BANK OF GHANA

MONETARY POLICY REPORT

MAY 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 112th meeting held in May 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 economic outlook still uncertain, despite easing inflation concerns. Downside factors such as the recent financial sector turbulence in the United States and lingering geopolitical tensions are being compounded by difficult policy trade-offs and sovereign debt distress in some Emerging Market and Developing Economies (EMDEs). Against this backdrop, the IMF has revised global growth projections downwards by 0.1 percent to 2.8 percent in 2023.

Global headline inflation declining, but underlying inflationary pressures persist. Headline inflation continued to ease in several economies, reflecting synchronized monetary policy tightening, declining energy and food prices, and easing supply chain bottlenecks. However, underlying inflationary pressures have remained strong due to the lingering effects of past shocks, tight labour markets and strong wage growth. Consequently, central banks have continued to tighten policy rates, though at a slower pace as headline inflation moderates.

Domestic price developments point to moderating inflationary pressures. The decline in headline inflation was largely supported by monetary policy tightening and relative stability in the exchange rate. Underlying inflationary pressures were also easing, as the Bank's core measure of inflation declined for the fourth consecutive month.

Slower domestic economic activity despite improving consumer and business sentiments. Real GDP growth moderated in 2022, driven by a slowdown in the agriculture and services sectors. In 2023Q1, the updated Composite Index of Economic Activity also contracted, with indications that growth would remain below potential in the medium term.

Banking sector performance indicated some recovery after posting significant losses in 2022. The 2022 audited financial statements of banks reflected the full impact of the Domestic Debt Exchange Programme and the challenging operating environment that prevailed in the year. Most banks reported significant losses, on the back of the mark-to-market valuation losses on holdings of Government of Ghana bonds following the domestic debt restructuring. In the first four months of this year, however, prudential data showed some turnaround in the banking sector's performance, partly supported by the Bank's regulatory reliefs.

The IMF Extended Credit Facility has reinforced recovery efforts in the domestic economy. The approval of the US$3.0 billion ECF arrangement has reinforced recovery efforts aimed at restoring macroeconomic stability and debt sustainability. This should help re-establish investor confidence in the domestic economy but the gains from the IMF programme are conditioned on the strong commitment towards implementation of the policies and structural reforms under the programme.

The MPC maintained the policy rate, amid muted inflationary pressures. Headline inflation declined significantly by more than 12.0 percent in the first four months of the year, illustrating the easing of inflationary pressures. The consecutive increases in the policy rate, supported by additional liquidity management operations to address excess liquidity conditions in the market, relative stability in the local currency, and stable ex-pump petroleum prices have supported the disinflation process. Given these considerations, the MPC maintained the policy rate at 29.5 percent.

1. Global Economic Developments

1.0 Highlights

- *The global economy showed signs of stabilising in early 2023, but the outlook is uncertain amid financial sector turbulence, high inflation, and ongoing geopolitical tensions.*

- *Global headline inflation moderated in many economies, but underlying inflationary pressures remained strong due to tight labour markets and strong wage growth.*

- *Central banks have continued to tighten policy rates but at a slower pace amid signs that inflation has peaked.*

- *Declining expectations for near-term U.S. policy rates have weakened the U.S. dollar, supporting demand for emerging market economies' assets*

1.1 Global Growth Developments

The global economy showed initial signs of stabilising in early 2023 on the back of declining food and energy prices, re-opening of the Chinese economy and improved business and consumer confidence. Also, the latest Purchasing Managers' Indices (PMI) pointed to some rebound in economic activity, driven mainly by the services sector, while the manufacturing sector contracted. However, the outlook is uncertain amid financial sector turbulence, persistent inflation, and continued uncertainty due to the lingering effects of the Russia-Ukraine war. Against this backdrop, the IMF revised the global growth projections downwards from 3.4 percent in 2022 to 2.8 percent in 2023, 0.1 percentage points lower than predicted in January 2023.

The global growth outlook was also faced with downside risks relating to persistent inflationary pressures, vulnerability in the banking sector, difficult policy trade-offs, systemic sovereign debt distress in Emerging Market and Developing Economies (EMDEs) and uncertainty about the course of the war in Ukraine. Persistent inflationary pressures remain a concern for global growth, with high core inflation amid tight labour markets and stronger-than-expected wage growth. According to the IMF, pressures in global energy markets could reappear, leading to renewed price spikes, and higher inflationary pressures. In addition, the overall impact of monetary policy changes is difficult to gauge and could continue to expose financial and banking sector vulnerabilities and challenge the ability of emerging market economies to service their debts. Meanwhile, policymakers may continue to face difficult trade-offs between fighting inflation and ensuring financial stability.

The ongoing Ukraine war could also trigger a renewed crisis in Europe and exacerbate food insecurity in low-income countries (especially if the Black Sea Grain Initiative is not extended). EMEs are facing a challenging and uncertain macroeconomic environment, with weak global demand, high inflation and synchronised monetary policy tightening all acting as headwinds to growth. Bank lending could decline sharply if the financial sector remains vulnerable, with amplification of macroeconomic effects through several channels.

Table 1.1: Global Growth Projections (%)

		Projections	
	2022	**2023**	**2024**
World	**3.4**	**2.8**	**3.0**
Advanced Economies	**2.7**	**1.3**	**1.4**
United States	2.1	1.6	1.1
Euro Area	3.5	0.8	1.4
Germany	1.8	–0.1	1.1
France	2.6	0.7	0.8
Italy	3.7	0.7	0.8
Spain	5.5	1.5	2.0
Japan	1.1	1.3	1.0
United Kingdom	4.0	–0.3	1.0
Emerging Market and Developing Economies	**3.9**	**4.0**	4.2
China	3.0	5.2	4.5
India	6.8	5.9	6.3
Russia	–2.1	0.7	1.3
Brazil	2.9	0.9	1.5
Mexico	3.1	1.8	1.6
Sub-Saharan Africa	**3.9**	**3.8**	4.2
Nigeria	3.3	3.2	3.0
South Africa	2.0	0.1	1.8
Ghana	3.2	1.6	2.9

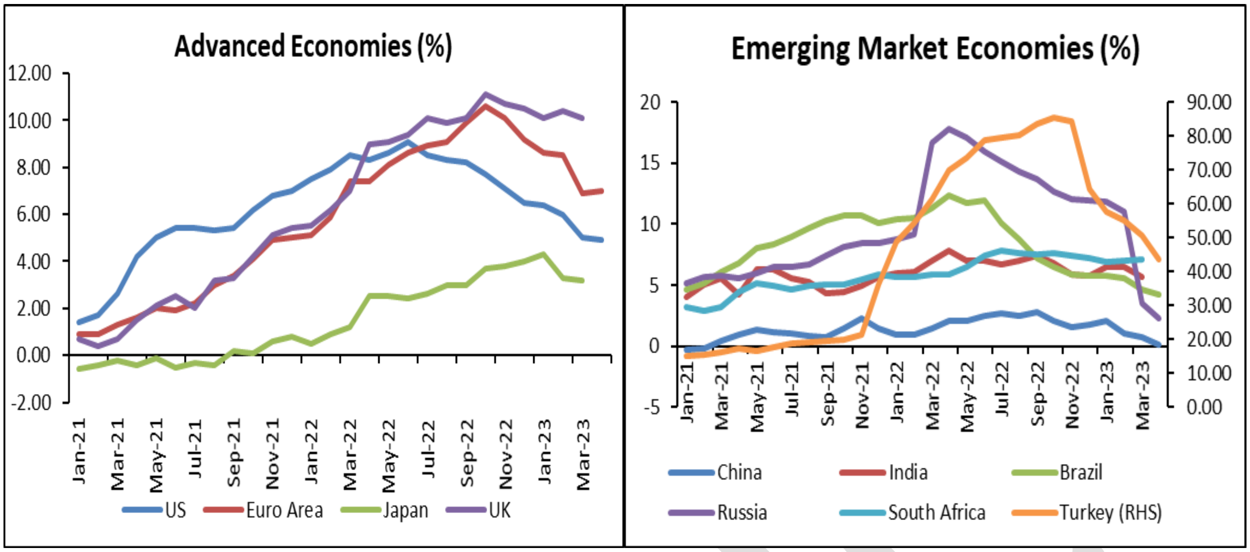
Source: IMF WEO April 2023 Update

1.2 Global Price Developments

Global headline inflation continued to moderate in many economies, reflecting synchronised monetary policy tightening, falling energy and food prices and waning supply chain constraints. Although the Food and Agriculture Organisation Food Price Index edged up in April, (led by a steep increase in the sugar price index, along with an upturn in the meat price index; cereals, dairy and vegetable oil price indices continued to drop) and has remained lower in 2023 than in 2022. Meanwhile global supply chain pressures continued to ease in April, reflecting improvements in delivery times, especially in Europe. Easing bottlenecks and declining transportation costs also helped moderate input price pressures.

Core inflation has also trended downwards, although at a slower pace than headline inflation, amid the effects of earlier cost shocks and tight labour markets. Expectations for headline inflation in 2023 and 2024 were revised down to reflect lower expected energy price inflation. However, expectations for core inflation in 2023 were revised upwards due to recent data outturns, as well as higher wage growth forecasts. Meanwhile, longer-term inflation expectations remained unchanged. In the outlook, global headline inflation will continue to moderate, supported by falling food and energy prices, synchronised monetary policy tightening and waning supply bottlenecks. However, core inflation remains persistent, held up by the effects of earlier cost shocks and tight labour markets.

Figure 1.1: Headline Inflation in Advanced and Emerging Market Economies



Source: BOG/Trading Economics

1.3 Global Financial Markets Developments

Many central banks have continued to tighten policy rates but at a slower pace, amid signs that inflation has peaked. The consequent rise in interest rates has reduced profits, leading to losses at some central banks. This has especially been so for those that purchased domestic currency assets for macroeconomic and financial stability objectives. However, there are signs that the pace of policy rate hikes has slowed in most central banks. Market-implied paths for policy rates have shifted significantly lower, driven by investors' reassessment of the future course of monetary policy amid turmoil in the banking sector. Government bond yields for advanced economies have declined, as markets anticipate weaker growth and a less hawkish path of monetary policy. Global equity prices fell following the failure of Silicon Valley Bank but have since recovered somewhat. However, banking stocks in the U.S. remain lower. Also, sovereign spreads have remained elevated in selected African countries, with portfolio flows to EMDEs standing at US$9.8 billion in April. Equity and debt flows were US$2.1 billion and US$7.7 billion, respectively.

In the outlook, financial conditions may ease somewhat, but near-term risks remain. Headline inflation is moderating in many countries and some central banks have responded with slower pace of policy hikes, while others have signalled having reached the peak of the cycle of policy rate hikes. As a result, longer-term government bond yields have also declined somewhat, although they remained elevated. The banking sector turmoil that led to market volatility, widened credit risk spreads and higher funding costs seemed contained somewhat. Core inflation has declined at a slower pace than headline inflation, amid the effects of past cost shocks and tighter labour markets. Tighter labour markets may translate into stronger than expected wage growth. These risk factors may therefore slow the pace of easing of financial conditions if they persist.

Table 1.2: Monetary Policy Stance of Selected Central Banks

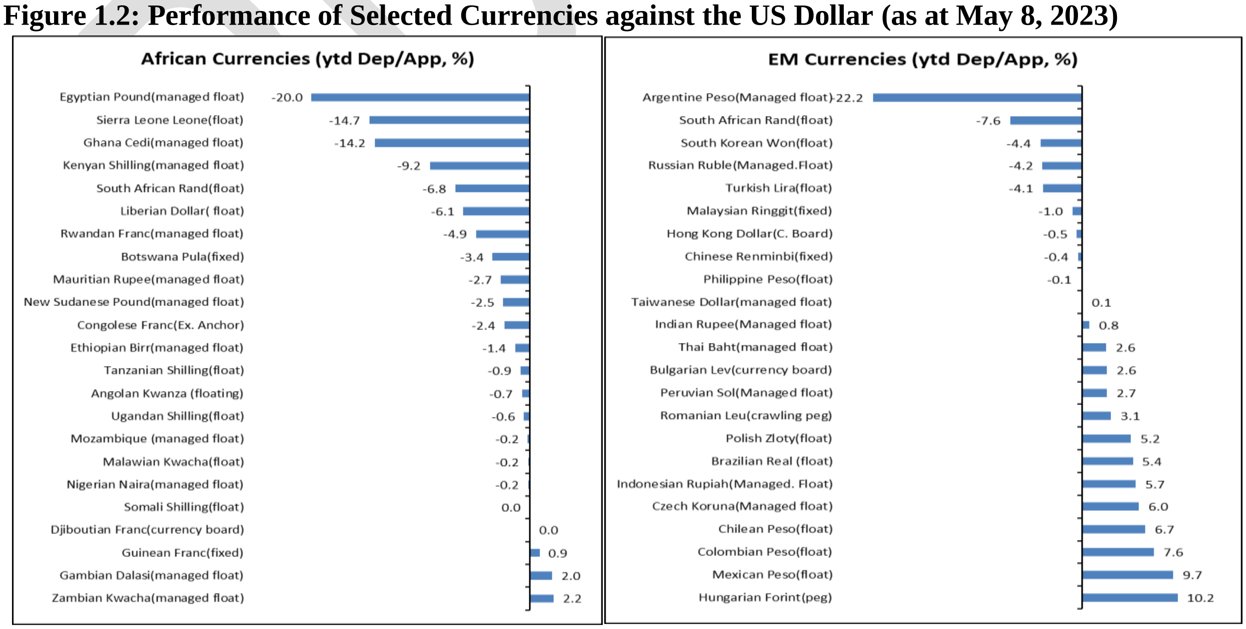
	Key Rate	Previous (%)	Current (%)	Forecast	Inflation Rate (February, 2022)	Real rate	Infl Target	Overall Fiscal Deficit (2021,% of GDP)	GDP Growth (Dec.2021)	GrossDebt/GDP(2021,%)
U.S	Federal Funds Rate	5	5.25	5.25	4.9	0.35	2%	–5.5	2.1	121.7
Euro Area	Refinancing Rate	3.5	3.75	4.0	7	-3.25	< 2%	–3.8	3.5	90.9
UK	Bank Rate	4.25	4.5	4.5	10.1	-5.85	2%	–6.3	4.0	102.6
Japan	short term policy rate	-0.1	-0.1	-0.1	3.2	-3.3	2%	–7.8	1.1	261.3
Russia	Benchmark rate	7.5	7.5	7.5	2.3	5.2	4%	–2.2	–2.1	19.6
India	Benchmark rate	6.5	6.5	6.75	4.70	1.8	4±2%	–9.6	6.8	83.1
Brazil	Selic rate	13.75	13.75	13.75	4.18	9.57	4.5±1.5%	–4.6	2.9	85.9
Turkey	One week repo rate	8.5	8.5	8.5	43.7	-35.2	5±2%	–1.6	5.6	31.2
Malaysia	Policy Rate	2.75	3	3.0	3.4	-0.4	3% - 4%	–5.3	8.7	66.3
Indonesia	Policy Rate	5.75	5.75	5.75	4.33	1.42	3.5% ± 1%	–2.3	5.3	39.9
Chile	Benchmark Interest Rate	11.25	11.25	11.25	9.9	1.35	3±1%	1.3	2.4	38.0
Ghana	Monetary Policy Rate	28	29.5		41.2	-11.7	8±2%	–9.9	3.2	88.8
South Africa	Repo Rate	7.25	7.75	8	7.1	0.65	3% -6%	–4.5	2.0	71.0
Nigeria	Monetary Policy Rate	17.5	18	17.5	22.22	-4.22	6% -9%	–5.5	3.3	38.0
Kenya	Policy Rate	8.75	9.5	9.5	7.9	1.6	2.5-7.5%	–6.0	5.4	67.8
Zambia	Policy Rate	9	9.25	9.5	10.2	-0.95	9%	–7.9	3.4	
Morocco	Policy Rate	2.5	3	3.0	8.2	-5.2		–5.1	1.1	68.8

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

1.4 Currency Markets

On the international currency market, declining expectations for near-term U.S. policy rates have weakened the U.S. dollar, supporting demand for EMDEs assets. The dollar may extend its weakness as inflation in the U.S. slowed marginally from 5.0 percent in March to 4.9 percent in April 2023. Also, the Federal Reserve has signalled an end to the aggressive tightening cycle and markets have priced in lower policy rate hikes in the near term. Against this background, currency pressures are gradually easing across EMDEs (Figure 1.2).

Figure 1.2: Performance of Selected Currencies against the US Dollar (as at May 8, 2023)



Source: Bloomberg

In the domestic currency market, the Ghana cedi gained marginally in March and April 2023, supported by the successful conclusion of the Domestic Debt Exchange Programme (DDEP), progress with external debt restructuring and regular remittance and mining inflows. Also, muted demand in the forex market alongside weakness in the U.S. dollar supported the currency. In the outlook, the approval of the IMF programme for Ghana and the release of the first tranche of US$600 million will ease some of the pressures on the local currency. In the interbank market, the Ghana cedi depreciated by 21.7 percent, 25.1 percent and 24.3 percent against the U.S. dollar, pound sterling and the euro, respectively, on a year-to-date basis, compared with a depreciation of 15.6 percent, 9.0 percent, and 8.9 percent during the same period in 2022 (Table 1.3). On a month-on-month basis, the Ghana cedi appreciated in April, supported by the progress with external debt restructuring, and weakness in the U.S. dollar.

Table 1. 3: Interbank Exchange Rates

	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
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
2023									
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
Mar	11.0137	0.0	-22.13	13.62	-1.8	-24.30	11.97	-2.1	-23.57
Apr	10.9516	0.6	-21.69	13.76	-1.0	-25.07	12.09	-1.0	-24.34

Source: Bank of Ghana Staff Calculations

Considering Ghana's major trade partners' currency movements, the Ghana cedi depreciated by 31.0 percent in nominal trade-weighted terms and 28.1 percent on forex transaction-weighted terms on a year-to-date basis (Table 4). This compares with a depreciation of 10.9 percent and 17.6 in nominal trade weighted terms and nominal foreign exchange transaction weighted terms, respectively, over the same period in 2022.

Table 1.4: Nominal Effective Exchange Rate

Month	2018=100 FXTWI	TWI	Monthly CHG(%) FXTWI	TWI	Year-to-Date (%) FXTWI	TWI
			2022			
Jan-22	96.24	101.74	-0.18	0.72	-0.18	0.72
Feb-22	87.84	92.96	-9.56	-9.44	-9.76	-8.65
Mar-22	81.64	87.35	-7.59	-6.43	-18.10	-15.64
Apr-22	82.01	91.05	0.46	4.07	-17.56	-10.93
May-22	81.54	89.38	-0.58	-1.87	-18.24	-13.00
Jun-22	80.77	90.22	-0.95	0.93	-19.37	-11.96
Jul-22	76.87	87.42	-5.07	-3.20	-25.42	-15.55
Aug-22	71.24	82.20	-7.91	-6.35	-35.34	-22.88
Sep-22	61.23	72.11	-16.34	-14.00	-57.46	-40.08
Oct-22	45.15	52.79	-35.60	-36.61	-113.52	-91.36
Nov-22	44.60	50.11	-1.25	-5.34	-116.18	-101.58
Dec-22	68.00	74.88	34.41	33.09	-41.79	-34.89
			2023			
Jan-23	53.91	58.69	-26.12	-27.59	-26.12	-27.59
Feb-23	53.00	58.90	-1.72	0.35	-28.29	-27.15
Mar-23	52.87	57.65	-0.25	-2.17	-28.60	-29.90
Apr-23	53.09	57.14	0.40	-0.89	-28.09	-31.05

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.

In real bilateral terms, the Ghana cedi depreciated by 24.6 percent, 28.5 percent and 28.3 percent against the dollar, the pound sterling and the euro, respectively, on a year-to-date basis. Comparatively, for the corresponding period in 2022, the Ghana cedi's real exchange rate had depreciated by 6.9 percent, 0.4 percent, and 0.1 percent over the same period in 2022 (Table 1.5).

Table 1.5: Real Bilateral Exchange Rate

Month	RER Index (Jan.18=100) EUR	GBP	USD	MONTHLY CHANGE (Index) EUR	GBP	USD	Year-to-Date (%) EUR	GBP	USD
				2022					
Jan-22	112.00	105.34	101.34	2.7	2.5	1.2	2.7	2.5	1.2
Feb-22	103.79	97.86	94.07	-7.9	-7.6	-7.7	-5.0	-4.9	-6.5
Mar-22	99.18	95.39	89.64	-4.7	-2.6	-4.9	-9.9	-7.6	-11.7
Apr-22	108.84	102.30	93.72	8.9	6.7	4.4	-0.1	-0.4	-6.9
May-22	109.84	105.04	96.04	0.9	2.6	2.4	0.8	2.3	-4.3
Jun-22	113.53	109.51	96.40	3.2	4.1	0.4	4.0	6.3	-3.9
Jul-22	113.96	106.89	94.46	0.4	-2.5	-2.1	4.4	4.0	-6.0
Aug-22	108.51	104.96	89.05	-5.0	-1.8	-6.1	-0.4	2.2	-12.5
Sep-22	97.41	96.26	78.70	-11.4	-9.0	-13.1	-11.9	-6.6	-27.3
Oct-22	72.21	69.72	59.44	-34.9	-38.1	-32.4	-50.9	-47.2	-68.5
Nov-22	73.97	71.21	64.15	2.4	2.1	7.3	-47.3	-44.2	-56.1
Dec-22	114.46	112.31	102.07	35.4	36.6	37.1	4.8	8.6	1.9
				2023					
Jan-23	91.3	89.5	81.8	-25.4	-25.5	-24.8	-25.4	-25.5	-24.8
Feb-23	92.9	90.5	81.2	1.8	2.0	-0.7	-23.2	-23.0	-25.6
Mar-23	88.7	86.5	80.0	-4.7	-4.7	-1.6	-29.0	-29.9	-27.6
Apr-23	89.2	87.4	81.9	0.6	1.1	2.4	-28.3	-28.5	-24.6

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., the U.S. dollar, the pound sterling and the euro). The local currency depreciated by 27.8 percent and 25 percent in real trade weighted terms and real forex transaction weighted terms on a year-to-date basis. This compares with a depreciation of 1.0 percent and 6.2 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
2022						
Jan-22	122.05	132.87	1.3	2.5	1.3	2.5
Feb-22	113.29	123.18	-7.7	-7.9	-6.3	-5.2
Mar-22	108.02	117.87	-4.9	-4.5	-11.5	-9.9
Apr-22	113.42	128.25	4.8	8.1	-6.2	-1.0
May-22	116.10	129.90	2.3	1.3	-3.7	0.3
Jun-22	116.89	133.83	0.7	2.9	-3.0	3.2
Jul-22	114.74	133.58	-1.9	-0.2	-5.0	3.0
Aug-22	108.34	127.36	-5.9	-4.9	-11.2	-1.7
Sep-22	95.95	114.31	-12.9	-11.4	-25.5	-13.4
Oct-22	72.30	84.77	-32.7	-34.8	-66.6	-52.8
Nov-22	77.62	87.43	6.9	3.0	-55.2	-48.2
Dec-22	123.22	136.02	37.0	35.7	2.3	4.7
2023						
Jan-23	75.99	85.10	-24.8	-25.3	-24.8	-25.3
Feb-23	75.66	86.37	-0.4	1.5	-25.4	-23.5
Mar-23	96.4	105.5	-1.9	-4.4	-27.79	-28.88
Apr-23	98.6	106.4	2.2	0.9	-24.95	-27.78

Source: Bank of Ghana Staff Calculations

1.5 Global Economic Outlook and Risks

The global economy showed signs of stabilising in early 2023, but the outlook is uncertain amid financial sector turbulence, high inflation, and ongoing effects of Russia's invasion of Ukraine. Global headline inflation continued to moderate in many economies, but underlying inflationary pressures remained strong due to tight labour markets and strong wage growth. Central banks have continued to tighten policy rates but at a slower pace, amid signs that inflation has peaked.

Expectations of declining near-term U.S. policy rates have weakened the U.S. dollar, supporting investor risk appetite for EMDE assets. In the outlook, the risks to inflation from the external environment remain elevated. Inflation, although moderating, is still elevated globally. Policy rate hikes in advanced economies have slowed but financial conditions remain somewhat tight. Long-term government bond yields have declined but remain elevated. A somewhat weaker but still relatively strong U.S dollar and heightened uncertainty about the global economic outlook and the war in Ukraine is a key risk to the growth outlook.

2. External Sector Developments

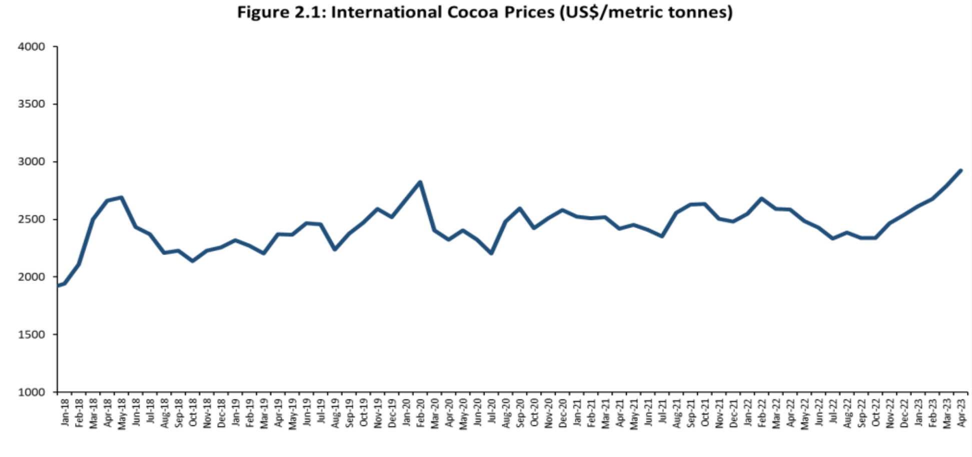
2.0 Highlights

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

2.1 Commodity Price Trends

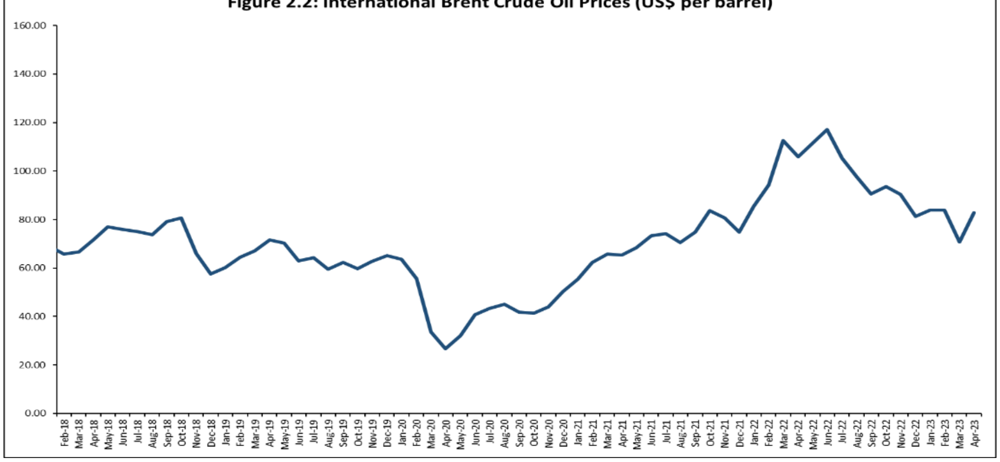
Cocoa prices were generally bullish in the first four months of 2023, driven by lower production volumes, higher grinding in top-grower Ivory Coast and increased global demand. Prices began the year at US$2,539.86 per tonne in December 2022, and rose to US$2,924.37 per tonne in April, up by 15.2 percent year-to-date and 13.0 percent on year-on-year terms.

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



Crude oil prices have broadly trended downwards since June 2022. From US$117.2 per barrel in June 2022, prices plunged to US$81.3 per barrel in December 2022, before moving slightly up to US$82.7 per barrel in April 2023. Prices were pressured by concerns over the health of the global economy and prospects of oil demand, despite the announced production cut by OPEC+.

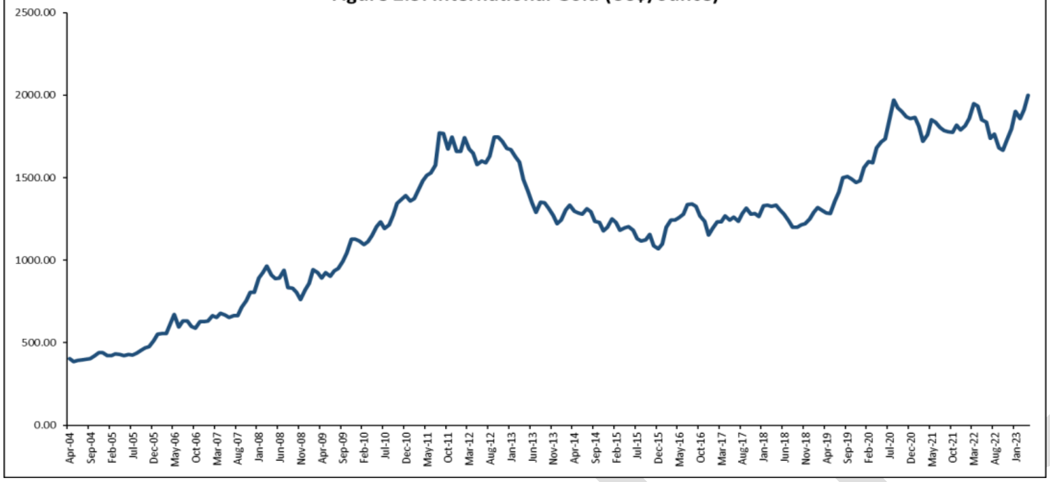
Figure 2.2: International Brent Crude Oil Prices (US$ per barrel)



Source: Reuters

Gold has remained strong so far this year. Spot gold started the year at US$1,796.2 per fine ounce and surged to an all-time high US$2,00.7 per fine ounce in April 2023, representing a 3.4 percent year-on-year growth. The gold price was supported by economic uncertainty, amid fears of recession, expectation of lower rate hikes as inflation eases, and the banking crisis in the U.S. and Europe.

Figure 2.3: International Gold (US$/ounce)



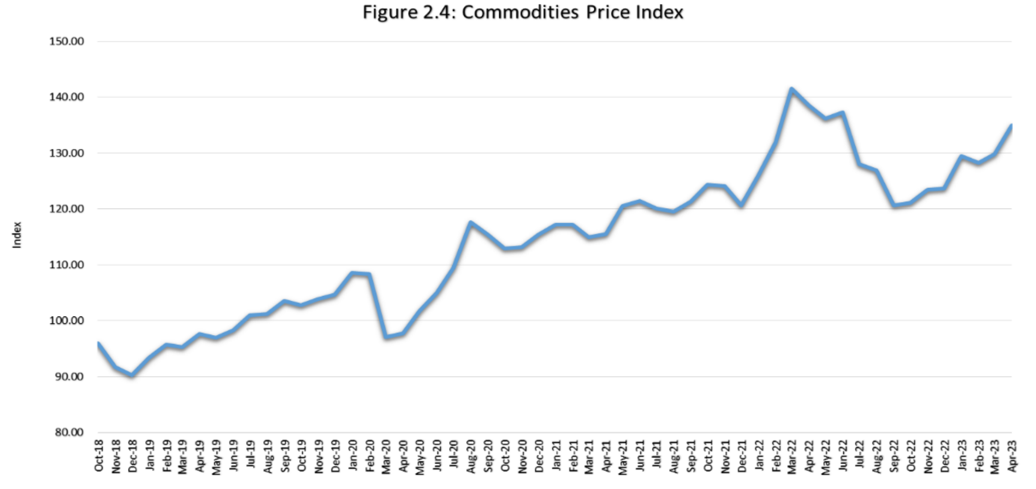
Source: Reuters

2.1.1 Commodity Price Index

The weighted average price of the three major commodities exported by Ghana (cocoa, gold and crude oil) increased by 3.9 percent in April 2023.

The increase in the overall index was on the back of increases in all the three commodities, with the cocoa sub-index increasing by 4.9 percent, the crude oil sub-index by 3.9 percent, and the gold sub-index by 3.7 percent.

Figure 2.4: Commodities Price Index



Source: BOG Staff Computations

2.2 Trade Balance

The trade surplus improved further to US$1.6 billion in the first four months of 2023, driven mainly by import compression. The value of total exports was estimated at US$5.65 billion, down by 3.6 percent year-on-year. The fall in export earnings was driven largely by crude oil exports and to a lesser extent by non-traditional exports, as gold and cocoa exports increased. Crude oil exports reduced by 36.7 percent to US$1.2 billion, mainly on account of both price and volume reductions. Gold exports increased by 15.9 percent to US$2.2 billion, driven by higher export volumes, and cocoa beans exports rose by 30.3 percent to US$950.8 million, largely on the back of increased volume of exports.

The total import bill for the first four months of the year was provisionally estimated at US$4.0 billion, down by 13.9 percent year-on-year. The decline in imports was driven largely by non-oil imports and, to a lesser extent, by oil and gas imports. Non-oil imports compressed by 16.8 percent to US$2.9 billion, in line with slowdown in economic activities, currency depreciation and easing global inflation. Oil and gas imports dropped by 6.3 percent to US$1.2 billion, due mainly to softer crude oil prices on the international market.

2.3 Overall Balance of Payments (First Quarter 2023)

The current account balance for the first quarter of 2023 was a surplus of US$661.4 million, in contrast to a deficit of US$554.4 million over the same period in 2022. The current account surplus was driven by a larger trade surplus, reduced income payments and higher remittances. Suspension of some external interest payments pending external debt restructuring supported the lower payments in the income account.

The capital and financial account recorded a net outflow of US$955.6 million, higher than a net outflow of US$451.4 million in the corresponding period of 2022. The higher net outflow was due to reduced foreign direct investment inflows, portfolio reversals, and other investment outflows.

The developments in the current and capital & financial accounts resulted in an overall balance of payments deficit of US$353.8 million, lower than the US$934.5 million deficit recorded in the same period in 2023.

2.4 International Reserves

The stock of Gross International Reserves (GIR) at the end of April 2023 was US$5,215.97 million, providing cover for 2.4 months of imports, compared with the end-December 2022 position of US$6,238.19 million, equivalent to 2.7 months of import cover. At the same time, the Net International Reserves (NIR) reduced by US$225.60 million to US$2,214.41 million at end-April 2023.

2.5 Commodity Price Outlook

In the outlook, cocoa prices are expected to remain elevated as demand picks up, especially in Europe and North America. Declining headline inflation and lower energy prices, coupled with lower port arrivals in Ivory Coast, are also expected to support cocoa prices.

The oil market is expected to be tight in the second half of 2023, mainly on the back of demand and supply dynamics. OPEC+ announced a voluntary output cut from May till the end of 2023, Russia announced plans to restrain output, alongside expected pick-up in demand from China and other emerging economies, all of which would be supportive of prices.

The bullish momentum for gold seems likely to continue into the second half of 2023. The less-hawkish tone by the Fed, uncertain global economic outlook, rising demand from China and India and increasing central bank gold purchases are catalysts that could support gold prices.

Table 2.1: Trade Balance (US$ million)

	2021 Jan - Apr	2022 Jan - Apr	Prov 2023 Jan - Apr	Abs Y/Y Chg	Rel Y/Y Chg
Trade Balance ($'M)	**778.0**	**1,153.1**	**1,600.4**	**447.2**	**38.8**
Trade Bal (% GDP)	*1.0*	*1.6*	*2.2*		
Total Exports ($'M)	**5,209.9**	**5,857.6**	**5,648.9**	**-208.7**	**-3.6**
Gold ($'M)	**1,808.2**	**1,874.3**	**2,172.9**	**298.6**	**15.9**
Volume (fine ounces)	1,011,192.9	998,419.2	1,221,051.5	222,632.4	22.3
Unit Price ($/fine ounce)	1,788.2	1,877.3	1,779.5	-97.7	-5.2
Cocoa Beans ($'M)	**955.2**	**729.7**	**950.8**	**221.1**	**30.3**
Volume (tonnes)	359,976.9	295,484.0	382,912.8	87,428.8	29.6
Unit Price ($/tonne)	2,653.4	2,469.5	2,483.2	13.7	0.6
Cocoa Products ($'M)	**338.4**	**310.0**	**300.8**	**-9.3**	**-3.0**
Volume (tonnes)	99,190	101,603	91,438	-10,164.8	-10.0
Unit Price ($/tonne)	3,411.6	3,051.5	3,289.4	237.9	7.8
Crude Oil ($'M)	**1,149.5**	**1,850.8**	**1,170.7**	**-680.1**	**-36.7**
Volume (barrels)	18,281,432	18,091,788	14,305,214	-3,786,574.0	-20.9
Unit Price ($/bbl)	62.9	102.3	81.8	-20.5	-20.0
Other Exports	958.6	1,092.8	1,053.8	-39.0	-3.6
o/w Non-Tradional Exports	777.7	859.1	818.0	**-41.1**	**-4.8**
Total Import ($'M)	**4,431.9**	**4,704.4**	**4,048.5**	**-655.9**	**-13.9**
Non-Oil	3,667.2	3,418.1	2,843.7	-574.4	-16.8
Oil and Gas	764.7	1,286.3	1,204.9	-81.5	-6.3
of which: Products	692.8	1,218.4	1,120.6	-97.9	-8.0
Crude Oil ($'M)	19.4	16.3	1.0	-15.3	-93.7
Volume (barrels)	300,548	158,808	12,985	-145,823.4	-91.8
Unit Price ($/bbl)	64.4	102.7	79.2	-23.5	-22.9
Gas ($'M)	52.5	51.6	83.3	31.7	61.4
Volume (MMBtu)	7,112,480	6,644,762	10,748,834	4,104,072.4	61.8
Unit Price ($/mmBtu)	7.4	7.8	7.7	0.0	-0.2

Source: Bank of Ghana

3. Real Sector Developments

3.0 Highlights

The latest high frequency indicators pointed to moderation in economic activity in March 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 release by the Ghana Statistical Service showed that real GDP growth moderated to 3.1 percent in 2022, compared to 5.1 percent growth recorded in 2021. Non-oil GDP growth was 3.8 percent, down from 6.6 percent over the same comparative period. The decline in growth was driven by a slowdown in the agriculture and services sectors, whereas industry recovered, on the back of increased gold production, relative to the contraction recorded in 2021.

3.2 Trends in Real Sector Indicators

Consumer Spending

Consumer spending, proxied by domestic VAT collections and retail sales, posted a strong positive performance in March 2023, compared with the corresponding period in 2022. Domestic VAT collections increased by 92.4 percent on a year-on-year basis to GH¢1,250.68 million, from GH¢649.93 million. Cumulatively, total domestic VAT for the first quarter of 2023 went up by 76.8 percent to GH¢3,196.30 million compared to GH¢1,808.04 million for the corresponding period of last year.

Retail sales increased by 44.9 percent (year-on-year) to GH¢165.20 million in March 2023, up from the GH¢114.05 million recorded in the same period in 2022. On a month-on-month basis, retail sales improved by 19.2 percent in March 2023 from GH¢138.60 million in the preceding month. In cumulative terms, retail sales for the first quarter of 2023 went up by 30.3 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 March 2023.

Total direct taxes collected increased by 37.7 percent (year-on-year) to GH¢4,788.55 million in March 2023, relative to GH¢3,478.67 million recorded in the same period in 2022. Cumulatively, total direct taxes collected for the first quarter of 2023 went up by 65.0 percent to GH¢10,773.16 million, from GH¢6,529.91 million for the same period in 2022. In terms of contributions of the various sub-tax categories, corporate tax accounted for 59.9 percent, Income tax (PAYE and Self-employed) accounted for 27.6 percent, while "Other Tax Sources" contributed 12.5 percent.

Total private sector workers' contribution to the SSNIT Pension Scheme (Tier-1) increased by 22.7 percent in year-on-year terms to GH¢317.61 million in March 2023, from GH¢258.80 million collected during the corresponding period in 2022. Cumulatively, for the first quarter of 2023, the contribution grew by 23.7 percent to GH¢906.95 million, relative to GH¢733.45 million recorded in the same period in 2022.

Construction Sector Activities

Activity in the construction sub-sector, proxied by the volume of cement sales, declined by 29.3 percent (year-on-year) in March 2023 to 258,692.15 tonnes, down from 366,056.20 tonnes recorded a year ago. On a month-on-month basis, total cement sales improved by 12.8 percent in March 2023 compared with the 229,236.26 tonnes recorded in February 2023. Cement sales for the first quarter of 2023 went down by 28.6 percent to 715,070.24 tonnes, from 1,001,259.90 tonnes for the same period of 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 44.1 percent to 12,847 in March 2023, from 22,978 vehicles registered during the corresponding period of 2022. Cumulatively, vehicles registered by the DVLA within the first quarter of 2023 decreased by 45.2 percent to 54,568 from 99,514 recorded a year ago.

Industrial Consumption of Electricity

Industrial consumption of electricity increased by 8.5 percent in March 2023 to 289.23 gigawatts, as against 266.51 gigawatts recorded for the corresponding period in 2022. In cumulative terms, electricity consumed by industries for the first quarter of 2023 increased by 5.8 percent to 859.11 gigawatts, from 812.29 gigawatts for the corresponding period a year ago.

Passenger Arrivals

Passenger arrivals improved by 33.8 percent in year-on-year terms to 86,115 in March 2023, up from 64,358 arrivals recorded a year ago. Compared to February 2023, passenger arrivals went up by 15.4 percent. Cumulatively, for the first quarter of 2023, there were 247,834 arrivals recorded at the international airports and the land borders, compared with 171,145 arrivals for the corresponding period in 2022, representing a growth of 44.8 percent.

Ports and Harbours Activity

International trade at the 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 5.7 percent, year-on-year to 53,615 in March 2023, from 56,879 in March 2022. In cumulative terms, total container traffic for the first quarter of 2023 dipped by 15.6 percent to 138,430 compared with 163,936 for the corresponding period of last year. 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[1] and online[2] media, which partially gauges labour demand in the economy, decreased in April 2023 relative to what was observed in the corresponding period a year ago. In total, 2,581 job adverts were recorded, as compared with 2,777 for the same period in 2022, indicating a decline of 7.1 percent (year-on-year). On a month-on-month basis, the number of job vacancies went down by 6.3 percent from the 2,754 jobs advertised in March 2023. Cumulatively, for the first four months of 2023, the total number of advertised jobs declined by 2.9 percent to 10,707 from 11,029 recorded during the same period in 2022.

[1] The Daily Graphic newspaper was used to represent print media because it is the most widely circulated daily in Ghana.
[2] These are job adverts posted on the websites of the 10 main online job advertising/employment companies in Ghana.

Private Sector Pension Contributions

Total number of private sector-SSNIT contributors, which partially gauges employment conditions, declined by 9.5 percent to 872,457 in March 2023, compared with 964,182 for the same period in 2022. On a month-on-month basis, total number of private sector-SSNIT contributors dipped by 3.9 percent from the 907,452 individuals recorded in February 2023. Cumulatively, for the first quarter of 2023, the total number of private sector contributors decreased by 5.3 percent to 2,697,818, from 2,848,114 recorded over the corresponding period in 2022.

3.3 Composite Index of Economic Activity

The Bank's updated real Composite Index of Economic Activity (CIEA) contracted by 6.4 percent (year-on-year basis) in March 2023, compared with a growth of 4.6 percent in the corresponding period of 2022. The main indicators that weighed down the CIEA during the period were imports, cement sales, credit to the private sector and port activity. Domestic VAT collections, industrial consumption of electricity and tourist arrivals, however, improved in the review period.

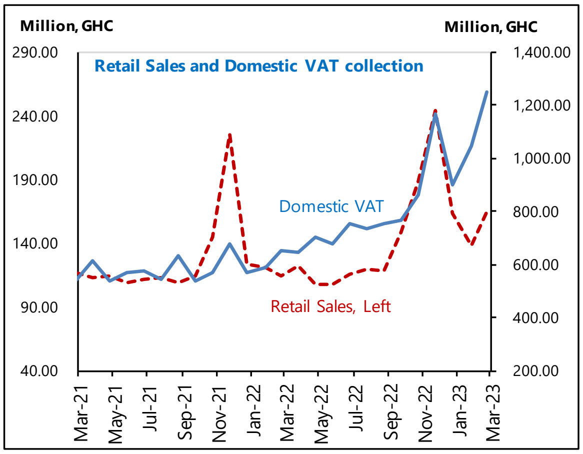
3.4 Consumer and Business Surveys

The consumer and business confidence surveys conducted in April 2023 showed further improvement in sentiments. The Consumer Confidence Index increased to 88.8 in April 2023, from 84.4 in February 2023, on account of easing inflationary pressures, which led to consumer optimism about prospects of future economic conditions. The Business Confidence Index also improved to 80.1, from 78.2 a month earlier, as businesses met short-term company targets and expressed positive sentiments about company and industry prospects, on the back of improving consumer demand and relative stability in the local currency. The survey findings were broadly aligned with observed trends in Ghana's Purchasers Managers Index for April 2023, which signalled improvements in business conditions for the third successive month.

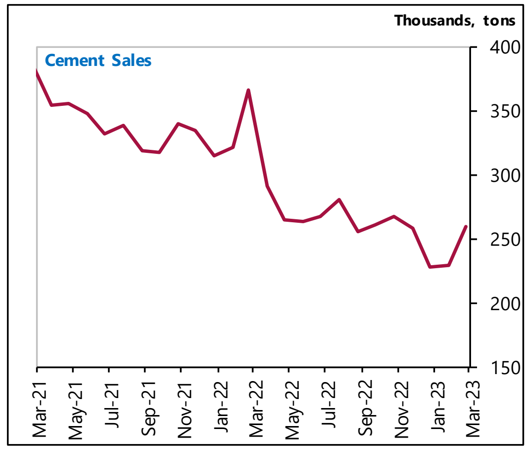
Appendix

Panel 1:
Ghana's Leading Indicators of Economic Activity

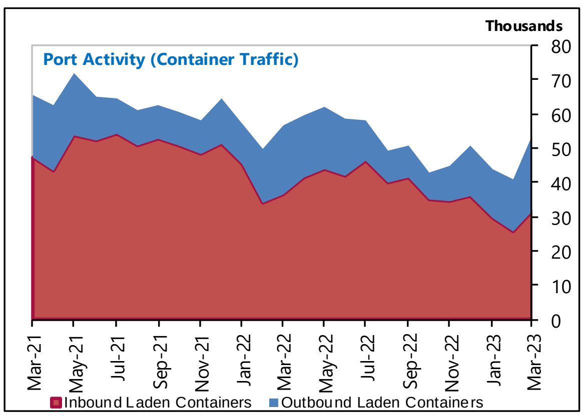
...Domestic VAT collections and retail sales increased in March 2023...



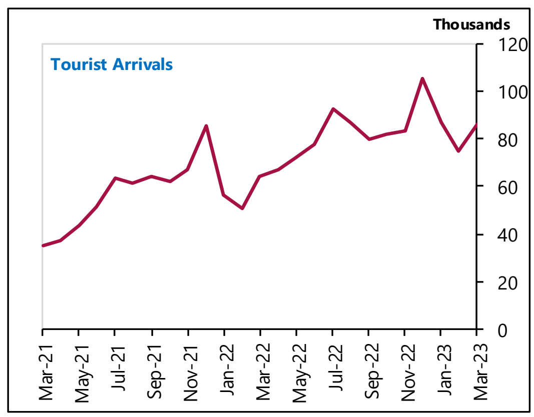
...Construction activities, proxied by cement sales, improved in March 2023...



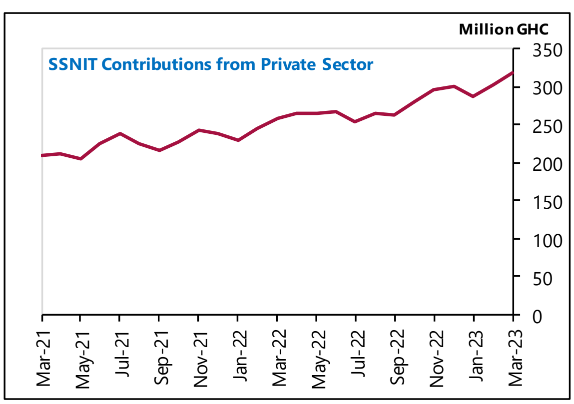
...Port activity improved in March 2023...



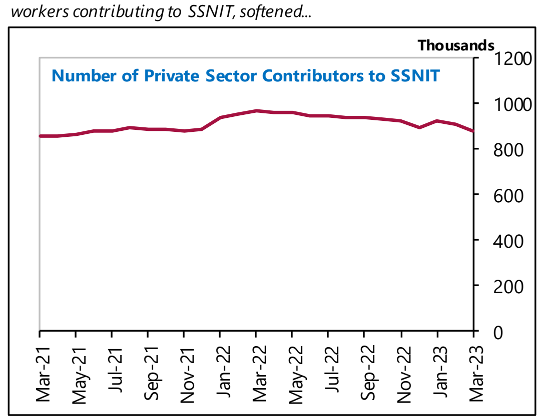
...Tourist arrivals went up in March 2023...



...Labour market conditions improved in March 2023...



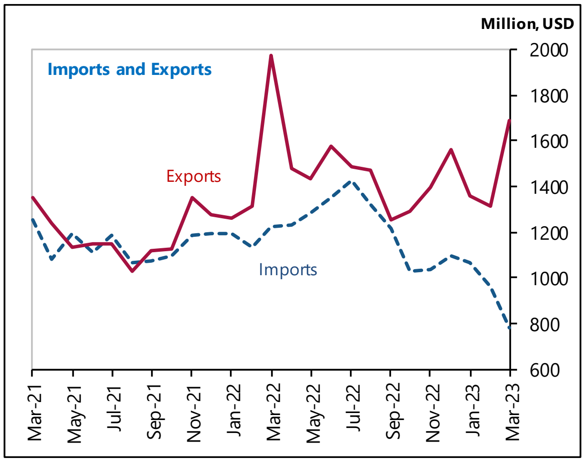
...Labour hiring conditions, proxied by the number of private sector workers contributing to SSNIT, softened...



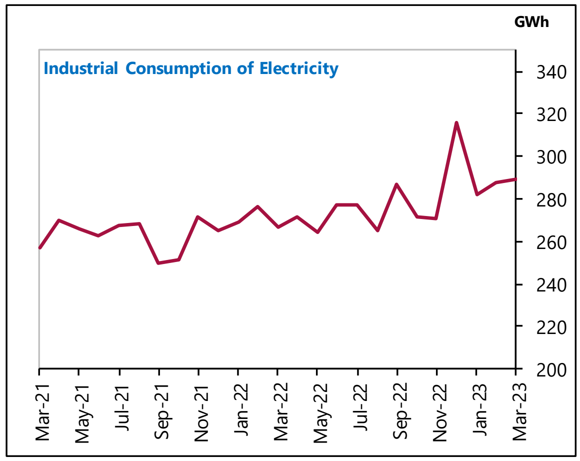
Sources: Bank of Ghana, Various Stakeholders

Panel 2:
Ghana's Leading Indicators of Economic Activity

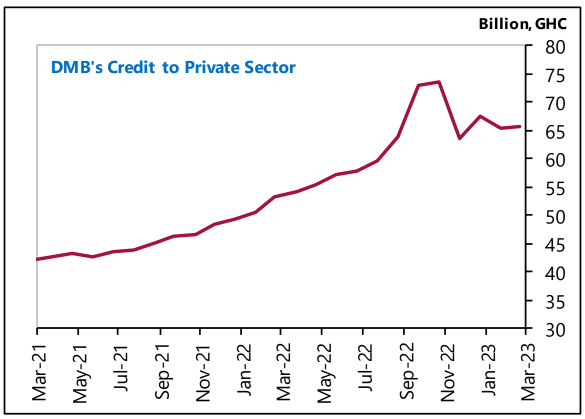
...Exports increased while imports declined in March 2023...



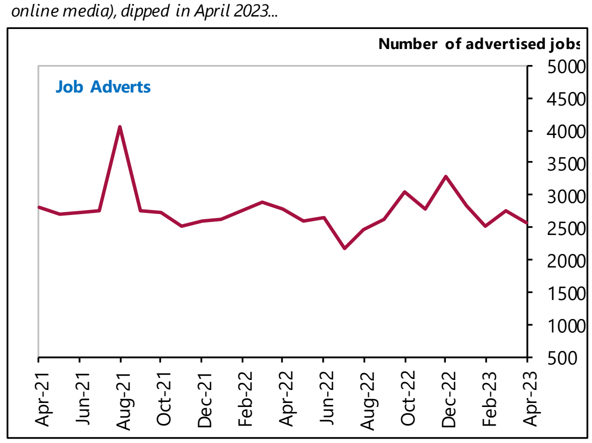
...Industrial activity, proxied by industrial consumption of electricity, improved...



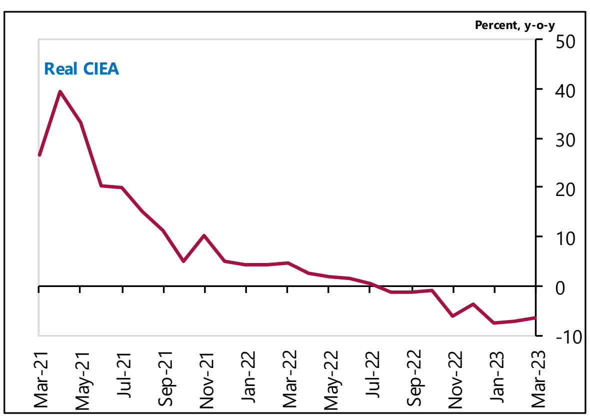
...Commercial banks' credit to the private sector remained largely unchanged in March 2023...



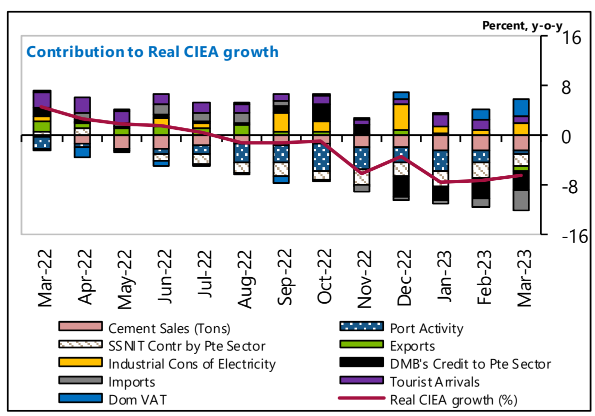
...Demand for labour, proxied by the number of job adverts (in print and online media), dipped in April 2023...



...On a year-on-year basis, the real CIEA contracted by 6.4 percent in March 2023, compared with a growth rate of 4.6 percent in March 2022...



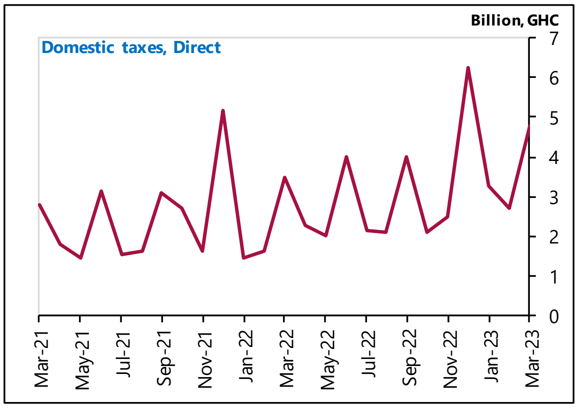
...The decline in the real CIEA was mainly due to contractions in Imports, DMBs Credit to the Private Sector, Cement Sales, SSNIT Contributions from the Private Sector, Exports and Port Activity...



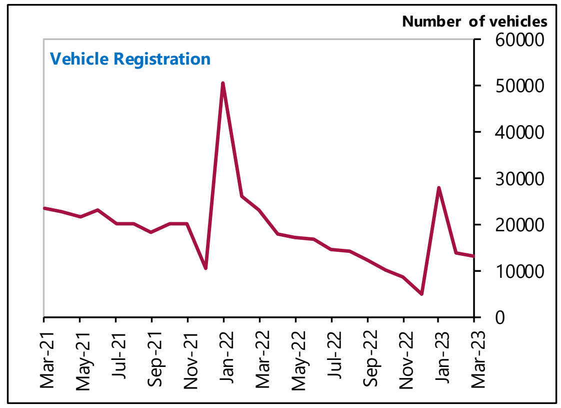
Source: Bank of Ghana, Various Stakeholders

Panel 3:
Ghana's Leading Indicators of Economic Activity

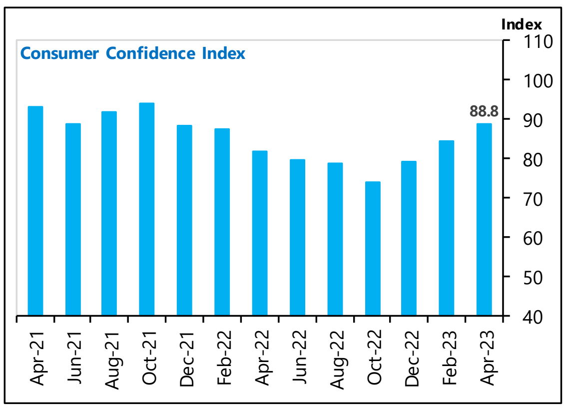
...Domestic tax collection increased in March 2023...



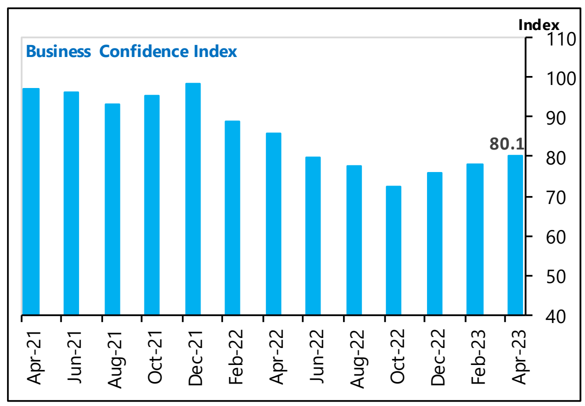
...Vehicle registration dipped in March 2023...



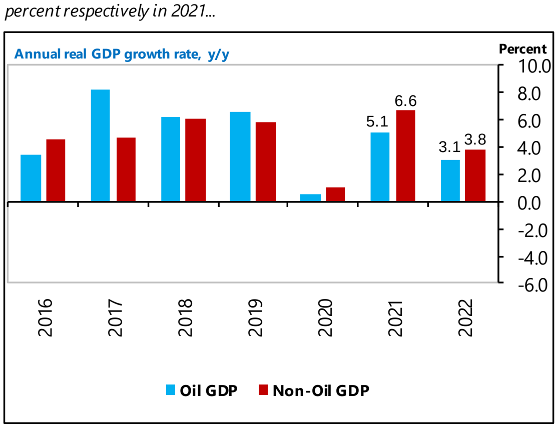
...Consumer confidence improved on the back of easing inflationary pressures, which led to consumer optimism about prospects of future economic conditions...



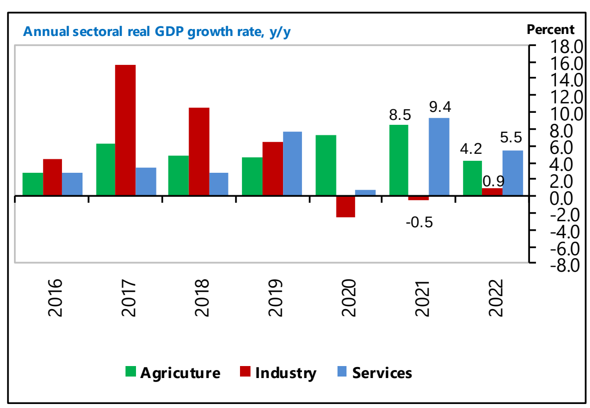
...Businesses met short-term company targets and expressed positive sentiments about company and industry prospects on the back of improving consumer demand and relative stability in the local currency...



...Real Oil and Non-Oil GDP moderated to 3.1 percent and 3.8 percent respectively in 2022, compared with growth rates of 5.1 percent and 6.6 percent respectively in 2021...



...The decline in growth in 2022 relative to 2021 was mainly due to a comparative slowdown in the Agriculture and Services sectors...



Source: Bank of Ghana, Various Stakeholders

4. Monetary and Financial Developments

4.0 Highlights

Developments in monetary aggregates in April 2023 showed an accelerated pace of growth in broad money supply (M2+) relative to the corresponding period in 2022, reflecting significant expansion in the Net Domestic Assets of depository corporations' sector, while the Net Foreign Assets contracted. Interest rates on the money market broadly trended upward in April 2023 at the short- to medium-end of the yield curve, consistent with the tightening policy stance. The Ghana Stock Exchange-Composite Index (GSE-CI) recorded significant year-to-date gain in April 2023, compared with a loss recorded over the same period last year. The recovery in the GSE-CI reflected improved demand for equities, driven by decreased coupon rates on Government bonds on account of the Domestic Debt Exchange Programme. This was also supported by expected dividend payments, as well as relative stability in the exchange rate

4.1 Developments in Monetary Aggregates

Money Supply

Growth in broad money supply (M2+) remained strong in April 2023, mainly driven by considerable expansion in Net Domestic Assets (NDA) of the depository corporation sector while Net Foreign Assets (NFA) contracted. M2+ growth increased to 45.6 percent in April 2023, compared with 19.9 percent in the corresponding period of 2022. The contribution of NDA to the growth of M2+ increased to 52.1 percent, from 44.4 percent, while the contribution of NFA increased to negative 6.5 percent, from negative 24.5 percent, over the same comparative period.

In terms of annual growth rates, NDA expanded by 51.6 percent in April 2023, relative to 58.0 percent in April 2022, while NFA contracted by 803.0 percent, compared with 104.1 percent contraction over the same comparative period a year earlier (Chart 4.1a and Appendix Table 4.1).

The increase in the contribution of NDA to 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 2022. 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 April, relative to same period in 2022 (Chart 4.2).

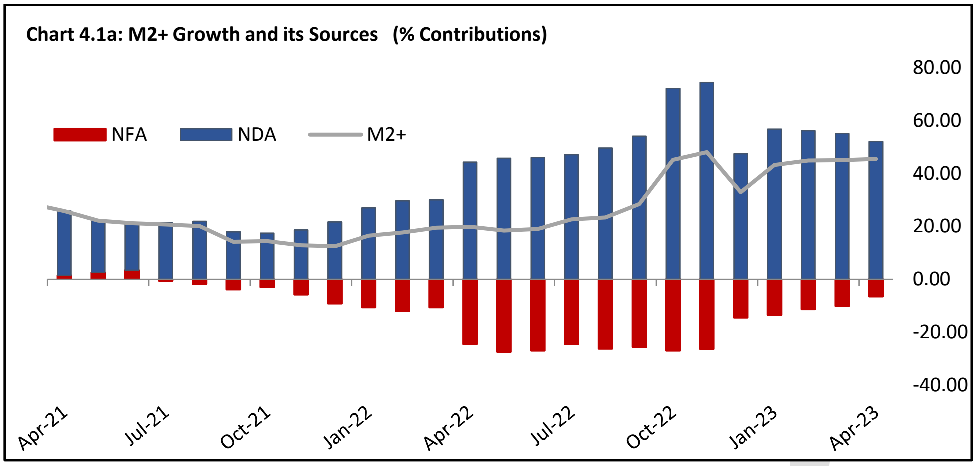


Chart 4.1a: M2+ Growth and its Sources (% Contributions)

Source: Bank of Ghana Staff Calculations

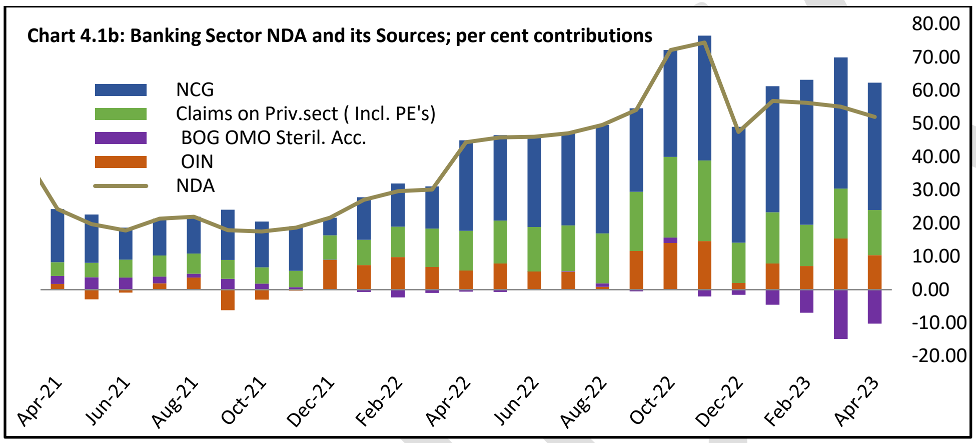


Chart 4.1b: Banking Sector NDA and its Sources; per cent contributions

Source: Bank of Ghana Staff Calculations

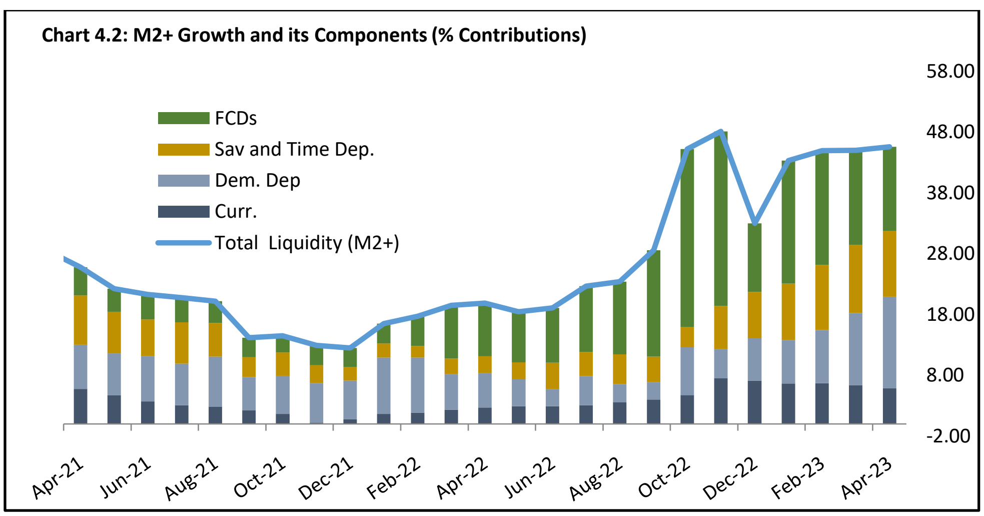


Chart 4.2: M2+ Growth and its Components (% Contributions)

Source: Bank of Ghana Staff Calculations

4.2 Reserve Money

Annual growth in Reserve Money (RM) increased considerably to 46.5 percent in April 2023, from 33.8 percent recorded in the corresponding period of 2022. The increased pace of growth in RM was mainly due to expansion in NDA of the Central Bank, reflecting the legacy effects of the monetization of uncovered Government auction last year, and increased outflows through the OIN. OMO sterilization increased considerably, on the back of sustained tightening of monetary policy, to moderate the expansion in NDA. The NDA accounted for 98.2 percent of the growth in RM in April 2023, relative to 106.1 percent in the same period last year.

In contrast, the NFA of the Central Bank contracted significantly, albeit at the slower pace relative to corresponding period in 2022, reflecting a net drawdown in foreign assets for balance of payment support, as well as constrained foreign inflows. The contribution of NFA to the growth in RM was negative 51.7 percent in April 2023, relative to negative 72.3 percent recorded in the corresponding period of 2022 (Chart 4.3a, 4.3b, and Appendix 4.2).

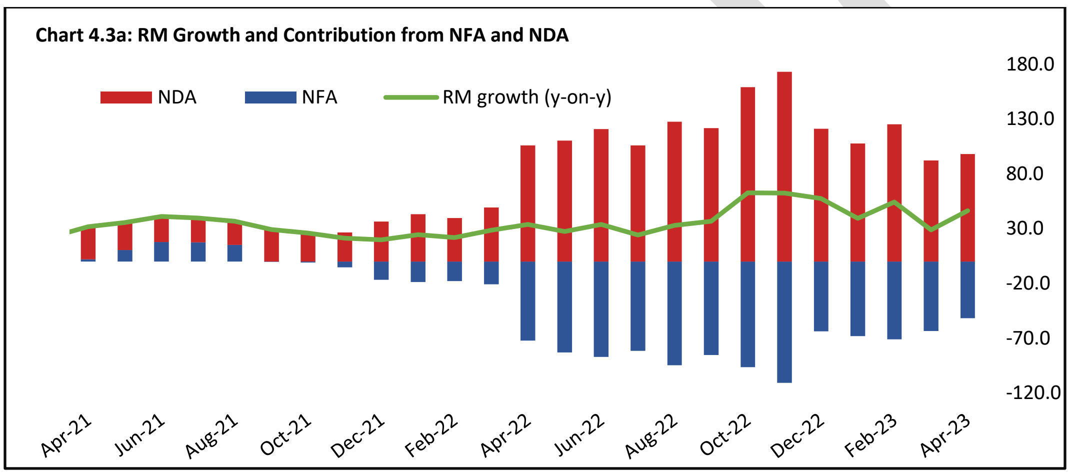


Chart 4.3a: RM Growth and Contribution from NFA and NDA

Source: Bank of Ghana Staff Calculations

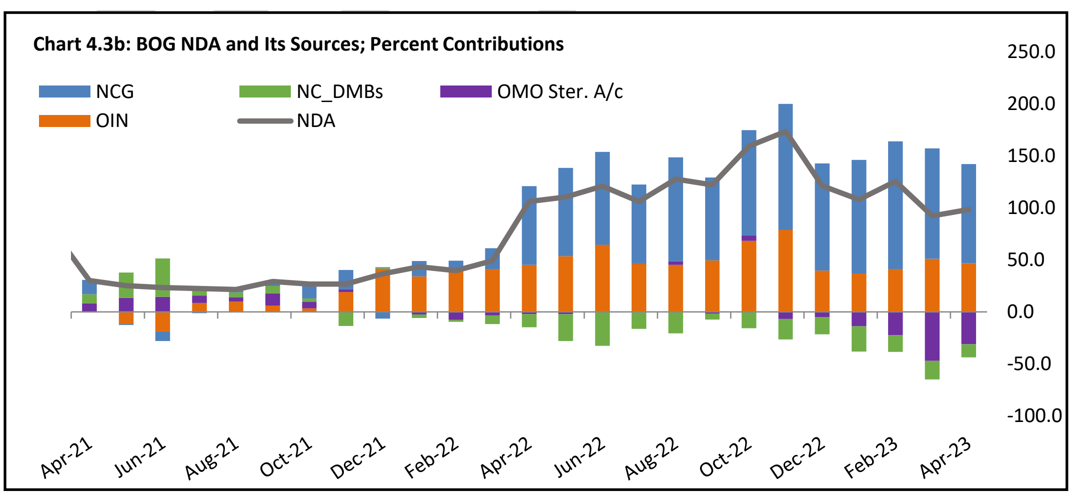


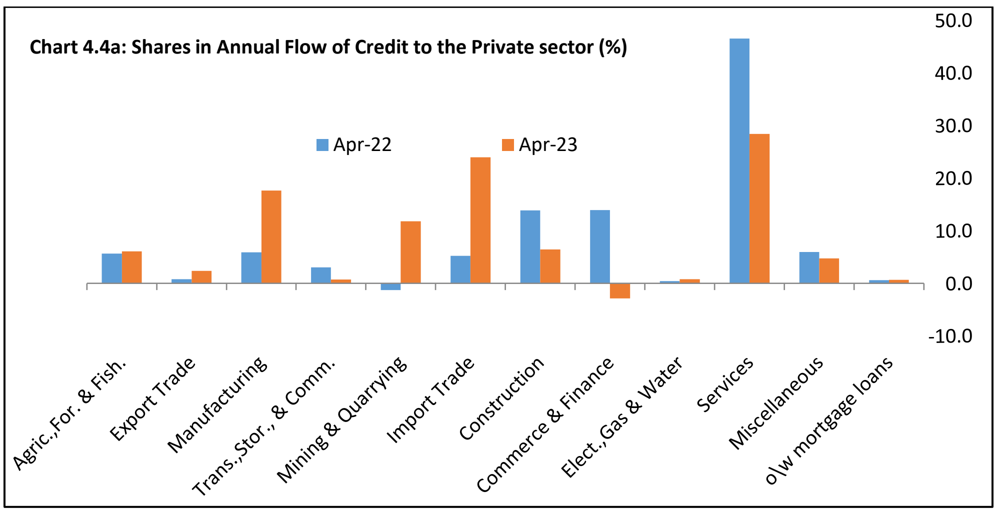
Chart 4.3b: BOG NDA and Its Sources; Percent Contributions

Source: Bank of Ghana Staff Calculations

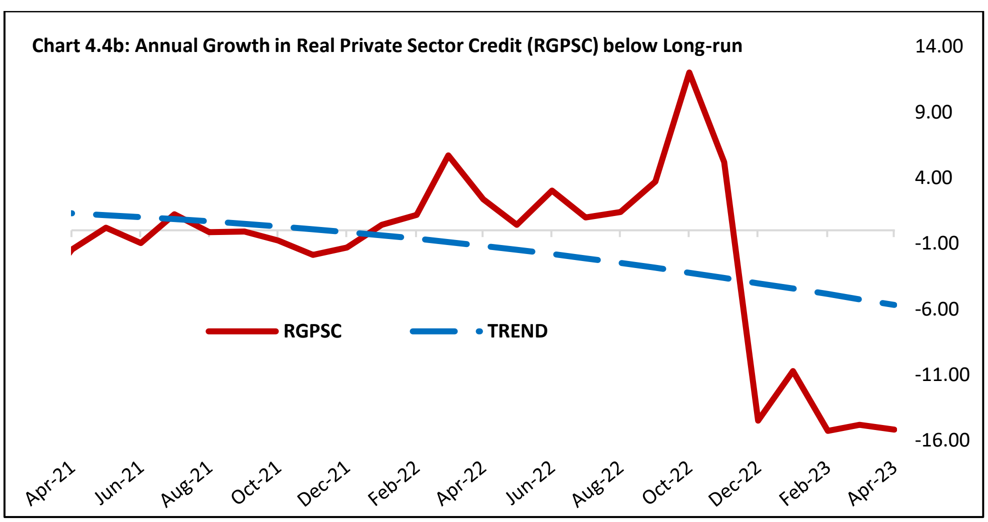
4.3 Deposit Money Banks Credit Developments

DMBs' credit to the private sector and public institutions increased by GH¢12,151.32 million (20.2%) in April 2023 compared with GH¢12,341.32 million (25.78%) recorded in April 2022. Credit to the private sector increased by GH¢10,706.71 million (19.8%) in April 2023 compared with GH¢11,351.95 million (26.5%) recorded in the corresponding period of 2022. The slowdown in nominal growth in private sector credit reflected the tight monetary stance and moderation in economic activities. Private sector credit accounted for 88.1 percent of total flow of credit extended to both private and public institutions in April 2023, relative to 92.0 percent recorded in the corresponding period of 2022. Credit flow to the private sector remained concentrated in five sectors: services; import trade; manufacturing; mining and quarrying; and construction (Chart 4.4a).

Outstanding credit to the private sector at the end of April 2023 was GH¢64,875.46 million, compared with GH¢54,168.75 million recorded in April 2022. In real terms, private sector credit contracted by 15.2 percent, compared with a growth of 2.4 percent recorded over the same period in 2022. Growth in real private sector credit continued to trend below the long-run path in April 2023 (Chart 4.4b).



Source: Bank of Ghana Staff Calculations



Source: Bank of Ghana Staff Calculations

4.4 Money Market Developments

Interest rates on the money market broadly trended upward in April 2023. The 91-day and 182-day Treasury bill rates increased to 19.67 percent and 22.29 percent, respectively, in April 2023, from 16.22 percent and 16.72 percent in April 2022. Similarly, the rate on the 364-day instrument increased to 27.04 percent in April 2023 from 18.93 percent in April 2022.

The interbank weighted average rate increased to 25.89 percent in April 2023, from 16.46 percent in April 2022, underpinned by the tightened policy stance and the hike in the Cash Reserve Ratio (CRR) during the review period. In tandem, the average lending rates of banks increased to 31.66 percent in April 2023 from 21.61 percent in the same period of 2022. (Charts 4.5, 4.6 and 4.7).

Chart 4.5: MPR, Depo, Reverse Repo, Interbank and T-bill Rates and Inflation

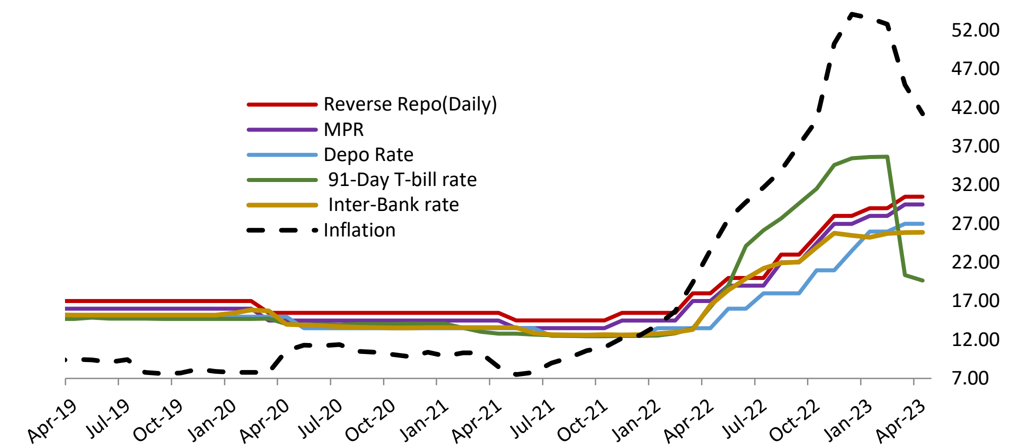
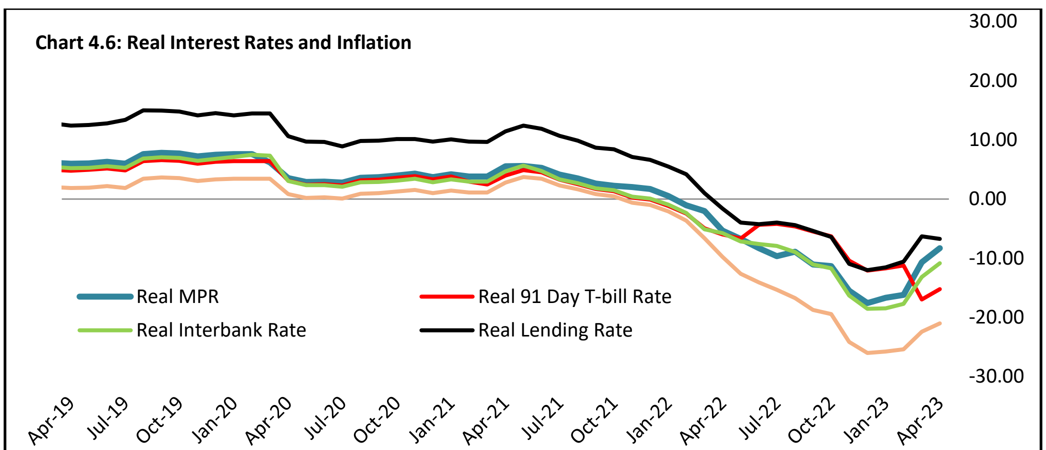


Chart 4.6: Real Interest Rates and Inflation



Source: Bank of Ghana

4.5 Stock Market Developments

The Ghana Stock Exchange Composite Index (GSE-CI) increased to 2741.5 points in April 2023, from 2691.2 points recorded in the corresponding period of 2022, representing a year-on-year gain of 1.9 percent in April 2023, compared to 5.1 percent gain in April 2022. The marginal gain in GSE-CI was on the back of increasing demand for equities, driven by the lower medium- to long-term coupon rates on Government bonds due to the DDEP and expected dividend payments.

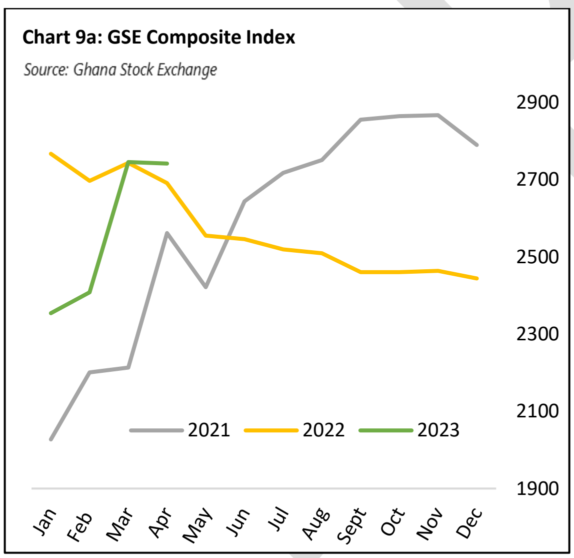
The GSE-Financial Stocks Index (GSE-FSI) closed at 1758.3 points, down by 20.4 percent compared to a gain of 17.7 percent over the same period in 2022. The loss in GSE-FSI reflected softened investor confidence in financial stocks in anticipation of the expected impact of the DDEP on listed financial institutions.

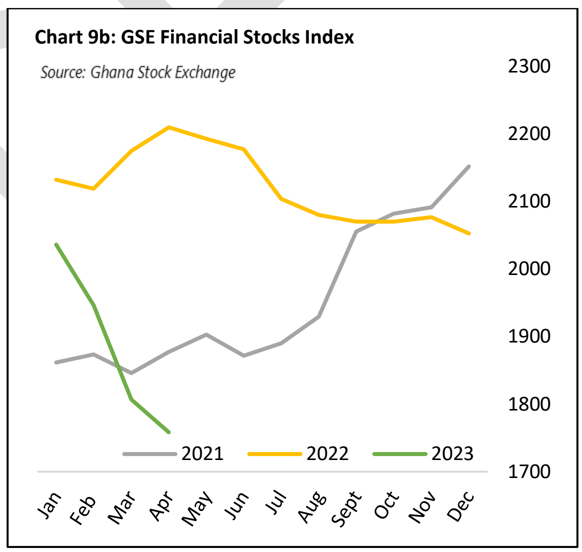
At the end of April 2023, total market capitalisation of the GSE was GH¢68.28 billion, representing a growth of 7.0 percent (GH¢4.46 billion), compared to a growth 5.0 percent (GH¢3.02 billion) in April 2022. The marginal improvement in market capitalisation was attributed to higher share prices in the distribution, mining, IT, agriculture and oil sectors; the listing of Ashanti Gold Corporation (ASG); and an increase in the total outstanding shares of Newgold (GLD), Tullow Oil PLC (TLW) and Anglogold Ashanti Limited (AGA) (Table 2, Charts 9a, 9b).

Table 4.1: Performance of GSE

Performance of Ghana Stock Exchange (Table 2)														
										Y-O-Y		Y-T-D	Month-On-Month (April)	
	Apr-21	Apr-22	Jun-22	Sep-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	2022	2023	2023	2022	2023
GSE CI	2561.45	2691.19	2545.48	2460.12	2443.91	2354.02	2408.00	2745.33	2741.46	5.07	1.87	12.18	(1.88)	(0.14)
GSE FI	1877.07	2209.70	2176.97	2070.10	2052.59	2036.05	1946.57	1806.67	1758.28	17.72	(20.43)	(14.34)	1.60	(2.68)
Market Capitalization	60801.73	63817.62	64841.21	63985.83	64507.32	63706.71	64235.77	67846.89	68278.45	4.96	6.99	5.85	(0.33)	0.64

Source: Ghana Stock Exchange and Bank of Ghana Staff Calculations





4.6 Conclusion

Broad money supply (M2+) grew sharply in the review period, reflecting significant expansion in Net Domestic Assets (NDA) of depository corporations' sector, while the Net Foreign Assets (NFA) contracted. Reserve money also recorded significant growth, on the back of expansion in the NDA of Bank of Ghana, largely on account of increasing net claims on Government. To moderate the expansion in NDA, the Bank of Ghana increased its sterilisation efforts. Private sector credit growth decelerated in both nominal and real terms, reflecting monetary policy tightening amid moderation in economic activities.

Appendix Table 4.1

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

		Apr-21	Apr-22	Jun-22	Sep-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
1	Net Foreign Assets	27987.31	(1150.85)	(7470.94)	(16665.29)	(12133.70)	(12056.39)	(10838.57)	(12006.15)	(10391.87)
	Bank of Ghana	26967.14	1453.09	(6401.93)	(16871.08)	(19300.17)	(21311.29)	(21494.37)	(23944.40)	(22970.76)
	Commercial Banks	1020.17	(2603.94)	(1069.01)	205.79	7166.46	9254.91	10655.80	11938.25	12578.90
2	Net Domestic Assets	90946.49	143714.52	152627.87	176822.88	192400.54	209050.05	212950.82	218992.56	217920.06
3	ow: Claims on government (net)	58621.99	91091.89	96441.19	108948.92	122554.34	135407.44	146064.22	144230.49	145678.43
4	ow: Claims on Private sector(Incl. PE's)	53538.78	67652.52	71346.80	79449.02	78327.41	82732.75	81386.26	88275.92	87074.53
	BOG OMO Sterilisation Acc.	(4155.74)	(4888.06)	(4583.13)	(6940.43)	(7725.48)	(12960.91)	(18296.64)	(27440.77)	(19524.09)
5	Total Liquidity (M2+)	118933.79	142563.67	145156.93	160157.59	180266.84	196993.67	202112.25	206986.41	207528.19
6	ow: Broad Money Supply (M2)	91942.98	105204.84	106488.56	110613.58	135142.49	139966.12	143732.50	148131.00	150496.16
7	ow: Foreign Currency Deposits(¢million)	26990.81	37358.83	38668.37	49544.01	45124.35	57027.55	58379.75	58855.41	57032.04
		Change from previous year (in per cent)								
8	Net Foreign Assets	5.24	(104.11)	(129.43)	(209.64)	(261.11)	(284.70)	(320.82)	(596.99)	802.97
9	Net Domestic Assets	33.82	58.02	58.15	61.63	50.28	59.65	58.29	56.07	51.63
10	ow: Claims on government (net)	34.98	55.39	52.40	40.31	62.72	62.73	71.60	64.29	59.92
11	ow: Claims on Private sector(Incl. PE's)	7.89	26.36	29.46	38.98	26.77	34.43	27.01	32.13	28.71
12	ow: BOG OMO Sterilisation Acc.	35.11	(17.62)	1.79	(9.79)	(36.62)	(91.19)	(114.03)	(336.31)	(299.42)
12	Total Liquidity (M2+)	25.78	19.87	19.09	28.54	32.98	43.29	44.94	45.02	45.57
13	Broad Money Supply (M2)	27.80	14.42	13.03	14.22	27.81	29.32	33.98	39.68	43.05
14	Foreign Currency Deposits (FCDs)	19.35	38.41	39.69	78.49	51.33	95.01	81.51	60.46	52.66
		Cummulative change from previous year end (in per cent)								
15	Net Foreign Assets	50.47	(115.28)	(199.20)	(321.28)	(261.11)	(0.64)	(10.67)	(1.05)	(14.36)
16	Net Domestic Assets	(10.77)	12.26	19.22	38.12	50.28	8.65	10.68	13.82	13.26
17	o/w: Claims on government (net)	(15.00)	20.95	28.05	44.66	62.72	10.49	19.18	17.69	18.87
18	Broad Money(M2+)	(1.32)	5.17	7.08	18.15	32.98	9.28	12.12	14.82	15.12
		Annual per cent contribution to money growth								
19	Net Foreign Assets	1.47	(24.50)	(26.95)	(25.57)	(14.51)	(13.52)	(11.29)	(10.10)	(6.48)
20	NDA	24.31	44.37	46.04	54.12	47.49	56.81	56.23	55.12	52.05
21	Total Liquidity (M2+)	25.78	19.87	19.09	28.54	32.98	43.29	44.94	45.02	45.57
	Memorandum items									
22	Reserve Money	35293.96	47215.05	48237.98	53503.90	68103.84	62752.24	66660.76	57840.77	69161.50
23	NFA ($million)	4882.47	(161.80)	(1033.25)	(1735.10)	(1414.84)	(1116.34)	(984.12)	(1090.11)	(948.89)
24	Currency ratio	0.20	0.19	0.18	0.17	0.21	0.19	0.18	0.18	0.18
25	**FCD/M2+**	0.23	0.26	0.27	0.31	0.25	0.29	0.29	0.28	0.27
26	**FCD/Total Deposit**	0.27	0.31	0.31	0.36	0.30	0.34	0.34	0.33	0.32
27	RM multiplier	2.61	2.23	2.21	2.07	1.98	2.23	2.16	2.56	2.18

Source: Bank of Ghana Staff Caluculations

Appendix Table 4.2

Appendix 2: Sources of Growth in Reserve Money (millions of Ghana cedis unless otherwise stated)

		Apr-21	Apr-22	Jun-22	Sep-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23
1	Net Foreign Assets (NFA)	26967.14	1453.09	(6401.93)	(16871.08)	(19300.17)	(21311.29)	(21494.37)	(23944.40)	(22970.76)
2	Net Domestic Assets (NDA)	8326.82	45761.96	54639.91	70374.98	87404.00	84063.53	88155.12	81785.17	92132.26
	of which:									
3	ow: Claims on government (net)	16537.84	43185.34	51437.82	62420.49	73910.16	85302.40	88867.50	87171.91	88150.86
4	Claims on DMB's (net)	1314.21	(3158.63)	(4678.86)	(1494.48)	(4415.26)	(10564.82)	(6284.97)	(9875.29)	(9161.54)
5	OMO Sterilisation Account.	(4155.74)	(4888.06)	(4583.13)	(6940.43)	(7725.48)	(12960.91)	(18296.64)	(27440.77)	(19524.09)
6	Reserve Money (RM)	35293.96	47215.05	48237.98	53503.90	68103.84	62752.24	66660.76	57840.77	69161.50
7	ow:Currency	19748.36	23421.41	22102.32	23786.09	31420.65	31010.97	31028.49	31194.57	31824.77
8	DMB's reserves	11951.87	19283.12	21821.29	25120.26	31727.84	26518.91	30535.68	21355.42	32045.79
9	Non-Bank deposits	3593.73	4510.52	4314.37	4597.55	4955.35	5222.35	5096.59	5290.78	5290.94
	Change from previous year (in per cent)									
10	Net Foreign Assets	1.96	(94.61)	(125.57)	(202.22)	(334.03)	(327.95)	(334.80)	(633.78)	(1680.82)
11	Net Domestic Assets	2695.35	449.57	395.38	210.68	149.74	136.04	158.95	102.54	101.33
12	ow: Claims on government (net)	28.71	161.13	165.95	100.20	151.48	135.28	147.13	120.71	104.12
13	Claims on DMB's (net)	236.45	340.34	165.74	301.86	256.60	2634.41	1118.22	(420.80)	(190.05)
14	OMO Sterilisation Account.	35.11	(17.62)	1.79	(9.79)	(36.62)	(91.19)	(114.03)	(336.31)	(299.42)
15	**Reserve Money (RM)**	31.95	33.78	33.76	36.64	57.48	39.56	54.32	28.92	46.48
16	ow:Currency	37.96	18.60	19.11	26.44	44.30	41.83	43.27	41.21	35.88
		Cumulative change from previous year end (in per cent)								
17	Net Foreign Assets (NFA)	90.94	(82.38)	(177.63)	(304.57)	(334.03)	(358.41)	(360.63)	(390.34)	(378.53)
18	Net Domestic Assets (NDA)	(62.15)	30.76	56.12	101.08	149.74	140.20	151.89	133.69	163.25
19	o/w: Claims on government (net)	(47.88)	46.94	75.02	112.39	151.48	190.25	202.38	196.61	199.94
20	Reserve Money (RM)	(2.30)	9.18	11.55	23.72	57.48	45.11	54.15	33.75	59.93
		Annual per cent contribution								
21	Net Foreign Assets	1.94	(72.29)	(87.17)	(85.24)	(63.70)	(68.19)	(70.95)	(63.37)	(51.73)
22	Net Domestic Assets (NDA)	30.02	106.07	120.93	121.88	121.18	107.75	125.27	92.28	98.21
23	RM growth (y-o-y)	31.95	33.78	33.76	36.64	57.48	39.56	54.32	28.92	46.48

Source: Bank of Ghana Staff Calculations

5. Banking Sector Developments

5.0 Highlights

The banking sector's performance for the first four months of 2023 pointed to a gradual recovery following the challenging operating environment in 2022. The sector's performance broadly improved in April 2023, supported by the successful conclusion of the Domestic Debt Exchange Programme (DDEP) and the impact of the regulatory reliefs introduced by the Bank.

The key financial soundness indicators posted a mixed performance but largely remained within regulatory and prudential benchmarks. The industry's CAR was above the revised regulatory minimum of 10 percent but declined in April 2023, reflecting impairment losses on investments and an increase in the risk-weighted assets of banks.

The banking sector's outlook remains broadly stable in the medium term, on the back of the regulatory reliefs and other interventions such as the Ghana Financial Stability Fund (GFSF). These reliefs and interventions are deemed necessary to cushion the sector against the potential adverse fallouts from the DDEP that may pose a risk to financial stability.

Box 1. Highlights of the 2022 Audited Financial Statements

The 2022 audited financial statements of banks reflected the full impact of the Domestic Debt Exchange Programme (DDEP) and the challenging operating environment that prevailed in the year. Most banks reported significant losses on the back of the mark-to-market valuation losses on their respective holdings in Government of Ghana (GoG) bonds following the implementation of the DDEP. Other losses were due to higher impairments on loans and rising operating costs. The industry posted a before-tax loss of GH¢8.0 billion in 2022, compared with a profit of GH¢7.4 billion recorded in 2021. After-tax loss was GH¢6.6 billion in 2022, relative to profit-after-tax of GH¢4.8 billion in 2021. The main profitability indicators, namely return-on-assets and return-on-equity, all turned negative in 2022 because of the industry's loss position.

The 2022 audited financial statements of banks also pointed to some impairments in capital levels, although most banks posted Capital Adequacy Ratios (CARs) above the 10 percent regulatory minimum at end-December 2022. This was attributed to the effect of the roll-out of the temporary regulatory reliefs extended to the banks to cushion them against the impact of the DDEP as was done at the onset of the pandemic.

Total assets of the industry stood at GH¢212.0 billion at end-December 2022, representing a growth of 18.3 percent, reflecting the sustained growth in deposits as well as the impact of exchange rate variations on the balance sheet. Total deposits also amounted to GH¢165.6 billion, representing an increase of 30.5 percent, compared with 16.6 percent growth recorded during the same period in 2021. Total investments, however, declined significantly to GH¢69.5 billion in December 2022, from GH¢84.6 billion in December 2021, equivalent to a contraction of 17.9 percent, compared with the 29.0 percent growth in the corresponding period in 2021. Total credit, on the other hand, increased by 26.0 percent to GH¢59.6 billion from GH¢47.3 billion in December 2021.

Key financial soundness indicators also moderated, notwithstanding the regulatory reliefs provided by the Bank. The industry's average CAR adjusted for the regulatory reliefs was 16.2 percent in December 2022, compared with the CAR of 19.6 percent in December 2021. The adjusted CAR reflected valuation losses on GoG bonds, elevated credit risk, and revaluation losses on foreign -currency -denominated loans. Asset quality also weakened, with the industry's Non-Performing Loans (NPL) ratio at 18.4 percent in December 2022, from 15.9 percent in December 2021, reflecting higher loan impairments relative to the growth in the stock of loans.

Overall, performance of the banking sector in 2022 was broadly indicative of the peculiar challenges that the industry was confronted with during the year, particularly the challenging operating macroeconomic environment and, most significantly, the Domestic Debt Exchange Programme. The prudential and regulatory reliefs introduced by the Bank of Ghana on the back of the DDEP partly contributed to mitigating the adverse impact of the Debt Exchange and helped stabilize the sector in 2022. It is expected that the operationalisation of the Ghana Financial Stability Fund (GFSF) would further support the sector in 2023.

Source: Bank of Ghana

5.1 Banks' Balance Sheet

Total assets of the banking sector increased by 22.6 percent to GH¢238.2 billion as at April 2023, compared with 24.8 percent growth recorded in April 2022. The higher growth in assets was driven by the robust growth in deposits as well as the depreciation of the Ghana cedi. Foreign assets grew by 64.4 percent in April 2023, from 18.5 percent in April 2021, while domestic assets went up by 19.9 percent in April 2023, compared to 25.2 percent growth in April 2022. Consequently, the share of foreign assets in total assets increased to 8.3 percent from 6.2 percent, while the share of domestic assets declined to 91.7 percent from 93.8 percent, during the same reference period (Table 5.1).

Investments contracted by 0.6 percent to GH¢83.3 billion in April 2023, from a growth of 14.5 percent in April 2022, as banks rebalanced their assets portfolio in response to the DDEP and the revision of the Cash Reserve Ratio requirements by the Bank of Ghana. As a result, the share of investments in total assets declined sharply to 35.0 percent in April 2023, from 43.2 percent in April 2022. The decline in investments reflected in the contraction of securities by 24.2 percent in April 2023, from a growth of 25.4 percent during the same period in 2022, while short-term bills grew sharply by 86.6 percent in April 2023, after contracting by 13.2 percent in April 2022.

Gross loans and advances recorded a slower annual growth of 20.2 percent to GH¢72.4 billion at end-April 2023, compared to the 25.8 percent growth in April 2022. Growth in net loans and advances (gross loans adjusted for provisions and interest in suspense) was also lower, at 16.8 percent to GH¢62.2 billion in April 2023, compared to 29.0 percent growth during the same period in the previous year.

Deposits remained the main source of funding for the banking sector, increasing by 44.7 percent to GH¢184.0 billion in April 2023, compared to the growth of 21.3 percent recorded in April 2022. The foreign currency component of deposits increased by 63.3 percent to GH¢60.0 billion in April 2023, compared to a growth of 29.7 percent a year ago, an indication that the overall growth in total deposits was partly driven by the currency depreciation. Borrowings, on the other hand, declined by 38.5 percent to GH¢15.9 billion in April 2023, from the 66.2 percent growth recorded in April 2022. The contraction in borrowings in April 2023 reflected sharp declines in the main components of total borrowings, with the exception of long-term domestic borrowings. For instance, short-term foreign borrowings contracted by 79.8 percent, after increasing sharply by 93.0 percent in April 2022, similar to the 16.4 percent contraction in long term foreign borrowings from the 29.5 percent growth in April 2022. On the domestic front, short term borrowings of GH¢8.0 billion at end-April 2023 represented a contraction of 22.8 percent, after the 121.4 percent growth in April 2022. Long-term domestic borrowing, however, increased by 25.3 percent in April 2023, from a contraction of 43.2 percent during the same period in the previous year.

The industry's shareholders' funds contracted by 20.5 percent to GH¢21.1 billion in April 2023, compared to a growth of 12.2 percent in April 2022. The decline in shareholders' funds came from the moderation in banks' reserves on account of losses made by the banks in the 2022 financial year, while growth in paid-up capital was at 2.6 percent, relative to the 3.8 percent contraction recorded in April 2022.

Table 5.1: Key Developments in DMBs' Balance Sheet								
	(GH ¢'million)			Y-on-Y Growth (%)			Shares (%)	
	Apr-22	Feb-23	Apr-23	Apr-22	Feb-23	Apr-23	Apr-22	Apr-23
TOTAL ASSETS	**194,280.8**	**237,157.4**	**238,200.2**	**24.8**	**26.3**	***22.6***	***100.0***	***100.0***
A. Foreign Assets	12,005.9	19,396.4	19,736.1	18.5	123.8	*64.4*	*6.2*	*8.3*
B. Domestic Assets	182,274.9	217,761.0	218,464.1	25.2	21.6	*19.9*	*93.8*	*91.7*
Investments	83,849.6	85,149.6	83,312.5	14.5	(3.8)	*(0.6)*	*43.2*	*35.0*
i. Bills	17,874.0	31,990.7	33,361.8	(13.2)	36.9	*86.6*	*9.2*	*14.0*
ii. Securities	65,760.9	52,919.0	49,816.9	25.4	(18.4)	*(24.2)*	*33.8*	*20.9*
Advances (Net)	53,264.1	63,228.7	62,237.8	29.0	26.9	*16.8*	*27.4*	*26.1*
of which Foreign Currency	16,848.1	23,070.0	22,028.6	35.8	50.2	*30.7*	*8.7*	*9.2*
Gross Advances	**60,207.7**	**73,501.3**	**72,359.0**	25.8	30.7	***20.2***	***31.0***	***30.4***
Other Assets	9,624.1	14,938.2	14,854.3	33.9	61.0	*54.3*	*5.0*	*6.2*
Fixed Assets	5,356.0	7,227.9	7,362.1	6.3	37.1	*37.5*	*2.8*	*3.1*
TOTAL LIABILITIES AND CAPITAL	**194,280.8**	**237,157.4**	**238,200.2**	**24.8**	**26.3**	***22.6***	***100.0***	***100.0***
Total Deposits	**127,161.1**	**178,792.9**	**183,994.6**	**21.3**	**45.4**	***44.7***	***65.5***	***77.2***
of which Foreign Currency	36,794.7	60,783.0	60,082.5	29.7	92.3	*63.3*	*18.9*	*25.2*
Total Borrowings	25,853.3	18,066.5	15,893.3	66.2	(29.1)	*(38.5)*	*13.3*	*6.7*
Foreign Liabilities	15,688.6	9,706.1	8,120.1	60.5	(29.7)	*(48.2)*	*8.1*	*3.4*
i. Short-term borrowings	8,735.3	2,328.2	1,762.7	93.0	(65.4)	*(79.8)*	*4.5*	*0.7*
ii. Long-term borrowings	5,588.6	5,848.1	4,673.8	29.5	1.0	*(16.4)*	*2.9*	*2.0*
iii. Deposits of non-residents	1,364.7	1,499.5	1,423.8	46.2	14.8	*4.3*	*0.7*	*0.6*
Domestic Liabilities	151,077.6	204,296.6	208,121.5	23.8	38.6	*37.8*	*77.8*	*87.4*
i. Short-term borrowing	10,378.7	8,483.1	8,015.5	121.4	(28.5)	*(22.8)*	*5.3*	*3.4*
ii. Long-term Borrowings	1,150.7	1,407.1	1,441.3	(43.2)	27.6	*25.3*	*0.6*	*0.6*
iii. Domestic Deposits	125,796.3	177,293.4	182,570.7	21.0	45.8	*45.1*	*64.7*	*76.6*
Other Liabilities	14,710.4	17,515.1	16,378.2	26.4	27.5	*11.3*	*7.6*	*6.9*
Paid-up capital	10,165.1	10,426.2	10,432.1	(3.8)	2.6	*2.6*	*5.2*	*4.4*
Shareholders' Funds	26,556.1	22,368.0	21,101.1	12.2	(12.7)	*(20.5)*	*13.7*	*8.9*

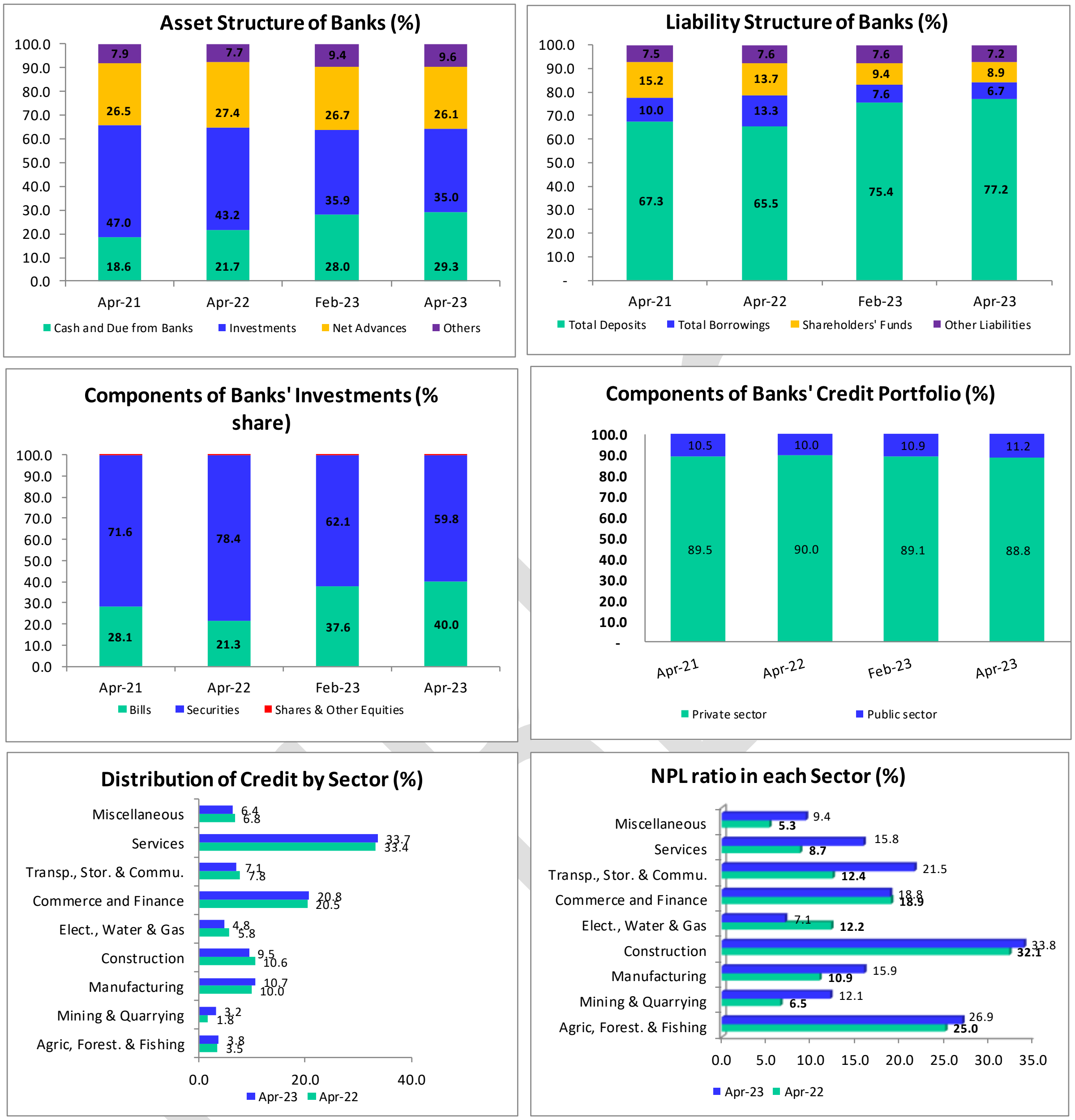
Source: Bank of Ghana

5.1.1 Asset and Liability Structure

Investments (comprising bills, securities and equity) remained the largest component of banks' assets as at April 2023, although its share in total assets declined to 35.0 percent, from 43.2 percent in April 2022, due to portfolio reallocation by banks following the DDEP. Cash and bank balances constituted the second-largest component of total assets, with an increased share of 29.3 percent in April 2023, from 21.9 percent in April 2022, partly due to increases in the Cash Reserve Ratio (CRR). Investments and cash and bank balances together accounted for 64.3 percent of total assets in April 2023, compared to a share of 64.9 percent in April 2022. Net loans and advances constituted the third-largest component of total assets, recording a declined share of 26.1 percent from 27.4 percent. Non-earning assets (fixed assets and other assets) in banks' total assets increased in share to 9.6 percent, from 7.7 percent during the review period (Annexes Table 5.1).

The share of deposits in banks' liabilities and shareholders' funds increased to 77.2 percent in April 2023, from 65.5 percent in the corresponding period last year, reflecting the sustained increase in deposits growth during the review period. The share of borrowings, however, declined during the period under review to 6.7 percent, from 13.3 percent, in line with the observed contraction in total borrowings. The size of shareholders' funds in banks' liabilities and shareholders' funds also declined to 8.9 percent, from 13.7 percent, consistent with the slowdown in the growth of shareholders' funds. The share of other liabilities also decreased to 7.2 percent, from 7.6 percent a year earlier. (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) constituted the largest component of banks' investment portfolio, although its share declined to 59.8 percent in April 2023, from 78.4 percent in April 2022. The share of short-term bills in total investments, however, increased to 40.0 percent, from 21.3 percent over the same period in 2022. The share of equity investments remained negligible at 0.2 percent, from 0.3 percent during the period under review (Figure 5.1).

5.2 Credit Risk

The industry's asset quality deteriorated in April 2023, relative to April 2022, following the sharp increase in the NPL stock, which translated into a rise in the NPL ratio, pointing to an elevated credit risk within the banking industry.

5.2.1 Credit Portfolio Analysis

The stock of gross loans and advances (domestic and foreign) recorded a slower annual growth of 20.2 percent to GH¢72.4 billion at end-April 2023, compared to the 25.8 percent growth during the same period last year. Private sector credit (comprising credit to private enterprises and households) also posted a lower growth of 19.8 percent to GH¢64.9 billion in April 2023, from 26.5 percent in the corresponding period in the previous year. Public sector credit, on the other hand, went up of 23.9 percent to GH¢7.5 billion at end-April 2023, compared to the growth of 19.6 percent in April 2022. Accordingly, the share of private sector credit in total credit declined to 88.8 percent in April 2023, from 90.0 percent in April 2022, while the share of public sector credit rose to 11.2 percent, from 10 percent a year earlier (Annexes Tables 5.2 & 5.4).

In terms of the distribution of credit by sectors, the services sector accounted for the largest share of 33.7 percent as at end-April 2023 (from 33.4 percent in April 2022), followed by the commerce and finance sectors with a relative share of 20.8 percent (from 20.5 percent), while the manufacturing sector accounted for a share of 10.7 percent (from 10.0 percent) (Figure 5.1). Together, these sectors accounted for 65.2 percent of total credit in April 2023, compared with 63.9 percent in April 2022. The mining and quarrying sector remained the lowest recipient of industry credit, despite a marginal share increase to 3.2 percent from 1.8 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 contracted by 3.8 percent to GH¢19.7 billion as at end-April 2023, from GH¢20.1 billion as at end-April 2022. Accordingly, banks' contingent liabilities as a percentage of total liabilities declined to 9.1 percent, from 12.0 percent in 2022 (Annexes Table 5.3).

5.2.3 Asset Quality

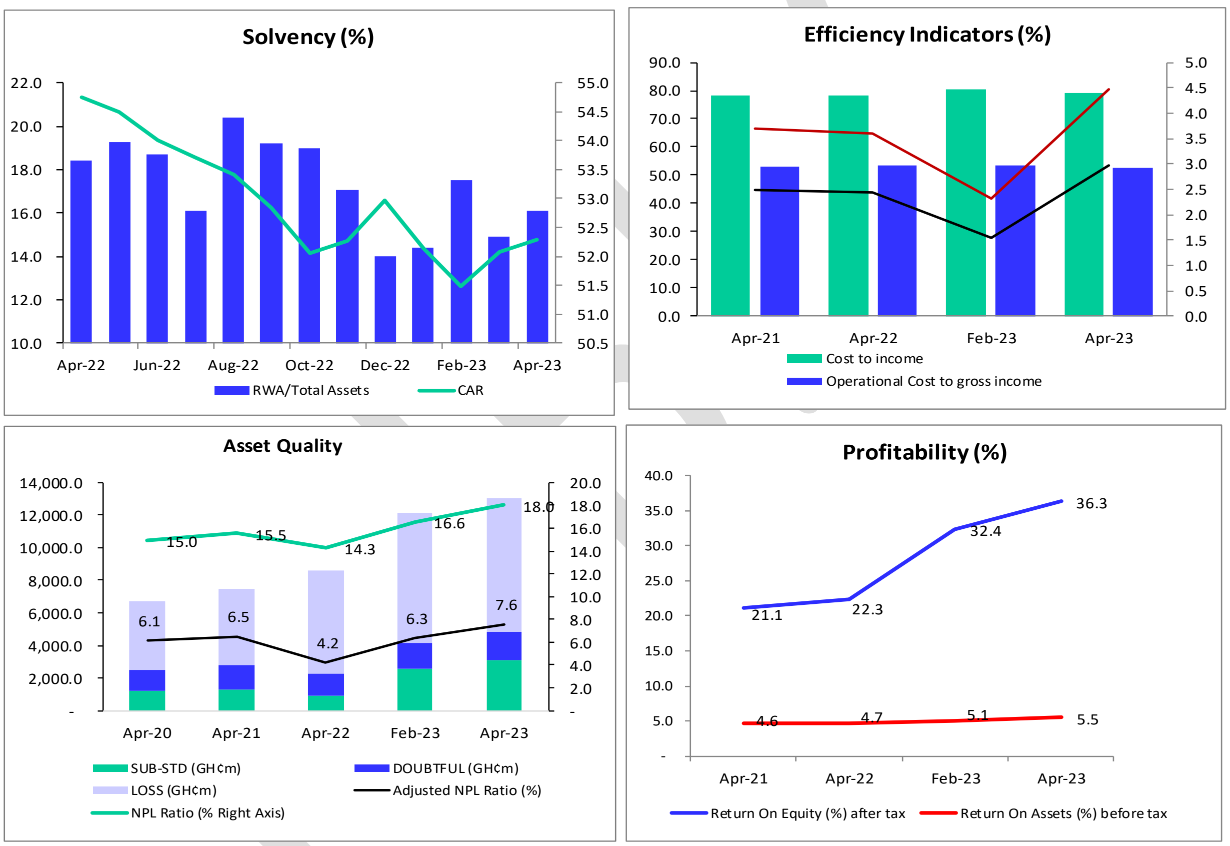
The industry's asset quality declined during the period under review. The industry's NPL ratio rose to 18.0 percent in April 2023, from 14.3 percent in April 2022. When adjusted for the fully provisioned loan loss category, the industry's NPL ratio also increased to 7.6 percent from 4.2 percent, reflecting increasing shares of both sub-standard and doubtful loans in the NPL stock (Figure 5.2). The rise in the NPL ratio was attributable to the higher growth in the NPL stock (51.5% year-on-year growth) relative to the growth in total loans (20.2% year-on-year growth) during the reference period. The industry's NPL stock increased by 51.5 percent to GH¢13.1 billion in April 2023, from GH¢8.6 billion in April 2022, partly reflecting the revaluation of foreign currency NPLs as well as deterioration in some domestic currency loans. Decomposition of the NPL showed that the private sector accounted for the most non-performing loans, due to its dominant holdings in total credit. The proportion of NPLs attributable to the private sector, however, declined to 93.7 percent in April 2023, from 95.7 percent in April 2022, while that of the public sector increased to 6.3 percent, from 4.3 percent a year earlier (Annexes Table 5.4).

The sector distribution of the industry's NPL ratios also picked up in all but two sectors in April 2023, (namely, the electricity, water & gas and commerce & finance sectors). The construction sector maintained the highest NPL ratio of 33.8 percent (an increase from 32.1 percent a year ago), followed by the agriculture, forestry, and fishing sector with an NPL ratio of 26.9 percent (from 25.0 percent a year earlier). The NPL ratio of the transportation, storage and communication sector increased sharply to 21.5 percent (from 12.4 percent), followed by the services sector to 15.8 percent (from 8.7 percent), and then the manufacturing sector with an increase in NPL ratio to 15.9 percent (from 10.9 percent in 2022). The NPL ratio of the electricity, water and gas sector, however, declined to 7.1 percent (from 12.2 percent), and thereby accounted for the lowest NPL ratio as at April 2023. The NPL ratio of the commerce and finance sector also moderated to 18.8 percent from 18.9 percent (Figure 5.1).

5.3 Financial Soundness Indicators

Trends in the industry's Financial Soundness Indicators (FSIs) were mixed during the period under review.

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 in April 2023, with improvements in the core measures following the increase in the CRR requirement. The ratio of core liquid assets (mainly cash and due from banks) to total deposits increased to 38.0 percent in April 2023 from 33.1 percent in April 2022, while core liquid assets to total assets ratio increased to 29.3 percent from 21.7 percent. The ratio of broad liquid assets to total deposits, however, declined to 83.2 percent from 98.9 percent, while the broad liquid assets to total assets ratio declined marginally to 64.3 percent from 64.7 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) adjusted for regulatory reliefs, was 14.8 percent in April 2023, higher than the revised prudential minimum of 10 percent, but lower than 21.3 percent in April 2022. The decline in the CAR was attributable to losses on mark-to-market investments and increases in the risk-weighted assets of banks within the year.

5.3.3 Profitability

The industry's profit-after-tax increased by 45.8 percent to GH¢2.8 billion in April 2023, compared with the 21.5 percent growth recorded in April 2022. Profit-before-tax also rose by 47.0 percent to GH¢4.3 billion, from GH¢1.9 billion in April 2022. The higher growth in profit during the first four months of this year came on the back of higher increases in interest income and other income lines in 2023, relative to the same period in 2022.

Net interest income increased by 41.7 percent to GH¢6.5 billion, higher than the corresponding growth of 12.2 percent in April 2022. In year-on-year terms, interest income increased to GH¢10.0 billion from GH¢6.8 billion, representing a growth of 47.3 percent in April 2023 compared with 14.4 percent in April 2022. Interest expenses also increased by GH¢1.3 billion to GH¢3.5 billion in April 2023, representing a growth rate of 58.9 percent compared to the 19.0 percent growth recorded in April 2022. The increase in net interest income was attributed to the relatively high lending rates, the strong rebound in short-term investments, as well as the sustained growth in credit. The higher growth in interest expenses was mainly on account of increases in the interest rates on money market instruments.

Figure 5.3: Composition of Income, Cost and Borrowings

Source: Bank of Ghana Staff Calculations

Other income lines also recorded strong growth rates. Net fees and commissions increased by 30.4 percent in April 2023, from 17.7 percent in April 2022, whereas other income grew by 97.6 percent, a moderation from 117.5 percent growth a year ago. These developments culminated in a 45.9 percent growth in the industry's net operating income in April 2023 compared with the 21.4 percent growth recorded in 2022.

The strong outturn in income was somewhat moderated by increases in costs and provisions during the year. The industry's operating expenses grew by 51.5 percent in April 2023, compared to 23.0 percent in 2022, on the back of higher staff costs and other operating (administrative) expenses. Provisions for depreciation, bad debt and impairment losses on financial assets also increased by 41.6 percent in April 2023, significantly higher than the 5.5 percent increase in April 2022, reflecting the pickup in credit growth, elevated credit risks and the mark-to-market losses on investments (Annexes Table 5.7 and Figure 5.3).

(a) Return on Assets and Return on Equity

The banking sector's profitability indicators, namely, return-on-assets (ROA) and return-on-equity (ROE), improved during the period under review, following the improvement in profit-before-tax and profit-after-tax, respectively. The ROE rose sharply to 36.3 percent in April 2023, from 22.3 percent in April 2022, while ROA increased to 5.5 percent, from 4.7 percent in 2022 (Figure 5.2 and Annexes Table 5.6).

(b) Interest Margin and Spread

Interest spreads for the banking sector widened to 3.9 percent in April 2023, from 3.5 percent in April 2022. The increase in spreads was on the back of an uptick in gross yields to 6.1 percent in April 2023, from 5.2 percent in April 2022, while interest payable recorded a marginal increase to 2.1 percent, from 1.7 percent a year earlier. The interest margin to total assets ratio also edged up to 2.7 percent from 2.4 percent, while interest margin to gross income moderated to 48.3 percent from 51.5 percent during the period under review. The ratio of gross income to total assets (asset utilisation) improved from 4.6 percent in April 2022 to 5.6 percent in April 2023, while the profitability ratio moderated from 21.6 percent to 20.9 percent over the review period (Annexes Table 5.6).

(c) Composition of Banks' Income

Income from investments remained the largest component of banks' total income in April 2023, although its share declined to 38.8 percent from 46.8 percent in April 2022 following the contraction in total investments. The share of interest income from loans, on the other hand, increased to 35.9 percent from 29.8 percent, in line with the increase in gross advances during the year. The share of banks' income from fees and commissions, however, declined to 10.5 percent, from 12.1 percent in 2022, while the share of income from other sources increased to 14.8 percent from 11.3 percent (Figure 5.3).

5.3.4 Operational Efficiency

The industry's efficiency generally declined, on the back of the higher costs due to the challenging macroeconomic environment. The cost-to-income ratio increased to 79.1 percent in April 2023, from 78.4 percent in April 2022, while cost-to-total assets ratio increased to 4.5 percent, from 3.6 percent a year earlier. The operational cost-to-total assets ratio also went up to 3.0 percent, from 2.4 percent a year earlier, reflecting the higher growth in operating expenses in April 2023 relative to April 2022. However, the ratio of operational cost to total income improved to 52.8 percent, from 53.4 percent, following the strong outturn in income in April 2023 compared to the corresponding period last year (Figure 5.2).

5.3.5 Banks' Counterparty Relationships

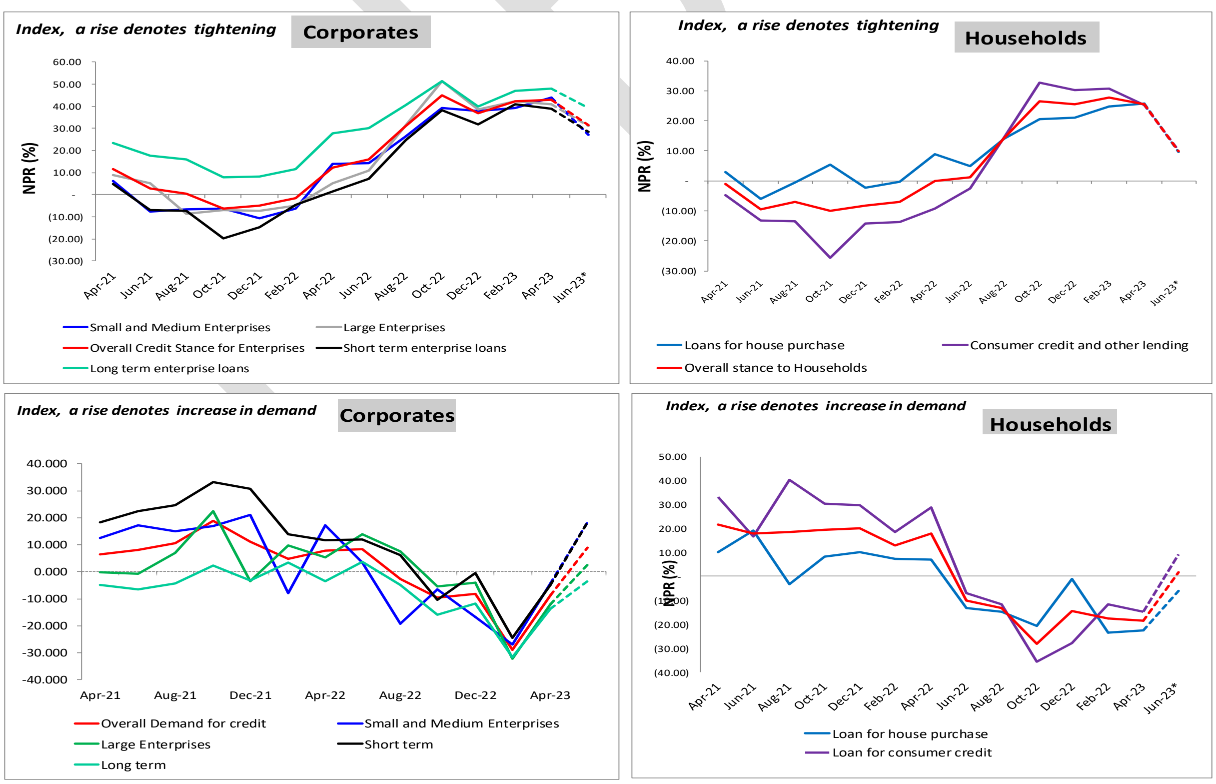
Total offshore balances increased by 64.7 percent to GH¢17.0 billion in April 2023, compared to the 19.6 percent growth in the previous year, driven largely by the sharp 98.9 percent increase in Nostro balances in April 2023, compared with 5.9 percent growth in April 2022. Industry placements also grew by 33.8 percent in April 2023, following the growth of 35.9 percent during the same period last year. The ratio of offshore balances to net worth increased to 80.7 percent in April 2023, from 38.9 percent in April 2022, reflecting the higher growth in offshore balances, while shareholders' funds contracted during the period under review (Annexes Table 5.8).

The share of banks' external borrowings in total borrowings declined to 40.5 percent in April 2023, from 55.4 percent in April 2022, while the share of domestic borrowings increased to 59.5 percent from 44.6 percent in 2022. Banks' external borrowings was tilted towards long-term instruments, as the share of long-term borrowings in total external borrowings increased to 72.6 percent, from 39.0, while the share of short-term borrowings declined to 27.4 percent, from 61.0 percent a year earlier (Figure 5.3).

5.4 Credit Conditions Survey

Results of the April 2023 Credit Conditions Survey indicated a marginal net tightening in the overall stance on loans to enterprises between February and April 2023, on the back of a net tightening in the stance on long-term enterprise loans, as well as loans to SMEs. Meanwhile, short-term enterprise loans and loans to large enterprises recorded net easing during the period. Banks projected their overall stance on enterprise loans to record a net ease in May and June 2023, from net ease in all components of enterprise loans in April 2023.

Figure 5.4: Credit Conditions Survey Results



Source: Bank of Ghana Staff Calculations

The overall stance on loans to households, however, eased during the April 2023 survey round from net eases in both components of household loans (namely, loans for house purchase and consumer credit and other lending). Over the next two months, banks projected further net easing in the overall stance on loans to households, which will be reflected in loans for house purchases and consumer credit.

The April 2023 survey further indicated an increase in overall demand for enterprise loans from net increases in all components of enterprise loans. Banks projected the net increase in corporate loans to persist into the next two months, driven by net increases in the demand for all categories of enterprise loans. Credit demand by households recorded a net decline between March and April 2023, from a net decline in the demand for consumer credit and other lending. Meanwhile, demand for loans for house purchases recorded a net increase, on the back of the relative exchange rate stability. Over the next two months, banks expected a further increase in the demand for both consumer credit and loans for house purchases to drive an increase in the overall demand for household loans (Figure 5.4).

5.5 Conclusion and Outlook

The banking sector's performance in April 2023 showed some recovery from the implementation of the DDEP and the macroeconomic headwinds that confronted the sector in 2022. The sector remained solvent despite declines in some of the financial soundness indicators. The industry outlook remains stable, despite the lingering impact of the DDEP and implementation of the regulatory reliefs, as well as the operationalisation of the Financial Stability Fund.

Annexes

Table 5.1: Asset and Liability Structure of the Banking Sector

	Apr-20	Apr-21	Apr-22	Feb-23	Apr-23
Components of Assets (% of Total)					
Cash and Due from Banks	22.5	18.6	21.7	28.0	29.3
Investments	40.6	47.0	43.2	35.9	35.0
Net Advances	29.1	26.5	27.4	26.7	26.1
Others	7.8	7.9	7.7	9.4	9.6
Components of Liabilities and Shareholders' Funds (% of Total)					
Total Deposits	63.1	67.3	65.5	75.4	77.2
Total Borrowings	13.4	10.0	13.3	7.6	6.7
Shareholders' Funds	14.0	15.2	13.7	9.4	8.9
Other Liabilities	9.5	7.5	7.6	7.6	7.2

Bank of Ghana Staff Calculations

Table 5.2: Credit Growth

Economic Sector	Gh¢million				y/y growth (%)	
	Apr-21	Apr-22	Feb-23	Apr-23	Apr-22	Apr-23
Public Sector	**5,049.55**	**6,038.92**	**8,003.84**	**7,483.53**	**19.6**	**23.9**
Private Sector	**42,816.79**	**54,168.75**	**65,497.42**	**64,875.46**	**26.5**	**19.8**
- Private Enterprises	31,784.09	39,077.81	48,365.58	47,380.35	22.9	21.2
o/w Foreign	4,054.27	5,390.06	3,363.01	3,200.58	32.9	-40.6
Indigeneous	27,729.82	33,687.76	45,002.57	44,179.77	21.5	31.1
- Households	9,910.98	13,186.98	15,468.93	15,721.79	33.1	19.2
Gross Loans	**47,866.3**	**60,207.7**	**73,501.3**	**72,359.0**	**25.8**	**20.2**

Bank of Ghana Staff Calculations

Table 5.3: Contingent Liability

	Apr-20	Apr-21	Apr-22	Feb-23	Apr-23
Contingent Liabilities (GH¢million)	10,958.9	13,870.0	20,116.1	20,230.3	19,743.0
Growth (y-o-y)	14.9	26.7	41.9	(3.3)	(3.8)
% of Total Liabilities	9.5	10.5	12.0	9.5	9.1

Bank of Ghana Staff Calculations

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

	Apr-21		Apr-22		Feb-23		Apr-23	
	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs	Share in Total Credit	Share in NPLs
a. Public Sector	**10.5**	**1.9**	**10.0**	**4.3**	**10.9**	**8.7**	**11.2**	**6.3**
i. Government	4.6	0.5	5.5	1.8	5.5	5.4	5.0	4.5
ii. Public Institutions	2.8	0.0	1.7	0.0	1.8	0.2	2.7	0.0
iii. Public Enterprises	3.2	1.4	2.9	2.5	3.6	3.1	3.6	1.8
b. Private Sector	**89.5**	**98.1**	**90.0**	**95.7**	**89.1**	**91.3**	**88.8**	**93.7**
i. Private Enterprises	66.4	88.0	64.9	86.0	65.8	82.8	61.4	84.4
o/w Foreign	8.5	3.9	9.0	8.6	4.6	3.0	4.8	2.7
Indigeneous	57.9	84.1	56.0	77.5	61.2	78.6	56.6	81.7
ii. Households	20.7	8.5	21.9	7.6	21.0	8.8	24.5	9.2
iii. Others	2.3	1.5	3.2	2.0	2.3	0.9	2.8	0.1

Bank of Ghana Staff Calculations

Table 5.5: Liquidity Ratios

	Apr-20	Apr-21	Apr-22	Feb-23	Apr-23
Liquid Assets (Core) - (GH¢'million)	30,065.3	28,902.7	42,150.6	66,507.9	69,897.1
Liquid Assets (Broad) -(GH¢'million)	83,932.7	101,939.4	125,785.5	151,417.7	153,075.8
Liquid Assets to total deposits (Core)-%	35.6	27.6	33.1	37.2	38.0
Liquid Assets to total deposits (Broad)- %	99.4	97.2	98.9	84.7	83.2
Liquid assets to total assets (Core)- %	22.5	18.6	21.7	28.0	29.3
Liquid assets to total assets (Broad)- %	62.7	65.5	64.7	63.8	64.3

Source: Bank of Ghana Staff Calculations

Table 5.6: Profitability Indicators (%)

	Apr-21	Apr-22	Feb-23	Apr-23
Gross Yield	5.6	5.2	2.9	6.1
Interest Payable	1.8	1.7	1.1	2.1
Spread	3.8	3.5	1.8	3.9
Asset Utilitisation	4.7	4.6	2.9	5.6
Interest Margin to Total Assets	2.6	2.4	1.3	2.7
Interest Margin to Gross income	55.7	51.5	46.4	48.3
Profitability Ratio	21.6	21.6	19.7	20.9
Return On Equity (%) after tax	21.1	22.3	32.4	36.3
Return On Assets (%) before tax	4.6	4.7	5.1	5.5

Source: Bank of Ghana Staff Calculations

Table 5.7: DMBs' Income Statement Highlights

	Apr-21	Apr-22	Feb-23	Apr-23	Apr-22	Feb-23	Apr-23
	(GH ¢'million)				Y-on-y Growth (%)		
Interest Income	5,963.8	6,819.8	5,000.8	10,048.7	14.4	52.2	47.3
Interest Expenses	1,874.7	2,230.7	1,836.3	3,545.3	19.0	71.0	58.9
Net Interest Income	**4,089.2**	**4,589.1**	**3,164.5**	**6,503.4**	**12.2**	**43.0**	**41.7**
Fees and Commissions (Net)	917.6	1,080.0	667.1	1,408.5	17.7	37.0	30.4
Other Income	464.7	1,010.9	1,154.9	1,997.3	117.5	201.4	97.6
Operating Income	5,471.5	6,679.9	4,986.5	9,909.2	22.1	61.8	48.3
Operating Expenses	2,409.0	2,963.1	2,118.1	4,487.8	23.0	48.9	51.5
Staff Cost (deduct)	1,309.9	1,604.2	1,025.5	2,112.1	22.5	32.2	31.7
Other operating Expenses	1,099.1	1,358.9	1,092.6	2,375.7	23.6	69.0	74.8
Net Operating Income	**3,062.5**	**3,716.9**	**2,868.4**	**5,421.4**	**21.4**	**72.8**	**45.9**
Total Provision (Loan losses, Depreciation & others)	728.1	768.3	859.2	1,087.7	5.5	145.9	41.6
Income Before Tax	2,334.4	2,948.6	2,009.2	4,333.6	**26.3**	**53.3**	**47.0**
Tax	749.0	1,022.2	664.8	1,525.3	36.5	66.9	49.2
Net Income	**1,585.3**	**1,926.3**	**1,344.4**	**2,808.3**	**21.5**	**47.3**	**45.8**
Gross Income	7,346.2	8,910.6	6,822.8	13,454.5	21.3	64.2	51.0

Source: Bank of Ghana Staff Calculations

Table 5.8: Developments in Offshore Balances

	Apr-20	Apr-21	Apr-22	Feb-23	Apr-23
Offshore balances as % to Networth	47.6	36.5	38.9	76.4	80.7
Annual Growth in Offshore balances (%)	5.7	-2.6	19.6	132.7	64.7
Annual Growth in Nostro Balances (%)	19.8	3.5	5.9	195.3	98.9
Annual Growth in Placement (%)	-5.8	-9.0	35.9	57.5	33.8

Source: Bank of Ghana Staff Calculations

6. Fiscal Developments

6.0 Highlights of Government Budgetary Operations

The provisional first quarter of 2023 fiscal performance on cash basis indicates that:

- *Revenue mobilisation fell short of the programme target.*
- *Government expenditure was below the programme target.*
- *The fiscal deficit at the end of Q1 was 0.8 percent of GDP, against the target of 2.3 percent of GDP.*
- *The primary balance recorded a deficit of 0.1 percent of GDP, against a primary deficit target of 0.6 percent of GDP.*
- *The overall fiscal deficit was financed from domestic sources.*

6.1 Total Revenue and Grants

Total Revenue & Grants for the first quarter of 2023 was GH¢26,032.0 million (3.3% of GDP), lower than the target of GH¢33,568.0 million (4.2% of GDP). This outturn represented 77.6 percent of the target and recorded a year-on-year growth of 46.8 percent. During the review period, domestic revenue totalled GH¢25,714.0 million (3.2% of GDP), below the target of GH¢32,775.0 million (4.1% of GDP). The revenue outcomes reflected mixed performances for both non-oil tax and non-tax proceeds.

Of the total revenue and grants:

- **Non-oil Tax revenue,** comprising taxes on income & property, taxes on domestic goods and services and international trade taxes, excluding oil and gas related taxes was GH¢19,905.0 million (2.5% of GDP), higher than the target of GH¢18,965.0 million (2.4% of GDP). This represented a positive deviation of 5.0 percent.

- **Non-oil Non-Tax Revenue** amounted to GH¢2,262.0 million, lower that the target of GH¢3,011.0 million by 24.9 percent. The outturn represented a year-on-year growth of 0.4 percent. This underperformance was mainly due to lower than budgeted lodgements and retention resulting mainly from lower collection efforts by some MDAs. Unrealised dividend payments also contributed to this development.

- **Oil and Gas Receipt** was GH¢2,675.0 million, falling short of programmed target of GH¢9,379.0 million by 71.5 percent. This underperformance was largely due to lower-than-programmed oil and gas receipts. However, this outturn recorded a significant year-on-year growth of 171.7 percent.

- **Other revenue** of GH¢873.0 million, was lower that the target of GH¢1,420.0 million by 38.5 percent. This was below GH¢1,627.0 million collected in the corresponding period of 2022, reflecting a year-on-year decline of 46.4 percent.

- **Grants** received was GH¢318.0 million compared with GH¢793.0 million programmed for the review period, thus falling short of target by 59.9 percent. This outturn was however higher than GH¢204.0 million received in the corresponding period of 2022.

Table 6.1: Total Revenue and Grants

Million Ghana Cedis	2022 Q1 PROV	2023 Q1 PROV	2023 Q1 PROG	2023 Deviation (%)	2023 Y-O-Y Growth (%)
Domestic Revenue	**17,533.0**	**25,714.0**	**32,775.0**	*-21.5*	*46.7*
(Percent of GDP)	*2.9*	*3.2*	*4.1*		
Non-Oil Tax Revenue	**12,668.0**	**19,905.0**	**18,965.0**	*5.0*	*57.1*
(Percent of GDP)	*2.1*	*2.5*	*2.4*		
Non-Oil Non Tax Revenue	**2,254.0**	**2,262.0**	**3,011.0**	*-24.9*	*0.4*
Oil And Gas Receipt	**984.0**	**2,675.0**	**9,379.0**	*-71.5*	*171.8*
Other Revenue	**1,627.0**	**873.0**	**1,420.0**	*-38.5*	*-46.3*
Grants	**204.0**	**318.0**	**793.0**	*-59.9*	*55.9*
Total Revenue & Grants	**17,738.0**	**26,032.0**	**33,568.0**	*-22.4*	*46.8*
(Percent of GDP)	*2.9*	*3.3*	*4.2*		

Source: Ministry of Finance

6.2 Total Expenditures

Total expenditures (including arrears clearance and discrepancy) for the first quarter of 2023, summed up to GH¢32,721.0 million (4.1% of GDP). This was below the target of GH¢52,111.0 million (6.5% of GDP) by 37.2 percent and represents 4.4 percent year-on-year decline.

- **Compensation of Employees** (including wages and salaries, pensions & gratuities, and other wage related expenditure) was GH¢12,108.0 million, higher than the target of GH¢11,381.0 million. This outturn exceeded the target by 6.4 percent and recorded 40.6 percent year-on-year growth. In terms of fiscal flexibility, compensation of employees constituted 47.1 percent of domestic revenue mobilized during the period under review.

- **Use of Goods and Services** totalled GH¢1,680.0 million, lower than the expected target of GH¢2,586.0 million by 35.0 percent.

- **Total interest payments** of GH¢6,093.0 million fell below the envisioned target of GH¢13,989.0 million for the review period. The outturn was down by 44.2 percent compared with GH¢10,926.0 million recorded in the corresponding period of 2022. The lower interest payment was mainly on account of the partial freeze on debt service due to the debt restructuring programme.

- **Grants to other Government units** comprising National Health Fund, Education Trust Fund (GET Fund), Road Fund, Energy Fund, District Assemblies Common Fund (DACF), Retention of IGFs, transfer to GNPC, Ghana Infrastructure Fund and other earmarked funds all summed up to GH¢5,798.0 million, lower than the envisioned target of GH¢7,213.0 million, resulting in a negative deviation of 19.6 percent. It however, recorded a year-on-year growth of 15.0 percent.

- **Capital Expenditure** for the period under review was GH¢3,196.0 million (0.4% of GDP), lower than the programmed target of GH¢8,713.0 million (1.1% of GDP) by 63.3 per cent. This outturn represented a year-on-year growth of 3.9 percent.

- **Other Expenditure** made up of ESLA Transfers, Covid-19 related expenditure, and other critical spending, for the first quarter of 2023, was GH¢2,196.0 million, 52.5 percent below the target of GH¢4,621.0 million.

Table 6.2: Total Expenditures

Million Ghana Cedis	2022 Q1 PROV	2023 Q1 PROV	2023 Q1 PROG	2023 Deviation (%)	2023 Y-O-Y Growth (%)
Compensation of Employees	8,609.0	12,108.0	11,381.0	6.4	40.6
Use of Goods and Services	78.0	1,680.0	2,586.0	-35.0	2,053.8
Interest Payments	10,926.0	6,093.0	13,989.0	-56.4	-44.2
Grants to Other Government Units	5,042.0	5,798.0	7,213.0	-19.6	15.0
Capital Expenditure	3,077.0	3,196.0	8,713.0	-63.3	3.9
Other Expenditure	2,923.0	2,196.0	4,621.0	-52.5	-24.9
Arrears Clearance (net change)	-5,863.0	-2,809.0	-3,609.0	-22.2	-52.1
o/w Clearance Outstanding Payable	-5,863.0	-2,809.0	-3,609.0		
Discrepancy	2,290.0	1,160.0	0.0		
TOTAL EXP. & NET LENDING	**34,229.0**	**32,721.0**	**52,111.0**	**-37.2**	**-4.4**
(Percent of GDP)	5.6	4.1	6.5		

Source: Ministry of Finance

6.3 Budget Balance and Financing

Government budgetary operations resulted in an overall budget deficit (on cash basis) of GH¢6,689.0 million (0.8% of GDP) for the first quarter of 2023. This was lower than the expected target of GH¢18,542.0 million (2.3% of GDP). In addition, the primary balance recorded a deficit of 0.1 percent of GDP, against a primary deficit target of 0.6 percent of GDP. The overall fiscal deficit of GH¢6,689.0 million was largely financed from domestic sources. Domestic financing (net) was GH¢6,758.0 million (0.8% of GDP), against an expected repayment target of GH¢670.0 million (0.1% of GDP) to the domestic sector. Foreign financing recorded a net outflow of GH¢69.0 million (0.0% of GDP), lower than the envisioned target of GH¢356.0 million (0.0 % of GDP).

Table 6.3: Budget Balance and Financing

Million Ghana Cedis	2022 Q1 PROV	2023 Q1 PROV	2023 Q1 PROG	2023 Deviation (%)	2023 Y-O-Y Growth (%)
Revenue & Grants	17,738.0	26,032.0	33,568.0	-22.4	46.8
Expenditure	34,229.0	32,721.0	52,111.0	-37.2	(4.4)
Overall balance (incl. Divestiture and Discrepancy)	(16,492.0)	(6,689.0)	(18,542.0)	-63.9	(59.4)
(Percent of GDP)	(2.7)	(0.8)	(2.3)		
Total Financing	16,492.0	6,689.0	18,542.0	-63.9	(59.4)
(Percent of GDP)	2.7	0.8	2.3		
Foreign Financing	(23.0)	(69.0)	356.0	-119.4	200.0
Exceptional Financing (Other sources of Financing)	-	-	18,856.0		
Domestic Financing	16,514.0	6,758.0	(670.0)	-1,108.7	(59.1)
Primary Balance	(5,565.0)	(596.0)	(4,554.0)	-86.9	(89.3)
(Percent of GDP)	(0.9)	(0.1)	(0.6)		

Source: Ministry of Finance

6.4 Conclusion and Outlook

Budget execution for the first quarter of 2023 showed some revenue shortfalls while expenditures were broadly within target. The revenue shortfall stemmed largely from the lower-than-programmed oil and gas receipts. The expenditure performance, on the other hand, was partly attributed to a reduced debt service due to the debt restructuring programme. These developments resulted in an overall budget deficit (cash), far below program target which was financed mainly from domestic sources.

In the outlook, the recent approval of the US$3.0 billion ECF arrangement, with an initial US$0.6 billion disbursement has reinforced recovery efforts at restoring macroeconomic stability and debt sustainability, which is expected to yield good dividends. While this is positive for the domestic economy, it remains conditional on the commitment to implement the policies and structural reforms under the programme. These include structural reforms on tax policy, revenue administration, and public financial management to boost revenues and reposition fiscal policy implementation onto a consolidated and sustainable path.

7. Inflation Outlook and Analysis

7.0 Global Price Developments

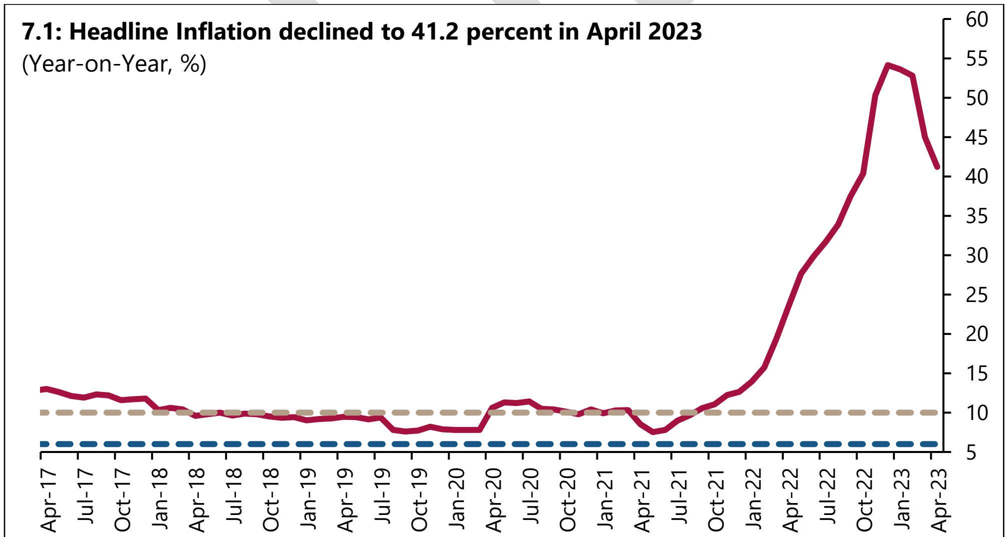
Headline inflation continued to moderate in advanced and emerging market economies, albeit it remained above the inflation targets. The decline in headline inflation reflected synchronised monetary policy tightening, declining energy and food prices, and easing supply chain pressures. The IMF has forecasted global headline inflation to decline to 7.0 percent in 2023, from 8.7 percent in 2022, primarily on the back of lower commodity prices. Despite the moderation in headline inflation, underlying inflation pressures are expected to recede sluggishly, due to the lingering effects of past shocks, tight labour markets and strong wage growth.

7.1 Domestic Price Developments

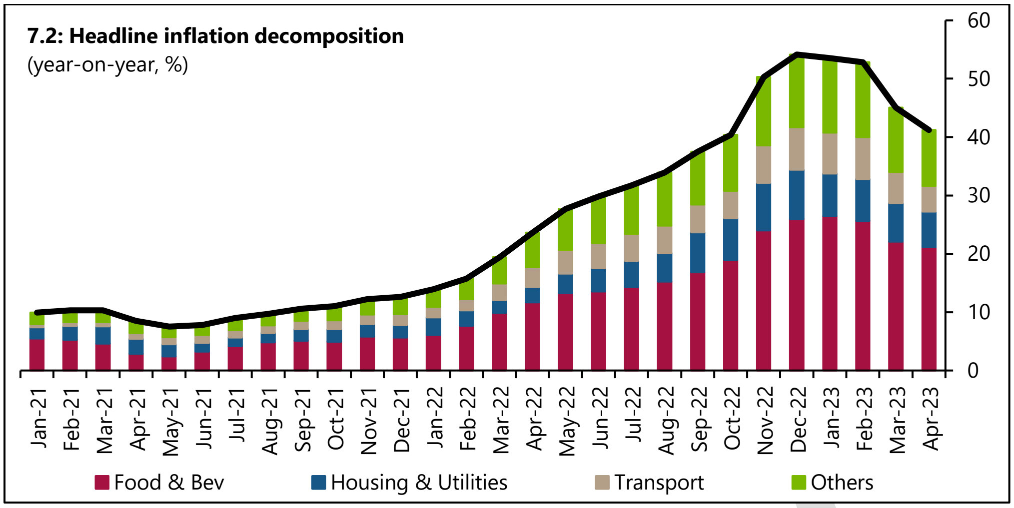
Price developments since March 2023 pointed to further easing of inflationary pressures. Headline inflation decelerated from a peak of 54.1 percent in December 2022 to 45.0 percent in March, and further down to 41.2 percent in April 2023 (Figure 7.1), driven by both food and non-food prices. Food inflation eased to 48.7 percent in April 2023, from 50.8 percent in March 2023, and 59.7 percent in December 2022. Non-food inflation also declined to 35.4 percent, from 40.6 percent in March and 49.9 percent in December 2022. The decline in headline inflation was occasioned by a deceleration in prices of both imported and locally produced goods. Overall, price pressures have eased significantly across all items in the basket (Tables 7.1 & 7.2), largely supported by tight monetary policy, base-drift effects, relative stability in the exchange rate, and declining international crude oil prices and, in turn, downward adjustments in ex-pump petroleum prices.

Similarly, underlying inflationary pressures also continued to decline in the first four months of the year. The Bank's core inflation measure, which excludes energy and utility prices, fell to 41.7 percent in April 2023, from 44.6 percent in March (Figure 7.3). Broadly, the overall weighted inflation expectations of banks, consumers and businesses has also declined since the start of the year.

7.1: Headline Inflation declined to 41.2 percent in April 2023
(Year-on-Year, %)

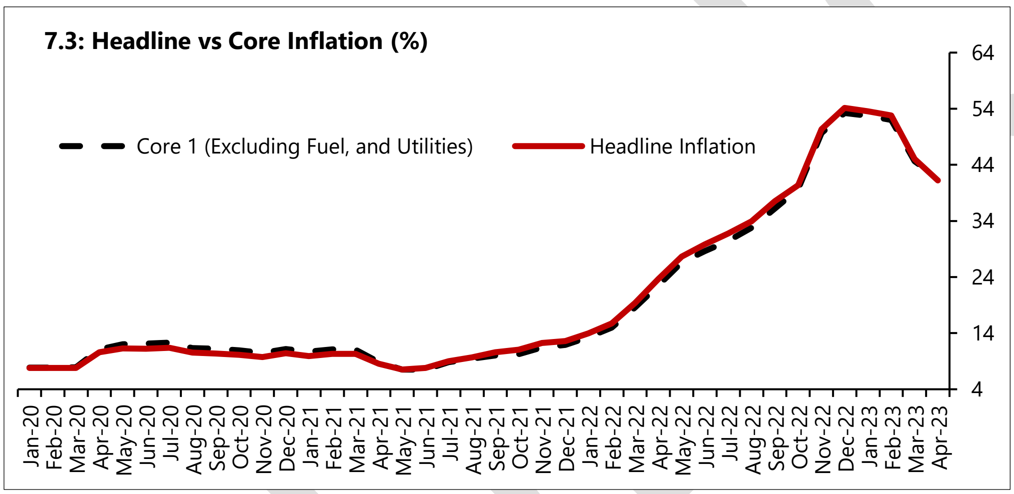


Source: Bank of Ghana and GSS



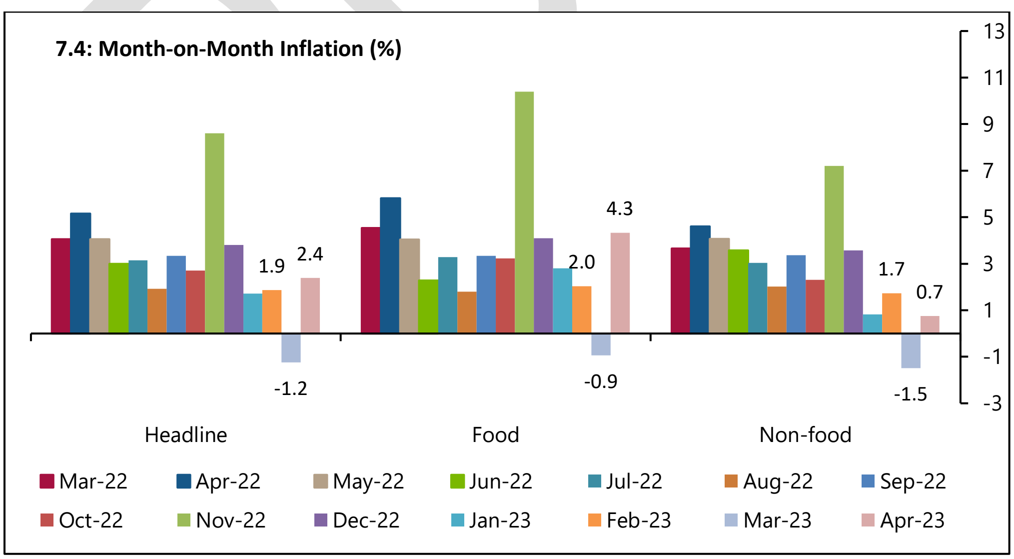
7.2: Headline inflation decomposition
(year-on-year, %)

Source: Bank of Ghana and GSS



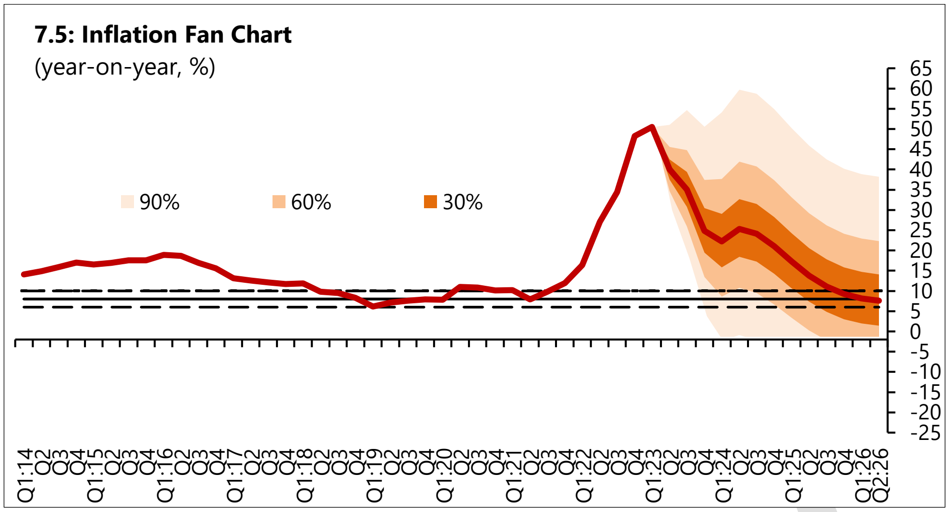
7.3: Headline vs Core Inflation (%)

Source: Bank of Ghana Staff Calculations



7.4: Month-on-Month Inflation (%)

Source: Bank of Ghana and GSS



7.2 Inflation Risk Assessment and Outlook

Headline inflation has declined significantly by 12.9 percent between December 2022 and April 2023. The percentage of items in the Consumer Price Index (CPI) basket with inflation exceeding 50 percent is receding, an indication of a return to the disinflationary path. Core inflation has also trended downwards, further supporting the disinflation process. Several factors accounted for these favourable price developments, including the tight monetary policy, relative stability of the local currency, and the decline in ex-pump petroleum prices. Additionally, the IMF Executive Board has approved the US$3 billion Extended Credit Facility Arrangement for Ghana, which is expected to provide the much-needed anchor to reinforce the disinflation process, restore fiscal and debt sustainability, and reset the economy on the path of recovery.

The latest forecasts suggest a disinflationary path in the horizon, supported by the monetary policy tightening, relative exchange rate stability, and some favourable base drift effects. Headline inflation is projected to gradually trend downwards but remain above the upper band of 8±2 percent until the end of 2025, barring any unanticipated shocks. Risks to the inflation outlook are fairly tilted to the downside supported by the relative stability in the exchange rate, reduction in ex-pump petroleum prices, alongside base drift effects, which could mute the upward adjustments in administrative prices. Given these considerations, the Monetary Policy Committee decided to maintain the Monetary Policy Rate at 29.5 percent.

Appendix Table 7.1: Headline Inflation

	Combined	Food	Non-food	Combined	Food	Non-food
Dec-20	**10.4**	**14.1**	**7.7**	**0.9**	**1.5**	**0.4**
2021						
Jun	7.8	7.3	8.2	1.3	1.8	0.8
Jul	9.0	9.5	8.6	1.6	2.0	1.3
Aug	9.7	10.6	8.7	0.3	0.2	0.3
Sept	10.6	11.5	9.9	0.6	0.0	1.2
Oct	11.0	11.0	11.0	0.6	0.3	1.3
Nov	12.2	13.1	11.6	1.4	2.1	0.9
Dec	12.6	12.8	12.5	1.2	1.2	1.2
2022						
Jan	13.9	13.7	14.1	2.1	2.0	2.2
Feb	15.7	17.4	14.5	2.4	3.2	1.7
Mar	19.4	22.4	17.0	4.0	4.5	3.7
Apr	**23.6**	**26.6**	**21.3**	**5.1**	**5.8**	**4.6**
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
2023						
Jan	53.6	61.0	47.9	1.7	2.8	0.8
Feb	52.8	59.1	47.9	1.9	2.0	1.7
Mar	45.0	50.8	40.6	-1.2	-0.9	-1.5
Apr	**41.2**	**48.7**	**35.4**	**2.4**	**4.3**	**0.7**
Source: Ghana Statistical Service						

Appendix Table 7.2: CPI Components

CPI Components (%)												
		2020	**2021**	**2022**					**2023**			
	Weghts (%)	Dec	Dec	Jan	Feb	Mar	Apr	Dec	Jan	Feb	Mar	Apr
Overall	100.0	10.4	12.6	13.9	15.7	19.4	**23.6**	54.1	53.6	52.8	45.0	**41.2**
Food and Beverages	43.1	14.1	12.8	13.7	17.4	22.4	**26.6**	59.7	61.0	59.1	50.8	**48.7**
Non-food	56.9	7.7	12.5	14.1	14.5	17.0	**21.3**	49.9	47.8	47.9	40.6	**35.4**
Alcoholic Beverages, Tobacco & Narcotics	3.7	6.0	9.6	8.0	9.0	11.4	**16.3**	38.5	43.3	44.5	41.2	**37.5**
Clothing and footwear	8.1	7.9	8.6	8.3	9.5	12.2	**15.6**	41.9	43.5	43.7	38.3	**34.1**
Housing and Utilities	10.2	20.1	20.7	28.7	25.4	21.4	**25.0**	82.3	71.1	69.6	64.7	**59.0**
Furnishings, Household Equipment	3.2	4.7	9.6	11.0	14.4	18.5	**28.5**	71.5	71.7	69.8	67.4	**56.3**
Health	0.7	6.0	6.0	5.4	6.9	8.8	**10.0**	34.4	35.0	33.5	27.9	**28.7**
Transport	10.1	4.8	17.6	17.4	18.3	27.6	**33.5**	71.4	68.8	70.3	52.0	**42.5**
Information and Communication	3.6	7.0	9.0	8.9	10.2	13.4	**15.5**	21.5	22.9	21.1	15.8	**14.0**
Recreation & Culture	3.5	1.8	11.4	12.0	12.7	17.0	**22.3**	42.4	41.6	42.0	32.8	**27.1**
Education	6.5	0.2	1.0	0.9	1.3	2.9	**3.7**	11.3	10.8	12.4	7.9	**7.1**
Hotels, cafes and restaurants	4.6	5.4	8.9	9.1	10.6	12.6	**16.5**	9.2	9.6	9.2	6.9	**4.2**
Insurance and Financial services	0.2	3.3	6.3	6.3	2.9	3.0	**2.1**	10.8	11.7	11.5	10.5	**10.3**
Personal care, social protection & Miscellaneous services	2.4	3.8	10.6	10.8	13.5	17.0	**23.2**	60.9	63.1	62.5	53.7	**48.5**
Source: Ghana Statistical Service												