Bank of Ghana
Monetary Policy Committee
Press Release

24th July, 2023

Good morning, Ladies and Gentlemen of the Media and welcome to the press briefing for the 113th Monetary Policy Committee (MPC) meetings which took place last week. The Committee deliberated on global macroeconomic developments, recent domestic macroeconomic developments including the implementation of the IMF supported Extended Credit Facility programme for the first six-months of 2023 and assessed risks to the inflation outlook. A summary of the assessments and key considerations that informed the Committee's decision on the stance of monetary policy is provided below:

1. Global GDP growth surprised on the upside in early 2023, supported by a variety of factors including a fall in food and energy prices, the rebound in consumer demand in China, resilience in labour markets in Advanced Economies and a robust services sector in many economies. Despite these early conditions, near-term global growth prospects remain uncertain driven in large parts by a still weak manufacturing sector, heightened uncertainty, and tighter financing conditions. Against this backdrop, the IMF projects a downward revision to global growth at 2.8 percent for 2023 and 3.0 percent in 2024 and this will be heavily driven by Asia, particularly China.

2. Global headline inflation continues to ease in many countries although remaining elevated at historically high levels. The ease has been driven by the effects of tighter monetary policy, lower energy and food prices and impact of reduced supply bottlenecks. Core inflation has however, proven somewhat more persistent amid cost pressures and resilient labour markets. Despite production cuts by some OPEC+ members, oil prices remain subdued amidst the uncertain global conditions. Meanwhile, most survey-based indicators of longer-term inflation expectations remain anchored at around 2 percent for Advanced Economies.

3. Global financing conditions remain tight in both Advanced and Emerging Market Economies, reflecting the pass-through effects of tighter monetary policy on bank funding costs and credit conditions. Bank funding costs have risen sharply following the quick transmission of the past policy rates hikes to interbank and deposit rates. In the event, lending rates for households and firms have increased sharply, while credit conditions have tightened. The elevated lending rates and tighter credit conditions have weighed on demand for credit in some economies. Although the banking sector turbulence in the U.S. appears to have waned, underlying credit, liquidity and interest rate risks linger. In the midst of the uncertainty, banks are gearing up to building capital and liquidity buffers and this will likely crowd out lending to households and firms.

4. On the domestic front, headline inflation inched up for the second consecutive month on the back of strong food price pressures. However, relative exchange rate stability, stable ex-pump petroleum prices, and effective liquidity management by the Bank of Ghana are exerting a moderating influence on non-food prices. The two price readings since the May MPC meeting saw headline inflation rising to 42.5 percent in June 2023, from 42.2 percent in May 2023. The uptick was driven mainly by food inflation which went up to 54.2 percent in June 2023 from 51.8 percent in May, while non-food inflation declined to 33.4 percent from 34.6 percent over the same period.

5. In a similar direction, underlying inflationary pressures also picked up slightly for the second consecutive month since April 2023. All the Bank's core inflation measures rose in the last two months. Core inflation excluding energy and utility prices, increased to 43.5 percent in June 2023, from 42.8 percent in May 2023. Business and consumer inflation expectations similarly inched up while inflation expectations from the financial sector remained flat.

6. In the real sector, provisional GDP growth for the first quarter of 2023 was strong, surpassing expectations. The latest data from the Ghana Statistical Service showed that real GDP grew by 4.2 percent in the first quarter of 2023, compared with 3.0 percent recorded in the corresponding quarter of 2022. Non-oil GDP growth was 5.5 percent compared with 3.7 percent in the same period of 2022. The observed growth outturn was largely driven by the Services and Agricultural sub-sectors which grew

by 10.1 percent and 4.8 percent, respectively. However, the Industry sub-sector contracted, and recorded a decline of 3.2 percent.

7. In the year to May 2023, the Bank's high frequency real sector indicators all showed signs of recovery in economic activity, albeit at a slower pace. The updated real Composite Index of Economic Activity (CIEA) contracted by 3.7 percent in May 2023, compared to a contraction of 5.4 percent in April 2023, and a growth rate of 1.7 percent in the corresponding period of last year. The main indicators that weighed down the Index during the period were port activity, cement sales, credit to the private sector and imports. Domestic VAT collections, industrial consumption of electricity and exports, however, improved in the review period.

8. Results from the Bank's latest confidence surveys conducted in June 2023 reflected mixed sentiments. While consumer confidence softened on account of an uptick in prices of goods and services, which also led to some concerns about future economic conditions, business sentiments, on the other hand, remained largely unchanged. Businesses' optimism about the impact of stable macroeconomic conditions on their operations was offset by concerns about the cost implications of recent tax and utility tariff increases. Similarly, Ghana's Purchasing Managers' Index (PMI) dipped to 50.4 in June 2023 from 51.3 in the previous month. The index however remained above the 50.0 mark for the fifth successive month, signalling stable business conditions.

9. Monetary aggregates for June 2023 showed an increased pace of growth in broad money supply (M2+) on year-on-year basis. Annual growth in M2+ accelerated to 44.4 percent in June 2023 relative to 19.1 percent in June 2022. In terms of components, the growth of M2+ was reflected in both domestic and foreign currency deposits.

10. Total credit to the economy (private and public sector) on a year-on-year basis recorded a growth of 15.4 percent to a stock level of GH¢73.1 billion. For the same period a year ago, total credit was growing at 33.3 percent. Private sector credit growth moderated significantly during the review period. Growth in private sector credit slowed to 16.1 percent in June 2023, compared with 33.7 percent growth in June 2022. In real terms, credit to the private sector contracted by 18.5 percent relative to a growth of 3.0 percent over the same comparative period.

11. On the money market, interest rate movements showed mixed trends at the short end of the yield curve. The 91-day and 182-day Treasury bill rates decreased to 21.77 percent and 24.58 percent respectively, in June 2023, from 24.15 percent and 25.55 percent respectively, in the corresponding period of 2022. The rate on the 364-day instrument, however, increased to 28.66 percent in June 2023 from 27.14 percent in June 2022.

12. The Interbank Weighted Average Rate increased to 26.01 percent in June 2023 from 19.92 percent in June 2022, underpinned by the increases in the Monetary Policy Rate over the period. Average lending rates of banks also increased to 31.15 percent in June 2023 from 24.27 percent recorded in June 2022.

13. In the banking sector, data submitted by banks for the first half of 2023 reflected the lingering effects of the DDEP, notwithstanding the strong rebound in profitability following significant losses incurred at year end 2022 on account of impairments of holdings in GoG bonds. The industry's total assets as at June 2023 was GH¢242.4 billion, showing a moderation in growth of 21.2 percent from 22.8 percent in June 2022. Total deposits grew significantly by 42.8 percent to GH¢187.6 billion in June 2023, relative to GH¢131.3 billion, representing 19.1 percent growth in June 2022. Total borrowings however contracted by 39.1 percent to GH¢16.0 billion compared with GH¢26.4 billion a year earlier.

14. The banking industry's investments increased sharply, supported by significant growth in deposits. Total investments rose to GH¢89.9 billion in June 2023 from GH¢ 81.0 billion in June 2022, made up of short-term investments which grew by 149.6 percent to GH¢39.9 billion, from GH¢15.9 billion last year, while medium-to-long term investments declined to GH¢50.1 billion from GH¢65.0 billion, as a result of portfolio rebalancing following the DDEP.

15. The banking sector's profitability improved in the first half of 2023. Net interest income increased by 41.4 percent to GH¢9.9 billion, relative to the increase of 12.4 percent recorded a year ago. Net fees and commissions also grew by 30.6 percent to GH¢2.2 billion, compared with 27.0 percent over the same period last year. Operating income, as a result, rose sharply by 46.1 percent, higher than the 22.6 percent recorded in

2022. The industry's cost of operations increased, with operating expenses increasing by 44.9 percent during the first half, compared with 22.9 percent growth for the same period in 2022. The net effect of these developments was a 51.2 percent increase in profit-before-tax in June 2023, compared with 20.8 percent growth in June 2022. The industry's profit-after-tax stood at GH¢4.3 billion, up from GH¢2.8 billion, and representing a 51.4 percent increase. The strong profitability performance during the first half of the year translated into a higher return-on-equity of 37.6 percent from 21.9 percent in June 2022 and a higher return-on-assets of 5.5 percent compared to 4.6 percent in June 2022.

16. The key financial soundness indicators remained broadly sound, supported by the temporary regulatory reliefs extended to the banks in the wake of the DDEP. The industry's Capital Adequacy Ratio (CAR) for June 2023, stood at 14.3 percent. This is higher than the revised prudential minimum of 10 percent, but lower than the CAR of 19.4 percent recorded in June 2022. The decline in the CAR is explained by the losses on mark-to-market investments from the DDEP as well as the increase in the risk-weighted assets of banks. The industry's NPL ratio deteriorated to 18.7 percent in June 2023 from 14.1 percent in June 2022, reflecting higher loan impairments and elevated credit risks. The industry's liquidity indicators on the other hand, improved during the period under review.

17. Provisional data on budget execution for the period January – May 2023 indicated an overall broad cash deficit of 1.8 percent of GDP, against the programmed budget target of 4.0 percent of GDP. The primary balance (cash basis) recorded a deficit of GH¢1.2 billion (0.1 percent of GDP), against a deficit target of GH¢6.7 billion (0.8 percent of GDP). Total revenue and grants amounted to GH¢44.9 billion (5.6 percent of GDP), short of the target of GH¢54.6 billion (6.3 percent of GDP). Total expenditure was GH¢59.5 billion (7.4 percent of GDP) below the target of GH¢82.8 billion (9.5 percent of GDP). These developments resulted in an overall cash deficit of GH¢14.6 billion, of which GH¢11.7 billion was financed from domestic sources.

18. Prices of Ghana's major export commodities (cocoa, gold and crude oil) traded mixed on the international market in the first half year. Cocoa prices surged to record highs last seen over a decade ago, triggered by tight supplies from West Africa coupled with expectations of a global deficit in the 2022/2023 crop season. On a year-to-date

basis, cocoa beans gained 25.5 percent to settle at US$3,185.29 per tonne in June 2023. International benchmark crude oil prices lost 7.8 percent in the year to close at US$74.98 per barrel due to concerns that sluggish global growth could reduce energy demand. However, decisions by OPEC+ to deepen production cuts moderated the losses somewhat. The price of gold went up by 8.1 percent year-to-date to settle at US$1,942.07 per fine ounce as increased fears over global recession and possible slower interest rate hikes in the United States loom. Increased demand for the metal from China also helped push up prices.

19. In the first six months, the trade balance improved significantly to a surplus of US$1.8 billion, compared with US$1.5 billion a year earlier, mainly on account of a 13.4 percent decline in imports which outweighed a 7.9 percent drop in export earnings. The decline in total export earnings was due to lower earnings from crude oil. Higher gold and cocoa exports earnings moderated the losses. Crude oil exports dropped by 41.3 percent to US$1.7 billion, driven by lower production volumes from the Jubilee and TEN fields and decline in world prices. Gold exports, on the other hand, increased by 14.2 percent to US$3.5 billion.

20. The trade surplus, together with lower outflows in the investment income from lower external debt service payments due to the debt standstill, resulted in a current account surplus of US$849.2 million, compared with a US$1.1 billion deficit recorded a year earlier. Similarly, the capital and financial account recorded reduced net outflow of US$897.3 million, on the back of lower outflows in the financial accounts.

21. From the beginning of the year to June 2023, the Bank of Ghana has built up US$1.0 billion in reserves, mainly coming from its gold purchase programme, and settlement of short-term liabilities. Gross International Reserves (excluding encumbered assets and petroleum funds) improved to US$2,353.95 million equivalent to 1.1 months of import cover, compared with US$1,440.0 million (0.6 months of import cover) recorded at the end of December 2022.

22. The Bank's Domestic Gold Purchase Programme was launched in June 2021 with the key objective of shoring up the Bank of Ghana's foreign reserves by purchasing domestically produced gold and converting same into foreign assets (monetary gold). Since inception of the programme, a total of 7.73 tons of monetary gold, valued at

approximately US$480 million, has been added to reserves under the Gold for Reserves programme, well ahead of the target of doubling the gold holdings in 5 years.

23. The foreign exchange market has remained relatively stable for the first six months of 2023, supported by positive market sentiments derived from the IMF disbursement of the ECF first tranche of US$600 million, forex purchases from the mining and oil sectors, and weakened demand. The Ghana cedi depreciated by 20.6 percent against the US dollar in January 2023 and has remained generally stable since then with a cumulative depreciation of 1.8 percent between February and June 2023.

Summary and Outlook

24. In sum, global growth showed signs of improvement in early 2023, but near-term prospects remain uncertain amid tight financing conditions and elevated underlying inflation. Global financing conditions remain tight in both advanced and emerging market economies, reflecting the pass-through effects of aggressive monetary policy tightening on bank funding costs and credit conditions. Headline inflation has continued on a downward trend across many countries, responding to tighter and coordinated monetary policy, easing energy and food prices, and reduced supply bottlenecks, although core inflation has been more persistent amid cost pressures in labour markets. Consequently, the policy stance for most major advanced economies is expected to remain tight until inflation declines to central bank target ranges, with adverse implications for financing conditions for emerging and frontier markets, including Ghana.

25. On the domestic front, the country’s external sector position improved significantly in the first half year, bolstered by current account surplus, reflecting higher gold receipts, import compression and lower investment income payments. The external sector performance, the domestic gold purchase programme, along with increased voluntary repatriation by the mining sector and the liquidation of some short-term external liabilities led to some sizable accumulation of external buffers. The outlook for reserve accumulation in the second half remains broadly positive, and expected to be boosted by the expected inflows from cocoa syndication and other multilateral (World Bank and AfDB) inflows.

26. Real sector conditions improved somewhat with higher GDP growth recorded in the first half year. The CIEA in May also showed some gradual recovery, though the Index remained in negative territory. Results from the confidence surveys showed some slight softening in consumer sentiments, while business sentiments remained broadly stable. Real private sector credit has come under pressure on the back of tighter lending conditions, banks' impaired balance sheets, elevated credit risk, and observed slowdown in credit demand due to the lingering effects of the macroeconomic downturn from last year.

27. Meanwhile, banks' half year performance in 2023 shows considerable growth in profits, following significant losses posted in 2022 on account of the DDEP. If this trend continues, we expect banks to rebuild capital buffers quickly in addition to equity capital injections by shareholders to give a further boost to real sector growth and to build resilience of the banking sector. Early operationalisation of the Ghana Financial Stability Fund should also help provide additional recapitalisation support for eligible banks in line with the criteria and governance framework agreed with the IMF and the World Bank.

28. Fiscal Policy Implementation for the first five months of the year has been broadly in line with the IMF supported programme. The primary fiscal balance is moving in line with expectations and Governments recourse to central bank financing has been eliminated thus far. Although revenue underperformed over the period, this was countered by corresponding slowdown in expenditures. In the outlook, remaining vigilant to the risk of financing the budget from resources from the short end of the market, enhancing revenue mobilization and aligning expenditures with revenue inflows will be key in forging ahead with fiscal consolidation efforts to help foster credibility, restore confidence, support the disinflation process, and anchor the emerging stability.

29. Implementation of the IMF supported Extended Credit Facility programme for the first six-months of 2023 is broadly in line with the Performance Criteria targets for June 2023. While the programme envisaged a drawdown in reserves of close to US$100 million, the BoG built reserves in excess of U$S1 billion. BoG financing of the budget, under the programme, is expected to be zero and this has been met. Regarding the

Monetary Policy Consultation clause, inflation, as at June 2023 was within the target band.

30. After declining consistently between January to April, headline inflation increased in May and June on account of a variety of factors, including higher food prices, implementation of new tax measures, and utility tariff adjustments. Overall inflation increased from 41.2 percent in April to 42.2 percent in May and then further to 42.5 percent in June. Underlying measures of inflation have all ticked up in May 2023. While core inflation ticked up, businesses expectations of inflation remain flat at an elevated level. Although inflation is expected to decline in the near-term, baseline forecasts show a slightly higher elevated profile in the year ahead, which, if not contained, could embed in underlying inflationary pressures. It is important that policy responds appropriately and decisively to prevent these risks from becoming embedded and consequently derail the disinflation process.

31. In the Committee's assessment, risks to the inflation profile are judged to be elevated driven by second round effects of food prices. Inflation has persistently hovered around 42 percent throughout the second quarter of 2023 even though central bank financing has been eliminated in the first six months of the year. Ghana's macroeconomic framework requires decisive tightening from both the fiscal and monetary side to anchor inflation expectations firmly on a declining path.

32. Given these considerations and under the current circumstances, the Committee has decided to increase the Monetary Policy Rate by 50 basis points to 30 percent. In the coming months, the committee will monitor closely incoming inflation data and will respond appropriately, if needed, should inflation persist.

Informational Note

The next Monetary Policy Committee (MPC) meeting is scheduled for 18th – 22nd September 2023. The meeting will conclude on Monday, 25th September 2023, with the announcement of the policy decision.