



# Bank of Ghana Monetary Policy Committee Press Release

October 6, 2022

Good morning, Ladies and Gentlemen of the Media and welcome to the press briefing after the 108<sup>th</sup> Monetary Policy Committee (MPC) meetings which took place this 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. Global economic conditions remain challenging. Global growth is slowing more than anticipated, and financing conditions have tightened some more since the August MPC Emergency Meeting, reflecting further synchronous tightening of monetary policy rates across Advanced Economies and Emerging Markets. The Russia-Ukraine war has persisted, dragging down growth and putting additional upward pressure on prices, especially for food and energy with economic and social spillovers. Against the backdrop of these headwinds, the IMF World Economic Outlook update in July 2022 projected global growth at 3.2 percent in 2022, almost half of the 6.1 percent outturn recorded in 2021.
2. The wave of inflationary pressures spreading across several economies remain elevated and have now become broad-based across all items in the consumer basket. However, there are signs that global price pressures may be peaking as the major drivers of inflation ease somewhat, alongside the synchronized tightening of monetary policy across countries. The Fed's initial estimates which showed that global supply chain disruptions have eased steadily since May 2022, the fifth

consecutive monthly decline in the Food and Agricultural Organisation's food price index for August 2022, and the recent dip in crude oil prices on the back of weakened global growth prospects, are all suggestive of peaking of global inflation.

3. Global financing conditions remain tight as central banks in Advanced Economies raise policy rates significantly to decisively contain inflationary pressures. The Fed's continued hike in interest rates has strengthened the US dollar, instigating a sharp rise in long term bond yields, along with a sharp decline in stock prices. The monetary policy tightening trend, has resulted in widening sovereign bond spreads across Emerging Market and Developing Economies, leading to higher currency depreciation, currency risks, and elevated debt profiles.
4. On the domestic front, economic growth appeared strong in the second quarter. The latest data released by the Ghana Statistical Service estimated real GDP growth for the second quarter of 2022 at 4.8 percent, compared with 4.2 percent recorded in the second quarter of 2021. Non-oil GDP grew slower at 6.2 percent against 6.6 percent growth in the same comparative period. The relatively strong growth recorded in the second quarter was largely driven by the service and industry sectors, the latter bolstered by the manufacturing sub-sector.
5. The latest Bank of Ghana high frequency indicators signalled some moderation in economic activity. The Composite Index of Economic Activity (CIEA) recorded an annual growth of 0.5 percent in July 2022, compared to 1.6 percent in June 2022, and 5.0 percent in December 2021. The sources of the slowdown were from construction and port activities.
6. Reserve money, for the period under review, increased at a slower pace relative to a year ago. Annual growth in reserve money was 33.1 percent in August 2022, compared with 36.1 percent in August 2021. Broad money supply (M2+) increased marginally due to a sharp fall in Net Foreign Assets which moderated the expansion in the Net Domestic Assets (NDA) of the depository corporations sector. M2+ grew

by 23.4 percent year-on-year in August 2022, compared with 20.2 percent in the same period of 2021.

7. The latest credit conditions survey conducted in August 2022 indicated an overall net tightening of credit stance to corporates and households by the commercial banks. This was reflected in the steady increase in average lending rates. This notwithstanding, new advances increased by 56.1 percent year-on-year to GH¢33.8 billion in August 2022, relative to a 4.9 percent increase in August 2021. Annual growth in private sector credit was 35.8 percent in August 2022, compared with 9.6 percent a year ago. In real terms, private sector credit increased, albeit marginally, to 1.4 percent due to sustained price pressures. This compares with a contraction of 0.2 percent over the same period in 2021.
8. Results from the Bank's August 2022 confidence surveys showed further softening of Business and Consumer sentiments. While consumer confidence dipped on account of rising inflation, business sentiments softened on the back of concerns about price pressures, currency depreciation, and weakening consumer demand. The survey findings were broadly in line with an observed downturn in Ghana's Purchasing Managers' Index (PMI) in August 2022.
9. Banking sector performance however remained resilient as at end-August 2022. Total assets increased by 22.9 percent on year-on-year basis to GH¢204.6 billion in August 2022 due to sustained growth in deposits, compared to a 16.7 percent annual growth in the previous year. Total deposits increased by 22.5 percent to GH¢136.7 billion, relative to 21.8 percent growth in August 2021. The key Financial Soundness Indicators (FSIs) of the banking industry have remained positive in the year, with Capital Adequacy Ratio at 18.1 percent, well above the regulatory minimum of 13.0 percent. The sector was also liquid, reflected by an increase in the core liquid assets to short-term liabilities to 31.1 percent in August 2022 from 24.7 percent in the previous year. Asset quality also improved as the Non-Performing Loans ratio

declined to 14.3 percent at end-August 2022, from 17.3 percent in August 2021, reflecting partly, the higher level of outstanding loans.

10. Profit before tax for banks stood at GH¢6.1 billion in August 2022, representing an annual growth of 25.2 percent, compared to 27.4 percent in the previous year. Net interest income grew by 17.3 percent, compared to 17.9 percent. Net fees and commissions also increased by 26.9 percent to GH¢2.3 billion, compared with 21.8 percent growth in the previous year, reflecting the rebound in credit growth as well as an increase in trade finance-related business. Other income of banks grew by 85.6 percent to GH¢2.0 billion, compared with a contraction of 5.4 percent a year ago. These developments resulted in a 25.5 percent growth in operating income to GH¢14.2 billion, relative to a growth of 15.7 percent in the previous year. Operating expenses, however, increased sharply by 24.3 percent in August 2022, compared to 9.0 percent growth in August 2021, partly reflecting the impact of inflation on banks' operations.
11. Price pressures have remained elevated. The latest reading indicated that headline inflation accelerated to 33.9 percent in August 2022, from 31.7 percent in July and 29.8 percent in June. The rise in the August inflation was broad-based, driven by both food and non-food prices. Food inflation rose to 34.4 percent from 32.3 percent in July, whereas non-food inflation jumped to 33.6 percent from 31.3 percent, over the same comparative period. The upturn in food and non-food inflation was influenced by prices of both local and imported components in the consumer price basket.
12. In line with these trends, underlying inflation pressures remained heightened. The Bank's core inflation measure, which excludes energy and utility, increased further to 32.6 percent in August, from 30.2 percent in July 2022. Similarly, all the other core measures of inflation rose, reflecting the generalised increase in price levels. The Bank's latest surveys showed increased inflation expectations across consumers, businesses, and the financial sectors. Notwithstanding the above trends, monthly

inflation has declined for four consecutive months, reflecting a slowdown in the rate of increase in inflation.

13. Short term interest rates on the money market have reflected recent developments, while medium-term to long-term rates have remained relatively behind the yield curve. For example, while the discount rate on the 91-day instrument has increased to 29.7 percent in September 2022 from 12.5 percent in September 2021, the coupon rates on the 7-year, 10-year, 15-year, and 20-year have remain unchanged at 18.1 percent, 19.8 percent, 20.0 percent, and 20.2 percent respectively.
14. The interbank market weighted average rate has increased to 22.05 percent in September 2022 from 12.61 percent in September 2021, consistent with the rise in the policy rate. Average lending rates of banks have also adjusted upwards to 29.81 percent in September 2022 from 20.20 percent recorded in the corresponding period of 2021.
15. Budget implementation, using banking sector data, for the first 9-months of the year recorded an elevated overall cash deficit of 6.4 percent of GDP, against the revised programmed target of 5.0 percent of GDP. Total receipts of GH¢51.49 billion (8.7 percent of GDP) over the review period, fell short of projected target of GH¢60.08 billion (10.2 percent of GDP), and represented 85.7 percent of the budgeted estimate. Total payments of GH¢89.04 billion (15.0 percent of GDP) was almost on target, representing 99.5 percent of GH¢89.46 billion (15.1 percent of GDP). The deficit of GH¢37.56 billion, together with net foreign loan repayments of GH¢3.54 billion, created a resource gap of GH¢41.1 billion, which was financed from domestic sources and use of resources from the stabilization fund.
16. Ghana's main export commodities saw mixed developments on the international markets. The strong rally in Brent crude oil prices since the start of 2022 slowed somewhat to settle at US\$97.74 per barrel, representing a 30.7 percent year to date gain on the back of global recession concerns. On cocoa, prices have eased to

US\$2,385.96 per tonne, representing a contraction of 3.9 percent on year-to-date basis. Gold price also fell by 1.5 percent to settle at US\$1,763.71 per fine ounce due to higher bond yields and a strong US dollar, as the US Fed reaffirmed its commitment to bring inflation under control.

17. At the end of August 2022, the trade surplus was US\$1.7 billion, far exceeding the surplus of US\$892.4 million recorded in August 2021. This was driven by higher receipts from gold, crude oil and non-traditional exports, notwithstanding increased demand for oil and gas imports. Total exports went up by 19.5 percent year-on-year to US\$11.8 billion. Crude oil exports totalled US\$3.8 billion, 56.5 percent higher than observed in 2021, mainly due to price effects. Gold export earnings also went up by 23.9 percent to US\$4.2 billion, supported by increased production volumes triggered by the positive response from small scale gold exporters to the downward revision of the withholding tax regime from 3 percent to 1.5 percent. However, on account of lower prices and low cocoa purchases, cocoa receipts declined by 22.8 percent to US\$1.7 billion from US\$2.1 billion. Total merchandise imports grew by 12.9 percent on a year-on-year basis to US\$10.2 billion, mainly driven by higher oil and gas import bill of US\$3.1 billion at end-August 2022, relative to US\$1.7 billion in the same period of 2021. Non-oil imports, however, dipped by 3.8 percent year-on-year to US\$7.1 billion in the review period.
18. The stock of Gross International Reserves declined to US\$6.6 billion, equivalent to 2.9 months of import cover for goods and services in September 2022. This compares with the December 2021 position of US\$9.7 billion, equivalent to 4.3 months of import cover. Net International Reserves, which excludes encumbered assets and petroleum funds, is estimated at US\$2.7 billion as at September 2022.
19. In the year to September 2022, the Ghana Cedi has depreciated by 37.5 percent, 24.1 percent, and 27.5 percent against the US dollar, the pound, and Euro, respectively. In comparison with the same period of last year, the Ghana Cedi fared better, depreciating by 1.8 percent and 0.5 percent against the US dollar and the pound, respectively, and appreciated by 4.0 percent against Euro. The depreciation

of the currency was driven by higher crude oil product import bill on the back of rising prices, non-roll over of maturing bonds by non-resident investors, portfolio reversals and sudden exit of non-resident investors in the bond market, as well as loss of market access to Eurobond resources. The effect of these factors has been exacerbated by the strength of the US dollar, resulting in depreciation of the local currency from the beginning of the year-to-date.

### **Summary and Outlook**

20. Recent global developments reflect among others, heightened economic and policy uncertainties, fostered by the strong commitment on the part of advanced economies to decisively tackle inflation. This has triggered a wave of monetary policy tightening stance by most central banks across advanced economies and strengthening of the US dollar. Against other major international currencies, the US Dollar has appreciated by some 15 percent. Consequently, global financing conditions have tightened further since the start of 2022, with spillovers in the financial markets of emerging markets and developing economies. Driven in large part by these factors, several currencies have weakened against the US dollar, resulting in faster-paced capital flow reversals from emerging and developing economies, including Ghana.
21. On the fiscal situation, while expenditures have been broadly on target, revenue performance has been below expectations, complicating fiscal policy implementation. Financing of the budget so far has predominantly been from the banking sector with the central bank absorbing a larger share. Persistent uncovered auctions and portfolio reversals by non-resident investors continue to pose risks to financing of the budget, resulting in monetization of the budget deficit by the central bank. The Monetary Policy Committee recognizes the fact that the current condition is sub-optimal and will be interim until agreements are reached on an IMF-supported programme. The Committee assesses that the engagement with IMF has been positive and early conclusion of the programme discussions will help re-anchor stability.

22. The outlook for the Ghana Cedi has improved, aided by the recent disbursement of the loan from Afreximbank of US\$750 million, the signing of the syndicated Cocoa Loan of US\$1.13 billion, and the agreement with gold and oil companies to purchase the repatriated foreign exchange earnings of about US\$83.9 million so far, will help stabilise the exchange rate.
23. Inflation remains elevated and the balance of risks is on the upside. Although the forecasts are for monthly inflation to continue to slow down, the risks are on the upside, emanating largely from pass-through effects of the currency depreciation, the recent upward adjustment in utility tariffs, and rising inflation expectations. The Committee remains committed to re-anchoring inflation expectations and returning to a disinflation path.
24. Under the circumstances, the MPC decided to increase the Monetary Policy Rate by 250 basis points to 24.5 percent.

### **Informational Note**

The next Monetary Policy Committee (MPC) meeting is scheduled for November 22 - 25, 2022. The meeting will conclude on Monday, November 28, 2022 with the announcement of the policy decision.