50 percent, with further guidance to step up the rate adjustments if inflation becomes endemic. The Bank of England has also raised its policy rate by another 25 basis points in the year to 0.75 percent. Similarly, policymakers in several emerging market and developing economies have moved towards policy tightening in response to rising inflation and currency pressures.

The shift towards less accommodative policies by major central banks to contain inflationary pressures has resulted in tighter global financing conditions. The U.S. dollar has strengthened, long-term bond yields have risen in response and sovereign bond spreads have widened, especially for emerging market and frontier economies, leading to capital flow reversals and currency pressures. These global developments are likely to impact the domestic economy through the trade and financing channels.

On the domestic front, the rebound in economic activity continued, as reflected in some improvements in the Bank's updated Composite Index of Economic Activity (CIEA), although at a slower pace than in 2021. The key drivers of the index during the period were industrial production, exports, credit to the private sector and air-passenger arrivals. Consumption of goods and services, and construction activity, however, slowed down, acting as a drag on the index.

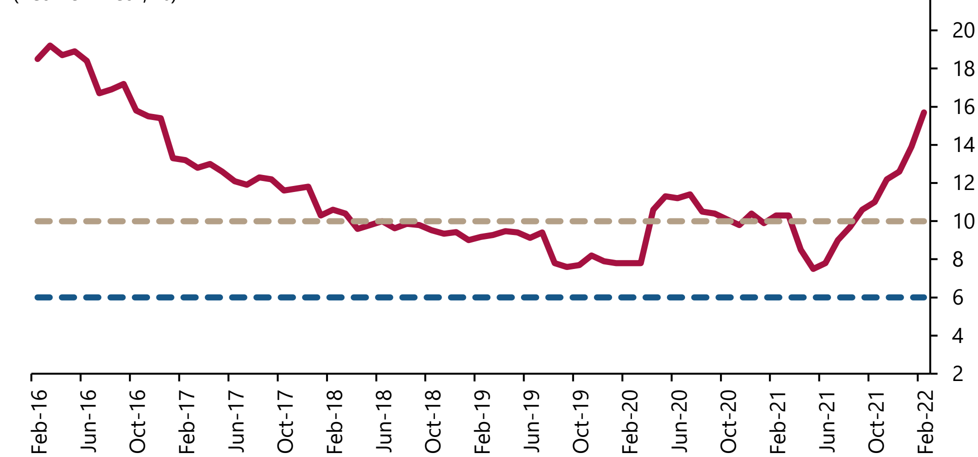
7.1 Domestic Price Developments

Headline inflation surged to 15.7 percent in February 2022 from 12.6 percent in December 2021, 5.7 percent above the upper band of the medium-term target (Figure 7.4). The sharp increase in February inflation remains the largest since October 2016 and was mainly driven by rising food prices, upward adjustments in petroleum prices and its effect on transport fares, and exchange rate depreciation pass-through. In year-on-year terms, food price inflation rose sharply to 17.4 percent in February 2022 from 12.8 percent in December 2021, while non-food inflation trended up to 14.5 percent from 12.5 percent over the same period.

In line with the trends in overall inflation, underlying inflation pressures also firmed, signalling broad-based price pressures. The Bank's core measure of inflation, which excludes volatile items in the CPI basket such as energy and utilities, also jumped from 11.8 percent in December 2021 to 13.6 percent in January 2022 and further up to 15.4 percent in February 2022 (Figure 7.2). Similarly, weighted inflation expectations comprising consumers, businesses, and the financial sector, also picked up significantly over the period.

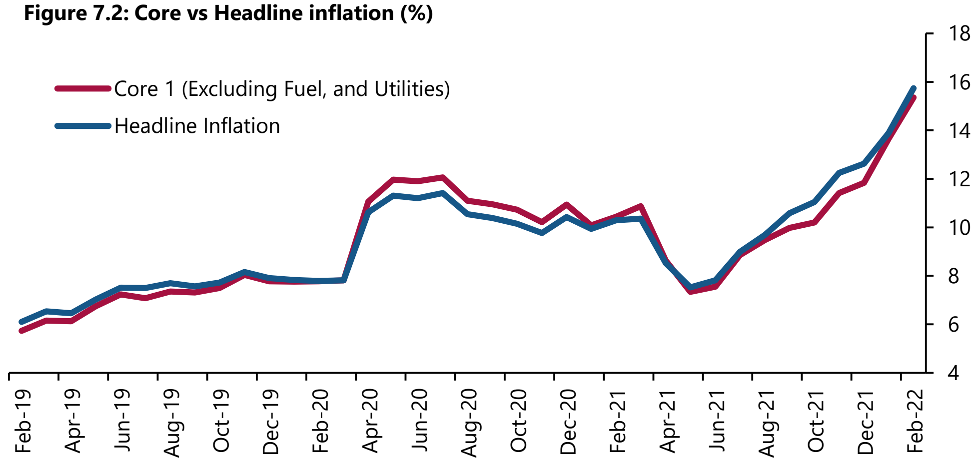
On a month-on-month basis, prices climbed by 2.4 percent in February 2022, from 2.1 percent in January 2022 and 1.2 percent in December 2021. The February 2022 monthly inflation compares to 0.8 percent recorded during the same period in 2021 (Table 7.1). Food inflation recorded a 3.2 percent month-on-month change in February, up from 1.9 percent recorded in January 2022 while the monthly non-food inflation also picked up to 1.7 percent in February 2022, down from 2.2 percent recorded in January 2022. Compared with the same period last year, food inflation recorded no change, while non-food inflation increased by 1.4 percent (Table 7.1).

Figure 7.1: Headline Inflation at 15.7 percent in February 2022
(Year-on-Year, %)



Source:Bank of Ghana and Ghana Statistical Service (GSS)

Figure 7.2: Core vs Headline inflation (%)



Source: Bank of Ghana Staff Calculations

Figure 7.3: Monthly Headline Inflation
(month-on-month, %)

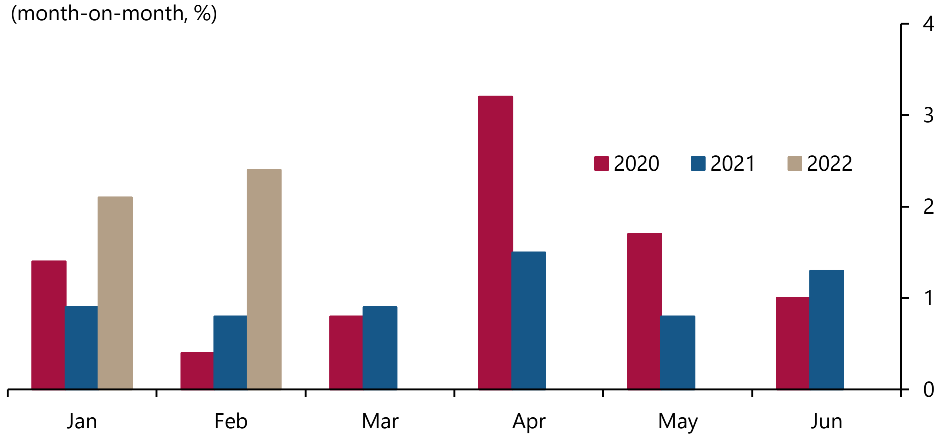
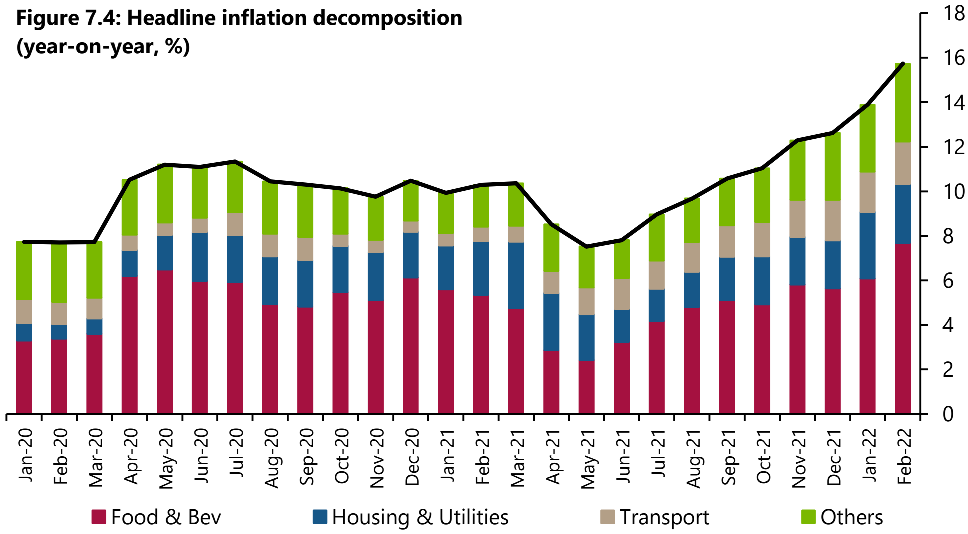


Figure 7.4: Headline inflation decomposition
(year-on-year, %)



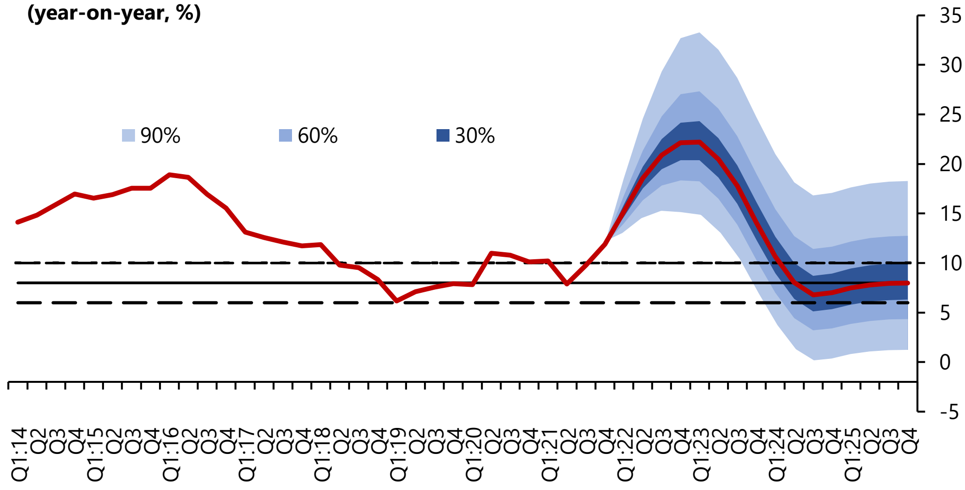
Source: Bank of Ghana Staff Calculations and GSS

7.2 Inflation Outlook

The March 2022 forecast, as depicted by the Fan Chart, showed a significant outward shift in the inflation outlook compared to the January forecast round. Although the outturn from the inflation forecast was broadly consistent with expectations, changes from the January 2022 forecast were largely driven by the realization of significant pressures on the domestic currency amid fiscal uncertainties and tighter external financing conditions in the first quarter of 2022, together with upward adjustments in ex-pump petroleum prices, rising transportation costs and the steady recovery in domestic growth conditions over the forecast horizon.

The updated forecast assumptions, together with the impending second round effects of the surge in ex-pump prices and transportation costs, tight credit conditions, rising inflation expectations, lingering food price pressures, rise in production costs and the impact of the ongoing geopolitical tensions are expected to drive inflation above the medium-term target band of 8±2 percent in the near term. However, inflation is expected to return to the target band over the forecast horizon as monetary conditions tighten, domestic currency stabilises, and supply chain disruptions ease in the medium-term, barring any unanticipated shocks.

Figure 7.5: Inflation Fan Chart
(year-on-year, %)



Source: Bank of Ghana Staff Forecast

7.3 Inflation Risk Assessment

The risks to the outlook for inflation were broadly tilted to the upside, driven by price pressures from both foreign and domestic sources.

On the foreign risks, global inflation and inflation expectations are projected to remain elevated in the near-term, fuelled by accelerated increases in energy and crude oil prices – exacerbated by the Russia-Ukraine war – together with lingering supply-chain bottlenecks, rising food prices and increased aggregated demand pressures as the global economy recovers. These risks are expected to transmit to high domestic inflation in the coming months, especially if the current pressures persist.

On the domestic front, the upward adjustments in the petroleum products and attendant second-round effects have pushed up inflation and inflation expectations. In the outlook, the heightened uncertainty in energy prices (crude oil and gas) due to the ongoing Russia-Ukraine war, the pass through of the sharp depreciation, and upward adjustment ex-pump petroleum prices and transportation costs pose significant upside risks and are expected to exert pressures on domestic prices in the near term. The uncertainties surrounding food prices also pose an upside risk to headline inflation in the outlook. These factors, in concert, are expected to exert upward pressures on food prices and hence, the overall inflation, at least in the near term. On the downside, it is expected that monetary policy tightening, together with the announced fiscal consolidation efforts would upend the inflationary pressures in the outlook.

7.4 Conclusion

The risks in the outlook for inflation are on the upside and include petroleum price adjustments and transportation costs, exchange rate depreciation, fiscal constraints, rising global inflation, impact of Russia-Ukraine war on global supply chains, and lingering uncertainties about domestic food prices. Given these considerations, the MPC raised the monetary policy rate from 14.5 percent to 17.0 percent to help re-anchor inflation expectations and steer inflation back within the medium-term target band.

Appendix Table 7.1: Headline Inflation

	Headline Inflation (%)			Monthly Changes in CPI (%)		
	Combined	**Food**	**Non-food**	**Combined**	**Food**	**Non-food**
Dec-19	**7.9**	**7.2**	**8.5**	**0.3**	**-0.6**	**1.0**
Dec-20	**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
2022						
Jan	13.9	13.7	14.1	2.1	1.9	2.2
Feb	15.7	17.4	14.5	2.4	3.2	1.7

Source: Ghana Statistical Service

Appendix Table 7.2: CPI Components

CPI Components (%)		2020	2021						2022	
	Weghts (%)	**Dec**	**Jan**	**Feb**	**Mar**	**Jun**	**Sept**	**Dec**	**Jan**	**Feb**
Overall	100.0	10.4	9.9	10.3	10.3	7.8	10.6	12.6	13.9	15.7
Food and Beverages	43.1	14.1	12.8	12.3	10.8	7.3	11.5	12.8	13.7	17.4
Non-food	56.9	7.7	7.7	8.8	10.0	8.2	9.9	12.5	14.1	14.5
Alcoholic Beverages, Tobacco	3.7	6.0	7.4	7.2	7.0	6.5	8.1	9.6	8.0	9.0
Clothing and footwear	8.1	7.9	7.2	6.2	6.0	6.0	6.8	8.6	8.3	9.5
Housing and Utilities	10.2	20.1	19.0	23.4	29.0	14.2	18.7	20.7	28.7	25.4
Household Equipment and Maintenance	3.2	4.7	4.5	5.0	4.7	4.7	6.3	9.6	11.0	14.4
Health	0.7	6.0	6.9	6.9	7.1	6.0	4.6	6.0	5.4	6.9
Transport	10.1	4.8	5.4	6.2	6.8	13.4	13.6	17.6	17.4	18.3
Information and Communication	3.6	7.0	6.7	8.4	8.1	4.9	6.6	9.0	8.9	10.2
Recreation & Culture	3.5	1.8	3.0	3.9	4.0	3.6	6.8	11.4	12.0	12.7
Education	6.5	0.2	0.3	0.4	0.4	0.9	0.9	1.0	0.9	1.3
Restaurants and Accommodation	4.6	5.4	4.8	5.4	6.1	4.8	3.2	8.9	9.1	10.6
Insurance and Finacial services	0.2	3.3	3.3	7.4	7.8	5.5	7.1	6.3	6.3	2.9
Personal care & Miscellaneous goods	2.4	3.8	5.1	4.3	4.5	4.5	7.2	10.6	10.8	13.5

Source: Ghana Statistical Service