Bank of Ghana
Monetary Policy Committee
Press Release

July 25, 2022

Good morning, Ladies and Gentlemen of the Media and welcome to the press briefing after the 107th Monetary Policy Committee (MPC) meetings which took place last week. The Committee deliberated on recent macroeconomic developments and assessed risks to the inflation and growth outlook. A summary of the assessment and key considerations that informed the Committee's decision on the stance of monetary policy is provided below:

1. Uncertainties in the global economy have heightened since the last MPC meeting in May 2022. Headline inflation in several Advanced and Emerging Market economies has drifted further above set targets, amid escalating energy and food prices, as well as persistent and broadened supply chain bottlenecks. These trends have prompted swift and coordinated monetary policy responses by major central banks. In Advanced Economies, the U.S. Federal Open Market Committee, the Bank of England, and more recently, the European Central Bank, have raised interest rates and signalled more aggressive rate increases to anchor inflation expectations. In a similar direction, central banks in several Emerging Market and Developing Economies have also moved to tighten their monetary policy stance in response to rising inflation and currency pressures.

2. The global economy is now being threatened with historically high inflation and slowing growth, triggering recession concerns in many Advanced Economies. As a result, global growth forecast for 2022 has been downgraded and the IMF projects the world economy to grow by 3.6 percent as against the growth of 4.4 percent contained in its World Economic Outlook update of January 2022.

3. Global financing conditions have tightened further, reflecting monetary policy normalization and expectations for further increases in policy rates, which has led to higher government bond yields, re-pricing of risky assets, and strengthening of the United States dollar. The interplay of these tighter financing conditions and a strong U.S. dollar have widened sovereign bond spreads and quickened capital flow reversals from most emerging and frontier economies. With dwindling reserve buffers, external vulnerabilities in several emerging market economies have heightened, resulting in increased depreciation across most currencies, higher debt service levels, and external financing constraints.

4. At home, economic activity moderated in the first quarter. Latest estimates from the Ghana Statistical Service showed moderation in GDP growth to 3.3 percent for the first quarter of 2022, compared with 3.6 percent in the same period of 2021, and 7.0 percent in the fourth quarter of 2021. Non-oil GDP growth was 3.7 percent, down from 5.3 percent recorded for the comparative period in 2021. The deceleration in growth was driven by slower activity in the agriculture and services sectors.

5. Beyond the first quarter, the Bank of Ghana's high frequency indicators reflected further slowdown in economic activity, consistent with the recent GDP data. The updated Composite Index of Economic Activity (CIEA) recorded an annual growth of 1.7 percent in May 2022, compared to 2.5 percent in April 2022 and 5.0 percent in December 2021. The key growth drivers were exports, credit to the private sector, and tourist arrivals, while construction activities and industrial production contracted over the period.

6. The pace of expansion in monetary aggregates moderated in the first half of 2022. Broad money supply (M2+) grew by 19.1 percent in June 2022, compared with 21.3 percent in the same period of last year. The slower growth was driven by a contraction in the Net Foreign Assets (NFA) of banks, which was partly offset by a significant expansion in Net Domestic Assets (NDA). Reserve money growth also slowed to 33.8 percent from 41.2 percent, recorded over the same comparative period.

7. Credit to the private sector is recovering to the pre-pandemic levels, reflecting commercial banks' portfolio rebalancing. In year-on-year terms, private sector credit increased significantly by 33.7 percent in June 2022, compared with 6.8 percent in the same period of 2021. In spite of the sustained price pressures, private sector credit, in real terms, recorded a 3.0 percent growth. A year ago in June 2021, real private sector credit had contracted by 0.97 percent.

8. The latest credit conditions survey of banks revealed tightened credit stance on loans to enterprises and households. Notwithstanding these tight credit conditions across the industry, banks' credit extension improved during the review period. New advances to the economy broadened across the industry, with 20 out of 23 banks extending new credit. Total new advances as of June 2022 was GH¢24.6 billion (54.0 percent year-on-year growth), compared to GH¢15.9 billion (1.0 percent growth) recorded for the same period of 2021.

9. Results from the Bank's latest confidence surveys conducted in June 2022 showed significant softening of business and consumer sentiments. While consumers felt less optimistic about future economic conditions, businesses were concerned about the impact of high cost of raw materials, rising labour costs, exchange rate volatility, and weak consumer demand. These conditions

adversely impacted business optimism and prospects. At the same time, the Purchasing Managers' Index (PMI), which provides information on inventory accumulation and new orders at the firm level, also declined.

10. Assessment of the banking sector's performance for the first half of 2022 showed robust growth in assets and deposits. Total assets grew by 22.8 percent on a year-on-year basis to GH¢200.0 billion at end-June 2022, compared to the growth of 17.2 percent in the previous year. Total deposits grew at a slower pace by 19.1 percent to GH¢131.3 billion, relative to 22.5 percent growth a year earlier.

11. Key Financial Soundness Indicators of the banking industry remained positive. The Capital Adequacy Ratio was 19.4 percent in June 2022, well above the regulatory minimum of 13.0 percent. Core liquid assets to short-term liabilities improved to 30.2 percent, compared with 27.5 percent in the previous year. The non-performing loans ratio also improved to 14.1 percent at end-June 2022 compared with 17.0 percent in June 2021, reflecting some moderation in the growth of the stock of non-performing loans, as well as the rebound in credit growth.

12. The banking sector's profit before tax was GH¢4.4 billion, representing 21.6 percent annual growth in June 2022, compared to 32.1 percent in the previous year. Net interest income grew at 12.4 percent, compared with 19.4 percent a year ago. Net fees and commissions, however, grew by 29.2 percent, compared to 19.6 percent in the previous year, reflecting a rebound in trade finance-related business. These developments culminated in a 23.0 percent growth in operating income, compared with a growth of 15.7 percent in the corresponding year. Operating expenses also recorded a higher growth of 22.9 percent, compared to 7.3 percent in the previous year, moderating the growth in profit before tax during the first half of 2022.

13. The two inflation readings since the May MPC meeting pointed to continued broad-based upward pressure on prices, reflecting the pass-through effects of increases in ex-pump petroleum prices, transport costs, currency depreciation, and food prices. Headline inflation increased markedly from 23.6 percent in April 2022 to 27.6 percent in May, and then further up to 29.8 percent in June. Food inflation went up from 26.6 percent in April to 30.1 percent in May, and then to 30.7 percent in June 2022. On the other hand, non-food inflation moved from 21.3 percent to 25.7 percent, and then to 29.1 percent in June 2022.

14. Similar to the observed trends in headline inflation, underlying inflation pressures have also risen sharply. The Bank's core inflation measure, defined to exclude energy and utility, rose from 22.3 percent in April 2022 to 26.4 percent in May, and then to 28.4 percent in June. In addition, weighted inflation expectations from businesses, banks, and consumers remained elevated in June 2022.

15. The pace of month-on-month inflation has, however, slowed for the second consecutive time. After increasing by 5.1 percent in April 2022, the monthly headline inflation slowed to 4.1 percent in May, and then to 3.0 percent in June. Month-on-month food inflation also increased at a rate of 5.8 percent in April, 4.0 percent in May and eased to 2.3 percent in June 2022. Similarly, non-food monthly inflation also slowed from 4.6 percent in April to 4.1 percent in May, and further down to 3.6 percent in June 2022.

16. Provisional data on budget execution for January to May 2022 indicated an overall broad fiscal deficit on a cash basis of 5.0 percent of GDP, against a programmed target of 3.5 percent of GDP. The corresponding primary balance for the period was a deficit of 1.4 percent of GDP, against a deficit target of 0.2 percent of GDP. Over the period, total revenue and grants amounted to GH¢29.5 billion (5.9 percent of GDP), below the projected GH¢34.8 billion (6.9 percent of GDP). Total expenditure was GH¢48.9 billion (9.7 percent of GDP), below the programmed target of GH¢51.8 billion (10.3 percent of GDP).

17. These developments impacted the stock of public debt which increased to 78.3 percent of GDP (GH¢393.4 billion) at the end of June 2022, compared with 76.6 percent of GDP (GH¢351.8 billion) at the end of December 2021. Of the total debt stock, domestic debt was GH¢190.1 billion (37.8 percent of GDP), while the external debt was GH¢203.4 billion (40.5 percent of GDP).

18. Interest rates generally trended upwards in tandem with the Bank's policy stance. In the money market, the Interbank Weighted Average Rate (IWAR) increased to 19.92 percent in June 2022 from 12.68 percent in December 2021, consistent with the direction of the policy rate. The upturn in the IWAR transmitted to the retail-end of the market, with the average lending rates of banks increasing to 24.27 percent in June 2022, from 20.04 percent in December 2021.

19. Similarly, rates on the shorter dated government securities increased significantly between December 2021 and June 2022:
    - The 91-day and 182-day Treasury bill rates increased to 24.15 percent and 25.55 percent, from 12.49 percent and 13.19 percent, respectively; and
    - The rate on the 364-day instrument increased to 27.14 percent, from 16.46 percent.

20. International commodity prices exhibited increased volatility during the first half of the year as crude oil prices hit historical highs. Crude oil prices rose sharply due to the limited capacity of OPEC+ to increase production as well as supply constraints from geopolitical tensions. Brent crude rallied by 56.7 percent on a year-to-date basis to settle at US$117.2 per barrel in June 2022. Gold prices rose by 2.6 percent to settle at US$1,837.1 per fine ounce amid global inflation concerns. The price of cocoa beans, on the other hand, lost 2.2 percent to settle at US$2,428.38 per tonne due to concerns about weakening demand.

21. On the external payments front, the generally favourable commodity prices impacted positively on the terms of trade. At the end of June 2022, the trade account recorded a surplus of US$1.4 billion, representing a year-on-year growth of 62.1 percent. The improvement stemmed from higher export receipts from crude oil, gold, and non-traditional exports. Crude oil exports went up by 61.3 percent year-on-year to US$2.8 billion, non-traditional exports increased to US$1.4 billion, up by 21.7 percent, and gold exports was US$3.0 billion, higher by 13.1 percent, respectively. However, earnings from cocoa beans declined by 31.0 percent, mainly due to a 28 percent reduction in production volumes. In total, merchandise exports for the first half of 2022 reached US$9.0 billion, compared with US$7.6 billion for the same period in 2021. Total merchandise imports amounted to US$7.6 billion, up by 11.9 percent on year-on-year basis, and driven mainly by oil import bill. Oil and gas imports increased by 87.8 percent to US$2.3 billion, while non-oil imports dipped by 4.7 percent to US$5.3 billion at the end-June 2022.

22. Notwithstanding the significant improvement in the trade surplus, the current account deficit widened to US$1.1 billion, compared with US$762.0 million recorded in the same period of 2021. The weakening in the current account was primarily due to higher net outflows from the income and services account, in particular, repatriation of profits and dividends, which offset the gains in the trade account. Again, the capital and financial account recorded significant portfolio reversals and net outflows in the other investment accounts, as well as lower foreign direct investments. The combined effect of the widened current account deficit and higher net outflows in financial account resulted in an overall balance of payments deficit of US$2.5 billion at end-June 2022, compared with a surplus of US$2.4 billion in the same period last year.

23. Gross International Reserves declined to US$7.7 billion at the end of June 2022, equivalent to 3.4 months of import cover, compared with US$9.7 billion (4.3 months of imports) at the end of December 2021. The decline in the reserve buffer, alongside unfavourable global financing conditions, exerted significant pressures on the foreign exchange market. On the interbank forex market, the Ghana Cedi cumulatively depreciated against all the three major currencies; 19.2 percent against the US dollar, 8.8 percent against the Pound Sterling, and 10.0 percent against the Euro as at July 20, 2022. In the corresponding period of 2021, the Ghana cedi depreciated by 0.6 and 0.7 percent against the US dollar and the Pound Sterling, and appreciated by 3.3 percent against the Euro.

Summary and Conclusions

24. Overall, the Committee noted the significantly more challenging global context as the global economy is expected to experience sharp deceleration. Amid higher commodity prices, supply disruptions, inflation has surged across most countries.

Global financial conditions have tightened and borrowing costs have increased particularly for Emerging Market and Developing Economies. The slowdown in Advanced Economies is resulting in spillovers to EMDEs which have not fully recovered from the COVID pandemic, amplifying the effects of pre-existing headwinds to growth including from higher inflation, tightened financial conditions, and weakened demand. Fiscal authorities in EMDEs, including Ghana, will be affected by the tighter financing conditions, higher borrowing costs amid elevated debt levels. This will require reprioritization of existing spending programmes to ensure fiscal and debt sustainability.

25. The Committee noted that akin to the slowdown in global growth, domestic growth is moderating, as high inflation, supply bottlenecks, and exchange rate uncertainty act as a drag on economic activity. The softening of business and consumer confidence since the last quarter of 2021 and the measured CIEA growth are providing evidence of this slowdown. The Committee noted the technical staff projection that GDP growth will likely slow down to within 3.7- 4.5 percent from the projection of 5.8 percent for 2022.

26. The banking sector continues to exhibit strong performance, in the face of challenging headwinds from the macroeconomic environment. The financial sector indicators remain healthy, with some improvement in asset quality reflected in the lower NPL ratios compared with April 2022. However, the recent developments in the macro economy may pose some upside risks to the sector's outlook and will require strong risk management by the industry and effective supervision.

27. The execution of the budget has been challenging against the backdrop of macroeconomic developments. For the first five months of the year, available provisional data shows a higher deficit relative to programmed, driven mainly by significant shortfalls in revenues relative to projections. The revenue underperformance reflected delayed implementation of several new revenue measures announced in the budget. On the expenditure side, higher interest payments led to some pressures despite restraint on primary expenditures especially on capital expenditures which has declined markedly. Financing of the budget was entirely met from domestic sources during the first half of the year as planned borrowing from international sources did not materialize. The outlook is for continued tightened borrowing conditions and this underscores the need to reprioritize spending programmes within the available financing envelopes.

28. On July 1, 2022, the Government announced its intention to seek support from the International Monetary Fund. Initial talks have begun, and it is envisaged that a Fund-supported programme will help re-anchor expectations through implementation of reforms to restore creditworthiness, and eventually lead to a regain of access to the international capital markets. The markets have already started internalizing the positive effects of the engagement with the IMF.

29. The Committee noted that inflation has persisted on an elevated path. A detailed review of the consumer basket shows that although initially driven by supply side shocks, the initial relative price changes have broadened to almost all the items in the consumer basket. Over 80 percent of the items in the basket recorded inflation above 20 percent. Inflation perceptions and expectations, as revealed in the Bank's surveys of consumers and businesses, have increased, and influenced agitations for Cost-of-Living Allowances in workplaces. The Bank of Ghana has responded decisively with its policy tools over the last few months increasing the policy rate by a cumulative 550 basis points since November 2021 and tightened liquidity conditions. The Committee also noted the deceleration in the rate of increase in inflation in the last reading. The Committee expects that the macroeconomic framework that will underpin an agreed IMF-supported programme will present a stronger coordinated monetary and fiscal policy framework that will anchor stability and prevent a wage-price spiral, which will lead to inflation becoming more entrenched.

30. Based on the above assessments, the Committee was of the view that it will be appropriate to pause and observe the impact of the recent monetary policy measures already taken.

31. The Committee therefore decided to maintain the monetary policy rate at 19.0 percent.

Informational Note

The next Monetary Policy Committee (MPC) meeting is scheduled for September 20 - 23, 2022. The meeting will conclude on Monday, September 26, 2022 with the announcement of the policy decision.