



BANK OF GHANA

TRANSCRIPT OF MPC PRESS BRIEFING HELD ON 29TH JANUARY 2024 AT THE FIFTH FLOOR, MPC CONFERENCE ROOM, BANK OF GHANA, AFTER THE 116TH MPC MEETINGS



116th BoG MPC Press Briefing Question & Answer Session
TRANSCRIPT OF THE MPC PRESS BRIEFING HELD ON
MONDAY, 29TH JANUARY 2024

Following the Monetary Policy Committee (MPC) press briefing on Monday, 29th January 2024, by the Governor, who is also the Chairman of the MPC, the Press sought clarifications on several issues. Below is an edited transcript of questions by the Press and responses by the Governor.

***Questioner:** The August and October 2023 data shared by the Bank indicates a drop in the debt stock. Please, are you able to explain what the source of the reduction is?*

Governor: As you are aware, the Bank had a 50% haircut on our claims on Government, and that alone should lead to a significant drop in the level of domestic debt. So, your observation reflects the restructuring of the domestic debt, including Bank of Ghana's claims on Government.

***Questioner:** You mentioned that the projection for end year inflation is in the range of 13 - 17%. So, I just want to know whether the new VAT rates on domestic electricity consumption was considered in your econometric models? Inflation has consistently dropped for five consecutive times and the Cedi has been depreciating for some time now. Can you explain the metrics for us?*

Governor: The impact of VAT on inflation is a matter that I have addressed over the past few weeks, making the point that we do not expect that to necessarily lead to a derailing of the disinflation process, so long as we maintain a tight monetary policy and to the extent that it helps in the consolidation of fiscal policy. These policies should moderate the immediate direct effects and therefore we do not expect the increase in VAT to lead to second round effects to derail the ongoing disinflation process. The Bank's forecast accounted for this, and you will notice that we have given a range rather than a point inflation target for 2024 and the middle of that range is 15%. So, you have $15 \pm 2\%$, that $\pm 2\%$ is to take account of all these uncertainties that are in the outlook.

***Questioner:** There are concerns that there are counterfeit new GH¢50 bank notes on the market. Has the Bank directed the banks to discontinue transacting with the old ones?*

Governor: Remember the upgraded GH¢50 bank notes was printed sometime in 2014 or 2015, after some issues with the old GH¢50 bank notes. Currently, both the upgraded ones with the cocoa pod prominently showing as well as a few of the older notes, which are still legal tender, are in circulation. We have had no issues with counterfeiting. From our data, there might have been one or two counterfeit notes in 2023, compared to previous years when you could get nearly 30, but the counterfeiting issue is not a major problem.

***Questioner:** You talked about the immense benefit of the Gold for Oil Programme and I just wanted to find out, If you were gradually going to phase out the Gold for Oil Programme, because it is yielding its desired results, I want to know if we have gotten there yet for us to phase it out?*

Governor: We must all appreciate the circumstances under which the Gold for Oil Programme was introduced. Sometime in 2022, the foreign exchange market was volatile, amid intense speculative



116th BoG MPC Press Briefing Question & Answer Session

activities as BDCs sought FX for crude oil importation. This did not help with the pricing of oil at the pump. Also, crude oil prices had risen sharply on the international markets and therefore the Government intervention to manage the frequent upward adjustments of crude oil prices at the pump came through these Government-to-Government negotiations, that is, between the Ghana Government and some other suppliers in the Emirates. At the time, the Bank had already started the Gold for Reserves Programme and the idea of exchanging gold directly for oil came up. That is how it all started. So, that was one form of intervention in barter trade. Then there were cases where we had to sell the gold and pay for the oil using the US dollars. It helped during the crisis to manage that problem and we have found that to be a very useful programme. The issue is, have we reached the point where we think that the markets have settled, the foreign exchange market is behaving well, and therefore the Bank could probably focus on its core mandate of managing inflation. These are part of the assessments and ongoing discussions we have had with the Fund. We are evaluating the Bank's exposure to the whole programme and the associated risks it brings to the Bank, and then the Bank's Board will evaluate that report. That report is not yet ready, but once it is ready, we will take a decision on when to exit.

Questioner: *The Financial Stability Fund has started making some disbursements. We would like to know what the terms are for financial institutions who are interested? How much has been spent so far?*

Governor: I understand the terms and conditions are on the Ministry of Finance website, so you can visit the website and you will see the terms and conditions there.

Questioner: *Now that we have come to agreement with our external creditors, the second tranche has come from the IMF, but we do not know the exact terms or we do not know what is on that term sheet? How will the resumption of coupon payments to our external creditors under the current yet unknown terms of the restructuring of our external debt affect our cross-international reserve build-up?*

Governor: This is where we must be a little careful, because, with regards to the disclosures of the terms, we are now starting the negotiations with the bondholders, and there are issues of comparability of treatment and all of that. So, I am sure at the appropriate time when the negotiations with the bondholders have advanced, you would have the opportunity to see the terms of the agreement that was reached by the OCC.

Questioner: *We have done 100 basis points, interesting. Going through the IMF staff report, they still express concerns that inflation was still high. Now, looking at the challenge of still making sure that we fall in line with the programme objectives and dealing with growth challenges, some are saying that the economy is not doing well in terms of growth. Do you think that we should be seeing more cuts to help deal with the challenge? In one breath, you are dealing with meeting the programme objectives, where they still see inflation as high, in another breath you also want to stimulate growth. Looking at these two challenges, how is the committee dealing with that challenge of i.e. being in line with the programme objective by still bringing inflation down and also dealing with the concerns that*



116th BoG MPC Press Briefing Question & Answer Session

growth remains a big challenge and what can be done to stimulate growth and stimulate lending to businesses?

Governor: You are justifying the decision that the monetary policy has taken, that inflation is still high. We have not totally gotten out of the woods. So, inflation is still high, at the same time, we are also watching the impact on the growth side and therefore we are trying to manage two things, looking at sticking to our core mandate of bringing inflation down and at the same time being mindful of the need to give a little bit of incentives to the growth side by the decision to cut the policy rate by 100 basis points. Now, if you look at the ECF programme, it was expected that growth would slow. You cannot have this very tight fiscal consolidation, very tight monetary policy and not have growth slow down. In fact, we are saying that growth has performed better than originally projected. The original forecast for growth was 1.5%. So, we are doing better than we had originally envisaged, and if you look at the path of growth, you note that we will fully recover to around 6-7% by 2026. So, this is really the outlook for growth. If you take the ECF programme, which I believe you would find in the staff report that has been published, you will see the growth path. From the data that we have seen as of 2023, we are doing better, and this is one of the things we want to stress that we are seeing a very sharp disinflation, but with very little impact on growth. We are not seeing the expected negative impact on growth. The past year ended with a very sharp fall in inflation without any sacrifice on the growth side. So, looking at that, I think that if you are to assess performance, we are doing very well in terms of the nexus between inflation and growth.

Questioner: *We have not seen the impact of these inflows on the Ghana cedi. Last week, we had some blips on the local currency. What is the situation now? Does the bank have any timelines in terms of when we should be feeling the impact of this deal inflows from IMF, World Bank, because in other countries even just the news about clinching a deal with bilateral creditors saw the currency rallying. So, why are we not seeing that impact on the local currency?*

Governor: Since January last year, the Ghana cedi has literally been very firm, for 11 months of the year we saw only a depreciation of about 7%. This is not a fixed exchange rate, but if you look at the graph it appears as if the Ghana cedi has been fixed, which reflects some of the improved external sector conditions, the improvement in the current account balance, the improvement in the foreign exchange buffers of the central bank, and then the emergence of confidence in the economy and therefore the currency has remained relatively stable. At least, the very high depreciation in 2022 has diminished. Remember, the currency depreciated by over 50% in 2022. Now this year, we are looking at a slower depreciation to reflect the impact of the flows that have come in.

Questioner: *What has been the impact of the policy change regarding the CRR on the market, specifically, with regards to liquidity on the market since that was the goal of that policy change?*

Governor: It appears there is still quite an amount of liquidity on the market. This is one of the issues that we discussed extensively last week. The auctions are oversubscribed. It seems the banks have mobilised deposits and are liquid, but with limited avenues for investing those resources, so the money comes back on the auction. Although economic conditions are gradually improving, credit



116th BoG MPC Press Briefing Question & Answer Session

risks are yet to abate, hence instead of lending, banks are putting those resources into short term government bills. It is an area that we are still discussing, and the CRR did have an impact, but there is still a lot of liquidity out there.

Questioner: We have seen some disbursement under the Financial Stability Fund, would you mind telling us how many banks have applied so far?

Governor: This is information that you need to probably get from the Ministry of Finance. I know that a few banks have been recapitalised, and some are also in the process. I am not sure if I should be talking about individual banks at a press briefing of this nature. Broadly, given the performance of banks, a lot of the banks will be able to fill the capital gaps from the profits made in 2023, so the situation is not very critical. I was discussing with the Deputy Governor and Bank Supervisor before this meeting that the banks were doing much better than anticipated. Remember they were given 3 years to recapitalise but are way ahead of the recapitalisation plans that have been submitted. Most of the banks have had their Annual General Meetings (AGMs) where shareholders have been impressed on to raise resources and therefore the problem is being taken care of. The banks that have GAT investments will likely get some additional resources from the Government. I think that the banks are very strong and resilient, and we do not foresee any major problems with bank capitalization in the country.

Questioner: Following the closure of the international market to the Government of Ghana, the Government has resorted to T-bills and other instruments to raise money. Of concern is the interest rate offered by the Government. I want to ask, is that a source of concern to BoG? Do we see another debt issue bubbling?

Governor: I think the T-bills are well aligned with the monetary policy rate and expectations are for rates on the auction market to gradually follow developments on the inflation side. If you compare developments, we expect that the emerging trends on inflation to extend to the treasury bill market with declines in the market rates by year end and therefore we do not see problems with creating another debt problem in the outlook.

Questioner: What are the next steps for the eCedi, following a successful hackathon?

Governor: You are aware we have completed the pilot phase and currently at the stage to agree on the commercials with the technology providers. Those are not very easy decisions to take at the same time. We were also focusing more on stabilising the macroeconomic environment. I am sure that by the end of this year, if inflation goes where we expect it to go, then the issue of the Central Bank Digital Currency (CBDC) will become more important. Hopefully, by that time we would have reached some agreements on the commercial side with the technology partners.

Questioner: Governor, 29% still makes Ghana the highest regards policy rate on the continent or even among its peers and thereby making businesses in Ghana most uncompetitive. So, if you see disinflation and thereby you now have an average new forecast of 15%. Was there no more scope to cut the rates any deeper or any further than you did? How many companies can borrow at 33%, pay



116th BoG MPC Press Briefing Question & Answer Session

this bill of taxes, pay salaries, and still make profits and still keep in business? Is there no more scope for maybe a bigger cut giving you a new forecast of average 15%?

Governor: The forecast of between 13-to-17%-year end inflation is conditioned on the policies that are carried out today. So, the fact that we have forecast that inflation range does not mean that you can just go ahead and cut the policy rate to 13 or 17%. That forecast is conditional on the present monetary policy stance. So let us make that clear. I think that we are all in a hurry. I heard the Ghana National Chamber of Commerce and Industry also pushing for very sharp reduction in the policy rate. We will get there, but for us to get there, we must do the right things now and that is why we need to be cautious about how we transmit these policies into the system. If we lose hold on the policy rate, we might not attain those forecasts at the end of the year, but that is really the way to deal with that question. Could we have gone any deeper with the rate cut, no, we could not have because we know that we need to maintain this level of real rates to get to that end year inflation range that we are projecting.

Questioner: *Government is projecting a single digit inflation next year 2025. With your end of year rate at or projection at up to 17%, do you see the single digits being achievable?*

Governor: I think government projection is the same as the Banks's projection. We are all looking at the same Fund projections. The single digit, as we said, is for 2026, as read in the Press release. The good thing about all of this is that you know we have the Monetary Policy Consultation Clause under the programme. That is, we expect inflation to be within a particular range at any point in time. At the end of 2023, we were slightly below on the lower end of the range, which is encouraging and means that we are on course in terms of the current policy stance.

Questioner: *I have come across a digital bank. I want to know how many we have in the system and how they are being regulated to protect depositors?*

Governor: I do not know what you call a digital bank, but we do not have a category of license called digital bank. This is an issue that we are still looking at. But there is a lot of digital activity going on in the banks and all these mobile money credit loans that are being given are digital products. So, I do not know what definition of digital bank you had in mind, but our banks already have digital products, and they do not have digital bank licenses per say.

Questioner: *Please what is the latest on the cocoa bills? This is as a result of the fact that we know that you had instructed the banks to halt selling to individuals. We are also aware that there are some of the people who did not participate in the exchange programme and we do not know if those people have been paid or not? We want to know what the latest on that particular one is?*

Governor: I thought that all the individual holders of cocoa bills were sorted out. So, I was surprised to hear about the noise from individual holders of cocoa bills who opted not to participate. Individual holders were not part of the restructuring of the cocoa bills. So, that issue must be resolved. I do not think that there is any big debate about that. We said that right from the beginning that banks should



116th BoG MPC Press Briefing Question & Answer Session

not even have sold cocoa bills to individuals and therefore we ensured that all individuals were paid. So, I was surprised to hear that a few of them are yet to be paid. We will look at it.

Questioner: I see that you have a challenge with fiscal side. Exactly what do you want seen done.

Governor: We do not have any problems with the fiscal side. We had reported that everything seemed to be in line with the IMF programme, so I am not sure if we have any problem with the fiscal side.

Questioner: We understand this is an election year and we understand what an election year means to our economy. What are the steps you are putting in place to ensure as managers of the economy, we don't get derailed from the structural reforms that we are putting in place with respect to the IMF loans?

Governor: We have all signed up to an IMF programme. It is not just the Bank of Ghana or the Monetary policy side. This is a programme about Monetary and Fiscal policy, so we expect both sides to help deliver on the targets and remain committed to the programme, irrespective of whether it is an election year or not.

Questioner: How much is the second tranche of the ECF improving our Gross International Reserves?

Governor: The US\$600 million that came in January 2024 took the Gross International Reserves (excluding the encumbered assets and petroleum funds) to nearly US\$3.6 billion and the gross reserves at US\$5.9 billion. These are the latest January numbers.

END