



BANK OF GHANA

MONETARY POLICY REPORT

January 2024

The Monetary Policy Report highlights the economic and financial sector assessments that the Monetary Policy Committee considered prior to the policy decision during the 116th meeting held in January 2024.

Monetary Policy in Ghana

The primary objective of the Bank of Ghana is to pursue sound monetary policies aimed at price stability and creating an enabling environment for sustainable economic growth. Price stability, in this context, is defined as a medium-term inflation target of 8 ± 2 percent. This implies that headline inflation should be aligned within the medium-term target band for the economy to grow at its full potential without excessive inflation pressures. Other tasks for the Bank of Ghana include promoting and maintaining a sound financial sector with efficient payment systems through effective regulation and supervision. This is important for intermediation since risks associated with financial markets are also considered in the monetary policy formulation process.

Monetary Policy Strategy

To achieve the objective of price stability, Bank of Ghana was granted operational independence to use whichever policy tools were deemed appropriate to stabilise inflation around the target band. The Bank of Ghana's framework for conducting monetary policy is Inflation Targeting (IT), in which the central bank uses the Monetary Policy Rate (MPR) as the primary policy tool to set the monetary policy stance and anchor inflation expectations in the economy.

The MPC Process

The MPC is a statutorily constituted body by the Bank of Ghana (Amendment) Act, Act 2016 (Act 918) to formulate monetary policy. The MPC consists of seven members – five from the Bank of Ghana (including the Governor who is the Chairman) and two external members appointed by the Board of the Bank. The MPC meeting dates are determined at the beginning of each year. The MPC meets bi-monthly to assess economic conditions and risks to the inflation outlook, after which a policy decision is made on positioning the MPR. Each decision signals a monetary policy stance of tightening (increase), easing (decrease) or no change (stay put). The policy decision is arrived at by consensus with each member stating reasons underlying a preferred MPR decision. Subsequently, the decision is announced at a press conference held after each MPC meeting and a press release issued to financial markets and the public.

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Overview

Global economic developments showed mixed trends in 2023. The mixed performance reflected strong growth in the United States amid solid domestic demand and resilient labour markets despite tighter financing conditions, and a contraction in Japan, the Euro Area, and the United Kingdom. For emerging and developing economies, growth was supported mainly by the rebound in China, where policy support and resurgence in consumer spending offset weakness in the property sector.

Global financing conditions remained tight. Notwithstanding the pause in policy rate hikes by central banks in advanced economies, lagged effects of previous policy tightening measures continued to transmit to global financing conditions. Longer-term bond yields retreated slightly in line with shifting expectations about the path of future interest rates.

Global inflationary pressures eased substantially, supported by the decline in energy and food prices. Broadly, headline inflation is on a downward trajectory, although above target in many advanced economies and emerging and developing economies 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.

On the domestic front, economic activity gradually recovered, though still below potential. The latest Ghana Statistical Service data showed a 2.0 percent expansion in overall real GDP during the third quarter of 2023, driven by the services and agriculture sectors. This compared with 2.7 percent growth over the same period in 2022. Non-oil GDP growth moderated to 2.1 percent from 3.3 percent over the same comparative period.

The Bank's Composite Index of Economic Activity rebounded strongly. The CIEA registered an annual growth of 9.6 percent in November 2023 – the highest in two years – compared with 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.

The disinflation process continued through to the last quarter of 2023. This was supported by monetary policy tightness, relative exchange rate stability, and effective liquidity sterilisation efforts. Headline inflation sharply decelerated to 23.2 percent in December 2023, from 54.1 percent at the end of December 2022, driven by easing food and non-food prices.

Core inflation also eased, affirming the broad decline in prices. The Bank's core inflation measure, which excludes energy and utilities, more than halved to 24.2 percent in December 2023, down from 53.2 percent in December 2022. Similarly, inflation expectations of the banking sector, businesses, and consumers have declined.

The volatilities that characterized the foreign exchange market in 2022 dissipated. Except for January 2023, the Ghana cedi remained relatively stable throughout the year, 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.

In the outlook, headline inflation is projected to ease further towards the medium-target band, underpinned by continued implementation of sound macroeconomic policies. The latest forecast indicate that 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.

1. Global Economic Developments

1.0 Highlights

Global economic activity softened in 2023, amid lagged effects of tight monetary policies, restrictive credit conditions, and weak external demand.

Global headline inflation stayed on a downward trajectory, supported by lower energy and food prices and tight monetary policy. Nonetheless, inflation remained above target in most countries due to the persistence in core inflation.

Global financial conditions remained tight. Restrictive monetary policy continued to transmit strongly into broader financing conditions, while external borrowing costs in Emerging Market and Developing Economies (EMDEs) remained high.

1.1 Global Growth Developments

Global growth improved, in the first half-year, albeit, with notable regional differences. For the second half, however, the growth outlook was uncertain due to the weakness in the manufacturing and services sectors. Incoming data for the third quarter of 2023 was mixed, indicating stronger growth in the US and China, and contraction in Japan, the Euro Area, UK, and South Africa. Activity in the United States was driven by strong domestic demand and a resilient labour market, despite significant monetary policy tightening. In the case of China, growth was led by a resurgence in consumer spending, supported by fiscal and monetary stimuli, which compensated for the weakness in the residential sector. Growth moderated in other EMDEs but remained positive. In the fourth quarter, growth was projected to remain subdued on the back of lagged effects of tight monetary policies, restrictive credit standards, and weak external demand. The January 2024 update of global growth estimates released by the IMF suggested a 3.1 percent growth in the global economy in 2023, driven mainly by improved growth contributions from major Asian economies (Table 1).

Table 1.1: Global Growth Projections (%)

	Year over Year		
	Estimates	Projections	
		2024	2025
2023			
World	3.1	3.1	3.2
Advanced Economies	1.6	1.5	1.8
United States	2.5	2.1	1.7
Euro Area	0.5	0.9	1.7
Germany	-0.3	0.5	1.6
France	0.8	1.0	1.7
Italy	0.7	0.7	1.1
Spain	2.4	1.5	2.1
Japan	1.9	0.9	0.8
United Kingdom	0.5	0.6	1.6
Canada	1.1	1.4	2.3
Other Advanced Economies	1.7	2.1	2.5
Emerging Market and Developing Economies	4.1	4.1	4.2
China	5.2	4.6	4.1
India	6.7	6.5	6.5
Russia	3.0	2.6	1.1
Brazil	3.1	1.7	1.9
Mexico	3.4	2.7	1.5
Sub-Saharan Africa	3.3	3.8	4.1
Nigeria	2.8	3.0	3.1
South Africa	0.6	1.0	1.3

Source: IMF, WEO January 2024, Update

Risks to the near-term outlook were largely tilted to the downside. The lagged effects of tighter monetary policy might continue to affect financing conditions in advanced economies and intensify financial vulnerabilities in EMDEs and add to debt-service pressures in lower-income countries. Escalation of the Middle East conflict could increase uncertainty and weigh on consumer and business confidence and could also spook financial markets, leading to repricing of risky assets. The conflict could also disrupt oil supplies, leading to a surge in energy costs with renewed inflationary pressures, compelling central banks to keep policy rates higher for longer. Trade flows could be significantly disrupted, creating supply-chain bottlenecks. These conditions will cause the US dollar to strengthen, leading to the reversal of portfolio flows to EMDEs, which could lead to exchange rate pressures. Also, weaker-than-expected growth in China could have negative implications for trading partners and global growth. On the upside, real disposable incomes may rise amid declining inflation and robust wage growth.

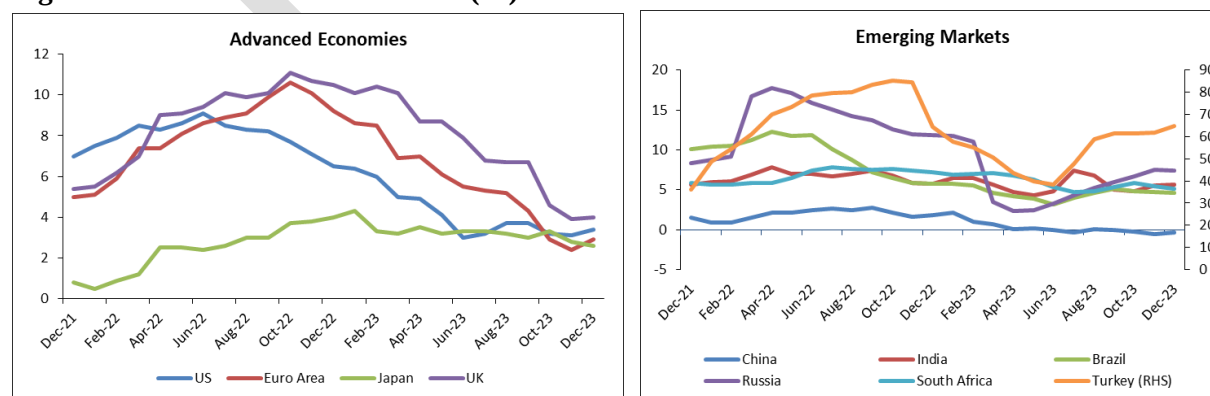
1.2 Global Price Developments

Global headline inflation, although above target in most countries, remains on a downward trajectory, supported by lower energy and food prices and tighter monetary policy. Across regions, headline inflation continued its downward path in most advanced and some emerging market economies, partly reflecting the sharp drop in oil prices since September 2023, amid weakening global demand. Weak demand outweighed upwards price pressures stemming from strong oil demand from China, extension of OPEC+ production cuts to in the first quarter of 2024, and supply risks resulting from the conflict in the Middle East.

Also, the FAO Food Price Index continued to trend downward in December 2023 as decreases in the price indices for sugar, vegetable oils and meat more than offset increases in the indices for dairy products and cereals. Underlying inflation, which excludes food and energy inflation, continued to decline, but at a slower pace amid still tight labour markets and the effects of past currency depreciations. Labour market pressures have begun to ease, but wage growth remains high. Meanwhile, near-term inflation expectations remain high, but longer-term inflation expectations for advanced economies are unchanged at 2.1 percent.

Global inflation is expected to decline further in the near term, underpinned by the projected weakness in global demand due to tight monetary policy and restrictive credit conditions and relatively low commodity prices. However, energy price developments have become more uncertain due to new geopolitical tensions in the Middle East. Also, although the labour markets are cooling, they are expected to remain tight in advanced economies in the near term.

Figure 1.1: Headline Inflation Rates (%)



Source: BOG/Trading Economics

1.3 Global Financial Markets Developments

Central banks in advanced economies paused policy rate hikes but the lagged effects of policy tightening continued to transmit to the broader financing conditions. Longer-term bond yields have recently retreated somewhat, in line with the shifting expectations about the path of future interest rates, but they remain high. At the same time, lending standards have tightened in advanced economies and bank credit growth has slowed sharply. Meanwhile, equity markets recovered in December 2023, amid expectations that central banks in advanced economies had reached the peak of the tightening cycle. However, recent data on inflation led to a slight retreat in the stock market, while portfolio flows to EMs rebounded strongly in November and December 2023, supported by the expectation that the US Fed would cut policy rate in the first quarter of 2024. In the outlook, financial conditions are expected to remain tight as the lagged effects of tighter monetary policy continue to keep borrowing cost high and the uncertainty arising from the escalating tensions in the Middle East disrupt trade flows and spook financial markets.

Table 1.2: Monetary Policy Stance of Selected Central Banks

	Policy rate - Previous (%)	Policy Rate Current (%)	Policy Rate Forecast	Inflation November 2023	Inflation December 2023	Real rate	Infl Target	Overall Fiscal Deficit (2022, % of GDP)	GDP Growth (Dec.2022)	GrossD ebt/GD P(2022, %)	YTD Depn/Apr
US	5.5	5.5	5.5	3.1	3.4	2.1	2%	-3.7	2.1	121.3	
Euro Area	4.5	4.5	4.50	2.4	2.9	1.6	< 2%	-3.6	3.3	91.0	-1.47
UK	5.25	5.25	5.25	3.9	4	1.25	2%	-5.5	4.1	101.9	-0.19
Japan	-0.1	-0.1	-0.1	2.8	2.6	-2.7	2%	-6.9	1.0	260.1	-4.81
Russia	15	16	16	7.5	7.4	8.6	4%	-1.4	-2.1	18.9	0.09
India	6.5	6.5	6.5	5.55	5.69	0.81	4±2%	-9.2	7.2	81	0.11
Brazil	12.25	11.75	11.75	4.68	4.62	7.13	4.5±1.5%	-3.1	2.9	85.3	-1.57
Turkey	40	42.5	42.5	61.98	64.8	-22.3	5±2%	-1.7	5.5	31.7	-2.00
Malaysia	3	3	3.0	1.5	1.5	1.5	3% - 4%	-5.9	8.7	65.6	-2.65
Indonesia	6	6	6	2.86	2.61	3.39	3.5% ± 1%	-2.1	5.3	40.1	-1.43
Chile	9	8.25	7.75	4.8	3.9	4.35	3±1%	1.4	2.4	38.0	-4.23
Ghana	30	30		26.2	23.2	6.8	8±2%	-11.2	3.1	92.4	-0.49
South Africa	8.25	8.25	8.25	5.5		8.25	3%-6%	-4.7	1.9	71.1	-3.04
Nigeria	18.5	18.75	18.5	28.2	28.9	-10.15	6%-9%	-7.7	3.3	39.6	2.66
Kenya	10.5	12.5	12.5	6.8	6.6	5.9	2.5-7.5%	-5.8	4.8	68.4	-2.86
Zambia	10	11	11	12.9	13.1	-2.1	9%	-5.6	4.7	98.5	-2.20
Morocco	3	3	2.5	3.6		3		-5.2	1.3	71.5	-1.16
Angola	17	18	18.0	18.9	20.01	-2.01	9-11%	0.7	3.0	40.1	0.003
Egypt	19.25	19.25	19.25	34.6	33.7	-14.45	7± 2%	-5.8	6.7	88.5	0.05

Source: Growth rate(World Bank); Debt/GDP (IMF, Zambia is Projections)
Policy Rates (Trading Economics), YTD depreciation is from Bloomberg

1.4 Currency Markets

On the international currency market, the US dollar index rose in early 2024 as investors reassessed the outlook for US monetary policy. There was expectation that with inflation dropping sharply in the US, the Fed might start cutting policy rates. But recent inflation and labour market data forced investors to reassess the outlook for the Fed's monetary policy. In the domestic currency market, the Ghana cedi was relatively stable since February 2023 with minimal pressures from tighter foreign exchange liquidity, reflecting the pick-up in pipeline requests and seasonal demand in the last quarter of the year. Also, negative sentiments around the delayed disbursement of the second tranche of the IMF ECF programme funds weighed on the Ghana cedi-US dollar exchange rate. The Ghana cedi is expected to remain stable in the first quarter of 2024, amid the disbursement of US\$600 million from the IMF, expected inflows from the World Bank, the second tranche of the cocoa loan, remittances, and mining inflows, proceeds from the gold purchase programme, and the expected rate cuts in advanced economies.

In the interbank market, the Ghana cedi cumulatively depreciated by 27.8 percent, 31.9 percent and 30.3 percent against the US dollar, the pound sterling and the euro, respectively, in 2023 This compared with cumulative depreciations of 29.9 percent, 21.2 percent and 25.3 percent against the US dollar, the pound sterling and euro, respectively, in 2022 (Table 1.3). 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. For the first 16 transaction days in 2024, the Ghana cedi was less volatile compared to the same period in 2023.

Table 1.3: Interbank Exchange Rates

	US\$/GHC*	Monthly depreciation/a appreciation	Year-to-Date depreciation/a appreciation	GBP/GHC*	Monthly depreciation/a appreciation	Year-to-Date depreciation/a appreciation	Euro/GHC*	Monthly depreciation/a appreciation	Year-to-Date depreciation/a 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	13.6218	-1.8	-24.30	11.9657	-2.1	-23.57
Apr	10.9516	0.6	-21.69	13.7624	-1.0	-25.07	12.0876	-1.0	-24.34
May	10.9715	-0.2	-21.83	13.5888	1.3	-24.12	11.6978	3.3	-21.82
June	10.9972	-0.2	-22.02	13.9879	-2.9	-26.28	12.0073	-2.6	-23.83
July	11.0034	-0.1	-22.06	14.1482	-1.1	-27.12	12.1272	-1.0	-24.59
August	11.0192	-0.1	-22.17	13.9514	1.4	-26.09	11.9473	1.5	-23.45
Sep	11.1285	-1.0	-22.94	13.5935	2.6	-24.14	11.7774	1.4	-22.35
Oct	11.4963	-3.2	-25.40	13.9399	-2.5	-26.03	12.1438	-3.0	-24.69
Nov	11.6206	-1.1	-26.20	14.6821	-5.1	-29.77	12.6756	-4.2	-27.85
Dec	11.8800	-2.2	-27.81	15.1334	-3.0	-31.86	13.1264	-3.4	-30.33

Source: Bank of Ghana staff computations

Table 1.4: Nominal Effective Exchange Rate

Month	2021=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	52.78	-35.60	-36.61	-113.52	-91.36
Nov-22	44.60	50.11	-1.24	-5.34	-116.18	-101.58
Dec-22	68.00	74.88	34.41	33.09	-41.8	-34.9
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
May-23	53.12	58.45	0.07	2.25	-28.00	-28.11
Jun-23	52.89	57.30	-0.43	-2.02	-28.55	-30.69
Jul-23	52.82	56.85	-0.14	-0.78	-28.74	-31.71
Aug-23	52.82	57.46	-0.01	1.06	-28.75	-30.32
Sep-23	52.44	58.22	-0.71	1.30	-29.67	-28.62
Oct-23	50.77	56.37	-3.30	-3.29	-33.94	-32.85
Nov-23	50.07	54.33	-1.39	-3.75	-35.80	-37.83
Dec-23	48.92	52.54	-2.36	-3.41	-39.01	-42.52

Source: Bank of Ghana Staff Calculations

If we consider our major trade partners' currency movements, then the cedi depreciated by 42.5 percent in nominal trade weighted terms and 39.0 percent on forex transaction weighted terms by end-December in 2023 (Table 1.4). This compared with a depreciation of 34.9 percent and 41.8 percent in nominal trade weighted terms and nominal foreign exchange transaction weighted terms, respectively, in December 2022.

Table 1.5: Real Bilateral Exchange Rate

Month	RER Index (Jan.2021=100)			MONTHLY CHANGE (Index)			Year-to-Date (%)		
	EUR	GBP	USD	EUR	GBP	USD	EUR	GBP	USD
2022									
Jan-22	112.00	105.30	101.34	2.7	2.5	1.2	2.7	2.5	1.2
Feb-22	103.79	97.82	93.92	-7.9	-7.6	-7.9	-5.0	-4.9	-6.6
Mar-22	99.18	95.35	89.58	-4.7	-2.6	-4.8	-9.9	-7.6	-11.8
Apr-22	108.84	102.25	93.72	8.9	6.7	4.4	-0.1	-0.4	-6.9
May-22	109.84	104.97	96.04	0.9	2.6	2.4	0.8	2.2	-4.3
Jun-22	113.52	109.65	96.40	3.2	4.3	0.4	4.0	6.4	-3.9
Jul-22	113.96	106.84	94.46	0.4	-2.6	-2.1	4.4	4.0	-6.0
Aug-22	108.51	104.92	89.05	-5.0	-1.8	-6.1	-0.4	2.2	-12.5
Sep-22	97.41	96.22	78.70	-11.4	-9.0	-13.1	-11.9	-6.6	-27.3
Oct-22	72.21	69.69	59.44	-34.9	-38.1	-32.4	-50.9	-47.3	-68.5
Nov-22	73.97	71.18	64.15	2.4	2.1	7.3	-47.3	-44.2	-56.1
Dec-22	114.46	112.26	102.07	35.4	36.6	37.1	4.8	8.6	1.9
2023									
Jan-23	91.29	89.44	81.79	-25.4	-25.5	-24.8	-25.4	-25.5	-24.8
Feb-23	92.93	90.51	81.24	1.8	1.2	-0.7	-23.2	-24.0	-25.6
Mar-23	88.73	86.44	79.97	-4.7	-4.7	-1.6	-29.0	-29.9	-27.6
Apr-23	89.30	86.33	81.93	0.6	-0.1	2.4	-28.3	-28.5	-24.6
May-23	96.24	90.58	85.45	7.2	4.7	4.1	-18.9	-23.9	-19.4
Jun-23	96.86	91.24	87.72	0.6	0.7	2.6	-18.2	-23.0	-16.4
Jul-23	99.54	93.88	90.62	2.7	2.8	3.2	-15.0	-19.6	-12.6
Aug-23	100.03	94.40	89.89	0.5	0.6	-0.8	-14.4	-18.9	-13.5
Sep-23	103.16	98.44	90.45	3.0	4.1	0.6	-11.0	-14.0	-12.8
Oct-23	100.32	96.19	88.09	-2.8	-2.3	-2.7	-14.1	-16.7	-15.9
Nov-23	98.42	93.25	88.67	-1.9	-3.2	0.6	-16.3	-20.4	-15.1
Dec-23	95.90	91.11	87.82	-2.6	-2.4	-1.0	-19.3	-23.2	-16.2

Source: Bank of Ghana Staff Calculations

In real bilateral terms, the cedi depreciated by 16.2 percent, 23.2 percent and 19.4 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 cedi's real exchange rate appreciated by 1.9 percent, 8.6 percent and 4.8 percent against the dollar, the pound sterling and the euro, respectively. (Table 1.5).

Table 1.6 shows the real effective exchange rate movements of the cedi against the three major currencies (i.e., US dollar, the euro and pound). The cedi depreciated by 19.3 percent and 16.6 percent in real trade weighted terms and real forex transaction weighted terms on a year-to-date basis. These compare with an appreciation of 4.7 percent and 2.3 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 (2021=100)		MONTHLY CHG		Year-to-Date (%)	
	RFXTWI	RTWI	RFXTWI	RTWI	RFXTWI	RTWI
2022						
Jan-22	102.20	109.92	1.32	2.48	1.32	2.48
Feb-22	94.72	101.89	-7.90	-7.89	-6.47	-5.21
Mar-22	90.40	97.50	-4.78	-4.50	-11.57	-9.94
Apr-22	94.98	106.10	4.82	8.11	-6.19	-1.03
May-22	97.21	107.46	2.30	1.26	-3.74	0.25
Jun-22	97.88	110.73	0.68	2.95	-3.03	3.19
Jul-22	96.08	110.51	-1.88	-0.20	-4.97	3.00
Aug-22	90.72	105.37	-5.91	-4.88	-11.17	-1.73
Sep-22	80.34	94.57	-12.92	-11.42	-25.53	-13.35
Oct-22	60.54	70.13	-32.71	-34.84	-66.59	-52.85
Nov-22	65.00	72.33	6.86	3.04	-55.16	-48.21
Dec-22	103.18	112.53	37.00	35.72	2.25	4.74
2023						
Jan-23	82.64	89.80	-24.85	-25.31	-24.85	-25.31
Feb-23	82.26	91.00	-0.46	1.32	-25.43	-23.66
Mar-23	80.74	87.31	-1.88	-4.23	-27.79	-28.88
Apr-23	82.59	88.02	2.24	0.81	-24.92	-27.85
May-23	86.39	94.24	4.39	6.58	-19.43	-19.43
Jun-23	88.46	95.09	2.34	0.92	-16.62	-18.34
Jul-23	91.34	97.80	3.16	2.77	-12.95	-15.06
Aug-23	90.72	98.12	-0.68	0.32	-13.73	-14.69
Sep-23	91.53	100.94	0.88	2.80	-12.73	-11.47
Oct-23	89.14	98.22	-2.68	-2.77	-15.75	-14.56
Nov-23	89.47	96.60	0.37	-1.68	-15.32	-16.49
Dec-23	88.49	94.36	-1.11	-2.37	-16.60	-19.25

Source: Bank of Ghana Staff Calculations

1.5 Global Economic Outlook and Risks

Global economic activity is expected to grow at 3.1 percent, the same as in the previous year. Global headline inflation remains on a downward trajectory, but core inflation is persistent amid tight labour markets, particularly in the advanced economies. The persistence in core inflation is expected to slow the pace of the disinflationary process. Meanwhile, financial conditions are expected to remain tight amid restrictive monetary policy, tighter credit conditions and stricter lending standards.

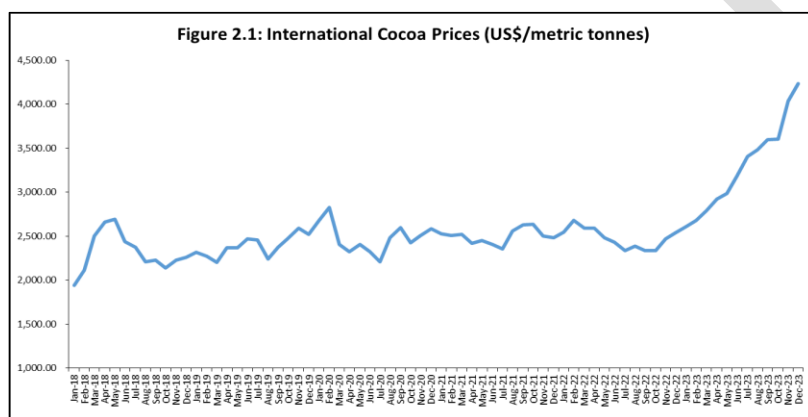
2. External Sector Developments

2.0 Highlights

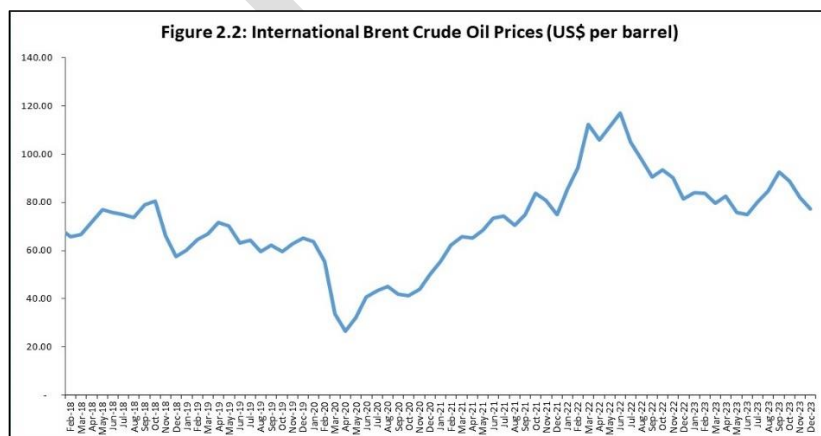
The country's external sector improved further during the year, supported by a current account surplus, reflecting higher gold export receipts, import compression and lower investment income payments. This, together with the domestic gold purchase programme and along with increased voluntary repatriation by the mining sector and the liquidation of some short-term external liabilities, helped boost reserve accumulation.

2.1 Commodity Price Trends

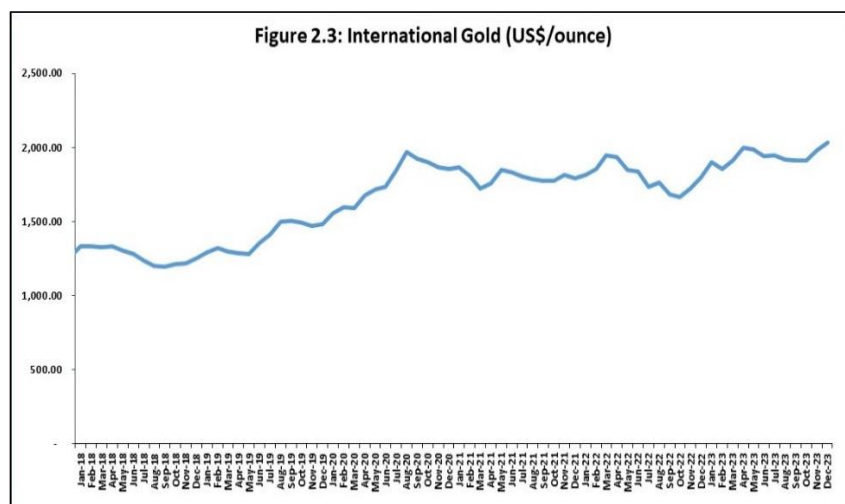
Cocoa extended the price gains by 4.9 percent to reach US\$4,235.6 per tonne in December 2023, underscored by tightening supplies and expectation of a third successive deficit in the current crop season. Compared to a year earlier, cocoa prices have soared by over 66.0 percent, mainly due to bad weather conditions, black pod disease and inadequate fertilizers, which have combined to weaken supply.



Benchmark Brent crude oil prices averaged US\$77.26 per barrel in December 2023, down by 5.8 percent from the previous month. The decrease in prices was on the back of low energy demand in the United States and China amid easing concerns of supply disruptions following tensions in the Red Sea. Relative to December 2022, Brent crude prices dropped by 5.0 percent with reduced volatility throughout the year. The average Brent crude prices for the year under review was US\$82.2 per barrel, compared to US\$98.8 per barrel in 2022, mainly due to concerns over slow global growth.



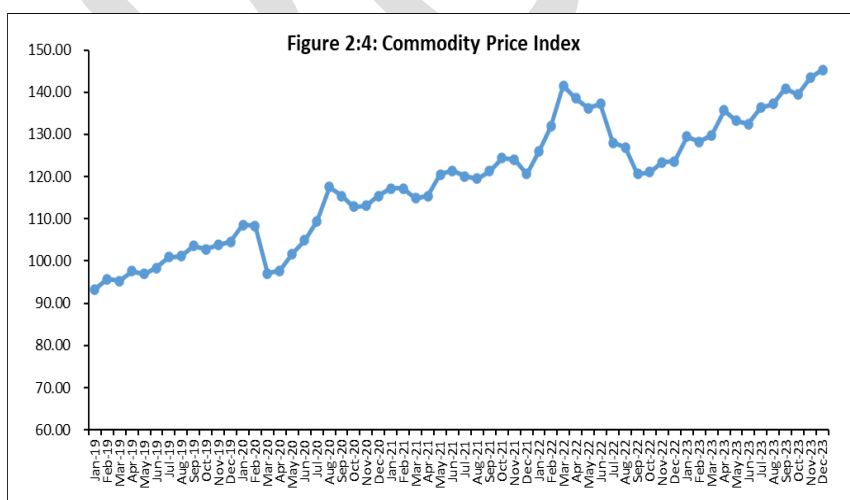
Spot gold gained 2.6 percent to close at an average price of US\$2,035.43 per fine ounce in December 2023. Gold prices were supported by the weak dollar and falling bond yields after U.S. economic data fuelled expectations that the Federal Reserve would cut interest rates in March 2024. In year-on-year terms, gold prices increased by 13.3 percent in 2023, compared to December 2022. For the year, prices of gold averaged US\$1,943.7 per ounce, higher than US\$1,801.4 per fine ounce in 2022, driven by expectations of a pause in interest rate hikes.



Source: Reuters

2.1.1 Commodity Price Index

The weighted average price of the three major export commodities – cocoa, gold, and crude oil – increased in December 2023. The index rose to 144.35 from 143.39, representing a monthly rise of 1.4 percent. This was on the back of rises in the cocoa and gold sub-indices of 4.92 and 2.56 percent, respectively, which were more than enough to offset the fall in the crude oil sub-index of 5.81 percent. Since the beginning of 2023, the index gained 17.56 percent.



Source: BOG Staff Computations

2.2 Trade Balance

In 2023, the trade account recorded a surplus of US\$2.63 billion, compared to the trade surplus of \$2.87 billion in 2022. The improvement in the trade surplus was on account of a higher decline in exports relative to imports. Export earnings fell by 4.9 percent to US\$16.64 billion, driven mainly by crude oil and cocoa products exports. The value of crude oil exports declined by 29.3 percent to US\$3.84 billion, mainly due to lower production volumes and prices. Cocoa exports, both beans and products, also fell by 8.4 percent to US\$2.11 billion, mainly due to lower production volumes. Gold exports, however, increased by 15.0 percent to US\$7.6 billion, driven by higher volumes of gold production (largely from small-scale gold mining companies) and an increase in prices.

The total import bill declined by 4.2 percent to US\$14.01 billion, driven by both non-oil and oil imports. Imports of oil and gas, mainly refined petroleum imports, amounted to US\$4.48 billion, compared to US\$4.63 billion in 2022, a decrease of 3.3 percent. Non-oil imports also dipped by 4.6 percent to US\$9.54 billion. A breakdown of non-oil imports by broad economic classification showed that imports of capital goods and intermediate goods declined, while that of consumption goods increased. Capital goods imports decreased by 16.0 percent to US\$1.74 billion, with intermediate goods falling by 1.5 percent to US\$5.01 billion. Consumption goods, however, increased by 13.2 percent to US\$2.18 billion. Imports of ‘Other’ goods, mainly passenger vehicles, fell by 34.7 percent to US\$590.54 million.

2.3 International Reserves

The stock of Gross International Reserves (GIR) stood at US\$5.91 billion at the end of December 2023, equivalent to 2.7 months of import cover. This compares to the stock position of US\$6.25 billion at the end of December 2022, enough to provide for 2.7 months of import cover. 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.

2.4 Commodity Price Outlook

Cocoa prices are projected to derive support from tight supplies and adverse weather conditions in Cote d’Ivoire, which is threatening the April-to-September mid-crop year. Cocoa prices are forecast to range between US\$4,882 and US\$4,922 per tonne for March 2024.

In the outlook, Brent crude oil will continue to derive support from optimism about growth in China and the United States, following the latest IMF growth forecast. Also, geopolitical tensions in the Middle East and expectations of new voluntary production cuts by OPEC+ might lend further support to prices.

Gold prices are likely to remain firm in the near term on the back of expectations of rate cuts and safe-haven appeal occasioned by escalation of geopolitical tension in the Middle East.

Table 2.1: Trade Balance (US\$ million)

	2021 Jan - Dec	2022 Jan - Dec	2023 Jan - Dec	Abs Y/Y Chg	Rel Y/Y Chg
Trade Balance	1,098.9	2,873.1	2,632.9	-240.3	-8.4
<i>Trade Bal (% GDP)</i>	1.4	3.9	3.4		
Total Exports	14,727.5	17,494.4	16,643.3	-851.0	-4.9
Gold (\$'M)	5,083.1	6,608.4	7,600.8	992.4	15.0
Volume (fine ounces)	2,820,094.3	3,778,128.5	4,123,865.3	345,736.8	9.2
Unit Price (\$/fine ounce)	1,802.5	1,749.1	1,843.1	94.0	5.4
Cocoa Beans (\$'M)	1,767.9	1,329.1	1,314.2	-14.9	-1.1
Volume (tonnes)	704,177.5	537,849.2	533,056.3	-4,792.8	-0.9
Unit Price (\$/tonne)	2,510.5	2,471.2	2,465.5	-5.7	-0.2
Cocoa Products (\$'M)	1,070.7	970.6	792.4	-178.2	-18.4
Volume (tonnes)	320,787.9	316,034.4	240,896.4	-75,138.1	-23.8
Unit Price (\$/tonne)	3,337.7	3,071.0	3,289.4	218.3	7.1
Crude Oil (\$'M)	3,947.7	5,428.6	3,837.3	-1,591.3	-29.3
Volume (barrels)	55,415,848.0	54,184,879.0	46,922,278.0	-7,262,601.0	-13.4
Unit Price (\$/bbl)	71.2	100.2	81.8	-18.4	-18.4
Other Exports	2,858.1	3,157.6	3,098.5	-59.1	-1.9
<i>o/w: Non-Traditional Exports</i>	2,291.0	2,429.7	2,384.1	-45.7	-1.9
Total Import	13,628.5	14,621.2	14,010.5	-610.8	-4.2
Non-Oil	10,909.4	9,994.6	9,535.2	-459.4	-4.6
Oil and Gas	2,719.2	4,626.6	4,475.3	-151.3	-3.3
<i>of which: Products</i>	2,499.4	4,444.5	3,948.0	-496.5	-11.2
Gas (\$'M)	134.7	158.3	232.8	74.5	47.1

Source: Bank of Ghana

3. Real Sector Developments

3.0 Highlights

The latest high frequency indicators pointed to a significant pick-up in economic activity in November 2023 compared to a year ago. Domestic VAT collections, industrial consumption of electricity, port activity and passenger arrivals improved. Cement sales and vehicle registration, however, contracted in the review period.

3.1 Economic Growth

The latest Ghana Statistical Service data showed an expansion in overall real GDP by an annual rate of 2.0 percent in the third quarter of 2023, driven by the services and agriculture sectors, compared with 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.

3.2 Trends in Real Sector Indicators

Consumer Spending

Consumer spending, proxied by domestic VAT collections and retail sales, posted a strong performance in November 2023, compared with the corresponding period in 2022. Domestic VAT collections increased significantly by 128.9 percent on a year-on-year basis to GH¢1,978.81 million, from GH¢864.65 million. Cumulatively, total domestic VAT for the first eleven months of 2023 went up by 66.6 percent to GH¢12,831.89 million, compared with GH¢7,703.91 million for the corresponding period of last year.

Retail sales increased by 2.4 percent (year-on-year) to GH¢193.12 million in November 2023, up from the GH¢188.60 million recorded in the same period in 2022. Cumulatively, retail sales for the first eleven months of 2023 went up by 30.4 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 November 2023.

Total Direct Taxes collected increased markedly by 135.3 percent (year-on-year) to GH¢5,880.29 million in November 2023, relative to GH¢2,498.86 million recorded in a similar period in 2022. Cumulatively, total Direct Taxes collected for the first eleven months of 2023 went up by 60.6 percent to GH¢44,432.34 million, from GH¢27,668.96 million for the same period in 2022. In terms of contributions of the various sub-tax categories, corporate tax accounted for 66.0 percent, Income tax (PAYE and self-employed) accounted for 27.8 percent, while "Other Tax Sources" contributed 6.2 percent.

Total private sector workers' contribution to the SSNIT Pension Scheme (Tier-1) increased by 12.7 percent in year-on-year terms to GH¢334.18 million in November 2023, from GH¢296.49 million collected during the corresponding period in 2022. Cumulatively, for the first eleven months of 2023, the contribution grew by 26.5 percent to GH¢3,649.19 million, relative to GH¢2,885.27 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 13.2 percent (year-on-year) in November 2023 to 231,571.37 tonnes, down from 266,695.03 tonnes recorded a year ago. On a month-on-month basis, total cement sales, however, improved by 22.8 percent in November 2023, compared with the 188,589.56 tonnes recorded in October 2023. Cement sales for the first eleven months of 2023 went down by 25.1 percent to 2,358,386.77 tonnes, from 3,150,687.94 tonnes for the same period of 2022.

Vehicle Registration

Transport sector activities, gauged by new vehicle registrations by the Driver and Vehicle Licensing Authority (DVLA), declined by 14.8 percent to 7,268 in November 2023, from 8,533 vehicles registered during the corresponding period of 2022. Cumulatively, vehicles registered by the DVLA within the first eleven months of 2023 decreased by 35.7 percent to 135,544, from 210,755 recorded a year ago.

Industrial Consumption of Electricity

Industrial consumption of electricity increased by 26.9 percent in November 2023 to 343.90 gigawatts, as against 270.90 gigawatts recorded for the corresponding period in 2022. In cumulative terms, electricity consumed by industries for the first eleven months of 2023 increased by 23.1 percent to 3,690.47 gigawatts, from 2,996.90 gigawatts for the corresponding period a year ago.

Passenger Arrivals

Passenger arrivals improved by 25.5 percent in year-on-year terms to 104,157 in November 2023, up from 82,977 arrivals recorded a year ago. Compared to October 2023, passenger arrivals increased by 4.3 percent. Cumulatively, for the first eleven months of 2023, there were 1,019,841 arrivals recorded at the international airport and the land borders, compared with 810,611 arrivals for the corresponding period in 2022, representing a growth of 25.8 percent.

Ports and Harbours Activity

International trade at the two main harbours (Tema and Takoradi), as determined by laden container traffic for inbound and outbound containers, improved during the period under review. Total container traffic increased by 28.8 percent, year-on-year, to 57,738 in November 2023, up from 44,843 in November 2022. In cumulative terms, however, total container traffic for the first eleven months of 2023 dipped by 3.3 percent to 570,711, compared with 590,297 for the corresponding period of last year.

Labour Market - Advertised Jobs

The number of jobs advertised in selected print¹ and online² media, which partially gauges labour demand in the economy, decreased in December 2023 relative to a year ago. In total, 2,925 job adverts were recorded, as compared with 3,277 for the same period in 2022, indicating a decline of 10.7 percent (year-on-year). On a month-on-month basis, the number of job vacancies in December 2023 improved by 11.9 percent, from the 2,615 jobs advertised in November 2023. Cumulatively for 2023, the total number of advertised jobs went up marginally by 3.2 percent to 33,629, from 32,651 recorded 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, improved by 3.7 percent to 954,458 in November 2023, compared with 920,070 for the same period in 2022. On a month-on-month basis, total number of private-sector SSNIT contributors remained largely unchanged from 958,522 individuals recorded in October 2023. Cumulatively, for the first eleven months of 2023, the total number of private sector contributors increased by 3.0 percent to 10,670,828, from 10,360,170 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) rebounded strongly with an annual growth of 9.6 percent in November 2023, from a contraction of 6.2 percent in the corresponding period of 2022. The main indicators that contributed to the improvement in the CIEA over the period were domestic VAT, industrial consumption of electricity, imports, port activity, passenger arrivals and exports.

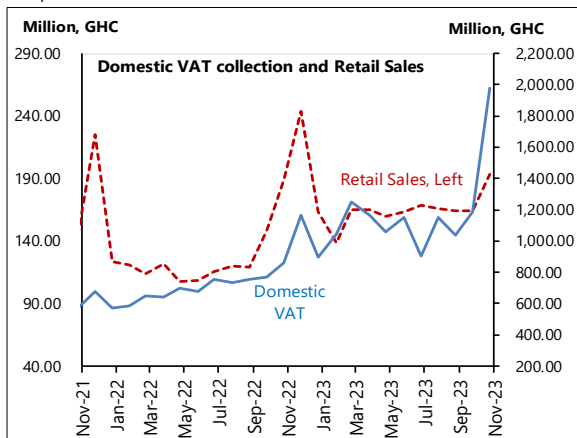
3.4 Consumer and Business Surveys

The latest confidence surveys conducted in December 2023 showed a strong rebound in both consumer and business sentiments, reflective of recovery. The Consumer Confidence Index improved to 93.0 in December 2023 from 86.3 in October 2023, on account of easing inflationary pressures, which led to optimism about future economic conditions. Similarly, the Business Confidence Index increased significantly to 90.9 from 80.7 in the same comparative period, 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.

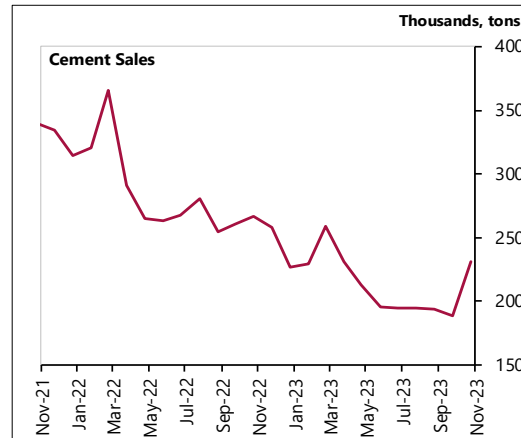
High Frequency Economic Indicators

Panel 1: Ghana's Leading Indicators of Economic Activity

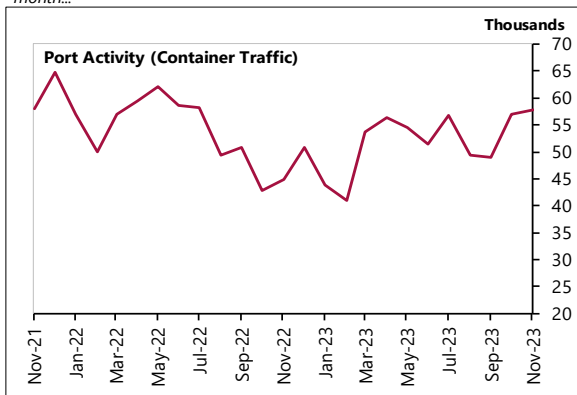
...Domestic VAT collections and retail sales improved in November 2023 compared to October 2023...



...Construction activities, proxied by cement sales, increased in November 2023 compared to October 2023...



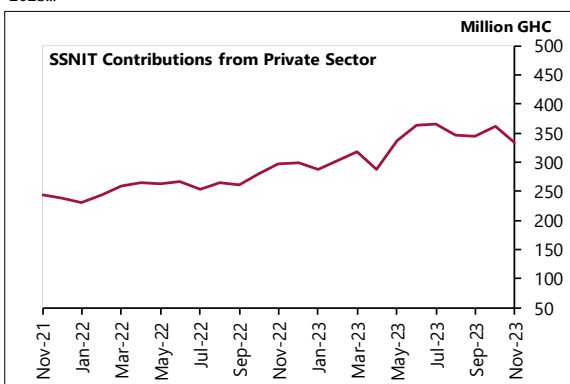
...Port activity went up in November 2023 compared to the previous month...



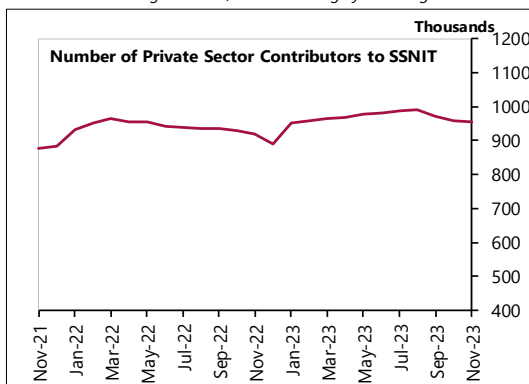
...Passenger arrivals increased in November 2023 compared to October 2023...



...Labour market conditions softened in November 2023 relative to October 2023...



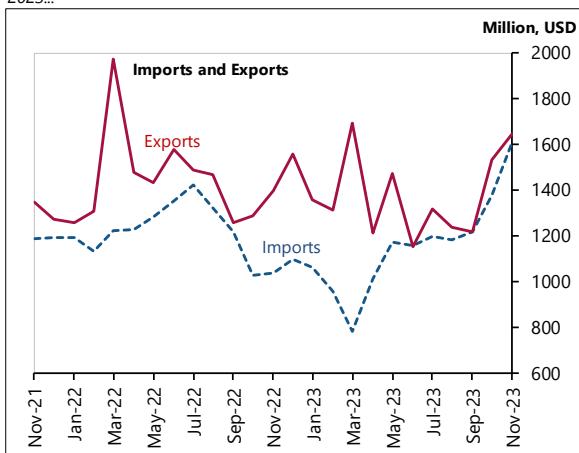
...Labour hiring conditions, proxied by the number of private sector workers contributing to SSNIT, remained largely unchanged...



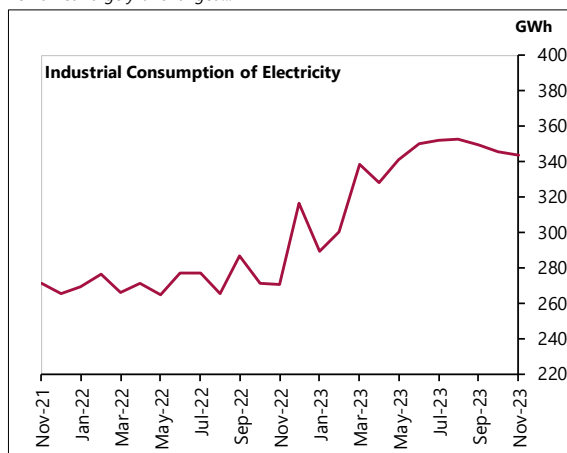
Sources: Bank of Ghana, Various Stakeholders

Panel 2: Ghana's Leading Indicators of Economic Activity

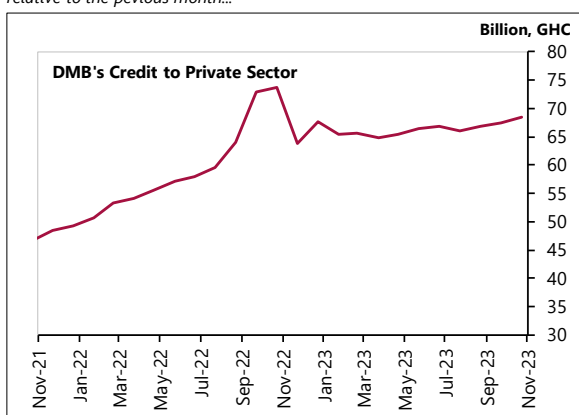
...Imports and exports improved in November 2023 compared to October 2023...



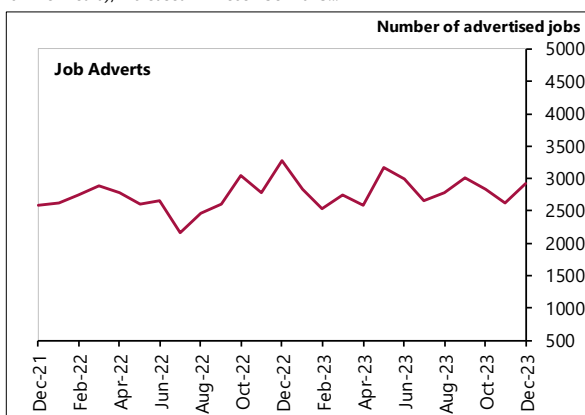
...Industrial activity, proxied by industrial consumption of electricity, remained largely unchanged...



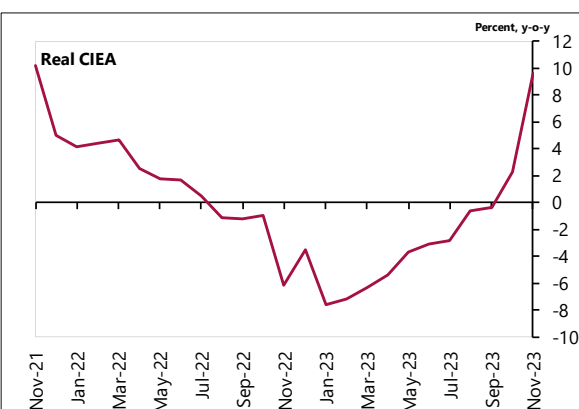
...Commercial banks' credit to the private sector improved in November 2023 relative to the previous month...



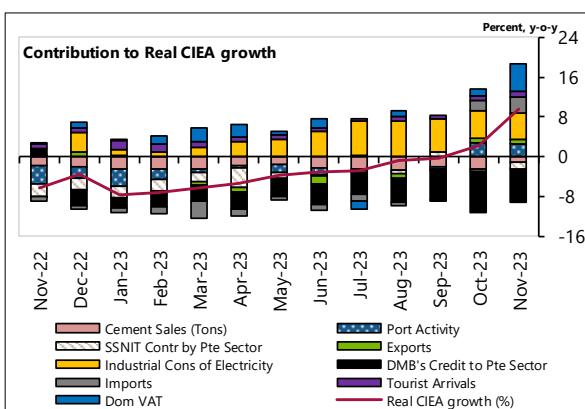
...Demand for labour, proxied by the number of job adverts (in print and online media), increased in December 2023...



...On a year-on-year basis, the real CIEA grew by 9.6 percent in November 2023, compared with a contraction of 6.2 percent in November 2022...



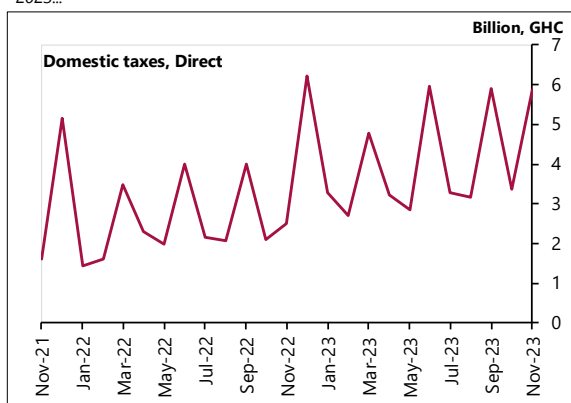
...The growth in the real CIEA was mainly driven by a pick-up in Domestic VAT, Industrial Consumption of Electricity, Imports, Port Activity, Passenger Arrivals and Exports...



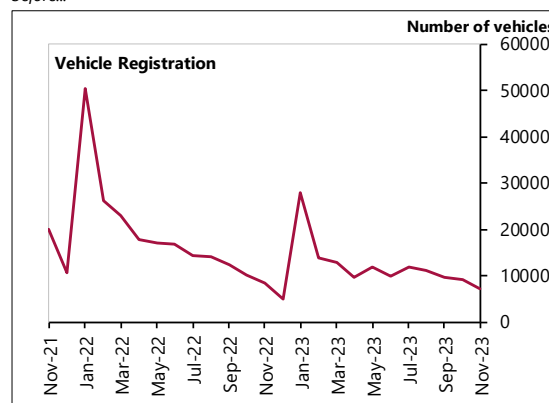
Source: Bank of Ghana, Various Stakeholders

Panel 3: Ghana's Leading Indicators of Economic Activity

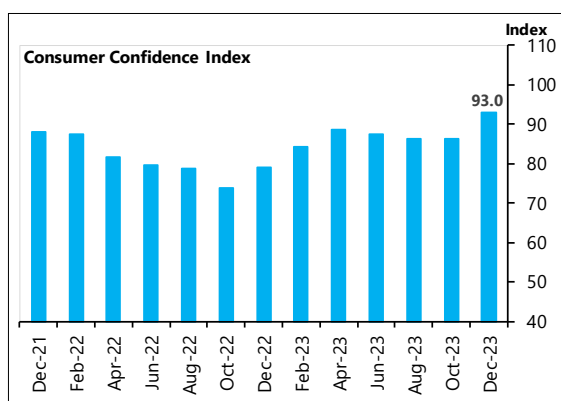
...Domestic tax collection increased in November 2023 compared to October 2023...



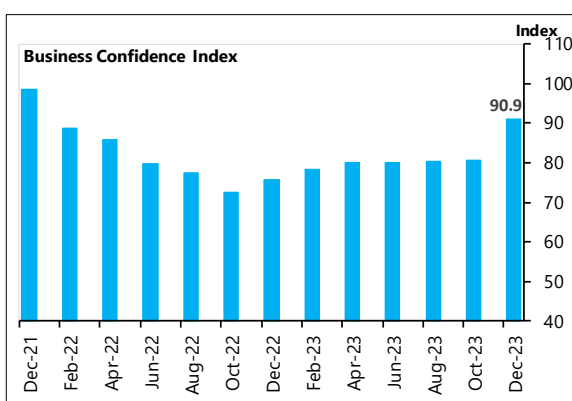
...Vehicle registration decreased in November 2023 compared to the month before...



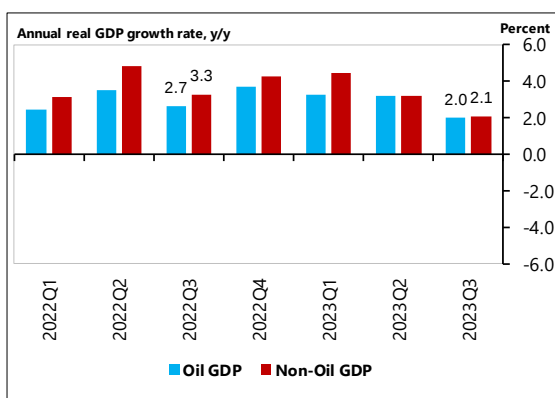
...Consumer confidence improved on account of easing inflationary pressures which led to optimism about future economic conditions...



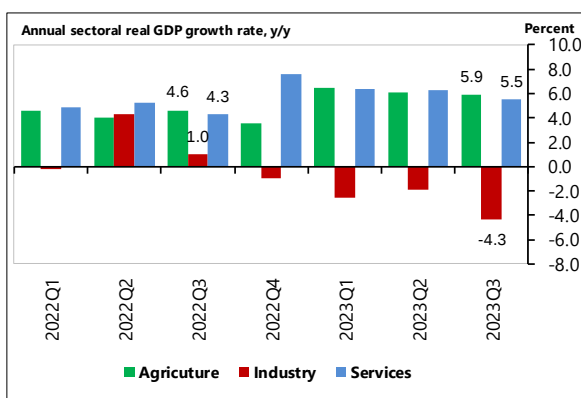
...Business confidence increased significantly, signalling improving consumer demand, as firms met short-term targets and expressed positive sentiments about company and industry prospects...



...Real Oil and Non-Oil GDP grew by 2.0 percent and 2.1 percent respectively in 2023Q3, compared with growth rates of 2.7 percent and 3.3 percent respectively in the corresponding period of 2022...



...The Agriculture and Services sectors were the drivers of growth in 2023Q3, recording growth rates of 5.9 percent and 5.5 percent respectively...



Source: Bank of Ghana, Various Stakeholders

4. Monetary and Financial Developments

4.0 Highlights

Growth in monetary aggregates increased in the month of December 2023, largely on the back of base drift effects, reversing the downward trend observed over the preceding six months. Developments in interest rates on the money market broadly showed mixed trends at the short end of the yield curve. Interest rates at the longer-dated segment of the market, however, remained broadly stable, reflecting the non-issuance of pre-Domestic Debt Exchange Programme (DDEP) bonds during the comparative periods. The GSE-CI recorded significant year-on-year gain in December 2023 compared to a loss over the same period last year. The performance of GSE-CI showed a shift in the demand for equities, reflecting the adverse shocks to bond prices induced by the DDEP. Investor appetite for stocks was also reinforced by the relative stability in the exchange rate.

4.1 Developments in Monetary Aggregates

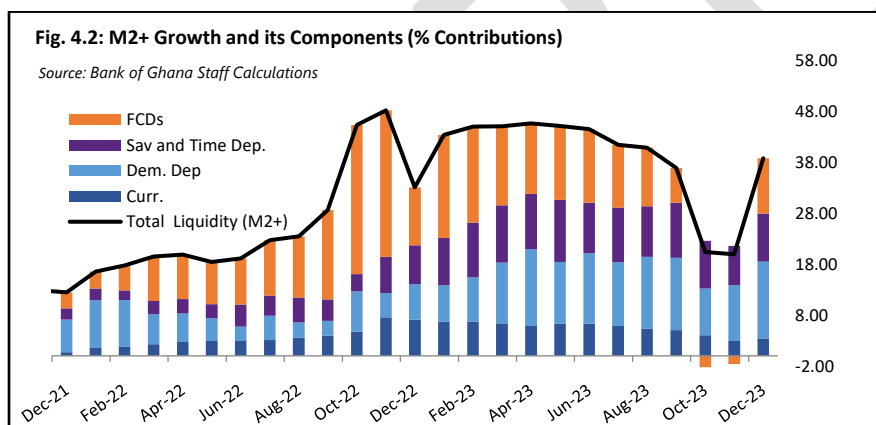
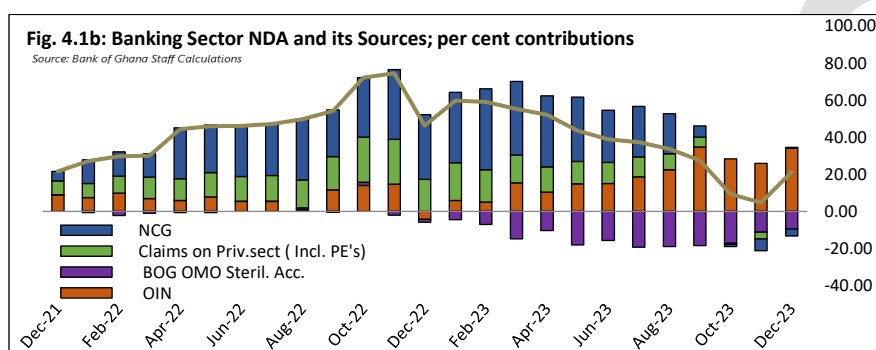
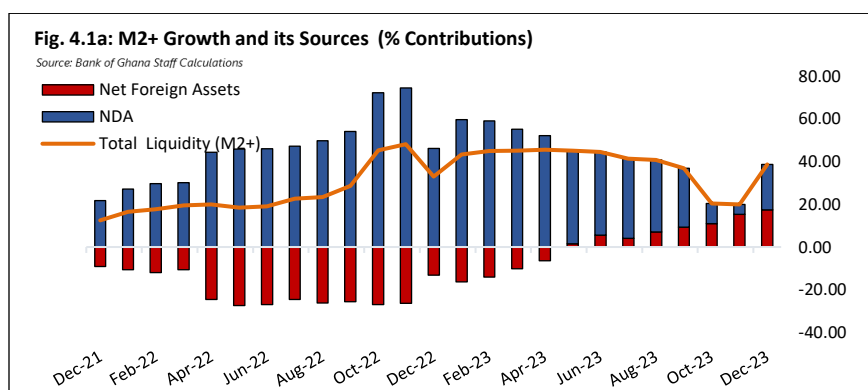
Money Supply

Developments in monetary aggregates for December 2023 showed a significant year-on-year growth in M2+ relative to the corresponding period of 2022, driven by expansion in the Net Domestic Assets (NDA) and the Net Foreign Assets (NFA) of depository corporations, underpinned by the sharp appreciation in exchange rate recorded in December 2022, which induced a base drift effect. Annual growth in M2+ increased to 38.7 percent in December 2023, relative to 33.0 percent in the corresponding period of 2022. The contribution of NDA to the growth of M2+ decreased to 21.3 percent from 46.2 percent, while that of NFA increased to 17.4 percent from negative 13.2 percent, over the same comparative period.

In terms of annual growth rates, NDA expanded by 20.1 percent in December 2023, relative to 48.9 percent in December 2022, while the NFA expanded by 303.8 percent, relative to negative 237.0 percent over the same comparative period (Fig. 4.1a and Appendix Table 4.1).

The decrease in the contribution of the NDA in the growth of M2+ was mainly driven by increased OMO sterilisation, reflecting the tight monetary policy stance of the Central Bank. In addition, the Net Claims on Government (NCG) contracted marginally during the comparative period to depress the contribution of NDA in M2+ growth (Fig. 4.1b, and Appendix Table 4.1).

Analysis of the components of M2+ showed that the increase in the growth in M2+ largely reflected in increased growth in demand deposits and savings and time deposits in December 2023, relative to same period in 2022. Growth in foreign currency deposits, and currency in circulation, however, declined over the same comparative period (Fig. 4.2).

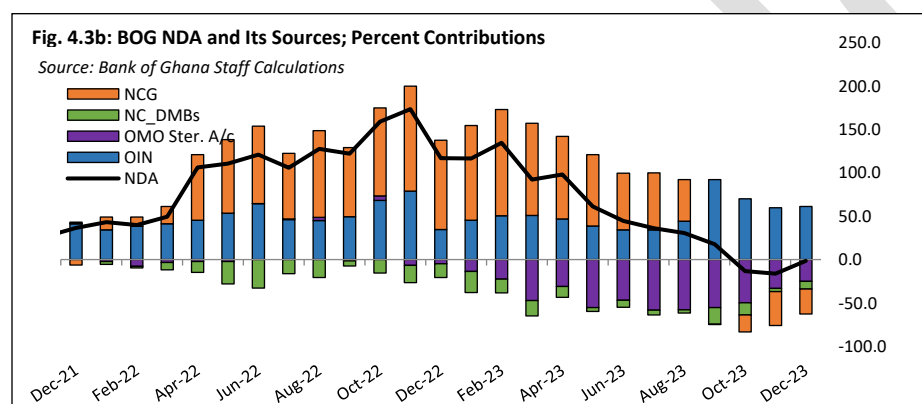
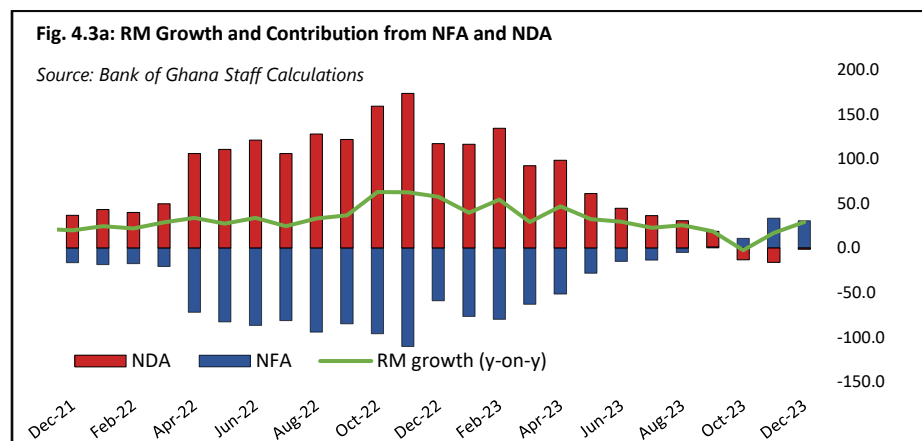


4.2 Reserve Money

Annual growth in Reserve Money (RM) declined considerably to 29.2 percent in December 2023, from 57.5 percent recorded in the corresponding period of 2022. The significant decline in the growth in reserve money was on the back of full implementation of the zero financing of the budget MOU, the DDEP effect, and sustained sterilisation of structural excess liquidity. The slowdown in the pace of growth in RM was also reinforced by a net build-up in foreign currency deposits of Deposit Money Banks (DMBs) held with Bank of Ghana, inducing a contraction in the net claims on DMBs. The contribution of NDA to the growth in RM was negative 1.4 percent, compared to positive 117.0 percent over the same comparative period.

In contrast, the NFA of the Bank of Ghana expanded, reflecting a net build-up in the foreign assets, largely driven by inflows from Gold for Reserve Programme, forex purchases, and disbursement from the IMF's Extended Credit Facility. The contribution of NFA to the growth in RM was 30.6 percent in December

2023, relative to negative 59.5 percent recorded in the corresponding period of 2022 (Fig. 4.3a, 4.3b, and Appendix 4.2).

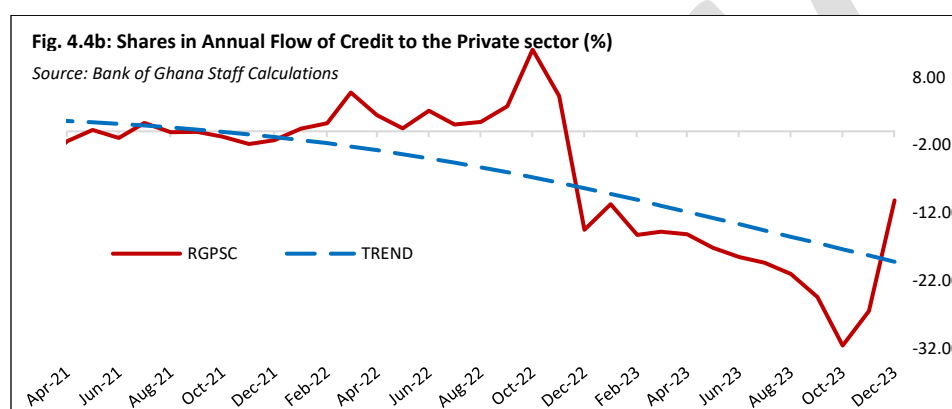
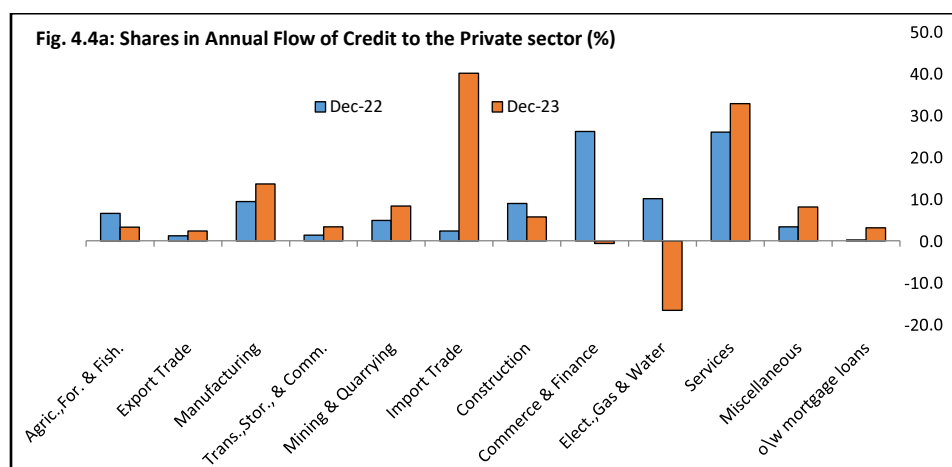


4.3 Deposit Money Banks Credit Developments

Deposit Money Banks' (DMBs') Credit Developments

DMBs' credit to the private sector and public institutions increased by GH¢7,009.45 million (10.0%) in December 2023, compared to GH¢16,232.90 million (30.2%) recorded in December 2022. Credit to the private sector increased by GH¢6,805.87 million (10.7%) in December 2023, compared to GH¢15,367.88 million (31.8%) recorded in the corresponding period of 2022. The slower growth in nominal credit to the private sector partially reflected banks' increased perception of risks associated with lending following the challenging macroeconomic conditions and the impact of the DDEP. Private sector credit accounted for 97.1 percent of the increase in total outstanding credit in December 2023, relative to 94.7 percent recorded in the corresponding period of 2022. The top five sectors that received significant private sector credit were import trade, services, manufacturing, mining and quarrying, and construction (Fig. 4.4a).

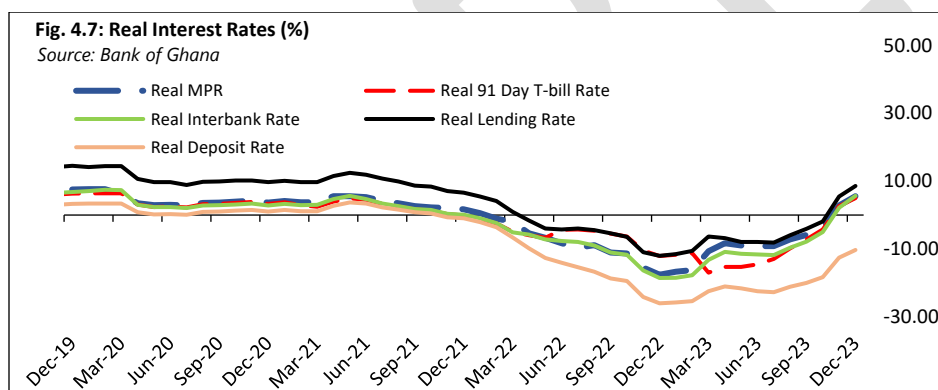
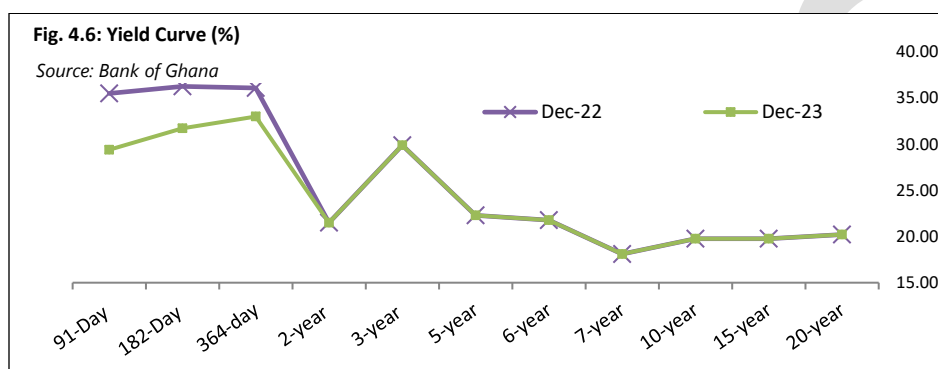
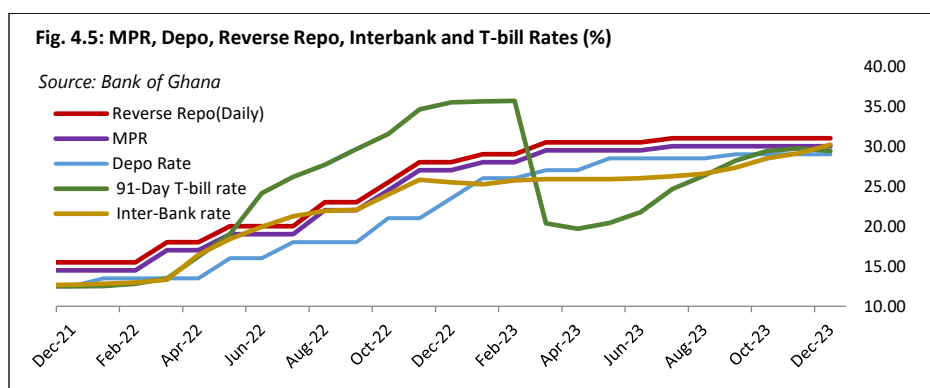
Outstanding credit to the private sector at the end of December 2023 was GH¢70,559.32 million, compared with GH¢63,753.45 million recorded in December 2022. In real terms, credit to the private sector contracted by 10.2 percent, relative to a 14.5 percent contraction recorded over the same comparative period. The marginal improvement in growth in real private sector credit in December 2023 was supported by the disinflation process; growth in real private sector credit moved above the long-run path in the review month (Fig. 4.4b).



4.4 Money Market Developments

Developments in interest rates broadly showed downward trends at the short end of the yield curve. Interest rates at the longer-dated segment of the market, however, remained stable. The 91-day and 182-day Treasury bill rates decreased to 29.39 percent and 31.70 percent, respectively, in December 2023, from 35.48 percent and 36.23 percent 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.

The Interbank Weighted Average Rate (IWAR) increased to 30.19 percent in December 2023, from 25.51 percent in December 2022, in alignment with the Monetary Policy Rate, and supported by the unified cash reserve requirement. The average lending rates of banks decreased marginally to 33.75 percent in December 2023, from 35.58 percent recorded in the corresponding period of 2022, largely reflecting the pass-through effects of relatively lower Treasury bill rates over the same comparative period. (Fig.4.5, 4.6 and 4.7).



4.5 Stock Market Developments

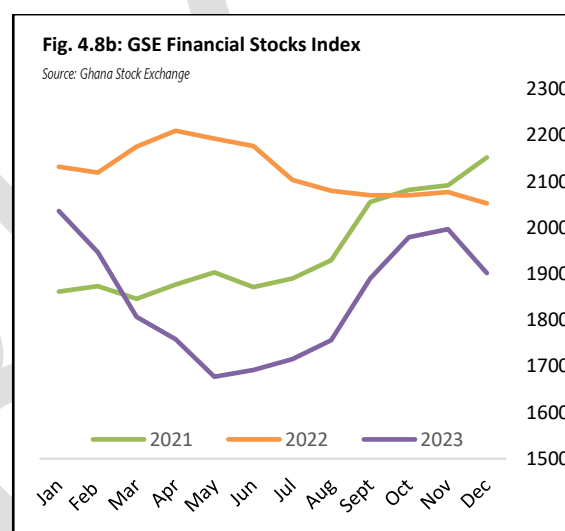
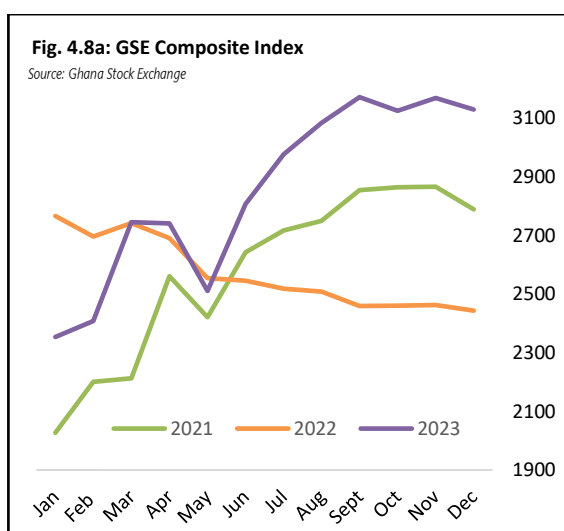
The Ghana Stock Exchange Composite Index (GSE-CI) increased to 3,130.23 points in December 2023 from 2,443.91 points recorded in the corresponding period of 2022. This translated into a year-on-year gain of 28.1 percent in December 2023, compared to a loss of 12.4 percent in December 2022. The improved performance of GSE-CI reflects a shift in the demand for equities during the review year, following the DDEP-induced adverse shocks to bond prices. Investor appetite for stocks was also reinforced by the relative stability in the exchange rate in 2023. The main sectors that contributed to the gain recorded by the GSE-CI were food and beverages, manufacturing, distribution, and agriculture (Fig. 4.8a).

The GSE-Financial Stocks Index (GSE-FSI) closed at 1901.57 points, reflecting a loss of 7.4 percent compared to a loss of 4.6 percent over the same comparative period. The loss in GSE-FSI was mainly on the back of increased perception of risk in the financial sector, induced by the impact of the DDEP on

banks' balance sheets. The financial index recorded significant losses in the first half of 2023 but recovered partially in the second half of the year on the back improved profitability of financial institutions. (Fig. 4.8b).

Table 4.1: Performance of Ghana Stock Exchange															
											Changes Y-O-Y (%)		Y-T-D (%)	M-o-M (%) (December)	
	Dec-21	Dec-22	Jan-23	Mar-23	Jun-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	2022	2023	2023	2022	2023
GSE-CI	2,789.34	2,443.91	2,354.02	2,745.33	2,808.03	3,084.79	3,172.35	3,125.62	3,169.90	3,130.24	-12.38	28.08	28.08	-0.79	-1.25
GSE-FI	2,151.85	2,052.59	2,036.05	1,806.67	1,691.91	1,756.12	1,890.13	1,979.43	1,996.95	1,901.58	-4.61	-7.36	-7.36	-1.17	-4.78
Market Capitalization	64,495.21	64,507.32	63,706.71	67,846.89	70,238.82	73,250.18	74,189.35	73,736.96	74,234.27	73,893.17	0.02	14.55	14.55	0.48	-0.46

Source: Ghana Stock Exchange and Bank of Ghana Staff Calculations



Total market capitalisation of the GSE at the end of December 2023 was GH¢73.89 billion, representing 14.6 percent annual growth, compared with 0.02 percent growth in December 2022. The increase in market capitalisation was mainly driven by appreciation in share prices in the food and beverages, manufacturing, distribution, mining, IT, and the agriculture sectors (Table 4.1, Fig. 4.8a, 4.8b).

Conclusion

Developments in monetary aggregates for December 2023 showed a significant increase in the annual growth in M2+ relative to the corresponding period of 2022. This was driven by expansion in the Net Domestic Assets (NDA) and the Net Foreign Assets (NFA) of depository corporations, underpinned by the sharp appreciation in exchange rate recorded in December 2022, which induced a base drift effect. Nominal growth in private sector credit broadly decelerated in 2023, partially reflecting increased banks' perception of risk associated with lending, following the deterioration in macroeconomic conditions and the impact of the DDEP. Similarly, in real terms, private sector credit contracted, largely on account of price pressures and the sluggish growth in nominal credit during the review year.

Developments in interest rates broadly showed mixed trends at the short end of the yield curve. Interest rates at the longer-dated segment of the market, however, remained broadly stable. The weighted average interbank rate increased significantly, underpinned by the tight monetary policy stance, and sustained

liquidity withdrawal from the market over the comparative period. The Ghana Stock Exchange (GSE) Composite Index recorded a significant gain on year-on-year basis. The performance of GSE-CI showed an upward shift in the demand for equities in the face of shocks to bond prices induced by the DDEP.

Appendix Table 4.1

Appendix 1: Sources of Growth in Total Liquidity (M2+) (millions of Ghana cedis unless otherwise stated)										
	Dec-21	Dec-22	Jan-23	Mar-23	Jun-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
1 Net Foreign Assets	10302.96	(10321.15)	(15952.95)	(12006.65)	649.68	(3262.56)	(1699.17)	1043.65	5245.45	21038.44
Bank of Ghana	11018.62	(17487.62)	(25207.86)	(23944.90)	(13750.27)	(16909.37)	(16263.13)	(14153.57)	(9723.05)	3348.61
Commercial Banks	(715.67)	7166.46	9254.91	11938.25	14399.95	13646.81	14563.96	15197.22	14968.50	17689.83
2 Net Domestic Assets	125295.07	190587.99	212946.62	218993.06	208970.93	217857.65	220861.34	224795.30	228601.93	228981.08
ow: Claims on government (net)	75314.27	122554.34	135407.44	144230.49	137161.10	144411.94	118393.21	118698.08	121210.39	115681.46
ow: Claims on Private sector(Incl. PE's)	60279.46	85078.76	89529.67	88275.49	87839.24	87747.26	88145.55	88835.75	83516.04	86240.96
BOG OMO Sterilisation Acc.	(5654.59)	(7725.48)	(12960.91)	(27440.77)	(27273.48)	(34729.01)	(36582.70)	(37864.75)	(32427.89)	(24795.37)
5 Total Liquidity (M2+)	135598.03	180266.84	196993.67	206986.41	209620.61	214595.09	219162.17	225838.95	233847.38	250019.53
ow: Broad Money Supply (M2)	105779.55	135142.49	139966.12	148131.00	150070.56	154965.77	158647.67	164098.14	170445.63	185426.12
ow: Foreign Currency Deposits(€million)	29818.48	45124.35	57027.55	58855.41	59550.05	59629.32	60514.50	61740.81	63401.75	64593.40
Change from previous year (in per cent)										
8 Net Foreign Assets	(44.61)	(237.04)	(344.39)	(597.01)	(108.70)	(76.67)	(89.80)	(105.34)	(121.46)	(303.84)
9 Net Domestic Assets	22.93	48.87	62.62	56.07	36.92	30.89	24.91	8.50	4.18	20.14
ow: Claims on government (net)	9.21	62.72	62.73	64.29	42.22	29.51	8.67	(2.04)	(9.35)	(5.61)
ow: Claims on Private sector(Incl. PE's)	13.86	37.70	45.48	32.13	23.12	17.62	10.95	(1.12)	(7.71)	1.37
ow: BOG OMO Sterilisation Acc.	2.34	(36.62)	(91.19)	(336.31)	(495.08)	(494.43)	(427.10)	(564.32)	(207.72)	(220.96)
12 Total Liquidity (M2+)	12.51	32.98	43.29	45.02	44.41	40.76	36.84	20.35	19.93	38.69
13 Broad Money Supply (M2)	11.95	27.81	29.32	39.68	40.93	40.58	43.43	34.74	32.66	37.21
14 Foreign Currency Deposits (FCDs)	14.55	51.33	95.01	60.46	54.00	41.23	22.14	(6.27)	(4.65)	43.15
Cumulative change from previous year end (in per cent)										
15 Net Foreign Assets	(59.51)	(237.04)	54.57	16.33	(106.29)	(68.39)	(83.54)	(110.11)	(150.82)	(303.84)
16 Net Domestic Assets	25.61	48.87	11.73	14.90	9.65	14.31	15.88	17.95	19.95	20.14
17 ow: Claims on government (net)	9.21	62.72	10.49	17.69	11.92	17.84	(3.40)	(3.15)	(1.10)	(5.61)
18 Broad Money(M2+)	12.47	32.98	9.28	14.82	16.28	19.04	21.58	25.28	29.72	38.69
Annual per cent contribution to money growth										
19 Net Foreign Assets	(6.88)	(13.17)	(16.35)	(10.10)	5.59	7.03	9.34	10.96	15.23	17.40
20 NDA	19.39	46.15	59.65	55.13	38.82	33.72	27.50	9.38	4.71	21.30
21 Total Liquidity (M2+)	12.51	32.98	43.29	45.02	44.41	40.76	36.84	20.35	19.93	38.69
Memorandum items										
22 Reserve Money	43244.90	68103.84	62752.24	57840.77	62343.44	62730.87	63496.22	63065.75	76709.79	87987.66
23 NFA (\$million)	1715.42	(1203.49)	(1477.14)	(1090.16)	59.08	(296.08)	(152.69)	90.78	451.39	1770.91
24 Currency ratio	0.19	0.21	0.19	0.18	0.18	0.17	0.17	0.17	0.18	0.18
25 FCD/M2+	0.22	0.25	0.29	0.28	0.28	0.28	0.28	0.27	0.27	0.26
26 FCD/Total Deposit	0.26	0.30	0.34	0.33	0.33	0.33	0.32	0.32	0.32	0.30
27 RM multiplier	2.44	1.98	2.23	2.56	2.41	2.47	2.50	2.60	2.22	2.11

Appendix Table 4.2

Appendix 2: Sources of Growth in Reserve Money (millions of Ghana cedis unless otherwise stated)										
	Dec-21	Dec-22	Jan-23	Mar-23	Jun-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23
1 Net Foreign Assets (NFA)	11018.62	(17487.62)	(25207.86)	(23944.90)	(13750.27)	(16909.37)	(16263.13)	(14153.57)	(9723.05)	3348.61
2 Net Domestic Assets (NDA)	32281.40	85591.45	87960.10	81785.67	76093.71	79640.24	79759.35	77219.31	86432.85	84639.05
ow: Claims on government (net)	29389.54	73910.16	85302.40	87171.91	82951.81	87652.68	62372.76	61494.78	61161.08	54356.08
Claims on DMB's (net)	2725.48	(4057.39)	(10536.47)	(9875.29)	(8502.16)	(9085.23)	(11639.68)	(14904.92)	(9535.66)	(10168.09)
OMO Sterilisation Account.	(5654.59)	(7725.48)	(12960.91)	(27440.77)	(27273.48)	(34729.01)	(36582.70)	(37864.75)	(32427.89)	(24795.37)
6 Reserve Money (RM)	43300.02	68103.84	62752.24	57840.77	62343.44	62730.87	63496.22	63065.75	76709.79	87987.66
ow: Currency	21816.17	31420.65	31010.97	31194.57	31238.50	31284.13	31834.02	33301.24	35213.78	37621.03
DMB's reserves	17235.93	31727.84	26518.91	21355.42	25888.23	25767.98	26051.92	23829.06	35906.88	37738.11
Non-Bank deposits	4247.91	4955.35	5222.35	5290.78	5216.71	5678.76	5610.28	5935.45	5589.13	12628.52
Change from previous year (in per cent)										
10 Net Foreign Assets	(22.65)	(312.05)	(369.63)	(633.79)	114.78	17.63	(3.60)	(32.92)	(69.12)	(119.15)
11 Net Domestic Assets	47.83	144.56	146.98	102.54	39.26	23.76	13.33	(10.04)	(10.99)	(1.11)
ow: Claims on government (net)	(7.38)	151.48	135.28	120.71	61.27	37.75	(0.08)	(17.01)	(29.46)	(26.46)
Claims on DMB's (net)	(17.48)	243.91	2627.61	(420.80)	(81.71)	(27.30)	(678.84)	(162.43)	(33.47)	(150.61)
OMO Sterilisation Account.	2.34	(36.62)	(91.19)	(336.31)	(495.08)	(494.43)	(427.10)	(564.32)	(207.72)	(220.96)
15 Reserve Money (RM)	20.00	57.48	39.56	28.92	29.24	25.52	18.68	(2.58)	16.91	29.20
ow: Currency	4.44	44.30	41.83	41.21	41.34	35.57	33.83	29.71	19.47	19.73
Cumulative change from previous year end (in per cent)										
17 Net Foreign Assets (NFA)	(42.10)	(312.05)	44.15	36.92	(21.37)	(3.31)	(7.00)	(19.07)	(44.40)	(119.15)
18 Net Domestic Assets (NDA)	60.26	144.56	2.77	(4.45)	(11.10)	(6.95)	(6.81)	(9.78)	0.98	(1.11)
ow: Claims on government (net)	(7.38)	151.48	15.41	17.94	12.23	18.59	(15.61)	(16.80)	(17.25)	(26.46)
20 Reserve Money (RM)	19.85	57.48	(7.86)	(15.07)	(8.46)	(7.89)	(6.77)	(7.40)	12.64	29.20
Annual per cent contribution										
21 Net Foreign Assets	(8.94)	(59.51)	(76.86)	(63.37)	(15.23)	(5.07)	1.14	10.73	33.17	30.59
22 Net Domestic Assets (NDA)	28.94	116.99	116.42	92.28	44.47	30.59	17.54	(13.31)	(16.26)	(1.40)
23 RM growth (y-o-y)	20.00	57.48	39.56	28.92	29.24	25.52	18.68	(2.58)	16.91	29.20

Source: Bank of Ghana Staff Calculations

5. Banking Sector Developments

5.0 Highlights

Assessment of the banking sector showed improved performance in 2023 relative to 2022, as the macroeconomic challenges and impact of the Domestic Debt Exchange Programme waned. The industry's balance sheet was generally strong, with increased assets, funded largely by deposits. Profitability within the banking sector also improved from the loss position in the 2022, reflecting sustained increases in net interest income and fees and commissions. The lingering effect of the macroeconomic challenges, however, continued to constrain credit growth within the banking sector and contributed to the reallocation of liquidity flows to less risky assets in the year.

5.1 Banks' Balance Sheet

Total assets of the banking industry increased by 29.7 percent (year-on-year) to GH¢274.9 billion as at end-December 2023, higher than the 17.9 percent growth in the same period of 2022. The strong growth in assets reflected in investments, which went up by 47.5 percent to GH¢100.2 billion, after contracting by 18.3 percent in December 2022. Short-term investments increased significantly as banks rebalanced their asset portfolio to take advantage of the higher rates on the money market, resulting in an increase in total investments during the review period. Also, following the contraction in banks' holdings of long-term investments in December 2022 due to the Domestic Debt Exchange Programme (DDEP), long-term investments increased by 16.8 percent in December 2023 on account of the reclassification of cocoa bills to long-term investments in line with the DDEP terms. Cash and balances due from banks also increased between December 2022 and December 2023, reflecting in part the upward revision in the cash reserve ratio (CRR) requirement for banks during the year (Table 5.1).

	(GH c'million)			Y-on-Y Growth (%)			Shares (%)	
	Dec-22	Oct-23	Dec-23	Dec-22	Oct-23	Dec-23	Dec-21	Dec-22
TOTAL ASSETS	212,005.6	257,888.5	274,921.5	17.9	3.2	29.7	100.0	100.0
A. Foreign Assets	14,747.4	21,026.3	23,870.9	41.1	14.3	61.9	5.8	6.7
B. Domestic Assets	197,258.2	236,862.3	251,050.6	16.5	2.3	27.3	94.2	93.3
Investments	67,925.3	103,747.0	100,181.6	(18.3)	22.0	47.5	46.2	35.8
i. Bills	17,870.0	49,976.5	41,775.9	(11.9)	285.8	133.8	11.3	8.3
ii. Securities	49,805.1	53,510.3	58,149.5	(20.5)	(25.5)	16.8	34.8	27.4
Advances (Net)	59,796.1	62,886.5	65,410.7	26.8	(12.8)	9.4	26.2	27.6
of which Foreign Currency	18,269.6	21,535.3	21,520.8	32.6	(28.2)	17.8	7.7	8.2
Gross Advances	69,436.9	73,525.1	77,009.7	29.1	(9.5)	10.9	29.9	31.7
Other Assets	14,148.5	15,031.4	16,001.8	74.3	(20.7)	13.1	4.5	5.7
Fixed Assets	7,505.9	7,729.1	8,290.1	42.1	34.9	10.4	2.9	3.2
TOTAL LIABILITIES AND CAPITAL	212,005.6	257,888.5	274,921.5	17.9	3.2	29.7	100.0	100.0
Total Deposits	160,015.0	199,939.2	214,486.9	32.2	16.2	34.0	67.3	71.5
of which Foreign Currency	47,603.5	64,666.0	67,354.2	64.1	(7.0)	41.5	16.1	20.3
Total Borrowings	18,799.3	14,944.9	15,020.4	(14.7)	(50.9)	(20.1)	12.3	8.6
Foreign Liabilities	8,071.1	6,509.8	6,460.8	(32.5)	(64.0)	(20.0)	6.6	3.7
i. Short-term borrowings	2,549.7	1,510.5	2,132.1	(52.7)	(80.6)	(16.4)	3.0	1.2
ii. Long-term borrowings	4,776.1	3,953.1	3,682.2	(13.1)	(53.0)	(22.9)	3.1	2.2
iii. Deposits of non-residents	740.8	1,044.8	642.9	(31.0)	(44.7)	(13.2)	0.6	0.3
Domestic Liabilities	184,669.5	225,148.9	238,411.7	30.0	10.1	29.1	79.0	83.2
i. Short-term borrowing	10,073.5	8,547.0	8,010.7	0.5	(32.8)	(20.5)	5.6	4.6
ii. Long-term Borrowings	1,400.1	934.3	1,195.4	23.5	(36.8)	(14.6)	0.6	0.6
iii. Domestic Deposits	159,274.2	198,894.4	213,844.0	32.7	16.9	34.3	66.7	71.1
Other Liabilities	14,324.2	17,110.8	15,711.8	20.4	(18.0)	9.7	6.6	7.3
Paid-up capital	10,386.1	10,432.2	13,039.2	2.2	0.4	25.5	5.7	4.7
Shareholders' Funds	18,361.5	25,372.4	29,191.6	(26.0)	(4.2)	59.0	13.8	12.6

Source: Bank of Ghana

Credit growth moderated in 2023 on account of a general risk aversion by banks as well as a softening in credit demand following the recent macroeconomic challenges. Growth in gross loans and advances moderated to 10.9 percent in December 2023, from 29.1 percent in December 2022, while growth in net loans and advances (gross loans adjusted for provisions and interest in suspense) moderated to 9.4 percent, from 26.8 percent over the same review period (Table 5.1).

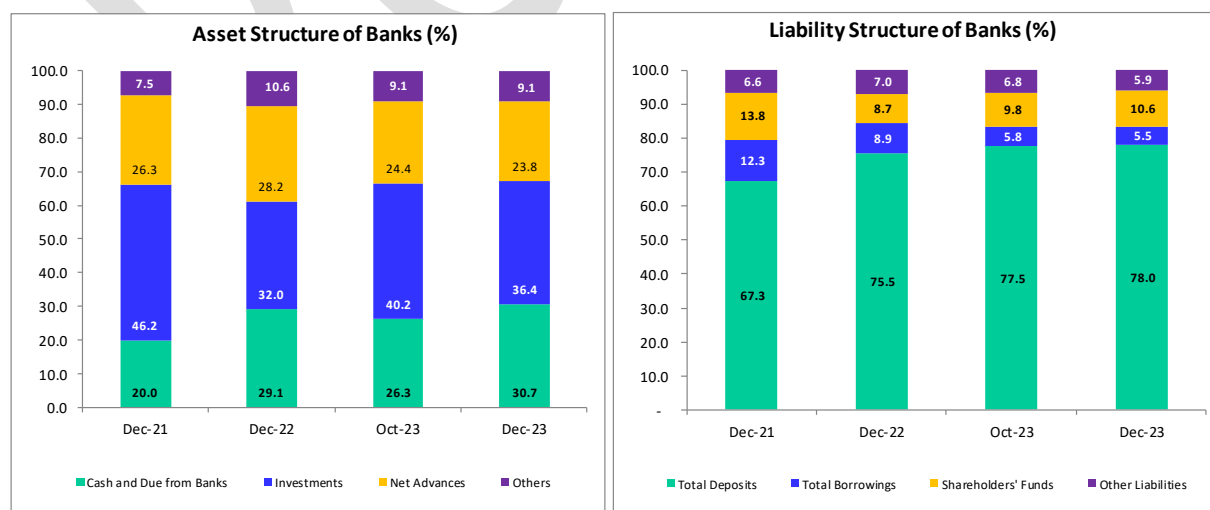
Deposits remained the main source of funding for the banking sector, increasing by 34.0 percent to GH¢214.5 billion in December 2023, from GH¢160.02 billion in December 2022. The industry's shareholders' funds position, which weakened in December 2022 on account of the significant impairments on the DDEP restructured bonds, rebounded strongly in December 2023, as profitability within the sector improved. Accordingly, shareholders' funds grew by 59.0 percent to GH¢29.2 billion as at end-December 2023, compared to the 26.0 percent contraction in December 2022. Borrowings, on the other hand, continued to decline, contracting by 20.1 percent to GH¢15.0 billion in December 2023, following the decline of 14.7 percent recorded a year earlier (Table 5.1).

Overall, the banking industry recorded an improved balance sheet performance in December 2023 on the back of increased liquidity flows from deposits and shareholders' funds. However, the lingering effect of the macroeconomic challenges continued to constrain credit growth within the banking sector and contributed to the continuous reallocation of liquidity flows to less risky assets during the review period.

5.1.1 Asset and Liability Structure

The asset structure of the industry's balance sheet in December 2023 reflected banks' preference for less risky assets. The share of investments (comprising bills, securities, and equity) in total assets increased from 32.0 percent in 2022 to 36.4 percent in 2023. Cash and bank balances was the second largest component of total assets with its share improving from 29.1 percent to 30.7 percent over the same period. The proportion of net advances in total assets, however, declined to 23.8 percent from 28.2 percent while the share of non-earning assets (fixed assets and other assets) reduced from 10.6 percent to 9.1 percent during the review period (Figure 5.1).

Figure 5.1: Developments in Banks' Balance Sheet



Source: Bank of Ghana Staff Calculations

On the liability side, the share of deposits in banks' liabilities and shareholders' funds increased to 78.0 percent in December 2023, from 75.5 percent during the same period in the prior year. The decline in borrowings translated into a decreased share of 5.5 percent in December 2023, compared to 8.9 percent a year earlier. Following the strong growth in profits after tax, the proportion of shareholders' funds in banks' total funding improved to 10.6 percent from 8.7 percent. The share of other liabilities, however, declined from 7.0 percent in December 2022 to 5.9 percent in the December 2023 (Fig. 5.1).

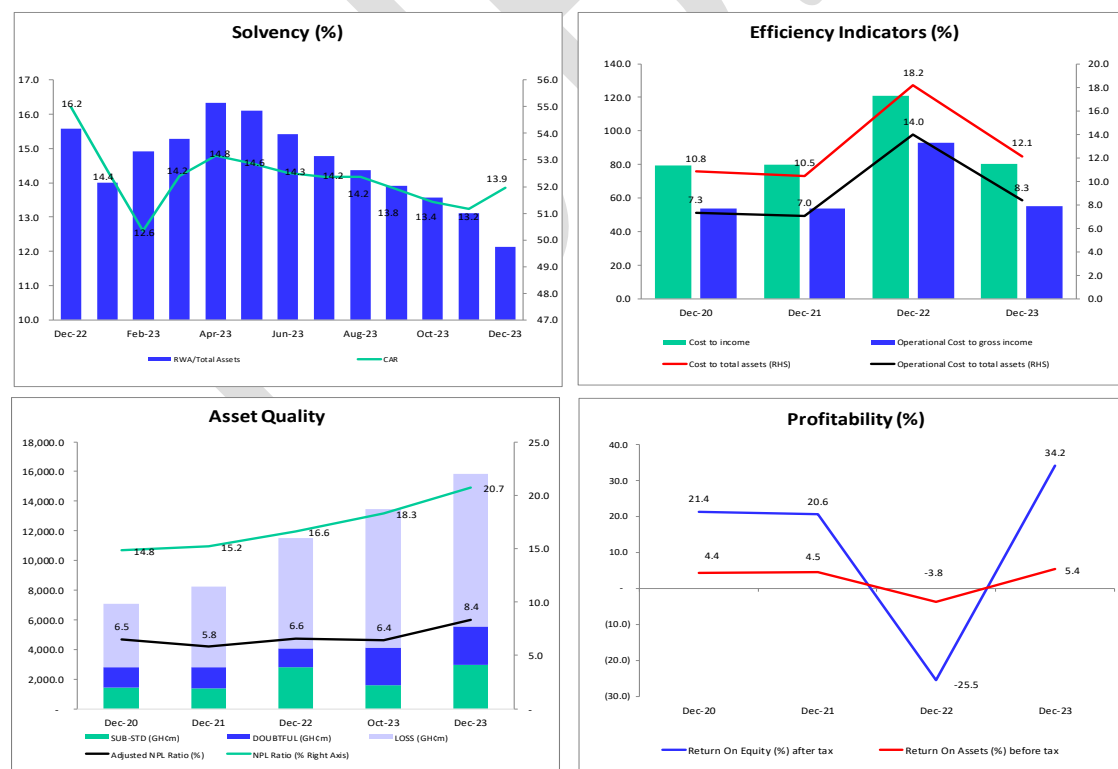
5.2 Financial Soundness Indicators

The Financial Soundness Indicators (FSI) as at end-December 2023 were broadly positive following improvements in liquidity, efficiency, and profitability during the review period. Solvency and asset quality indicators, however, moderated during the review period.

5.2.1 Liquidity Indicators

The industry's liquidity position remained strong following increases in core and broad liquidity measures during the review period. The ratio of core liquid assets (mainly cash and due from banks) to total deposits increased from 38.4 percent in 2022 to 39.3 percent in 2023. Similarly, the ratio of core liquid assets to total assets increased from 29.0 percent to 30.7 percent over the same comparative period. The increases in the core liquidity measures partly reflected the upward revision in the cash reserve ratio during the year. Following the increase in banks' holdings of short-term investments, the ratio of broad liquid assets to total deposits also increased from 80.7 percent to 85.9 percent while the ratio of broad liquid assets to total assets increased from 60.9 percent to 67.0 percent during the review period (Annexes Table 5.1).

Figure 5.2: Key Financial Soundness Indicators (FSIs)



Source: Bank of Ghana Staff Calculations

5.2.2 Capital Adequacy Ratio

The industry's solvency position, measured by the Capital Adequacy Ratio (CAR) adjusted for regulatory reliefs, was 13.9 percent in December 2023, higher than the revised prudential minimum of 10 percent, but lower than the ratio of 16.2 percent recorded in December 2022. As part of measures to minimise the impact of the DDEP, banks were allowed to spread derecognition losses on the restructured bonds over a period of four years. The decline in the CAR between December 2022 and December 2023, therefore, reflects the recognition of a quarter of the impairments on the restructured bonds in 2023 (Fig. 5.2).

5.2.3 Asset quality

Asset quality risks were elevated in December 2023, reflecting the lingering impact of the 2022 macroeconomic challenges on the banking sector. Notwithstanding the moderation in growth in the stock of non-performing loans (NPL), the industry's NPL ratio increased to 20.7 percent in December 2023, from 16.6 percent in December 2022. Similarly, the NPL ratio adjusted for the fully provisioned loan loss category increased from 6.6 percent to 8.4 percent during the same comparative period. The NPL stock increased by 37.4 percent to GH¢15.8 billion in December 2023, compared with a growth of 40.5 percent recorded in December 2022. Growth in gross loans and advances, on the other hand, moderated to 13.8 percent, from 25.9 percent over the same comparative period (Fig. 5.2).

5.2.4 Profitability

Profitability of the banking sector was particularly strong in 2023, an indication of a rebound from the DDEP-related losses posted in 2022. Profit-before-tax recorded a sharp growth rate of 267.1 percent in December 2023, relative to a contraction of 207.2 percent recorded in the previous year. Similarly, profit-after-tax recorded a significant growth of 224.6 percent to GH¢8.3 billion, from a loss of GH¢6.6 billion in December 2022.

The growth outturns for key income lines of banks contributed to the improved profit performance in 2023. Net interest income grew by 41.5 percent in 2023, compared to a growth of 18.7 percent in 2022. Fees and commissions grew by 22.7 percent in 2023, relative to a growth of 25.2 percent in 2022. The increased growth in net interest income in December 2023 was on account of higher interest income on loans and investments from increased lending rates and interest rates on money market instruments. The moderation in interest expenses, which is attributed to the contraction in borrowings observed during the year, also contributed to the higher growth in net interest income in December 2023 relative to December 2022 (Annexes Table 5.3).

Banks reported lower impairments on financial assets in 2023, also contributing to the improved profit performance during the year. Total provisions and impairments contracted by 79.2 percent in December 2023, after increasing sharply in December 2022 on account of the huge impairments on restructured bonds. Operating expenses, on the other hand, recorded a higher growth of 34.9 percent in December 2023, relative to the 27.2 percent growth in December 2022, driven by the higher growth in other operating expenses and staff costs (Annexes Table 5.3).

(a) Return on Assets and Return on Equity

Profitability indicators for the banking sector turned positive in December 2023 on the back of the improved profit performance recorded during the year. The sector's Return on Assets (ROA) improved to 5.4 percent

in December 2023 from -3.8 percent in December 2022. Also, banks' Return on Equity (ROE) rose to 34.2 percent from -25.5 percent over the same comparative period (Fig. 5.2 and Annexes Table 5.2).

(b) Interest Margin and Spread

Following trends in the ROA and ROE, other profitability indicators also recorded improvements between December 2022 and December 2023. The sector's interest margin to gross income ratio increased from 47.8 percent to 51.8 percent, while the interest margin to total assets ratio improved from 7.2 percent to 7.8 percent during the period. The ratio of gross income to total assets (asset utilisation) also improved marginally to 15.2 percent from 15.0 percent. The industry's profitability ratio, however, recorded a significant increase from -20.8 percent in December 2022 to 19.9 percent in December 2023. Banks' interest spread widened from 10.2 percent in December 2022 to 12.7 percent in December 2023, on account of an increase in gross yield to 18.8 percent in December 2023 from 16.0 percent a year ago. Interest payable also increased to 6.1 percent from 5.8 percent during the same review period. (Annexes Table 5.2).

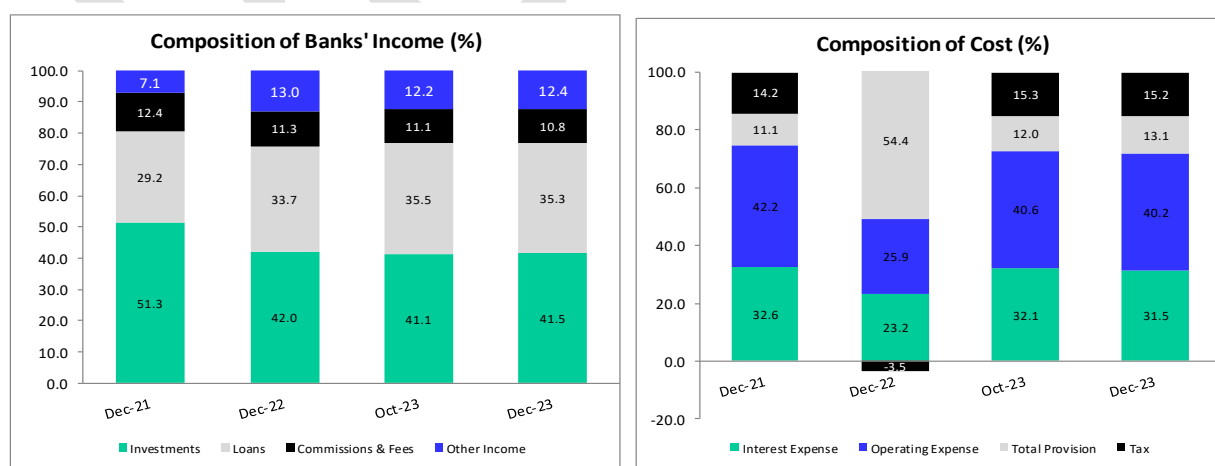
(c) Composition of Banks' Income

Interest income was the largest component of banks' income streams in December 2023, accounting for 76.8 of banks' income compared to 75.7 percent in December 2022. The share of banks' income from fees and commissions however, declined to 10.8 percent from 11.3 percent in 2022 while the proportion of other income in total income was lower at 12.4 percent in December 2023 compared to 13.0 percent in December 2022 (Fig. 5.3).

5.3.5 Operational Efficiency

The banking sector was relatively cost efficient during the review period as the key efficiency indicators declined to pre-DDEP levels by end-December 2023. The cost-to-income ratio fell from 120.8 percent in December 2022 to 80.1 percent in December 2023, while the cost-to-total assets ratio improved from 18.2 percent to 12.1 percent. The operational cost to gross income ratio also improved from 92.9 percent to 55.1 percent, whereas the operational cost to total asset ratio declined from 14.0 percent to 8.3 percent over the same comparative period (Figures 5.2 and 5.3).

Figure 5.3: Composition of Income and Cost



Source: Bank of Ghana Staff Calculations

5.4 Credit Conditions Survey

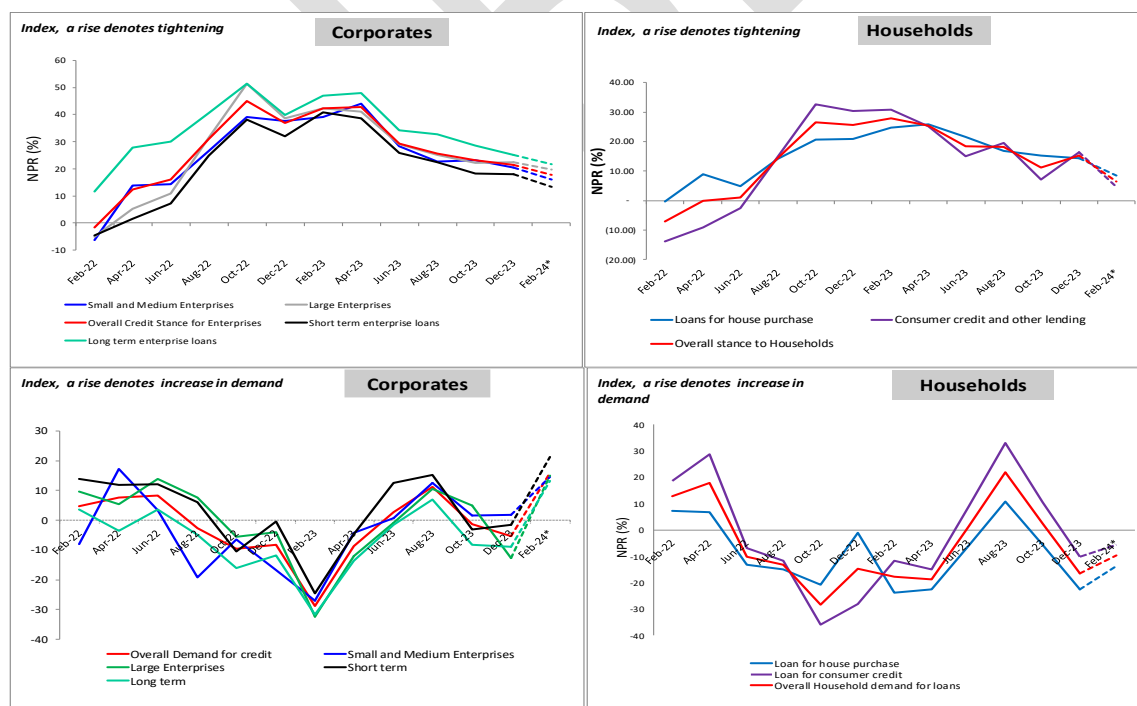
Banks generally maintained a tight stance on loans to enterprises and households in December 2023 although they reported a net ease in the stance on enterprise loans during the December 2023 Credit Conditions Survey round, relative to the October 2023 survey round. The net easing in the overall credit stance to enterprises was on the back of an eased stance on all sub-categories of corporate loans except loans to large enterprises. Banks project a further easing in the overall stance on corporate loans in the first two months of 2024, driven by a net ease in the stance on all sub-categories.

The stance on loans to households tightened during the last two months of 2023 from a net tightened stance on consumer credit and other lending. Banks project the overall stance on loans to households to ease during the first two months of 2024 from a projected net ease in the stance on both consumer credit and mortgages.

The December 2023 survey round pointed to a net decline in the overall demand for credit by enterprises relative to the previous survey period. The net decline in enterprise demand for credit reflected largely the sharp decline in demand for loans by large enterprises during the last two months of 2023. Credit demand by corporates is, however, projected to be stronger in January and February 2024.

Banks reported a further softening in the demand for loans by households in the last two months of 2023, driven by declines in demand for loans for house purchases as well as consumer credit and other lending. Demand for household loans is, however, projected to rebound in the first two months of 2024, in line with the expected increase in demand for mortgages and consumer credit (Figure 5.4).

Figure 5.4: Credit Conditions Survey Results



Source: Bank of Ghana Staff Calculations

5.5 Conclusion and Outlook

The banking sector's performance in 2023 pointed to gradual recovery from the challenges in 2022. Growth in assets increased, supported by increased liquidity flows from deposits and a build-up in shareholders' funds from the profits posted by banks in 2023. The sector is projected to remain stable with implementation of recapitalisation plans during the year.

ANNEXES

Table 5.1: Asset and Liability Structure of the Banking Sector

	Dec-20	Dec-21	Dec-22	Oct-23	Dec-23
Components of Assets (% of Total)					
Cash and Due from Banks	21.2	20.0	29.1	26.3	30.7
Investments	43.1	46.2	32.0	40.2	36.4
Net Advances	28.0	26.3	28.2	24.4	23.8
Others	7.7	7.5	10.6	9.1	9.1
Components of Liabilities and Shareholders' Funds (% of Total)					
Total Deposits	69.5	67.3	75.5	77.5	78.0
Total Borrowings	9.7	12.3	8.9	5.8	5.5
Shareholders' Funds	14.2	13.8	8.7	9.8	10.6
Other Liabilities	6.5	6.6	7.0	6.8	5.9

Table 5.2: Liquidity Ratios

	Dec-20	Dec-21	Dec-22	Oct-23	Dec-23
Liquid Assets (Core) - (GHC'million)	31,586.0	35,955.8	61,396.71	67,888.76	84,399.63
Liquid Assets (Broad) -(GHC'million)	95,774.7	118,853.5	129,071.80	171,375.59	184,325.02
Liquid Assets to total deposits (Core)-%	30.4	29.7	38.4	34.0	39.3
Liquid Assets to total deposits (Broad)- %	92.3	98.2	80.7	85.7	85.9
Liquid assets to total assets (Core)- %	21.2	20.0	29.0	26.3	30.7
Liquid assets to total assets (Broad)- %	64.1	66.1	60.9	66.5	67.0

Table 5.3: Profitability Indicators (%)

	Dec-20	Dec-21	Dec-22	Dec-23
Gross Yield	15.9	15.4	16.0	18.8
Interest Payable	5.4	5.4	5.8	6.1
Spread	10.5	10.0	10.2	12.7
Asset Utilitisation	13.7	13.1	15.0	15.2
Interest Margin to Total Assets	7.5	7.1	7.2	7.8
Interest Margin to Gross income	54.9	54.5	47.8	51.8
Profitability Ratio	20.8	20.2	-20.8	19.9
Return On Equity (%) after tax	21.4	20.6	-25.5	34.2
Return On Assets (%) before tax	4.4	4.5	-3.8	5.4

Table 5.4: DMBs' Income Statement Highlights

	Dec-20	Dec-21	Dec-22	Dec-23	Dec-21	Dec-22	Dec-23
	<u>(GHC'million)</u>				<u>Y-on-y Growth (%)</u>		
Interest Income	16,416.6	18,959.1	24,142.6	31,989.8	15.5	27.3	32.5
Interest Expenses	(5,207.6)	(6,122.7)	(8,901.8)	(10,420.0)	17.6	45.4	17.1
Net Interest Income	11,208.9	12,836.5	15,240.8	21,569.8	14.5	18.7	41.5
Fees and Commissions (Net)	2,349.3	2,931.8	3,598.6	4,505.8	24.8	22.7	25.2
Other Income	1,646.0	1,662.8	4,131.5	5,144.3	1.0	148.5	24.5
Operating Income	15,204.3	17,431.0	22,970.9	31,219.9	14.6	31.8	35.9
Operating Expenses	(6,938.0)	(7,920.8)	(10,078.9)	(13,592.9)	14.2	27.2	34.9
Staff Cost	(3,671.3)	(4,254.1)	(5,241.6)	(6,525.4)	15.9	23.2	24.5
Other operating Expenses	(3,266.8)	(3,666.7)	(4,837.2)	(7,067.4)	12.2	31.9	46.1
Net Operating Income	8,266.3	9,510.2	12,892.1	17,627.1	15.0	35.6	36.7
Total Provision (Loan losses, Depreciation & others)	(2,187.9)	(2,085.7)	(20,850.5)	(4,331.0)	(4.7)	899.7	(79.2)
Income Before Tax	6,078.4	7,424.5	(7,958.4)	13,296.1	22.1	(207.2)	267.1
Tax	(1,835.0)	(2,659.8)	1,323.3	(5,028.3)	44.9	(149.8)	480.0
Net Income	4,243.4	4,764.7	(6,635.1)	8,267.8	12.3	(239.3)	224.6
Gross Income	20,411.9	23,553.7	31,872.7	41,640.0	15.4	35.3	30.6

Source: Bank of Ghana Staff Calculations

6. Price Developments

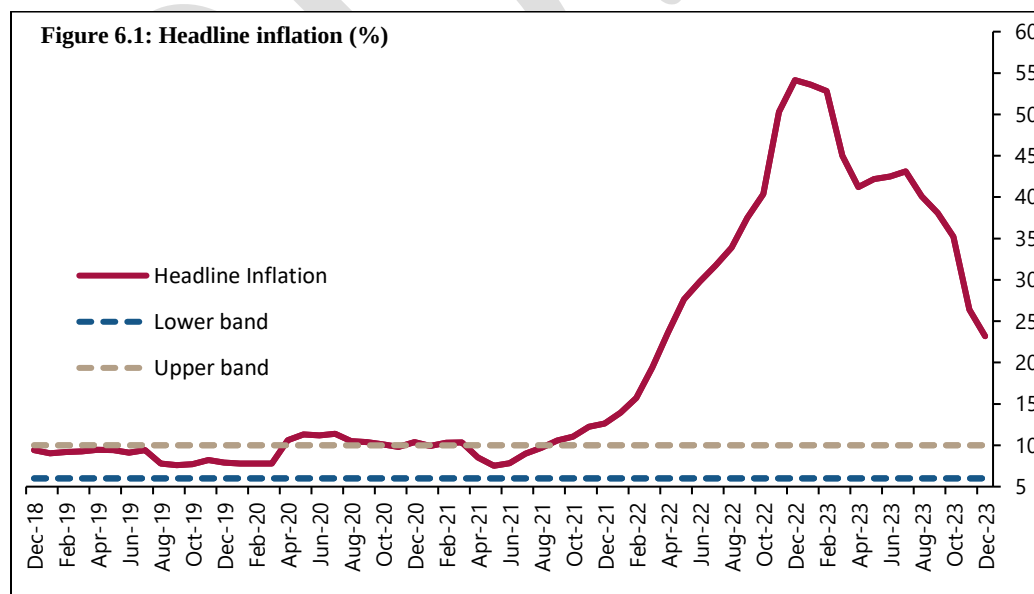
6.0 Global and Domestic Price Developments

Global headline inflation continued to ease significantly, largely supported by a softening of energy and food prices, as well as tighter monetary policy. In line with developments in the headline inflation, core inflation also declined, albeit at a slower pace, due to tight labour markets and the effects of past currency depreciations. Despite the slower pace of disinflation in core inflation, global surveys showed that longer-term inflation expectations remain anchored, reflecting the tight policy stance of central banks.

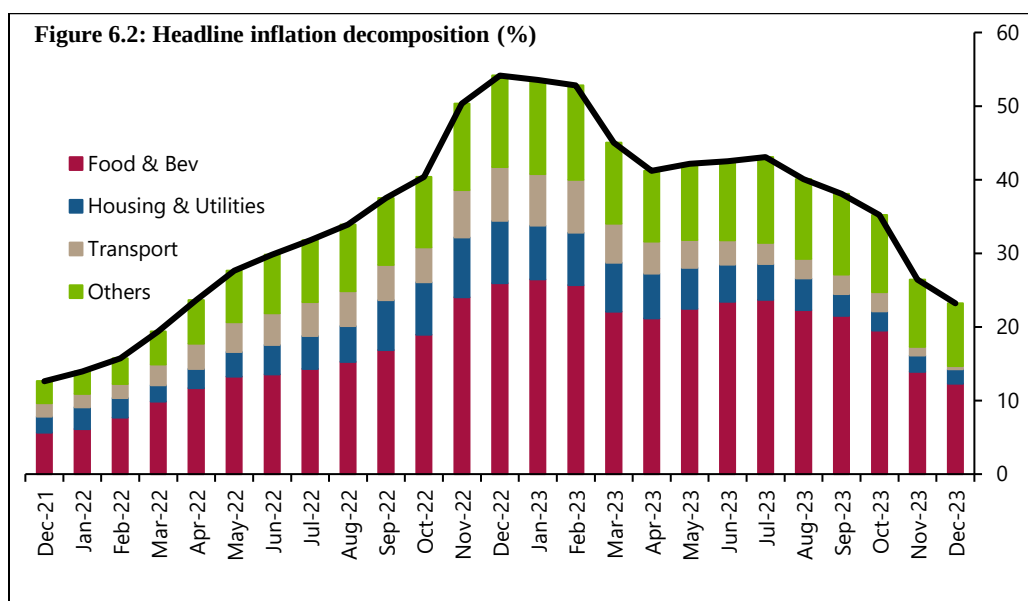
On the domestic front, inflation declined in 2023, supported by tight monetary policy, a relatively stable exchange rate, and increased sterilisation to mop up excess liquidity. Headline inflation declined sharply by 30.9 percentage points to 23.2 percent in December 2023 from 54.1 percent in December 2022, driven by easing food and non-food inflation. Food inflation decelerated sharply by 31.0 percentage points to 28.7 percent in December 2023 from 59.7 percent a year ago. Similarly, non-food inflation fell by 31.2 percentage points to 18.7 percent in December 2023 from 49.9 percent in December 2022.

Like the decline in headline inflation, imported inflation fell by 39.7 percentage points to 21.9 percent in December 2023, down from 61.6 percent a year earlier, while inflation for locally produced items also declined by 28.1 percentage points to 23.8 percent, from 51.9 percent over the same comparative period.

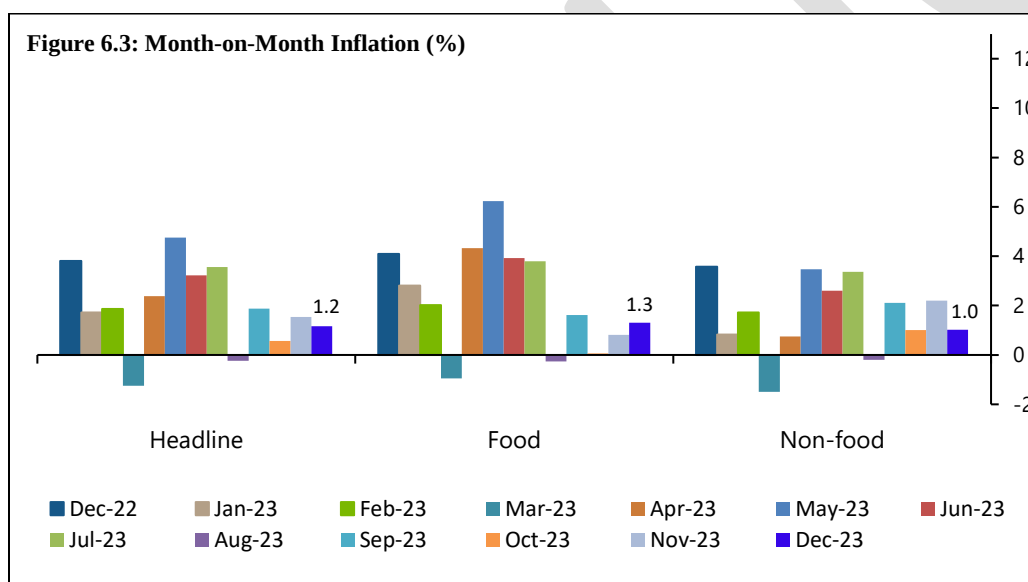
In line with price developments, month-on-month inflation fell in 2023, averaging 1.8 percent in 2023, compared with an average of 3.7 percent in 2022. At end-December 2023, the monthly headline inflation declined by 2.6 percentage points to 1.2 percent, lower than the 3.8 percent observed in December 2022. Also, consistent with the broad deceleration in prices, underlying inflationary pressures eased significantly in 2023. The Bank's main core inflation measure, which excludes energy and utilities, declined to 24.2 percent in December 2023, from 53.2 percent a year ago. Similarly, relying on survey data, inflation expectations by the banking sector, businesses, and consumers declined in the period under review.



Source: Bank of Ghana and GSS



Source: Bank of Ghana and GSS

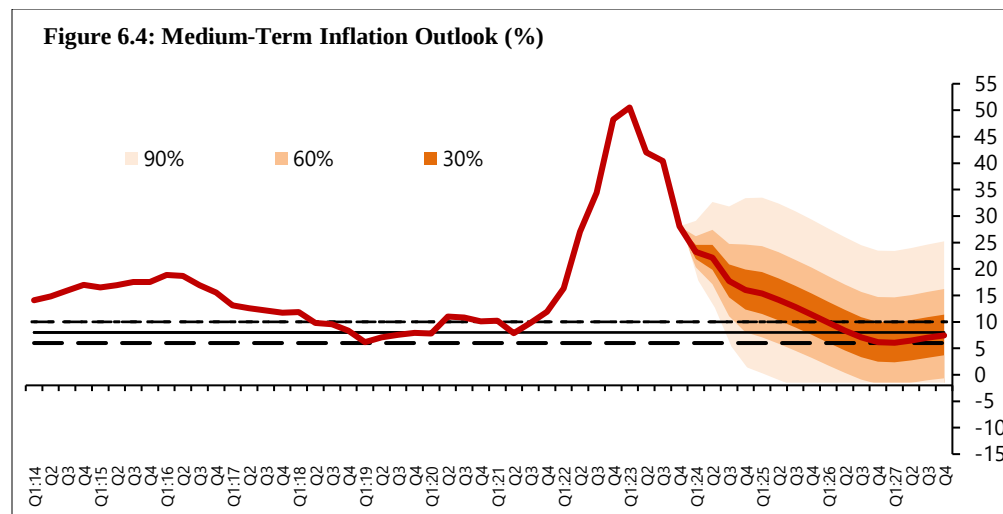


Source: Bank of Ghana and GSS

6.2 Inflation Outlook

There are clear indications that the current macroeconomic framework being implemented with the support of the IMF-ECF programme is yielding results. In the outlook, the disinflation process is expected to continue, although inflation is expected to remain above the upper band of the medium-term target of 8 ± 2 percent until 2025. All the Banks' measures of core inflation are on a downward trend and projected to decelerate further, indicating continued easing of underlying inflationary pressures. Improved forex inflows from the IMF-ECF disbursements, receipt of the cocoa syndicated loan, and expected funding from the World Bank are expected to improve foreign exchange inflows. Also, the Gold for Reserves programme, repatriation of foreign exchange from the mining and oil companies, and a reduction in debt service payments, would provide additional support towards reserve build-up and, in turn, exchange rate stability to help anchor the disinflation process.

The latest forecast indicates a further decline in headline inflation to between 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, barring unanticipated shocks. The major risk to the inflation outlook is linked to escalation of geopolitical tensions and potential spillovers to the commodities markets, especially international crude oil prices, which could undermine the disinflation process.



Source: Bank of Ghana

Appendix Table 6.1: Headline Inflation

	Combined	Food	Non-food	Combined	Food	Non-food
Dec-20	10.4	14.1	7.7	0.9	1.5	0.4
Dec-21	12.6	12.8	12.5	1.2	1.2	1.2
2022						
Mar	19.4	22.4	17.0	4.0	4.5	3.7
Jun	29.8	30.7	29.1	3.0	2.3	3.6
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
May	42.2	51.8	34.6	4.8	6.2	3.5
Jun	42.5	54.2	33.4	3.2	3.9	2.6
Jul	43.1	55.0	33.8	3.6	3.8	3.4
Aug	40.1	51.9	30.9	-0.2	-0.3	-0.2
Sept	38.1	49.3	29.3	1.9	1.6	2.1
Oct	35.2	44.8	27.7	0.6	0.1	1.0
Nov	26.4	32.2	21.7	1.5	0.8	2.2
Dec	23.2	28.7	18.7	1.2	1.3	1.0

Source: Ghana Statistical Service

Appendix Table 6.2: CPI Components

CPI Components (%)															
	Weights (%)	2020	2021	2022						2023					
		Dec	Dec	Mar	Jun	Sept	Oct	Nov	Dec	Mar	Jun	Sept	Oct	Nov	Dec
Overall	100.0	10.4	12.6	19.4	29.8	37.2	40.4	50.3	54.1	45.0	42.5	38.1	35.2	26.4	23.2
Food and Beverages	43.1	14.1	12.8	22.4	30.7	37.8	43.7	55.3	59.7	50.8	54.2	49.3	44.8	32.2	28.7
Non-food	56.9	7.7	12.5	17.0	29.1	36.5	37.8	46.5	49.9	40.6	33.4	29.3	27.7	21.7	18.7
Alcoholic Beverages, Tobacco & Narcotics	3.7	6.0	9.6	11.4	21.4	22.0	24.3	35.6	38.5	41.2	43.9	49.4	45.7	39.0	38.2
Clothing and footwear	8.1	7.9	8.6	12.2	23.8	28.7	30.8	38.3	41.9	38.3	33.9	32.5	30.6	24.8	22.3
Housing and Utilities	10.2	20.1	20.7	21.4	38.4	68.8	69.6	79.1	82.3	64.7	49.2	28.6	25.3	21.5	19.5
Furnishings, Household Equipment	3.2	4.7	9.6	18.5	39.6	51.5	55.7	65.7	71.5	67.4	54.2	44.9	40.9	32.2	26.9
Health	0.7	6.0	6.0	8.8	12.8	22.8	26.1	32.5	34.4	27.9	37.2	31.3	28.1	23.6	23.0
Transport	10.1	4.8	17.6	27.6	41.6	46.8	46.3	63.1	71.4	52.0	32.3	25.9	25.0	11.5	4.4
Information and Communication	3.6	7.0	9.0	13.4	14.5	14.9	15.7	19.7	21.5	15.8	21.6	21.1	19.3	16.8	14.2
Recreation & Culture	3.5	1.8	11.4	17.0	31.3	36.3	38.1	43.0	42.4	32.8	29.7	30.1	28.8	23.4	24.9
Education	6.5	0.2	1.0	2.9	4.4	8.3	9.5	10.7	11.3	7.9	14.3	11.3	12.9	14.1	13.9
Hotels, cafes and restaurants	4.6	5.4	8.9	12.6	20.2	11.1	11.0	12.5	9.2	6.9	4.7	19.5	22.6	27.1	28.0
Insurance and Financial services	0.2	3.3	6.3	3.0	5.8	13.6	13.0	10.2	10.8	10.5	10.7	5.0	5.5	8.5	8.1
Personal care, social protection & Miscellaneous services	2.4	3.8	10.6	17.0	31.7	42.6	45.5	56.3	60.9	53.7	55.1	49.2	45.0	35.4	31.1

Source: Ghana Statistical Service