BANK OF GHANA

MONETARY POLICY REPORT

JANUARY 2023

The Monetary Policy Report highlights the economic and financial sector assessments that the Monetary Policy Committee considered prior to the policy decision during the 110th meeting held in January 2023.

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.

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Overview

The global economy came under severe strain in 2022. This was on the back of continued spillovers from geopolitical tensions, continued monetary policy tightening, and policy uncertainty amid fears of recession in advanced economies.

Global financing conditions tightened considerably due to the aggressive policy stance in advanced economies to contain inflation, despite some moderation in the rate hikes by the US Federal Reserave Bank in the last quarter. The global economic outlook remains uncertain owing to broad-based and elevated inflation, policy tightening, worsening financing conditions, and persisting geopolitical tensions.

Though showing signs of cooling, global inflation levels remain elevated. Accordingly, central banks, especially in advanced economies, have signalled the need to maintain a tight monetary policy stance to contain inflationary pressures, albeit at a measured pace. These headwinds will shape the global growth conditions in the first half of 2023.

On the domestic front, inflation remained elevated through the year, driven by both demand pressures and supply shocks. The combination of currency depreciation, uptrend in ex-pump prices and transport fares, and utility price adjustments contributed significantly to the steady rise in inflation.

The Bank's high frequency real sector indicators declined in the fourth quarter. The updated Composite Index of Economic Activity declined, reflecting moderation in economic activity, despite the slight improvement in consumer and business sentiments. Domestic growth conditions are likely to moderate further over the near term, based on the elevated inflation levels.

Signs of spillovers from the current macroeconomic conditions to the banking sector emerged. Profitability levels have declined, alongside other financial soundness indicators. The latest macro-prudential risk assessments indicated increased pressure on solvency and liquidity of banks. This comes ahead of the implementation of the Domestic Debt Exchange Programme, and to moderate the potential impact, the Bank has announced some regulatory reliefs for the banking sector.

Government reached a Staff Level Agreement with the IMF in December 2022. The Agreement spells out measures that will put the fiscal on the path of consolidation, which was consistent with the frontloading of consolidation efforts, including revenue-enhancing measures and expenditure reationalisation in the 2023 Budget.

The Bank's Monetary Policy Committee commited to a tight policy stance. This was to underpin the ongoing macroeconomic adjustments that would drive inflation downwards in the near term. Under the circumstances, the Committee decided to increase the policy rate by 100 basis points to 28.0 percent at the January 2023 meeting.

1. Global Economic Developments

1.0 Highlights

- *In 2022, global economic outlook deteriorated in the face of synchronous policy tightening, worsening financial conditions, and lingering effects of Russia-Ukraine war.*

- *Inflation remained elevated globally, well above central bank targets in many countries, but projected to decline subject to stability in commodity markets and weakened growth prospects.*

- *Global financial conditions tightened as central banks hiked policy rates to contain inflationary pressures.*

- *The monetary policy tightening, strong US dollar, geopolitical tensions, and rising inflation dampened risk appetite and triggered widespread capital outflows across emerging market economies, alongside currency pressures with inflationary consequences.*

1.1 Global Growth Developments

The global economy was buffeted by several shocks in 2022. These include rising inflation, which eroded household purchasing power and dented confidence; aggressive policy tightening; and spillovers from Russia's invasion of Ukraine. These factors weighed heavily on economic activity, especially in advanced economies. In Emerging Markets and Developing Economies (EMDEs), activity slowed amid tighter global financial conditions, rising cost of living, the effects of the Russia-Ukraine war, as well as weaker external demand. Against this backdrop, the third quarter 2022 growth outturn pointed to some slowdown in some advanced and emerging market economies. In addition, survey data revealed broad-based moderation in economic activity, especially across advanced economies.

Broadly, the ease of pandemic restrictions, supply chain bottlenecks, and falling energy prices are expected to support economic activity. The IMF revised global growth projection from 3.4 percent to 2.7 percent in October 2022, reflecting a significant growth moderation in advanced economies (Table 1.1). The US economy is expected to remain weak on account of high inflation and tight financial conditions weighing on consumption and private investment. In the Euro area, the economy is projected to contract in the last quarter of 2022 and first quarter of 2023 due to the energy crisis, weaker global activity, and tighter financial conditions. Though China recovered in 2022Q3 due to fiscal support, rapid increase in infections may slow activity in 2022Q4. These together with prolonged contraction in residential investment and the uncertain evolution of the pandemic will weigh on activity in 2023.

Risks to the growth outlook remain tilted to the downside, reflecting the likely persistence of global inflationary pressures than expected, requiring even tighter monetary policy and financial conditions. This outcome may lead to challenges in accessing international capital markets, and thereby trigger government debt defaults with adverse implications for growth.

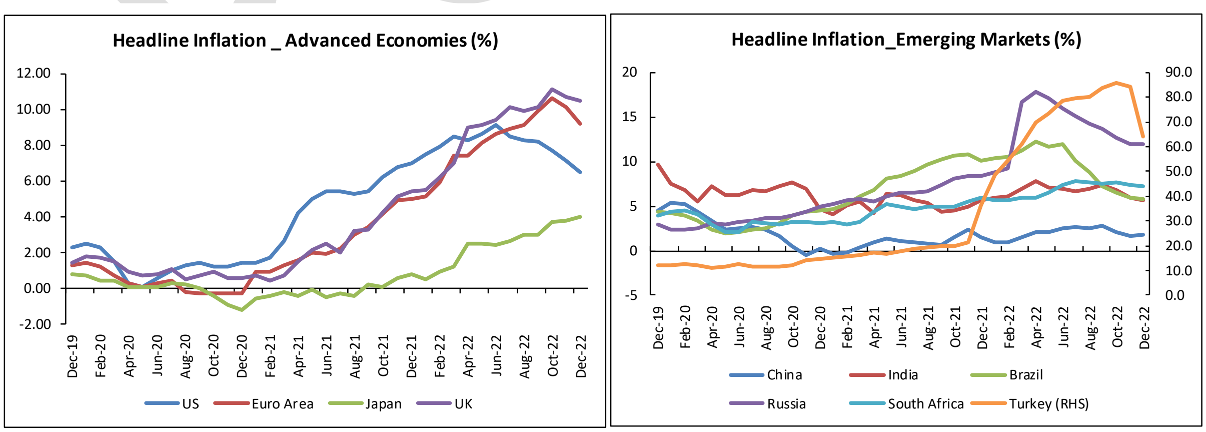
Table 1.1: Real GDP Growth Projections (%)

Overview of the *World Economic Outlook* Projections			
(Percent change) -Year over Year		Projections	
	2021	2022	2023
World	**6.0**	**3.2**	**2.7**
Advanced Economies	**5.2**	**2.4**	**1.1**
United States	5.7	1.6	1.0
Euro Area	5.2	3.1	0.5
Germany	2.6	1.5	–0.3
France	6.8	2.5	0.7
Italy	6.7	3.2	–0.2
Spain	5.1	4.3	1.2
Japan	1.7	1.7	1.6
United Kingdom	7.4	3.6	0.3
Canada	4.5	3.3	1.5
Other Advanced Economies	5.3	2.8	2.3
Emerging Market and Developing Economies	**6.6**	**3.7**	**3.7**
China	8.1	3.2	4.4
India	8.7	6.8	6.1
Russia	4.7	–3.4	–2.3
Brazil	4.6	2.8	1.0
Mexico	4.8	2.1	1.2
Sub-Saharan Africa	**4.7**	**3.6**	**3.7**
Nigeria	3.6	3.2	3.0
South Africa	4.9	2.1	1.1
Ghana	5.4	3.6	2.8
Source: IMF WEO October 2022 Update			

1.2 Global Price Developments

Headline inflation is gradually peaking in some advanced and emerging market economies, supported by cooling commodity prices and weaker demand. Food Prices as reflected in the Food and Agriculture Organisation Index declined in December 2022, driven by a steep drop in international prices of vegetable oils, together with some declines in cereal and meat prices. Also, crude oil prices eased, largely due to lower demand amid the global economic slowdown. Additionally, global supply chain price pressures have declined considerably, occasioned by the improvement in supply underpinned by softening demand conditions, which took pressure off prices.

Figure 1.1: Headline Inflation in Advanced and Emerging Market Economies



Source: BOG/Trading Economics

Underlying inflation, however, remains elevated in most advanced economies, reflecting broad-based price pressures. Short term inflation expectations have risen in most economies, although longer-term inflation expectations remain relatively stable, on account of central banks' commitment to control inflation. In the outlook, there are indications that inflation may persist for longer than previously assumed as core inflation rises, and wages and short-term inflation expectations remain elevated. However, both headline and underlying inflation are expected to slow down 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 continue to keep inflation elevated for some time.

1.3 Global Financial Markets Developments

Global financial conditions remained tight during the first half of 2022, driven by elevated inflation that led central banks to maintain a rapid pace of monetary policy tightening. However, the recently lower than expected headline inflation in the US has led markets to price in a more gradual path of interest rate hikes by the Fed. This expectation weighed on long term bonds but led to a rebound in equity prices. Many central banks continue to tighten monetary policy stance to tame persistent inflationary pressures. Reflecting the inflation concerns, longer term bond yields rose sharply before declining at the end of 2022 as market participants speculated that the United States and the Euro Area rate hikes could slowdown and monetary policy could change direction sooner than expected. Equity prices have recovered somewhat amid the expectation that inflation had peaked and central banks may slowdown the pace of policy rate hikes.

Table 1.2: Monetary Policy Stance of Selected Central Banks

	Key Rate	Previous (%)	Current (%)	Forecast	Inflation Rate (December, 2022)	Real rate	Infl Target	Overall Fiscal Deficit (2021,% of GDP)	GDP Growth (Dec.2021)	GrossDebt/GDP(2021,%)
U.S	Federal Funds Rate	4	4.5	5.1	6.5	-2	2%	–10.9	5.7	128.1
Euro Area	Refinancing Rate	1.25	2	2.5	9.2	-7.2	< 2%	–5.1	5.2	95.3
UK	Bank Rate	3	3.5		10.5	-7	2%	–8.0	7.4	95.3
Japan	short term policy rate	-0.1	-0.1	-0.1	4	-4.1	2%	–6.7	1.7	262.5
Russia	Benchmark rate	7.5	7.5	7.5	11.9	-4.4	4%	0.8	4.7	17.0
India	Benchmark rate	5.9	6.25	6.5	5.72	0.53	4±2%	–10.0	8.7	84.2
Brazil	Selic rate	13.25	13.75	13.75	5.79	7.96	4.5±1.5%	-4.4	4.6	93.0
Turkey	One week repo rate	9	9	9	64.3	-55.3	5±2%	–3.9	11.4	41.8
Malaysia	Policy Rate	2.5	2.75	3	3.8	-1.05	3% - 4%	–5.5	3.1	69.0
Indonesia	Policy Rate	5.26	5.5	5.75	5.51	-0.01	3.5% ± 1%	-4.6	3.7	41.2
Chile	Benchmark Interest Rate	11.25	11.25	11.25	12.8	-1.55	3±1%	-7.5	11.7	36.3
Ghana	Monetary Policy Rate	24.5	27		54.1	-27.1	8±2%	-11.4	5.4	82.1
South Africa	Repo Rate	6.45	7	7.5	7.2	-0.2	3% -6%	–6.0	4.9	69.0
Nigeria	Monetary Policy Rate	15.5	16.5	16.5	21.47	-4.97	6% -9%	-6.0	3.6	36.6
Kenya	Policy Rate	8.25	8.75	9	9.1	-0.35	2.5-7.5%	–8.0	7.5	67.8
Zambia	Policy Rate	9	9	9.5	9.9	-0.9	9%	-8.4	4.6	119.1
Morocco	Policy Rate	2	2.5	3	8.3	-5.8		–5.9	7.9	68.9

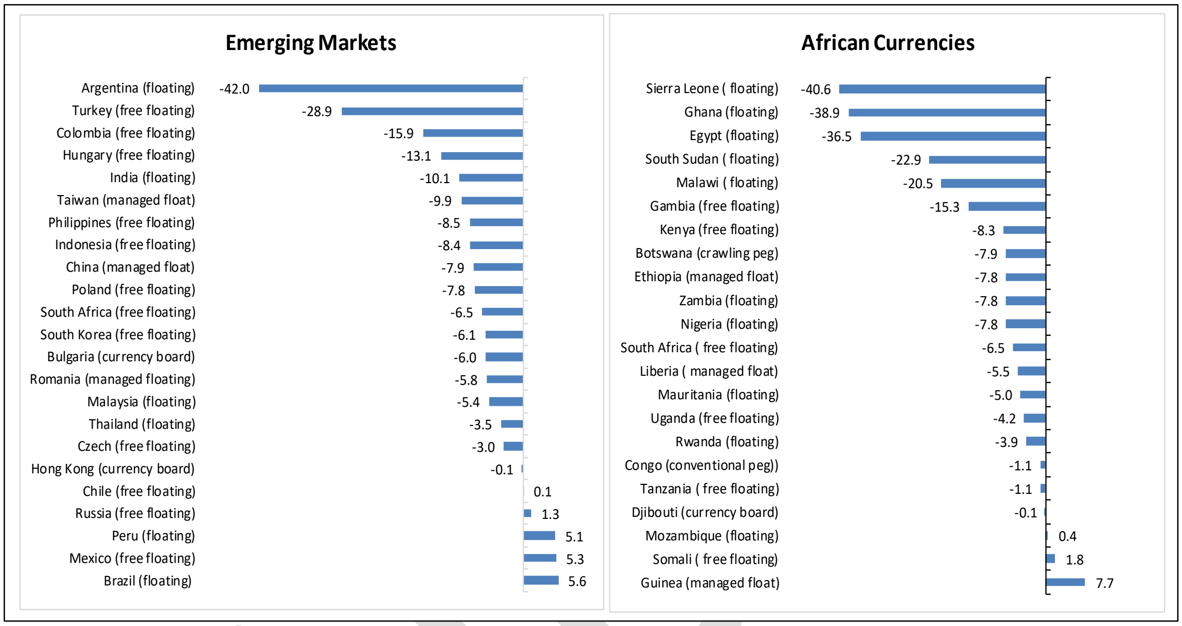
Source: Growth rate (World Bank); Debt/GDP (IMF); Policy Rates (Trading Economics)

In the outlook, global financial conditions will remain tight in the near term, reflecting the persistence and broadening of price pressures. Policy rates in advanced economies and longer-term bond yields will stay elevated in EMDEs, as several central banks continue to tighten policy to contain inflation. The US dollar may also strengthen a little longer if inflation stays elevated and broad-based, which will add to the inflationary pressures in EMDEs and force policy tightening even further.

1.4 Currency Markets

On the international currency market, the currencies of several emerging market and African countries came under intense pressure against the US dollar partly due to the Fed's hawkish stance and strengthening of the US dollar during the year.

Figure 1.2: Performance of Selected Currencies against the US Dollar (as at December 2022)



Source: Bloomberg

In the domestic currency market, the Ghana cedi came under intense pressure in the year due to the sovereign downgrades and lack of access to the international markets, portfolio reversals as the US Fed tightened policy alongside heightened foreign exchange demand pressures. In October, the currency depreciated sharply, on the back of negative sentiments surrounding the Domestic Debt Exchange Programme (DDEP). The Ghana cedi, however, recovered sharply in December 2022, as the country reached a Staff Level Agreement (SLA) with the IMF, amid tightening monetary policy which reduced cedi liquidity somewhat, and marginal weakness of the US dollar as inflation peaked in the US.

In the first two weeks of January 2023, the Ghana cedi witnessed an accelerated depreciation on the back of seasonal forex demand and increasing speculative demand due to the ongoing domestic debt exchange programme. In the outlook, early signing of the IMF programme will improve market sentiments and support the stability of the Ghana cedi. Also, weak global activity will continue to weigh on the US dollar, reducing downside pressures on the cedi.

Cumulatively, in the interbank market, the Ghana cedi depreciated by 53.8 percent, 45.5 percent and 46.8 percent against the US dollar, the pound sterling and the euro, respectively in 2022. This compared with an appreciation of 3.5 percent against the euro and a depreciation of 4.1 percent, and 3.1 percent against the US dollar and the pound respectively, in 2021 (Table 1.3). Historically, the Ghana cedi performed better in December 2022 on a monthly basis, compared to the same period from 2017-2022.

Relative to Ghana's major trading partners' currency movements, the Ghana cedi depreciated by 34.9 percent in nominal trade weighted terms and 41.8 percent in forex transaction weighted terms in 2022 (Table 1.4). This is against an appreciation of 1.5 percent in nominal trade weighted terms and a deprecation of 3.7 percent in nominal foreign exchange transaction weighted terms over the same period in 2021.

In real bilateral terms, the local currency appreciated by 1.9 percent, 8.6 percent, and 4.8 percent against the US dollar, the pound sterling and the euro, respectively, in 2022. Comparative to 2021, the Ghana cedi's real exchange rate appreciated by 0.9 percent, 3.4 percent and 9.5 percent against the dollar, the pound sterling and the euro, respectively. (Table 1.5).

Table 1.6 shows the real effective exchange rate movements of the Ghana cedi against the three major currencies (i.e., the US dollar, the euro, and the pound sterling). The Ghana cedi appreciated by 4.7 percent and 2.3 percent in real trade weighted terms and real forex transaction weighted terms in 2022, compared with an appreciation of 7.9 percent and 1.6 percent, respectively in 2021.

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

	US$/GHC*	Monthly depreciation/ appreciation	Year-to-Date depreciation/ appreciation	GBP/GHC*	Monthly depreciation/ appreciation	Year-to-Date depreciation/ appreciation	Euro/GHC*	Monthly depreciation/ appreciation	Year-to-Date depreciation/ appreciation
2020									
Jan	5.5274	0.1	0.11	7.1924	1.7	1.72	6.0476	2.7	2.71
Feb	5.2949	4.4	4.51	6.7881	6.0	7.78	5.8048	4.2	7.00
Mar	5.4423	-2.7	1.68	6.7583	0.4	8.26	5.9752	-2.9	3.95
Apr	5.6010	-2.8	-1.20	7.0584	-4.3	3.66	6.1276	-2.5	1.37
May	5.6203	-0.3	-1.54	6.9186	2.0	5.75	6.2406	-1.8	-0.47
June	5.6674	-0.8	-2.36	7.0038	-1.2	4.46	6.3613	-1.9	-2.36
July	5.6782	-0.2	-2.54	7.4050	-5.4	-1.20	6.6944	-5.0	-7.21
Aug	5.6848	-0.1	-2.66	7.5997	-2.6	-3.73	6.7916	-1.4	-8.54
Sep	5.7027	-0.3	-2.96	7.3585	3.3	-0.57	6.6786	1.7	-7.00
Oct	5.7100	-0.1	-3.09	7.3913	-0.4	-1.01	6.6703	0.1	-6.88
Nov	5.7139	-0.1	-3.15	7.6426	-3.3	-4.27	6.8559	-2.7	-9.40
Dec	5.7602	-0.8	-3.93	7.8742	-2.9	-7.08	7.0643	-3.0	-12.07
2021									
Jan	5.7604	0.0	0.00	7.8996	-0.3	-0.32	6.9929	1.0	1.02
Feb	5.7374	0.4	0.40	7.9945	-1.2	-1.50	6.9545	0.6	1.58
Mar	5.7288	0.2	0.55	7.8717	1.6	0.03	6.7122	3.6	5.25
Apr	5.7322	-0.1	0.49	7.9222	-0.6	-0.61	6.8958	-2.7	2.44
May	5.7473	-0.3	0.22	8.1672	-3.0	-3.59	7.0268	-1.9	0.53
June	5.7626	-0.3	-0.04	7.9590	2.6	-1.07	6.8333	2.8	3.38
July	5.8011	-0.7	-0.71	8.0633	-1.3	-2.35	6.8808	-0.7	2.67
Aug	5.8517	-0.9	-1.56	8.0482	0.2	-2.16	6.9068	-0.4	2.28
Sep	5.8663	-0.2	-1.81	7.9140	1.7	-0.50	6.7952	1.6	3.96
Oct	5.9009	-0.6	-2.38	8.0816	-2.1	-2.57	6.8231	-0.4	3.54
Nov	5.9172	-0.3	-2.65	7.9054	2.2	-0.39	6.7346	1.3	4.90
Dec	6.0061	-1.5	-4.09	8.1272	-2.7	-3.11	6.8281	-1.4	3.46
2022									
Jan	6.0236	-0.3	-0.29	8.0882	0.5	0.48	6.7506	1.1	1.15
Feb	6.6004	-8.7	-9.00	8.8568	-8.7	-8.24	7.4100	-8.9	-7.85
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
Aug	8.2325	-7.5	-27.04	9.5872	-3.4	-15.23	8.2909	-6.3	-17.64
Sep	9.6048	-14.3	-37.47	10.7017	-10.4	-24.06	9.4147	-11.9	-27.47
Oct	13.0086	-26.2	-53.83	14.9541	-28.4	-45.65	12.8610	-26.8	-46.91
Nov	13.1044	-0.7	-54.17	15.6919	-4.7	-48.21	13.5813	-5.3	-49.72
Dec	8.5760	52.8	-29.97	10.3118	52.2	-21.19	9.1457	48.5	-25.34

Source: Bank of Ghana Staff Calculations

Table 1.4: Nominal Effective Exchange Rate

	2018=100 FXTWI	TWI	Monthly CHG(%) FXTWI	TWI	Year-to-Date (%) FXTWI	TWI
			2021			
Jan-21	76.99	78.40	0.04	0.47	0.04	0.47
Feb-21	77.30	78.93	0.40	0.67	0.44	1.14
Mar-21	77.61	80.91	0.39	2.45	0.83	3.57
Apr-21	77.41	79.33	-0.25	-1.99	0.59	1.64
May-21	77.06	77.88	-0.46	-1.86	0.13	-0.19
Jun-21	77.08	79.74	0.03	2.33	0.16	2.15
Jul-21	76.56	79.13	-0.69	-0.78	-0.52	1.39
Aug-21	75.94	78.81	-0.81	-0.40	-1.34	1.00
Sep-21	75.64	79.72	-0.39	1.13	-1.74	2.12
Oct-21	75.44	79.50	-0.27	-0.28	-2.02	1.85
Nov-21	75.39	80.68	-0.07	1.47	-2.08	3.29
Dec-21	74.23	79.19	-1.56	-1.89	-3.68	1.47
			2022			
Jan-22	74.09	79.76	-0.18	0.72	-0.18	0.72
Feb-22	67.63	72.88	-9.56	-9.44	-9.76	-8.65
Mar-22	62.85	68.48	-7.59	-6.43	-18.10	-15.64
Apr-22	63.14	71.38	0.46	4.07	-17.56	-10.93
May-22	62.78	70.08	-0.58	-1.87	-18.24	-13.00
Jun-22	62.18	70.73	-0.95	0.93	-19.37	-11.96
Jul-22	59.18	68.53	-5.07	-3.20	-25.42	-15.55
Aug-22	54.84	64.44	-7.91	-6.35	-35.34	-22.88
Sep-22	47.14	56.53	-16.34	-14.00	-57.46	-40.08
Oct-22	34.76	41.38	-35.60	-36.61	-113.52	-91.36
Nov-22	34.34	39.28	-1.24	-5.34	-116.18	-101.58
Dec-22	52.35	58.71	34.41	33.09	-41.8	-34.9

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) EUR	GBP	USD	MONTHLY CHANGE (Ind EUR	GBP	USD	Year-to-Date (%) EUR	GBP	USD
				2021					
Jan-21	28.8	28.9	27.7	1.4	0.9	0.8	1.4	0.9	0.8
Feb-21	29.3	28.8	27.9	1.5	-0.6	0.8	2.9	0.3	1.5
Mar-21	30.1	29.3	28.1	2.9	1.8	0.4	5.7	2.0	1.9
Apr-21	29.7	29.5	28.3	-1.6	0.6	0.7	4.2	2.6	2.6
May-21	29.2	28.6	28.2	-1.5	-3.0	-0.1	2.8	-0.3	2.5
Jun-21	30.4	29.5	28.2	3.7	3.2	0.1	6.4	2.9	2.6
Jul-21	30.7	29.7	28.4	1.0	0.5	0.5	7.3	3.3	3.1
Aug-21	30.5	29.6	28.1	-0.5	-0.2	-0.9	6.9	3.1	2.2
Sep-21	31.0	30.2	28.0	1.6	1.8	-0.4	8.4	4.9	1.9
Oct-21	30.9	29.5	27.9	-0.3	-2.3	-0.6	8.0	2.7	1.3
Nov-21	31.7	30.4	28.0	2.6	3.2	0.4	10.4	5.8	1.6
Dec-21	31.4	29.7	27.8	-1.0	-2.5	-0.7	9.5	3.4	0.9
				2022					
Jan-22	32.3	30.5	28.1	2.7	2.5	1.2	2.7	2.5	1.2
Feb-22	29.9	28.3	26.0	-7.9	-7.6	-7.9	-5.0	-4.9	-6.6
Mar-22	28.6	27.6	24.8	-4.7	-2.6	-4.8	-9.9	-7.6	-11.8
Apr-22	31.4	29.6	26.0	8.9	6.7	4.4	-0.1	-0.4	-6.9
May-22	31.7	30.4	26.6	0.9	2.6	2.4	0.8	2.2	-4.3
Jun-22	32.7	31.7	26.7	3.2	4.3	0.4	4.0	6.4	-3.9
Jul-22	32.8	30.9	26.2	0.4	-2.6	-2.1	4.4	4.0	-6.0
Aug-22	31.3	30.4	24.7	-5.0	-1.8	-6.1	-0.4	2.2	-12.5
Sep-22	28.1	27.8	21.8	-11.4	-9.0	-13.1	-11.9	-6.6	-27.3
Oct-22	20.8	20.2	16.5	-34.9	-38.1	-32.4	-50.9	-47.3	-68.5
Nov-22	21.3	20.6	17.8	2.4	2.1	7.3	-47.3	-44.2	-56.1
Dec-22	33.0	32.5	28.3	35.4	36.6	37.1	4.8	8.6	1.9

Source: Bank of Ghana Staff Calculations

Table 1.6: Real Effective Exchange Rate for Major Trade Partners

	RTWI and FXRTWI					
	INDEX (2018=100)		MONTHLY CHG		Year-to-Date (%)	
	RFXTWI	RTWI	RFXTWI	RTWI	RFXTWI	RTWI
2021						
Jan-21	27.83	28.68	0.8	1.2	0.8	1.3
Feb-21	28.06	29.03	0.8	1.2	1.6	2.5
Mar-21	28.24	29.77	0.5	-1.1	2.2	4.9
Apr-21	28.38	29.46	0.5	-1.1	2.7	3.9
May-21	28.30	29.05	0.4	3.2	2.5	2.5
Jun-21	28.43	30.01	0.4	3.2	2.9	5.6
Jul-21	28.58	30.27	-0.8	-0.5	3.4	6.4
Aug-21	28.34	30.12	-0.8	-0.5	2.6	6.0
Sep-21	28.29	30.52	-0.6	-0.5	2.4	7.2
Oct-21	28.12	30.35	-0.6	-0.5	1.8	6.7
Nov-21	28.29	31.08	-0.8	-1.1	2.4	8.9
Dec-21	28.07	30.75	-0.8	-1.1	1.6	7.9
2022						
Jan-22	28.44	31.53	-7.9	-7.9	1.3	2.5
Feb-22	26.36	29.22	-7.9	-7.9	-6.5	-5.2
Mar-22	25.16	27.97	4.8	8.1	-11.6	-9.9
Apr-22	26.43	30.43	4.82	8.11	-6.19	-1.03
May-22	27.05	30.82	0.68	2.95	-3.74	0.25
Jun-22	27.24	31.76	0.68	2.95	-3.03	3.19
Jul-22	26.74	31.70	-5.91	-4.88	-4.97	3.00
Aug-22	25.25	30.22	-5.91	-4.88	-11.17	-1.73
Sep-22	22.36	27.12	-32.71	-34.84	-25.53	-13.35
Oct-22	16.85	20.12	-32.71	-34.84	-66.59	-52.85
Nov-22	18.09	20.75	37.00	35.72	-55.16	-48.21
Dec-22	28.71	32.28	37.00	35.72	2.25	4.74

Source: Bank of Ghana Staff Calculations

1.5 Global Economic Outlook and Risks

In the outlook, global growth is projected to remain weak on the back of the synchronous tight policy stance, especially in advanced economies as inflationary pressures persist, coupled with weakening demand on account of lower household and investment incomes. Global inflationary pressures may persist longer than expected pushing global interest rates higher than assumed as financial conditions remain tight in both advanced and emerging market economies. The somewhat weaker but still relatively strong US dollar, the war in Ukraine and heightened uncertainty about the economic outlook will continue to weigh on global activity. The effects of these shocks on the Ghanaian economy have been amplified by country specific vulnerabilities and uncertainties.

2. External Sector Developments

2.0 Highlights

Developments in the global economy, characterised by volatile commodity prices, supply bottlenecks related to the pandemic and the war in Ukraine, and tightening financial conditions affected Ghana's external sector position in 2022.

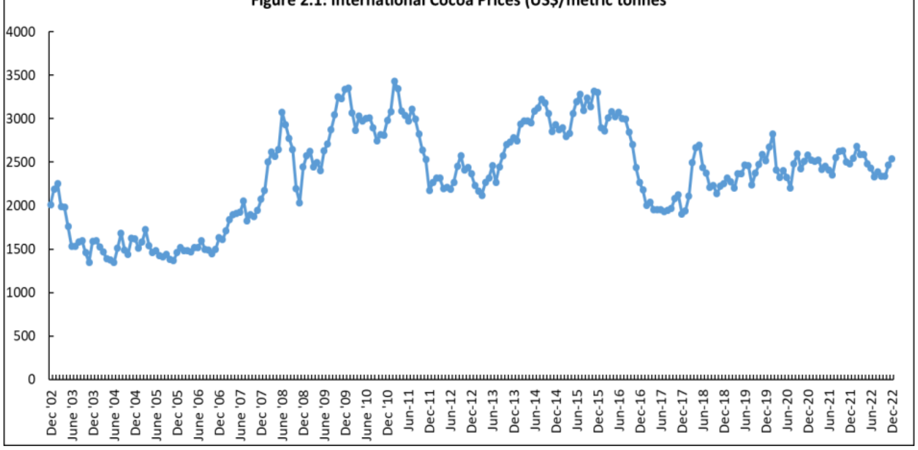
2.1 Commodity Price Trends

Cocoa futures settled at an average price of US$2,538.57 per tonne at the end of December 2022, gaining 2.8 percent relative to the previous month. Cocoa prices were supported by below average rainfall in most of Ivory Coast's cocoa-growing regions. Prices were further supported by speculative buying ahead of the festive season. Compared with the same period last year, cocoa gained 2.3 percent underpinned by the prospect of a substantial global deficit in the just ended 2021/22 season following Ghana's poor crop harvest.

Benchmark Brent crude oil prices averaged US$81.34 per barrel in December, down by US$9.04 per barrel from the previous month. The price decline was due to low demand driven by fears of weak global growth and rising COVID-19 cases in China. Expectations of a large cut in crude output from the OPEC+ producer group and supply distortions arising from the Russia-Ukraine conflict pushed Brent up by 8.7 percent on a year- on-year basis.

Spot gold recovered in December 2022, after suffering loses in the previous month to close the year at an average price of US$1,796.21 per fine ounce, 4.0 percent higher than the previous month. Compared to the same period last year, gold prices gained 0.3 percent. Gold prices were up primarily due to the weak US dollar in December and the possibility of easing policy rate hikes in the outlook.

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



Source: Reuters

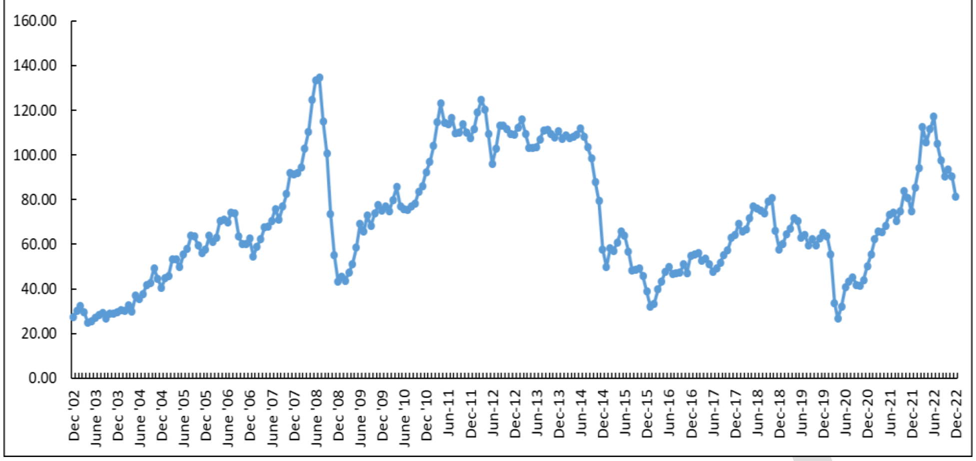


Figure 2.2: International Brent Crude Oil Prices (US$ per barrel)


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

Source: Reuters

2.2 Trade Balance

The trade account recorded a surplus of US$2.75 billion in 2022 on account of increased export earnings relative to imports, compared with a surplus of US$1.10 billion in 2021. Exports earnings rose by 18.2 percent on a year-on-year basis to US$17.41 billion driven by crude oil, gold, and other exports, including non-traditional exports. Crude oil export receipts increased by 37.5 percent to US$5.43 billion mainly due to higher prices. Gold export receipts increased by 30.0 percent to US$6.6 billion driven by higher volumes of gold production largely from small scale gold mining companies. Cocoa exports, both beans and products, however, declined by 22.0 percent to US$2.21 billion, mainly due to lower production volumes.

The total import bill increased by 7.5 percent to US$14.65 billion due to higher payments for oil and gas imports. Imports of oil and gas, mainly refined petroleum imports, almost doubled to US$4.7 billion driven largely by higher prices, compared to US$2.7 billion in 2021, an increase of 71.3 percent. Non-oil imports, however, declined by 8.4 percent to US$10.0 billion, in line with the slowdown in economic activities and sharp currency depreciation. Further breakdown of non-oil imports by broad economic classification showed a drop-in capital goods imports by 19.0 percent to US$2.1 billion, while consumption goods imports also decreased by 7.1 percent to US$1.9 billion. In contrast, intermediate goods increased by 2.3 percent to US$5.1 billion. Other goods imports, mainly passenger vehicles, fell by 30.3 percent to US$904.1 million.

2.3 Current Account

The improved trade surplus, along with higher remittance flows, helped improve the current account deficit to US$1.69 billion (2.3% of GDP), compared with US$2.5 billion (3.2% of GDP) in 2021. This is despite higher payments in the services and income accounts.

2.4 Capital and Financial Accounts

The capital and financial account recorded significant outflows of US$2.18 billion in 2022, compared to inflows of US$3.30 billion in 2021. These outflows emanated from sharp portfolio reversals due to the challenging domestic environment and reduced FDI inflows. The combined effect of current account deficit and the capital and financial account outflows resulted in a balance of payments deficit of US$3.64 billion at the end of 2022, compared to a surplus of US$510.13 million at the end of 2021.

2.5 International Reserves

The stock of Gross International Reserves (GIR) stood at US$6.24 billion at the end of December 2022, equivalent to 2.7 months of imports cover. This compares to a stock position of US$9.70 billion at the end of December 2021, enough to provide for 4.3 months of imports cover.

Table 2.1: Trade Balance (US$ million)

	2020	2021	Prov. 2022	Abs Y/Y Chg	Rel Y/Y Chg (%)
Trade Balance	**2,042.97**	**1,098.94**	**2,753.84**	**1,654.9**	**150.6**
Trade Bal (% GDP)	*3.0*	*1.4*	*3.8*		
Total Exports	**14,471.53**	**14,727.46**	**17,406.79**	**2,679.3**	**18.2**
Gold ($'M)	6,799.09	5,083.14	6,608.43	1,525.3	**30.0**
Volume (fine ounces)	3,854,012	2,820,094	3,778,129	958,034	34.0
Unit Price ($/fine ounce)	1,764.16	1,802.47	1,749.13	-53.3	-3.0
Cocoa Beans ($'M)	1,480.20	1,767.86	1,242.44	-525.4	-29.7
Volume (tonnes)	585,679	704,178	502,345	-201,832	-28.7
Unit Price ($/tonne)	2,527.33	2,510.53	2,473.27	-37.3	-1.5
Cocoa Products ($'M)	847.96	1,070.69	970.55	-100.1	-9.4
Volume (tonnes)	273,334	320,788	316,034	-4,753	-1.5
Unit Price ($/tonne)	3,102.27	3,337.68	3,071.04	-266.6	-8.0
Crude Oil ($'M)	2,910.62	3,947.72	5,428.61	1,480.9	37.5
Volume (barrels)	67,458,206	55,415,848	54,184,879	-1,230,969	-2.2
Unit Price ($/bbl)	43.15	71.24	100.19	28.9	40.6
Other Exports	2,433.65	2,858.06	3,156.76	298.7	10.5
o/w: Non-Tradional Exports	1,879.09	2,291.02	2,429.74	138.7	6.1
Total Import	**12,428.56**	**13,628.52**	**14,652.95**	**1,024.4**	**7.5**
Non-Oil	10,538.02	10,909.36	9,994.06	-915.3	-8.4
Oil and Gas	1,890.53	2,719.16	4,658.89	1,939.7	71.3
of which: Products	1,492.94	2,499.43	4,439.39	1,940	78
Gas ($'M)	177.71	134.72	194.50	59.8	44.4

Source: Bank of Ghana

2.6 Commodity Price Outlook

For cocoa, extreme temperature swings in Ivory Coast may affect the mid-crop for the 2022/23 crop year. However, the first quarter of 2023 (January to March) futures prices are forecast to average between US$2,500 and US$2,600 per tonne based on expectations of market analysts.

Higher crude oil prices seem likely in the outlook. This will be supported by the reopening of China's economy based on relaxation of restrictions, OPEC+ readiness to keep output unchanged should demand weaken, EU ban on Russian oil, as well as the US$60 per barrel price cap on Russian oil by G7 nations. These headwinds for the oil market might, however, be moderated by the weak growth momentum projected for 2023.

In the gold market, concerns about weak global growth, geopolitics, and possibility of slower rate hikes by the US Federal Reserve as inflation eases, are likely to lift gold's safe-haven appeal in 2023. Providing further support to gold is the relaxation of restrictions in China, which arguably could boost demand for the yellow metal. Market analysts forecast prices to rally around US$1,850 per ounce in first quarter of 2023.

3. Real Sector Developments

3.0 Highlights

The latest high frequency indicators signalled moderation in economic activity in November 2022 compared to a year ago. Cement sales, port activity, industrial consumption of electricity and vehicle registration contracted. Domestic VAT collections, retail sales and tourist arrivals, however, improved in the review period.

3.1 Economic Growth

The latest data from the Ghana Statistical Service showed that real GDP growth averaged 3.6 percent during the first three quarters of 2022 compared to 4.8 percent during the same period in 2021. Non-oil GDP growth also moderated to 4.3 percent from 4.7 percent over the same comparative period. The observed growth outturn was driven by the services and agriculture sectors.

3.2 Trends in Real Sector Indicators

Consumer Spending

Consumer spending, proxied by domestic VAT collections and retail sales, posted a positive performance in November 2022, compared with the corresponding period in 2021. Domestic VAT collections increased by 52.1 percent on a year-on-year basis to GH¢864.65 million, from GH¢568.30 million. Cumulatively, total domestic VAT for the first eleven months of 2022 went up by 25.2 percent to GH¢7,703.91 million compared with GH¢6,155.52 million for the corresponding period of last year.

Retail sales increased by 30.0 percent (year-on-year) to GH¢188.60 million in November 2022, up from GH¢145.10 million recorded in the same period in 2021. On a month-on-month basis, retail sales improved by 27.3 percent in November 2022 from GH¢148.19 million in the preceding month. In cumulative terms, retail sales for the first eleven months of 2022 went up by 10.0 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 (Tier-1), improved in the review period. Total Direct Taxes collected increased by 55.3 percent (year-on-year) to GH¢2,498.86 million in November 2022, relative to GH¢1,609.11 million recorded in November 2021. Cumulatively, total Direct Taxes collected for the first eleven months of 2022 went up by 21.8 percent to GH¢27,668.96 million, from GH¢22,712.90 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 48.2 percent, Corporate tax accounted for 41.8 percent, while "Other Tax Sources" contributed 10.0 percent.

Total private sector workers' contribution to the SSNIT Pension Scheme (Tier-1) increased by 21.8 percent in year-on-year terms to GH¢296.49 million in November 2022, from GH¢243.43 million collected during the corresponding period in 2021. Cumulatively, for the first eleven months of 2022, the contribution grew by 21.8 percent to GH¢2,885.27 million, relative to GH¢2,369.13 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 21.5 percent (year-on-year) in November 2022 to 266,695 tonnes, down from 339,879 tonnes recorded a year ago. On a month-on-month basis, total cement sales improved by 2.3 percent in November 2022 compared with the 260,764 tonnes recorded in October 2022. Cement sales for the first eleven months of 2022 went down by 16.3 percent to 3,150,687 tonnes, from 3,766,435 tonnes for the same period of 2021. The decline in total cement sales was due to a slowdown in construction activities during the review period.

Vehicle Registration

Transport sector activities, gauged by new vehicle registrations by the Driver and Vehicle Licensing Authority (DVLA), declined by 57.6 percent to 8,533 in November 2022, from 20,140 vehicles registered during the same period of 2021. On a month-on-month basis, the number of vehicles registered in November 2022 decreased by 15.1 percent compared to 10,056 registered vehicles in October 2022. Cumulatively, vehicles registered by the DVLA within the first eleven months of 2022 decreased by 19.5 percent to 210,786.

Industrial Consumption of Electricity

Industrial consumption of electricity decreased marginally to 270.90 gigawatts in November 2022, compared with 271.52 gigawatts recorded for the corresponding period in 2021. In cumulative terms, electricity consumed by industries for the first eleven months of 2022 increased by 5.2 percent to 2,996.90 gigawatts from 2,848.38 gigawatts for the same period a year ago.

Passenger Arrivals at the Airport

International tourist arrivals increased by 24.4 percent in year-on-year terms to 82,977 tourists in November 2022. Compared to a month earlier, tourist arrivals went up marginally by 1.6 percent. For the first eleven months of 2022, a total of 810,611 tourist arrivals was recorded at the international airport and the land borders, compared with 548,546 for the corresponding period in 2021, representing a growth of 47.8 percent.

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 decreased by 22.7 percent, year-on-year, to 44,843 in November 2022, down from 57,991 for the same period in 2021. Cumulatively, total container traffic for the first eleven months of 2022 dipped by 15.4 percent to 590,297 compared with 697,776 for the corresponding period of last year. The relative decline in port activities was due to a slowdown in international trade activities amid ongoing geopolitical tensions.

Labour Market - Advertised Jobs

The number of jobs advertised in selected print[1] and online[2] media, which partially gauges labour demand in the economy, increased in December 2022 relative to a year ago. In total, 3,277 job adverts were recorded as compared with 2,588 for the same period in 2021, indicating an increase of 26.6 percent (year-on-year). On a month-on-month basis, the number of job vacancies in December 2022 went up by 17.9 percent from

[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.

the 2,779 jobs advertised in November 2022. Cumulatively, for 2022, the total number of advertised jobs declined by 5.3 percent to 32,651 from 34,484 recorded during 2021.

Private Sector Pension Contributions

Total number of private sector's SSNIT contributors, which partially gauges employment conditions, improved marginally to 880,722 in November 2022 compared with 875,411 for the same period in 2021. On a month-on-month basis, total number of private sector's SSNIT contributors decreased by 3.7 percent from the 914,953 individuals recorded in October 2022. Cumulatively, for the first eleven months of 2022, the total number of private sector contributors increased by 8.2 percent to 10,295,030 from 9,511,338 recorded over the corresponding period in 2021.

3.2 Composite Index of Economic Activity

The Bank's updated real Composite Index of Economic Activity (CIEA) contracted by 6.2 percent in November 2022, compared with 10.2 percent growth in the corresponding period of 2021.

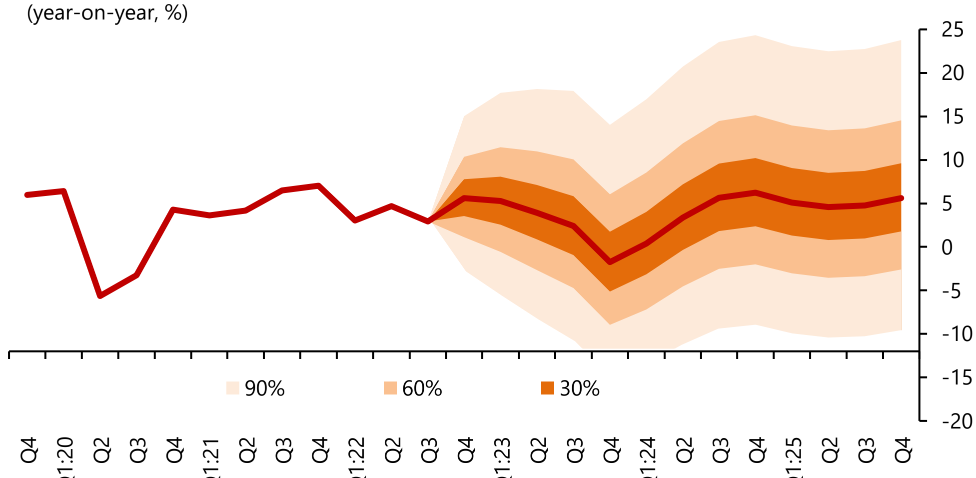
3.3 Consumer and Business Surveys

The consumer and business confidence surveys conducted in December 2022 pointed to marginal improvements in sentiments. The Consumer Confidence Index increased to 79.2 in December 2022 from 73.9 in October on the back of the recent reductions in ex-pump petroleum prices and transportation fares. The Business Confidence Index also improved to 75.7 from 72.6 in the same comparative period due to the achievement of short-term targets and optimism about company and industry prospects, following the rebound of the local currency.

3.4 Growth Outlook

Global economic growth conditions weakened considerably in 2022 on the back of rising inflation, tightened financing conditions, and spill overs from the Ukraine war. Against this backdrop, the IMF World Economic Outlook projected global growth at 3.2 percent in 2022, compared with 6.0 percent in 2021. On the domestic front, economic growth is expected at 3.7 percent for 2022 from the earlier projection of 5.8 percent, on account of rising inflation and supply bottlenecks.

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

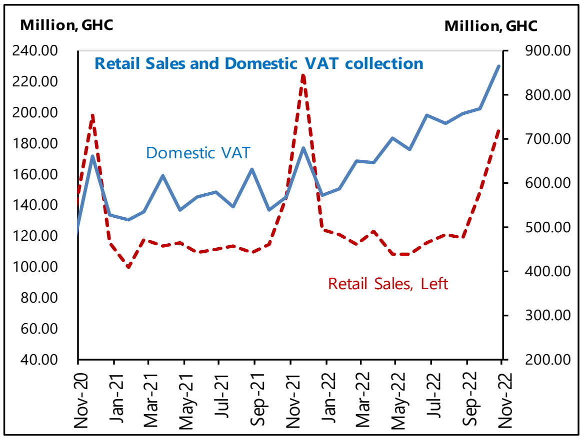


Source: Bank of Ghana

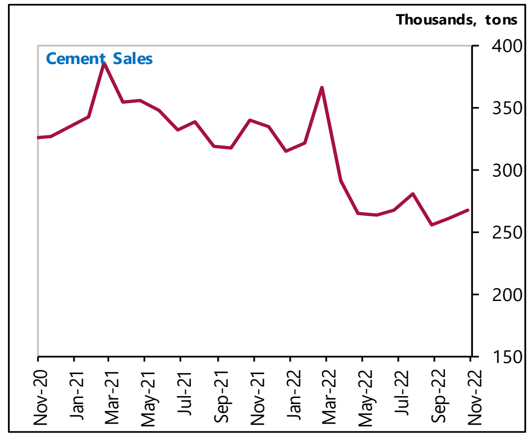
Appendix

Panel 1:
Ghana's Leading Indicators of Economic Activity

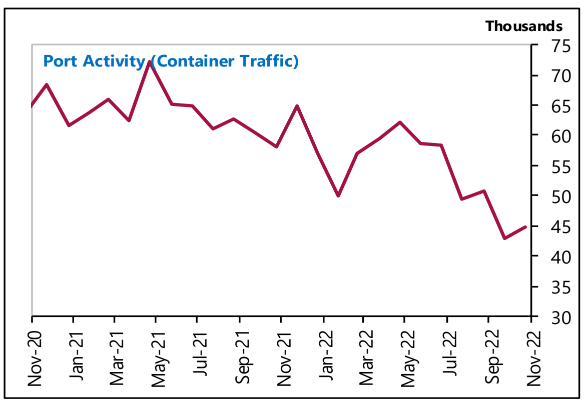
...Domestic VAT collections and retail sales increased in November 2022...



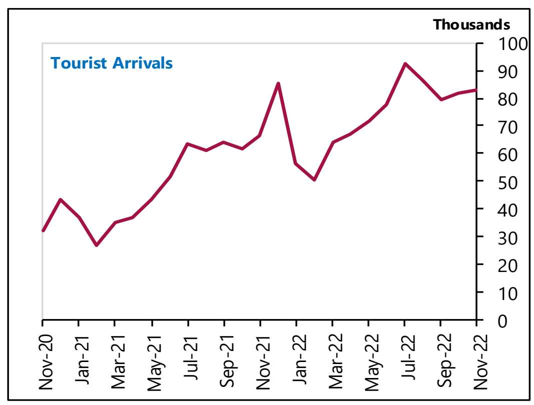
...Construction activities, proxied by cement sales, improvedin November 2022...



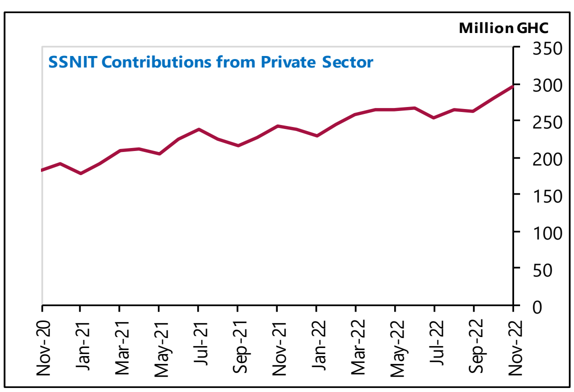
...Port activity improved in November 2022...



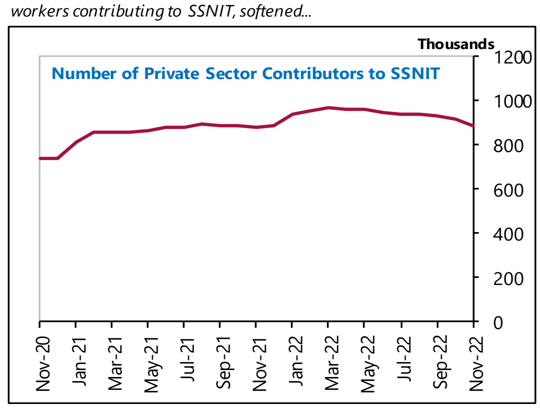
...Tourist arrivals went up in November 2022...



...Labour market conditions improved in November 2022...



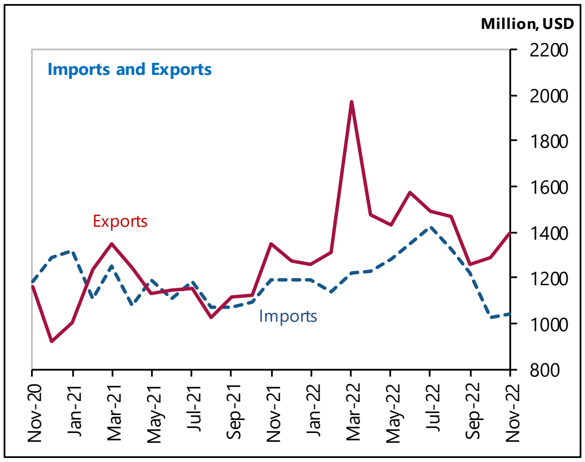
...Labour hiring conditions, proxied by the number of private sector workers contributing to SSNIT, softened...



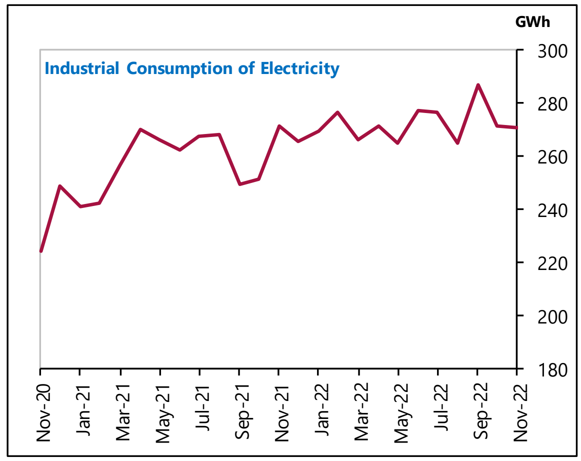
Sources: Bank of Ghana, Various Stakeholders

Panel 2:
Ghana's Leading Indicators of Economic Activity

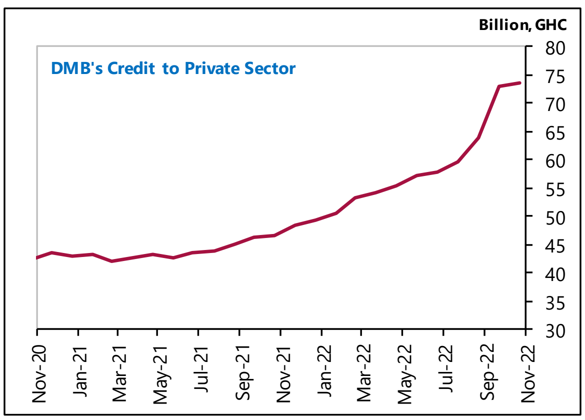
...Exports increased while imports remained largely unchanged in November 2022...



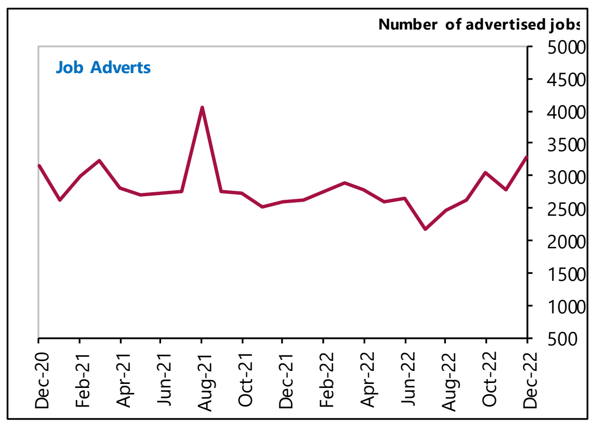
...Industrial activity, proxied by industrial consumption of electricity, remained largely unchanged...



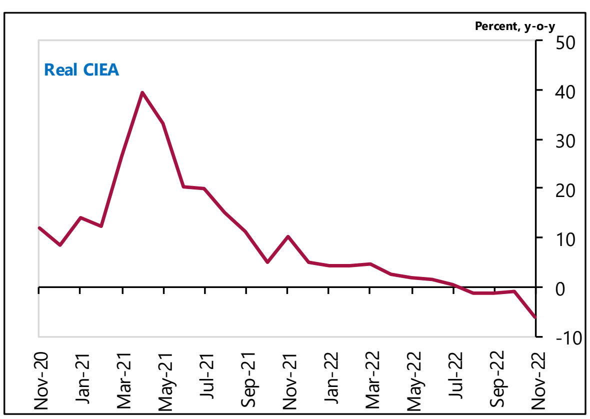
...Commercial banks' credit to the private sector inched up in November 2022...



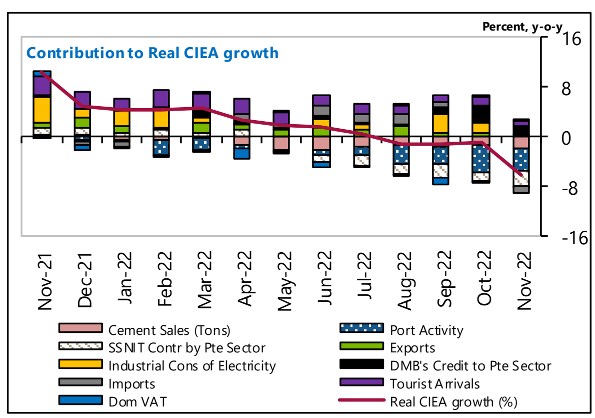
...Demand for labour, proxied by the number of job adverts (in print and online media), increased in December 2022...



...On a year-on-year basis, the real CIEA contracted by 6.2 percent in November 2022, compared with a growth rate of 10.2 percent in November 2021...



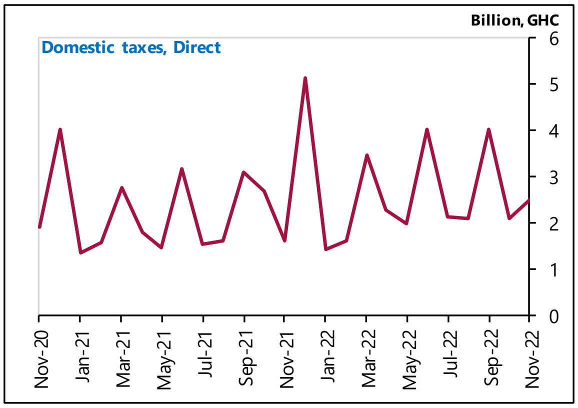
...The decline in the real CIEA was mainly due to contractions in Port Activity, SSNIT Contributions from the Private Sector, Cement Sales, Imports and Industrial Consumption of Electricity...



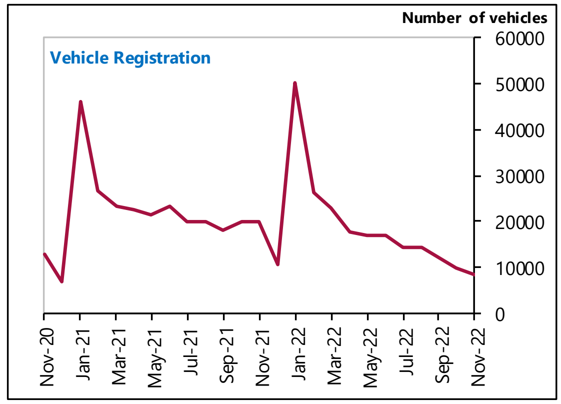
Source: Bank of Ghana, Various Stakeholders

Panel 3:
Ghana's Leading Indicators of Economic Activity

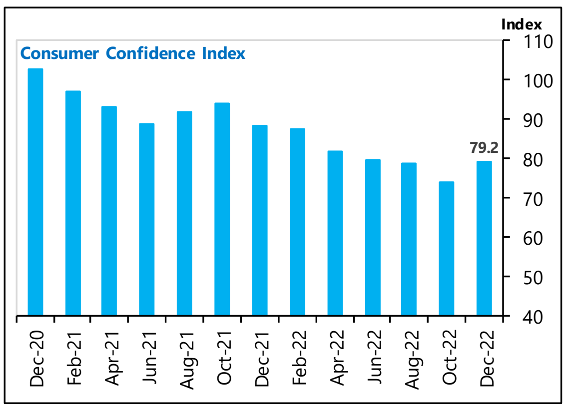
...Domestic tax collection increased in November 2022...



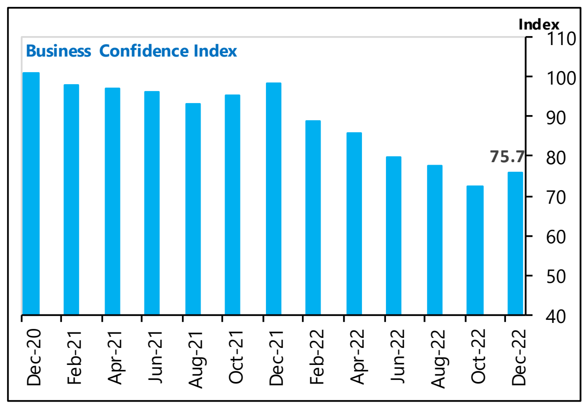
...Vehicle registration declined in November 2022...



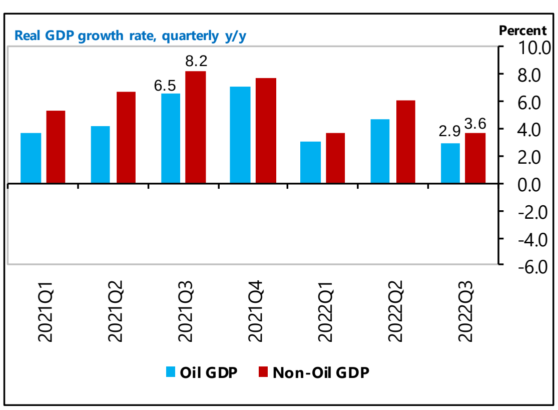
...Consumer confidence improved on the back of the recent reductions in ex-pump petroleum prices and transportation fares...



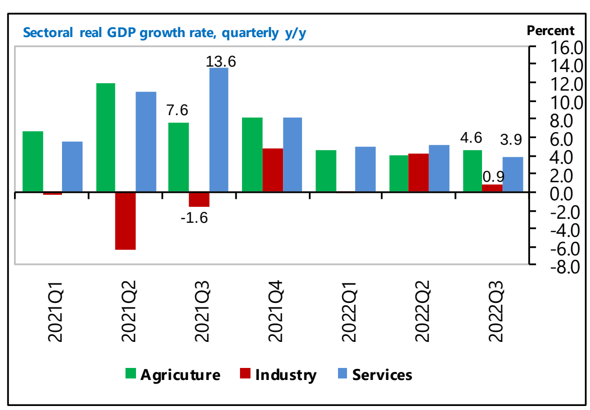
...Business sentiments improved due to achievement of short-term targets and optimism about company and industry prospects, following the rebound of the local currency during the month...



...Real Oil and Non-Oil GDP grew by 2.9 percent and 3.6 percent respectively in 2022Q3, compared with growth rates of 6.5 percent and 8.2 percent respectively in the corresponding period of 2021...



...The Agriculture and Services sectors were the main drivers of growth in 2022Q3, recording growth rates of 4.6 percent and 3.9 percent respectively...



Source: Bank of Ghana, Various Stakeholders

4. Monetary and Financial Developments

4.0 Highlights

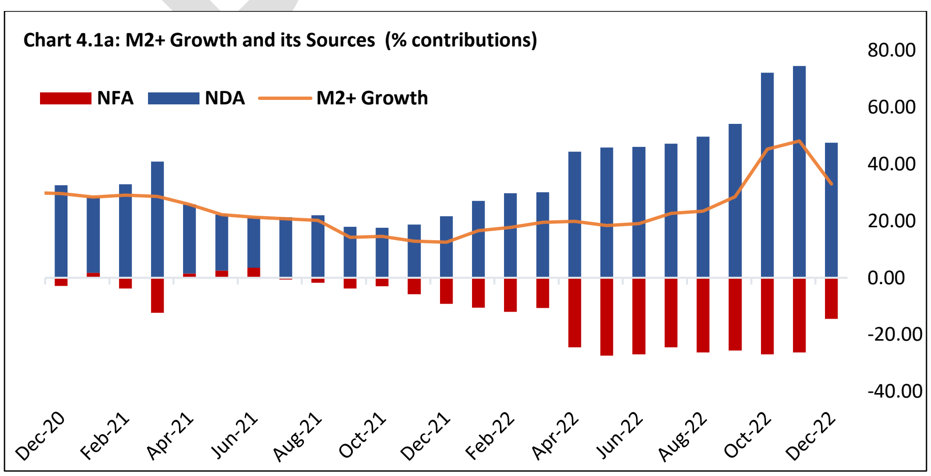
Developments in monetary aggregates showed increased growth in broad money supply, on account of significant expansion in the Net Domestic Assets of the depository corporations' sector. The Net Foreign Assets, however, contracted to moderate the overall growth in broad money supply. Developments on the money market broadly showed upward trends across the spectrum of the yield curve, consistent with the direction of the policy rate during the year. The Ghana Stock Exchange Composite Index declined, driven by several factors, including heightened uncertainty induced by inflation and exchange rate pressures, as well as portfolio reversals.

4.1 Developments in Monetary Aggregates

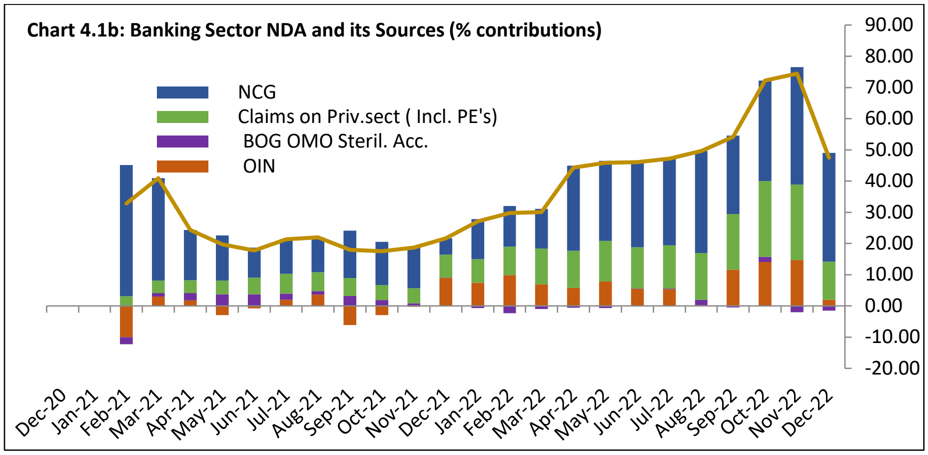
Money Supply

Growth in broad money supply (M2+) increased in December 2022 mainly on the back of significant expansion in the Net Domestic Assets (NDA) of the depository corporation sector; however, the Net Foreign Assets (NFA) contracted, partially offsetting the expansion in the NDA. M2+ growth increased to 33.0 percent in December 2022 compared with 12.5 percent in the same period of 2021. The contribution of NDA to the growth of M2+ increased to 47.5 percent from 21.7 percent, while the NFA decreased to negative 14.5 percent from negative 9.2 percent, over the same comparative period. In terms of annual growth rates, NFA contracted by 261.1 percent in December 2022 relative to 59.8 percent contraction in December 2021, while the NDA expanded by 50.3 percent compared with 25.8 percent, over the same comparative period (Chart 4.1a and Appendix Table 4.1).

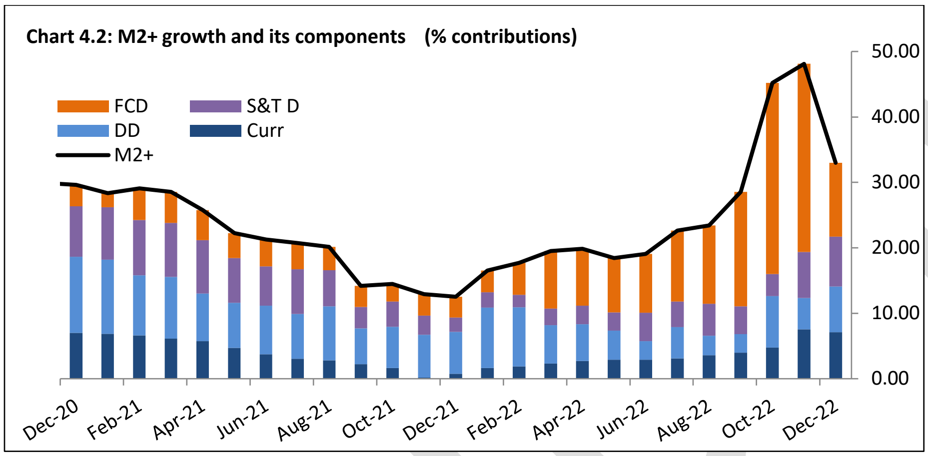
The increase in the contribution of the NDA in the growth of M2+ was mainly driven by increased growth in Net Claims on Government (NCG), claims on public and private sectors, and outflows through the Other Items (Net) (OIN) relative to corresponding period in 2021. In addition, the stock of BOG bills held by Deposit Money Banks (DMBs) increased to marginally moderate the growth in M2+, over the same comparative period (Chart 4.1b and Appendix Table 4.1). Analysis of the components of M2+ showed that the increase in the growth in M2+ reflected in increased growth in currency, demand deposits, savings and time deposits, and foreign deposits in December, relative to same period in 2021. (Chart 4.2; Appendix Table 4.1).



Source: Bank of Ghana Staff Calculations



Source: Bank of Ghana Staff Calculations

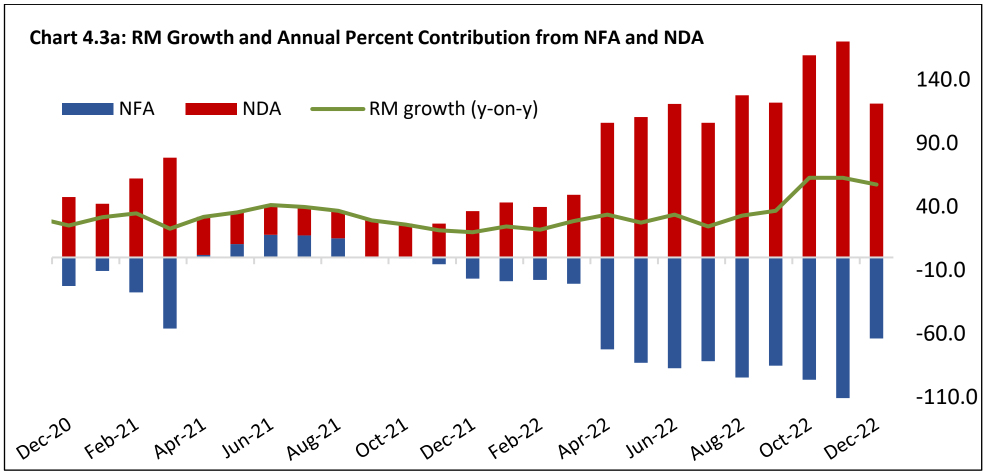


Source: Bank of Ghana Staff Calculations

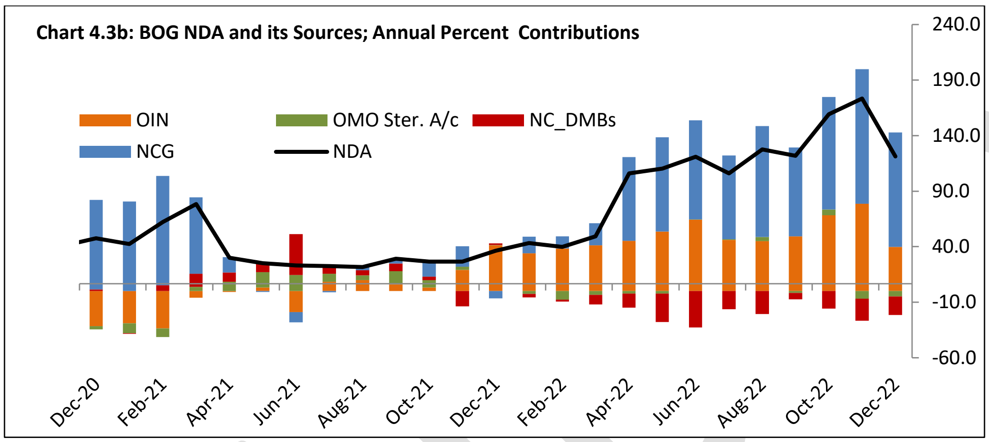
4.2 Reserve Money

Reserve Money (RM) grew by 57.5 percent in year-on-year terms in December 2022, compared with 19.9 percent growth in the corresponding period of 2021. The increased pace of growth in RM was mainly due to expansion in the NDA of the Central Bank, reflecting increased Net Claims on Government (NCG) and outflows through Other Items Net (OIN). The NDA accounted for 121.2 percent of the growth in RM in December 2022 relative to 36.5 percent, same time last year.

In contrast, the NFA of the Central Bank contracted significantly, reflecting mainly constrained foreign inflows and increases in balance of payment support to dampen currency pressures. The contribution of NFA to the growth in RM was negative 63.7 percent in December 2022, relative to negative 16.6 percent recorded in the corresponding period of 2021 (Chart 4.3a, 4.3b, and Appendix 4.2).



Source: Bank of Ghana Staff Calculations

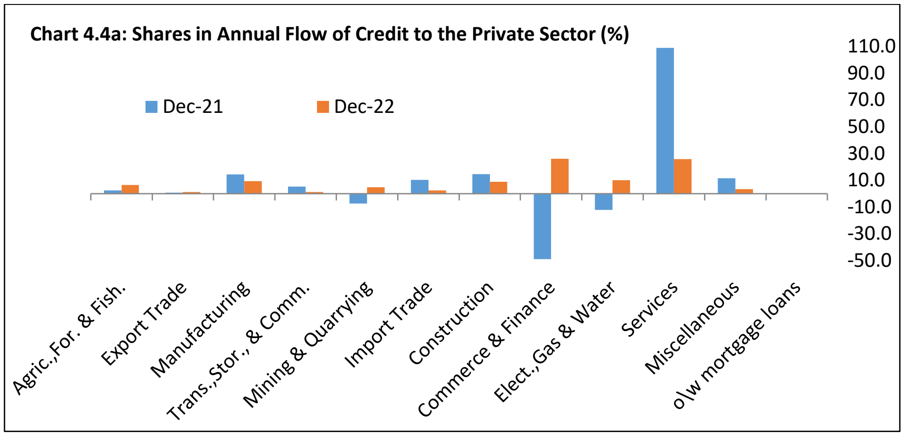


Source: Bank of Ghana Staff Calculations

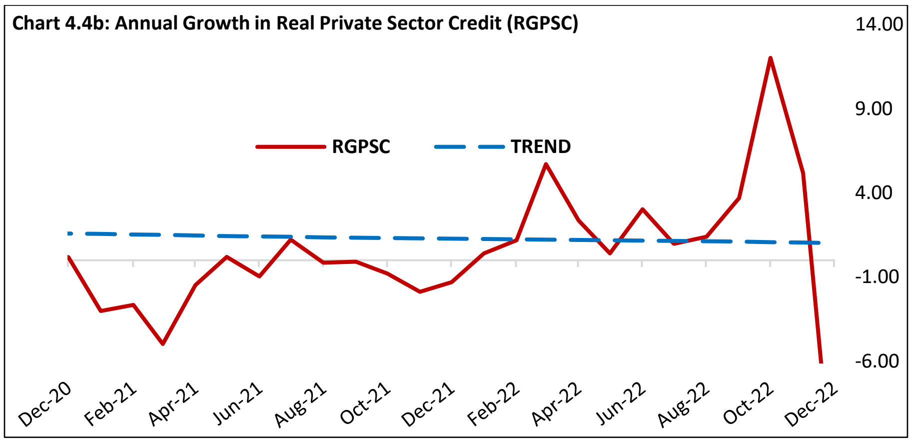
4.3 Deposit Money Banks Credit Developments

DMBs' credit to the private sector and public institutions increased significantly by GH¢16,232.90 million (30.2% y/y) in December 2022 compared with GH¢5,998.28 million (12.6% y/y) recorded in December 2021. Credit to the private sector increased by GH¢15,367.88 million (31.8% y/y) in December 2022 compared with GH¢4,852.39 million (11.2%y/y) recorded in the corresponding period of 2021. The significant increase in the nominal growth in private sector credit reflected banks' portfolio rebalancing and exchange rate translational effects on foreign currency denominated credit. Private sector credit accounted for 94.7 percent of total flow of credit extended to both private and public institutions in December 2022, against 80.9 percent recorded in the same period of 2021. Credit flow to the private sector remained concentrated in five sectors, namely, services; commerce and finance; electricity, water and gas; manufacturing; and construction sectors. (Chart 4.4a).

Outstanding credit to the private sector at the end of December 2022 was GH¢63,753.45 million, compared with GH¢48,385.58 million recorded in December 2021. In real terms, private sector credit contracted by 14.5 percent compared with 1.3 percent contraction recorded over the same comparative period. Growth in real private sector credit dropped below the long-run trend in December 2022 (Chart 4.4b).



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

Developments in interest rates broadly showed upward trends across the spectrum of the yield curve, consistent with the tightening policy stance. The 91-day and 182-day Treasury bill rates increased to 35.48 percent and 36.23 percent respectively, in December 2022, from 12.49 percent and 13.19 percent respectively, in the same period of 2021. Similarly, the rate on the 364-day instrument increased to 36.06 percent in December 2022 from 16.46 percent in December 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 19.75 percent, 19.00 percent, 21.00 percent and 18.80 percent, respectively. Rates on the longer-dated bonds, however, remained broadly unchanged during the review period.

The interbank weighted average interest rate increased to 25.51 percent in December 2022 from 12.68 percent in December 2021, consistent with the increases in the policy rate and the incremental hikes in the Cash Reserve Ratio during the year. In tandem, the average lending rates of banks increased to 35.58 percent in December 2022 from 20.04 percent in the same period of 2021 (Charts 4.5, 4.6 and 4.7).

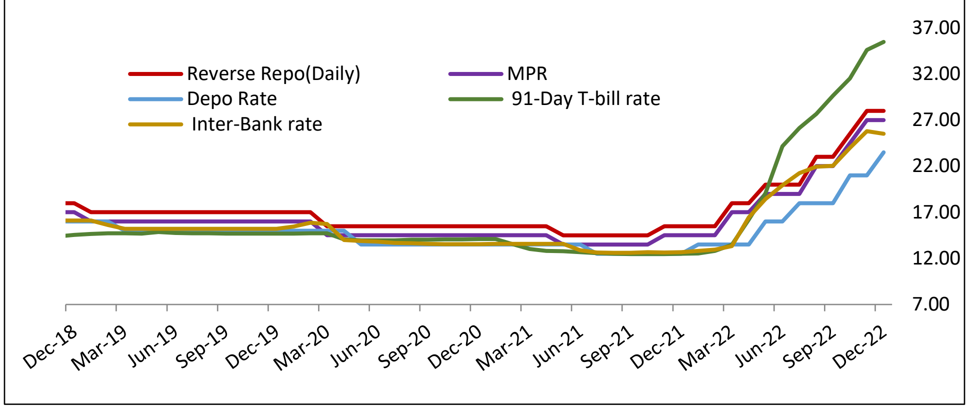


Chart 4.5: MPR, Depo, Reverse Repo, Interbank and T-bill Rates (%)

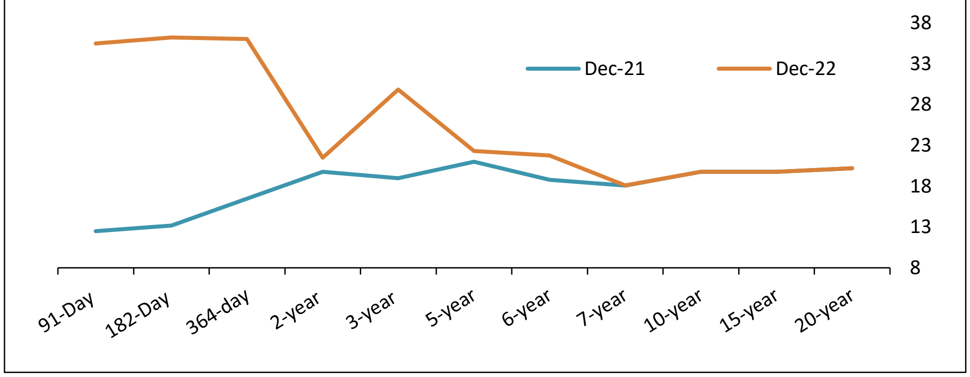


Chart 4.6: Yield Curve (%)

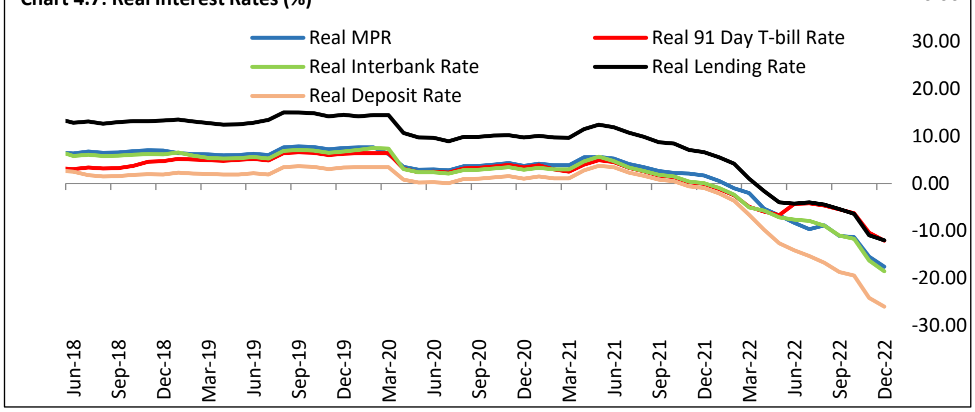


Chart 4.7: Real Interest Rates (%)

Source: Bank of Ghana

4.6 Stock Market Developments

The Ghana Stock Exchange Composite Index (GSE-CI) decreased to 2,443.91 points in December 2022 from 2,789.34 points recorded in the corresponding period of 2021. This translates into a year-on-year loss of 12.4 percent in December 2022 compared to a gain of 43.7 percent in December 2021. The GSE-Financial Stocks Index (GSE-FSI) closed at 2,052.6 points, standing for a loss of 4.6 percent compared to a gain of 20.7 percent, over the same comparative period. The year-on-year loss is attributed to uncertainty induced by inflation and exchange rate pressures, as well as portfolio reversals.

Total market capitalisation was GH¢64.51 billion at the end of December 2022, representing a marginal growth of 0.02 percent, compared with a growth 18.6 percent in December 2021. The marginal improvement in market capitalization was largely on account of the listing of Ashanti Gold Corporation (ASG). In addition, the total outstanding shares of Newgold, Tullow Oil PLC, and Anglogold Ashanti Limited increased during the period.

Table 4.1: Performance of GSE

Performance of Ghana Stock Exchange (Table 2)									Changes				
									Y-O-Y		Y-T-D	Month-On-Month (December)	
	Dec-20	Dec-21	Mar-22	Jun-22	Sep-22	Oct-22	Nov-22	Dec-22	2021	2022	2022	2021	2022
GSE CI	1941.6	2789.34	2742.85	2545.48	2460.12	2460.31	2463.27	2443.91	43.66	(12.38)	(12.38)	(2.70)	(0.79)
GSE FI	1782.8	2151.85	2174.96	2176.97	2070.10	2069.89	2076.84	2052.59	20.70	(4.61)	(4.61)	2.89	(1.17)
Market Capitalization	54,374.9	64495.21	64029.79	64841.21	63985.83	64727.18	64821.04	64507.32	18.61	0.02	0.02	0.05	(0.48)

Source: Ghana Stock Exchange and Bank of Ghana Staff Calculations

Chart 4.9a: GSE Composite Index

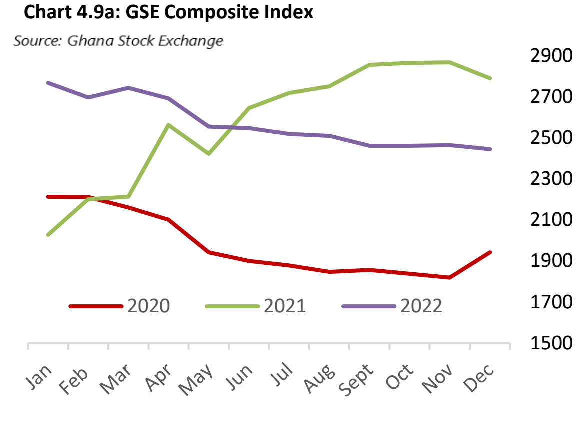
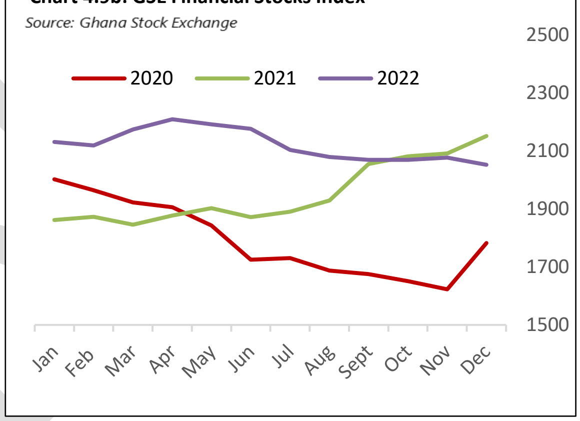


Chart 4.9b: GSE Financial Stocks Index



4.7 Conclusion

Growth in broad money supply (M2+) increased in December 2022 on account of significant expansion in NDA of the depository corporations' sector, while NFA contracted to partially offset the expansion in NDA. Annual growth in reserve money increased considerably, on the back of expansion in the NDA of Bank of Ghana, reflecting increased Net Claims on Government and public enterprises and outflows through the OIN. In contrast, the Central Bank's NFA decreased.

Growth in credit to the private sector improved significantly in nominal terms, reflecting portfolio rebalancing by DMBs and exchange rate revaluation effects. In real terms, however, private sector credit contracted. Developments in interest rates broadly showed upward trends across the spectrum of the yield curve, reinforced by tightening monetary policy stance. The weighted average interbank rate increased significantly, inducing upward adjustments in the rates at the retail-end of the market.

The Ghana Stock Exchange Composite Index recorded losses, attributed to a variety of factors including uncertainty induced by inflation and exchange rate pressures, as well as portfolio reversals.

Appendix Table 4.1

Appendix 1: Sources of Growth in Total Liquidity (M2+) (millions of Ghana cedis unless otherwise stated)

No.	Item	Dec-20	Dec-21	Mar-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
1	Net Foreign Assets	18598.06	10302.96	2415.79	(7470.94)	(8977.30)	(13987.40)	(16665.29)	(19528.25)	(24446.84)	(12133.70)
	Bank of Ghana	14121.48	11018.62	4485.86	(6401.93)	(8995.20)	(14375.54)	(16871.08)	(21098.91)	(31490.12)	(19300.17)
	Commercial Banks	4476.57	(715.67)	(2070.07)	(1069.01)	17.89	388.14	205.79	1570.66	7043.28	7166.46
2	Net Domestic Assets	101923.76	125295.07	140313.35	152627.87	159392.80	166443.23	176822.88	207187.45	219426.28	192400.54
3	ow: Claims on government (net)	68965.59	75314.27	87787.70	96441.19	101424.76	111504.72	108948.92	121169.24	133715.96	122554.34
4	ow: Claims on Private sector(Incl. PE's)	52943.18	60279.46	66810.38	71346.80	72395.35	74602.10	79449.02	89844.06	90494.88	78327.41
	BOG OMO Sterilisation Acc.	(5789.95)	(5654.59)	(6289.35)	(4583.13)	(5040.89)	(5068.15)	(6940.43)	(5699.78)	(10537.98)	(7725.48)
5	Total Liquidity (M2+)	120521.82	135598.03	142729.13	145156.93	150415.50	152455.83	160157.59	187659.20	194979.44	180266.84
6	ow: Broad Money Supply (M2)	94491.75	105779.55	106050.89	106488.56	109303.85	110233.88	110613.58	121790.71	128482.81	135142.49
7	ow: Foreign Currency Deposits(¢million)	26030.07	29818.48	36678.24	38668.37	41111.65	42221.95	49544.01	65868.49	66496.63	45124.35
	Change from previous year (in per cent)										
8	Net Foreign Assets	(12.66)	(44.61)	(84.00)	(129.43)	(142.57)	(175.84)	(209.64)	(227.60)	(339.49)	(261.11)
9	Net Domestic Assets	42.19	22.93	34.47	58.15	56.95	58.36	61.63	81.86	80.69	50.28
10	ow: Claims on government (net)	101.57	9.21	20.86	52.40	50.56	56.79	40.31	52.23	58.76	62.72
11	ow: Claims on Private sector(Incl. PE's)	6.50	13.86	26.01	29.46	30.51	33.12	38.98	53.77	54.39	26.77
12	ow: BOG OMO Sterilisation Acc.	(17.57)	2.34	(22.79)	1.79	4.73	18.45	(9.79)	26.98	(34.33)	(36.62)
12	Total Liquidity (M2+)	29.63	12.51	19.49	19.09	22.64	23.40	28.54	45.21	48.11	32.98
13	Broad Money Supply (M2)	35.04	11.95	13.76	13.03	15.25	14.73	14.22	20.43	24.79	27.81
14	Foreign Currency Deposits (FCDs)	13.16	14.55	39.89	39.69	47.85	53.72	78.49	134.39	131.82	51.33
	Cummulative change from previous year end (in per cent)										
15	Net Foreign Assets	(12.66)	(59.51)	(67.92)	(199.20)	(219.20)	(285.72)	(321.28)	(359.29)	(424.60)	(261.11)
16	Net Domestic Assets	42.19	25.61	9.60	19.22	24.50	30.01	38.12	61.83	71.39	50.28
17	o/w: Claims on government (net)	101.57	9.21	16.56	28.05	34.67	48.05	44.66	60.88	77.54	62.72
18	Broad Money(M2+)	29.63	12.47	5.29	7.08	10.96	12.47	18.15	38.44	43.84	32.98
	Annual per cent contribution to money growth										
19	Net Foreign Assets	(2.90)	(6.88)	(10.62)	(26.95)	(24.51)	(26.25)	(25.57)	(26.95)	(26.32)	(14.51)
20	NDA	32.53	19.39	30.11	46.04	47.16	49.65	54.12	72.17	74.43	47.49
21	Total Liquidity (M2+)	29.63	12.51	19.49	19.09	22.64	23.40	28.54	45.21	48.11	32.98
	Memorandum items										
22	Reserve Money	36082.06	43244.90	44866.58	48237.98	49549.65	49977.35	53503.90	64737.95	65615.00	68103.84
23	NFA ($million)	3228.72	1715.42	339.67	(1033.25)	(1179.36)	(1699.05)	(1735.10)	(1501.18)	(1865.54)	(1414.84)
24	Currency ratio	0.21	0.19	0.18	0.18	0.17	0.18	0.17	0.16	0.18	0.21
25	**FCD/M2+**	0.22	0.22	0.26	0.27	0.27	0.28	0.31	0.35	0.34	0.25
26	**FCD/Total Deposit**	0.26	0.26	0.30	0.31	0.32	0.33	0.36	0.41	0.40	0.30
27	RM multiplier	2.62	2.44	2.36	2.21	2.21	2.21	2.07	1.88	1.96	1.98

Appendix Table 4.2

Appendix 1: Sources of Growth in Total Liquidity (M2+) (millions of Ghana cedis unless otherwise stated)

No.	Item	Dec-20	Dec-21	Mar-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
1	Net Foreign Assets	18598.06	10302.96	2415.79	(7470.94)	(8977.30)	(13987.40)	(16665.29)	(19528.25)	(24446.84)	(12133.70)
	Bank of Ghana	14121.48	11018.62	4485.86	(6401.93)	(8995.20)	(14375.54)	(16871.08)	(21098.91)	(31490.12)	(19300.17)
	Commercial Banks	4476.57	(715.67)	(2070.07)	(1069.01)	17.89	388.14	205.79	1570.66	7043.28	7166.46
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3	ow: Claims on government (net)	68965.59	75314.27	87787.70	96441.19	101424.76	111504.72	108948.92	121169.24	133715.96	122554.34
4	ow: Claims on Private sector(Incl. PE's)	52943.18	60279.46	66810.38	71346.80	72395.35	74602.10	79449.02	89844.06	90494.88	78327.41
	BOG OMO Sterilisation Acc.	(5789.95)	(5654.59)	(6289.35)	(4583.13)	(5040.89)	(5068.15)	(6940.43)	(5699.78)	(10537.98)	(7725.48)
5	Total Liquidity (M2+)	120521.82	135598.03	142729.13	145156.93	150415.50	152455.83	160157.59	187659.20	194979.44	180266.84
6	ow: Broad Money Supply (M2)	94491.75	105779.55	106050.89	106488.56	109303.85	110233.88	110613.58	121790.71	128482.81	135142.49
7	ow: Foreign Currency Deposits(¢million)	26030.07	29818.48	36678.24	38668.37	41111.65	42221.95	49544.01	65868.49	66496.63	45124.35
	Change from previous year (in per cent)										
8	Net Foreign Assets	(12.66)	(44.61)	(84.00)	(129.43)	(142.57)	(175.84)	(209.64)	(227.60)	(339.49)	(261.11)
9	Net Domestic Assets	42.19	22.93	34.47	58.15	56.95	58.36	61.63	81.86	80.69	50.28
10	ow: Claims on government (net)	101.57	9.21	20.86	52.40	50.56	56.79	40.31	52.23	58.76	62.72
11	ow: Claims on Private sector(Incl. PE's)	6.50	13.86	26.01	29.46	30.51	33.12	38.98	53.77	54.39	26.77
12	ow: BOG OMO Sterilisation Acc.	(17.57)	2.34	(22.79)	1.79	4.73	18.45	(9.79)	26.98	(34.33)	(36.62)
12	Total Liquidity (M2+)	29.63	12.51	19.49	19.09	22.64	23.40	28.54	45.21	48.11	32.98
13	Broad Money Supply (M2)	35.04	11.95	13.76	13.03	15.25	14.73	14.22	20.43	24.79	27.81
14	Foreign Currency Deposits (FCDs)	13.16	14.55	39.89	39.69	47.85	53.72	78.49	134.39	131.82	51.33
	Cummulative change from previous year end (in per cent)										
15	Net Foreign Assets	(12.66)	(59.51)	(67.92)	(199.20)	(219.20)	(285.72)	(321.28)	(359.29)	(424.60)	(261.11)
16	Net Domestic Assets	42.19	25.61	9.60	19.22	24.50	30.01	38.12	61.83	71.39	50.28
17	o/w: Claims on government (net)	101.57	9.21	16.56	28.05	34.67	48.05	44.66	60.88	77.54	62.72
18	Broad Money(M2+)	29.63	12.47	5.29	7.08	10.96	12.47	18.15	38.44	43.84	32.98
	Annual per cent contribution to money growth										
19	Net Foreign Assets	(2.90)	(6.88)	(10.62)	(26.95)	(24.51)	(26.25)	(25.57)	(26.95)	(26.32)	(14.51)
20	NDA	32.53	19.39	30.11	46.04	47.16	49.65	54.12	72.17	74.43	47.49
21	Total Liquidity (M2+)	29.63	12.51	19.49	19.09	22.64	23.40	28.54	45.21	48.11	32.98
	Memorandum items										
22	Reserve Money	36082.06	43244.90	44866.58	48237.98	49549.65	49977.35	53503.90	64737.95	65615.00	68103.84
23	NFA ($million)	3228.72	1715.42	339.67	(1033.25)	(1179.36)	(1699.05)	(1735.10)	(1501.18)	(1865.54)	(1414.84)
24	Currency ratio	0.21	0.19	0.18	0.18	0.17	0.18	0.17	0.16	0.18	0.21
25	**FCD/M2+**	0.22	0.22	0.26	0.27	0.27	0.28	0.31	0.35	0.34	0.25
26	**FCD/Total Deposit**	0.26	0.26	0.30	0.31	0.32	0.33	0.36	0.41	0.40	0.30
27	RM multiplier	2.62	2.44	2.36	2.21	2.21	2.21	2.07	1.88	1.96	1.98

Source: Bank of Ghana Staff Calculations

5. Banking Sector Developments

5.0 Highlights

The banking sector performance was mixed in 2022, starting on a strong note and ending with declines in key FSIs, largely attributable to the spill over effects of the adverse macroeconomic developments and the Domestic Debt Exchange Programme.

Total assets continued to increase during the year, sustained by sturdy growth in deposits. The marked growth recorded in some key balance sheet items was partly driven by the revaluation of foreign currency denominated indicators. Portfolio rebalancing by banks continued into December 2022, leading to contraction in investments, while credit growth increased sharply, due in part to the revaluation of foreign currency loans.

Key financial soundness indicators broadly weakened but remained within regulatory and prudential benchmarks. The industry's CAR was above the regulatory minimum of 13 percent, but declined during the year, reflecting mark-to-market losses on investments, and an increase in the risk-weighted assets of banks. Profitability indicators also moderated reflecting the declines in both profit-before and after-tax. The industry's NPL ratio, however, improved on the back of the stronger growth in loans and advances relative to the growth in the NPL stock.

In the outlook, the banking sector's performance will largely depend on developments in the operating environment and ongoing domestic debt exchange programme. Assessments of the banking sector going forward indicate that the implementation of the Domestic Debt Exchange Programme will impact performance of the sector. In view of this, the Bank has announced some safeguards to be rolled out once the programme commences to should provide some cushion ensure the continuous stability of the sector.

5.1 Banks' Balance Sheet

Total assets of the banking sector grew by 22.9 percent to GH¢221.0 billion at end-December 2022, compared with 20.4 percent growth recorded in December 2021. The higher growth in assets was, however, partly driven by the revaluation of the foreign currency component of banks' assets which increased the carrying amount in cedi terms on banks' balance sheet. Foreign assets grew by 42.6 percent in December 2022 from the 13.9 percent contraction in 2021. Domestic assets, however, recorded a lower growth of 21.7 percent in December 2022 compared to the growth of 23.4 percent in December 2021. Accordingly, the share of foreign assets in total assets increased from 5.8 percent to 6.7 percent while the share of domestic assets in total assets declined from 94.2 percent to 93.3 percent during the reference period (Table 5.1).

Investments contracted by 4.8 percent to GH¢79.2 billion in December 2022 from a growth of 29.0 percent in 2021, as banks rebalanced their asset portfolios in favour of loans and other assets. The portfolio reallocation by banks was in response to higher Cash Reserve Ratio requirements introduced during the year and the Domestic Debt Exchange Programme (DDEP) announced by the Government. Consequently, the share of investments in total assets declined to 35.8 percent in December 2022 from 46.2 percent in December 2021. The decline in investments reflected similar declines in short-term bills and long-term securities with bills contracting by 9.2 percent in December 2022 from a growth of 42.9 percent in December 2021, while securities declined by 3.3 percent at end-December 2022 following a growth of 25.2 percent in the previous year.

Gross domestic loans and advances recorded an annual growth of 30.2 percent to GH¢70.0 billion at end-December 2022 compared to 12.6 percent growth in December 2021. The increase in credit in 2022 reflected 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 29.2 percent growth in December 2022 to GH¢60.9 billion, compared to 12.8 percent growth in the previous year.

Deposits remained the main source of funding for the banking sector, increasing by 30.4 percent to GH¢157.9 billion in December 2022, compared with the growth of 16.6 percent recorded in December 2021. The foreign currency component of deposits increased by 54.4 percent to GH¢44.8 billion in December 2022 compared to a growth of 7.8 percent a year ago, an indication that the deposit growth was partly driven by currency depreciation. Borrowings, on the other hand, declined by 14.1 percent to GH¢18.9 billion in December 2022 compared with 51.9 percent growth recorded in December 2021. The contraction in borrowings during the year reflected sharp declines in short-term and long-term foreign borrowings by 50.2 percent and 13.0 percent respectively in December 2022, from the corresponding growth rates of 54.1 percent and 37.6 percent in the previous year. On the domestic front, short term borrowings of GH¢10.1 billion at end-December 2022, remained unchanged between the two periods, after recording an growth of 100.6 percent in December 2021. Long-term domestic borrowing, however, grew strongly by 21.0 percent from a contraction of 44.0 percent during the same reference period.

The industry's shareholders' funds increased by 12.5 percent to GH¢27.9 billion in December 2022 compared to a growth of 16.8 percent in December 2021. The slower growth of shareholders' funds was on the back of a decline in the industry's profitability, coupled with a marginal increase in paid-up capital.

Table 5.1: Key Developments in DMBs' Balance Sheet

	(GH ¢'million)			Y-on-Y Growth (%)			Shares (%)	
	Dec-21	Oct-22	Dec-22	Dec-21	Oct-21	Dec-22	Dec-21	Dec-22
TOTAL ASSETS	**179,803.6**	**249,854.9**	**220,963.3**	**20.4**	**43.7**	***22.9***	***100.0***	***100.0***
A. Foreign Assets	10,451.4	18,398.0	14,906.3	(13.9)	125.3	*42.6*	*5.8*	*6.7*
B. Domestic Assets	169,352.2	231,456.9	206,057.0	23.4	39.7	*21.7*	*94.2*	*93.3*
Investments	83,120.1	85,028.4	79,171.8	29.0	1.9	*(4.8)*	*46.2*	*35.8*
i. Bills	20,284.6	12,954.8	18,424.6	42.9	(45.5)	*(9.2)*	*11.3*	*8.3*
ii. Securities	62,613.1	71,842.2	60,515.9	25.2	20.9	*(3.3)*	*34.8*	*27.4*
Advances (Net)	47,143.3	72,108.0	60,897.7	12.8	60.8	*29.2*	*26.2*	*27.6*
of which Foreign Currency	13,778.8	29,987.7	18,172.9	12.8	120.1	*31.9*	*7.7*	*8.2*
Gross Advances	**53,767.3**	**81,226.0**	**70,000.2**	**12.6**	**57.5**	***30.2***	***29.9***	***31.7***
Other Assets	8,117.3	18,950.8	12,541.6	25.6	152.8	*54.5*	*4.5*	*5.7*
Fixed Assets	5,282.9	5,728.7	7,053.5	5.3	10.0	*33.5*	*2.9*	*3.2*
TOTAL LIABILITIES AND CAPITAL	**179,803.6**	**249,854.9**	**220,963.3**	**20.4**	**43.7**	***22.9***	***100.0***	***100.0***
Total Deposits	**121,056.7**	**172,092.6**	**157,913.0**	**16.6**	**46.5**	***30.4***	***67.3***	***71.5***
of which Foreign Currency	29,012.8	69,552.6	44,783.9	7.8	133.3	*54.4*	*16.1*	*20.3*
Total Borrowings	22,040.0	30,410.6	18,921.5	51.9	47.6	*(14.1)*	*12.3*	*8.6*
Foreign Liabilities	11,955.0	18,098.5	8,209.1	45.2	67.5	*(31.3)*	*6.6*	*3.7*
i. Short-term borrowings	5,387.5	7,801.7	2,685.6	54.1	85.0	*(50.2)*	*3.0*	*1.2*
ii. Long-term borrowings	5,493.2	8,406.2	4,779.2	37.6	54.3	*(13.0)*	*3.1*	*2.2*
iii. Deposits of non-residents	1,074.2	1,890.7	744.3	43.7	66.0	*(30.7)*	*0.6*	*0.3*
Domestic Liabilities	142,102.8	204,422.6	183,945.3	18.6	47.8	*29.4*	*79.0*	*83.2*
i. Short-term borrowing	10,025.9	12,724.5	10,085.8	100.6	29.8	*0.6*	*5.6*	*4.6*
ii. Long-term Borrowings	1,133.3	1,478.3	1,370.9	(44.0)	29.4	*21.0*	*0.6*	*0.6*
iii. Domestic Deposits	119,982.4	170,202.0	157,168.7	16.4	46.4	*31.0*	*66.7*	*71.1*
Other Liabilities	11,896.4	20,875.3	16,223.4	22.0	71.9	*36.4*	*6.6*	*7.3*
Paid-up capital	10,165.1	10,386.1	10,386.1	4.2	4.4	*2.2*	*5.7*	*4.7*
Shareholders' Funds	24,810.6	26,476.3	27,905.4	16.8	11.9	*12.5*	*13.8*	*12.6*

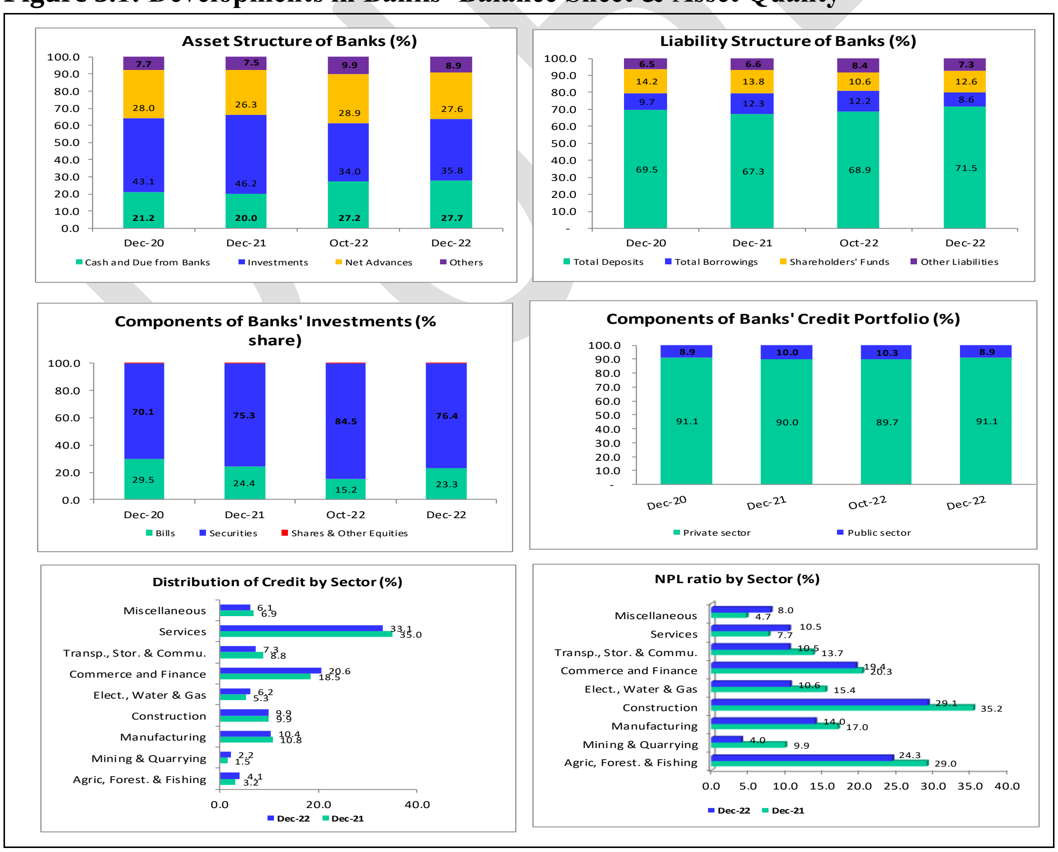
Source: Bank of Ghana

5.1.1 Asset and Liability Structure

The asset structure of the industry remained tilted towards less risky assets in December 2022 despite the rapid growth in credit recorded within the year. Investments (comprising bills, securities and equity) remained the largest component of banks' assets as at December 2022. Its share in total assets, however, declined from 46.2 percent in December 2021 to 35.8 percent as a result of the slowdown in the growth of investments. Cash and bank balances replaced net advances as the second largest component of total assets, with an increased share from 20.0 percent to 27.7 percent during the review period, partly due to increases in the Cash Reserve Ratio (CRR). Together, investments and cash and bank balances (less risky assets) accounted for 63.5 percent of total assets in December 2022, compared to a share of 66.2 percent in December 2021. Net loans and advances constituted the third largest component of total assets, increasing from 26.3 percent to 27.6 percent on the back of sharp growth in credit. The share of banks' non-earning assets (fixed assets and other assets) increased marginally to 8.9 percent from 7.5 percent during the review period (Annexes Table 5.1).

The share of deposits in banks' liabilities and shareholders' funds increased to 71.5 percent in December 2022 from 67.3 percent in the corresponding period last year, reflecting the increase in growth in deposits during the review period. The share of borrowings, however, declined to 8.6 percent from 12.3 percent over the same comparative period, following the contraction in total borrowings within the year. The component of shareholders' funds in banks' liability mix also declined from 13.8 percent to 12.6 percent over the review period following the slowdown in the growth of shareholders' funds. The share of other liabilities, however, increased to 7.3 percent from 6.6 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) was the largest component of banks' investment portfolio with the share increasing to 76.4 percent in December 2022 from 75.3 percent in December 2021. The share of short-term bills in total investments, however, declined to 23.3 percent from 24.4 percent over the same comparative period. The share of equity investments remained negligible at 0.3 percent (Figure 5.1).

5.2 Credit Risk

The industry's exposure to credit risk moderated in December 2022 relative to December 2021, following the decline in NPL ratio. The NPL stock, however, increased within the period, an indication that credit risk remains elevated in the banking industry.

5.2.1 Credit Portfolio Analysis

The stock of gross loans and advances (domestic and foreign) increased by 29.8 percent (year-on-year) to GH¢70.0 billion at end-December 2022, compared to a growth of 12.9 percent in December 2021. The industry's strong credit outturn partly reflected the revaluation effect of foreign currency loans. Private sector credit (comprising private enterprises and households) grew strongly by 31.3 percent to GH¢63.8 billion in December 2022 compared with a growth of 11.5 percent in the previous year. The pickup in the growth of credit to the private sector reflected in all components of private sector credit except household loans which saw a marginal decline in growth. Public sector credit, on the other hand, recorded a lower growth of 16.1 percent to GH¢6.2 billion at end-December 2022 compared to the growth of 27.1 percent in the previous year. Accordingly, the share of private sector credit in total credit rose to 91.1 percent in December 2022 from 90 percent in December 2021, while the share of public sector credit in total credit declined from 10 percent to 8.9 percent over the same comparative period (Annexes Tables 5.2 & 5.4).

In terms of the distribution of credit by sectors, the services sector accounted for the largest share of 33.1 percent as at end-December 2022, followed by the commerce and finance sector with a relative share 20.6 percent, and the construction sector with a share of 10.4 percent (Figure 5.1). The comparative shares in December 2021 were 35.0 percent, 18.5 percent and 10.8 percent respectively. Together, these three sectors accounted for 64.1 percent of total credit in December 2022 compared with 64.3 percent in December 2021. The mining and quarrying sector remained the lowest recipient of industry credit. Its share, however, increased from 1.5 percent to 2.2 percent during the period under review (Figure 5.1).

5.2.2 Off - Balance Sheet Activities

Off-balance sheet transactions (largely trade finance and guarantees) declined during the review period. Contingent liabilities of GH¢14.5 billion as at end-December 2022, contracted by 14.4 percent from GH¢17.5 billion as at end-December 2021 (39.6% year-on-year growth). Accordingly, banks' contingent liabilities as a percentage of total liabilities declined to 7.5 percent from 11.3 percent during the review period (Annexes Table 5.3).

5.2.3 Asset Quality

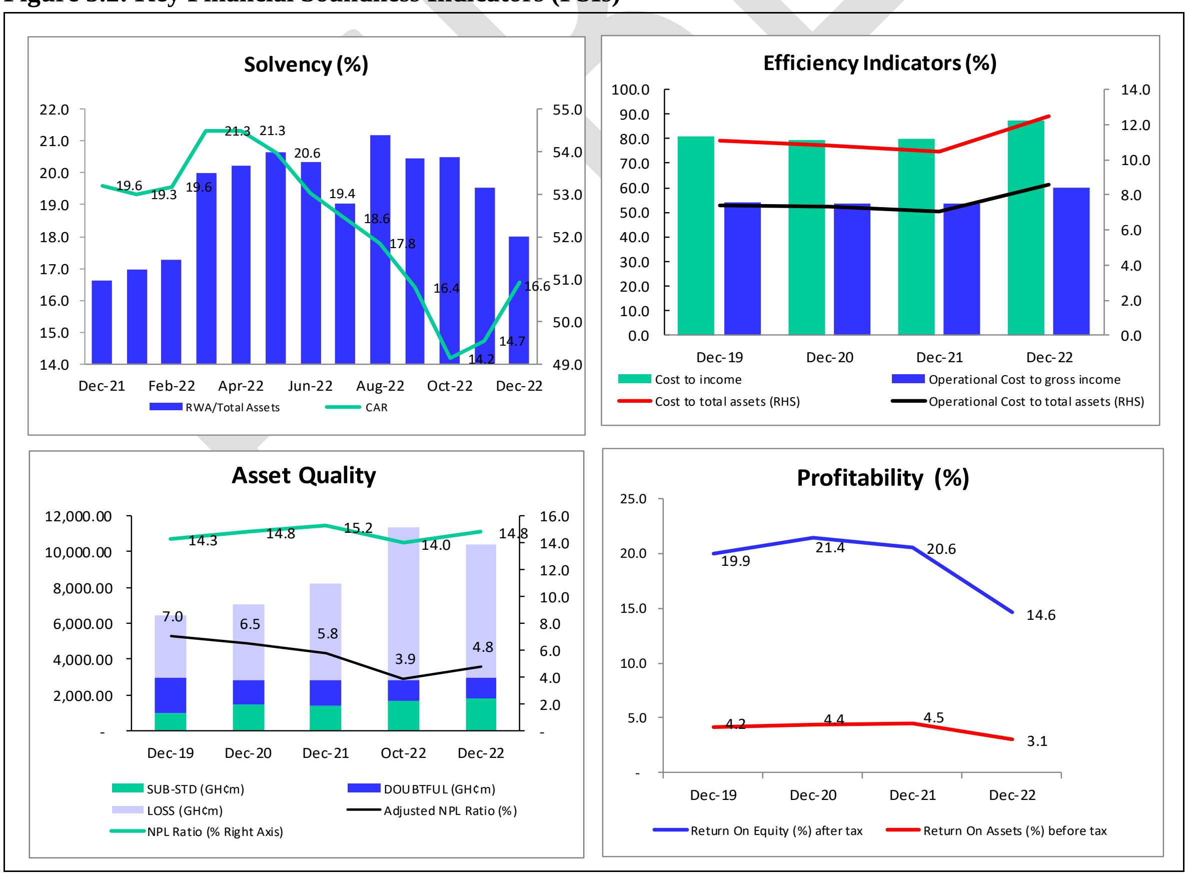
The industry's asset quality improved during the period under review following the decline in the NPL ratio from 15.2 percent in December 2021 to 14.8 percent in December 2022. When adjusted for the fully provisioned loan loss category, the industry's NPL ratio also improved from 5.8 percent to 4.8 percent (Figure 5.2). The decline in the NPL ratio was due to higher growth in total loans (29.8% year-on-year growth) relative to the NPL stock (26.1% year-on-year growth) during the review period. The industry's NPL stock, increased from GH¢8.2 billion in December 2021 to GH¢10.4 billion in December 2022, partly reflecting the revaluation of foreign currency NPLs and the deterioration in some domestic currency loan portfolios. In terms of distribution by economic sector, the private sector accounted for a larger stock of NPLs, consistent with its larger share of total credit. Its share of total NPLs, however, declined from 96 percent to 92.4 percent between December 2021 and December 2022 while the share of public sector NPLs increased from 4 percent to 7.6 percent over the same comparative period (Annexes Table 5.4).

The improvement in the NPL ratio in December 2022 reflected similar declines for all sectors with the exception of the services sector. The NPL ratio for the services sector increased from 7.7 percent in December 2021 to 10.5 percent in December 2022. The NPL ratio of the construction sector however, improved from 35.2 percent in December 2021 to 29.1 percent in December 2022. Other sectors that recorded declines in NPL ratios were mining and quarrying (from 9.9% to 4.0%); electricity, water and gas (from 15.4% to 10.6%); agriculture, forestry and fishing (from 29.0% to 24.3%); manufacturing (from 17.0% to 14.0%); transport, storage and communications (from 13.7% to 10.5%) and; commerce and finance (from 20.3% to 19.4%). The NPL ratio for the construction sector was the highest at 29.1 percent, while the mining and quarrying sector maintained the lowest NPL ratio of 4.0 percent during the period under review (Figure 5.1).

5.3 Financial Soundness Indicators

Trends in the industry's Financial Soundness Indicators (FSIs) during the review period were mixed, reflecting the heightened risks faced by the industry.

Figure 5.2: Key Financial Soundness Indicators (FSIs)



Source: Bank of Ghana Staff Calculations

5.3.1 Liquidity Indicators

The industry's liquidity position remained strong with improvements in the core measures, following the 600bps increase in the CRR requirement to 14.0 percent within the year. The ratio of core liquid assets (mainly cash and due from banks) to total deposits increased from 29.7 percent in December 2021 to 38.8 percent in December 2022, while the core liquid assets to total assets ratio increased to 27.7 percent from 20 percent over the same comparative period. The ratio of broad liquid assets to total deposits, however, declined to 88.8 percent from 98.2 percent, while the broad liquid assets to total assets ratio declined to 63.5 percent from 66.1 percent over the review period. The decline in the broad liquidity measures partly reflects the significant decline in investments during the review period. (Annexes Table 5.5).

5.3.2 Capital Adequacy Ratio

The industry's solvency position, measured by the Capital Adequacy Ratio (CAR) of 16.6 percent in December 2022, was higher than the prudential minimum of 13 percent, but declined from 19.6 percent in December 2021. The decline in the CAR was attributed to losses on mark-to -market investments of banks as well as an expansion in the risk-weighted assets of banks because of the depreciation of the Ghana cedi and growth in actual credit within the year.

5.3.4 Profitability

The industry's profit-after-tax contracted by 18.9 percent to GH¢3.9 billion in 2022, compared with the 12.2 percent growth recorded in December 2021. Profit-before-tax also declined by 13.5 percent to GH¢6.4 billion, compared to a growth of 22.1 percent over the same comparative period. The decline in profit was on the back of higher costs and provisions during the year, which moderated the impact of higher income in 2022 on banks' net profit.

Net interest income grew by 23 percent to GH¢15.8 billion, higher than the corresponding growth of 14.5 percent in 2021. In year-on-year terms, interest income increased by GH¢5.5 billion to GH¢24.5 billion, representing a growth of 29.2 percent in December 2022, from 15.5 percent in December 2021. Interest expenses also increased by GH¢2.5 billion to GH¢8.7 billion in December 2022, a growth rate of 42.2 percent, compared to the 17.6 percent growth recorded in December 2021. The increase net interest income was attributable to the strong credit growth recorded in the year, while the higher growth in interest expenses was mainly on account of increases in the interest rates on money market instruments.

Other income lines also recorded higher growth rates in 2022 relative to 2021. Net fees and commissions increased by 27.4 percent in December 2022 from 24.8 percent in December 2021, whereas other income, grew sharply by 98.5 percent from a growth of 1.0 percent. These developments culminated in a 30.9 percent growth in the industry's operating income in December 2022 compared with a 14.6 percent growth recorded in the comparative period in 2021.

The strong outturn in income was moderated by increases in costs and provisions during the year. The industry's operating expenses grew by 32.2 percent in 2022, compared to 14.2 percent in 2021, on the back of higher staff costs and other operating (administrative) expenses. Provisions increased significantly by 184.2 percent in December 2022, after contracting by 4.7 percent in December 2021, reflecting higher impairments on loans and mark-to-market losses on investments. The increase in loan impairments in 2022 was due to the pickup in credit growth and elevated credit risks during the year (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 banking sector's profitability indicators, namely, Return on Equity (ROE) and Return on Assets (ROA) declined during the period under review, following the declines recorded in profit-before-tax and profit-after-tax in 2022. The ROE declined sharply from 20.6 percent in December 2021 to 14.6 percent in December 2022, while ROA declined to 3.1 percent from 4.5 percent during the same comparative period (Figure 5.2 and Annexes Table 5.6).

(b) Interest Margin and Spread

Interest spreads for the banking sector narrowed from 11.3 percent in December 2022 to 10.7 percent in December 2021. The decline in spreads was on the back of an increase in interest payable from 5.4 percent to 5.9 percent while gross yields remained unchanged at 16.6 percent during the same reference period. Interest margin to total assets ratio remained flat at 7.1 percent, while interest margin to gross income ratio moderated from 54.5 percent to 50.1 percent during the period under review. The ratio of gross income to total assets (asset utilisation) improved from 13.1 percent to 14.3 percent, while the profitability ratio declined to 12.3 percent from 20.2 percent over the review period (Annexes Table 5.6).

(c) Composition of Banks' Income

Income from investments remained the largest component of banks' income streams in December 2022, although its share declined from 51.3 percent to 44.1 percent in December 2021, following the contraction in investments. The share of interest income from loans, on the other hand, increased to 33.6 percent from 29.2 percent, in line with the increase in gross advances during the year. The share of banks' income from fees and commissions, however, declined marginally to 11.8 percent from 12.4 percent during the period under review, while the share of income from other sources increased from 7.1 percent to 10.5 percent (Figure 5.3).

5.3.5 Operational Efficiency

The industry's efficiency generally declined during the period under review on the back of increased costs from the challenging macroeconomic environment. The cost-to-income ratio of the industry increased to 87.5 percent in December 2022 from 79.8 percent in December 2021, while the cost-to-total assets ratio increased from 10.5 percent to 12.5 percent during the reference period. Similarly, the ratio of operational cost to total income increased from 53.8 percent to 59.9 percent and the operational cost-to-total assets ratio went up from 7.0 percent to 8.5 percent during the same comparative period, reflecting the higher growth in operating expenses in 2022 relative to 2021 (Figure 5.2).

5.3.6 Banks' Counterparty Relationships

Total offshore balances increased by 57.5 percent to GH¢13.2 billion in December 2022, compared to a contraction of 23.8 percent in the previous year, driven largely by a sharp increase in nostro balances. Nostro balances increased by 121.0 percent in December 2022 after declining by 26.3 percent in December 2021. Industry placements, on the other hand, contracted by 10.2 percent in December 2022, following the initial contraction of 21.1 percent last year. The ratio of offshore balances to net worth increased to 47.4 percent in December 2022 from 33.8 percent in December 2021, reflecting the higher growth in offshore balances relative to shareholders' funds during the year (Annexes Table 5.8).

The share of banks' external borrowings in total borrowings declined from 49.4 percent in December 2021 to 39.5 percent in December 2022, while the share of domestic borrowings increased from 50.6 percent to 60.5 percent during the same review period. Banks' external borrowings remained tilted towards long-term instruments, as the share of long-term borrowings in total external borrowing increased to 64 percent from 50.5 percent during the reference period. The share of short-term borrowings, however, declined to 36 percent from 49.5 percent over the same comparative period (Figure 5.3).

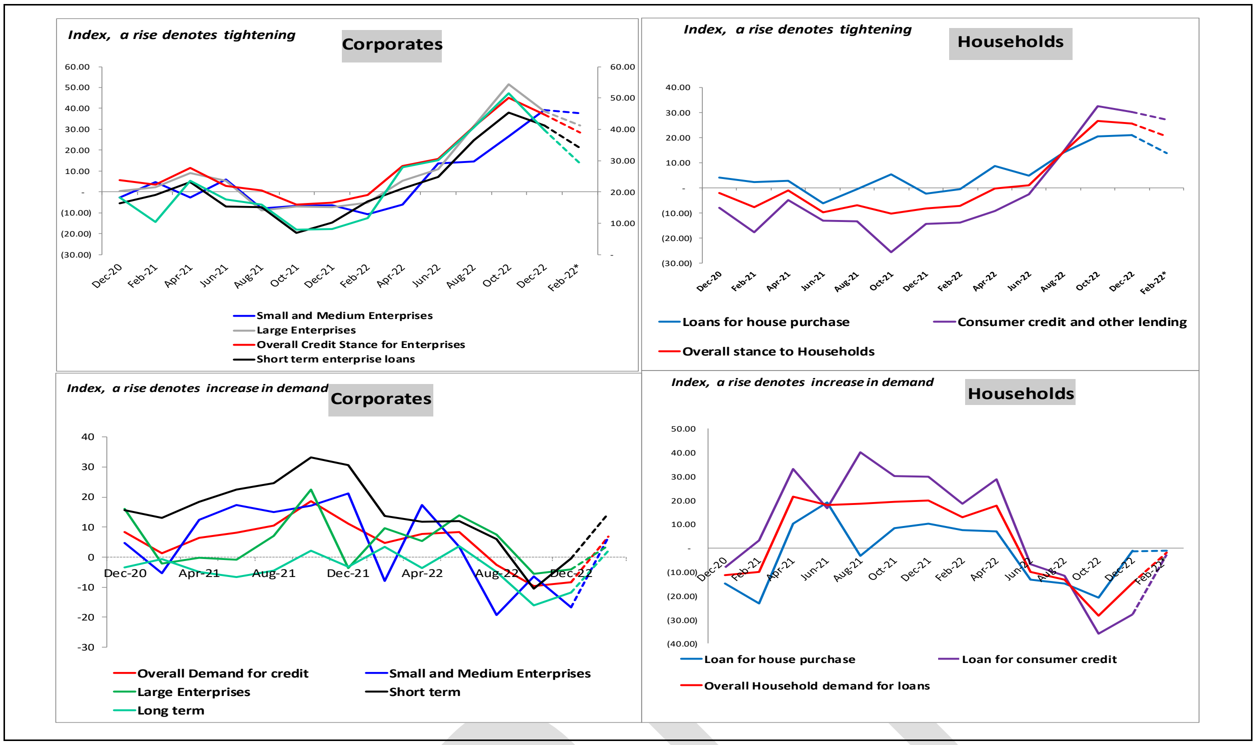
5.4 Credit Conditions Survey

Results of the December 2022 Credit Conditions Survey indicated a net ease in the overall credit stance on loans to enterprises in the last two months of 2022, on the back of a net ease in the stance on all components of enterprise loans. Banks project further net ease in overall credit stance on loans to enterprises for the first two months of 2023 due to continued asset portfolio rebalancing.

Similarly, banks reported a net ease in the credit stance on loans to households in November and December 2022, driven by a net eased stance on consumer credit and other lending, while the stance on mortgages tightened marginally. Over the first two months of 2023, banks project further easing in the overall stance on loans to households, which will be reflected in loans for house purchases and consumer credit.

The December 2022 survey further indicated an increase in overall demand for all categories of enterprise loans, except SME loans. Banks also projected an increase in the overall demand for loans in the first two months of 2023, driven by increases in demand for all categories of enterprise loans. Credit demand by households also rose during the survey round due to increased demand for consumer credit and mortgages. Over the next two months, banks expect a further ease in the demand for both consumer credit and loans for house purchases to drive an increase in overall demand for household loans (Figure 5.4).

Figure 5.4: Credit Conditions Survey Results



Source: Bank of Ghana Staff Calculations

5.5 Conclusion and Outlook

The banking sector's performance largely reflected spill over effects of the macroeconomic challenges during 2022. The sector remained solvent despite notable declines in the financial soundness indicators within the year. Assessments of the banking sector going forward indicate that the implementation of the Domestic Debt Exchange Programme will impact performance of the sector. In view of this, the Bank has announced some safeguards to be rolled out once the programme commences to ensure the continuous stability of the sector.

Annexes

Table 5.1: Asset and Liability Structure of the Banking Sector

	Dec-19	Dec-20	Dec-21	Oct-22	Dec-22
Components of Assets (% of Total)					
Cash and Due from Banks	24.0	21.2	20.0	27.2	27.7
Investments	37.5	43.1	46.2	34.0	35.8
Net Advances	31.0	28.0	26.3	28.9	27.6
Others	7.6	7.7	7.5	9.9	8.9
Components of Liabilities and Shareholders' Funds (% of Total)					
Total Deposits	64.7	69.5	67.3	68.9	71.5
Total Borrowings	15.9	9.7	12.3	12.2	8.6
Shareholders' Funds	13.6	14.2	13.8	10.6	12.6
Other Liabilities	5.8	6.5	6.6	8.4	7.3

Bank of Ghana Staff Calculations

Table 5.2: Credit Growth

Economic Sector	Gh¢million				y/y growth (%)	
	Dec-20	Dec-21	Oct-22	Dec-22	Dec-21	Dec-22
Public Sector	**4,235.86**	**5,381.75**	**8,374.46**	**6,246.77**	**27.1**	**16.1**
Private Sector	**43,533.19**	**48,540.17**	**72,851.57**	**63,753.45**	**11.5**	**31.3**
- Private Enterprises	32,756.07	34,725.73	55,763.72	48,098.89	6.0	38.5
o/w Foreign	3,843.71	4,919.43	10,603.48	6,599.72	28.0	34.2
Indigeneous	28,912.36	29,806.31	45,160.25	41,499.17	3.1	39.2
- Households	9,557.01	12,365.96	14,773.68	14,148.36	29.4	14.4
Gross Loans	**47,769.0**	**53,921.9**	**81,226.0**	**70,000.2**	**12.9**	**29.8**

Bank of Ghana Staff Calculations

Table 5.3: Contingent Liability

	Dec-19	Dec-20	Dec-21	Oct-22	Dec-22
Contingent Liabilities (GH¢million)	11,440.4	12,289.3	17,485.5	31,219.8	14,506.3
Growth (y-o-y)	16.2	11.7	39.6	72.3	(14.36)
% of Total Liabilities	10.3	9.6	11.3	14.0	7.5

Bank of Ghana Staff Calculations

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

	Dec-20		Dec-21		Oct-22		Dec-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	**8.9**	**2.0**	**10.0**	**4.0**	**10.3**	**5.0**	**8.9**	**7.6**
i. Government	3.4	0.6	5.2	1.9	5.3	1.4	4.5	4.2
ii. Public Institutions	2.8	0.0	1.9	0.0	1.7	0.1	1.3	0.2
iii. Public Enterprises	2.6	1.3	2.9	2.1	3.3	3.5	3.1	3.2
b. Private Sector	**91.1**	**98.0**	**90.0**	**96.0**	**89.7**	**95.0**	**91.1**	**92.4**
i. Private Enterprises	68.6	88.5	64.4	86.5	68.7	85.8	68.7	82.8
o/w Foreign	8.0	4.8	9.1	9.2	13.1	12.9	9.4	6.4
Indigeneous	60.5	83.7	55.3	77.2	55.6	72.9	59.3	76.4
ii. Households	20.0	7.8	22.9	7.9	18.2	8.3	20.2	8.6
iii. Others	2.6	1.7	2.7	1.6	2.8	0.8	2.2	1.0

Bank of Ghana Staff Calculations

Table 5.5: Liquidity Ratios

	Dec-19	Dec-20	Dec-21	Oct-22	Dec-22
Liquid Assets (Core) - (GH¢'million)	30,915.91	31,586.0	35,955.78	68,018.63	61,278.32
Liquid Assets (Broad) -(GH¢'million)	78,771.79	95,774.7	118,853.50	152,815.62	140,218.84
Liquid Assets to total deposits (Core)-%	37.0	30.4	29.7	39.5	38.8
Liquid Assets to total deposits (Broad)- %	94.4	92.3	98.2	88.8	88.8
Liquid assets to total assets (Core)- %	24.0	21.2	20.0	27.2	27.7
Liquid assets to total assets (Broad)- %	61.1	64.1	66.1	61.2	63.5

Source: Bank of Ghana Staff Calculations

Table 5.6: Profitability Indicators (%)

	Dec-19	Dec-20	Dec-21	Dec-22
Gross Yield	17.9	17.1	16.6	16.6
Interest Payable	6.1	5.4	5.4	5.9
Spread	11.8	11.7	11.3	10.7
Asset Utilitisation	13.7	13.7	13.1	14.3
Interest Margin to Total Assets	7.2	7.5	7.1	7.1
Interest Margin to Gross income	52.4	54.9	54.5	50.1
Profitability Ratio	18.9	20.8	20.2	12.3
Return On Equity (%) after tax	19.9	21.4	20.6	14.6
Return On Assets (%) before tax	4.2	4.4	4.5	3.1

Source: Bank of Ghana Staff Calculations

Table 5.7: DMBs' Income Statement Highlights

	Dec-19	Dec-20	Dec-21	Dec-22	Dec-20	Dec-21	Dec-22
	(GH ¢'million)				Y-on-y Growth (%)		
Interest Income	14,055.1	16,416.6	18,959.1	24,490.4	16.8	15.5	29.2
Interest Expenses	(4,783.1)	(5,207.6)	(6,122.7)	(8,705.1)	8.9	17.6	42.2
Net Interest Income	9,272.0	11,208.9	12,836.5	15,785.3	**20.9**	**14.5**	**23.0**
Fees and Commissions (Net)	2,236.7	2,349.3	2,931.8	3,734.3	5.0	24.8	27.4
Other Income	1,392.3	1,646.0	1,662.8	3,301.1	18.2	1.0	98.5
Operating Income	12,901.0	15,204.3	17,431.0	22,820.7	17.9	14.6	30.9
Operating Expenses	(6,411.7)	(6,938.0)	(7,920.8)	(10,470.9)	8.2	14.2	32.2
Staff Cost (deduct)	(3,457.8)	(3,671.3)	(4,254.1)	(5,378.6)	6.2	15.9	26.4
Other operating Expenses	(2,953.9)	(3,266.8)	(3,666.7)	(5,092.3)	10.6	12.2	38.9
Net Operating Income	6,489.2	8,266.3	9,510.2	12,349.8	**27.4**	**15.0**	**29.9**
Total Provision (Loan losses, Depreciation & others)	(1,709.1)	(2,187.9)	(2,085.7)	(5,927.1)	28.0	(4.7)	184.2
Income Before Tax	4,803.2	6,079.7	7,423.5	6,422.6	**26.6**	**22.1**	**(13.5)**
Tax	(1,462.0)	(1,835.0)	(2,659.8)	(2,558.9)	25.5	44.9	(3.8)
Net Income	3,341.2	4,244.7	4,763.7	3,863.8	**27.0**	**12.2**	**(18.9)**
Gross Income	17,684.1	20,411.9	23,553.7	31,525.8	15.4	15.4	33.8

Source: Bank of Ghana Staff Calculations

Table 5.8: Developments in Offshore Balances

	Dec-19	Dec-20	Dec-21	Oct-22	Dec-22
Offshore balances as % to Networth	55.3	51.8	33.8	62.0	47.4
Annual Growth in Offshore balances (%)	19.2	13.3	-23.8	152.6	57.5
Annual Growth in Nostro Balances (%)	61.4	1.0	-26.3	158.3	121.0
Annual Growth in Placement (%)	-14.3	31.9	-21.1	147.9	-10.2

Source: Bank of Ghana Staff Calculations

6. Fiscal Developments

6.0 Highlights of Fiscal Operations

Provisional data on budget execution for the period January to November 2022 indicated an overall broad fiscal deficit (cash) of 9.8 percent of GDP, against the programmed target of 6.7 percent of GDP. The corresponding primary balance for the period was a deficit of GH¢18.8 billion (3.1 percent of GDP), against a deficit target of GH¢3.1 billion (0.5 percent of GDP). Over the review period, total revenue and grants was GH¢81.8 billion (13.3 percent of GDP), short of the projected target of GH¢84.0 billion (13.6 percent of GDP). Total expenditure of GH¢142.2 billion (23.1 percent of GDP) was above the programmed target of GH¢125.4 billion (20.4 percent of GDP). The deficit of GH¢60.4 billion was financed mainly from the domestic sector.

The stock of public debt[3] stood at 93.5 percent of GDP (GH¢575.7 billion) at the end of November 2022, compared with 76.6 percent of GDP (GH¢352.1 billion) at the end of December 2021. Of the total debt stock, domestic debt was GH¢193.1 billion (33.5 percent of GDP), while the external debt was GH¢382.7 billion (66.5% of GDP).

The Government of Ghana reached a Staff Level Agreement (SLA) with the IMF in December 2022, which spelt out measures that will put the fiscal on the path of consolidation. Consistent with the SLA was the 2023 Budget which frontloads the consolidation efforts. In particular, the revenue enhanced measures such as the VAT increase of 2.5 percent, complete removal of benchmark values on imports, and the review of the E-Levy should help improve the revenue outlook. On the expenditure side, the lower capping on transfers to earmarked funds from 25 to 17.5 percent, and the reduction of budgetary allocation to goods and services, as well as rationalisation of executive compensation should help contain expenditures in 2023.

The SLA is also contingent on the Domestic Debt Exchange Programme and external debt restructuring, which when concluded and the necessary financial commitment obtained, will pave way for the presentation of the SLA to the IMF Board for a programme. It is expected that these measures will help restore fiscal and debt sustainability in the near term.

Table 4.1: Public Debt

	2021	2022					
	DECEMBER	MARCH	JUNE	JULY	SEPTEMBER	OCTOBER	NOVEMBER
TOTAL DOMESTIC DEBT (GH¢m)	**181,777.2**	**190,207.2**	**190,114.5**	**190,285.2**	**195,657.6**	**196,585.2**	**193,066.0**
TOTAL EXTERNAL (US$m)	**28,389.2**	**28,379.1**	**28,135.9**	**28,035.8**	**28,412.1**	**29,401.2**	**29,185.2**
TOTAL EXTERNAL (GH¢m)	**170,309.7**	**201,945.4**	**203,369.0**	**212,113.0**	**271,713.7**	**382,674.7**	**382,653.3**
TOTAL PUBLIC DEBT (GH¢m)	**352,087.0**	**392,152.7**	**393,483.5**	**402,398.2**	**467,371.3**	**579,259.9**	**575,719.3**
EXCHANGE RATE (end period selling rate)	5.9991	7.1160	7.2281	7.5658	9.5633	13.0156	13.1112
NOMINAL GDP (GH¢m)	459,131	615,761	615,761	615,761	615,761	615,761	615,761
MEMORANDUM ITEMS							
TOTAL DEBT /GDP RATIO (%)	76.62	63.69	63.90	65.35	75.90	94.07	93.50
EXTERNAL DEBT/GDP	*37.0*	*32.8*	*33.0*	*34.4*	*44.1*	*62.1*	*62.1*
DOMESTIC DEBT/GDP	*39.6*	*30.9*	*30.9*	*30.9*	*31.8*	*31.9*	*31.4*
EXTERNAL DEBT/TOTAL DEBT	*48.4*	*51.5*	*51.7*	*52.7*	*58.1*	*66.1*	*66.5*
DOMESTIC DEBT/TOTAL DEBT	*51.6*	*48.5*	*48.3*	*47.3*	*41.9*	*33.9*	*33.5*

Source: Ministry of Finance

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

7. Inflation Outlook and Analysis

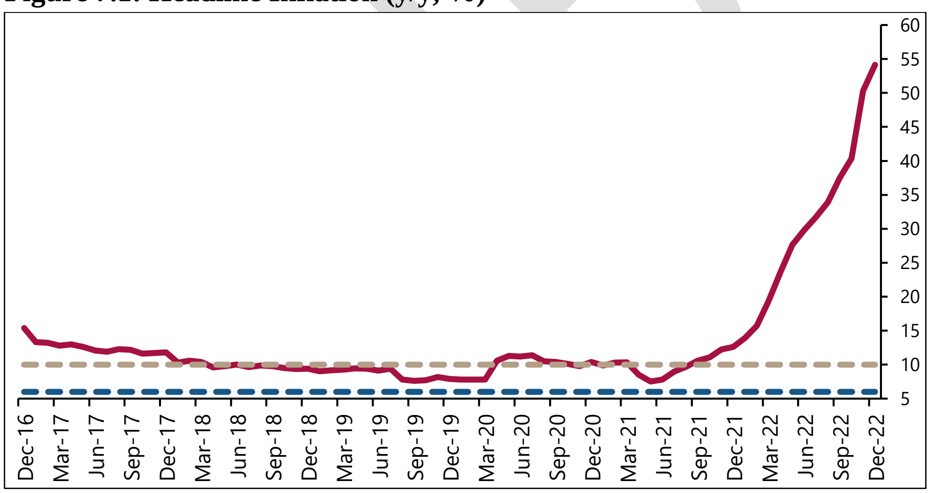
7.0 Global Price Developments

Headline inflation remained elevated throughout 2022, despite signs of easing in the last quarter on account of declining commodity prices and weak demand. The observed moderation in inflation in some of the advanced economies, especially in the US, was attributed to the persistent policy rate hikes by the US Federal Reserve during the year. This notwithstanding, underlying inflation pressures from the passthrough effects of high input costs, rising wages especially in advanced economies, currency depreciation against the US dollar, and rising short-term inflation expectations, remain major concerns for central banks. The IMF projects global inflation to decline to 6.6 percent in 2023 and 4.3 percent in 2024, but still above pre-pandemic levels. The projected disinflation largely depends on declining global fuel and non-fuel commodity prices on account of weaker global demand and the cooling effects of monetary policy tightening on underlying inflation.

7.1 Domestic Price Developments

Headline inflation jumped in the fourth quarter of 2022, driven by both demand and supply shocks. Since the last Monetary Policy Committee meeting, headline inflation has moved further up to 54.1 percent in December 2022, from 50.3 percent recorded in November 2022 (Figure 7.1). The acceleration was largely explained by the lagged effects of the sharp currency depreciation amid food price pressures. Food and non-food inflation went up significantly. Food inflation surged to 59.7 percent in December from 55.3 percent in November, while non-food inflation rose to 49.9 percent in December 2022, from 46.5 percent over the same comparative period (Table 7.1 & 7.2).

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



Underlying inflationary pressures were similarly elevated. The Bank's main measure for core inflation, which excludes energy and utility, accelerated to 53.2 percent in December 2022, from 49.7 percent in November (Figure 7.3). However, the Bank's consumers, businesses, and the financial sector surveys showed that inflation expectations eased in December 2022. This indicates agents' expectations of moderation in inflationary pressures on the horizon.

In December 2022, monthly inflation started to decline from 8.6 percent in November to 3.8 percent, reflecting a slowdown in the rate of increase in inflation. (Figure 7.4). Month-on-month food inflation also decelerated from 10.4 percent to 4.1 percent, while non-food monthly inflation also slowed from 7.2 percent to 3.6 percent over the same comparative period (Figure 7.3).

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

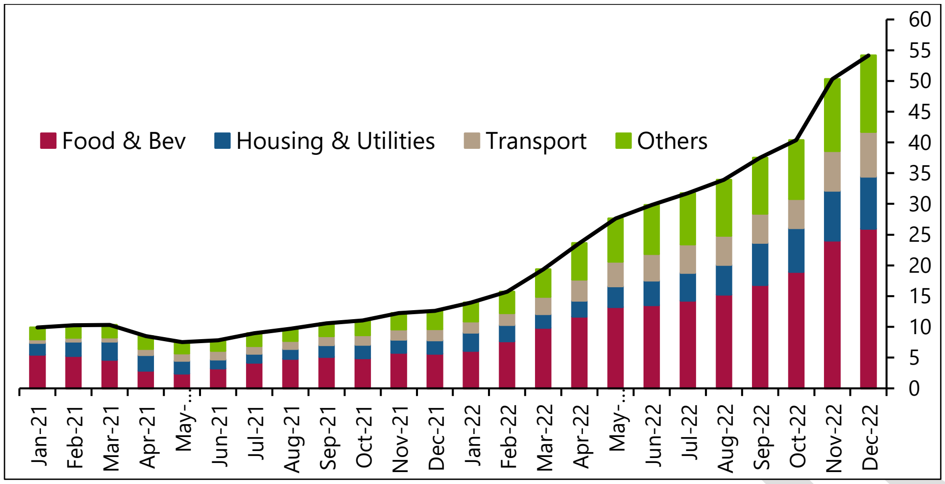


Figure 7.3: Headline vs Core Inflation (%)

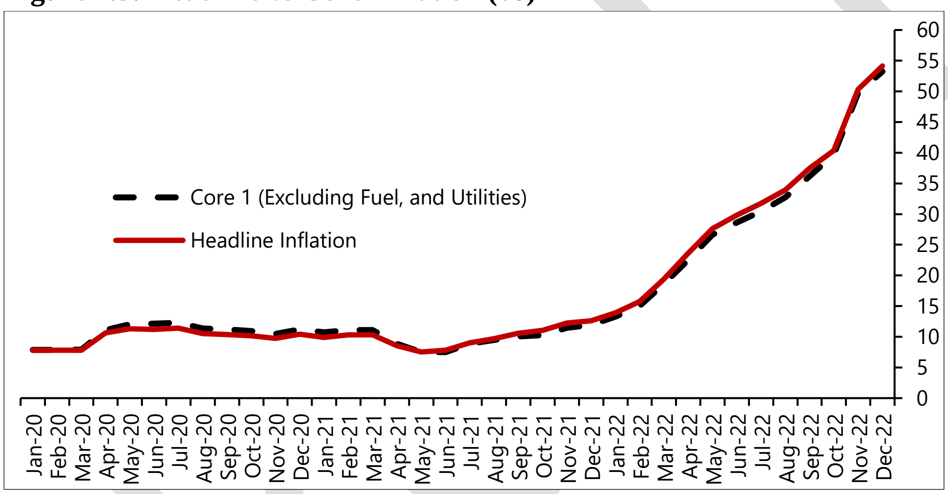
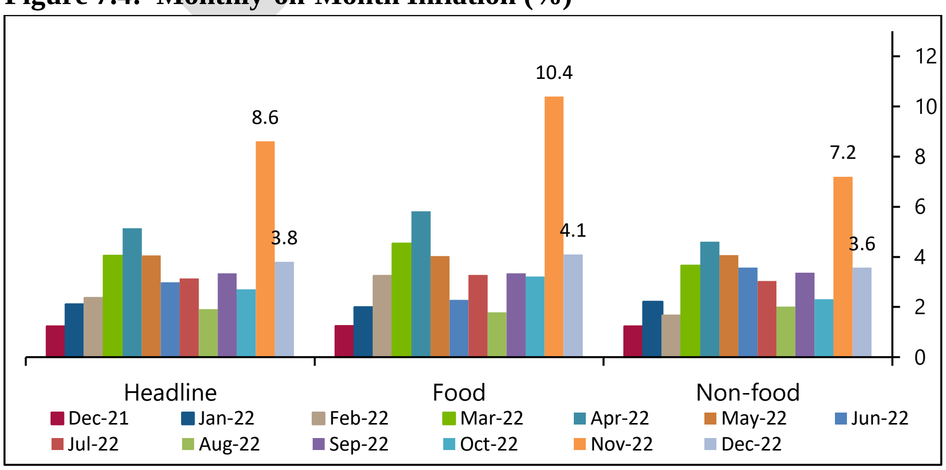


Figure 7.4: Monthly-on-Month Inflation (%)



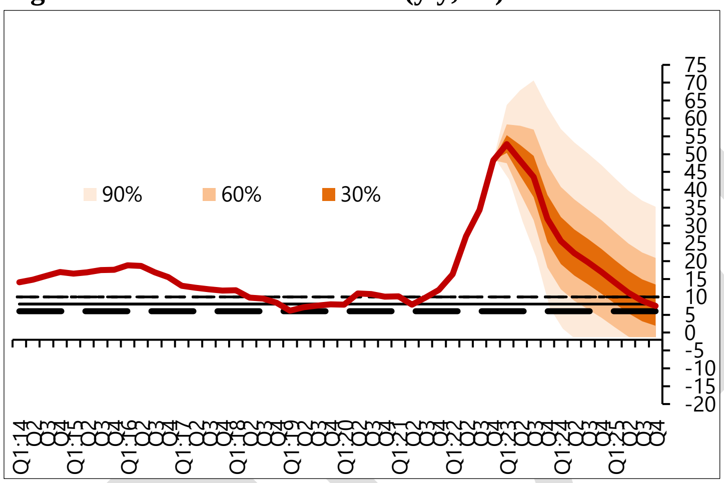
Source: BOG Staff Calculations and Ghana Statistical Service (GSS)

7.2 Inflation Outlook and Risk Assessment

In the outlook, global price pressures remain elevated, although recent evidence suggests some moderation, particularly in the US. Most central banks tightened monetary policy stance during the year in response to the rising inflation. The fallout from the continuous tightening by the US Federal Reserve, for instance, strengthened the US dollar and tightened global financing conditions, with adverse effects on emerging and developing economies' due to sharp portfolio reversals. These developments instigated intense currency pressures, with pass through effects on inflation.

On the domestic front, the continuous monetary policy tightening and the relative stability in the exchange rate in December 2022 led to some moderation in the pace of monthly price acceleration. However, underlying inflationary pressures remain broadened and could be reinforced by additional shocks in the near-term with the announcement of new revenue measures in the 2023 Budget, additional exchange rate pressures, and upward adjustments in utilities and ex-pump prices. The latest forecast suggests that, inflation is likely to peak in the first quarter of 2023 and gradually ease thereafter. However, headline inflation is projected to remain above the upper band of 8±2 percent until the second half of 2025.

Figure 7.4: Inflation Fan Chart (y/y, %)



7.4 Conclusion

The Monetary Policy Committee was of the view that significant upside risks to the inflation outlook still persist and decided to increase the policy rate by 100 basis points to 28 percent, to contain the inflationary pressures.

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						
Mar	10.3	10.8	10.0	0.9	0.2	1.4
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						
Mar	19.4	22.4	17.0	4.0	4.5	3.7
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
Sep	37.5	38.8	36.5	3.3	3.3	3.4
Oct	40.4	43.7	37.8	2.7	3.2	2.3
Nov	50.3	55.3	46.5	8.6	10.4	7.2
Dec	**54.1**	**59.7**	**49.9**	**3.8**	**4.1**	**3.6**

Source: Ghana Statistical Service

Appendix Table 7.2: CPI Components

CPI Components (%)

		2020	2021						2022					
	Weghts (%)	Dec	Mar	Jun	Sept	Oct	Nov	Dec	Mar	Jun	Sept	Oct	Nov	Dec
Overall	100.0	10.4	10.3	7.8	10.6	11.0	12.2	**12.6**	19.4	29.8	37.2	40.4	50.3	**54.1**
Food and Beverages	43.1	14.1	10.8	7.3	11.5	11.0	13.1	**12.8**	22.4	30.7	37.8	43.7	55.3	**59.7**
Non-food	56.9	7.7	10.0	8.2	9.9	11.0	11.6	**12.5**	17.0	29.1	36.5	37.8	46.5	**49.9**
Alcoholic Beverages, Tobacco & Narcotics	3.7	6.0	7.0	6.5	8.1	10.0	9.2	**9.6**	11.4	21.4	22.0	24.3	35.6	**38.5**
Clothing and footwear	8.1	7.9	6.0	6.0	6.8	7.7	8.4	**8.6**	12.2	23.8	28.7	30.8	38.3	**41.9**
Housing and Utilities	10.2	20.1	29.0	14.2	18.7	20.6	20.5	**20.7**	21.4	38.4	68.8	69.6	79.1	**82.3**
Furnishings, Household Equipment	3.2	4.7	4.7	4.7	6.3	7.3	8.4	**9.6**	18.5	39.6	51.5	55.7	65.7	**71.5**
Health	0.7	6.0	7.1	6.0	4.6	5.2	7.5	**6.0**	8.8	12.8	22.8	26.1	32.5	**34.4**
Transport	10.1	4.8	6.8	13.4	13.6	14.9	16.0	**17.6**	27.6	41.6	46.8	46.3	63.1	**71.4**
Information and Communication	3.6	7.0	8.1	4.9	6.6	7.8	8.0	**9.0**	13.4	14.5	14.9	15.7	19.7	**21.5**
Recreation & Culture	3.5	1.8	4.0	3.6	6.8	7.2	10.6	**11.4**	17.0	31.3	36.3	38.1	43.0	**42.4**
Education	6.5	0.2	0.4	0.9	0.9	0.9	1.0	**1.0**	2.9	4.4	8.3	9.5	10.7	**11.3**
Hotels, cafes and restaurants	4.6	5.4	6.1	4.8	3.2	4.0	4.4	**8.9**	12.6	20.2	11.1	11.0	12.5	**9.2**
Insurance and Financial services	0.2	3.3	7.8	5.5	7.1	7.1	7.1	**6.3**	3.0	5.8	13.6	13.0	10.2	**10.8**
Personal care, social protection & Miscellaneous services	2.4	3.8	4.5	4.5	7.2	8.5	9.1	**10.6**	17.0	31.7	42.6	45.5	56.3	**60.9**

Source: Ghana Statistical Service