Bank of Ghana
Monetary Policy Committee
Press Release

25th September, 2023

Good morning, Ladies and Gentlemen of the Media and welcome to the press briefing for the 114th Monetary Policy Committee (MPC) meetings which took place last week. The Committee deliberated on recent global and domestic macroeconomic developments, assessed the performance of the economy, and the risks to the outlook for inflation. A summary of the assessments and key considerations that informed the Committee's decision on the positioning of the monetary policy rate is as follows:

1. Global economic conditions have weakened since the last MPC meeting in July 2023. Recent incoming data show some loss in momentum in the manufacturing and services sectors, on the back of lower export demand and tighter financing conditions. Also, the sharp rebound in China's recovery during the first quarter has recently moderated due to slower consumer spending, following a renewed decline in the housing sector, as well as a sharp decline in exports reflecting weaker external demand. The IMF has revised global growth to slow down from 3.5 per cent in 2022 to 3.0 per cent in both 2023 and 2024. For Emerging Market and Developing Economies (EMDEs) growth is projected to be broadly stable at 4.0 per cent in 2023 and 4.1 per cent in 2024.

2. Global headline inflation is projected to fall from 8.7 per cent in 2022 to 6.8 per cent in 2023 and 5.2 per cent in 2024. However, the recent increase in crude oil prices exerted some upward pressures on headline inflation in some advanced economies, although core inflation steadily declined despite robust labour markets and pass-through of past cost shocks. In most EMDEs, headline inflation also increased, driven by the pickup in oil price and renewed currency pressures. Longer-term inflation expectations however remain anchored, especially in advanced economies, reflecting the continued tightening policy posture of central banks and the recent trend declines in headline and core inflation.

3. Global financing conditions remain tight due to rising interest rates, stronger US dollar, and risk aversion for emerging market economies' assets. The prevailing high interest rates due to past policy rate hikes are still transmitting to financing costs. Also, the stronger US dollar in recent months amid higher treasury yields and

increased demand has triggered renewed currency pressures, especially in emerging market and developing economies.

4. On the domestic scene, economic growth was relatively strong in the first half of 2023. The latest data released by the Ghana Statistical Service show real GDP growth at 3.2 percent in the second quarter of 2023, marginally down from 3.3 percent in the first quarter, and compared with 3.5 percent in the same period of 2022. The observed growth outturn was largely driven by the services and agriculture sectors, which grew by 6.3 percent and 6.0 percent, respectively. However, industry contracted by 1.9 percent.

5. Trends in the Bank's high frequency real sector indicators also pointed to a sustained turnaround in economic activity. The updated real Composite Index of Economic Activity (CIEA) contracted at a slower pace by 2.8 percent year-on-year in July 2023, indicating a slight improvement from a contraction of 3.1 percent in June 2023 and 3.7 percent in May 2023. The main indicators that contributed to the slight recovery in the Index during the period were industrial consumption of electricity, private sector contributions to Social Security, and tourist arrivals. Credit to the private sector, cement sales, and port activity, however, slowed down over the period.

6. Consumer and Business sentiments were mixed, as indicated by the results from the Bank's latest confidence surveys conducted in August 2023. While the Business Confidence Index reflected the achievement of short-term company targets with positive sentiments about industry prospects due to improving consumer demand and the relative stability in the local currency, Consumer Confidence Index dipped due to the utility tariff adjustments and recent increases in ex-pump petroleum prices. Ghana's Purchasing Managers' Index (PMI) for August 2023, on the other hand, increased for the sixth successive month, pointing to a sustained improvement in business activity.

7. The latest price reading in August 2023 indicated a fall in headline inflation, after consecutive upward trends since May 2023. Headline inflation dropped to 40.1 percent, from 43.1 percent in July and 42.5 percent in June 2023, respectively. The observed decline in inflation was broad-based, with a stronger easing of food price pressures and the sustained easing of non-food price pressures observed in recent months. Food inflation declined sharply by 3.1 percent to 51.9 percent in August 2023, down from 55.0 percent in July 2023. Non-food inflation also declined further to 30.9 percent, from 33.8 percent in the same comparative period.

8. In line with developments in headline inflation, underlying inflation pressures also moderated in August. All the Bank's core inflation measures trended downwards, with inflation excluding energy and utility prices, decelerating to 41.0 percent in August 2023, from 44.2 percent in July 2023.

9. Annual growth in broad money supply (M2+) increased sharply to 40.8 percent in August 2023, relative to 23.4 percent in August 2022, driven by a significant expansion in both Net Domestic Assets and Net Foreign Assets of the depository corporations' sector. The growth of M2+ reflected in both domestic currency and foreign currency deposits. Growth in reserve money, however, moderated to 25.5 percent from 33.1 percent, over the same comparative period, reflecting stronger liquidity management operations of the Bank of Ghana which supported increased sterilization over the period.

10. In August 2023, private sector credit, in year-on-year terms, increased moderately by 10.7 percent, relative to the 35.8 percent growth recorded in August 2022. In real terms, credit to the private sector contracted by 21.0 percent relative to a growth of 1.4 percent over the same comparative period, reflecting increased risk aversion of banks during the period.

11. At the auctions for Government of Ghana securities, the 91-day and 182-day Treasury bill rates decreased marginally to 26.35 percent and 27.84 percent, respectively in August 2023, down from 27.68 percent and 29.12 percent, in the same month of 2022. The rate on the 364-day instrument, however, increased to 30.88 percent, from 28.92 percent over the same comparative period. All the rates were however negative in real terms, given the rate of inflation.

12. The rate at which banks borrowed from each other, that is, the interbank weighted average rate, rose to 26.59 percent in August 2023 from 21.93 percent in August 2022, in line with increases in the monetary policy rate. Consequently, average lending rates of banks increased to 31.78 percent in August 2023, from 27.96 percent recorded in August 2022.

13. The banking sector remained stable as the industry's total assets increased to GH¢244.7 billion in August 2023, from GH¢204.6 billion in August 2022. The growth in banks' assets was funded by deposits, which grew sharply by 38.9 percent to GH¢189.9 billion from GH¢136.7 billion in the same comparative period. Total borrowings by banks, however, contracted by 41.0 percent to GH¢13.9 billion in August 2023 from GH¢23.5 billion a year earlier.

14. Banks' profitability remained strong in the first eight months of 2023. The industry recorded profit-after-tax of GH¢5.7 billion, representing a 41.4 percent annual growth, compared with 26.5 percent growth recorded last year. Specifically, net interest income increased sharply by 37.9 percent to GH¢13.5 billion, while net fees and commissions went up by 27.3 percent to GH¢2.9 billion.

15. The key financial soundness indicators remained broadly stable. Profitability indicators improved, with Return-on-Equity (ROE) at 36.9 percent in August 2023 from 23.0 percent in August 2022, while Return-on-Assets (ROA) increased to 5.4 percent from 4.7 percent in the same comparative period. Also, liquidity indicators for

the industry improved during the period under review. Capital Adequacy Ratio (CAR) adjusted for the regulatory reliefs was 14.2 percent in August 2023, higher than the revised prudential minimum of 10 percent. The industry's NPL ratio however increased to 20.0 percent in August 2023, from 14.3 percent in August 2022, attributable to elevated credit risk associated with the lagged effect of the macroeconomic crisis in 2022.

16. International prices of Ghana's major export commodities recorded some gains in August 2023, after consistent declines in the previous months. Crude oil price increased by 4.0 percent to US$84.6 per barrel in August 2023 due to expectations of tight crude oil supplies following Saudi Arabia and Russia's decision to extend production cuts for the rest of the year. Cocoa prices recorded a year-to-date growth of 37.1 percent to US$3,480.3 per tonne in August 2023 on account of tight supplies in West Africa. Gold prices also gained 6.8 percent year-to-date to settle at US$1,918.8 per fine ounce, largely due to expectations of a pause in the US policy tightening cycle.

17. In the first eight months of the year, the trade account registered a surplus of US$2.0 billion, compared with US$1.6 billion recorded in the same period of last year. This was largely due to import compression, and a decline in exports. Total exports earnings declined by 8.9 percent year-on-year to US$10.8 billion, driven mainly by a significant drop in crude oil and cocoa products exports. In the review period, crude oil exports decreased sharply by US$1.5 billion due to an 18.8 percent dip in production volumes as well as a 23.6 percent decline in prices. Exports of cocoa beans and products remained broadly unchanged at US$1.6 billion compared with the same period in 2022, as the higher production volumes of the beans balanced out the lower volumes of cocoa products. Gold exports increased to US$4.7 billion, on account of an 8.5 percent rise in the volumes exported and 1.9 percent increase in prices. Earnings from other exports, including non-traditional exports, decreased marginally by 1.6 percent to US$2.1 billion. Total imports contracted by 14.7 percent to US$8.8 billion, from US$10.3 billion a year earlier. This was attributed to a 13.1 percent contraction in non-oil imports to US$6.1 billion, as well as a dip in oil and gas imports of 18.2 percent to US$2.7 billion.

18. On the external position, the balance of payments for the first six months of the year recorded some improvements. The current account recorded a surplus of US$859.1 million from a deficit of US$1.1 billion last year. The sharp improvement in the current account reflected a significant reduction in external debt service payments on the Eurobond, bilateral and some commercial loans, resulting in over US$2.0 billion temporary savings in the year to September 2023 due to the external debt service standstill. For the same period in 2022, the current account recorded a deficit of US$2.5 billion.

19. At the end of August 2023, Gross International Reserves (excluding encumbered assets and petroleum funds) stood at US$2.1 billion equivalent to 1.0-month import

cover, compared with US$1.5 billion (0.6 month of import cover) recorded at the end of December 2022. Gross reserves, broadly defined to include encumbered assets and petroleum funds, as at the end of August 2023, stood at US$5.1 billion.

20. The Ghana cedi has remained stable from the beginning of the year to date, except in January when it depreciated sharply on account of the uncertainties at the end of 2022 associated with the launch of the DDEP. The Ghana cedi depreciated by 20.6 percent in January 2023, and has remained generally stable since then, with a cumulative depreciation of 2.5 percent between February and September 18, 2023. The relative stability in the foreign exchange market reflected improved foreign exchange supply, including IMF flows, Bank of Ghana's Domestic Gold Purchase Programme, and purchases of repatriated export proceeds from mining companies and oil and gas producers, which amounted to US$1.9 billion as at end August 2023. Furthermore, the Bank's FX forward auctions for Bulk Oil Distribution Companies have helped remove the disorderly conduct in the market and contributed to the exchange rate stability.

Summary and Outlook

21. In summary, the Committee noted the moderation in global economic activity, arising from the high inflation, tighter financing conditions, weak demand weighing down on manufacturing output, as well as the moderation in China's recovery after the sharp rebound in the first quarter. The slowdown in global growth momentum is however concentrated in advanced economies with the Euro area a key downside risk, but emerging market and developing economies are expected to post some strong growth at 4.0 percent in 2023. Global inflation is expected to remain above central bank targets for an extended period due to strong labour markets and pass-through of energy price shocks. The disinflation process is projected to take longer than expected, requiring moderately tighter policies, while the growing uncertainty about the global growth outlook, could trigger repricing of risky assets, sharp tightening of financing conditions, and further strengthening of the US dollar. These could transmit to the domestic economy through the trade and financial channels.

22. On the domestic front, the Committee observed the overall improving macroeconomic conditions with relatively strong economic growth and a drop-in inflation in August. These developments provide evidence that the policy mix under the three-year IMF Extended Credit Facility is beginning to yield results. Economic activity is rebounding strongly, the exchange rate is stabilising, inflation is declining, and level of foreign exchange reserves has improved. Sustained improvement in these indicators should result in the restoration of real incomes and purchasing power.

23. The strong growth outturn observed in the first half of 2023 is expected to continue in the third quarter as indicated by the July 2023 update of the Bank's CIEA. Also, Ghana's PMI lends support to the growth outlook, reflecting improving business

conditions. The results from the confidence surveys so far also indicate continued improvement in business and consumer sentiments influenced by the relative stability in the Ghana cedi, and more recently the resumption of the disinflation process. The pick-up in confidence is expected to continue for the rest of the year in line with improving macroeconomic conditions.

24. On the implementation of fiscal policy, while policies remain consistent with the IMF-supported programme thus far, challenges associated with revenue mobilization persist and will require additional efforts to safeguard the revenue-led fiscal adjustment programme.

25. The country's external sector position has continued to improve significantly in the first eight months of the year, supported by a current account surplus, reflecting higher gold export receipts, import compression, and lower outflows from the services and income accounts. The lower balance of payments deficit, the domestic gold purchase programme, as well as inflows from the mining sector and the liquidation of some short-term external liabilities contributed to rebuilding the country's reserve buffers. In the last quarter of the year, reserve accumulation would be further bolstered by the expected inflows from the cocoa syndication loan, the second tranche of the IMF ECF programme, and other multilateral inflows.

26. On inflation dynamics, the continued maintenance of a tight monetary policy stance and relative exchange rate stability have contributed significantly to the disinflation process observed in the year thus far. Headline inflation has declined by a cumulative 14.0 percent since the peak of 54.1 percent recorded in December 2022. Non-food inflation has also declined sharply by close to 20 percent, broadly reflecting the effectiveness of monetary policy. All core inflation measures, monitored by the central bank are trending downwards, indicating continued easing of underlying inflationary pressures. In addition, one-year ahead survey-based inflation expectations seem well anchored.

27. While the disinflation process has resumed, which should result in a gradual return towards the target band over the medium-term barring unanticipated shocks, rising international crude oil prices and adjustments to utility tariffs remain a risk to the inflation outlook which would have to be managed through monetary policy vigilance.

28. Given these considerations, the Committee decided to maintain the policy rate at 30.0 percent. The Committee further indicated that while the expectation is for continued disinflation, it stands ready to respond appropriately should inflation deviate from these broad expectations.

Informational Note

The next Monetary Policy Committee (MPC) meeting is scheduled for 22nd – 24th November 2023. The meeting will conclude on Monday, 27th November 2023, with the announcement of the policy decision.