Bank of Ghana
Monetary Policy Committee
Press Release

29th January, 2024

Good morning, Ladies and Gentlemen of the Media and welcome to the press briefing for the 116th Monetary Policy Committee (MPC) meetings, the first for the year. Last week, the Committee deliberated on global and domestic macroeconomic developments including assessment of 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:

A. Global Developments and Conditions

1. **Global economic activity was mixed in 2023, improving in the first half year but moderated in the second half.** The mixed performance, on one hand reflected strong growth in the United States amid solid domestic demand and resilient labour markets despite tighter financing conditions. On the other hand, a contraction in Japan, the Euro Area, and the United Kingdom was observed. For Emerging Market and Developing Economies (EMDEs), growth was supported mainly by the rebound in China where policy support and resurgence in consumer spending offset weakness in the property sector. The overall growth outturn for 2023 is expected to remain subdued, weighed down by the lingering weakness in the manufacturing sector alongside effects of the still tight monetary policies, and weak external demand. Given these developments, global growth is projected to end 2023 at 3.0 percent and slow marginally to 2.9 percent in 2024.

2. **Global inflationary pressures have eased substantially largely supported by the decline in energy and food prices.** Consequently, headline inflation is on a downward trajectory though above targets in many advanced economies and EMDEs due to persistence in core inflation. Longer-term inflation expectations, remain anchored, reflecting the tightened policy stance of central banks and recent declines in headline inflation. In the outlook, the expectation is for continued gradual disinflation as the effects of maintenance of tighter monetary policy stance passes through to core inflation.

3. **Notwithstanding the pause in policy rate hikes by central banks in Advanced Economies, lagged effects of previous policy tightening measures continue to transmit to global financing conditions**. Longer term bond yields retreated slightly in line

with shifting expectations about the path of future interest rates. Also, lending standards have tightened, and bank credit growth has slowed sharply, while equity markets recovered amid the expectation that central banks in advanced economies have reached the peak of the tightening cycle. Portfolio flows to emerging markets rebounded strongly in the last two months of 2023 supported by expectations that the US Fed will cut policy rate in the near term.

B. Domestic Macroeconomic Conditions

4. **At home there is gradual recovery in economic activity, though growth remains below potential.** The latest Ghana Statistical Service data showed an expansion in overall real GDP by an annual rate of 2.0 percent driven by the services and agriculture sectors during the third quarter of 2023, relative to 2.7 percent over the same period in 2022. Non-oil GDP growth moderated to 2.1 percent from 3.3 percent over the same comparative period.

5. **The Bank's high frequency real sector indicators point to a significant pickup in activity.** The updated Composite Index of Economic Activity (CIEA) rebounded strongly with an annual growth of 9.6 percent in November 2023 – the highest in two years – from a contraction of 6.2 percent a year earlier. Domestic VAT, port activity, industrial consumption of electricity, imports, and tourist arrivals all contributed to the improvement in economic activity observed during the period.

6. **The Bank's latest surveys conducted in December 2023 showed a strong rebound in both consumer and business sentiments, reflective of the signs of recovery**. Consumer confidence improved on account of easing inflationary pressures which led to optimism about future economic conditions. Similarly, business confidence increased significantly, signalling improving consumer demand, as firms met short-term targets and expressed positive sentiments about company and industry prospects. The survey findings were broadly aligned with observed trends in Ghana's Purchasing Managers' Index (PMI), which improved to 51.8 in December 2023 from 51.6 in the previous month.

7. **The disinflation process, which began earlier in the year, continued through to the last quarter of the year supported by strong policies, relative exchange rate stability, and effective liquidity sterilization efforts.** Headline inflation sharply decelerated to 23.2 percent in December 2023, from a peak of 54.1 percent at the end of December 2022. The decline in inflation was driven by both easing food and non-food prices. Food inflation decelerated sharply to 28.7 percent in December 2023 from 59.7 percent in December 2022, while non-food inflation also fell to 18.7 percent from 49.9 percent over the same comparative period.

8. **Core inflation has also eased significantly, affirming broad decline in prices.** The Bank's core inflation measure, which excludes energy and utility, more than halved to

24.2 percent in December 2023, down from 53.2 percent in December 2022. Similarly, inflation expectations by the banking sector, businesses, and consumers have declined.

9. **Fiscal policy implementation was broadly aligned with requirements under the IMF ECF-supported programme**. Provisional data shows that the performance criteria targets on the primary fiscal balance on a commitment basis, non-accumulation of external debt payment arrears, no new collateralized debt by central government and public entities, all of which are broadly on course for attainment. Fiscal performance based on provisional banking data on budget execution for January to December 2023 shows a deficit of around 3.0 percent of GDP, against a target of 5.5 percent of GDP.

10. **Base money growth slowed down significantly in the course of 2023 and was supportive of the disinflation process.** Growth in reserve money defined to include currency outside banks and commercial banks reserves, slowed down significantly to 29.2 percent by end December 2023 relative to a growth rate of 57.5 percent observed in December 2022. The sharp slowdown was driven in large parts by strong sterilization efforts and effective liquidity management operations.

11. **With a tight monetary policy stance and increased risk aversion of banks due to rising credit risks, private sector credit expansion broadly remained sluggish in the year**. In December 2023, the pace of growth in private sector credit slowed to 10.7 percent, compared with 31.8 percent annual growth in December 2022. In real terms, credit to the private sector contracted by 10.2 percent relative to a 14.5 percent contraction, recorded over the same comparative period.

12. **On the money market, interest rates broadly trended downward at the short end of the yield curve.** The 91-day and 182-day Treasury bill rates decreased to 29.49 percent and 31.70 percent respectively, in December 2023, from 35.48 percent and 36.23 percent respectively, in the corresponding period of 2022. Similarly, the rate on the 364-day instrument decreased to 32.97 percent in December 2023 from 36.06 percent in December 2022.

13. **The interbank weighted average rate remained well-aligned within the policy corridor by the end of 2023.** The weighted average rate increased to 30.19 percent in December 2023 from 25.51 percent in December 2022, in line with the monetary policy rate and supported by adjustments made in the cash reserve ratio. The average lending rates of banks eased marginally to 33.75 percent in December 2023 from 35.58 percent a year earlier.

14. **The banking sector's performance improved as adverse spillovers from the domestic debt restructuring and macroeconomic challenges receded**. As at end 2023, the data shows that the banking sector remains stable, liquid, and profitable. Profitability improved for the sector from the loss position recorded in the 2022 audited accounts, reflecting sustained increases in net interest income and fees and commissions. The industry's balance sheet was generally strong, underscored by increased assets in December 2023, funded largely by deposits. Key financial soundness indicators remained

broadly positive with the Capital Adequacy Ratio (adjusted for reliefs) above the regulatory minimum, while liquidity and profitability ratios were higher in December 2023 compared to the same period last year. The Non-Performing Loan ratio, however, increased in 2023, because of general repayment challenges on the part of borrowers, reflecting the impact of general macroeconomic challenges encountered in 2022. The latest stress tests indicates that the sector remains stable on the back of the on-going recapitalisation process by shareholders alongside support from the Ghana Financial Stability Fund.

15. On the international markets, prices for the key export commodities traded mixed in 2023. On a year-on-year basis, crude oil price declined by 5.0 percent to an average of US$77.3 per barrel in December 2023 due to sluggish energy demand in the United States and China and easing concerns on earlier perceptions that tensions in the Red Sea would disrupt supplies. Cocoa prices, on the other hand, extended its gains with an annual growth of 66.8 percent to close at an average of US$4,235.60 per tonne, on the back of reduced supplies. Spot prices for gold also gained 13.3 percent to close at an average price of US$2,035.43 per fine ounce in December 2023, benefitting from the weakened dollar and falling bond yields after U.S. economic data fuelled expectations of interest rate cuts in the near term.

16. Developments in the prices of the major export commodities, together with lower production levels in cocoa and crude oil, led to a marginal decline in the trade balance. The trade account recorded a surplus of US$2.63 billion for 2023, lower than a surplus of US$2.87 billion recorded in 2022. This decline in the trade surplus was attributed to a greater decline in export earnings relative to imports. In the year, merchandise exports declined by 4.9 percent to US$16.6 billion. Gold exports increased by 15.0 percent to US$7.6 billion benefiting from both volume and price increases. Cocoa beans exports fell marginally by 1.1 percent to US$1.3 billion on the back of lower volumes and price. Crude oil exports decreased significantly by 29.3 percent to US$3.8 billion driven by reduced volumes and lower prices. Other exports, including non-traditional exports, also decreased slightly by 1.9 percent to an estimated value of US$3.1 billion. On the imports side, payments were lower by 4.2 percent to US$14.0 billion, driven by both non-oil imports and oil and gas imports. Non-oil imports were estimated at US$9.5 billion, down by 4.6 percent. Oil and gas imports also decreased by 3.3 percent to US$4.5 billion.

17. Gross International Reserves, excluding pledged assets and petroleum funds, reflected a significant build-up of US$2.2 billion at the end of December 2023 to stand at US$3.7 billion. The build-up was driven mainly by the gold for reserves programme and unwinding of short-term liabilities. However, the stock of Gross International Reserves ended the year at US$5.9 billion, enough to cover 2.7 months of imports of goods and services, from the stock position of US$6.3 billion (2.7 months of import cover) at the end of December 2022.

18. The volatilities that characterized the foreign exchange market in January 2023 dissipated and the Ghana cedi remained relatively stable throughout the rest of the year. The stability in the foreign exchange market hinged on improved inflows from the IMF ECF first tranche, the domestic gold purchase programme, remittances, and FX purchases from mining and oil companies, amid monetary policy tightening. These were further supported by the release of COCOBOD loan facility in December 2023. Excluding the sharp depreciation of 20.6 percent in January, the Ghana cedi cumulatively depreciated by 7.2 percent against the US dollar between February and December 2023.

C. Summary and Outlook

19. Overall, the Committee noted that global growth had remained relatively subdued in 2023, while the ease in global inflation had triggered a pause in monetary policy tightening across key economies. Global economic activity moderated somewhat in the year. Declining energy and food prices, together with tight monetary policy, have exerted downward pressures on headline inflation. Although major central banks have paused on their policy rate hikes due to declining inflation, global financing conditions remain tight as the past effects of the restrictive policies continue to keep borrowing costs high. The global outlook remains uncertain with geopolitical tensions and its potential spillovers to the commodities markets acting as a major risk factor to most economies.

20. On the domestic economy, there are clear indications that the current macroeconomic framework being implemented with the support of the IMF ECF programme is yielding positive results. The macroeconomic fundamentals have all trended in the right direction. Both headline and core inflation are declining and projected to decelerate further, inflation expectations seem well-anchored, fiscal policy implementation is broadly in line with expectations, the current account balance is in surplus and will likely remain so in the near term, foreign exchange reserve build-up has been strong and should support a stable exchange rate outlook. The benchmark key interest rate indicator – the 91-day treasury bill rate – also declined over the year in response to macroeconomic conditions. These conditions have fed into sentiments, with improvements in business and consumer confidence. Growth, however, remains below potential, requiring policy support, including help from the supply-side.

21. In broad terms, the banking sector remains stable, despite the elevated credit risks. Bank's liquidity and profitability positions have improved in the aftermath of the domestic debt restructuring. The Bank is closely monitoring the capital restoration efforts of the banks in line with approved plans, including through support from the Ghana Financial Stability Fund. It is expected that early recapitalization and effective risk management by banks will help promote overall banking sector stability and resilience and ensure effective financial intermediation to strengthen the economic recovery efforts.

22. The country's external buffers have increased, providing support for exchange rate stability. Improved forex inflows from the IMF-ECF disbursements, receipt of the cocoa syndicated loan, and expected funding from the World Bank's Development Policy Operations are expected to improve foreign exchange inflows. In addition, the gold for reserve programme of the Bank, repatriation of foreign exchange from the mining and oil companies, reduction in debt service payments would further support reserve build-up and improve the external sector outlook.

23. **Headline inflation declined sharply by more than 30 percentage points in the course of 2023.** Several factors have supported the disinflation process, namely, the tightening monetary policy stance throughout 2023, favourable international crude oil prices which led to stable ex-pump prices and transportation costs, and relative stability in the exchange rate. The latest forecast suggests that the disinflation process will continue, and headline inflation is expected to ease to around 13-17 percent by the end of 2024, before gradually trending back to within the medium-term target range of 6-10 percent by 2025. These forecasts notwithstanding, there are upside risks to the inflation outlook and there is need for strict implementation of the 2024 budget and a tight monetary policy stance to sustain the disinflation process.

24. The Committee noted the emerging recovery but sees the need to maintain a strong policy stance to consolidate the disinflation gains. Under these circumstances, the Committee decided to reduce the Monetary Policy Rate by 100 basis points to 29 percent.

Informational Note

The next Monetary Policy Committee (MPC) meeting is scheduled for 20 - 22 March, 2024. The meeting will conclude on Monday, 25 March 2024, with the announcement of the policy decision.