



BANK OF GHANA

MONETARY POLICY REPORT

OCTOBER 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 108th meeting held in July 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 also considered in the monetary policy formulation process.

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 public.

©Research Department, Bank of Ghana MPC Report – October 2022

www.bog.gov.gh

Table of Contents

OVERVIEW	2
1. GLOBAL ECONOMIC DEVELOPMENTS	3
1.0 HIGHLIGHTS	3
1.1 GLOBAL GROWTH DEVELOPMENTS	3
1.2 GLOBAL PRICE DEVELOPMENTS	4
1.3 GLOBAL FINANCIAL MARKETS DEVELOPMENTS.....	4
1.4 CURRENCY MARKETS.....	5
1.5 GLOBAL ECONOMIC OUTLOOK AND RISKS	8
2. EXTERNAL SECTOR DEVELOPMENTS	9
2.0 COMMODITY PRICE TRENDS	9
FIGURE 2.4: COMMODITIES PRICE INDEX.....	10
2.1 TRADE BALANCE.....	10
2.2 INTERNATIONAL RESERVES	11
2.3 COMMODITY PRICES OUTLOOK	11
3. REAL SECTOR DEVELOPMENTS	12
3.0 HIGHLIGHTS	12
3.1 ECONOMIC GROWTH	12
3.2 TRENDS IN REAL SECTOR INDICATORS	12
3.3 COMPOSITE INDEX OF ECONOMIC ACTIVITY	14
3.3 CONSUMER AND BUSINESS SURVEYS	14
3.4 GROWTH OUTLOOK	14
4. MONETARY AND FINANCIAL DEVELOPMENTS	18
4.0 HIGHLIGHTS	18
4.1 DEVELOPMENTS IN MONETARY AGGREGATES	18
4.2 RESERVE MONEY.....	19
4.3 DEPOSIT MONEY BANKS CREDIT DEVELOPMENTS	20
4.5 MONEY MARKET DEVELOPMENTS	21
4.6 STOCK MARKET DEVELOPMENTS	23
4.7 CONCLUSION	24
5. BANKING SECTOR DEVELOPMENTS	26
5.0 HIGHLIGHTS	26
5.1 BANKS' BALANCE SHEET	26
5.2 CREDIT RISK	29
5.3 FINANCIAL SOUNDNESS INDICATORS.....	30
5.4 CREDIT CONDITIONS SURVEY	33
5.5 CONCLUSION AND OUTLOOK	34
6. FISCAL DEVELOPMENTS	38
6.0 HIGHLIGHTS OF FISCAL OPERATIONS	38
6.1 PUBLIC DEBT	38
7. INFLATION OUTLOOK AND ANALYSIS	40
7.0 HIGHLIGHTS	40
7.1 DOMESTIC PRICE DEVELOPMENTS.....	40
7.2 INFLATION OUTLOOK.....	42
7.3 INFLATION RISK ASSESSMENT.....	42
7.4 CONCLUSION	43

Overview

Recent global developments reflect heightened economic and policy uncertainties. This is fostered by the strong commitment to decisively tackle inflation, which has triggered a wave of monetary policy tightening by most central banks across advanced economies and strengthening of the US dollar.

Global financing conditions have tightened 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.

Fiscal policy implementation remains complicated. On the fiscal situation, while expenditures have been broadly on target, revenue performance has been below expectations. Therefore, 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 MPC assessed the current condition of financing the budget as sub-optimal and will be interim until agreements are reached on an IMF-supported programme. The Committee assessed that the engagement with IMF has been positive and early conclusion of the programme discussions will help re-anchor stability.

Increased volatility on the foreign exchange market. The foreign exchange market will benefit from the recent disbursement of the loan from Afreximbank, the syndicated Cocoa Loan, and the agreement with gold and oil companies to purchase the foreign exchange earnings that would otherwise have been repatriated.

Inflation remains elevated and the balance of risks is on the upside. The upside risks emanate 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. Under the circumstances, the MPC decided to increase the Monetary Policy Rate by 250 basis points to 24.5 percent.

1. Global Economic Developments

1.0 Highlights

- Global output growth is expected to slow, amid a weak second quarter GDP growth outturn in some major economies, tighter financing conditions, lingering effects of geopolitical tensions, and the squeeze on real incomes from higher global energy and tradable goods prices.
- The outlook for inflation remains elevated, although recent data suggested that price pressures may moderate somewhat in the months ahead.
- Global financing conditions remain tight. Many central banks have raised policy rates and are expected to tighten policy further in response to the still elevated outlook for inflation.
- Strengthening US dollar continues to put pressure on some EMDE currencies.

1.1 Global Growth Developments

The performance of the global economy in the second quarter was mixed in both advanced and emerging market economies. However, there are several headwinds to global activity emanating from tighter financial conditions and the Russia Ukraine war. Most central banks have tightened policy rates and signalled that further hikes may be necessary to contain the elevated inflation. Interest rate hikes have caused bond yields to rise while elevating sovereign spreads in Emerging Markets and Development Economies (EMDEs). The lingering effect of geopolitical tension has intensified supply chain disruptions. Occasioned by the war, uncertainty surrounding gas supplies to Europe has worsened the economic and policy uncertainty in Europe, causing business and consumer confidence to decline. The global economy faces weakness in consumer spending coming from the squeeze on real incomes of households reflecting higher energy and food prices, partly because of the war in Ukraine.

Table 1.1: Real GDP Growth Projections (%)

	Year over Year					
	2020	2021	Projections		Difference from April 2022 WEO Projections 1/	
			2022	2023	2022	2023
World Output	-3.1	6.1	3.2	2.9	-0.4	-0.7
Advanced Economies	-4.5	5.2	2.5	1.4	-0.6	-1.0
United States	-3.4	5.7	2.3	1.0	-1.4	-1.3
Euro Area	-6.3	5.4	2.6	1.2	-0.2	-1.1
Germany	-4.6	2.9	1.2	0.8	-0.9	-1.9
France	-7.9	6.8	2.3	1.0	-0.6	-0.4
Italy	-9.0	6.6	3.0	0.7	0.7	-1.0
Spain	-10.8	5.1	4.0	2.0	-0.8	-1.3
Japan	-4.5	1.7	1.7	1.7	-0.7	-0.6
United Kingdom	-9.3	7.4	3.2	0.5	-0.5	-0.7
Canada	-5.2	4.5	3.4	1.8	-0.5	-1.0
Other Advanced Economies 3/	-1.8	5.1	2.9	2.7	-0.2	-0.3
Emerging Market and Developing Economies	-2.0	6.8	3.6	3.9	-0.2	-0.5
Emerging and Developing Asia	-0.8	7.3	4.6	5.0	-0.8	-0.6
China	2.2	8.1	3.3	4.6	-1.1	-0.5
India 4/	-6.6	8.7	7.4	6.1	-0.8	-0.8
ASEAN-5 5/	-3.4	3.4	5.3	5.1	0.0	-0.8
Emerging and Developing Europe	-1.8	6.7	-1.4	0.9	1.5	-0.4
Russia	-2.7	4.7	-6.0	-3.5	2.5	-1.2
Latin America and the Caribbean	-6.9	6.9	3.0	2.0	0.5	-0.5
Brazil	-3.9	4.6	1.7	1.1	0.9	-0.3
Mexico	-6.1	4.8	2.4	1.2	0.4	-1.3
Middle East and Central Asia	-2.9	5.8	4.8	3.5	0.2	-0.2
Saudi Arabia	-4.1	3.2	7.6	3.7	0.0	0.1
Sub-Saharan Africa	-1.6	4.6	3.8	4.0	0.0	0.0
Nigeria	-1.8	3.6	3.4	3.2	0.0	0.1
South Africa	-6.3	4.9	2.3	1.4	0.4	0.0

Source: IMF WEO, July 2022

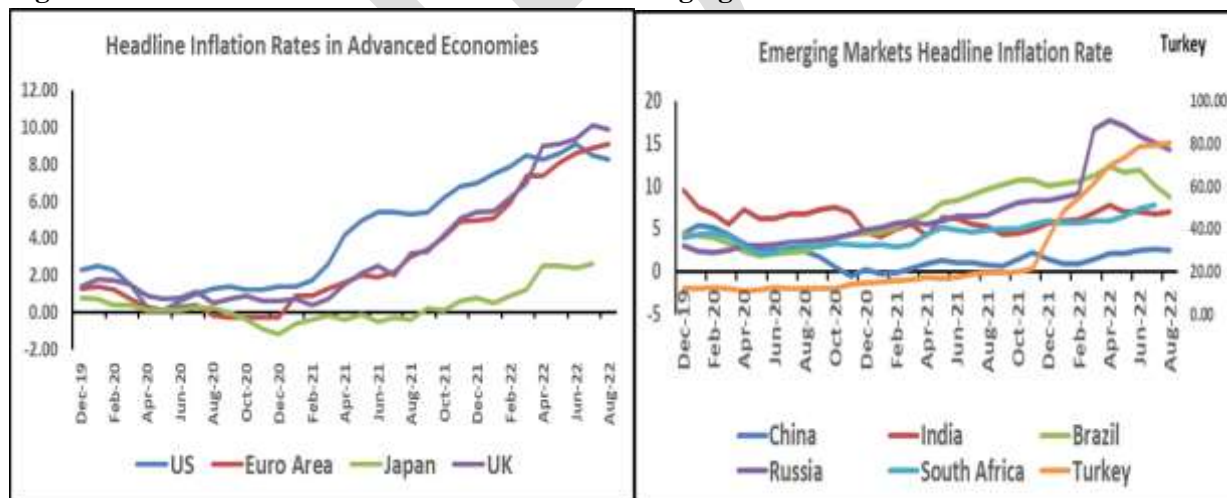
The IMF recently revised downwards growth projections for the global economy to 3.2 percent in July from the 3.6 percent earlier projected in April, on account of China's COVID-19 related lockdowns and property sector challenges (Table 1.1). The downgrade also reflected the lingering effects of geopolitics and uncertainty about gas supply to Europe. Risks to the growth outlook are tilted to the downside, stemming from ongoing geopolitical tensions, persistent supply chain issues, rising inflation, high sovereign debt levels in many regions, and expected monetary tightening by central banks in the US, the UK, Japan, and the Eurozone.

1.2 Global Price Developments

Headline inflation remained elevated in almost all economies due to persistent high global food, energy, and goods prices. Inflationary pressures in the Euro Area were driven largely by energy supply challenges stemming from the Russia-Ukraine war. In the US and other countries, inflation was more broad-based, covering both energy and non-energy related goods and services. COVID-19 related lockdowns in China and the Russia Ukraine war are disrupting production and trade further, leading to shortage of materials and driving up energy and other commodity prices. The FAO food price index recorded its fifth consecutive monthly decline in August with all the five sub-indices declining moderately. The index was, however, still higher than its value a year ago.

Price pressures will remain elevated in the near term, reflecting higher energy and food prices. However, markets expect that inflation will decline by 2023Q1 as monetary policy gets tighter, global growth cools, energy, and food prices level off, and supply bottlenecks ease. In EMDEs, price pressures mainly from weaker currencies will keep inflation elevated.

Figure 1.1: Headline Inflation in Advanced and Emerging Market Economies



Source: BOG/Trading Economics

1.3 Global Financial Markets Developments

Global financial conditions remain tight in both advanced and emerging market economies amid policy tightening in many countries, with further hikes expected given elevated levels of inflation. Reflecting inflationary concerns, longer-term bond yields have risen sharply with sovereign spreads widening in most EMDEs. Rising interest rates in the US and growing global growth uncertainties have lent support to the dollar relative to EM currencies. Uncertainty about the Russia-Ukraine war is weighing on equity prices,

however, non-resident portfolio flows to EM rose to US\$27.0 billion in August, led by equity flows of US\$21.2 billion and debt flows of US\$5.7 billion.

In the outlook, financial conditions will continue to tighten in the course of 2022. Price pressures have become persistent; hence, policy rate and longer-term bond yields will stay elevated in EMDEs. The US dollar's strength may continue for much longer as US policy rates rise. Also, the economic and policy uncertainty due to the Ukraine war will enhance the US dollar's safe-haven status. Meanwhile, the economic and policy uncertainty may continue to weigh on stocks.

Risks to the outlook are tilted to the downside. Ongoing geopolitical tensions, the COVID-19 pandemic, and prolonged disruptions to supply chain issues may continue to push commodity prices up, with inflationary pressures stronger than expected. Sharp increases in policy interest rates could also slow growth by more than projected, leading to tighter global financial conditions. Risks also remain from the evolution of the COVID-19 pandemic, especially for China where the zero-COVID policies has the potential to sap global demand and disrupt supply for a much longer period. On the upside, faster resolution of the Ukraine war as well as more effective containment of the virus in China would lift confidence, ease pressure on commodity markets, and reduce pressure on supply bottlenecks.

Table 1.2: Monetary Policy Stance of Selected Central Banks

	Key Rate	Previous (%)	Current (%)	Forecast	Inflation Rate (August, 2022)	Real rate	Infl Target	Overall Fiscal Deficit (2021,% of GDP)	GDP Growth (Dec.2021)	Gross Debt/GDP (2021, %)
U.S	Federal Funds Rate	1.75	2.5	2.5	8.3	-5.8	2%	-10.2	5.7	132.6
Euro Area	Refinancing Rate	0.5	1.25	1.25	9.1	-7.85	< 2%	-5.5	5.4	96
UK	Bank Rate	1.25	1.75	1.75	9.9	-8.15	2%	-8.0	7.4	95.3
Japan	short term policy rate	-0.1	-0.1	-0.1	2.6	-2.7	2%	7.6	1.6	263.1
Russia	Benchmark rate	9.5	8	7.5	14.3	-6.3	4%	0.7	4.8	17.0
India	Benchmark rate	4.9	5.4	5.4	7.0	-1.6	4±2%	-10.4	8.9	86.8
Brazil	Selic rate	13.25	13.75	13.75	8.73	5.02	4.5±1.5%	-4.4	4.6	93.0
Turkey	One week repo rate	14	13	14	80.21	-67.21	5±2%	-3.5	11	41.6
Malaysia	Policy Rate	2.25	2.5	2.5	4.4	-1.9	3% - 4%	-5.5	3.1	69
Indonesia	Policy Rate	3.5	3.75	3.5	4.69	-0.94	3.5% ± 1%	-4.6	3.7	42.8
Chile	Benchmark Interest Rate	9.75	10.75	10.5	14.1	-3.35	3±1%	-7.5	11.7	36.3
Ghana	Monetary Policy Rate	19	22		33.9	-11.9	8±2%	-11.4	5.4	76.6
South Africa	Repo Rate	4.75	5.5	5.25	7.8	-2.3	3% -6%	-6.4	4.9	69.1
Nigeria	Monetary Policy Rate	13	14	14.5	20.54	-6.54	6% -9%	-6.0	3.6	37
Kenya	Policy Rate	7.5	7.5	8	8.5	-1	2.5-7.5%	-8.1	7.5	68.1
Zambia	Policy Rate	9	9	9	9.8	-0.8	9%	-8.7	3.6	123.2
Morocco	Policy Rate	1.5	1.5	1.5	7.7	-6.2		-6.5	7.4	76.3

Source: Growth rate(World Bank); Debt/GDP (IMF); Policy Rates (Trading Economics), August inflation in red

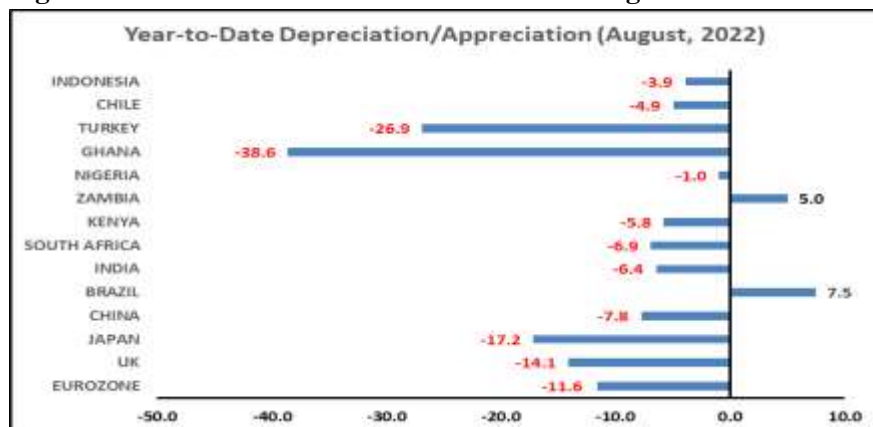
1.4 Currency Markets

On the international currency market, the US dollar strengthened on expectations that the US Fed will continue to pursue a tight monetary policy stance. Fears of a global recession and uncertainty surrounding gas supply in the Euro area may weigh on growth and help the dollar. The strength of the US dollar continues to weigh on various EMDEs currencies (Figure 1.2).

In the domestic currency market, the Ghana Cedi came under additional pressure in July and August on the back of negative news surrounding government debt levels and portfolio reversals by foreign investors

together with increased energy and corporate demand. The strong US dollar continues to strengthen on the back of the US Fed policy rate hikes, and this may pose added pressures and the Ghana Cedi may continue to experience some volatility in the near term. Also, energy-related sectors and corporate demand may persist, but the foreign exchange auctions and US\$1.3 billion cocoa syndicated loans may offset some of the pressures.

Figure 1.2: Performance of Selected Currencies against the US Dollar



Source: Bank of Ghana and Bloomberg

In the interbank market, the Ghana cedi depreciated by 27.0 percent, 15.2 percent and 17.6 percent against the US dollar, British pound, and the euro, respectively, cumulatively to August 2022. This compares with appreciation by 2.3 percent against the euro, and a depreciation by 1.6 percent and 2.2 percent against the US dollar and British pound respectively, during the same period in 2021 (Table 1.3). In nominal trade weighted terms, the Ghana cedi depreciated by 22.9 percent and by 35.3 percent in forex transaction weighted terms on a year-to-date basis (Table 1.4). This was relative to appreciation by 1.00 percent in nominal trade weighted terms and a depreciation by 1.3 percent in nominal foreign exchange transaction weighted terms over the same period in 2021.

Table 1.3: Interbank movement of the Ghana Cedi against the major trading currencies

	US\$/GHC*	Monthly depreciation/a ppreciation	Year-to-Date depreciation/ appreciation	GBP/GHC*	Monthly depreciation/a ppreciation	Year-to-Date depreciation/ appreciation	Euro/GHC*	Monthly depreciation/ appreciation	Year-to-Date depreciation/a ppreciation
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	5.6948	-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
Mar	7.1122	-7.2	-15.55	9.3515	-5.3	-13.09	7.8986	-6.2	-13.55
Apr	7.1128	0.0	-15.56	8.9333	4.7	-9.02	7.4963	5.4	-8.91
May	7.1441	-0.4	-15.93	9.0041	-0.8	-9.74	7.6650	-2.2	-10.92
June	7.2305	-1.2	-16.93	8.8043	2.3	-7.69	7.5797	1.1	-9.92
July	7.6120	-5.0	-21.10	9.2642	-5.0	-12.27	7.7658	-2.4	-12.07
August	8.2325	-7.5	-27.04	9.5872	-3.4	-15.23	8.2909	-6.3	-17.64

Source: Bank of Ghana Staff Calculations

In real bilateral terms, the cedi depreciated by 12.5 percent and 0.4 percent against the dollar and euro but appreciated by 2.2 percent against the pound sterling on a year-to-date basis. Comparatively, for the corresponding period in 2021, the cedi's real exchange rate appreciated by 2.2 percent, 6.9 percent and 3.1 percent against the US dollar, the Euro, and British pound sterling, respectively, over the same period in 2021 (Table 1.5).

On a year-to-date basis, the Ghana cedi depreciated by 1.7 percent and 11.2 percent in real trade weighted terms and real forex transaction weighted terms in August 2022. These compare with an appreciation of 5.9 percent and 2.6 percent in real trade weighted terms and real FX transaction weighted terms respectively for the same period in 2021.

Table 1.4: Nominal Effective Exchange Rate

Month	2018=100		Monthly CHG(%)		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	-0.18
Jun-21	26.37	28.93	0.04	2.33	0.17	2.15
Jul-21	26.19	28.71	-0.70	-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
Mar-22	21.50	24.85	-7.59	-6.43	-18.10	-15.64
Apr-22	21.60	25.90	0.46	4.07	-17.56	-10.93
May-22	21.47	25.43	-0.58	-1.87	-18.24	-13.00
Jun-22	21.27	25.66	-0.95	0.93	-19.37	-11.96
Jul-22	20.24	24.87	-5.07	-3.20	-25.42	-15.55
Aug-22	18.76	23.38	-7.91	-6.35	-35.34	-22.88

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.

Table 1.5: Real Bilateral Exchange Rates

Month	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	97.3	93.3	-1.6	0.6	0.7	4.2	2.6	2.6
May-21	96.61	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	101.3	98.1	93.8	1.0	0.5	0.5	7.3	3.4	3.1
Aug-21	100.8	97.8	92.9	-0.5	-0.2	-0.9	6.9	3.1	2.2
Sep-21	102.5	99.6	92.6	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	8.0	2.7	1.3
Nov-21	104.81	100.57	92.40	2.6	3.2	0.4	10.4	5.8	1.6
Dec-21	103.78	98.10	91.72	-1.0	-2.5	-0.7	9.5	3.4	0.9
2022									
Jan-22	106.65	100.67	92.81	2.70	2.55	1.17	2.70	2.55	1.17
Feb-22	98.84	93.52	86.01	-7.91	-7.64	-7.90	-5.00	-4.90	-6.64
Mar-22	94.42	91.14	82.01	-4.68	-2.62	-4.88	-9.91	-7.65	-11.84
Apr-22	103.64	97.76	85.83	8.90	6.77	4.45	-0.13	-0.36	-6.86
May-22	104.57	100.33	87.92	0.89	2.57	2.38	0.76	2.23	-4.31
Jun-22	108.09	104.83	88.28	3.26	4.29	0.40	3.99	6.42	-3.89
Jul-22	108.53	102.15	86.51	0.40	-2.62	-2.05	4.38	3.96	-6.02
Aug-22	103.39	100.30	81.55	-4.97	-1.85	-6.09	-0.38	2.19	-12.47

Source: Bank of Ghana Staff Calculations

Table 1.6: Real Trade Weighted Exchange Rate

Month	INDEX (2018=100)		RTWI and FXRTWI		Year-to-Date (%)	
	RFXTWI	RTWI	MONTHLY CHG 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	93.50	95.97	-0.3	-1.4	2.5	2.5
Jun-21	93.92	99.15	0.5	3.2	2.9	5.6
Jul-21	94.40	99.99	0.5	0.8	3.4	6.4
Aug-21	93.62	99.46	-0.8	-0.5	2.6	5.9
Sep-21	93.47	100.83	-0.2	1.4	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
Feb-22	87.08	96.54	-7.9	-7.9	-6.5	-5.2
Mar-22	83.09	92.37	-4.8	-4.5	-11.6	-10.0
Apr-22	87.32	100.54	4.85	8.13	-6.19	-1.06
May-22	89.35	101.80	2.27	1.24	-3.77	0.19
Jun-22	89.99	104.92	0.71	2.97	-3.04	3.16
Jul-22	88.34	104.72	-1.87	-0.19	-4.96	2.98
Aug-22	83.41	99.89	-5.91	-4.84	-11.17	-1.72

Source: Bank of Ghana Staff Calculations

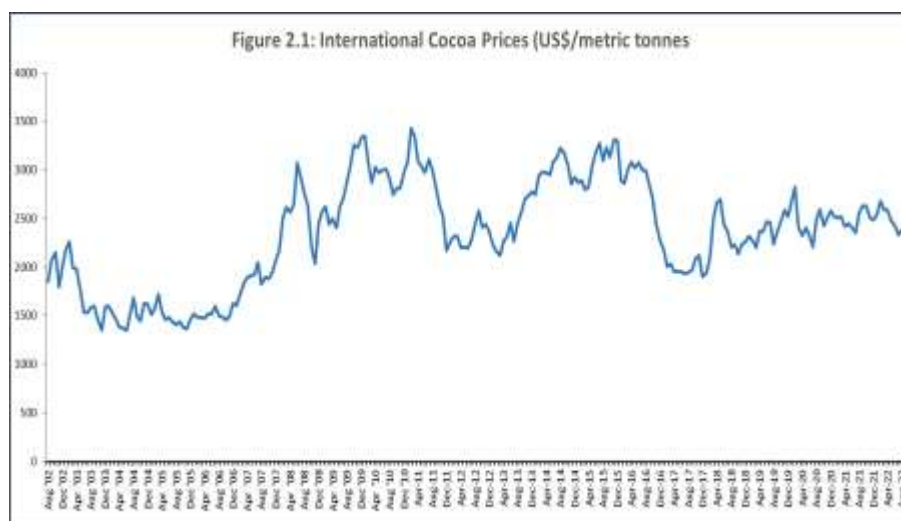
1.5 Global Economic Outlook and Risks

Global output growth was projected to slow amid tighter financing conditions, lingering effects of geopolitical tensions, and the squeeze on real incomes from higher global energy and tradable goods prices. The outlook for inflation remains elevated, although recent data suggest price pressures may ease in the months ahead. Global financing conditions remain tight. Many central banks have raised policy rates and are expected to tighten policy further in response to the elevated outlook for inflation. The continued policy rate hikes in advanced economies have led to increasing long term government bond yields, re-pricing of risky assets and a stronger US dollar, which is putting pressure on EMDE currencies. Vulnerable EMDEs with large foreign currency debt and financing needs are particularly exposed. Reflecting these conditions, the risks to inflation from the external environment remain elevated.

2. External Sector Developments

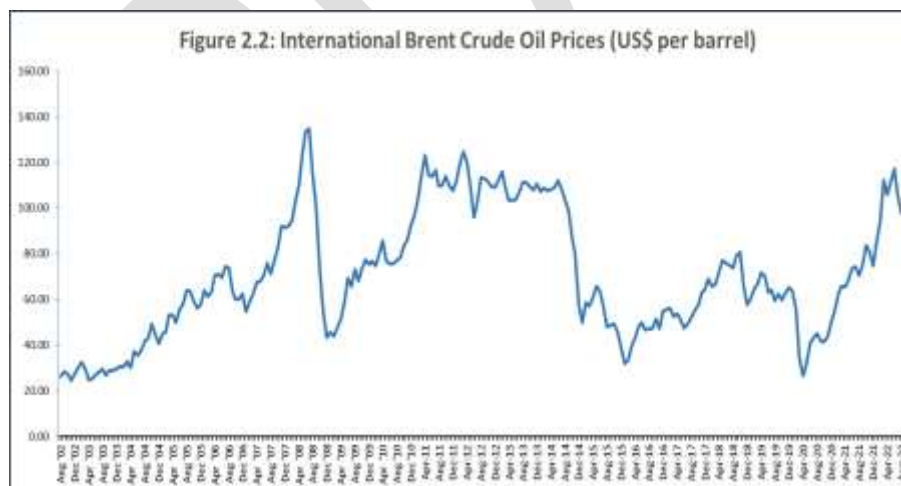
2.0 Commodity Price Trends

Cocoa futures settled at an average price of US\$2,386 per tonne in August 2022, up by 2.3 percent relative to the previous month. Compared to the same time last year, however, prices declined by 6.7 percent. Fears of low supply due to dry weather concerns and below-average rains in most of the cocoa growing areas across Cote d'Ivoire and Ghana supported the marginal uptick in prices.



Source: Reuters

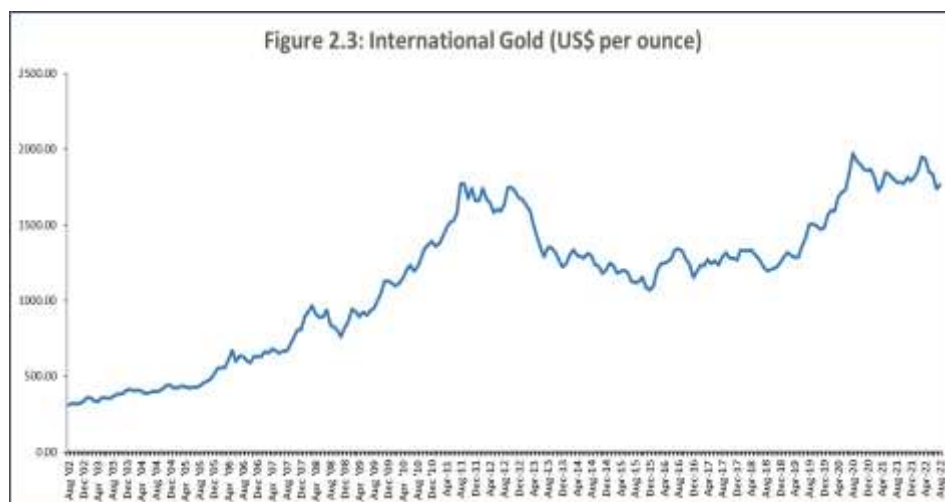
Crude oil prices closed the month of August at an average price of US\$97.74 per barrel, representing a year-to-date gain of 30.7 percent and a year-on-year gain of 38.6 percent. Oil prices inched higher on hopes of production cuts by OPEC and its allies to restore market balance in response to the possible revival of Iran's nuclear deal.



Source: Reuters

Spot gold prices recorded some gains during the month of August, increasing by 1.5 percent month-on-month to settle at an average price of US\$1,763.71 per fine ounce. From the beginning of the year to August 2022, however, prices of the yellow metal declined by 1.5 percent. Year-on-year, gold lost 1.2 percent on

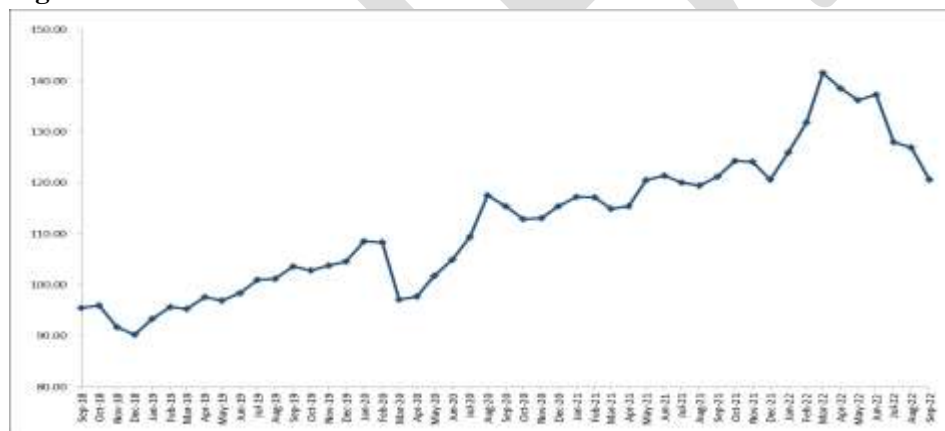
the back of a strong US dollar and hawkish comments coming from the US Federal Reserve pointing to higher future interest rates.



Source: Reuters

The weighted average price of the three major commodities exported by Ghana (cocoa, gold and crude oil) decreased by 0.9 percent in August 2022. The fall in the overall index was mainly influenced by crude oil prices, which decreased by 7.0 percent, while cocoa and gold prices increased by 2.3 percent and 1.5 percent, respectively.

Figure 2.4: Commodities Price Index



2.1 Trade Balance

Transactions in goods recorded in the trade account resulted in significant improvement in the trade surplus for the period under review. For the first eight months of 2022, the trade surplus amounted to US\$1,664.00 million, far in excess of the trade surplus of US\$892.4 million recorded for the corresponding period of 2021. The improved trade surplus was driven mainly by higher exports growth relative to imports. Exports grew by 19.5 percent, year-on-year, to US\$11.8 billion. Improved earnings from gold, crude oil, and other exports, including non-traditional exports, boosted exports performance notwithstanding some decline in cocoa receipts. Imports also increased by 12.9 percent, year-on-year, to US\$10.2 billion, on the back of

increased imports of finished oil products, which rose by 92.7 percent. Non-oil imports, however, decreased by 3.8 percent.

2.2 International Reserves

Gross International Reserves at the end of August 2022 was US\$7,040.03 million, providing cover for 3.1 months of imports compared with the end-December 2021 position of US\$9,695.22 million equivalent to 4.3 months of import cover.

2.3 Commodity Prices Outlook

Improved rainfall is expected to boost development of the main cocoa crop, providing optimism for farmers about an early start to the 2022/23 season set to begin in October 2022.

Brent crude oil is forecast to average \$98 per barrel in Q4-2022 and \$97 per barrel in 2023, mainly on the back of possible supply disruptions and slower-than-expected crude oil production, moderated by slower economic growth.

Gold prices are expected to moderate on the back of further monetary policy tightening by major central banks. In the outlook, spot gold is expected to ease towards a range of \$1,705-\$1,709 per fine ounce.

Appendix Table 2.1: Trade Balance (US\$ million)

	2020 Jan - Aug	2021 Jan - Aug	Prov. 2022 Jan - Aug	Abs Y/Y Chg	Rel Y/Y Chg
Trade Balance	1,358.1	892.4	1,664.0	771.6	86.5
Trade Bal (% GDP)	2.0	1.1	2.2		
Total Exports	9,629.7	9,895.1	11,823.7	1,928.6	19.5
Gold (\$'M)	4,332.5	3,427.3	4,226.7	799.4	23.3
Volume (fine ounces)	2,546,992	1,897,167	2,350,516	453,348.4	23.9
Unit Price (\$/fine ounce)	1,701.0	1,806.5	1,798.2	-8.3	-0.5
Cocoa Beans (\$'M)	1,068.5	1,417.8	964.2	-453.6	-32.0
Volume (tonnes)	433,812	553,449	390,304	-163,145.3	-29.5
Unit Price (\$/tonne)	2,463.0	2,561.7	2,470.4	-91.3	-3.6
Cocoa Products (\$'M)	652.2	724.1	688.4	-35.7	-4.9
Volume (tonnes)	207,179	211,270	222,522	11,252.6	5.3
Unit Price (\$/tonne)	3,148.1	3,427.4	3,093.4	-333.9	-9.7
Crude Oil (\$'M)	1,928.6	2,435.7	3,811.2	1,375.6	56.5
Volume (barrels)	45,350,897	36,229,440	36,312,333	82,893.0	0.2
Unit Price (\$/bbl)	42.5	67.2	105.0	37.7	56.1
Other Exports	1,647.9	1,890.2	2,133.2	242.9	12.9
o/w: Non-Traditional Exports	1,323.7	1,516.7	1,660.1	143.4	9.5
Total Import	8,271.6	9,002.7	10,159.7	1,157.0	12.9
Non-Oil	7,067.6	7,335.0	7,053.5	-281.5	-3.8
Oil and Gas	1,204.0	1,667.7	3,106.2	1,438.5	86.3
of which: Products	947.5	1,518.1	2,925.6	1,407.6	92.7
Crude Oil (\$'M)	135.8	48.9	61.5	12.6	25.7
Volume (barrels)	3,585,791.2	715,750.1	578,125.5	-137,624.6	-19.2
Unit Price (\$/bbl)	37.9	68.3	106.3	38.0	55.6
Gas (\$'M)	120.7	100.7	119.1	18.4	18.2
Volume (MMBtu)	16,624,396.7	13,508,806.5	15,503,245.3	1,994,438.8	14.8
Unit Price (\$ mmbtu)	7.3	7.5	7.7	0.2	3.0

Source: Bank of Ghana

3. Real Sector Developments

3.0 Highlights

The latest high frequency indicators moderated somewhat in July 2022 compared to a year ago. Cement sales, port activity and vehicle registration contracted in the review period. Domestic VAT collections, retail sales and industrial consumption of electricity, however, improved in the review period.

3.1 Economic Growth

The latest data released by the Ghana Statistical Service estimated real GDP growth at 4.8 percent for the second quarter of 2022, 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.

3.2 Trends in Real Sector Indicators

Consumer Spending

Consumer spending, proxied by domestic VAT collections and retail sales, posted a positive performance in July 2022, compared with the corresponding period in 2021. Domestic VAT collections increased by 30.6 percent on a year-on-year basis to GH¢754.64 million. Cumulatively, total domestic VAT for the first seven months of 2022 went up by 18.3 percent to GH¢4,584.75 million, compared with GH¢3,874.18 million for the corresponding period of last year.

Retail sales increased by 4.3 percent (year-on-year) to GH¢115.74 million in July 2022, up from the GH¢111.02 million recorded in the same period in 2021. On a month-on-month basis, retail sales went up by 7.0 percent in July 2022 from GH¢108.21 million in the preceding month. In cumulative terms, retail sales for the first seven months of 2022 increased by 4.1 percent.

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, improved in July 2022. Total Direct Taxes increased by 37.7 percent (year-on-year) to GH¢2,146.92 million in July 2022, relative to GH¢1,558.78 million recorded in the same period in 2021. Cumulatively, total Direct Taxes collected during the first seven months of 2022 went up by 23.8 percent to GH¢16,971.67 million, from GH¢13,709.29 million for the same period in 2021. In terms of contributions of the various sub-tax categories, Income tax (PAYE and self-employed) accounted for 48.0 percent, Corporate tax accounted for 40.5 percent, while "Other Tax Sources" contributed 11.5 percent.

Total private sector workers' contribution to the SSNIT Pension Scheme increased by 15.1 percent in year-on-year terms to GH¢272.93 million in July 2022, compared with GH¢237.13 million a year earlier. Cumulatively, for the first seven months of 2022, the contribution went up by 23.5 percent to GH¢1,801.81 million, relative to GH¢1,458.65 million recorded in the same period in 2021.

Construction Sector Activities

Activity in the construction sub-sector, proxied by the volume of cement sales, declined by 19.4 percent (year-on-year) in July 2022 to 267,479.46 tonnes, down from 331,732.65 tonnes recorded a year ago. On a

month-on-month basis, total cement sales increased marginally by 1.7 percent in July 2022 compared with the 263,079.03 tonnes recorded in June 2022. Cement sales for the first seven months of 2022 fell by 14.9 percent to 2,087,474.79 tonnes, from 2,451,905.89 tonnes for the same period of 2021.

Vehicle Registration

Transport sector activities, gauged by new vehicle registrations by the Driver and Vehicle Licensing Authority (DVLA), declined by 28.4 percent to 14,429 in July 2022, from 20,143 vehicles registered during the corresponding period of 2021. Cumulatively, vehicles registered by the DVLA within the first seven months of 2022 decreased by 9.7 percent to 165,639 from 183,426 recorded a year ago.

Industrial Consumption of Electricity

Consumption of electricity by industries went up by 3.5 percent on a year-on-year basis during the period under review. Industries consumed 276.87 gigawatts of power in July 2022, as against 267.63 gigawatts recorded for the corresponding period in 2021. On a month-on-month basis, power consumed by industries in July 2022 remained largely unchanged from the 277.25 gigawatts utilised for June 2022. In cumulative terms, electricity consumed by industries for the first seven months of 2022 increased by 5.3 percent to 1,902.35 gigawatts from 1,807.01 gigawatts for the corresponding period a year ago.

Passenger Arrivals at the Airport

International passenger arrivals increased in July 2022 by 44.6 percent to 92,140 tourists compared to a similar period in 2021. Compared to June 2022, tourist arrivals went up by 18.3 percent. For the first seven months of the year, 479,874 passenger arrivals were recorded at KIA, compared with 294,568 for the corresponding period in 2021, representing a year-on-year growth of 62.9 percent. The sharp increase in passenger arrivals reflected easing of travel restrictions over the review period.

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, declined during the period under review. Total container traffic declined by 10.0 percent, year-on-year, to 58,261 in July 2022, from 64,733 in the same period in 2021. In cumulative terms, total container traffic for the first seven months dipped by 11.7 percent to 402,277 compared with 455,454 for the corresponding period of last year.

Labour Market - Advertised Jobs

The number of jobs advertised in selected print¹ and online² media, which partially gauges labour demand in the economy, decreased in August 2022 relative to what was observed in the corresponding period a year ago. In total, 2,467 job adverts were recorded as compared with 4,051 for the same period in 2021, indicating a decline of 39.1 percent (year-on-year). On a month-on-month basis, the number of job vacancies in August 2022 increased by 13.6 percent from the 2,172 jobs advertised in July 2022. Cumulatively, for the first eight months of 2022, the total number of advertised jobs declined by 12.4 percent to 20,929 from 23,892 recorded during the same period in 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.

Private Sector Pension Contributions

Total number of private sector-SSNIT contributors, which partially gauges employment conditions, marginally declined to 873,406 in July 2022 compared with 873,612 for the same period in 2021. On a month-on-month basis, total number of private sector-SSNIT contributors decreased by 4.6 percent from the 915,516 individuals recorded in June 2022. Cumulatively, for the first seven months of 2022, the total number of private sector contributors increased by 9.1 percent to 6,522,383 from 5,981,073 recorded over the corresponding period in 2021.

3.3 Composite Index of Economic Activity

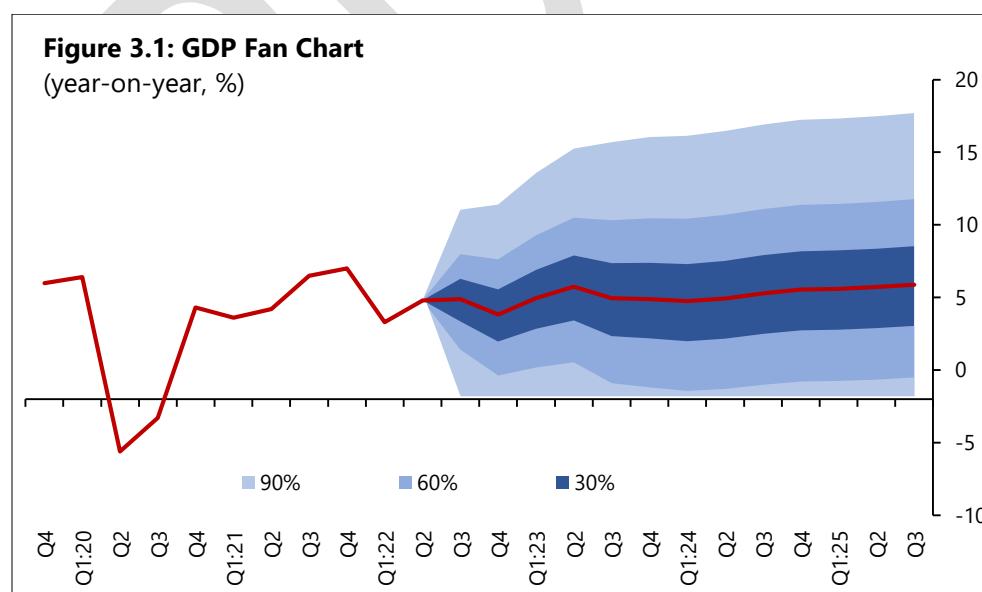
The Bank's updated Composite Index of Economic Activity (CIEA) recorded an annual growth of 0.5 percent in July 2022, compared with growth of 20.0 percent and 3.9 percent in the corresponding periods of 2021 and 2020 respectively.

3.3 Consumer and Business Surveys

The consumer and business confidence surveys conducted in August 2022 showed further softening of sentiments. The Consumer Confidence Index dipped from 79.7 in June to 78.8 in August 2022 on account of rising inflation. The Business Confidence Index also eased from 79.7 in June to 77.4 in August 2022 as businesses were concerned about price pressures, currency depreciation and weakening consumer demand.

3.4 Growth Outlook

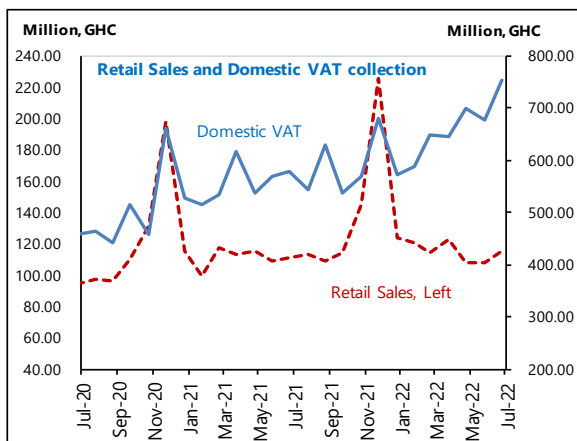
Global economic growth is expected to remain weak in 2022 on the account of rising cost of living, tightening financing conditions, the Ukraine war, and lingering effects of the COVID-19. Based on these factors, the latest IMF World Economic Outlook (WEO) growth forecast released in October 2022 has remain unchanged at 3.2 percent in 2022, down from 6.0 percent recorded in 2021. However, the growth forecast for 2023 has been revised down to 2.7 percent, from the July's forecast of 2.9 percent. On the domestic front, economic growth is projected to moderate to 3.7 percent for 2022 from the earlier projection of 5.8 percent, as high inflation, supply bottlenecks, and exchange rate uncertainty act as a drag on economic activity.



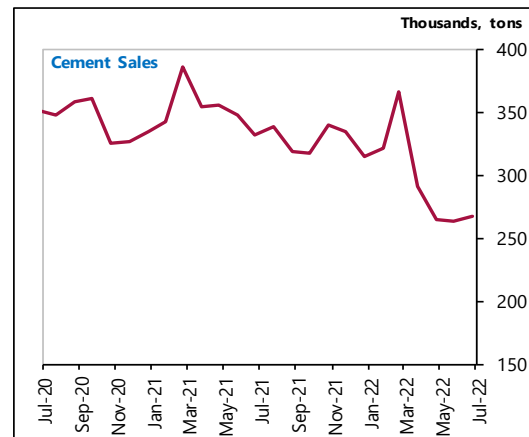
Source: Bank of Ghana

Panel 1: Ghana's Leading Indicators of Economic Activity

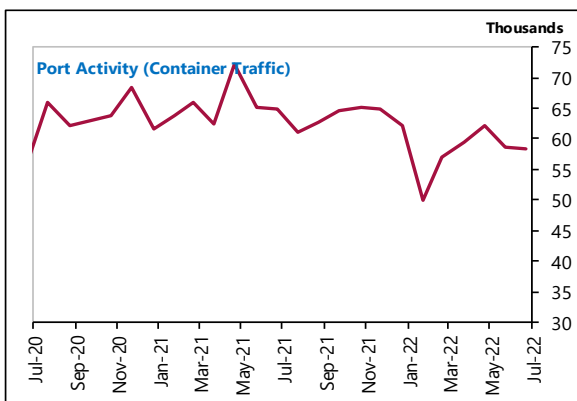
...Domestic VAT collections and retail sales improved in July 2022...



...Construction activities, proxied by cement sales, inched up in July 2022...



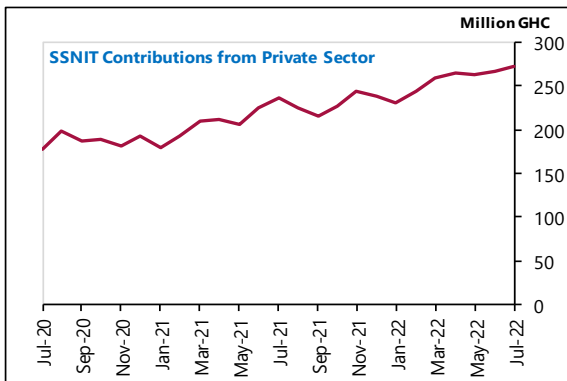
...Port activity remained largely unchanged in July 2022...



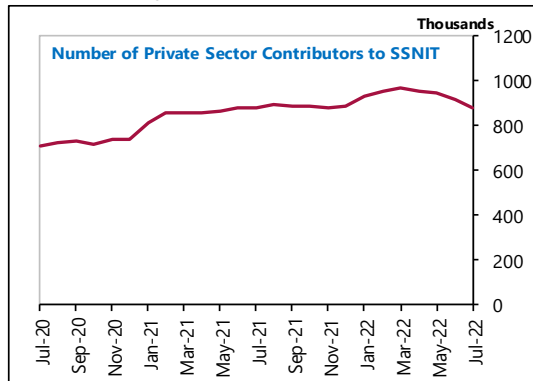
...Tourist arrivals went up in July 2022...



...Labour market conditions improved in July 2022...



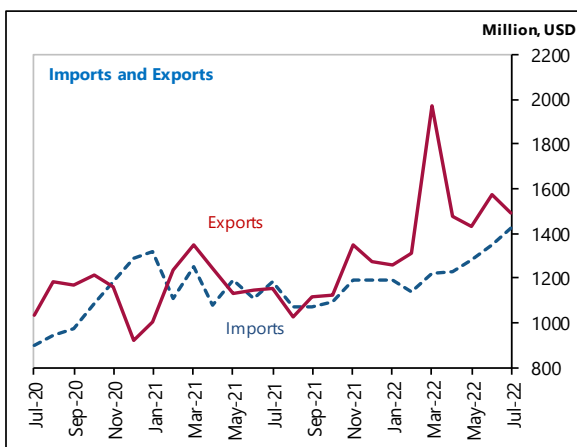
...Labour hiring conditions, proxied by the number of private sector workers contributing to SSNIT, softened...



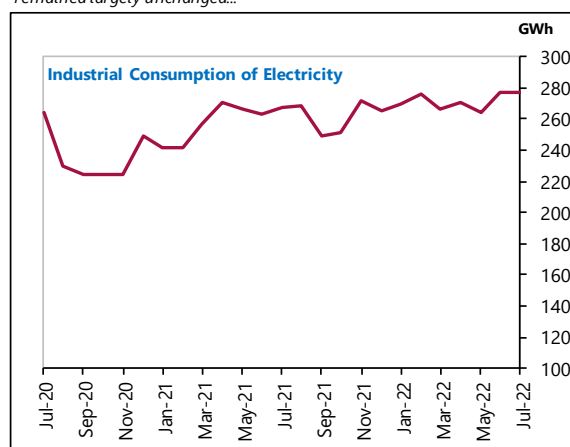
Sources: Bank of Ghana, Various Stakeholders

Panel 2: Ghana's Leading Indicators of Economic Activity

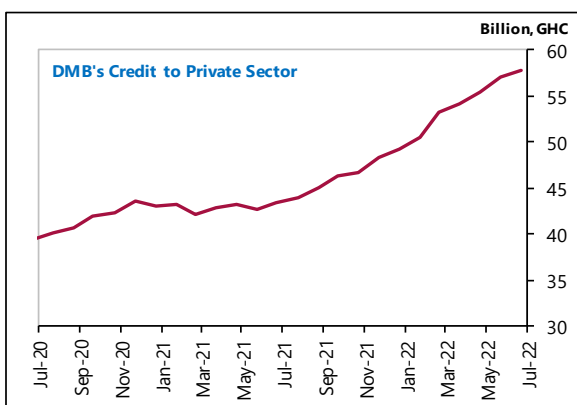
...Exports declined while imports increased in July 2022...



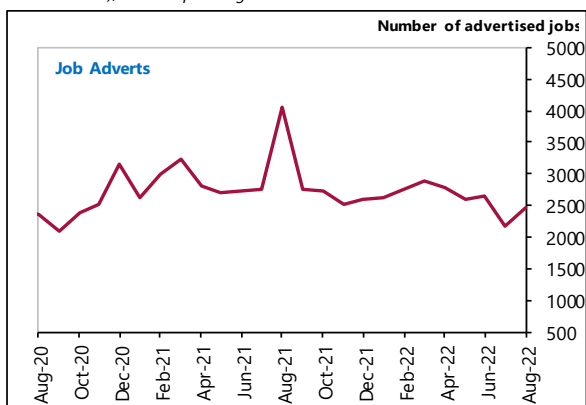
...Industrial activity, proxied by industrial consumption of electricity, remained largely unchanged...



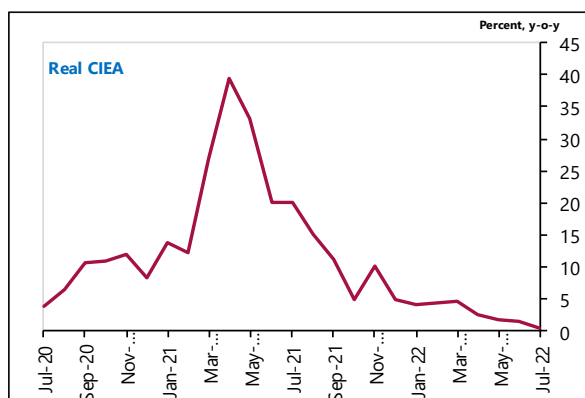
...Commercial banks' credit to the private sector improved in July 2022...



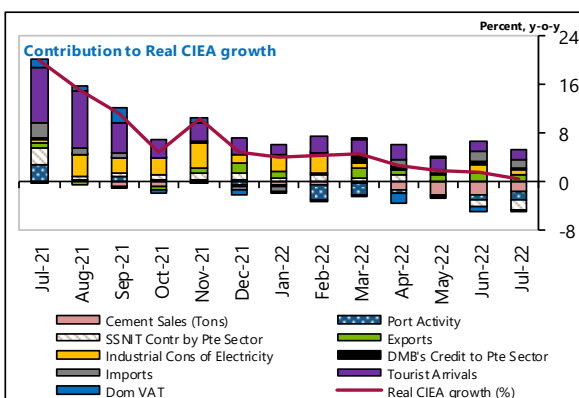
...Demand for labour, proxied by the number of job adverts (in print and online media), inched up in August 2022...



...On a year-on-year basis, the real CIEA grew by 0.5 percent in July 2022, compared with growth rates of 20.0 percent and 3.93 percent in July 2021 and July 2020 respectively...



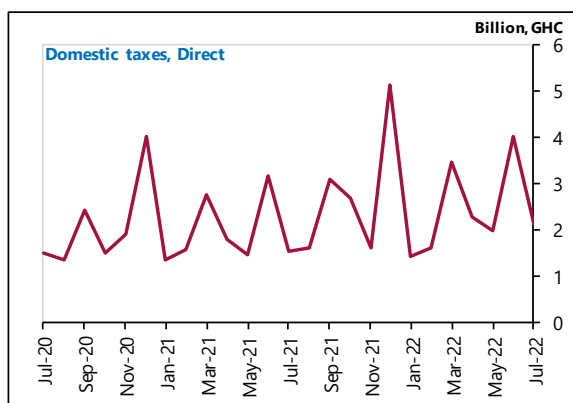
...The growth in the real CIEA was mainly driven by a pick-up in Tourist Arrivals, Imports, Exports, Industrial Consumption of Electricity and DMB's Credit to the Private Sector...



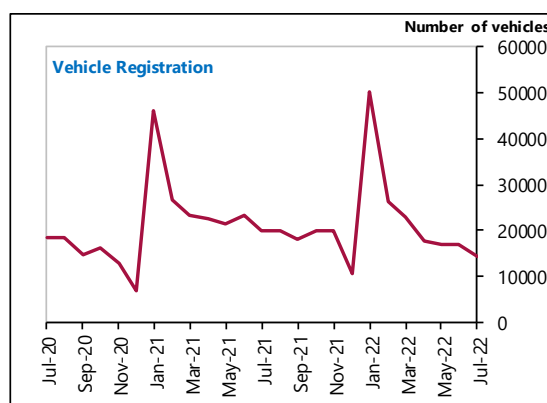
Source: Bank of Ghana, Various Stakeholders

Panel 3: Ghana's Leading Indicators of Economic Activity

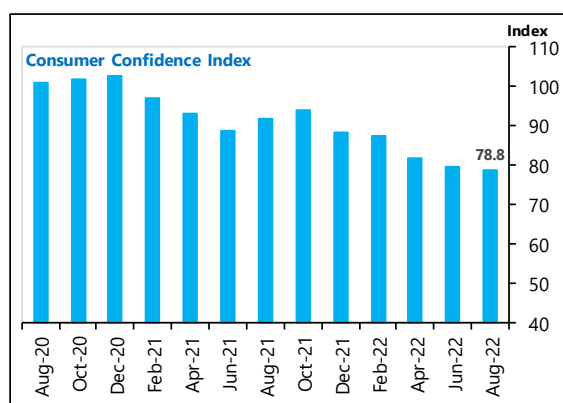
...Domestic tax collection decreased in July 2022...



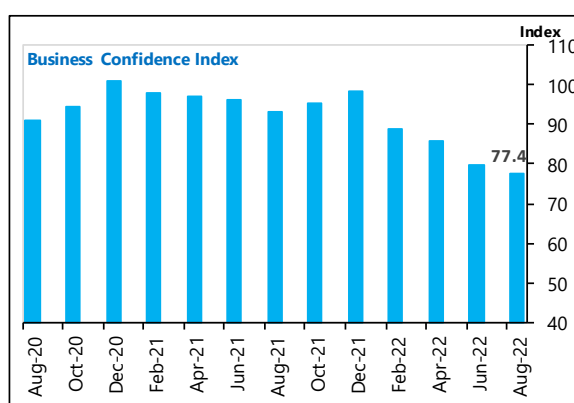
...Vehicle registration dipped in July 2022...



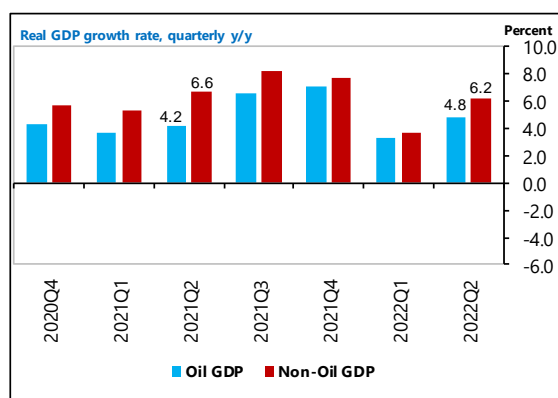
...Consumer confidence softened on account of rising inflation...



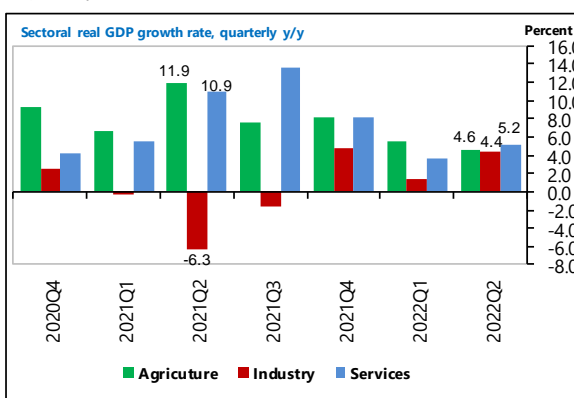
...Business confidence declined as businesses were concerned about price pressures, currency depreciation and weakening consumer demand...



...Real Oil and Non-Oil GDP grew by 4.8 percent and 6.2 percent respectively in 2022Q2, compared with growth rates of 4.2 percent and 6.6 percent respectively in the corresponding period of 2021...



...The Services sector and a rebounding Industry sector were the main drivers of growth in 2022Q2, recording growth rates of 5.2 percent and 4.4 percent respectively...



Source: Bank of Ghana, Various Stakeholders

4. Monetary and Financial Developments

4.0 Highlights

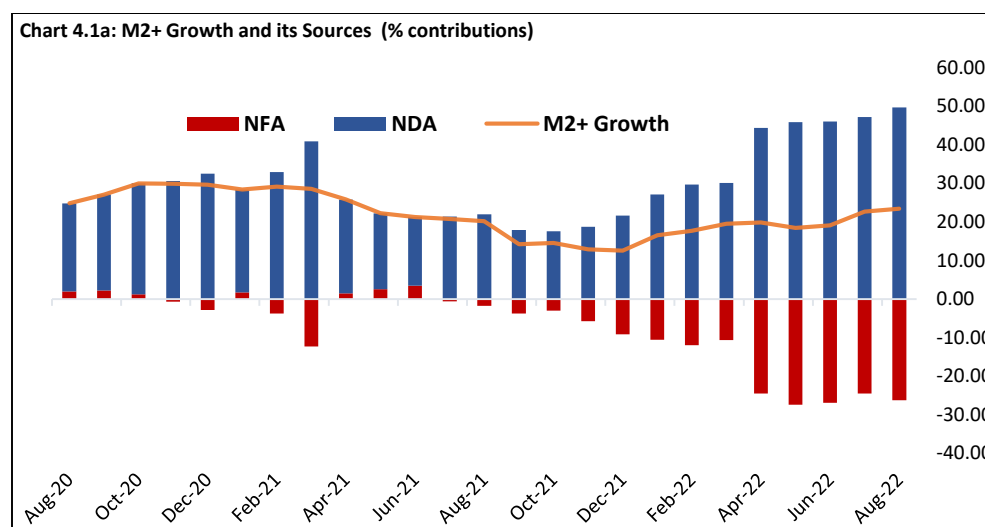
Developments in monetary aggregates in August 2022 showed marginal increase in broad money supply (M2+), mainly driven by expansion in the Net Domestic Assets (NDA) of the depository corporations' sector. Net Foreign Assets (NFA), however, contracted significantly. On the money market, interest rates broadly trended upwards across the spectrum of the yield curve, consistent with the direction of the policy rate. The Ghana Stock Exchange (GSE) Composite Index declined, on year-to-date basis, driven by a variety of factors including heightened inflation and exchange rate pressures, as well as portfolio reversals.

4.1 Developments in Monetary Aggregates

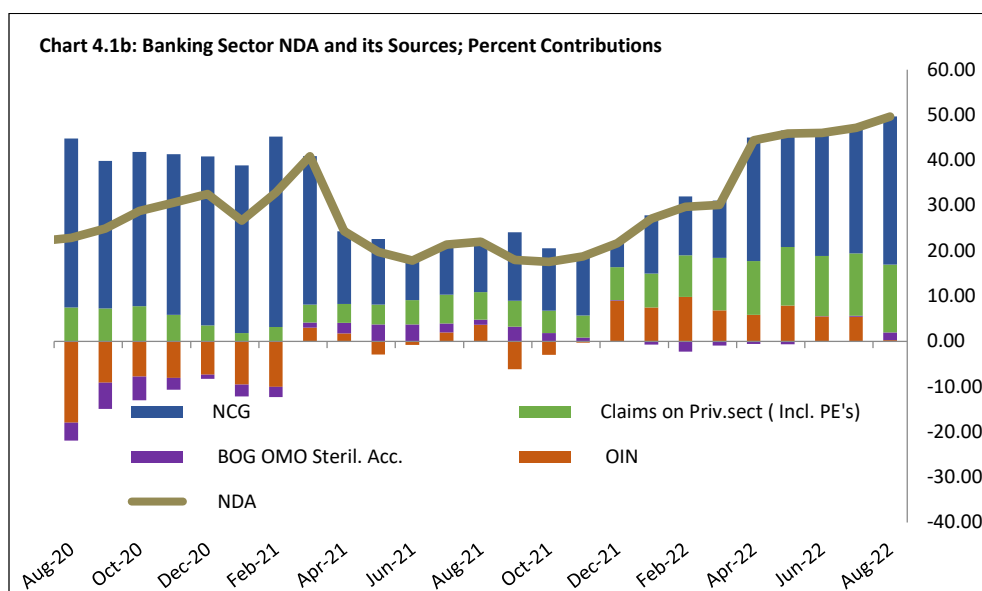
Money Supply

Broad money supply (M2+) increased in August 2022 on account of expansion in the Net Domestic Assets (NDA) of the depository corporations' sector, which was partially offset by the contraction in the Net Foreign Assets (NFA). M2+ growth increased to 23.4 percent in August 2022, compared with 20.2 percent in the corresponding period of 2021. The contribution of NFA in the growth of M2+ decreased to negative 26.3 percent from negative 1.8 percent, while the contribution of the NDA increased to 49.7 percent from 22.0 percent over the same comparative period. In year-on-year terms, NFA contracted by 175.8 percent in August 2022 relative to 11.2 percent contraction in August 2021, while the NDA expanded by 58.4 percent compared with 28.1 percent, over the same comparative period (Chart 4.1a and Appendix Table 4.1). The higher contribution of NDA to M2+ growth was mainly driven by Net Claims on Government (NCG), claims on public and private sectors, and outflows through the Other Items (Net) (OIN). (Chart 4.1b, and Appendix table 1).

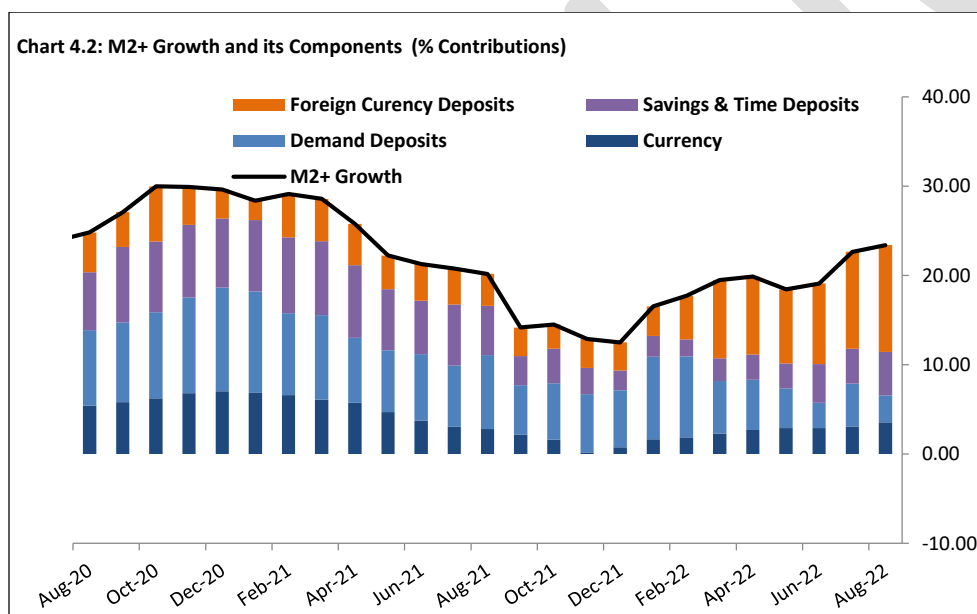
In terms of components, the M2+ growth reflected in currency and foreign currency deposits, while demand deposits and savings and time deposits decreased relative to same period in 2021. (Chart 4.2; Appendix Table 1).



Source: Bank of Ghana Staff Calculations



Source: Bank of Ghana Staff Calculations



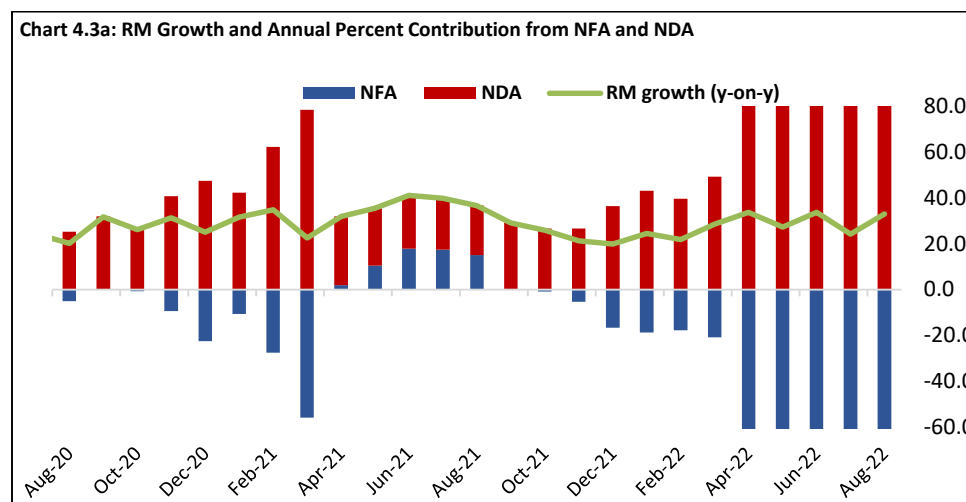
Source: Bank of Ghana Staff Calculations

4.2 Reserve Money

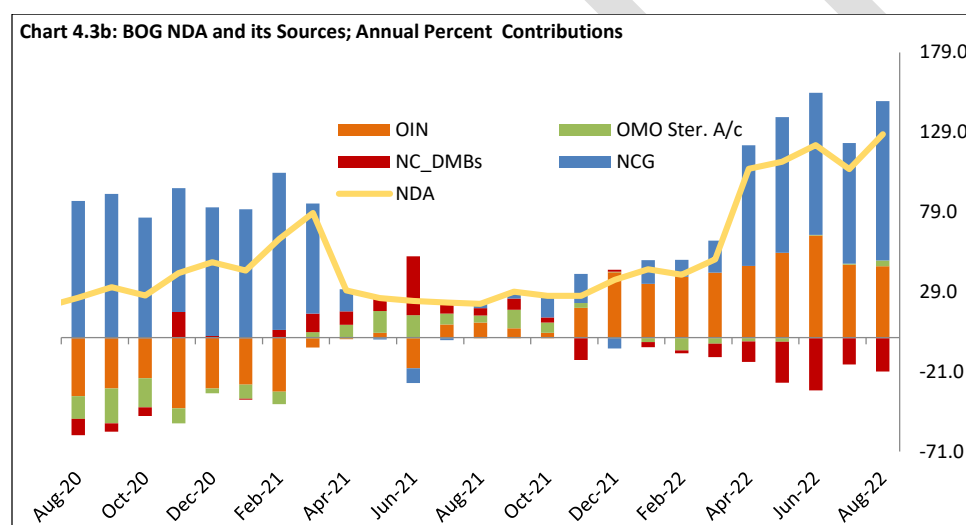
Annual growth in Reserve Money (RM) decreased marginally to 33.1 percent in August 2022, from 36.7 percent recorded in the corresponding period of 2021. The decreased pace of growth in RM was mainly due to contraction in the NFA, reflecting increased interventions on the foreign exchange market to mute the pressures on the domestic currency. The contribution of the NFA to the growth in RM was negative 94.6 percent in August 2022, relative to positive 15.1 percent recorded in the corresponding period of 2021.

In contrast, the NDA of the Central Bank expanded significantly, reflecting increased Net Claims on Government (NCG) and outflows through the OIN during the review period. OMO sterilization, however, declined on account of relatively higher yields on alternative investments securities. NDA accounted for

127.7 percent of the growth in RM in August 2022, relative to 24.6 percent same time last year. (Chart 4.3a, 4.3b, and Appendix 4.2).



Source: Bank of Ghana Staff Calculations

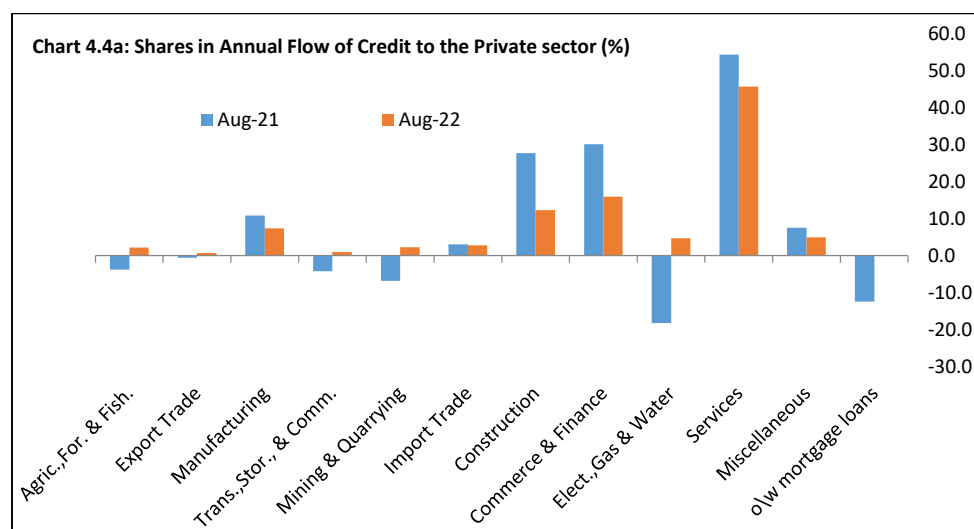


Source: Bank of Ghana Staff Calculations

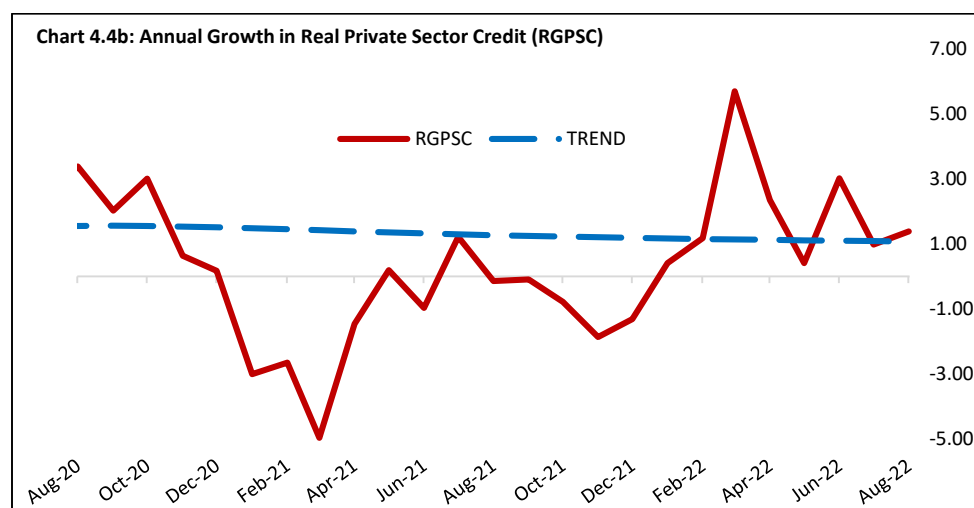
4.3 Deposit Money Banks Credit Developments

DMBs' credit to the private sector and public institutions increased significantly by GH¢17,229.23 million (35.3%) in August 2022, compared with GH¢3,900.74 million (8.7%) recorded in August 2021. Credit to the private sector (nominal) increased by 35.8 percent in August 2022 compared with 9.6 percent growth in the corresponding period of 2021. The significant increase in the nominal growth in private sector credit reflected banks' portfolio rebalancing and revaluation effects of foreign currency denominated credit. Private sector credit accounted for 91.2 percent of total flow of credit extended to both private and public institutions in August 2022, relative to 98.2 percent recorded in the corresponding period of 2021. Credit flow to the private sector remained concentrated in the services; commerce and finance; construction; and manufacturing sectors. (Chart 4.3a).

Outstanding credit to the private sector at the end of August 2022 was GH¢59,648.67 million, compared with GH¢43,936.88 million recorded in August 2021. In real terms, private sector credit grew marginally by 1.4 percent in August 2022, compared with a 0.2 percent contraction recorded in the corresponding period of 2021. Real growth in private sector credit inched above the long-run trend (Chart 4.3b).



Source: Bank of Ghana Staff Calculations



Source: Bank of Ghana Staff Calculations

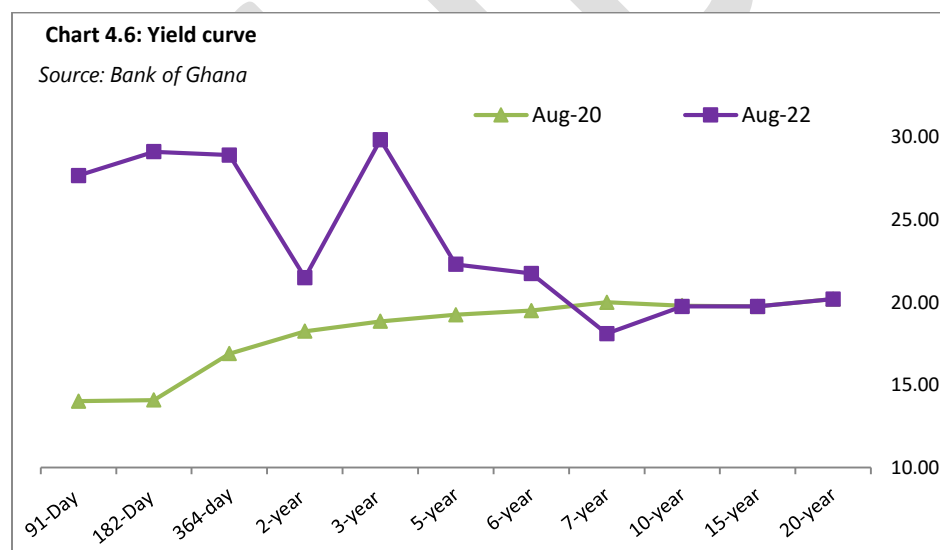
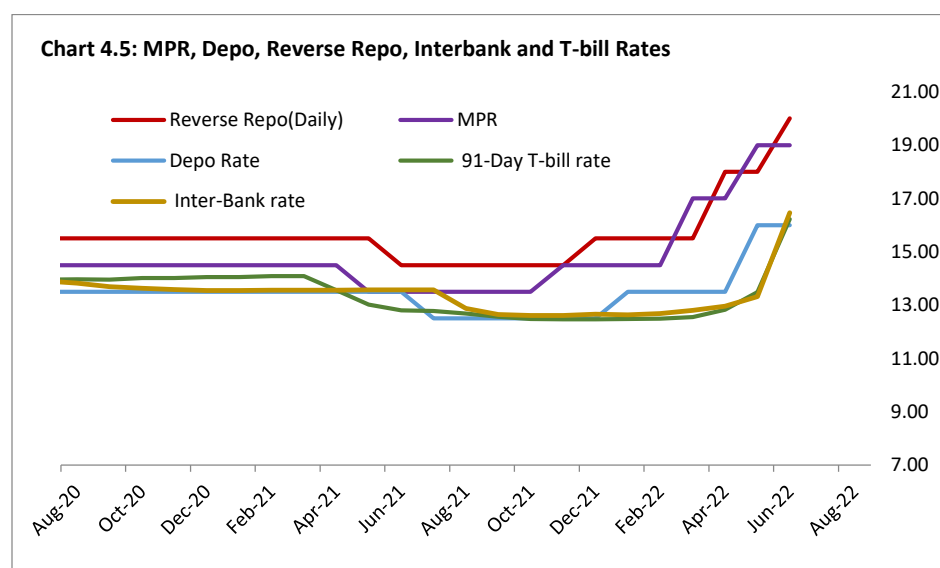
4.5 Money Market Developments

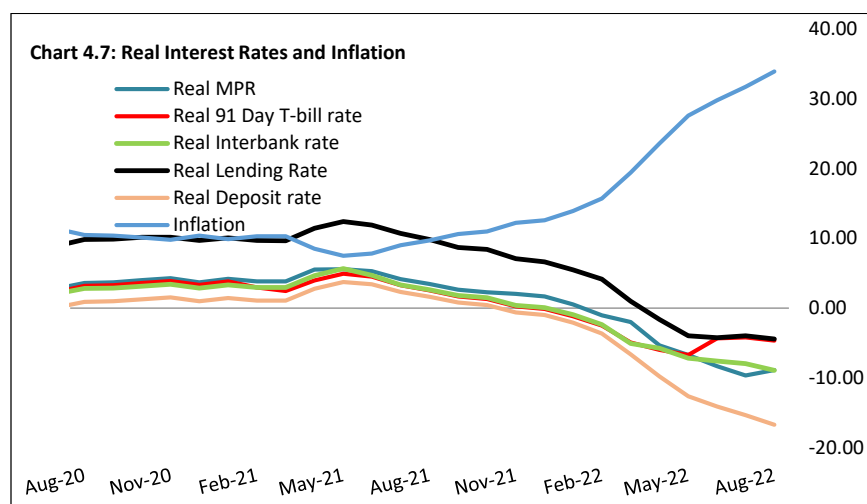
Monetary Policy Rate, Repo, Interbank, Treasury bill and Bond rates

Money market rates broadly trended upwards across the spectrum of the yield curve, reinforced by the increase in the monetary policy rate and the Cash Reserve Requirement (CRR), as well as the tight stance on liquidity provision by the Central Bank. The 91-day and 182-day Treasury bill rates increased to 27.68 percent and 29.12 percent, respectively, in August 2022, from 12.49 percent and 13.27 percent in the corresponding period of 2021. Similarly, the rate on the 364-day instrument increased to 28.92 percent in August 2022 from 16.20 percent in August 2021. Rates on the 2-year, 3-year, 5-year and 6-year bonds increased to 21.50 percent, 29.85 percent, 22.30 percent and 21.75 percent, respectively, from 17.25 percent, 17.70 percent, 18.30 percent and 19.25 percent over the same comparative period. Rates on the 7-

year, 10-year, 15-year, and 20-year bonds, however, remained unchanged at 18.10 percent 19.75 percent, 19.75 percent, and 20.20 percent, respectively, during the review period.

The Interbank Weighted Average Rate increased to 21.93 percent in August 2022 from 12.61 percent in August 2021, consistent with the hike in the policy rate, supported by the systematic increase in the CRR. Consequently, retail rates have adjusted upwards, inducing the average lending rates of banks to increase to 27.96 percent in August 2022 from 20.51 percent recorded in the corresponding period of 2021. (Charts 4.5, 4.6 and 4.7).





Source: Bank of Ghana

4.6 Stock Market Developments

The Ghana Stock Exchange Composite Index (GSE-CI) decreased to 2508.99 points in August 2022 from 2750.37 points recorded in the corresponding period of 2021. This translates into a year-on-year loss of 8.78 percent in August 2022, compared to a gain of 48.94 percent in August 2021. The GSE-Financial Stocks Index (GSE-FSI) closed at 2079.94 points, representing a gain of 7.8 percent compared to a gain of 14.3 percent over the same comparative period in 2021.

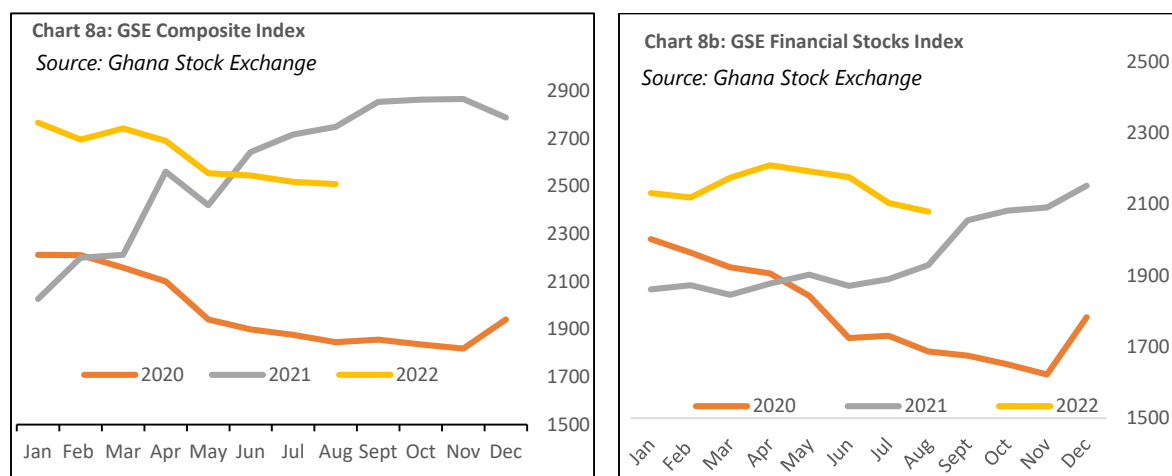
On a year-to-date basis, the GSE-CI recorded a loss of 10.1 percent. The year-to-date loss is attributed to portfolio reversals and a shift to alternative assets to hedge against exchange rate movements. The financial sector stocks, however, showed resilience to these developments on the back of sustained financial performance.

Total market capitalisation of the GSE at the end of August 2022 was GH¢64.45 billion, representing a growth of 2.5 percent (GH¢1.54 billion), compared with a growth 19.7 percent (GH¢10.34 billion) in August 2021. On year-to-date basis, total market capitalisation decreased by 0.1 percent. The marginal improvement in market capitalisation was largely on account of the listing of Ashanti Gold Corporation (ASG). (Table 4.2, 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	M-O-M	
	Dec-20	Aug-21	Dec-21	Mar-22	Jun-22	Jul-22	Aug-22	2021	2022	2022	2021	2022
GSE CI	1941.59	2750.37	2789.34	2742.85	2545.48	2518.86	2508.99	48.94	-8.78	-10.05	1.22	-0.39
GSE FI	1782.76	1929.19	2151.85	2174.96	2176.97	2103.58	2079.94	14.33	7.81	-3.34	2.07	-1.12
Market Capitalization	54374.86	62904.96	64495.21	64029.79	64841.21	64383.34	64445.45	19.66	2.45	-0.08	1.05	0.10

Source: Ghana Stock Exchange and Bank of Ghana Staff Calculations



4.7 Conclusion

The pace of growth in broad money supply (M2+) increased in August 2022 on account of significant expansion in the Net Domestic Assets (NDA) of the depository corporations' sector; the Net Foreign Assets (NFA), however, contracted considerably to partially offset the expansion in the NDA. On the other hand, annual growth in reserve money declined, mainly due to contraction in the NFA, reflecting increased interventions on the foreign exchange market to mute the pressures on the domestic currency. The NDA of the Central Bank, however increased, on account of increased Net Claims on Government (NCG) and outflows through the OIN.

Growth in credit to the private sector improved significantly in nominal terms, reflecting portfolio rebalancing by Deposit money Banks (DMBs) and exchange rate translational effects. In real terms, growth in private sector credit increased despite price pressures. Developments in interest rates broadly showed upward trends across the spectrum of the yield curve, reinforced by the tightening monetary policy stance by the Central Bank and elevated inflation expectation. The weighted average interbank rate increased significantly, inducing upward adjustments in the rates at the retail-end of the market.

The Ghana Stock Exchange (GSE) Composite Index recorded a loss on year-to-date basis. The year-to-date loss is attributed to a variety of factors including uncertainty induced by heightened 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	Aug-21	Dec-21	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
1 Net Foreign Assets	21293.01	18598.06	18442.81	10302.96	2415.79	(1150.85)	(6587.27)	(7470.94)	(8977.30)	(13987.40)
Bank of Ghana	20622.55	14121.48	21169.25	11018.62	4485.86	1453.09	(3813.34)	(6401.93)	(8995.20)	(14375.54)
Commercial Banks	670.46	4476.57	(2726.43)	(715.67)	(2070.07)	(2603.94)	(2773.93)	(1069.01)	17.89	388.14
2 Net Domestic Assets	71682.47	101923.76	105105.76	125295.07	140313.35	143714.52	149230.02	152627.87	159392.80	166443.23
ow: Claims on government (net)	34214.54	68965.59	71118.03	75314.27	87787.70	91091.89	94852.72	96441.19	101424.76	111504.72
ow: Claims on Private sector(Incl. PE's)	49713.15	52943.18	56040.64	60279.46	66810.38	67652.52	69741.01	71346.80	72395.35	74602.10
BOG OMO Sterilisation Acc.	(4924.64)	(5789.95)	(7163.95)	(5654.59)	(6289.35)	(4888.06)	(5182.38)	(4583.13)	(5040.89)	(5068.15)
5 Total Liquidity (M2+)	92975.47	120521.82	123548.57	135598.03	142729.13	142563.67	142642.75	145156.93	150415.50	152455.83
6 ow: Broad Money Supply (M2)	69973.10	94491.75	96081.78	105779.55	106050.89	105204.84	105600.77	106488.56	109303.85	110233.88
7 ow: Foreign Currency Deposits(\$million)	23002.37	26030.07	27466.80	29818.48	36678.24	37358.83	37041.98	38668.37	41111.65	42221.95
Change from previous year (in per cent)										
8 Net Foreign Assets	51.69	(12.66)	(9.12)	(44.61)	(84.00)	(104.11)	(124.91)	(129.43)	(142.57)	(175.84)
9 Net Domestic Assets	14.98	42.19	27.37	22.93	34.47	58.02	58.75	58.15	56.95	58.36
10 ow: Claims on government (net)	24.18	101.57	19.16	9.21	20.86	55.39	48.42	52.40	50.56	56.79
11 ow: Claims on Private sector(Incl. PE's)	19.73	6.50	12.48	13.86	26.01	26.36	28.86	29.46	30.51	33.12
12 ow: BOG OMO Sterilisation Acc.	14.76	(17.57)	14.47	2.34	(22.79)	(17.62)	(18.56)	1.79	4.73	29.25
12 Total Liquidity (M2+)	21.73	29.63	20.17	12.51	19.49	19.87	18.42	19.09	22.64	23.40
13 Broad Money Supply (M2)	16.13	35.04	21.60	11.95	13.76	14.42	13.07	13.03	15.25	14.73
14 Foreign Currency Deposits (FCDs)	42.65	13.16	15.39	14.55	39.89	38.41	36.91	39.69	47.85	53.72
Cumulative change from previous year end (in per cent)										
15 Net Foreign Assets	51.69	(12.66)	(0.84)	(59.51)	(67.92)	(115.28)	(187.46)	(199.20)	(219.20)	(285.72)
16 Net Domestic Assets	14.98	42.19	3.12	25.61	9.60	12.26	16.56	19.22	24.50	30.01
17 ow: Claims on government (net)	24.18	101.57	3.12	9.21	16.56	20.95	25.94	28.05	34.67	48.05
18 Broad Money(M2+)	21.73	29.63	2.51	12.47	5.29	5.17	5.23	7.08	10.96	12.47
Annual per cent contribution to money growth										
19 Net Foreign Assets	9.50	(2.90)	(1.80)	(6.88)	(10.62)	(24.50)	(27.43)	(26.95)	(24.51)	(26.25)
20 NDA	12.23	32.53	21.97	19.39	30.11	44.37	45.85	46.04	47.16	49.65
21 Total Liquidity (M2+)	21.73	29.63	20.17	12.51	19.49	19.87	18.42	19.09	22.64	23.40
Memorandum items										
22 Reserve Money	28896.02	36124.78	37557.02	43300.02	44866.58	47215.05	46616.21	48237.98	48238.98	48239.98
23 NFA (\$million)	3847.88	3228.72	3151.70	1715.42	339.67	(161.80)	(922.06)	(1033.25)	(1179.36)	(1699.05)
24 Currency ratio	0.18	0.21	0.18	0.19	0.18	0.19	0.19	0.18	0.17	0.18
25 FCD/M2+	0.25	0.22	0.22	0.22	0.26	0.26	0.26	0.27	0.27	0.28
26 FCD/Total Deposit	0.29	0.26	0.26	0.26	0.30	0.31	0.31	0.31	0.32	0.33
27 RM multiplier	2.42	2.62	2.56	2.44	2.36	2.23	2.27	2.21	2.27	2.29

Source: Bank of Ghana Staff Calculations

Appendix 2: Sources of Growth in Reserve Money (millions of Ghana cedis unless otherwise stated)										
	Dec-19	Dec-20	Aug-21	Dec-21	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
1 Net Foreign Assets (NFA)	20622.55	14123.29	21169.25	11018.62	4485.86	1453.09	(3813.34)	(6401.93)	(8995.20)	(14375.54)
2 Net Domestic Assets (NDA)	8273.47	22001.49	16387.78	32281.40	40380.73	45761.96	50429.55	54639.91	58544.85	64352.89
of which:										
ow: Claims on government (net)	8468.74	31731.12	26128.36	29389.54	39496.69	43185.34	48906.14	51437.82	54279.69	63633.39
Claims on DMB's (net)	5302.04	5736.58	658.89	2725.48	(1896.17)	(3158.63)	(4111.46)	(4678.86)	(5593.02)	(7136.80)
OMO Sterilisation Account.	(4924.64)	(5789.95)	(7163.95)	(5654.59)	(6289.35)	(4888.06)	(5182.38)	(4583.13)	(5040.89)	(5842.44)
6 Reserve Money (RM)	28896.02	36124.78	37557.02	43300.02	44866.58	47215.05	46616.21	48237.98	49549.65	49977.35
ow: Currency	14358.06	20889.63	18663.06	21816.17	22090.81	23421.41	22612.35	22102.32	22355.72	23075.40
DMB's reserves	11850.56	11860.85	15192.17	17235.93	18451.87	19283.12	19686.17	21821.29	22431.00	22516.91
Non-Bank deposits	2687.40	3374.30	3701.79	4247.91	4323.90	4510.52	4317.69	4314.37	4762.93	4385.04
Change from previous year (in per cent)										
10 Net Foreign Assets	61.58	(31.52)	24.30	(22.65)	(61.79)	(94.61)	(114.34)	(125.57)	(138.16)	(167.91)
11 Net Domestic Assets	(5.32)	165.93	56.92	47.83	74.32	449.57	404.00	395.38	259.09	292.69
12 ow: Claims on government (net)	(17.05)	274.69	3.05	(7.38)	21.52	161.13	174.12	165.95	124.88	143.54
13 Claims on DMB's (net)	6.32	(8.20)	206.72	(17.48)	277.29	340.34	177.54	165.74	708.00	1183.15
14 OMO Sterilisation Account.	14.76	(17.57)	14.47	2.34	(22.79)	(17.62)	(18.56)	1.79	4.73	18.45
15 Reserve Money (RM)	34.39	25.02	36.70	20.00	28.54	33.78	27.37	33.76	24.25	33.07
16 ow: Currency	20.24	45.49	18.26	4.44	14.31	18.60	18.31	19.11	20.33	23.64
Cumulative change from previous year end (in per cent)										
17 Net Foreign Assets (NFA)	61.58	(30.93)	49.89	(42.10)	(45.61)	(82.38)	(146.24)	(177.63)	(209.07)	(274.31)
18 Net Domestic Assets (NDA)	(5.32)	163.95	(25.52)	60.26	15.38	30.76	44.09	56.12	67.28	83.88
19 ow: Claims on government (net)	(17.05)	274.69	(17.66)	(7.38)	34.39	46.94	66.41	75.02	84.69	116.52
20 Reserve Money (RM)	34.39	25.02	3.96	19.85	3.75	9.18	7.80	11.55	14.58	15.57
Annual per cent contribution										
21 Net Foreign Assets	36.56	(22.49)	15.06	(8.94)	(20.78)	(72.29)	(83.08)	(87.17)	(81.67)	(94.64)
22 Net Domestic Assets (NDA)	(2.16)	47.51	21.64	28.94	49.32	106.07	110.45	120.93	105.92	127.71
23 RM growth (y-o-y)	34.39	25.02	36.70	20.00	28.54	33.78	27.37	33.76	24.25	33.07

Source: Bank of Ghana Staff Calculations

5. Banking Sector Developments

5.0 Highlights

The banking sector exhibited a relatively strong performance despite current macroeconomic headwinds. The industry's balance sheet and income statement remained healthy during the first eight months of the year. Growth in the industry's total assets was higher compared to last year, sustained by appreciable increases in deposits and borrowings.

Credit growth remained strong, while growth in investments moderated as short term investments declined. New advances showed a strong growth compared with the same period last year. Banks, however, maintained a tightened stance on credit to borrowers as monetary policy stance tightened in response to the rising inflationary pressures and exchange rate depreciation.

Key financial soundness indicators remained healthy, and within the regulatory and prudential benchmarks. The industry's NPL ratio in August 2022 was an improvement over what was recorded during the same period last year, partly on account of the stronger growth in loans and advances. The industry's core liquidity ratios have also increased this year due to the higher primary reserve requirement.

5.1 Banks' Balance Sheet

Total assets of the banking sector grew by 22.9 percent to GH¢204.6 billion at end-August 2022, compared with 16.7 percent growth in August 2021. The higher growth in the industry's assets was reflected in the growth of foreign assets by 60.7 percent from the 26.3 percent contraction in the corresponding period last year; as well as a 21.0 percent growth in domestic assets, which was marginally above the 20.2 percent growth in August 2021. Accordingly, the share of foreign assets in total assets increased from 4.8 percent to 6.3 percent, while that of domestic assets declined to 93.7 percent, from 95.2 percent during the reference period (Table 5.1).

The stock of the industry's investments stood at GH¢81.0 billion in August 2022 from GH¢80.3 billion in August 2021. On year-on-year terms, investments recorded a sharp decline in growth from 28.0 percent to 0.8 percent, reflecting the portfolio reallocation by banks in favour of loans and other assets. Consequently, the share of investments in total assets declined to 39.6 percent in August 2022 from 48.3 in August 2021. The slowdown in investments was pronounced in short-term bills which contracted by 38.2 percent compared with the 33.4 percent growth in the previous year, while long-term securities growth moderated to 16.9 percent from 26.0 percent growth a year earlier.

The strong upward trend in credit growth recorded throughout this year continued, with gross loans and advances registering an annual growth of 35.3 percent to GH¢66.1 billion at end-August 2022 compared to 8.7 percent growth in August 2021, reflecting increases in domestic currency loans and the revaluation of foreign currency denominated loans. Similarly, net loans and advances (gross loans adjusted for provisions and interest in suspense) recorded a higher growth of 38.3 percent in August 2022 to GH¢58.5 billion, compared to a growth of 8.5 percent in the previous year.

Deposits continued to dominate the funding mix of banks, recording 22.5 percent growth in August 2022, compared with 21.8 percent in August 2021. Borrowings also increased by 23.1 percent to GH¢23.5 billion in August 2022 compared to the 20.3 percent growth in August 2021. The increase in borrowings during the year was driven largely by a sharp increase in short-term domestic borrowing by 62.5 percent from a

5.5 percent contraction in the previous year, while the other components of total borrowings recorded significant declines in their annual growth rates.

Growth in the industry's shareholders' funds moderated to 13.4 percent (GH¢26.6 billion) in August 2022 from 15.8 percent (GH¢23.5 billion) in August 2021. The slowdown in the shareholders' funds was on the back of a slowdown in the accumulation of reserves, while growth in paid-up capital increased during the period.

In sum, the banking sector posted a strong balance sheet performance during the first eight months of 2022, indicated by the higher year-on-year growth in most of the key balance sheet items.

	(GH c'million)			Y-on-Y Growth (%)		year-to-date growth (%)			Shares (%)	
	Aug-21	Jun-22	Aug-22	Aug-21	Aug-22	Aug-21	Jun-22	Aug-22	Aug-21	Aug-22
TOTAL ASSETS	166,393.8	200,004.3	204,571.8	16.7	22.9	11.4	11.2	13.8	100.0	100.0
A. Foreign Assets	8,020.7	12,001.9	12,891.4	(26.3)	60.7	(33.9)	14.8	23.3	4.8	6.3
B. Domestic Assets	158,373.1	188,002.4	191,680.3	20.2	21.0	15.4	11.0	13.2	95.2	93.7
Investments	80,330.6	81,051.4	80,959.2	28.0	0.8	24.7	(2.5)	(2.6)	48.3	39.6
i. Bills	23,377.0	15,982.0	14,437.7	33.4	(38.2)	64.7	(21.2)	(28.8)	14.0	7.1
ii. Securities	56,731.1	64,838.8	66,291.8	26.0	16.9	13.5	3.6	5.9	34.1	32.4
Advances (Net)	42,329.4	56,286.2	58,530.1	8.5	38.3	1.3	19.4	24.2	25.4	28.6
of which Foreign Currency	13,017.5	17,525.8	18,706.6	11.7	43.7	6.6	27.2	35.8	7.8	9.1
Gross Advances	48,871.7	63,362.8	66,100.9	8.7	35.3	2.3	17.8	22.9	29.4	32.3
Other Assets	7,627.4	10,569.7	10,661.7	22.3	39.8	18.0	30.2	31.3	4.6	5.2
Fixed Assets	5,160.9	5,350.2	5,450.3	9.0	5.6	2.9	1.3	3.2	3.1	2.7
TOTAL LIABILITIES AND CAPITAL	166,393.8	200,004.3	204,571.8	16.7	22.9	11.4	11.2	13.8	100.0	100.0
Total Deposits	111,588.3	131,322.9	136,674.7	21.8	22.5	7.5	8.5	12.9	67.1	66.8
of which Foreign Currency	29,194.5	38,511.3	41,748.8	17.2	43.0	8.4	32.7	43.9	17.5	20.4
Total Borrowings	18,774.2	26,354.8	23,478.3	20.3	25.1	29.4	19.6	6.5	11.3	11.5
Foreign Liabilities	11,535.6	14,254.4	13,556.8	46.9	17.5	40.1	19.2	13.4	6.9	6.6
i. Short-term borrowings	5,381.4	7,702.7	6,171.9	79.4	14.7	53.9	43.0	14.6	3.2	3.0
ii. Long-term borrowings	5,011.4	4,912.7	5,662.4	13.8	13.0	25.6	(10.6)	3.1	3.0	2.8
iii. Deposits of non-residents	1,142.8	1,639.0	1,722.5	155.1	50.7	52.8	52.6	60.3	0.7	0.8
Domestic Liabilities	130,329.9	158,411.6	163,411.5	13.8	25.4	8.8	11.5	15.0	78.3	79.9
i. Short-term borrowing	6,346.7	12,541.1	10,312.9	(5.5)	62.5	27.0	25.1	2.9	3.8	5.0
ii. Long-term Borrowings	2,034.7	1,198.2	1,331.1	37.4	(34.6)	0.5	5.7	17.4	1.2	0.7
iii. Domestic Deposits	110,445.6	129,684.0	134,952.2	21.1	22.2	7.2	8.1	12.5	66.4	66.0
Other Liabilities	12,546.2	16,066.8	17,793.7	(17.0)	41.8	28.6	35.1	49.6	7.5	8.7
Paid-up capital	9,757.3	10,165.1	10,265.1	0.2	5.2	0.0	(0.0)	1.0	5.9	5.0
Shareholders' Funds	23,485.0	26,259.8	26,625.0	15.8	13.4	10.5	5.8	7.3	14.1	13.0

Source: Bank of Ghana

5.1.1 Asset and Liability Structure

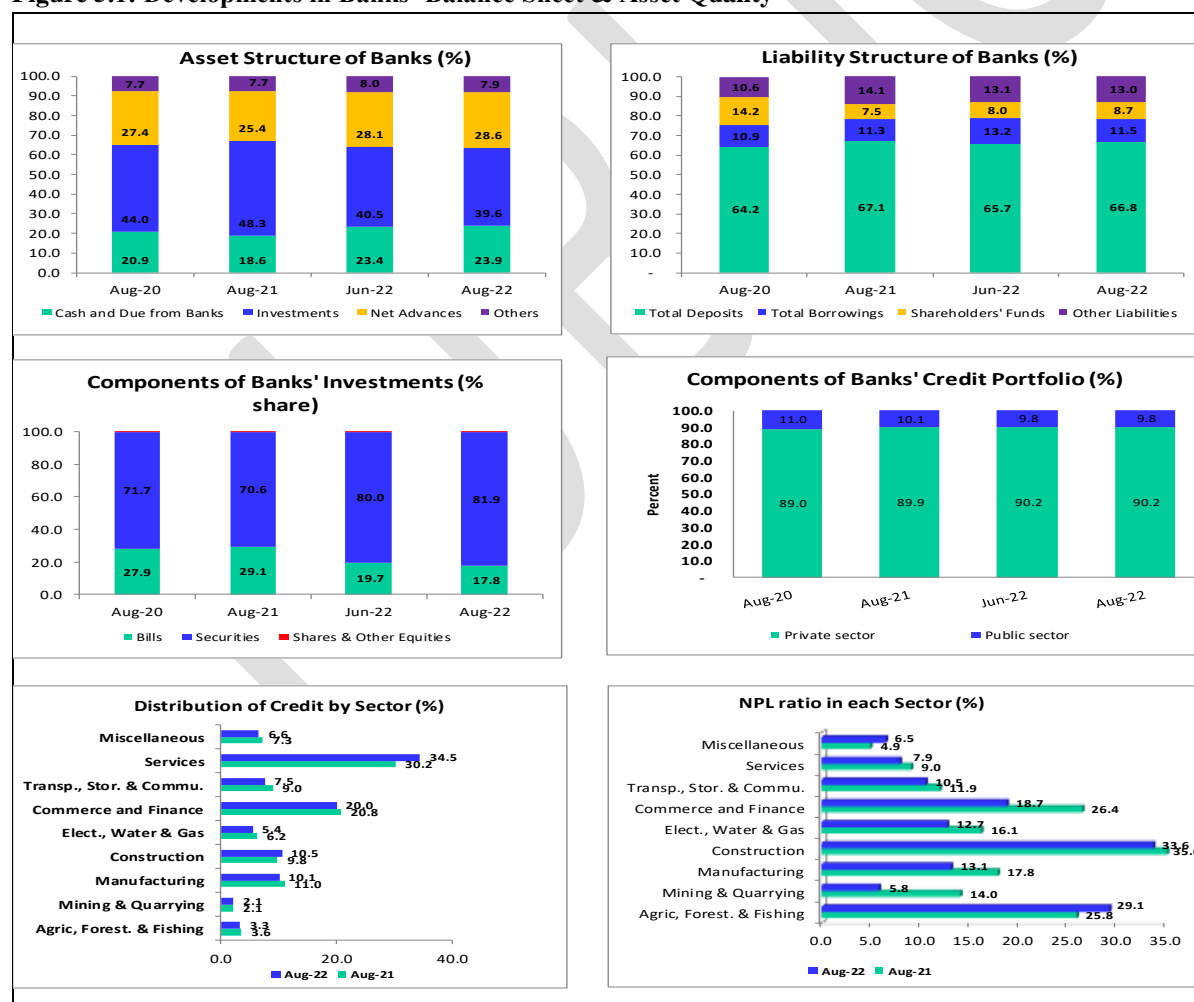
The asset structure of the banking industry was dominated by less risky assets at end-August 2022. Investments and cash and bank balances jointly accounted for 63.5 percent of total assets in August 2022, compared to a share of 66.9 percent in August 2021. The share of cash and bank balances increased from 18.6 percent to 23.9 percent during the review period, partly on account of banks' preparations towards the increase in the CRR from 12 percent to 13 percent on September 1, 2022 as part of the phased CRR adjustments towards 15 percent by November 1, 2022. The share of investments (comprising bills,

securities and equity), on the other hand, declined from 48.3 percent to 39.6 percent over the same comparative period, reflecting the slowdown in the growth of investments.

Loans and advances (net) remained the second largest component of banks' assets, with a higher share of 28.6 percent in August 2022 from 25.4 percent in the previous year, on account of the rebound in credit growth this year. The share of banks' non-earning assets (fixed assets and other assets) increased marginally to 7.9 percent from 7.6 percent during the review period (Annexes Table 5.1).

On the liability side, the share of deposits declined to 66.8 percent in August 2022 from 67.1 percent in the corresponding period last year, despite the higher growth in deposits during the period. The share of borrowings, on the other hand, increased marginally to 11.5 percent from 11.3 percent due to the higher growth in total borrowings. The component of shareholders' funds in banks' liabilities declined during the period under review to 13.0 percent from 14.1 percent on account of a slowdown in its growth, while the share of other liabilities increased to 8.7 percent from 7.5 percent over the same comparative period (Annexes Table 5.1).

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



Source: Bank of Ghana Staff Calculations

5.1.2 Share of Banks' Investments

Securities (long-term debt instruments) remained the largest component of banks' investment portfolio as at end-August 2022. The share of securities picked up further to 81.9 percent in August 2022 from 70.6 percent in August 2021. On the other hand, following the contraction in short-term bills this year, the share of short-term bills in total investments declined to 17.8 percent from 29.1 percent. The share of equity investments remained flat at 0.3 percent during the period under review (Figure 5.1).

5.2 Credit Risk

The industry's exposure to credit risk moderated marginally in August 2022 relative to the same period in 2021 on the back of the decline in the non-performing loans (NPL) ratio during the review period.

5.2.1 Credit Portfolio Analysis

The stock of gross loans and advances increased by 35.3 percent (year-on-year) to GH¢66.1 billion at end-August 2022 compared to a growth of 8.7 percent in August 2021. The stronger growth in gross loans and advances reflected in both private and public sector credit. Private sector credit (comprising private enterprises and households) grew strongly by 35.8 percent to GH¢59.6 billion in August 2022 compared with a growth of 9.5 percent in the previous year. Accordingly, the private sector share of total credit increased marginally to 90.2 percent in August 2022, from 89.9 percent in August 2021. Public sector credit also recorded a higher growth of 30.7 percent to GH¢6.4 billion compared to a growth of 1.5 percent in the previous year. The share of public sector credit, however, declined marginally from 10.1 percent to 9.8 percent over the same comparative period. (Annexes Tables 5.2 & 5.4).

The year-on-year increase in gross loans and advances broadly mirrored developments during the first eight months of the year. On year-to-date basis, gross loans increased by 22.6 percent in the August 2022 compared to 2.3 percent growth recorded in the same period in 2021. Similarly, growth in private sector credit rebounded to 22.9 percent from 0.9 percent during the same comparative period. The pickup in the growth of credit to the private sector reflected in all components of private sector credit. Year-to-date growth in public sector credit was also higher at 19.9 percent from 16.5 percent during the same review period. The industry's strong credit outturn is partly on account of the impact of the sharp depreciation of the Ghana Cedi on the revaluation of foreign currency loans into domestic currency (Annexes Table 5.2).

In terms of classification, the services sector continued to have the largest share of credit of 34.5 percent as at August 2022, followed by the commerce and finance and construction sectors with relative shares of 20.0 percent and 10.5 percent respectively (Figure 5.1). These top three sectors together accounted for 65.0 percent of total credit in August 2022 compared with 60.8 percent in August 2021. The other economic sectors accounted for the remaining 35.0 percent in various proportions in August 2022 (Figure 5.1). The mining and quarrying sector remained the lowest recipient of industry credit, maintaining a share of 2.1 percent during the period under review (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. Off-balance sheet transactions (contingent liabilities) amounted to GH¢23.1 billion as at end-August 2022, representing a 51.8 percent annual growth, compared to a growth of 36.8 percent during the same period in 2021. Accordingly, banks' contingent liabilities as a percentage of total liabilities increased to 13.0 percent from 10.6 percent during the review period (Annexes Table 5.3).

5.2.3 Asset Quality

The industry's asset quality improved (year-on-year), evidenced by the decline in the NPL ratio from 17.3 percent in August 2021 to 14.3 percent in August 2022. When adjusted for the fully provisioned loan loss category, the industry's adjusted NPL ratio also declined sharply from 6.6 percent to 3.8 percent (Figure 5.2). The decline in the NPL ratio was as a result of the combined effect of a slowdown in the growth of the NPL stock as well as the higher growth in the stock of loans during the review period.

The stock of NPLs increased by 12.0 percent to GH¢9.5 billion in August 2022 compared with the 21.3 percent increase recorded during the same period in 2021. The improved asset quality performance of the industry is partly attributable to the availability of loan repayment moratoria to borrowers till end-December 2022, as well as intensified credit recovery efforts on the part of the banks. Loan write-offs also increased during the period under review.

With the exception of the agriculture, forestry and fishing sector, which recorded an increase in NPL ratio from 25.8 percent in August 2021 to 29.1 percent in August 2022, the NPL ratio for all other sectors declined. In detail, the NPL ratio of the mining and quarrying sector declined from 14.0 percent to 5.8 percent, while that of the commerce and finance sector declined from 26.4 percent in August 2021 to 18.7 percent in August 2022, during the same comparative period. Five (5) other sectors also recorded declining NPL ratios during the review period: manufacturing (from 17.8% to 13.1%); electricity, water and gas (from 16.1% to 12.7%); transport, storage and communications (from 11.9% to 10.5%); construction (from 35.0% to 33.6%); and services (from 9.0% to 7.9%). The NPL ratio for the construction sector was the highest at 33.6 percent, followed by agriculture, forestry and fishing at 29.1 percent, while the mining and quarrying sector recorded the lowest NPL ratio of 5.8 percent during the period under review (Figure 5.1).

5.3 Financial Soundness Indicators

The industry's financial soundness indicators (FSIs) as at August 2022 remained healthy, underpinned by strong solvency, liquidity and profitability indicators.

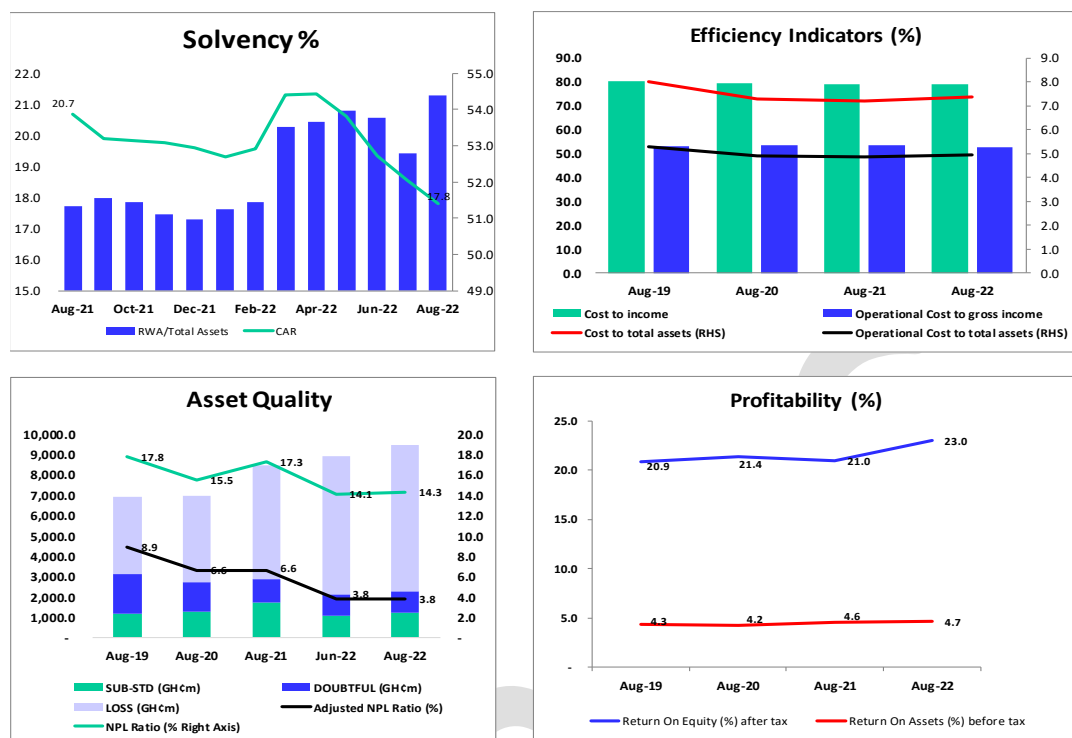
5.3.1 Liquidity Indicators

The industry's liquidity position remained strong in August 2022, with improvements in the core measures over the review period following the increase in the CRR requirement. The ratio of core liquid assets (mainly cash and due from banks) to total deposits increased to 35.8 percent in August 2022 from 27.7 percent in August 2021. Similarly, the ratio of core liquid assets to total assets increased to 23.9 percent from 18.6 percent over the same comparative period. The broad liquid assets to total deposits ratio, however, declined to 94.9 percent from 99.5 percent while the broad liquid assets to total assets ratio declined to 63.4 percent from 66.7 percent over the review period. The decline in the broad liquidity measures partly reflected the contraction in investments during the review period. (Annexes Table 5.5).

5.3.2 Capital Adequacy Ratio (CAR)

The industry's solvency position remained strong, with a CAR of 17.8 percent as at end-August 2022, well above the regulatory minimum of 13.0 percent. The industry CAR continued to highlight banks' sustained capacity to expand lending and absorb any potential losses from the increased lending (using their capital buffers) during the current uncertain operating environment.

Figure 5.2: Key Financial Soundness Indicators (FSIs)



Source: Bank of Ghana Staff Calculations

5.3.4 Profitability

The industry's profit-after-tax improved over the first eight months of the year to GH¢4.0 billion, representing an increase of 26.5 percent, compared with the 16.6 percent growth recorded during the same period last year. Profit-before-tax also grew by 25.2 percent to GH¢6.1 billion in August 2022, compared to a growth of 27.4 percent in August 2021.

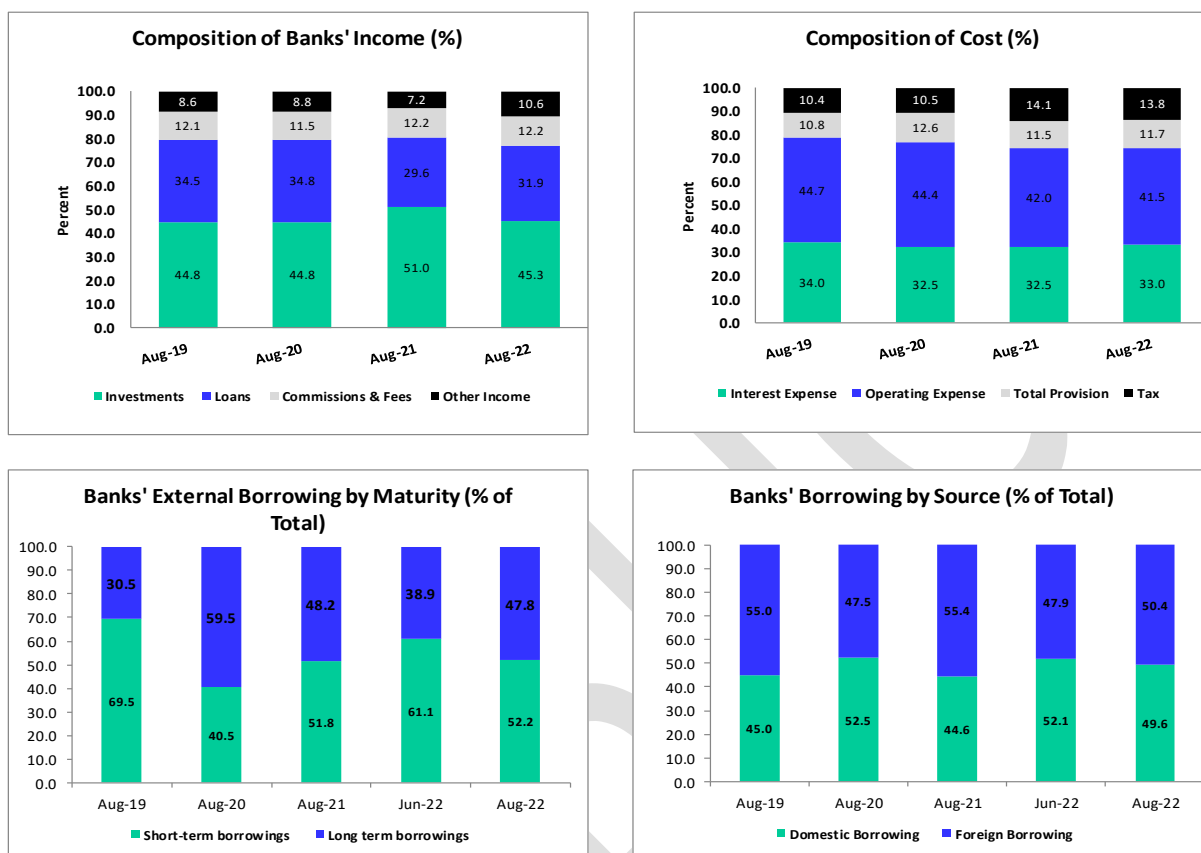
Net interest income growth moderated from 17.9 percent to 17.3 percent during the review period on account of a higher increase in interest expenses relative to interest income. While interest income increased by 20.6 percent in August 2022 from 17.1 percent in August 2021, interest expenses increased by 27.9 percent from 15.4 percent during the same comparative period. The increase in the growth of interest income was attributable to the rebound in credit growth this year while the higher growth in interest expenses was mainly on account of the increases in the interest rates on money market instruments as well as increased borrowings this year.

Net fees and commissions, on the other hand, recorded a stronger growth of 26.9 percent from 21.8 percent, whereas other income, the smallest component of banks' income, increased sharply by 85.6 percent from a contraction of 5.4 percent, cushioning the industry's income performance. These developments culminated in the industry's gross income growth of 26.1 percent at end-August 2022 compared with 15.7 percent in the comparative period in 2021.

The industry's operating expenses grew by 24.3 percent in August 2022, compared to 9.0 percent growth in August 2021, due to sharp increases in staff costs and other operating expenses. Provisions also increased

by 28.7 percent in August 2022 from 5.3 percent during the same period a year earlier, partly attributable to the increase in the NPL stock within the review period (Annexes Table 5.7 and Figure 5.3).

Figure 5.3: Composition of Income, Cost and Borrowings



Source: Bank of Ghana Staff Calculations

(a) Return on Assets and Return on Equity

The sector's Return on Equity (ROE) improved to 23.0 percent in August 2022 from 21.0 percent in August 2021. Similarly, Return on Assets (ROA) increased, albeit marginally, to 4.7 percent from 4.6 percent during the review period (Figure 5.2 and Annexes Table 5.6).

(b) Interest Margin and Spread

Banks' interest spread declined to 7.1 percent in August 2022 from 7.6 percent in August 2021, on account of a decline in gross yields (from 11.1% to 10.8 %), and a marginal increase in interest payable to 3.6 percent from 3.5 percent between the two periods. Interest margin to total assets also dipped to 4.8 percent from 5.0 percent, while interest margin to gross income ratio declined to 51.1 percent from 54.9 percent during the period under review. The ratio of gross income to total assets (asset utilisation) increased marginally to 9.4 percent from 9.1 percent, while the profitability ratio inched up to 21.0 percent from 20.9 percent (Annexes Table 5.6).

(c) Composition of Banks' Income

Income from investments remained the largest component of banks' income streams in August 2022, although its share moderated to 45.3 percent from 51.0 percent a year ago following the slowdown in the

growth of investments. The share of interest income from loans, however, increased to 31.9 percent from 29.6 percent, in line with the pickup in credit growth during the review period. While the share of banks' income from fees and commissions remained unchanged at 12.2 percent during the period under review, the share of income from other sources increased to 10.6 percent from 7.2 percent (Figure 5.3).

5.3.5 Operational Efficiency

Despite the challenging operating environment, banks remained broadly cost efficient during the period under review. The cost-to-income ratio of the industry declined to 78.9 percent in August 2022 from 79.1 percent in August 2021, while the ratio of operational cost to total income declined marginally to 52.8 percent from 53.4 percent partly on account of the higher increase in the industry's income during the reference period. However, the cost-to-total assets ratio increased slightly to 7.4 percent from 7.2 percent while operational cost-to-total assets ratio remained unchanged at 4.9 percent between the two periods (Figure 5.2).

5.3.6 Banks' Counterparty Relationships

Total offshore balances increased by 74.6 percent to GH¢11.1 billion at end-August 2022, compared to a contraction of 36.4 percent a year earlier driven largely by a sharp increase in offshore placements. Industry placements recorded a sharp growth of 112.8 percent in August 2022, compared to the contraction of 36.1 percent a year earlier. Nostro balances also increased by 48.9 percent this year after recording a contraction of 36.7 percent in August 2021. As a result, the ratio of offshore balances to net worth increased to 41.7 percent in August 2022 from 27.1 percent in August 2021 (Annexes Table 5.8).

The share of banks' external borrowings in total borrowings also moderated to 50.4 percent in August 2022 from 55.4 percent in August 2021. Banks' external borrowings were largely short-term in nature, with the share of short-term borrowings in total external borrowing increasing marginally to 52.2 percent from 51.8 percent, while that of long-term borrowings declined marginally to 47.8 percent from 48.2 percent over the review period (Figure 5.3).

5.4 Credit Conditions Survey

Results from the August 2022 Credit Conditions Survey pointed to net tightening in the overall credit stance on loans to enterprises, driven by a net tightening in the stance on all components of enterprise loans in July and August 2022 apart from loans to small and medium enterprises which recorded an ease in stance by banks. Banks have projected slight easing in the overall credit stance on loans to enterprises for the next two months, which is expected to apply to all the sub-categories of enterprise loans except short-term enterprise loans as well as loans to small and medium enterprises which are projected to record further tightening.

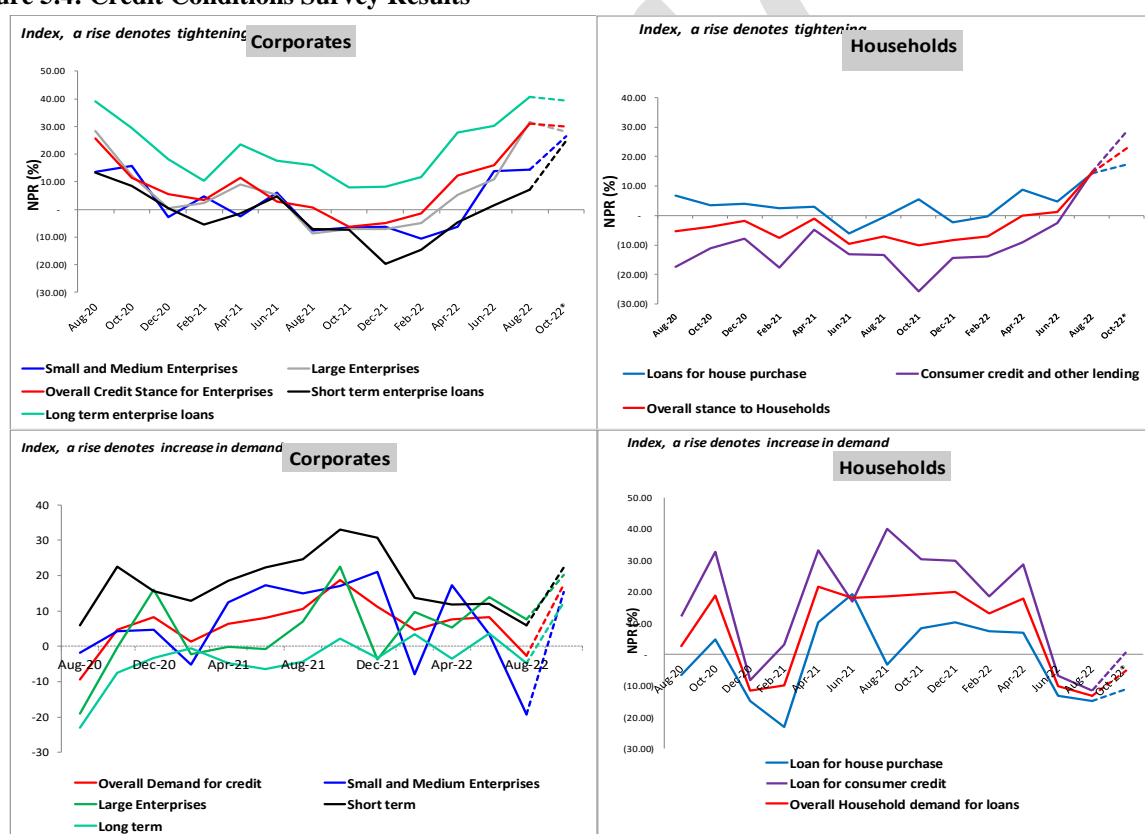
Similarly, the overall credit stance on household loans recorded a net tightening in July and August 2022, driven by net tightened stance on both sub-categories of household loans (consumer credit and other lending and loans for house purchase). Over the next two months, banks project a further net tightening in the overall stance on loans to households which will be reflected in both loans for house purchases and consumer credit.

Banks' stance on loans to enterprises and households continue to reflect increases in lending rates and general uncertainty surrounding the performance of the economy, stemming from the sharp depreciation of the Ghana cedi and the rise in the inflation rate this year.

Banks reported a decrease in the demand for all categories of enterprise loans which translated into a decline in the overall demand for loans by enterprises during the survey period. Banks however project an increase in demand for loans in the next two months, driven by increases in demand for all categories of enterprise loans. Credit demand by households, however, slowed on the back of declines in the demand for both consumer credit and mortgages. Over the next two months, banks expect a rebound in demand for both consumer credit and loans for house purchases to drive an increase in overall demand for household loans (Figure 5.4).

From August 2022, the six-month ahead inflation rate expectations by banks increased further during the current survey period, attributable to the rising inflationary pressures, the sharp depreciation of the Ghana Cedi and general uncertainties regarding the performance of the economy. Banks also projected increases in lending rates over the next six months, in line with other money market rates.

Figure 5.4: Credit Conditions Survey Results



Source: Bank of Ghana Staff Calculations

5.5 Conclusion and Outlook

The banking sector's overall performance was strong during the first eight months of the year, reflected by the robust balance sheet and income statement indicators. The key Financial Soundness Indicators (FSIs) of the banking industry remained healthy during the period under review compared with the same period in 2021.

Like every other sector of the economy, the banking sector has not been spared the impact of the current macroeconomic challenges. The industry's operational costs have picked up, with the rise in inflation rate

and exchange rate depreciation. Asset quality risks continue to build up although deflated by the strong credit growth. These developments, together with the tightened monetary policy stance, have necessitated increases in lending rates and more stringent credit underwriting standards on the part of the banks which may culminate in a slowdown in credit growth. Notwithstanding these developments, the sector remains stable and well able to withstand moderate stress conditions using its capital buffers.

Annexes

Table 5.1: Asset and Liability Structure of the Banking Sector

	<u>Aug-19</u>	<u>Aug-20</u>	<u>Aug-21</u>	<u>Jun-22</u>	<u>Aug-22</u>
Components of Assets (% of Total)					
Cash and Due from Banks	23.3	20.9	18.6	23.4	23.9
Investments	39.9	44.0	48.3	40.5	39.6
Net Advances	29.6	27.4	25.4	28.1	28.6
Others	7.2	7.7	7.7	8.0	7.9
Components of Liabilities and Shareholders' Funds (% of Total)					
Total Deposits	66.0	64.2	67.1	65.7	66.8
Total Borrowings	13.8	10.6	11.3	13.2	11.5
Shareholders' Funds	14.5	14.2	14.1	13.1	13.0
Other Liabilities	5.7	10.9	7.5	8.0	8.7

Bank of Ghana Staff Calculations

Table 5.2: Credit Growth

Economic Sector	Ghcmillion				y/y growth (%)		year-to-date growth(%)	
	Aug-20	Aug-21	Jun-22	Aug-22	Aug-21	Aug-22	Aug-21	Aug-22
Public Sector	4,863.88	4,934.82	6,201.82	6,452.26	1.5	30.7	16.5	19.9
Private Sector	40,107.08	43,936.88	57,160.95	59,648.67	9.5	35.8	0.9	22.9
- Private Enterprises	29,321.90	31,954.12	41,834.52	43,930.46	9.0	37.5	-2.4	26.5
o/w Foreign	3,331.93	4,267.73	5,887.52	6,717.59	28.1	57.4	11.0	36.6
Indigeneous	25,989.97	27,686.39	35,947.00	37,212.87	6.5	34.4	-4.2	24.8
- Households	9,652.56	10,355.59	12,981.00	13,837.50	7.3	33.6	8.4	11.9
Gross Loans	44,971.0	48,871.7	63,362.8	66,100.9	8.7	35.3	2.3	22.6

Bank of Ghana Staff Calculations

Table 5.3: Contingent Liability

	<u>Aug-19</u>	<u>Aug-20</u>	<u>Aug-21</u>	<u>Jun-22</u>	<u>Aug-22</u>
Contingent Liabilities (GHcmillion)	9,961.2	10,784.4	14,997.9	21,921.0	23,097.1
Growth (y-o-y)	9.7	7.9	36.8	50.3	51.8
% of Total Liabilities	10.3	8.8	10.6	12.6	13.0

Bank of Ghana Staff Calculations

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

	Aug-20		Aug-21		Jun-22		Aug-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	10.8	4.2	10.1	3.0	9.8	4.2	9.8	4.1
i. Government	4.1	0.3	4.8	1.8	5.2	1.7	5.1	1.6
ii. Public Institutions	2.8	0.3	2.4	0.0	1.9	0.2	1.8	0.2
iii. Public Enterprises	4.0	3.5	2.9	1.1	2.7	2.3	2.8	2.4
b. Private Sector	89.2	95.8	89.9	97.0	90.2	95.8	90.2	95.9
i. Private Enterprises	65.2	84.5	65.4	88.9	66.0	85.4	66.5	84.4
o/w Foreign	7.4	7.3	8.7	5.0	9.3	10.7	10.2	10.5
Indigenous	57.8	77.2	56.7	84.0	56.7	74.7	56.3	73.9
ii. Households	21.5	8.7	21.2	6.4	20.5	8.0	20.9	9.2
iii. Others	2.5	2.7	3.3	1.6	3.7	2.4	2.8	2.3

Bank of Ghana Staff Calculations

Table 5.5: Liquidity Ratios

	<u>Aug-19</u>	<u>Aug-20</u>	<u>Aug-21</u>	<u>Jun-22</u>	<u>Aug-22</u>
Liquid Assets (Core) - (GHC'million)	26,853.94	29,819.5	30,915.86	46,726.40	48,950.15
Liquid Assets (Broad) -(GHC'million)	72,350.01	92,364.3	111,023.97	127,547.29	129,679.62
Liquid Assets to total deposits (Core)- %	35.3	32.5	27.7	35.6	35.8
Liquid Assets to total deposits (Broad)- %	95.2	100.8	99.5	97.1	94.9
Liquid assets to total assets (Core)- %	23.3	20.9	18.6	23.4	23.9
Liquid assets to total assets (Broad)- %	62.8	64.8	66.7	63.8	63.4

Source: Bank of Ghana Staff Calculations

Table 5.6: Profitability Indicators (%)

	<u>Aug-19</u>	<u>Aug-20</u>	<u>Aug-21</u>	<u>Aug-22</u>
Gross Yield	12.0	11.3	11.1	10.8
Interest Payable	4.1	3.6	3.5	3.6
Spread	7.9	7.6	7.6	7.1
Asset Utilisation	10.0	9.2	9.1	9.4
Interest Margin to Total Assets	5.2	5.0	5.0	4.8
Interest Margin to Gross income	51.9	53.9	54.9	51.1
Profitability Ratio	19.5	20.8	20.9	21.0
Return On Equity (%) after tax	20.9	21.4	21.0	23.0
Return On Assets (%) before tax	4.3	4.2	4.6	4.7

Source: Bank of Ghana Staff Calculations

Table 5.7: DMBs' Income Statement Highlights

	Aug-19	Aug-20	Aug-21	Aug-22	Aug-20	Aug-21	Aug-22
	<u>(GH c'million)</u>				<u>Y-on-y Growth (%)</u>		
Interest Income	9,088.9	10,447.7	12,233.3	14,759.1	14.9	17.1	20.6
Interest Expenses	(3,134.0)	(3,377.2)	(3,898.4)	(4,985.5)	7.8	15.4	27.9
Net Interest Income	5,954.9	7,070.4	8,334.9	9,773.6	18.7	17.9	17.3
Fees and Commissions (Net)	1,391.8	1,515.2	1,846.1	2,342.3	8.9	21.8	26.9
Other Income	985.2	1,159.4	1,097.0	2,036.4	17.7	(5.4)	85.6
Operating Income	8,331.9	9,745.0	11,278.0	14,152.3	17.0	15.7	25.5
Operating Expenses	(4,119.6)	(4,619.3)	(5,036.2)	(6,261.2)	12.1	9.0	24.3
Staff Cost (deduct)	(2,246.8)	(2,433.0)	(2,717.1)	(3,350.5)	8.3	11.7	23.3
Other operating Expenses	(1,872.7)	(2,186.2)	(2,319.1)	(2,910.7)	16.7	6.1	25.5
Net Operating Income	4,212.4	5,125.7	6,241.8	7,891.1	21.7	21.8	26.4
Total Provision (Loan losses, Depreciation & others)	(997.9)	(1,307.2)	(1,377.0)	(1,771.5)	31.0	5.3	28.7
Income Before Tax	3,203.0	3,818.7	4,865.4	6,093.0	19.2	27.4	25.2
Tax	(962.5)	(1,095.7)	(1,690.4)	(2,076.3)	13.8	54.3	22.8
Net Income	2,240.4	2,723.0	3,174.9	4,016.7	21.5	16.6	26.5
Gross Income	11,465.9	13,122.3	15,176.4	19,137.8	14.4	15.7	26.1

Source: Bank of Ghana Staff Calculations

Table 5.8: Developments in Offshore Balances

	<u>Aug-19</u>	<u>Aug-20</u>	<u>Aug-21</u>	<u>Jun-22</u>	<u>Aug-22</u>
Offshore balances as % to Networth	52.5	49.3	27.1	39.6	41.7
Annual Growth in Offshore balances (%)	-15.0	13.9	-36.4	13.4	74.6
Annual Growth in Nostro Balances (%)	-14.9	33.8	-36.7	-10.7	48.9
Annual Growth in Placement (%)	-15.3	-6.3	-36.1	51.7	112.8

Source: Bank of Ghana Staff Calculations

6. Fiscal Developments

6.0 Highlights of Fiscal Operations

Budget implementation, using banking sector data for the first nine months of 2022, 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.

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 recognized that the current condition is sub-optimal and will be interim until agreements are reached on an IMF-supported programme which will help re-anchor stability.

6.1 Public Debt

The stock of public debt³ at the end of July 2022 stood at GH¢402.4 billion, showing an increase of GH¢50.6 billion over the end December 2021 stock of GH¢351.8 billion. In terms of GDP, the total public debt as at end-July 2022 was 68.0 percent, compared with 76.6 percent recorded in December 2021.

The domestic component was GH¢190.2 billion (32.1 percent of GDP), representing a year-to-date increase of 4.7 percent and accounting for 47.3 percent of the total public debt, lower than the 51.7 percent recorded in December 2021. The increase was driven mainly by increases of GH¢7.5 billion and GH¢752.5 million in the medium and long-term instruments respectively, which was offset by a decrease of GH¢0.4 million in the short-term instruments. In terms of the holding structure, the non-bank and banking sectors recorded year-to-date increases of GH¢11.7 billion and GH¢2.4 billion respectively. However, the non-resident investors holdings decreased by GH¢5.6 billion over the period.

On year-to-date basis, total external debt, in US dollar terms, decreased by US\$303.4 million to US\$28.0 billion. However, due to exchange rate effect, total external debt increased by GH¢42.1 billion to GH¢212.1 billion (35.8 percent of GDP) at the end of July 2022. External debt also constituted 52.7 percent of total public debt at the end of July 2022, compared to 48.3 percent in December 2021.

³ Excludes State Owned Enterprises (SOEs) and Special Purpose Vehicles (SPVs) debt

Table 4: Public Debt

	2021	2022	2022	2022	YTD
	DECEMBER	MARCH	JUNE	JULY	CHANGE
TOTAL DOMESTIC DEBT (GH¢ m)	181,781.3	190,199.8	190,074.4	190,244.6	8,463.4
SHORT TERM	22,617.0	22,854.2	20,885.4	22,616.5	(0.4)
MEDIUM-TERM	115,074.3	122,116.2	124,091.1	122,552.5	7,478.3
LONG-TERM	43,710.1	44,643.7	44,512.3	44,462.6	752.5
STANDARD LOANS	380.0	585.6	585.6	613.0	233.0
HOLDINGS OF DOMESTIC DEBT (GH¢ m)	181,781.3	190,199.8	190,074.4	190,244.6	8,463.4
BANKING SYSTEM	91,415.3	95,920.8	92,417.2	93,821.1	2,405.8
NON-BANK	61,170.4	65,160.1	70,116.7	72,831.8	11,661.4
FOREIGN SECTOR (Non-Resident)	29,195.5	29,119.0	27,540.6	23,591.7	(5,603.8)
TOTAL EXTERNAL (US\$ m)	28,339.2	28,379.1	28,135.9	28,035.8	(303.4)
MULTILATERAL	8,192.4	8,150.0	8,073.6	8,066.2	(126.3)
BILATERAL	3,912.0	3,900.0	3,740.1	3,694.5	(217.6)
COMMERCIAL	16,234.7	16,329.1	16,322.1	16,275.1	40.4
TOTAL EXTERNAL (GH¢ m)	170,009.8	201,945.4	203,369.0	212,113.0	42,103.2
TOTAL PUBLIC DEBT (GH¢ m)	351,791.1	392,145.3	393,443.4	402,357.7	50,566.6
EXCHANGE RATE (End Period Selling MOF)	5.9991	7.1160	7.2281	7.5658	
MEMORANDUM ITEMS					
NOMINAL GDP (GH¢ m)	459,130.9	591,883.3	591,883.3	591,883.3	
TOTAL DEBT /GDP RATIO (%)	76.62	66.25	66.47	67.98	
EXTERNAL DEBT/GDP	37.0	34.1	34.4	35.8	
DOMESTIC DEBT/GDP	39.6	32.1	32.1	32.1	
EXTERNAL DEBT/TOTAL DEBT	48.3	51.5	51.7	52.7	
DOMESTIC DEBT/TOTAL DEBT	51.7	48.5	48.3	47.3	

Source: Ministry of Finance

7. Inflation Outlook and Analysis

7.0 Highlights

Global price pressures remained heightened across several advanced and emerging market economies, against the backdrop of high energy and food prices, amid lingering global supply chain challenges. These developments have culminated in monetary policy rate hikes by major central banks to tame the soaring headline inflation. Several central banks in advanced economies such as the US Federal Open Market Committee, Bank of England, and the European Central Bank have increased policy interest rates, alongside indications to do whatever it takes to aggressively fight inflation and re-anchor inflation expectations. Equally, in the emerging market and developing economies, central banks have tightened the monetary policy stance to address the elevated currency and inflationary pressures.

Global financing conditions have become more challenging due to the recent policy tightness and expected future rate hikes. This has reflected in higher yields on government bonds, a strong US dollar, as well as portfolio rebalancing to re-price more risky assets. Sovereign bond spreads for emerging and frontier economies have widened instigated by tightening global financing conditions, the strong US dollar, and sharp portfolio reversals. Many emerging market and developing countries are currently confronted with external sector vulnerabilities such as dwindling reserve buffers, currency depreciation, elevated debt service burdens, and lack of access to external financing.

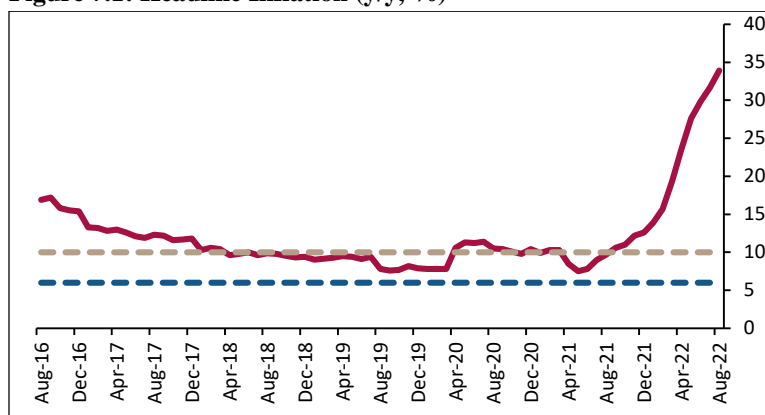
7.1 Domestic Price Developments

Domestic price pressures remained elevated, reflecting persistent high global energy prices, and the subsequent pass-through effect on domestic ex-pump petroleum prices, transportation costs, food price pressures, and the currency depreciation. Headline inflation increased further to 33.9 percent in August 2022, from 31.7 percent recorded in July 2022 (Figure 7.1). The price movements of items in the CPI basket indicate that price pressures have broadened, as reflected in the prices of all categories (both domestic and imported inflation (Figure 7.2). Non-food inflation accelerated to 33.6 percent in August 2022, up from 31.3 percent in July, whereas food inflation jumped from 32.3 percent to 34.4 percent over the same period under discussion (Table 7.1).

Consistent with development in headline inflation, underlying inflation pressures also remained heightened, suggesting that price pressures have become more broad-based than before. The Bank's core inflation measure, which excludes energy and utility prices, increased to 32.6 percent in August 2022 from 30.2 percent in July (Figure 7.3).

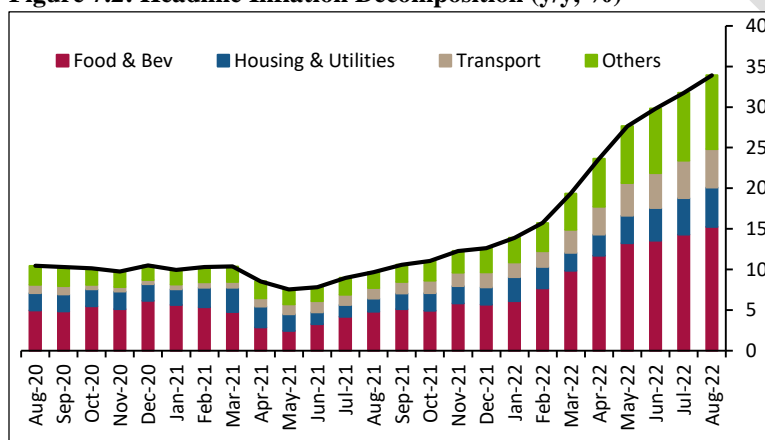
Nevertheless, trends in month-on-month inflation suggested a consistent deceleration for the third consecutive time. The monthly headline inflation declined to 1.9 percent in August 2022, down from 3.1 percent in July and 3.0 percent in June respectively (Figure 7.4). Month-on-month food inflation similarly dropped to 1.8 percent in August, from 3.3 percent in July and 2.3 percent in June 2022. Also, non-food monthly inflation decelerated to 2.0 percent in August 2022 from 3.0 percent in July, and further down from 3.6 percent in June 2022 (Table 7.1).

Figure 7.1: Headline Inflation (y/y, %)



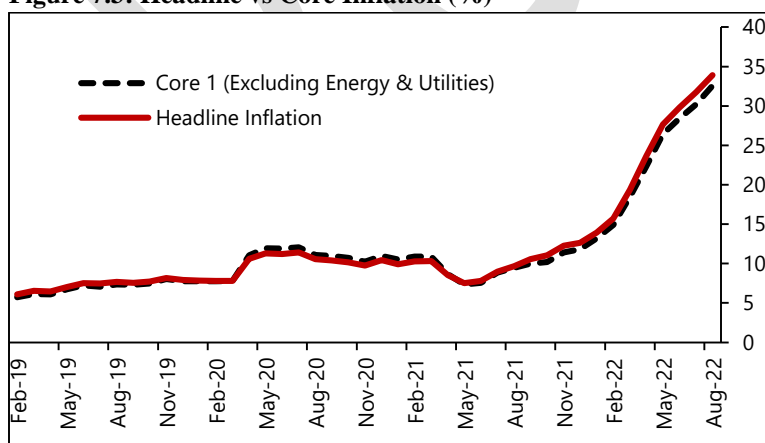
Source: BOG Staff Calculations and Ghana Statistical Service (GSS)

Figure 7.2: Headline Inflation Decomposition (y/y, %)



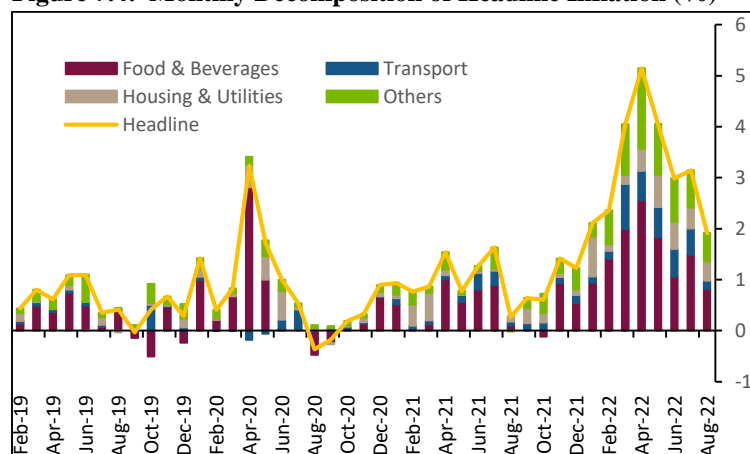
Source: BOG Staff Calculations and Ghana Statistical Service (GSS)

Figure 7.3: Headline vs Core Inflation (%)



Source: BOG Staff Calculations and Ghana Statistical Service (GSS)

Figure 7.4: Monthly Decomposition of Headline Inflation (%)

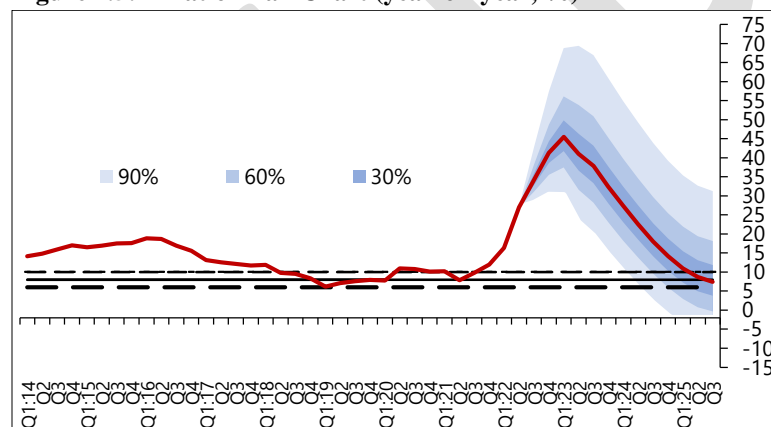


Source: BOG Staff Calculations and Ghana Statistical Service (GSS)

7.2 Inflation Outlook

The September 2022 forecast (Figure 7.5), showed further outward shift in the forecast horizon in relative to the July forecast round. The elevated pressures from the September 2022 forecast stems from the pre-existing pressures from the global energy prices and the pass-through effect on the domestic economy, the currency depreciation, and the recent upward adjustments in utility tariffs, transport costs, as well as general price increases. The revised forecast assumptions, together with worsening external financing conditions, heightened inflation expectations, and rising production costs are likely to shift inflation further upwards in the near term.

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



Source: Bank of Ghana Staff Forecast

7.3 Inflation Risk Assessment

The current assessment of inflation outlook largely points to significant upside risks, occasioned by price pressures from both domestic and foreign sources. Price pressures in the global economy have elevated and unfolded beyond the volatile items of energy and food, reinforced by the transmission effects of persistent global supply chain challenges and the Ukraine war. These have triggered aggressive monetary policy tightening in advanced economies with some spillovers on the domestic economy.

On the domestic front, the upward adjustments in petroleum products and transport fares with associated second-round impacts on goods and services as well as the pass-through of currency depreciation have exerted significant upside risks on inflation and heightened inflation expectations. On the downside, however, it is expected that the harvest season and tight monetary policy stance would moderate some inflationary pressures in the medium-term.

7.4 Conclusion

Inflation remains elevated and the balance of risks in the outlook is tilted on the upside, emanating from pass-through of currency depreciation, upward utility adjustments, and rising inflation expectations. The Bank's MPC reaffirmed commitment to re-anchor inflation expectations and return to a disinflation path and, under the circumstances, increased the Monetary Policy Rate by 250 bps to 24.5 percent.

Appendix Table 7.1: Headline Inflation

	Headline Inflation (%)			Monthly Changes in CPI (%)		
	Combined	Food	Non-food	Combined	Food	Non-food
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
Mar	19.4	22.4	17.0	4.0	4.5	3.7
Apr	23.6	26.6	21.3	5.1	5.8	4.6
May	27.6	30.1	25.7	4.1	4.0	4.1
Jun	29.8	30.7	29.1	3.0	2.3	3.6
Jul	31.7	32.3	31.3	3.1	3.3	3.0
Aug	33.9	34.4	33.6	1.9	1.8	2.0

Source: Ghana Statistical Service

Appendix Table 7.2: CPI Components

	Headline Inflation (%)			Monthly Changes in CPI (%)		
	Combined	Food	Non-food	Combined	Food	Non-food
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
Mar	19.4	22.4	17.0	4.0	4.5	3.7
Apr	23.6	26.6	21.3	5.1	5.8	4.6
May	27.6	30.1	25.7	4.1	4.0	4.1
Jun	29.8	30.7	29.1	3.0	2.3	3.6
Jul	31.7	32.3	31.3	3.1	3.3	3.0
Aug	33.9	34.4	33.6	1.9	1.8	2.0

Source: Ghana Statistical Service