



**BANK OF GHANA**  
**MONETARY POLICY REPORT**

**MARCH 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 111<sup>th</sup> meeting held in March 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

**Global growth is projected to moderate further, but with positive prospects of easing price pressures, improved supply chain constraints amid re-opening of China's economy.** However, risks to the growth outlook remain tilted to the downside, reflecting the lagged impact of policy rate hikes, potential slowdown effects from the recent banking sector turmoil in advanced economies, and further ramifications from the lingering geopolitical tensions.

**Global inflation is easing as food and energy prices moderate due to weakened global demand, improved supply of goods, and continued monetary policy tightening.** Despite the emerging risks to global financial stability, central banks in major advanced economies have demonstrated strong commitment to containing underlying inflationary pressures with sustained policy rate hikes, albeit at lower rates than earlier anticipated.

**The domestic economy still faces relatively tight global financing conditions, emerging risks in the global financial system, and heightened uncertainty about the global economic outlook.** The effects of these on the domestic economy could be amplified by inherent vulnerabilities, including structural excess liquidity following the Domestic Debt Exchange Programme (DDEP), and the widening negative output gap.

**The macro-prudential risk assessments conducted during the last MPC meeting indicated increased pressure on profitability and solvency of banks prior to the implementation of the DDEP.** Preliminary data showed that the pre-pandemic capital buffers in the banking sector have been weakened somewhat by the recent macroeconomic challenges and the DDEP, although banks remain liquid.

**The budget statement for 2023 set fiscal policy on a consolidation path, consistent with key elements in the Staff Level Agreement with the Fund in December 2022.** The domestic debt exchange, new revenue measures, and structural fiscal reforms will provide significant reduction in debt service and help create fiscal space.

**A positive fiscal outlook is contingent on financing of the budget which requires conclusion of the domestic debt exchange as well as the government securing requisite financing assurances from bilateral donors.** Indications are that the discussions are proceeding well and passage of the relevant revenue bills by Parliament will help conclude the required prior actions needed to advance Ghana's programme to the IMF Executive Board.

**Headline inflation declined marginally for two consecutive months but, remained at elevated levels compared with the medium-term target of 8±2 percent.** To place the economy firmly on the path of stability and reinforce the pace of disinflation, the MPC therefore decided to increase the Monetary Policy Rate by 150 basis points to 29.5 percent at the March 2023 meeting.

In addition, the Bank reset the Cash Reserve Ratio on domestic currency deposits for banks from 12 percent to 14 percent, effective 13th April, 2023, while stepping up liquidity management operations to address excess liquidity conditions in the market.

# 1. Global Economic Developments

## 1.0 Highlights

- *The global economy experienced a broad-based decline in 2022 and the outlook is for further decline in 2023, but high frequency indicators show that economic prospects brightened globally in February 2023 amid improved supply chains, re-opening of China's economy, and moderating price pressures.*
- *Global inflation remains elevated but projected to decline in 2023, on the back of declining fuel and non-fuel commodity prices, and cooling effects of monetary tightening on underlying inflation.*
- *Global financial conditions have eased somewhat, driven largely by expectations that central banks in advanced economies will moderate policy rate hikes amid the peaking of price pressures.*
- *The U.S. dollar index initially strengthened alongside rising demand for safe-haven currencies, following the collapse of Silicon Valley Bank and Signature Bank. However, the swift regulatory action and assurances to contain contagion risks, combined with decisions to boost dollar liquidity somewhat eased market concerns about a wider banking and financial crisis.*

## 1.1 Global Growth Developments

The global economy experienced a broad-based decline in 2022 and the outlook is for a further decline in 2023 amid elevated inflation, tighter financial conditions and uncertainty stemming from the lingering effects of the Russia-Ukraine war and the recent turmoil in the Banking sector in the U.S and Europe. The decline in growth for 2023 is driven mainly by downward revisions to growth in the advanced economies amid declining real incomes and tighter financial conditions. In Emerging Market and Developing Economies (EMDEs), growth is estimated to have bottomed out in 2022, supported by the recent re-opening of the Chinese economy.

The latest IMF projections show that global growth will bottom out in 2023 at 2.9 percent, down from the 3.4 percent recorded in the previous year, before rising to 3.1 percent in 2024. However, these projections did not consider the potential spillover effects of the ongoing turmoil in the banking sector in the U.S. and Europe. It is therefore possible that global growth projections for this year may be lower than previously anticipated, especially if banks in advanced economies reduce lending to the private sector. In the near term, the latest Purchasing Managers' Indices (PMI), released before the banking turmoil, pointed to a recovery in economic activity in February 2023, reflecting the moderation in price pressures, improved supply chains and the re-opening of China's economy.

Risks to the growth outlook are tilted to the downside, driven by a number of factors: China's recovery may stall if the country experience new outbreaks of COVID-19. Meanwhile, the challenges in the property sector remain and may worsen if more property developers declare bankruptcy. Also, the war in Ukraine may escalate and push up food and energy prices, especially in Europe. Although inflation has peaked in many countries, the still tight labour markets especially in advanced economies, may make underlying inflation more persistent than previously anticipated. Supply chain disruptions may reappear, and under such conditions, central banks may need to increase policy rates even more to avoid de-anchoring of inflation expectations. The collapse of Silicon Valley Bank and Signature Bank in New York and the funding challenges of Credit Suisse could spread and trigger a financial crisis, if not contained quickly. On the upside, regulators have moved quickly to provide dollar liquidity to contain the effect of strengthening dollar from rising demand on country currencies.

**Table 1.1: Real GDP Growth Projections (%)**

	Table 1. Overview of the <i>World Economic Outlook</i> Projections (Percent change, unless noted otherwise)					
	Year over Year				Difference from October 2022 WEO Projections 1/	
	2021	Estimate 2022	Projections		2023	2024
		2023	2024			
<b>World Output</b>	<b>6.2</b>	<b>3.4</b>	<b>2.9</b>	<b>3.1</b>	<b>0.2</b>	<b>-0.1</b>
<b>Advanced Economies</b>	<b>5.4</b>	<b>2.7</b>	<b>1.2</b>	<b>1.4</b>	<b>0.1</b>	<b>-0.2</b>
United States	5.9	2.0	1.4	1.0	0.4	-0.2
Euro Area	5.3	3.5	0.7	1.6	0.2	-0.2
Germany	2.6	1.9	0.1	1.4	0.4	-0.1
France	6.8	2.6	0.7	1.6	0.0	0.0
Italy	6.7	3.9	0.6	0.9	0.8	-0.4
Spain	5.5	5.2	1.1	2.4	-0.1	-0.2
Japan	2.1	1.4	1.8	0.9	0.2	-0.4
United Kingdom	7.6	4.1	-0.6	0.9	-0.9	0.3
Canada	5.0	3.5	1.5	1.5	0.0	-0.1
Other Advanced Economies 3/	5.3	2.8	2.0	2.4	-0.3	-0.2
<b>Emerging Market and Developing Economies</b>	<b>6.7</b>	<b>3.9</b>	<b>4.0</b>	<b>4.2</b>	<b>0.3</b>	<b>-0.1</b>
Emerging and Developing Asia	7.4	4.3	5.3	5.2	0.4	0.0
China	8.4	3.0	5.2	4.5	0.8	0.0
India 4/	8.7	6.8	6.1	6.8	0.0	0.0
Emerging and Developing Europe	6.9	0.7	1.5	2.6	0.9	0.1
Russia	4.7	-2.2	0.3	2.1	2.6	0.6
Latin America and the Caribbean	7.0	3.9	1.8	2.1	0.1	-0.3
Brazil	5.0	3.1	1.2	1.5	0.2	-0.4
Mexico	4.7	3.1	1.7	1.6	0.5	-0.2
Middle East and Central Asia	4.5	5.3	3.2	3.7	-0.4	0.2
Saudi Arabia	3.2	8.7	2.6	3.4	-1.1	0.5
Sub-Saharan Africa	4.7	3.8	3.8	4.1	0.1	0.0
Nigeria	3.6	3.0	3.2	2.9	0.2	0.0
South Africa	4.9	2.6	1.2	1.3	0.1	0.0

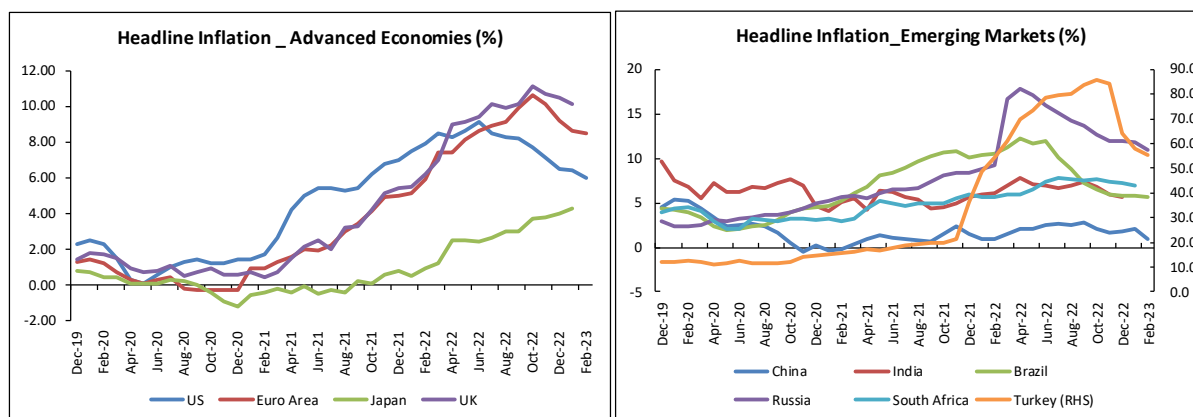
Source: IMF WEO, January 2023 update

## 1.2 Global Price Developments

Global headline inflation is on a steady decline across advanced and emerging market economies, driven by tight monetary policy and easing fuel and non-fuel commodity prices due to weaker global demand. The decline in oil prices is largely due to lower demand amid worries about global recession. Estimates released by the IMF in January show that oil prices are projected to fall by about 16 percent in 2023, while nonfuel commodity prices are expected to fall on average, by 6.3 percent. Also, global food prices continued the downward trend for the eleventh consecutive month in February 2023, while global supply chain pressures decreased considerably in February below the historical average. Declining input price pressures is supported by improvements in supply and weakening of demand, easing bottlenecks, and declining transportation costs.

Underlying inflation has persisted, alongside lingering effects from earlier cost shocks and tight labour market. However, short-term and longer-term inflation expectations declined somewhat in first quarter of 2023. In the outlook, the IMF projects that global headline inflation will decline to 4.3 percent by 2024, but remain above the pre-pandemic average level of 3.5 percent. This reflects declining fuel and non-fuel commodity prices due to weaker global demand and cooling effects of monetary tightening on underlying inflation.

**Figure 1.1: Headline Inflation in Advanced and Emerging Market Economies**



Source: BOG/Trading Economics

### 1.3 Global Financial Markets Developments

Global financial conditions have eased somewhat since October 2022, driven largely by changing market expectations regarding the interest rate cycle. Slowing aggregate demand and weaker-than-expected inflation in some advanced economies have led markets to price in a further reduction in the pace of future policy rate hikes. Central banks have slowed the pace of policy rate hikes amid signs that inflation has peaked. The expectation of further reduction in the pace of policy rates led to some recent declines in global long-term bond yields. However, fresh fears of inflation marginally pushed up long term bond yields. Equity markets have rebounded especially in advanced economies. However, worries about possible global recession and monetary policy uncertainty has kept markets volatile. Also, sovereign spreads decompressed in selected African countries, but more so in Rwanda and Ghana. Non-resident portfolio flows to emerging market economies rebounded strongly in January amid the expectation that central banks in major advanced economies will step down the pace of policy rate hikes.

**Table 1.2: Monetary Policy Stance of Selected Central Banks**

	Key Rate	Previous (%)	Current (%)	Forecast	Inflation Rate (February, 2022)	Real rate	Infl Target	Overall Fiscal Deficit (2021,% of GDP)	GDP Growth (Dec.2021)	GrossDebt/GDP(2021,%)
U.S	Federal Funds Rate	4.5	4.75	5	6	-1.25	2%	-10.9	5.7	128.1
Euro Area	Refinancing Rate	2.5	3	3.5	9.2	-6.2	< 2%	-5.1	5.2	95.3
UK	Bank Rate	3.5	4	4.25	10.1	-6.6	2%	-8.0	7.4	95.3
Japan	short term policy rate	-0.1	-0.1	-0.1	4.3	-4.4	2%	-6.7	1.7	262.5
Russia	Benchmark rate	7.5	7.5	7.5	11	-3.5	4%	0.8	4.7	17.0
India	Benchmark rate	6.25	6.5	6.75	6.44	-0.19	4±2%	-10.0	8.7	84.2
Brazil	Selic rate	13.25	13.75	13.75	5.6	8.15	4.5±1.5%	-4.4	4.6	93.0
Turkey	One week repo rate	9	8.5	8	55.18	-46.68	5±2%	-3.9	11.4	41.8
Malaysia	Policy Rate	2.75	2.75	2.75	3.7	-0.95	3% - 4%	-5.5	3.1	69.0
Indonesia	Policy Rate	5.75	5.75	5.75	5.47	0.28	3.5% ± 1%	-4.6	3.7	41.2
Chile	Benchmark Interest Rate	11.25	11.25	11.25	11.9	-0.65	3±1%	-7.5	11.7	36.3
Ghana	Monetary Policy Rate	27	28		52.8	-24.8	8±2%	-11.4	5.4	82.1
South Africa	Repo Rate	7	7.25	7.25	6.9	0.35	3% -6%	-6.0	4.9	69.0
Nigeria	Monetary Policy Rate	16.5	17.5	17.5	21.91	-4.41	6% -9%	-6.0	3.6	36.6
Kenya	Policy Rate	8.25	8.75	8.75	9.2	-0.45	2.5-7.5%	-8.0	7.5	67.8
Zambia	Policy Rate	9	9.25	9.5	9.6	-0.35	9%	-8.4	4.6	119.1
Morocco	Policy Rate	2	2.5	3	8.9	-6.4		-5.9	7.9	68.9

Source: Growth rate(World Bank); Debt/GDP (IMF); Policy Rates (Trading Economics), Inflation February Figures in Red



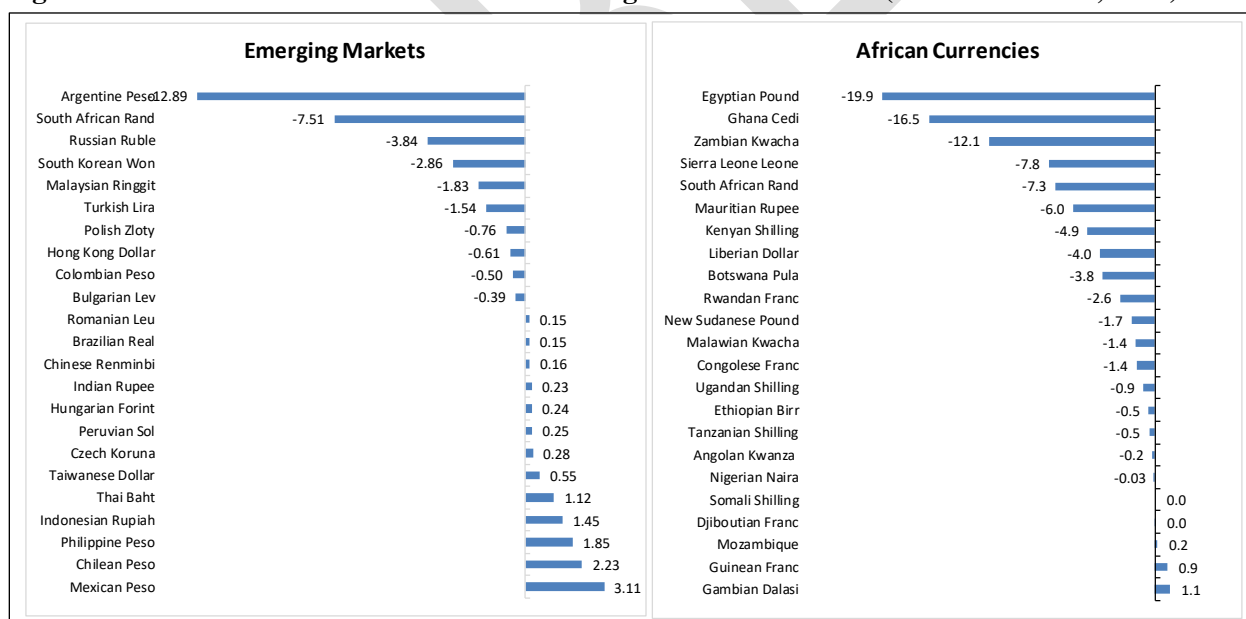
In the outlook, tight financial conditions are expected to persist despite recent moderation in headline inflation as core inflation remains stubbornly high across most regions. Also, labour markets remain tight, which may translate into stronger than expected wage growth. Additionally, energy prices remain pressured by Russia’s ongoing war in Ukraine, and possible faster than expected rebound in China’s growth. Under these conditions, central banks may need to increase policy rates even more to avoid de-anchoring of inflation expectations.

### 1.4 Currency Markets

On the international currency market, the U.S dollar index initially strengthened amid rising demand for safe-haven currencies following the collapse of Silicon Valley Bank and Signature Bank, but so far, swift regulatory action and assurances to contain contagion risks, combined with decisions to boost dollar liquidity somewhat eased market concerns about a wider banking and financial crisis. Investors were worried about the prospect of a global banking crisis and economic instability.

In the outlook, the U.S. dollar may remain relatively weak against major currencies. The U.S. Fed is likely to stick to smaller rate hike (25 basis points) due to the Collapse of SVB and signature Bank. Latest data also showed that the annual inflation rate in the US slowed further to 6 percent in February from 6.4 percent in January, while producer price index and retail sales data were weaker-than-expected. Meanwhile, banks may reduce lending due to SVB collapse, leading to a slowdown in inflation. Against this background, pressures on emerging market currencies may ease further (Figure 1.2).

**Figure 1.2: Performance of Selected Currencies against the US Dollar (as at 17<sup>th</sup> March, 2023)**



Source: Bloomberg

In the domestic currency market, the successful conclusion of the DDEP helped to ease pressure on the exchange rate in February 2023. Earlier concerns about the success of the DDEP, further rating downgrades and demand pressures from the corporate sector eroded the gains made in December 2022. However, closure of the DDEP in February and the news of progress with negotiation with the Chinese government helped the cedi to recover in February. In the outlook, the still hawkish stance of the Fed and ECB may



weigh on the cedi, even though a successful conclusion of the negotiation between government and external bond holders will ease some of the pressure.

In the interbank market, the Ghana cedi depreciated by 22.1 percent, 22.9 percent and 22.0 percent against the US dollar, the pound, and the euro respectively on a year-to-date basis. This is against a depreciation of 9.0 percent, 8.2 percent and 7.9 percent against the US dollar, the pound, and the euro respectively during the same period in 2022 (Table 1.3). The Ghana cedi recovered in February from the sharp depreciation in January following the successful conclusion of the DDEP. However, the cedi was more volatile during the first 54 transaction days in 2023 compared to the same period from 2017-2022

**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
<b>2021</b>									
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
<b>2022</b>									
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
<b>2023</b>									
Jan	10.7997	-20.6	-20.59	13.2863	-22.4	-22.39	11.7262	-22.0	-22.01
Feb	11.0135	-1.9	-22.13	13.3699	-0.6	-22.87	11.7182	0.1	-21.95

Source: Bank of Ghana Staff Calculations

Considering Ghana's major trade partners currency movements, the Ghana cedi depreciated by 27.2 percent in nominal trade weighted terms and 28.3 percent on forex transaction weighted terms on a year-to-date basis (Table 1.4). This is against a depreciation of 8.7 percent and 9.8 in nominal trade weighted terms and nominal foreign exchange transaction weighted terms respectively over the same period in 2022.

In real bilateral terms, the Ghana cedi depreciated by 25.6 percent, 23.2 percent and 23.0 percent against the US dollar, the euro, and the pound sterling on a year-to-date basis. Comparatively, for the corresponding period in 2022, the cedi's real exchange rate depreciated by 6.5 percent, 5.0 percent and 4.9 percent against the US dollar, the euro, and the pound sterling respectively over the same period in 2022 (Table 1.5).

**Table 1.4: Nominal Effective Exchange Rate**

Month	2018=100		Monthly CHG(%)		Year-to-Date (%)	
	FXTWI	TWI	FXTWI	TWI	FXTWI	TWI
<b>2022</b>						
Jan-22	25.34	28.94	-0.18	0.72	-0.18	0.72
Feb-22	23.13	26.44	-9.56	-9.44	-9.76	-8.65
Mar-22	24.85	24.85	-7.59	-6.43	-18.10	-15.64
Apr-22	25.90	25.90	0.46	4.07	-17.56	-10.93
May-22	25.43	25.43	-0.58	-1.87	-18.24	-13.00
Jun-22	25.66	25.66	-0.95	0.93	-19.37	-11.96
Jul-22	20.24	24.87	-5.07	-3.20	-25.42	-15.55
Aug-22	18.76	23.38	-7.91	-6.35	-35.34	-22.88
Sep-22	16.12	20.51	-16.34	-14.00	-57.46	-40.08
Oct-22	11.89	15.02	-35.60	-36.61	-113.52	-91.36
Nov-22	11.75	14.25	-1.25	-5.34	-116.18	-101.58
Dec-22	17.91	21.30	34.41	33.09	-41.79	-34.89
<b>2023</b>						
			2023.00			
Jan-23	14.20	16.70	-26.12	-27.59	-26.12	-27.59
Feb-23	13.96	16.75	-1.72	0.35	-28.29	-27.15

Source: Bank of Ghana Staff Calculations

Note: TWI and FXTWI are index measures of the value, in nominal terms, of the cedi relative to Ghana's top three currencies: Euro, the Pound and the US dollar.

**Table 1.5: Real Bilateral Exchange Rates**

Month	RER Index (Jan.18=100)			MONTHLY CHANGE (Index)			Year-to-Date (%)		
	EUR	GBP	USD	EUR	GBP	USD	EUR	GBP	USD
<b>2022</b>									
Jan-22	106.7	100.7	92.8	2.7	2.5	1.2	2.7	2.5	1.2
Feb-22	98.8	93.5	86.2	-7.9	-7.6	-7.7	-5.0	-4.9	-6.5
Mar-22	94.5	91.2	82.1	-4.7	-2.6	-4.9	-9.9	-7.6	-11.7
Apr-22	103.6	97.8	85.8	8.9	6.7	4.4	-0.1	-0.4	-6.9
May-22	104.6	100.4	88.0	0.9	2.6	2.4	0.8	2.3	-4.3
Jun-22	108.1	104.7	88.3	3.2	4.1	0.4	4.0	6.3	-3.9
Jul-22	108.5	102.2	86.5	0.4	-2.5	-2.1	4.4	4.0	-6.0
Aug-22	103.3	100.3	81.6	-5.0	-1.8	-6.1	-0.4	2.2	-12.5
Sep-22	92.8	92.0	72.1	-11.4	-9.0	-13.1	-11.9	-6.6	-27.3
Oct-22	68.8	66.6	54.4	-34.9	-38.1	-32.4	-50.9	-47.2	-68.5
Nov-22	70.4	68.1	58.8	2.4	2.1	7.3	-47.3	-44.2	-56.1
Dec-22	109.0	107.3	93.5	35.4	36.6	37.1	4.8	8.6	1.9
<b>2023</b>									
Jan-23	86.9	85.5	74.9	-25.4	-25.5	-24.8	-25.4	-25.5	-24.8
Feb-23	88.5	87.3	74.4	1.8	2.0	-0.7	-23.2	-23.0	-25.6

Source: Bank of Ghana Staff Calculations

Table 1.6 shows the real effective exchange rate movements of the Ghana cedi against the three major currencies (i.e., US dollar, the euro and pound). The Ghana cedi depreciated by 23.5 percent and 25.4 percent in real trade weighted terms and real forex transaction weighted terms on a year-to-date basis. These compares with a depreciation of 9.9 percent and 11.5 percent in real trade weighted terms and real FX transaction weighted terms respectively for the same period in 2022.

**Table 1.6: Real Effective Exchange Rate for Major Trade Partners**

Month	INDEX (2018=100)		MONTHLY CHG		Year-to-Date (%)	
	RFXTWI	RTWI	RFXTWI	RTWI	RFXTWI	RTWI
<b>2022</b>						
<b>Jan-22</b>	93.97	104.17	1.3	2.5	1.3	2.5
<b>Feb-22</b>	87.22	96.57	-7.7	-7.9	-6.3	-5.2
<b>Mar-22</b>	83.17	92.41	-4.9	-4.5	-11.5	-9.9
<b>Apr-22</b>	87.32	100.55	4.8	8.1	-6.2	-1.0
<b>May-22</b>	89.38	101.84	2.3	1.3	-3.7	0.3
<b>Jun-22</b>	90.00	104.92	0.7	2.9	-3.0	3.2
<b>Jul-22</b>	88.34	104.72	-1.9	-0.2	-5.0	3.0
<b>Aug-22</b>	83.41	99.85	-5.9	-4.9	-11.2	-1.7
<b>Sep-22</b>	73.87	89.62	-12.9	-11.4	-25.5	-13.4
<b>Oct-22</b>	55.66	66.46	-32.7	-34.8	-66.6	-52.8
<b>Nov-22</b>	59.76	68.54	6.9	3.0	-55.2	-48.2
<b>Dec-22</b>	94.86	106.63	37.0	35.7	2.3	4.7
<b>2023</b>						
<b>Jan-23</b>	75.99	85.10	-24.8	-25.3	-24.8	-25.3
<b>Feb-23</b>	75.66	86.37	-0.4	1.5	-25.4	-23.5

Source: Bank of Ghana Staff Calculations

### 1.5 Global Economic Outlook and Risks

The global economy is projected to decline further in 2023, reflecting global fight against inflation and Russia-Ukraine war. Global headline inflation is moderating, but underlying inflation has persisted amid lingering effects from earlier cost shocks and tight labour market. Recent turbulence in the global financial system may reduce risk appetite and cause outflows from EMDEs and currency pressures. Safe-haven demand for the U.S dollar may strengthen amid the turbulence in the financial system. Escalation of the Russia-Ukraine war may raise uncertainty about the global outlook amid the ongoing turbulence in the financial markets. However, banks may reduce lending due to the turbulence in the financial system, slowing demand, growth and potentially inflation. Also, central banks may be forced to slow the pace of policy rate hikes or even pause to contain the crisis. Considering the above, risks to inflation from the external environment remain elevated.

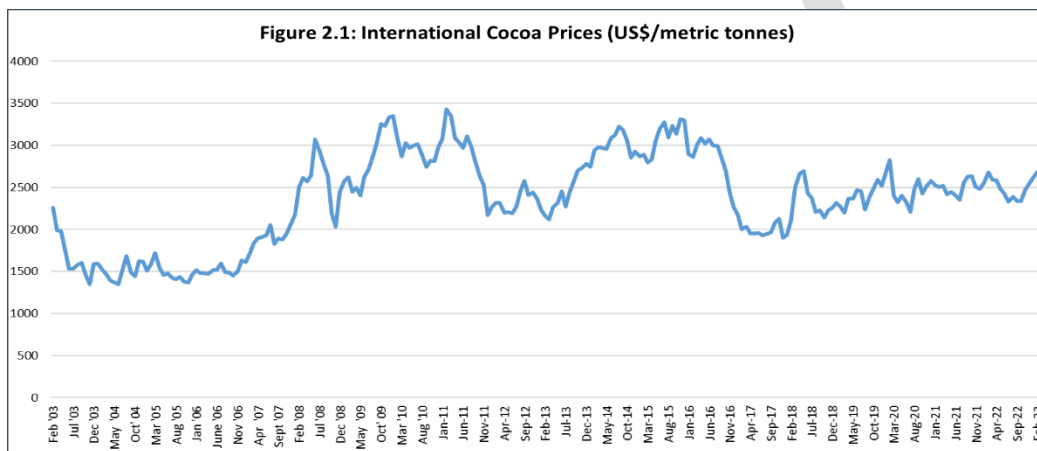
## 2. External Sector Developments

### 2.0 Highlights

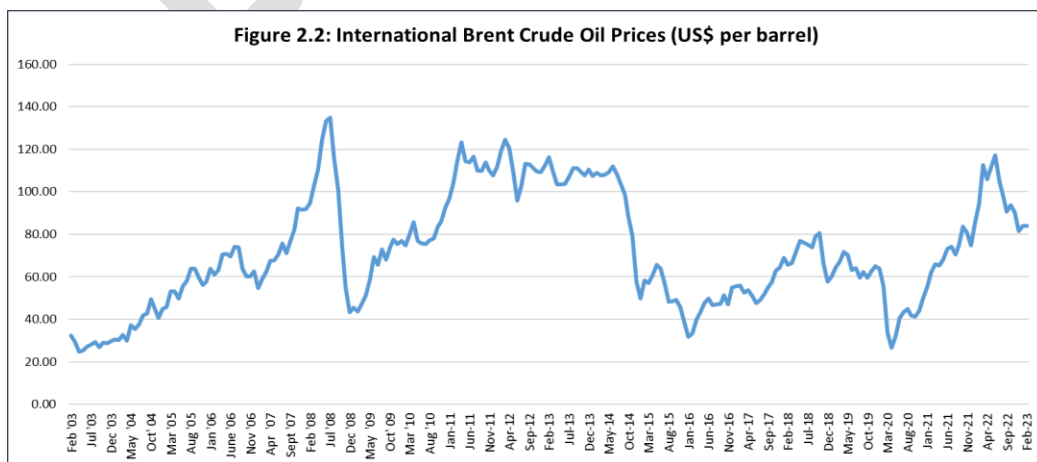
*Developments in the global economy, characterised by volatile commodity prices, easing supply bottlenecks related to the pandemic and the war in Ukraine, and some pause in monetary policy tightening impacted Ghana's trade account in the first quarter of 2023.*

### 2.1 Commodity Price Trends

Cocoa futures settled at an average price of US\$2,678 per tonne in February 2023, gaining 2.5 percent relative to the previous month. The bean was supported by poor weather patterns and supply concerns in top grower Ivory Coast. Compared to the same period last year, however, prices declined by 0.1 percent on account of lower expected global grinding data.

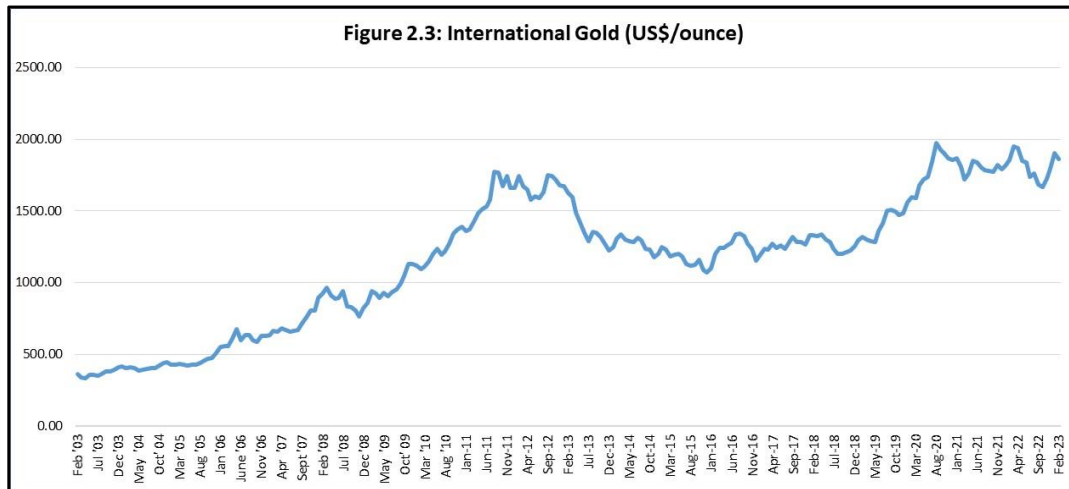


Brent crude oil lost marginally by 0.03 percent to close the month of February at an average price of US\$83.92 per barrel. The slight decrease in Oil prices was due to investors' worry about fuel demand as the global economy slows and COVID-19 cases grew in China. However, Brent suffered a year-on-year loss of 11.0 percent as prices were pressured from uncertain global economic outlook and rising fears of recession.



Source: Reuters

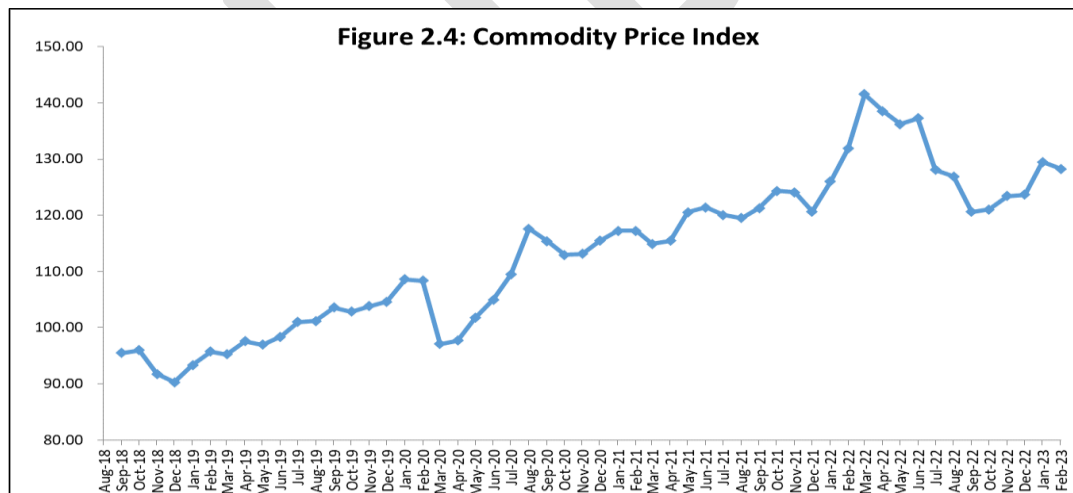
Spot gold prices recorded some losses during the month of February falling, by 2.2 percent month on month to settle at an average price of US\$1,858.94 per fine ounce. A stronger dollar and fears that the Fed would keep raising interest rates weighed on non-yielding gold. The yellow metal, however, gained a marginal 0.1 percent in February 2023, compared to same period a year ago, as it attracted some safe haven flows.



Source: Reuters

## 2.1 Commodity Price Index

The weighted average price of the three major commodities exported by Ghana (cocoa, gold, and crude oil) experienced a marginal decline of 0.9 percent in February 2023. The decline in the overall index was led by declines in crude oil (0.03%) and gold (2.2%) sub-indices, though the cocoa sub-index rose by 2.5 percent.



Source: BOG Staff Computations

## 2.2 Trade Balance

Transactions in the trade account resulted in a significant trade surplus for the period under review. For the first two months of 2023, the trade surplus amounted to US\$752.83 million, far exceeding the trade surplus of US\$205.85 million recorded for the corresponding period of 2022. The rise in the trade surplus was largely due to a 11.2 percent increase in exports to \$2.77 billion and a 11.8 percent drop in imports to \$2.01

billion year. Improved earnings from gold, cocoa beans and products, and other exports including non-traditional exports boosted exports performance notwithstanding some decline in oil receipts. With respect to imports, the decline was mainly driven by a 17.6 percent compression in non-oil imports demand. Oil and gas imports, however, increased by 4.8 percent to \$623 million.

### **2.3 International Reserves**

The stock of Gross International Reserves at the end of February 2023 was US\$5,924.72 million, providing cover for 2.8 months of imports compared with the end-December 2022 position of US\$6,238.19 million, equivalent to 2.7 months of import cover.

### **2.6 Commodity Price Outlook**

The direction of cocoa prices in the outlook is uncertain and it will be determined by supply and demand conditions. On the supply side, port arrivals in the top grower Ivory Coast have been lower amid higher grinding activities. These are expected to reduce exports and increase prices. In Ghana volumes of purchases are on the increase mainly due to good rainfall. On the demand side, the expected slowdown in global economic activities could dampen demand and lower prices while signs of decreasing inflation and lower energy prices could support prices.

In the oil market, the outlook is bearish due to consistent global oil inventories builds-up and the uncertainties surrounding the global economy. EU ban on Russian oil exports and price cap, increasing crude oil production in the US, and slowdown in global economic activities could put downward pressure on prices. The downward pressure will, however, be limited by the boost in economic activities in China following the relaxation of COVID-19 restrictions.

Gold prices is expected to benefit from the collapse of the Silicon Valley Bank and the Signature Banks in the US, and Credit Suisse in the EU that sent ripples through the financial market. In addition, falling bond yields, easing of rates hike expectations and subsequent weakening of US dollar amid fears of weak global economic growth have driven gold price rally and these will continue to support non-yielding gold asset. Gold will receive further support from geopolitical risks as the continuous Russia-Ukraine war is expected to sustain investors interest in gold.

Table 2.1: Trade Balance (US\$ million)

	2021 Jan - Feb	2022 Jan - Feb	Prov 2023 Jan - Feb	Abs Y/Y Chg	Rel Y/Y Chg
<b>Trade Balance ( \$'M)</b>	<b>432.7</b>	<b>205.8</b>	<b>752.8</b>	<b>547.0</b>	<b>265.7</b>
<i>Trade Bal (% GDP)</i>	<i>0.5</i>	<i>0.3</i>	<i>1.0</i>		
<b>Total Exports ( \$'M)</b>	<b>2,594.6</b>	<b>2,488.8</b>	<b>2,767.4</b>	<b>278.6</b>	<b>11.2</b>
<b>Gold ( \$'M)</b>	931.2	825	1,120	<b>295.2</b>	<b>35.8</b>
Volume (fine ounces)	508,295	447,323	619,373	172,050	38.5
Unit Price (\$/fine ounce)	1,832.0	1,843.3	1,807.9	-35.4	-1.9
<b>Cocoa Beans ( \$'M)</b>	532.2	336	388	<b>51.9</b>	<b>15.5</b>
Volume (tonnes)	197,523	133,534	157,322	23,788	17.8
Unit Price (\$/tonne)	2,694.3	2,513.9	2,463.8	-50.1	-2.0
<b>Cocoa Products ( \$'M)</b>	169.2	154.2	159.3	<b>5.0</b>	<b>3.3</b>
Volume (tonnes)	49,570	48,764	50,428	1,664	3.4
Unit Price (\$/tonne)	3,413.5	3,162.7	3,158.3	-4.4	-0.1
<b>Crude Oil ( \$'M)</b>	510.2	688.8	562.6	<b>-126.2</b>	<b>-18.3</b>
Volume (barrels)	8,645,078	7,686,225	6,652,154	-1,034,071	-13.5
Unit Price (\$/bbl)	59.0	89.6	84.6	-5.0	-5.6
<b>Other Exports</b>	451.8	485.6	538.2	52.6	10.8
<i>o/w Non-Traditional Exports</i>	372.4	382.2	440.0	<b>57.9</b>	<b>15.1</b>
<b>Total Import ( \$'M)</b>	<b>2,161.9</b>	<b>2,283.0</b>	<b>2,014.6</b>	<b>-268.4</b>	<b>-11.8</b>
Non-Oil	1,823.4	1,688.5	1,391.6	-296.9	-17.6
Oil and Gas	338.5	594.5	622.9	28.5	4.8
<i>of which: Products</i>	311.3	564.4	583.3	18.9	3.3
Crude Oil ( \$'M)	2.1	6.6	0.0	-6.6	-100.0
Volume (barrels)	36,888	70,748	0	-70,748	-100.0
Unit Price (\$/bbl)	57.3	92.7	0.0	-92.7	-100.0
Gas ( \$'M)	25.1	23.5	39.6	16.1	68.6
Volume (MMBtu)	3,390,466	3,032,951	5,112,406	2,079,455	68.6
Unit Price (\$/mmBtu)	7.4	7.7	7.7	0.0	0.0

Source: Bank of Ghana



## 3. Real Sector Developments

### 3.0 Highlights

*The latest high frequency indicators pointed to moderation in economic activity in January 2023 compared to a year ago. Port activity, cement sales, private sector SSNIT contributors and vehicle registration contracted. Domestic VAT collections, retail sales and tourist arrivals, however, improved in the review period.*

### 3.1 GDP 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 January 2023, compared with the corresponding period in 2022. Domestic VAT collections increased by 57.1 percent on a year-on-year basis to GH¢897.67 million but, dipped by 23.2 percent on a month-on-month basis in January 2023 from GH¢1,168.33 million recorded in the preceding month.

Retail sales increased by 32.0 percent (year-on-year) to GH¢163.20 million in January 2023, up from the GH¢123.65 million recorded in the same period in 2022. Compared to December 2022, however, retail sales declined by 33.0 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), recorded a positive performance in January 2023. Total Direct Taxes collected increased significantly to GH¢3,272.79 million in January 2023, compared with GH¢1,430.76 million recorded in January 2022. On a month-on-month basis, total Direct Taxes collected for January 2023 declined by 47.4 percent from GH¢6,225.47 million collected in December 2022. In terms of contributions of the various sub-tax categories, corporate tax accounted for 50.9 percent, Income tax (PAYE and self-employed) accounted for 40.8 percent, while "Other Tax Sources" contributed 8.3 percent.

Total private sector workers' contribution to the SSNIT Pension Scheme (Tier-1) went up by 24.7 percent on year-on-year terms to GH¢286.98 million in January 2023, from GH¢230.16 million collected during the corresponding period in 2022.

### ***Construction Sector Activities***

Activity in the construction sub-sector, proxied by the volume of cement sales, declined by 27.8 percent (year-on-year) in January 2023 to 227,141.83 tonnes, compared with 314,654.79 tonnes recorded a year ago. On a month-on-month basis, total cement sales dipped by 11.9 percent in January 2023 compared with the 257,711.18 tonnes recorded in December 2022. 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 44.7 percent to 27,875 in January 2023, from 50,380 vehicles registered during the corresponding period of 2022. On a month-on-month basis, DVLA vehicle registrations improved significantly from 4,990 vehicles recorded in the preceding month.

### ***Industrial Consumption of Electricity***

Industrial consumption of electricity increased by 4.8 percent in January 2023 to 282.42 gigawatts, as against 269.43 gigawatts recorded for the corresponding period in 2022. On a month-on-month basis, electricity consumed by industries in January 2023 decreased by 10.7 percent from 316.24 gigawatts utilised for December 2022.

### ***Passenger Arrivals at the Airport***

International tourist arrivals improved by 54.7 percent, year-on-year, to 87,083 in January 2023, up from 56,285 arrivals recorded a year ago. Compared to a month earlier, tourist arrivals recorded at the international airport and the land borders went down by 17.2 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 23.1 percent, year-on-year, to 43,846 in January 2023, down from 57,022 recorded for a similar period in 2022. On a month-on-month basis, total container traffic dipped by 13.6 percent when compared to 50,775 recorded in December 2022. The relative decline in port activities was due to a slowdown in international trade activities over the review period amid ongoing geopolitical tensions.

### ***Labour Market - Advertised Jobs***

The number of jobs advertised in selected print<sup>1</sup> and online<sup>2</sup> media, which partially gauges labour demand in the economy, decreased in February 2023 relative to what was observed in the corresponding period a year ago. In total, 2,529 job adverts were recorded as compared with 2,746 for the same period in 2022, indicating a decline of 7.9 percent (year-on-year). On a month-on-month basis, the number of job vacancies in February 2023 went down by 11.0 percent from the 2,843 jobs advertised in January 2023. Cumulatively, 5,372 advertised jobs were recorded for the first two months of 2023, compared with 5,370 jobs advertised during the same period in 2022.

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<sup>1</sup> The Daily Graphic newspaper was used to represent print media because it is the most widely circulated daily in Ghana.

<sup>2</sup> These are job adverts posted on the websites of the 10 main online job advertising/employment companies in Ghana.

### ***Private Sector Pension Contributions***

Total number of private-sector SSNIT contributors, which partially gauges employment conditions, declined by 7.4 percent to 863,563 in January 2023, compared with 932,328 for the same period in 2022. On a month-on-month basis, total number of private-sector SSNIT contributors decreased by 3.0 percent from the 890,421 individuals recorded in December 2022.

### **3.2 Composite Index of Economic Activity**

The Bank's updated real Composite Index of Economic Activity (CIEA) contracted by 7.6 percent in January 2023, compared with a growth rate of 4.2 percent in the corresponding period of 2022.

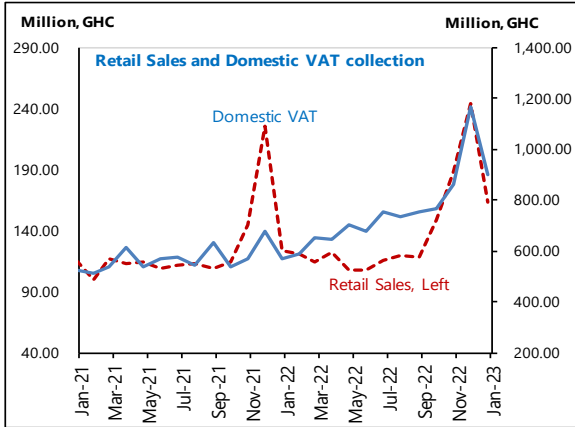
### **3.3 Consumer and Business Surveys**

The consumer and business confidence surveys conducted in February 2023 continued to show further improvement in sentiments. The Consumer Confidence Index increased to 84.4 in February 2023 from 79.2 in December 2022 on account of easing inflationary pressures which led to some optimism about future economic conditions. The Business Confidence Index also improved to 78.2 from 75.7 in the same comparative period as companies met short-term targets amid positive company and industry prospects.

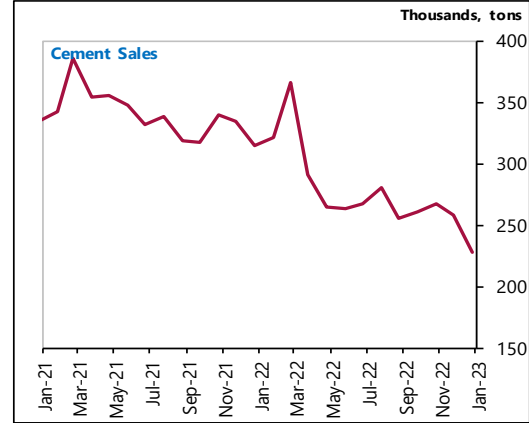
## Appendix

### Panel 1: Ghana's Leading Indicators of Economic Activity

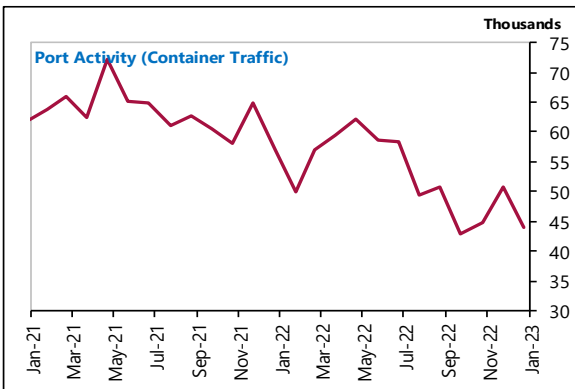
...Domestic VAT collections and retail sales declined in January 2023...



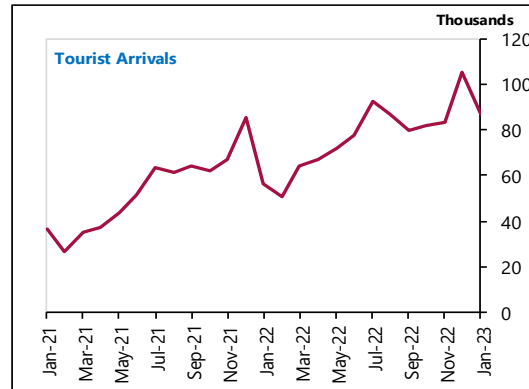
...Construction activities, proxied by cement sales, decreased in January 2023...



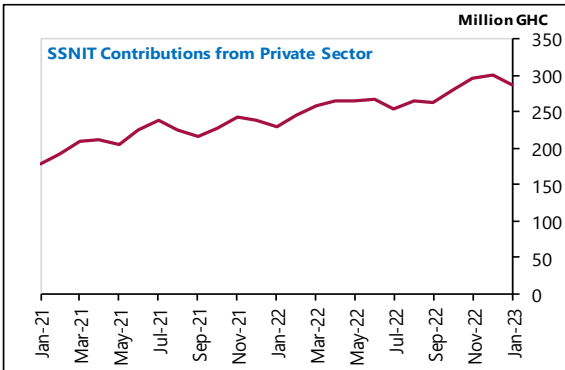
...Port activity declined in January 2023...



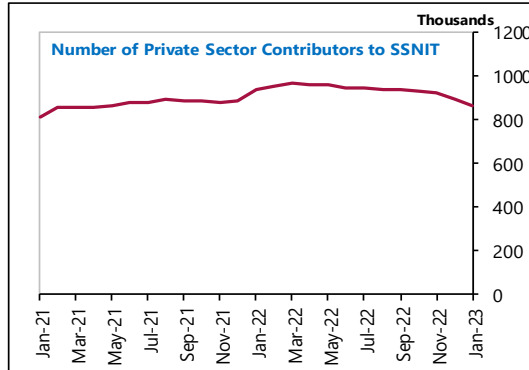
...Tourist arrivals went down in January 2023...



...Labour market conditions softened in January 2023...



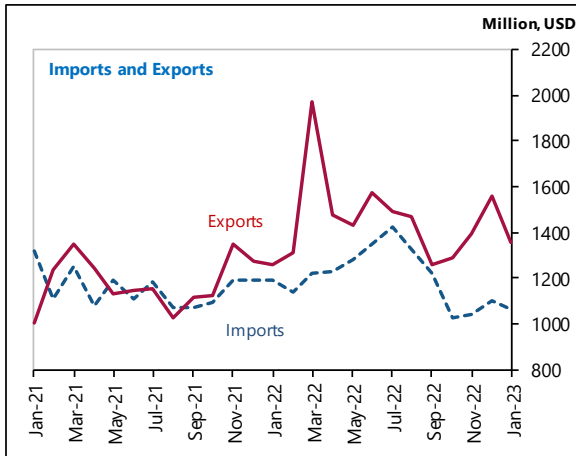
...Labour hiring conditions, proxied by the number of private sector workers contributing to SSNIT, eased...



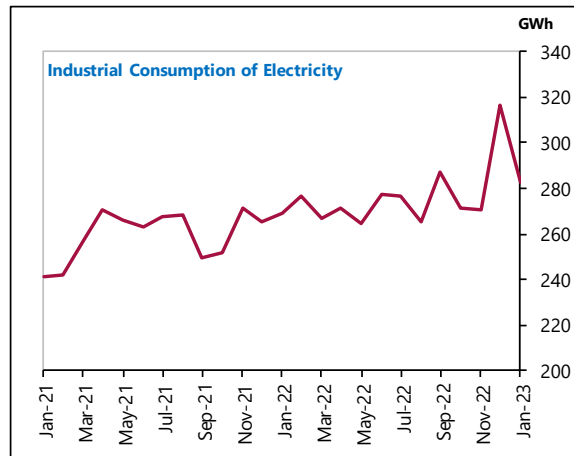
Sources: Bank of Ghana, Various Stakeholders

## Panel 2: Ghana's Leading Indicators of Economic Activity

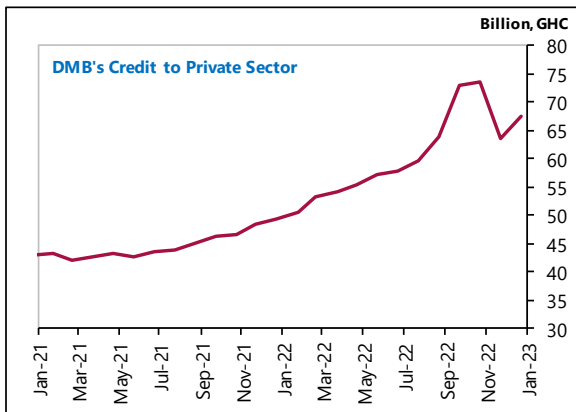
...Imports and exports went down in January 2023...



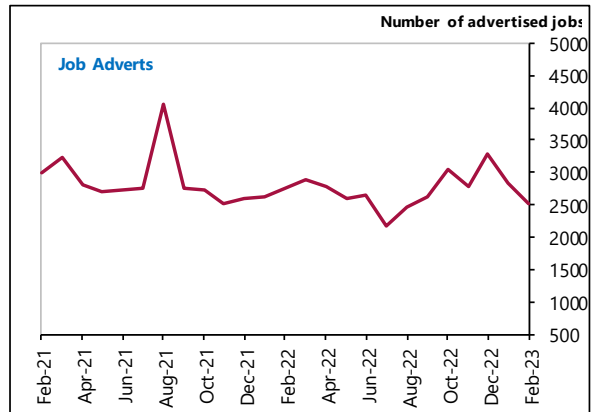
...Industrial activity, proxied by industrial consumption of electricity, declined...



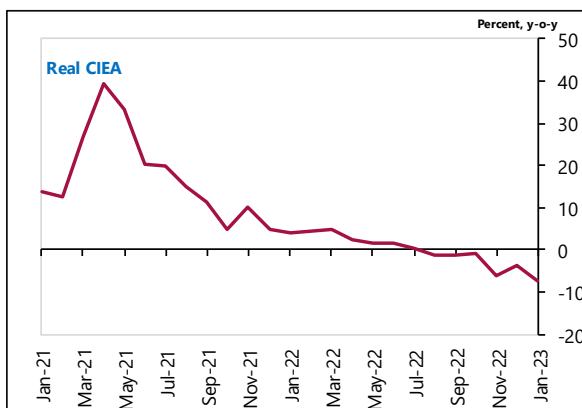
...Commercial banks' credit to the private sector improved in January 2023...



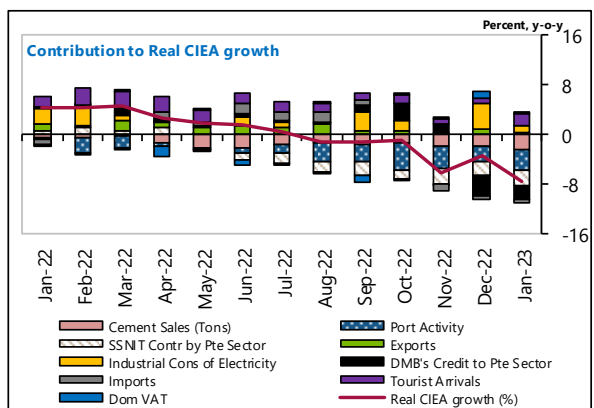
...Demand for labour, proxied by the number of job adverts (in print and online media), decreased in February 2023...



...On a year-on-year basis, the real CIEA contracted by 7.6 percent in January 2023, compared with a growth rate of 4.2 percent in January 2022...



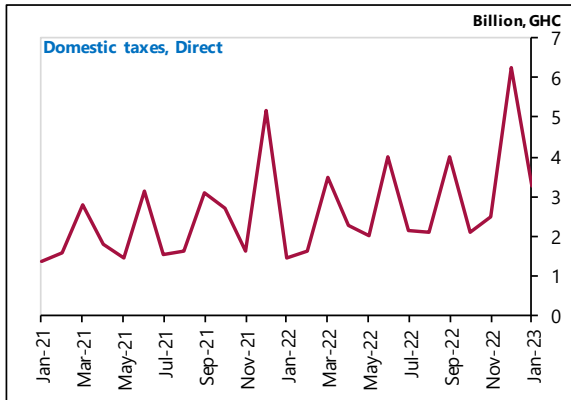
...The decline in the real CIEA was mainly due to a contraction in Port Activity, Cement Sales, SSNIT Contributions from the Private Sector, DMBs Credit to the Private Sector and Imports...



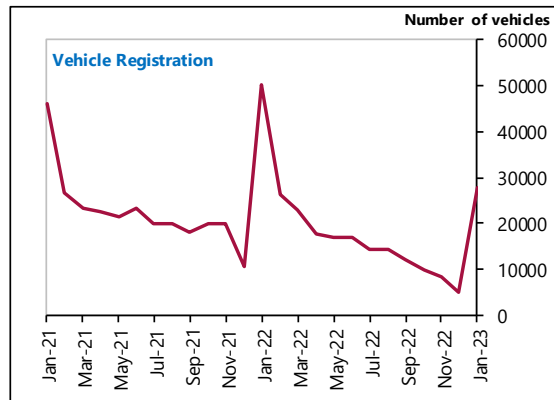
Source: Bank of Ghana, Various Stakeholders

### Panel 3: Ghana's Leading Indicators of Economic Activity

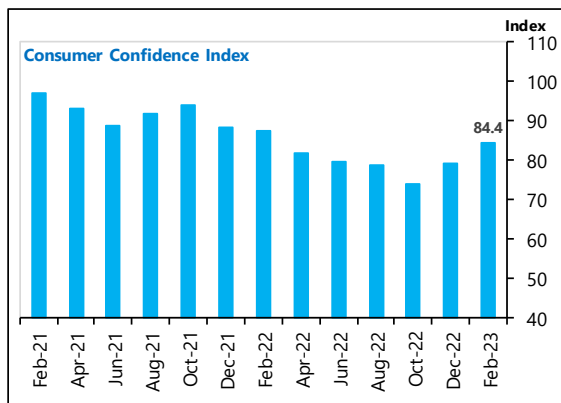
...Domestic tax collection decreased in January 2023...



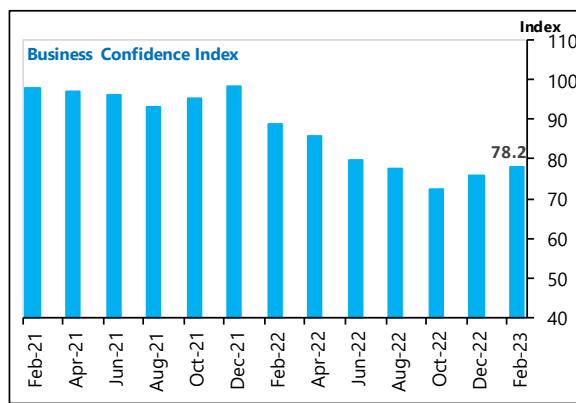
...Vehicle registration increased in January 2023...



...Consumer confidence improved on account of easing inflationary pressures which led to some optimism about future economic conditions...



...Business sentiments improved as companies met short-term targets amid positive company and industry prospects...



Source: Bank of Ghana, Various Stakeholders

## 4. Monetary and Financial Developments

### 4.0 Highlights

*Developments in monetary aggregates in February 2023, showed accelerated pace of growth in broad money supply (M2+) relative to corresponding period in 2022, reflecting significant expansion in the Net Domestic Assets (NDA), moderated by contraction in the Net Foreign Assets (NFA) of the depository corporations' sector. Interest rates on the money market broadly trended upward in February 2023 at the short to medium end of the yield curve, consistent with the tightening policy stance. The Ghana Stock Exchange (GSE) Composite Index recorded a loss on year-on-year and year-to-date bases, on the back of softened investor confidence, and uncertainties induced by inflation and exchange rate pressures, as well as portfolio reversals.*

### 4.1 Developments in Monetary Aggregates

#### *Money Supply*

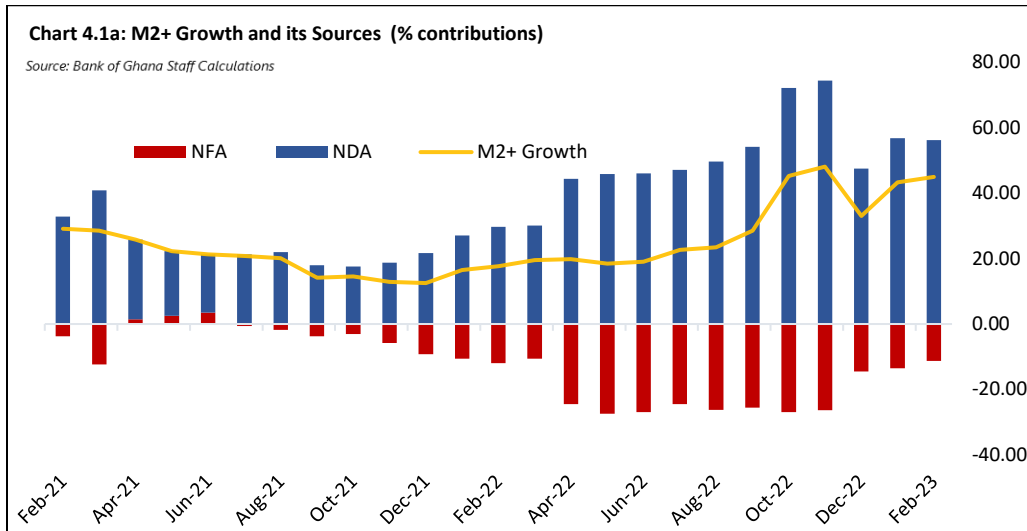
Developments in monetary aggregates in February 2023, showed accelerated pace of growth in broad money supply (M2+) mainly driven by considerable expansion in the Net Domestic Assets (NDA) of the depository corporation sector. The Net Foreign Assets (NFA), however, contracted to moderate the growth in M2+. M2+ growth increased to 45 percent in February 2023 compared with 17.7 percent in the corresponding period of 2022. The contribution of NDA to the growth of M2+ increased to 56.2 percent from 29.7 percent, while the contribution of NFA increased to negative 11.3 percent from negative 12.0 percent, over the same comparative period.

In terms of annual growth rates, NDA expanded by 58.3 percent in February 2023 relative to 35.4 percent in February 2022, while the NFA contracted by 320.8 compared with 74.4 percent contraction, over the same comparative period (Chart 4.1a and Appendix Table 4.1).

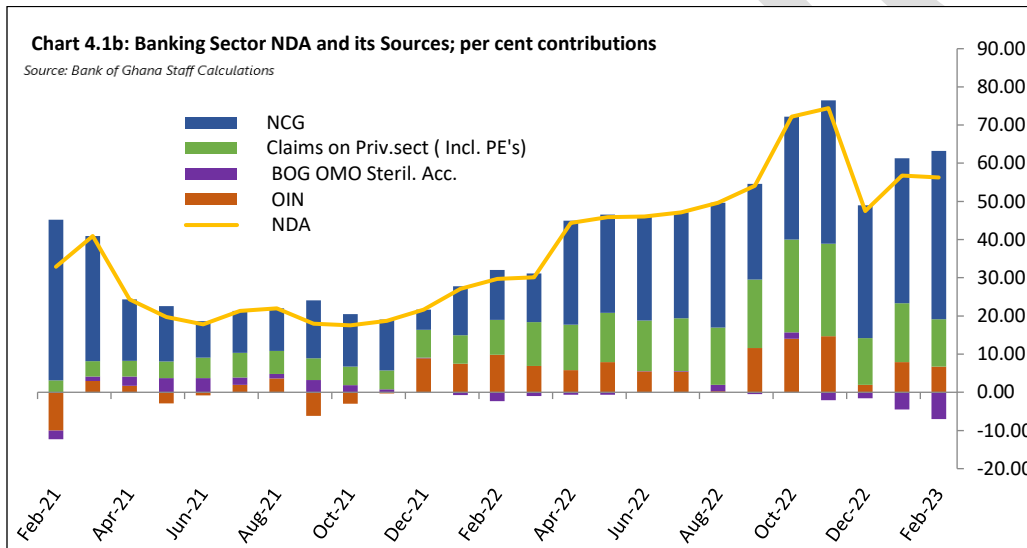
The increase in the contribution of the NDA in the growth of M2+ was mainly driven by increased growth in Net Claims on Government (NCG), claims on public and private sectors, and outflows through the Other Items (Net) (OIN). The stock of BOG bills held by Deposit Money Banks (DMBs), however, increased to 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 February, relative to same period in 2022. (Chart 4.2, Appendix Table 4.1).

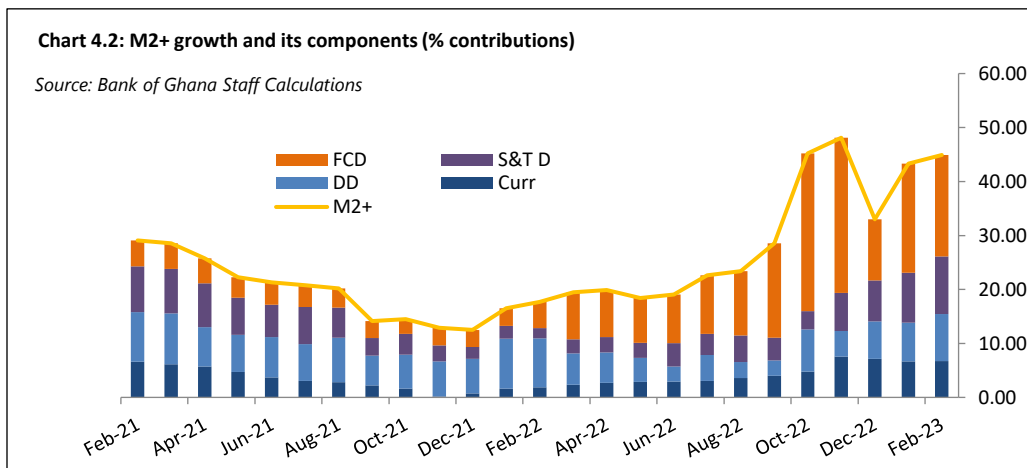




Source: Bank of Ghana Staff Calculations



Source: Bank of Ghana Staff Calculations

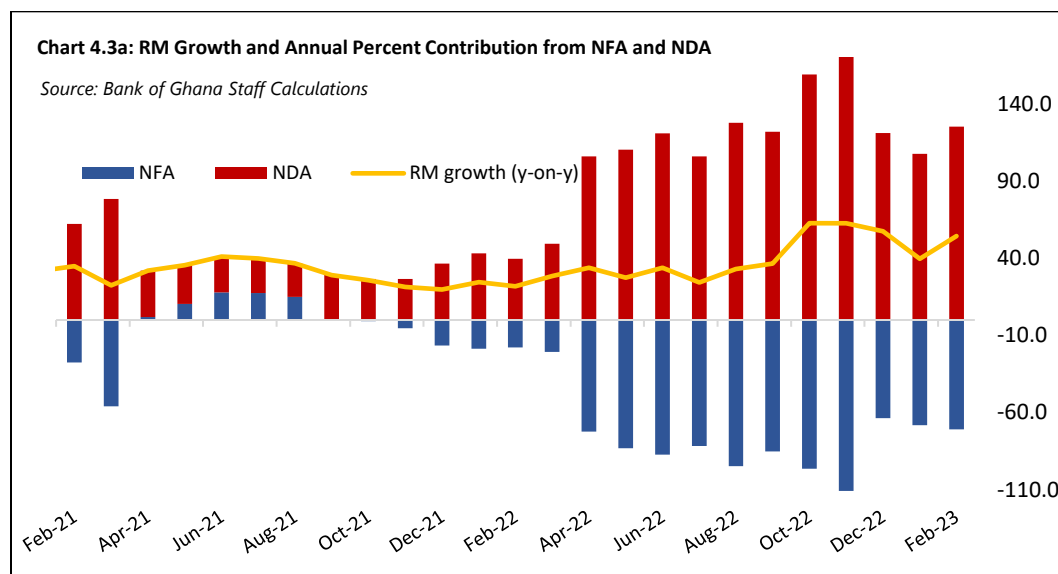


Source: Bank of Ghana Staff Calculations

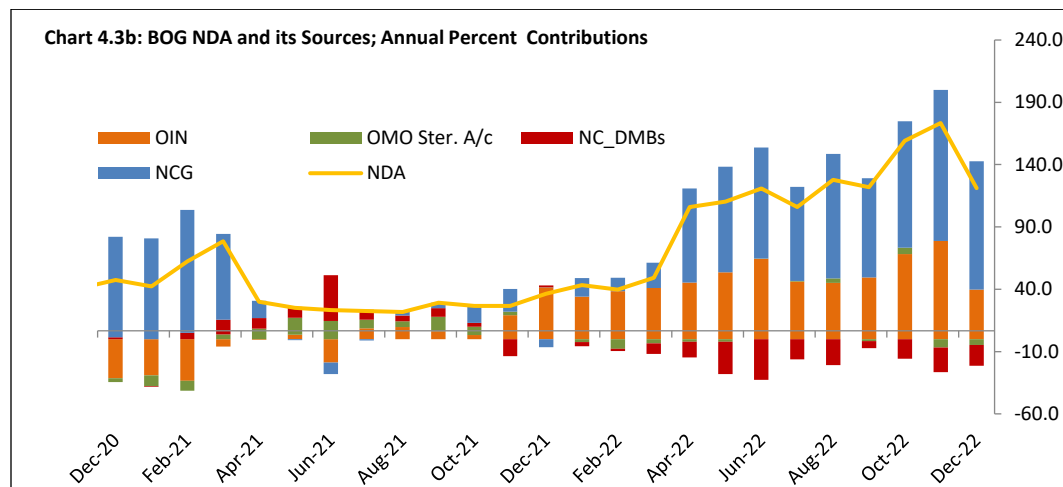
## 4.2 Reserve Money

Annual growth in Reserve Money (RM) increased considerably to 54.3 percent in February 2023, from 21.9 percent recorded in the corresponding period of 2022. 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 the OIN. OMO sterilization increased significantly to moderate the expansion in NDA. The NDA accounted for 125.3 percent of the growth in RM in February 2023 relative to 39.7 percent, same time last year.

In contrast, the NFA of the Central Bank contracted significantly, reflecting increased balance of payment support, and increased interventions on the foreign exchange market to mute the pressures on the domestic currency, as well as constrained foreign inflows. The contribution of the NFA to the growth in RM was negative 71.0 percent in February 2023, relative to negative 17.8 percent recorded in the corresponding period of 2022 (Chart 4.3a, 4.3b, and Appendix 4.2).



Source: Bank of Ghana Staff Calculations

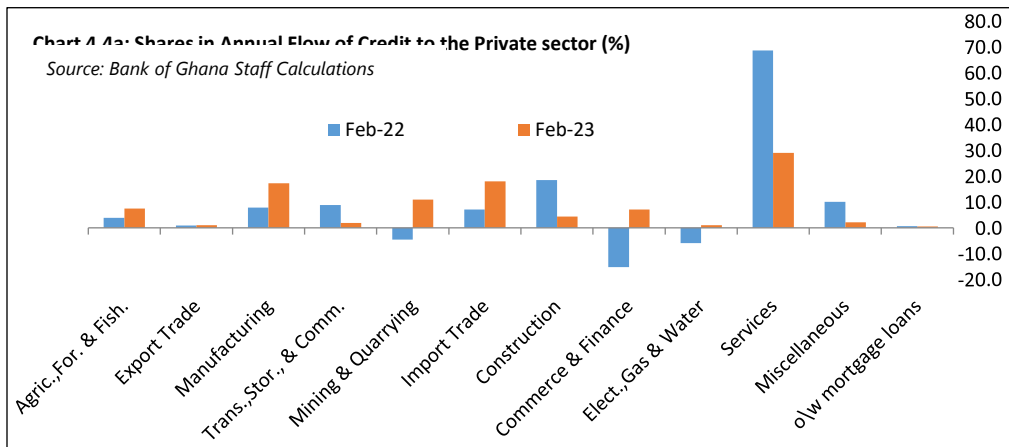


Source: Bank of Ghana Staff Calculations

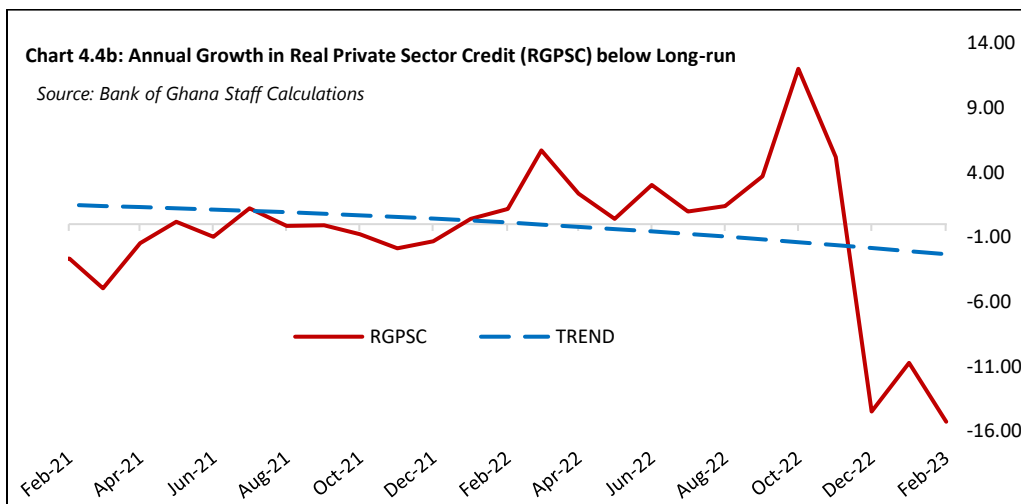
### 4.3 Deposit Money Banks Credit Developments

DMBs' credit to the private sector and public institutions increased significantly by GH¢17.24 billion (30.7%) in February 2023 compared with GH¢8.69 billion (18.3%) recorded in February 2022. Credit to the private sector increased by GH¢14.90 billion (29.5%) in February 2023 compared with GH¢7.38 billion (17.1%) recorded in the corresponding period of 2022. The significant increase in the nominal growth in private sector credit reflects portfolio reallocation by banks and exchange rate revaluation on foreign currency denominated credit. Private sector credit accounted for 86.4 percent of total flow of credit extended to both private and public institutions in February 2023, relative to 84.9 percent recorded in the corresponding period of 2022. Credit flow to the private sector remained concentrated in five sectors, comprising: services; import trade; manufacturing; mining and quarrying; and agriculture, forestry, and fisheries sectors (Chart 4.4a).

Outstanding credit to the private sector at the end of February 2023 was GH¢65.50 billion, compared with GH¢50.59 billion recorded in February 2022. In real terms, private sector credit contracted by 15.3 percent compared with 1.2 percent contraction recorded over the same comparative period. Growth in real private sector credit continued to trend below the long-run path in February 2023 (Chart 4.4b).



Source: Bank of Ghana Staff Calculations



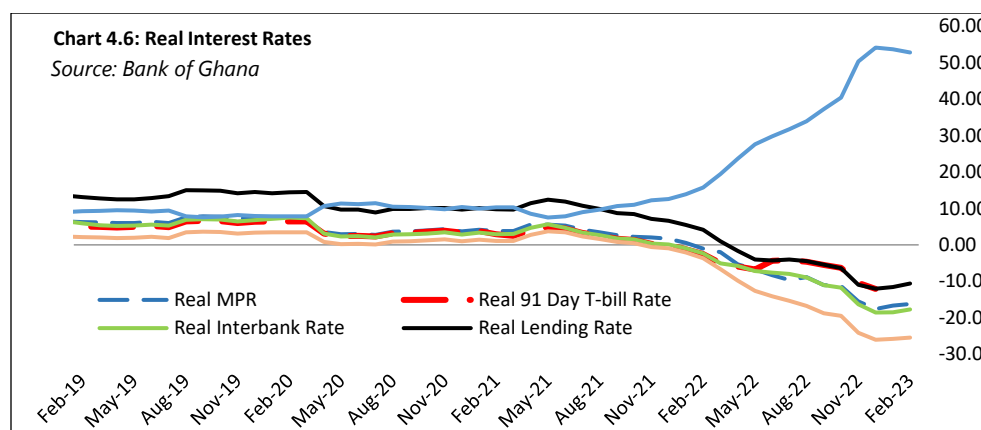
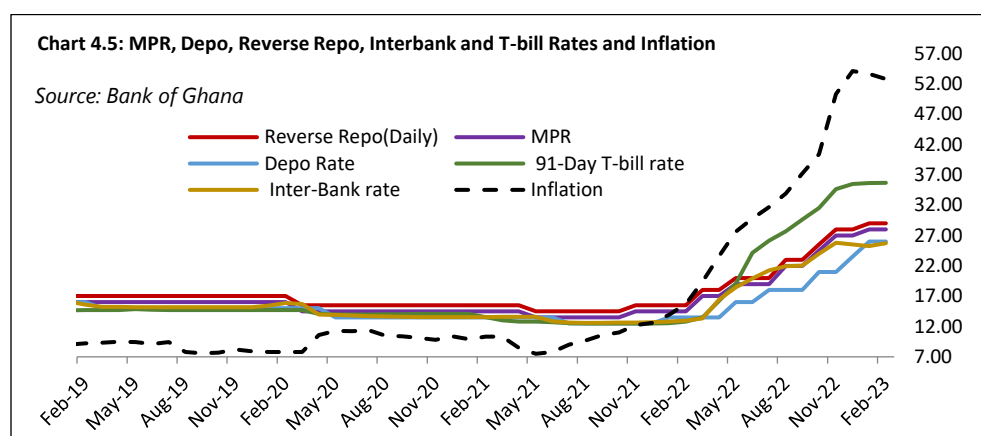
Source: Bank of Ghana Staff Calculations

## 4.5 Money Market Developments

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

Interest rates broadly trended upward in February 2023 at the short to medium end of the yield curve, consistent with the tightening policy stance. The 91-day and 182-day Treasury bill rates increased to 35.67 percent and 35.73 percent respectively, in February 2023, from 12.82 percent and 13.27 percent respectively, same period of 2022. Similarly, the rate on the 364-day instrument increased to 34.92 percent in February 2023 from 16.97 percent in February 2022.

The interbank weighted average rate increased to 25.73 percent in February 2023 from 12.96 percent in February 2022, underpinned by tightening policy stance and the hikes in the Cash Reserve Ratio during the review period. In tandem, the average lending rates of banks increased to 36.64 percent in February 2023 from 20.52 percent in the same period of 2022. (Charts 4.5, and 4.6).



Source: Bank of Ghana

## 4.6 Stock Market Developments

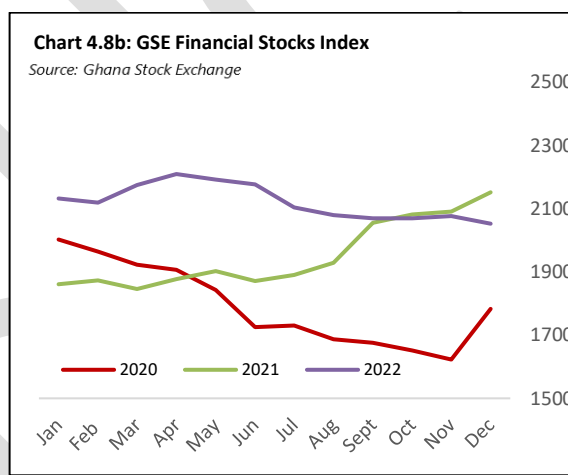
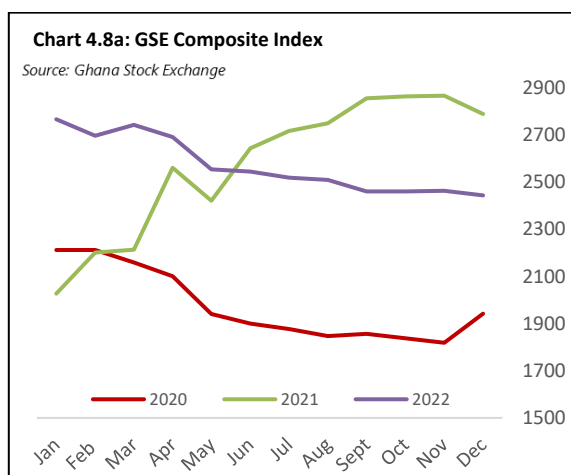
The Ghana Stock Exchange Composite Index (GSE-CI) decreased to 2408.0 points in February 2023 from 2696.45 points recorded in the corresponding period of 2022. This translates into a year-on-year loss of 10.7 percent in February 2023 compared to a gain of 22.5 percent in February 2022. The GSE-Financial Stocks Index (GSE-FSI) closed at 1946.6 points, representing a loss of 8.1 percent compared to a gain of 13.1 percent, over the same comparative period. The year-on-year loss is attributed to softened investor confidence, and uncertainties induced by inflation and exchange rate pressures, as well as portfolio reversals.

Total market capitalisation of the GSE at the end of February 2023 was GH¢64.24 billion representing a marginal growth of 2.2 percent (GH¢1.36 billion), compared with a growth 10.0 percent (GH¢5.72 billion) in February 2022. The marginal improvement in market capitalization was largely on account of the listing of Ashanti Gold Corporation (ASG). (Table 4.1, Charts 4.8a, 4.8b).

**Table 4.1: Performance of GSE**

Performance of Ghana Stock Exchange ( Table 2)										Changes				
										Y-O-Y	Y-T-D	M-O-M		
	Feb-21	Jan-22	Feb-22	Mar-22	Jun-22	Sep-22	Dec-22	Jan-23	Feb-23	2022	2023	2023	2022	2023
GSE CI	2200.92	2766.8	2696.45	2742.85	2545.48	2460.12	2443.91	2354.02	2408	22.51	-10.70	-1.47	-2.54	2.29
GSE FI	1873.31	2131.9	2118.96	2174.96	2176.97	2070.1	2052.59	2036.05	1946.57	13.11	-8.14	-5.17	-0.61	-4.39
Market Capitalization	57152.18	64097.80	62881.97	64029.79	64841.21	63985.83	64507.32	63706.71	64235.77	10.03	2.15	-0.42	-1.90	0.83

Source: Ghana Stock Exchange and Bank of Ghana Staff Calculations



#### 4.7 Conclusion

Growth in broad money supply (M2+) accelerated in February 2023 on account of significant expansion in the Net Domestic Assets (NDA) of the depository corporations' sector, while the Foreign Assets (NFA) contracted to moderate the growth in M2+. Similarly, 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 (NCG) and outflows through the OIN, during the review period. In contrast, the Central Bank's NFA decreased on the back of increased balance of payment support, increased interventions on the foreign exchange market and constrained foreign inflows.

Growth in credit to the private sector increased significantly in nominal terms, reflecting portfolio rebalancing by Deposit money Banks (DMBs) and exchange rate revaluation effects; in real terms, however, private sector credit contracted. Interest rates broadly trended upwards at the short to medium end of the yield curve, consistent with the tightening policy stance. The weighted average interbank rate increased significantly, inducing an increase in the average lending rates of banks.

**Appendix Table 4.1**

Appendix 1: Sources of Growth in Total Liquidity (M2+) (millions of Ghana cedis unless otherwise stated)											
	Feb-21	Feb-22	Mar-22	Jun-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	
1 Net Foreign Assets	19132.59	4908.33	2415.79	(7470.94)	(16665.29)	(19528.25)	(24446.84)	(12133.70)	(12056.39)	(10838.57)	
Bank of Ghana	15460.68	9154.33	4485.86	(6401.93)	(16871.08)	(21098.91)	(31490.12)	(19300.17)	(21311.29)	(21494.37)	
Commercial Banks	3671.92	(4246.00)	(2070.07)	(1069.01)	205.79	1570.66	7043.28	7166.46	9254.91	10655.80	
2 Net Domestic Assets	99334.89	134536.04	140313.35	152627.87	176822.88	207187.45	219426.28	192400.54	209050.05	212950.82	
3 ow: Claims on government (net)	69687.64	85117.84	87787.70	96441.19	108948.92	121169.24	133715.96	122554.34	135407.44	146573.73	
4 ow: Claims on Private sector( Incl. PE's)	53228.16	64080.22	66810.38	71346.80	79449.02	89844.06	90494.88	78327.41	82732.75	81386.26	
BOG OMO Sterilisation Acc.	(5824.25)	(8548.60)	(6289.35)	(4583.13)	(6940.43)	(5699.78)	(10537.98)	(7725.48)	(12960.91)	(18296.64)	
5 Total Liquidity (M2+)	118467.48	139444.38	142729.13	145156.93	160157.59	187659.20	194979.44	180266.84	196993.67	202112.25	
6 ow: Broad Money Supply (M2)	92071.18	107281.63	106050.89	106488.56	110613.58	121790.71	128482.81	135142.49	139966.12	143732.50	
7 ow: Foreign Currency Deposits(€million)	26396.31	32162.74	36678.24	38668.37	49544.01	65868.49	66496.63	45124.35	57027.55	58379.75	
<b>Change from previous year (in per cent)</b>											
8 Net Foreign Assets	(15.36)	(74.35)	(84.00)	(129.43)	(209.64)	(227.60)	(339.49)	(261.11)	(284.70)	(320.82)	
9 Net Domestic Assets	43.63	35.44	34.47	58.15	61.63	81.86	80.69	50.28	59.65	58.29	
10 ow: Claims on government (net)	124.07	22.14	20.86	52.40	40.31	52.23	58.76	62.72	62.73	72.20	
11 ow: Claims on Private sector( Incl. PE's)	5.72	20.39	26.01	29.46	38.98	53.77	54.39	26.77	34.43	27.01	
12 ow: BOG OMO Sterilisation Acc.	(54.64)	(46.77)	(22.79)	1.79	(9.79)	26.98	(34.33)	(36.62)	(91.19)	(114.03)	
12 Total Liquidity (M2+)	29.10	17.71	19.49	19.09	28.54	45.21	48.11	32.98	43.29	44.94	
13 Broad Money Supply (M2)	31.91	16.52	13.76	13.03	14.22	20.43	24.79	27.81	29.32	33.98	
14 Foreign Currency Deposits (FCDs)	20.18	21.85	39.89	39.69	78.49	134.39	131.82	51.33	95.01	81.51	
<b>Cummulative change from previous year end (in per cent)</b>											
15 Net Foreign Assets	2.87	(34.83)	(67.92)	(199.20)	(321.28)	(359.29)	(424.60)	(261.11)	(0.64)	(10.67)	
16 Net Domestic Assets	(2.54)	5.09	9.60	19.22	38.12	61.83	71.39	50.28	8.65	10.68	
17 ow: Claims on government (net)	1.05	13.02	16.56	28.05	44.66	60.88	77.54	62.72	10.49	19.60	
18 Broad Money(M2+)	(1.70)	2.87	5.29	7.08	18.15	38.44	43.84	32.98	9.28	12.12	
<b>Annual per cent contribution to money growth</b>											
19 Net Foreign Assets	(3.78)	(12.01)	(10.62)	(26.95)	(25.57)	(26.95)	(26.32)	(14.51)	(13.52)	(11.29)	
20 NDA	32.88	29.71	30.11	46.04	54.12	72.17	74.43	47.49	56.81	56.23	
21 Total Liquidity (M2+)	29.10	17.71	19.49	19.09	28.54	45.21	48.11	32.98	43.29	44.94	
<b>Memorandum items</b>											
22 Reserve Money	35439.73	43197.72	44866.58	48237.98	53503.90	64737.95	65615.00	68103.84	62752.24	66660.76	
23 NFA (\$million)	3334.72	743.64	339.67	(1033.25)	(1735.10)	(1501.18)	(1865.54)	(1414.84)	(1116.34)	(984.12)	
24 Currency ratio	0.20	0.18	0.18	0.18	0.17	0.16	0.18	0.21	0.19	0.18	
25 FCD/M2+	0.22	0.23	0.26	0.27	0.31	0.35	0.34	0.25	0.29	0.29	
26 FCD/Total Deposit	0.27	0.27	0.30	0.31	0.36	0.41	0.40	0.30	0.34	0.34	
27 RM multiplier	2.60	2.48	2.36	2.21	2.07	1.88	1.96	1.98	2.23	2.16	

**Appendix Table 4.2**

Appendix 2: Sources of Growth in Reserve Money (millions of Ghana cedis unless otherwise stated)											
	Feb-21	Feb-22	Mar-22	Jun-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	
1 Net Foreign Assets ( NFA)	15460.68	9154.33	4485.86	(6401.93)	(16871.08)	(21098.91)	(31490.12)	(19300.17)	(21311.29)	(21494.37)	
2 Net Domestic Assets ( NDA)	19979.06	34043.39	40380.73	54639.91	70374.98	85836.86	97105.12	87404.00	84063.53	88155.12	
<b>of which:</b>											
3 ow: Claims on government (net)	32158.06	35960.11	39496.69	51437.82	62420.49	74101.60	86704.90	73910.16	85302.40	88867.50	
4 Claims on DMB's (net)	1254.30	617.25	(1896.17)	(4678.86)	(1494.48)	(5679.57)	(7144.65)	(4415.26)	(10564.82)	(6284.97)	
5 OMO Sterilisation Account.	(5824.25)	(8548.60)	(6289.35)	(4583.13)	(6940.43)	(5699.78)	(10537.98)	(7725.48)	(12960.91)	(18296.64)	
6 Reserve Money ( RM)	35439.73	43197.72	44866.58	48237.98	53503.90	64737.95	65615.00	68103.84	62752.24	66660.76	
7 ow:Currency	19447.00	21658.07	22090.81	22102.32	23786.09	25674.07	29474.64	31420.65	31010.97	31028.49	
8 DMB's reserves	12554.09	15757.61	18451.87	21821.29	25120.26	33358.59	31436.48	31727.84	26518.91	30535.68	
9 Non-Bank deposits	3438.64	5782.04	4323.90	4314.37	4597.55	5705.29	4703.87	4955.35	5222.35	5096.59	
<b>Change from previous year (in per cent)</b>											
10 Net Foreign Assets	(31.83)	(40.79)	(61.79)	(125.57)	(202.22)	(222.33)	(338.41)	(334.03)	(327.95)	(334.80)	
11 Net Domestic Assets	454.30	70.40	74.32	395.38	210.68	280.85	257.73	149.74	136.04	158.95	
12 ow: Claims on government (net)	412.35	11.82	21.52	165.95	100.20	119.18	129.40	151.48	135.28	147.13	
13 Claims on DMB's (net)	1290.59	50.79	277.29	165.74	301.86	1155.54	909.91	256.60	2634.41	1118.22	
14 OMO Sterilisation Account.	(54.64)	(46.78)	(22.79)	1.79	(9.79)	26.98	(34.33)	(36.62)	(91.19)	(114.03)	
15 Reserve Money ( RM)	34.83	21.89	28.54	33.76	36.64	62.72	62.60	57.48	39.56	54.32	
16 ow:Currency	45.20	11.37	14.31	19.11	26.44	31.68	51.09	44.30	41.83	43.27	
<b>Cummulative change from previous year end (in per cent)</b>											
17 Net Foreign Assets ( NFA)	9.47	11.00	(45.61)	(177.63)	(304.57)	(355.84)	(481.84)	(334.03)	(358.41)	(360.63)	
18 Net Domestic Assets ( NDA)	(9.19)	(2.73)	15.38	56.12	101.08	145.26	177.46	149.74	140.20	151.89	
19 ow: Claims on government (net)	1.35	22.36	34.39	75.02	112.39	152.14	195.02	151.48	190.25	202.38	
20 Reserve Money ( RM)	(1.90)	(0.11)	3.75	11.55	23.72	49.70	51.73	57.48	45.11	54.15	
<b>Annual per cent contribution</b>											
21 Net Foreign Assets	(27.47)	(17.79)	(20.78)	(87.17)	(85.24)	(96.38)	(110.77)	(63.70)	(68.19)	(70.95)	
22 Net Domestic Assets ( NDA)	62.30	39.69	49.32	120.93	121.88	159.10	173.37	121.18	107.75	125.27	
23 RM growth ( y-o-y)	34.83	21.89	28.54	33.76	36.64	62.72	62.60	57.48	39.56	54.32	

Source: Bank of Ghana Staff Calculations

## 5. Banking Sector Developments

### 5.0 Highlights

*Developments in the banking sector broadly reflected the challenging operating macroeconomic conditions and implementation of the Domestic Debt Exchange Programme (DDEP), which all 23 universal banks participated in. Preliminary assessment of the impact of the DDEP on the banking sector, based on December 2022 data, points to significant losses on account of impairment of banks' holdings in GoG bonds. The impact of the DDEP as currently assessed is moderated by the timely introduction of regulatory reliefs by the Bank of Ghana to support the banking sector, similar to the reliefs provided to banks at the onset of the COVID-19 pandemic.*

### 5.1 Banks' Balance Sheet

Total assets of the industry stood at GH¢209.4 billion at end-December 2022, representing an annual growth of 16.4 percent, and reflecting sustained growth in deposits and exchange rate variations on banks' balance sheets. Total investments declined significantly to GH¢64.8 billion in December 2022 from GH¢83.1 billion in December 2021, indicating a contraction of 22.1 percent, compared with the 29.0 percent growth in the same period a year before. Total credit, on the other hand, increased by 28.5 percent to GH¢69.1 billion in December 2022 from GH¢53.8 billion in December 2021. Of the total liabilities of the banking system, total deposits stood at GH¢157.9 billion, representing an increase of 30.4 percent year-on-year, compared with 16.6 percent recorded during the same period in 2021.

### 5.2 Financial Soundness Indicators

Key financial soundness indicators remained broadly sound, supported largely by the regulatory reliefs provided by the Bank. Among others, the minimum Capital Adequacy Ratio (CAR) required to be maintained by banks was reduced from 13 percent to 10 percent as of 31st December 2022, and losses from the DDEP are to be reflected in the computation of CAR over a period of up to four (4) years. Accordingly, the industry's average CAR adjusted for the regulatory reliefs was 15.7 percent in December 2022, compared with the CAR of 16.6 percent as of December 2022, without the DDEP. The adjusted CAR reflected valuation losses on GoG bonds, elevated credit risk, and revaluation losses on foreign currency denominated loans. Asset quality marginally improved, with the industry's Non-Performing Loans (NPL) ratio at 15.1 percent in December 2022, almost unchanged from 15.2 percent in December 2021, reflecting the higher growth in credit which outpaced the growth in the NPL stock.

### 5.3 Credit Conditions Survey

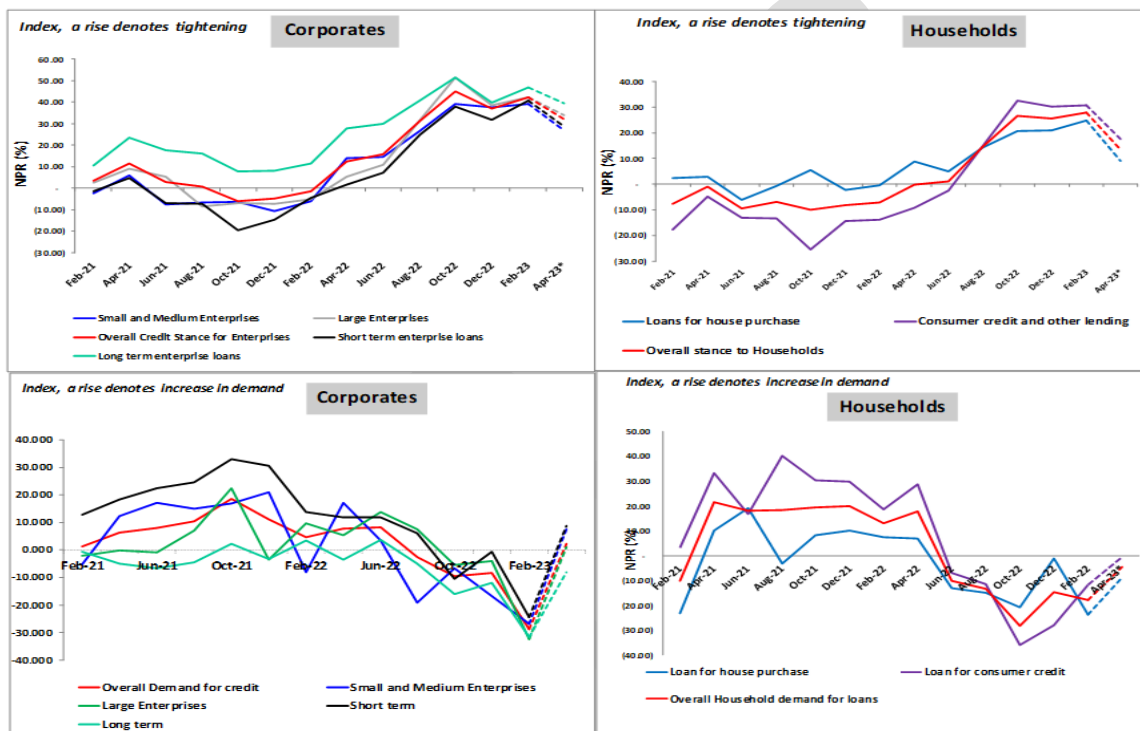
Results of the February 2023 Credit Conditions Survey indicated a net tightening in the overall credit stance on loans to enterprises during the first two months of 2023, on the back of net tightening in the stance on all components of enterprise loans. Banks', however, project the overall stance on enterprise loans to ease between March and April 2023 and this is expected to be reflected in all components of enterprise loans.

Similarly, for households, banks reported a net tightening in their overall stance on loans to households in January and February 2023, driven by moderate net tightening in their stance on both mortgage loans and consumer credit and other lending. For March and April 2023, banks project their stance on overall household credit to soften, from softening stance on mortgages as well as consumer loans and other lending.



The February 2023 survey also revealed net declines in the demand for loans by both enterprises and households. Overall demand for enterprise loans declined during the current survey round from moderations in the demand for all the categories of enterprise loans, while the decline in the overall demand for household loans came on the back of a net decline in the demand for mortgages, while the demand for consumer credit recorded a net increase. For the period March to April 2023, banks expect the overall demand for loans by enterprises to increase from increases in all four categories of enterprise loans, with a similar pickup in the overall demand for loans by households, also from net increases in both categories of household loans (Figure 5.1).

**Figure 5.1: Credit Conditions Survey Results**



Source: Bank of Ghana Staff Calculations

## 5.4 Conclusion and Outlook

The preliminary assessment on the banking sector will be updated once banks' external auditors complete their audits of banks' 2022 financial performance making the necessary adjustments to fully reflect the DDEP impact. Banks are expected to publish their 2022 audited financial statements by end April 2023 following a one-month dispensation granted by the Bank of Ghana on account of the DDEP.

## **Regulatory and Policy Reliefs to Cushion Banks against the Impact of the Domestic Debt Exchange Programme**

*On 5<sup>th</sup> December 2022, the Government of Ghana launched the Domestic Debt Exchange Programme for a voluntary exchange of holdings of domestic notes and bonds, for a package of New Bonds to be issued by the Republic. All 23 banks participated in the Domestic Debt Exchange by the settlement date of 21<sup>st</sup> February 2023.*

*To help manage the potential impact and preserve financial stability, the Bank of Ghana announced some policy and regulatory reliefs for banks that fully participate in the debt exchange. These policy and regulatory reliefs had been informed by stress tests on banks that revealed the potential impacts of the Exchange on banks' solvency, liquidity, and profitability. The reliefs announced include:*

- (i) Reduction of Cash Reserve Ratio (CRR) from 13 percent to 12 percent on foreign currency deposits to be held in foreign currency.*
- (ii) Reduction of Capital Conservation Buffer from 3 percent to zero, effectively reducing the minimum Capital Adequacy Ratio (CAR) from 13 percent to 10 percent, intended to provide capital relief to banks after the implementation of the Debt Exchange.*
- (iii) Derecognition losses emanating from the Debt Exchange to be spread equally over a period of 4 years, effective 2022, for the purposes of CAR computation.*
- (iv) Banks have a maximum of 4 years, ending 2025, to restore the minimum paid-up capital as a result of any capital shortfall arising solely from the derecognition losses.*
- (v) Increase in Tier II component of regulatory capital from 2 percent to 3 percent of Total Risk Weighted Assets (RWA).*
- (vi) Reduction of minimum Common Equity Tier 1 (CET 1) capital from 6.5 percent to 5.5 percent of Total RWA.*
- (vii) Risk-weights attached to New Bonds to be set at 0 percent for CAR computation, and at 100 percent for Old Bonds.*

*The Bank is fully equipped to provide liquidity support to banks, while banks can access the Emergency Liquidity Assistance (ELA) using the New Bonds as collateral.*

*The Bank of Ghana has also enhanced its supervisory surveillance systems with banks required to report more frequently, such as daily submissions of balance sheet as well as liquidity reports including interbank market activities and cost of financing. Additional reporting requirements have been developed for banks to report on the performance of the new bonds. The enhanced monitoring mechanism is to ensure timely supervisory intervention, if needed.*

*In addition to the above reliefs, the Government announced the establishment of a Ghana Financial Stability Fund (GFSF) to serve as a liquidity backstop for banks and other financial institutions that would be adversely impacted by the domestic debt exchange.*

## 6. Fiscal Developments

### 6.0 Highlights of Government Budgetary Operations

Provisional data on budget execution for January – December 2022 indicated a higher overall broad fiscal deficit (cash basis) of GH¢49.7 billion (8.1 percent of GDP), against the revised Mid-year 2022 target of GH¢38.9 billion (6.3 percent of GDP). The primary balance (on cash basis) recorded a deficit of 0.6 percent of GDP, against a primary surplus target of 0.4 percent of GDP. Total revenue and grants amounted to GH¢96.7 billion (15.7 percent of GDP), marginally short of the revised target of GH¢96.8 billion (15.73 percent of GDP). Total expenditure was GH¢146.3 billion (23.8 percent of GDP) above the revised target of GH¢135.7 billion (22.0 percent of GDP). These developments resulted in a deficit of GH¢49.7 billion, of which GH¢48.2 billion was financed from domestic sources.

On the fiscal outlook, the 2023 Budget statement has set fiscal policy on a consolidation path which is consistent with key elements agreed with the IMF at the Staff Level in December 2022. The domestic debt exchange, new revenue measures, and structural fiscal reforms will provide significant reduction of debt service and help create fiscal space. The fiscal outlook is contingent on financing of the budget, which requires conclusion of the domestic debt exchange programme as well as securing the requisite financing assurances from bilateral donors. Indications are that these discussions are proceeding well. Under the Staff Level Agreement with the IMF, the Bank of Ghana and the Ministry of Finance have finalised a Memorandum of Understanding on zero financing to the budget, to be signed shortly. The passage of the relevant revenue bills by Parliament will therefore conclude the required prior actions to advance Ghana's programme to the IMF Executive Board.

### 6.1 Public Debt Analysis

*The stock of public debt was equivalent to 93.5 per cent of GDP at the end of November 2022, over the end-December 2021 of 76.7 per cent of GDP.*

The stock of public debt at the end-November 2022 stood at GH¢575.7 billion (93.5 percent of GDP), showing an increase of GH¢223.6 billion over the end-December 2021 stock of GH¢352.1 billion (76.7 percent of GDP). The growth in the public debt stock was due to increases in both the domestic and external components of total public debt.

The domestic component was GH¢193.1 billion (31.4% of GDP), representing a year-to-date increase of 6.2 percent and accounted for 33.5 percent of the total public debt, lower than the 51.6 percent recorded in December 2021. The increase was driven mainly by increases of GH¢5.2 billion, GH¢5.5 billion and GH¢299.9 million in the short, medium, and long-term instruments respectively.

In terms of the holding structure, the non-bank sector recorded a year-to-date increase of GH¢15.6 billion, with the banking sector also increasing their holdings by GH¢10.6 billion. However, the non-resident investors decreased their holdings by GH¢14.9 billion over the period.

On year-to-date basis, total external debt increased by US\$453.8 million to US\$29.2 billion on year to date basis. However, due to exchange rate effect, total external debt in Ghana Cedi terms, increased by GH¢212.3 billion to GH¢382.7 billion (62.1% of GDP) at the end of November 2022. External debt constituted 66.5 percent of total public debt at the end of November 2022 compared 48.4 percent in December 2021.

**Table 6.1: Public Debt**

	2021	2022	2022	2022	2022	2022	Nov 2022 - Dec 2021
	DECEMBER	MARCH	JUNE	SEPTEMBER	OCTOBER	NOVEMBER	CHANGE
<b>TOTAL DOMESTIC DEBT (GH¢m)</b>	<b>181,777.21</b>	<b>190,207.22</b>	<b>190,114.49</b>	<b>195,657.61</b>	<b>196,585.21</b>	<b>193,065.96</b>	<b>11,288.75</b>
Short Term	22,616.96	22,854.22	20,885.43	26,196.70	26,147.91	27,834.58	5,217.62
Medium-Term	115,067.97	122,116.42	124,086.78	124,415.00	125,391.38	120,529.22	5,461.25
Long-Term	43,712.29	44,586.51	44,512.24	44,355.91	44,355.91	44,012.16	299.87
Standard Loans	379.98	650.07	630.03	690.00	690.00	690.00	310.01
Holdings Of Domestic Debt	181,777.21	190,207.22	190,114.49	195,657.61	196,585.21	193,065.96	11,288.75
Banking System	93,418.90	98,062.38	94,696.00	103,321.29	103,337.69	104,043.84	10,624.94
Non-Bank	59,362.97	63,025.89	67,884.48	75,073.93	75,944.07	74,951.00	15,588.02
Foreign Sector (Non-Resident)	28,995.33	29,118.96	27,534.01	17,262.40	17,303.44	14,071.12	(14,924.21)
<b>TOTAL EXTERNAL(US\$M)</b>	<b>28,389.22</b>	<b>28,379.07</b>	<b>28,135.88</b>	<b>28,412.13</b>	<b>29,401.23</b>	<b>29,185.22</b>	<b>453.82</b>
Multilateral	8,242.45	8,150.01	8,073.63	7,757.44	9,050.74	7,919.34	(323.10)
Bilateral	3,912.04	3,899.98	3,740.13	3,653.82	3,404.49	3,746.68	(507.55)
Commercial	16,234.73	16,329.08	16,322.12	17,000.87	16,946.01	17,519.20	1,284.47
<b>TOTAL EXTERNAL(GH¢M)</b>	<b>170,309.74</b>	<b>201,945.43</b>	<b>203,368.97</b>	<b>271,713.71</b>	<b>382,674.71</b>	<b>382,653.31</b>	<b>212,343.57</b>
<b>TOTAL PUBLIC DEBT (GH¢M)</b>	<b>352,086.95</b>	<b>392,152.66</b>	<b>393,483.45</b>	<b>467,371.32</b>	<b>579,259.91</b>	<b>575,719.28</b>	<b>223,632.32</b>
Exchange Rate (End Period Selling - MOF)	5.9991	7.1160	7.2281	9.5633	13.0156	13.1112	
<b>MEMORANDUM ITEMS</b>							
NOMINAL GDP (GH¢ m)	459,130.92	615,761.31	615,761.31	615,761.31	615,761.31	615,761.31	
<b>Total Debt/GDP Ratio (%)</b>	<b>76.69</b>	<b>63.69</b>	<b>63.90</b>	<b>75.90</b>	<b>94.07</b>	<b>93.50</b>	
External Debt/GDP	37.09	32.80	33.03	44.13	62.15	62.14	
Domestic Debt/GDP	39.59	30.89	30.87	31.77	31.93	31.35	
External Debt/Total Debt	48.37	51.50	51.68	58.14	66.06	66.47	
Domestic Debt/Total Debt	51.63	48.50	48.32	41.86	33.94	33.53	

Source: Ministry of Finance

## 7. Inflation Outlook and Analysis

### 7.0 Global Price Developments

Inflation remains elevated globally, and significantly above central bank targets in many countries. However, since the start of 2023, headline inflation various countries have been on a steady decline, driven mainly by lower energy and food prices stemming from weakened global demand and easing supply chain bottlenecks. But, underlying inflationary pressures persist due to the pass-through effects of high input costs, rising wages especially in advanced economies, and currency depreciation. Global headline inflation is expected to ease to 6.6 percent by December 2023, from 8.8 percent in December 2022, reflecting declining fuel and non-fuel commodity prices, and the cooling effects of central bank policy tightening.

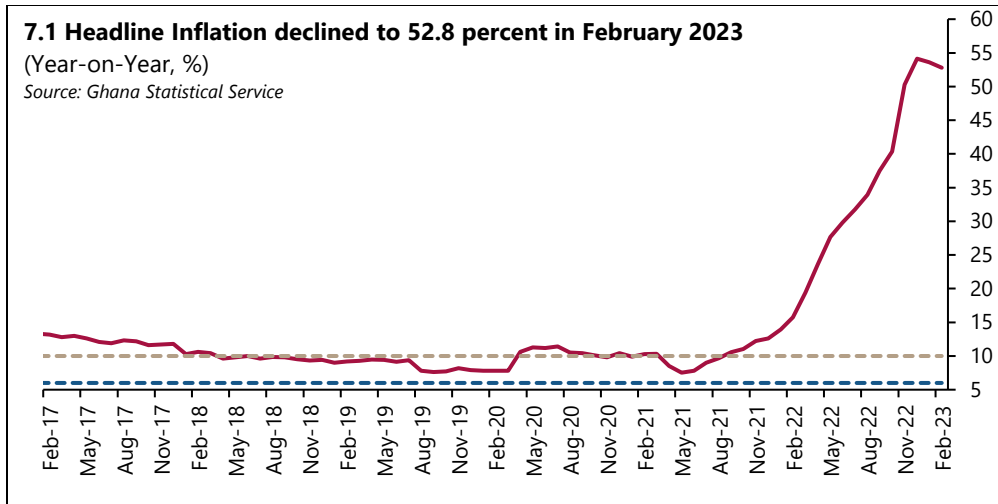
Global financial conditions eased somewhat in early 2023 as slower growth and moderating inflation led markets to price in further reduction in the pace of future policy rate hikes. More recently, central banks in advanced economies have all increased their respective policy rates, albeit at a slower pace, but with commitment to maintain a tight monetary policy stance until inflation is contained. Similarly, in many emerging market and developing countries, central banks continued to tighten monetary policy stance in their respective economies in direct response to inflation threats and currency depreciations. Meanwhile, concerns that inflation may stay elevated for longer than previously anticipated kept long-term bond yields high, while uncertainties about global growth prospects and the hawkish posture of central banks in Advanced Economies alongside the ongoing turbulence in the banking system, have triggered volatility in the equities market.

### 7.1 Domestic Price Developments

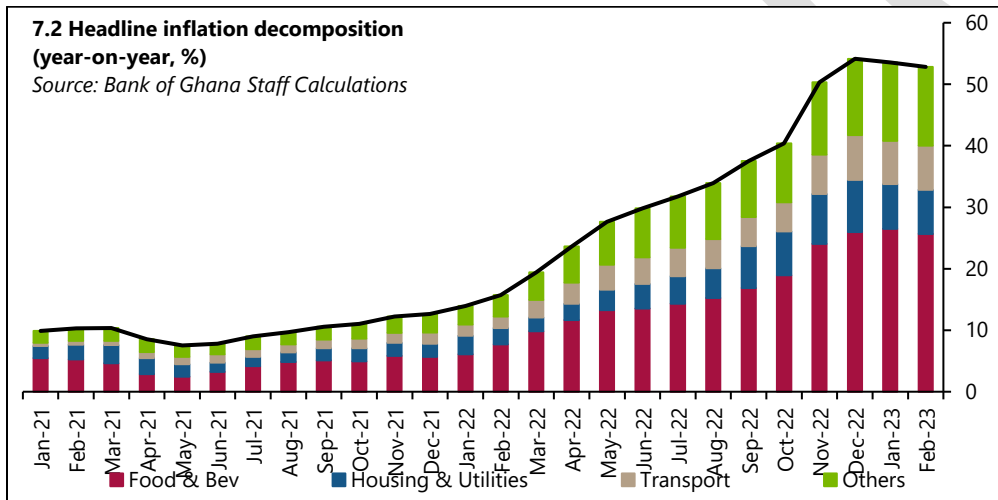
Recent price developments indicate that the inflation surge in the economy, witnessed since December 2021, has peaked. Headline inflation has started easing, broadly reflecting a slowdown in non-core components of the consumer price basket. The two GSS releases since January 2023 showed two consecutive declines in headline inflation from a peak of 54.1 percent in December 2022 to 53.6 percent in January, and to 52.8 percent in February 2023 (Figure 7.1). The deceleration in inflation was attributed to the tight monetary policy stance, relative stability in the exchange rate, falling prices of ex-pump prices, as well as lower food inflation, while non-food inflation remained broadly stable. Food inflation declined to 59.1 percent in February 2023 from 61.0 percent in January, while non-food inflation remained unchanged at 47.9 percent in January and February 2023. The moderation in both food and non-food inflation were on the back of deceleration in both imported and locally produced goods (Table 7.1 & 7.2).

In line with the trends in headline inflation, underlying inflationary pressures eased in the first two months of the year. The Bank's main measure of core inflation, which excludes energy and utility prices, declined from 53.2 percent in December 2022 to 52.8 percent in January, and decelerated further to 52.0 percent in February 2023 (Figure 7.3). Also, the weighted inflation expectations of banks, consumers, and businesses, declined, consistent with the observed declining trend in headline inflation.

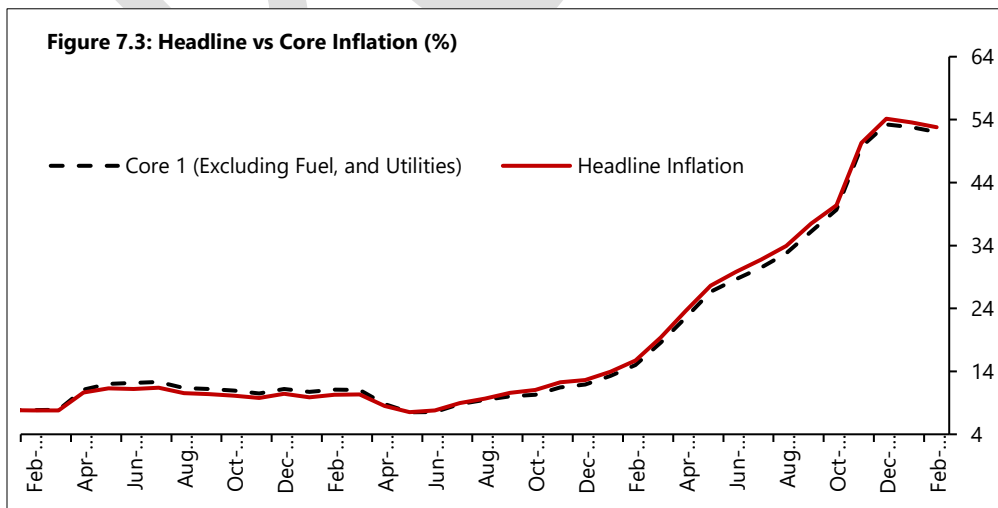
Developments in monthly inflation suggested a marginal uptick in February 2023 relative to January, on account of the 2.5 percentage increase in VAT and the upward adjustment in utility tariffs. The monthly headline inflation picked up slightly to 1.9 percent in February from 1.7 percent in January 2023 (Figure 7.4). The uptick in monthly inflation in February was reflected mainly in non-food inflation, which rose to 1.7 percent in February 2023 from 0.8 percent in January, while monthly food inflation slowed to 2.0 percent from 2.8 percent over the same period (Table 7.1).



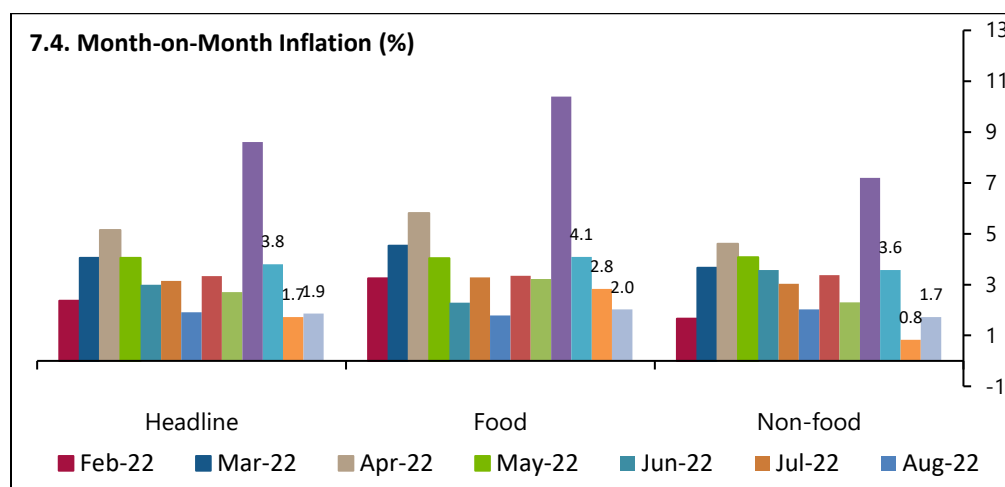
Source: Bank of Ghana and GSS



Source: Bank of Ghana and GSS



Source: Bank of Ghana Staff Calculations



Source: Bank of Ghana and GSS

## 7.2 Inflation Outlook

Recent price developments indicate that the inflation surge in the economy since December 2021, has peaked, but headline inflation is expected to remain above the upper band of the medium-term target of  $8\pm 2$  percent. The broad underlying inflationary pressures, combined with tighter external financial conditions are likely to exert price pressures on domestic inflation. However, tightening monetary policy stance, relative stability in the exchange rate, continued efforts to mop excess liquidity in the banking system, and base drift effects would work together to dampen inflationary pressures in the near-term.

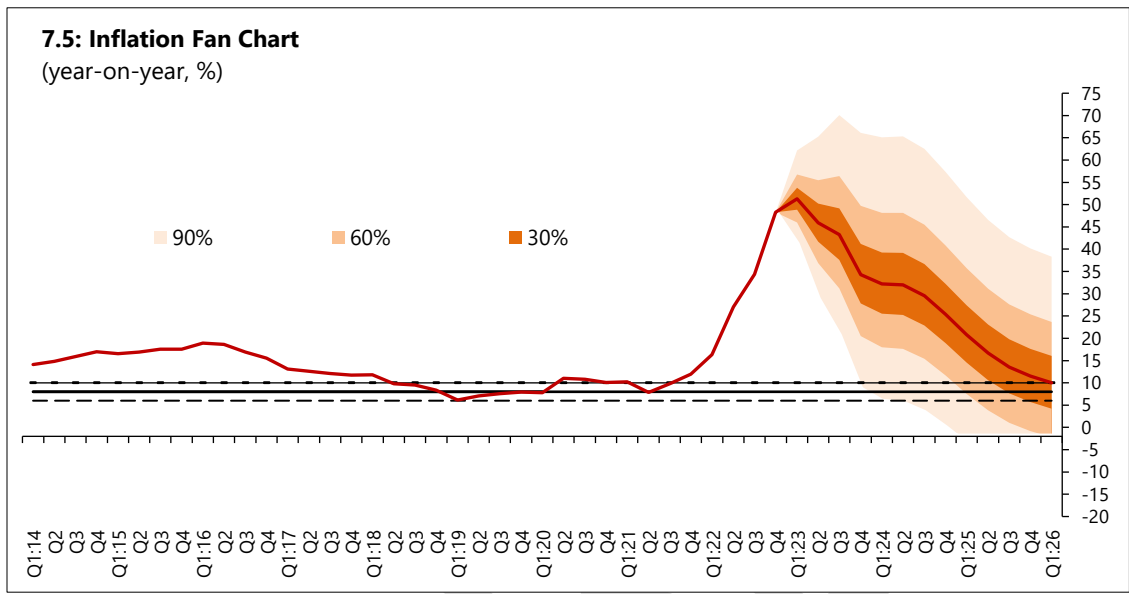
## 7.3 Inflation Risk Assessments

Global inflation is expected to ease further as food and energy prices moderate due to weakened global demand, improved supply of goods, and continued monetary policy tightening. Despite the emerging risks to global financial stability, central banks in major advanced economies have demonstrated strong commitment to contain underlying inflationary pressures with sustained policy rate hikes, albeit, at lower rates than earlier anticipated. Global financing conditions have eased slightly, reflecting changing market expectations regarding the pace of policy tightening. The US dollar index initially firmed up amid rising demand for safe-haven currencies following the collapse of Silicon Valley Bank and Signature Bank, but, swift regulatory action and assurances to contain contagion risks, combined with decisions to boost dollar liquidity, somewhat eased market concerns about a wider banking and financial crisis. Global financial conditions are expected to remain tight in the near-term despite recent moderation in headline inflation on account of a strong US dollar, tight monetary policy stance, as well as heightened uncertainty about the global economic outlook. These developments pose upside risks to the domestic currency and the headline inflation in the horizon.

Domestically, headline inflation has declined for two consecutive months, but remains high compared to the medium-term target of  $8\pm 2$  percent. In February 2023, the local currency stabilised against the US dollar, underpinned by continued monetary policy tightening and the closure of the Domestic Debt Exchange Programme. Ultimately, the passage of Ghana's ECF programme by the IMF Executive Board, will help reset the economy on the path of recovery, including putting it firmly on a disinflation path and sustained growth.



The latest forecast suggests a disinflationary path in the horizon, supported by tight monetary policy stance, relative stability of the exchange rate, declining ex-pump prices and some favourable base drift effects. Headline inflation is projected to slowdown in the forecast horizon but remain above the upper band of  $8 \pm 2$  percent until the end of 2025. Risks that could threaten the disinflation cycle include the additional revenue measures awaiting approval from Parliament and further delays in external debt.



### 7.4 Conclusion

To place the economy firmly on the path of stability, reinforce the pace of disinflation and anchor inflation expectations towards the medium-term target, the MPC Committee raised the Monetary Policy Rate by 150 basis points to 29.5 percent at the March 2023 meeting.

**Appendix Table 7.1: Headline Inflation**

	Combined	Food	Non-food	Combined	Food	Non-food
<b>Dec-20</b>	<b>10.4</b>	<b>14.1</b>	<b>7.7</b>	<b>0.9</b>	<b>1.5</b>	<b>0.4</b>
<b>2021</b>						
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
<b>2022</b>						
Jan	13.9	13.7	14.1	2.1	2.0	2.2
<b>Feb</b>	<b>15.7</b>	<b>17.4</b>	<b>14.5</b>	<b>2.4</b>	<b>3.2</b>	<b>1.7</b>
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
<b>2023</b>						
Jan	53.6	61.0	47.9	1.7	2.8	0.8
<b>Feb</b>	<b>52.8</b>	<b>59.1</b>	<b>47.9</b>	<b>1.9</b>	<b>2.0</b>	<b>1.7</b>

Source: Ghana Statistical Service

**Appendix Table 7.2: CPI Components**

CPI Components (%)													
	Weghts (%)	2020		2021				2022				2023	
		Dec	Mar	Jun	Sept	Dec	Jan	Feb	Jun	Sept	Dec	Jan	Feb
<b>Overall</b>	100.0	10.4	10.3	7.8	10.6	12.6	13.9	<b>15.7</b>	29.8	37.2	54.1	53.6	<b>52.8</b>
<b>Food and Beverages</b>	43.1	14.1	10.8	7.3	11.5	12.8	13.7	<b>17.4</b>	30.7	37.8	59.7	61.0	<b>59.1</b>
<b>Non-food</b>	56.9	7.7	10.0	8.2	9.9	12.5	14.1	<b>14.5</b>	29.1	36.5	49.9	47.9	<b>47.9</b>
Alcoholic Beverages, Tobacco & Narcotics	3.7	6.0	7.0	6.5	8.1	9.6	8.0	<b>9.0</b>	21.4	22.0	38.5	43.3	<b>44.5</b>
Clothing and footwear	8.1	7.9	6.0	6.0	6.8	8.6	8.3	<b>9.5</b>	23.8	28.7	41.9	43.5	<b>43.7</b>
Housing and Utilities	10.2	20.1	29.0	14.2	18.7	20.7	28.7	<b>25.4</b>	38.4	68.8	82.3	71.1	<b>69.6</b>
Furnishings, Household Equipment	3.2	4.7	4.7	4.7	6.3	9.6	11.0	<b>14.4</b>	39.6	51.5	71.5	71.7	<b>69.8</b>
Health	0.7	6.0	7.1	6.0	4.6	6.0	5.4	<b>6.9</b>	12.8	22.8	34.4	35.0	<b>33.5</b>
Transport	10.1	4.8	6.8	13.4	13.6	17.6	17.4	<b>18.3</b>	41.6	46.8	71.4	68.8	<b>70.3</b>
Information and Communication	3.6	7.0	8.1	4.9	6.6	9.0	8.9	<b>10.2</b>	14.5	14.9	21.5	22.9	<b>21.1</b>
Recreation & Culture	3.5	1.8	4.0	3.6	6.8	11.4	12.0	<b>12.7</b>	31.3	36.3	42.4	41.6	<b>42.0</b>
Education	6.5	0.2	0.4	0.9	0.9	1.0	0.9	<b>1.3</b>	4.4	8.3	11.3	10.8	<b>12.4</b>
Hotels, cafes and restaurants	4.6	5.4	6.1	4.8	3.2	8.9	9.1	<b>10.6</b>	20.2	11.1	9.2	9.6	<b>9.2</b>
Insurance and Financial services	0.2	3.3	7.8	5.5	7.1	6.3	6.3	<b>2.9</b>	5.8	13.6	10.8	11.7	<b>11.5</b>
Personal care, social protection & Miscellaneous services	2.4	3.8	4.5	4.5	7.2	10.6	10.8	<b>13.5</b>	31.7	42.6	60.9	63.1	<b>62.5</b>

Source: Ghana Statistical Service