HIGHLIGHTS

PRESS RELEASE

106TH MPC MEETING

MAY 2022

www.bog.gov.gh @thebankofghana @thebankofghana

1 | GLOBAL UNCERTAINTIES HAVE INTENSIFIED, IMPACTING GROWTH PROSPECTS

1. The Russia-Ukraine war has worsened pre-existing global supply chain disruptions, triggered food and energy price shocks, and further heightened uncertainty about global growth prospects.
2. Global price pressures remain elevated, driven by rising food and fuel prices, and supply chain disruptions. Inflation has not only breached set targets, but also hit record levels not seen in several decades.
3. Global financing conditions have tightened, as major central banks raise policy rates to counter rising inflation, with negative spill over effects emerging market and frontier economies.

2 | DOMESTIC GROWTH HAS REBOUNDED FROM THE IMPACT OF THE COVID-19 PANDEMIC

1. GSS estimates real GDP growth at 5.4 percent in 2021, compared with 0.5 percent in 2020. The momentum is expected to continue in 2022.
2. In the first quarter, the Bank's Composite Index of Economic Activity recorded 4.6 percent growth in March 2022, compared to 4.2 and 4.4 percent in January and February, respectively.
3. But, latest business and consumer sentiments have eased due to increases in fuel prices and transportation costs, rising inflation, and currency depreciation, which would adversely impact industry prospects.

3 | ELEVATED PRICE PRESSURES PERSIST

1. Headline inflation surged from 15.7 percent in February 2022, to 19.4 percent in March, and 23.6 percent in April on the back of higher ex-pump petroleum prices and transportation costs, food prices, and the exchange rate depreciation.
2. Similarly, the Bank's core inflation measure, which excludes energy and utility prices, picked up sharply.
3. Inflation expectations by consumers, businesses and the banking sector have also heightened.

4 | BUDGET DEFICIT FOR 2022 Q1 SLIGHTLY ABOVE TARGET

1. The overall broad fiscal deficit was 2.6 percent of GDP for the first quarter of 2022, against the programmed target of 2.3 percent of GDP.
2. Total revenue and grants amounted to GH¢16.7 billion (3.3% of GDP), below the projected GH¢19.3 billion (3.8% of GDP).
3. Total expenditures amounted to GH¢27.0 billion (5.4% of GDP), below the programmed target of GH¢30.5 billion (6.1% of GDP).
4. The stock of public debt increased to 78.0 percent of GDP at the end of March 2022, compared with 76.6 percent of GDP at the end of December 2021.

5 | INTEREST RATES IN THE MONEY MARKET TREND UPWARDS ACROSS THE YIELD CURVE

1. The 91-day and 182-day Treasury bill rates have increased to 16.22 percent and 16.72 percent respectively, from 12.49 percent and 13.19 percent, respectively between December 2021 and March 2022.

2. The rate on the 364-day instrument also increased to 18.93 percent from 16.49 percent, while rates on the 2-year, 3-year, and 5-year bonds all went up.

3. The weighted average interbank rate increased to 16.46 percent, from 13.57 percent in tandem with the 250 basis points policy rate hike in March 2022.

4. This transmitted to the retail-end of the market, and Banks' average lending rates have inched up to 21.61 percent in April 2022 from 20.04 percent in December 2021.

6 | DESPITE REVERSAL OF THE COVID-19 REGULATORY RELIEF MEASURES, BANKING SECTOR REMAINS STRONG

1. Key Financial Soundness Indicators was strong, with growth in total assets, investments, profitability, liquidity, solvency, and deposits.
2. Total assets rose to GH¢194.3 billion at end-April 2022, which represented 24.8 percent annual growth, relative to 16.4 percent growth in the previous year.
3. Asset quality improved, with the Non-Performing Loan ratio eased to 14.3 percent at end-April 2022, compared with 15.5 percent in the previous year.
4. The Capital Adequacy Ratio stood at 21.3 percent, well above the regulatory minimum of 13.0 percent.

7 | PRIVATE SECTOR CREDIT IMPROVES, CLOSE TO PRE-PANDEMIC LEVELS

1. Private sector credit recorded a significant annual growth of 26.5 percent in April 2022, compared with 6.9 percent, in April 2021.

2. In real terms, however, private sector credit grew by 2.3 percent, due to sustained price pressures, relative to a contraction of 1.5 percent in April 2021.

8 | COMMODITY PRICES REMAIN VOLATILE DUE TO GEOPOLITICAL TENSIONS

1 Average crude oil prices gained 42.0 percent on a year-to-date basis to settle at US$106.2 per barrel in April 2022, supported by supply constraints arising from the geopolitical tensions between Russia and Ukraine.

2 Cocoa prices rose by 4.4 percent to settle at US$2,591.06 per tonne in April 2022, compared to the US$2,481.95 per tonne in December 2021, due to unfavourable weather conditions across West Africa.

3 Gold prices gained 8.1 percent to settle at US$1,935.89 per fine ounce, on the back of increased safe-haven demand amid global inflation concerns.

9 | TRADE SURPLUS IMPROVES, BUT CAPITAL AND FINANCIAL ACCOUNT RECORDS SIGNIFICANT OUTFLOWS, LEADING TO BOP DEFICIT IN THE FIRST QUARTER OF 2022

1. Provisional data indicates a trade surplus of US$1.3 billion in the first four months of the year, compared with a trade surplus of US$778.00 million in the same period of last year.

2. The higher trade surplus was offset by investment income outflows and net services payments, resulting in a current account deficit of US$128.15 million (0.2% of GDP), compared with current account deficit of US$197.0 million (0.2% of GDP) last year.

3. The capital and financial account, however, recorded some significant outflows from net portfolio reversals and net private capital outflows.

4. This resulted in an overall balance of payments deficit of US$934.46 million for the first quarter of 2022, compared with a deficit of US$429.93 million, same time last year.

10 | RESERVES DECLINE AMID FOREIGN EXCHANGE MARKET VOLATILITY

1. Gross International Reserves at the end of April 2022, stood at US$8.34 billion, equivalent to 3.7 months of import cover. This compares with US$9.70 billion, equivalent to 4.3 months of import cover at end-December 2021.

2. During the first quarter of 2022, the Ghana Cedi depreciated by 15.6 percent against the US dollar, 13.1 percent against the Pound Sterling, and 13.6 percent against the Euro.

3. However, some moderation in the rate of depreciation occurred from the beginning of April.

4. Cumulatively to May 18, 2022, the Ghana Cedi depreciated by 15.8 percent against the US dollar, 8.2 percent against the Pound Sterling, and 8.9 percent against the Euro.

11 | THE MPC INCREASES POLICY RATE FROM 17% TO 19%, DUE TO SIGNIFICANT UPSIDE RISKS TO INFLATION

- **In taking the decision, the Committee noted:**

1. Slowdown in global growth recovery, amid sharp rise in inflation. This has prompted policy tightening with spill over effects on vulnerable developing countries through the trade and finance channels.

2. Growth prospects in the domestic economy remain positive, and the Bank's high frequency indicators point to continued momentum in economic activities.

3. Execution of the budget for the first quarter was broadly in line with targets, despite the deviation in the deficit target on the back of low revenue receipts.

4. The prevailing tight global financing conditions, and further policy rate hikes in Advanced Economies continued to pose risks to the external outlook.

12 | THE MPC INCREASES POLICY RATE FROM 17% TO 19%, DUE TO SIGNIFICANT UPSIDE RISKS TO INFLATION

5 Headline inflation surged in April 2022. And, both headline and core inflation have stretched further above the upper limit of medium-term target band.

6 Significant upside risks to the inflation outlook observed. The Bank's latest forecast shows a continued elevated inflation profile in the near term, with a prolonged horizon for inflation to return to the target band.

7 Given these considerations, the MPC took the view to decisively address the current inflationary pressures to re-anchor expectations and help foster macroeconomic stability.

8 **On the basis of the above assessments, the Committee decided to raise the policy rate by 200 basis points to 19.0 percent.**