Bank of Ghana
Monetary Policy Committee
Press Release

26th July, 2024

Good morning, Ladies and Gentlemen of the Media and welcome to the press briefing for the 119th Monetary Policy Committee (MPC) meetings which took place this week. At the meetings, the Committee deliberated on recent global and domestic macroeconomic developments, and assessed the balance of risks to the outlook for inflation and growth. A summary of the assessments and key considerations that informed the Committee's decision on the positioning of the monetary policy rate is as follows:

A. Global Developments and Conditions

1. **Global growth outturn was better than expected in the first quarter of 2024.** The stronger than expected growth outturn was driven largely by improvements in the services sector in the Euro area, as well as increased consumer spending and policy support in China, which offset the continued weaknesses in the property sector. However, headwinds such as the depleting stocks of the accumulated pandemic era savings, the gradual cooling of labour markets in advanced economies, and rising uncertainty related to elections in many countries this year, may weigh on growth prospects in the second half of 2024. Consequently, the latest IMF World Economic Outlook growth projections remain unchanged at 3.2 percent for 2024 and 3.3 percent in 2025.

2. **The tight global financing conditions has persisted, underpinned by a cautious approach to rate cuts in advanced countries.** The tight monetary policy stance by central banks in advanced economies has broadly led to higher long-term bond yields and triggered exchange rate pressures in Emerging Market and Developing Economies (EMDEs). This has reinforced the cautious approach to policy rate cuts. Notwithstanding the tight policy stance, the strong growth outturn in the first quarter of 2024, coupled with the dovish tone of the US Federal Reserve, has boosted equity markets.

3. **Global headline inflation remains on a downward trajectory, although the disinflation process is expected to slow.** The decline in headline inflation in several countries, observed in the first half of the year, was on the back of the sustained tight monetary policy stance by most central banks and broadly anchored inflation expectations. In the outlook, strong nominal wage growth, which may de-anchor inflation expectations in the short-term, is expected to pose some risks to the disinflation process.

B. Domestic Macroeconomic Conditions

4. **On the domestic front, provisional GDP growth pointed to a strong growth recovery.** The latest release by the the Ghana Statistical Service showed real GDP growth at 4.7 percent in the first quarter of 2024, higher than the 3.1 percent recorded in the same period of 2023. Beyond the first quarter, the Bank's high frequency real sector indicators reflected a pickup in economic activity, evidenced by the updated real Composite Index of Economic Activity (CIEA) annual growth of 3.3 percent in May 2024, compared to a contraction by 3.7 percent in May 2023. The key drivers of the growth in the CIEA were private sector contribution to SSNIT, imports, cement sales, exports, domestic VAT, and tourist arrivals.

5. **The latest confidence surveys indicated some softening of consumer and business sentiments.** These findings were broadly in line with observed trends in Ghana's Purchasing Managers' Index (PMI), which fell below the 50.0 benchmark to 49.7 in June 2024, from 51.6 in the previous month.

6. **Recent price developments suggest a resumption of the disinflation process.** In June 2024, headline inflation eased to 22.8 percent, from 23.1 percent in May, and 25.0 percent in April. The decline in headline inflation was attributed to deceleration in non-food inflation by 2.0 percentage points to 21.6 percent in June. Food inflation, on the other hand, increased by 1.4 percentage points to 24.0 percent, over the same period. In line with the ease in headline inflation, the Bank's main core inflation measure, which excludes energy and utility items from the consumer basket, declined to 22.1 percent in June 2024 from 22.6 percent in May.

7. **Fiscal operations in the first half year were broadly aligned within the set targets.** Provisional data on budget execution indicated an overall fiscal deficit (commitment basis) of 2.0 percent of GDP, against the budget target of 2.7 percent of GDP. The deficit of GH¢21.3 billion was financed from both domestic and foreign sources. The primary balance recorded a deficit of GH¢2.3 billion (0.2 percent of GDP), against the deficit target of GH¢2.4 billion (0.2 percent of GDP).

8. **Growth in broad money supply moderated in the first half year.** Annual growth in broad money supply (M2+) slowed to 34.2 percent in June 2024, relative to 44.4 percent in June 2023. The slowdown was reflected in all the components, that is, demand deposits, savings and time deposits, and foreign currency deposits. Reserve money however recorded an annual growth of 77.8 percent in June 2024, compared to 29.2 percent in June 2023. The growth in reserve money was due to the adjustment in the reserve requirements of the banks.

9. **Private sector credit extension steadily improved in the first half of the year**. In nominal terms, private sector credit grew by 17.6 percent in June 2024, relative to the 16.1 percent growth recorded in the same comparative period of 2023. In real terms, the contraction in credit to the private sector moderated at 4.2 percent compared to a contraction of 18.5 percent recorded in June 2023.

10. **Interest rate trends were broadly mixed at the short-end of the market**. The 91-day and 182-day Treasury bill rates increased to 24.91 percent and 26.84 percent, respectively, in June

2024, from 21.77 percent, and 24.58 percent, in June 2023. In contrast, rates on the 364-day instrument decreased to 27.83 percent, from 28.66 percent over the same comparative period.

11. **On the interbank market, the Weighted Average Rate increased underpinned by the tight monetary policy stance and sustained liquidity withdrawals from the market.** The rate increased to 28.83 percent in June 2024 from 26.01 percent in June 2023. Over the same period, however, average lending rates of banks declined marginally to 31.10 percent from 31.15 percent.

12. **The banking sector performance in the first half of the year points to continued recovery from the impact of the Domestic Debt Exchange Programme.** Total banking sector assets grew by 33.3 percent to GH¢323.1 billion at end-June 2024, relative to 21.2 percent growth at end-June 2023. Profitability, liquidity, and efficiency indicators also improved over the period. The Capital Adequacy Ratio (CAR) adjusted for reliefs remained unchanged at 14.3 percent, between June 2023 and June 2024. Without reliefs, the CAR was reported at 10.6 percent in June 2024, higher than the 7.4 percent recorded in June 2023. Despite improvements in the banking sector's performance, elevated credit risk poses a threat to the sector's recovery process. The industry's NPL ratio was 24.1 percent in June 2024, up from 18.7 percent in June 2023. The consistent rebound in profits, adherence to recapitalisation plans, and enforcement of strict credit underwriting standards will help ensure that banks remain on the path to full recovery and resilience.

13. **Prices of Ghana's major export commodities traded mixed on the international market.** Cocoa price futures bounced back after declining by 19.2 percent in May 2024, to US$9,022.6 per tonne, representing 1.1 percent growth in June 2024. Crude oil prices remained broadly stable in June 2024 with an average price of US$83.01 per barrel. Spot gold prices, however, dropped marginally by 1.1 percent to close at an average price of US$2,325.34 per fine ounce in June 2024.

14. **The trade balance improved in the first half of the year driven by higher exports relative to imports.** The trade surplus improved to US$1.81 billion in the first half of the year, compared to the surplus of US$1.60 billion recorded in the corresponding period of 2023. Total exports increased by US$1.01 billion to US$9.23 billion, while imports rose by US$884.5 million to US$7.42 billion.

15. **The increase in total exports was largely on the back of strong growth in gold and crude oil exports.** In the first half of the year, the value of gold exports increased by 46.4 percent to US$5.04 billion, while earnings from crude oil exports increased to US$2.0 billion, from the US$1.7 billion in the same period last year. In contrast, cocoa exports, both beans and products, declined by 47.4 percent to US$760.0 million in the first half of 2024, from US$1.45 billion in the first half of 2023. Other exports, including non-traditional exports, also declined by 8.7 percent to US$1.5 billion over the same comparative period.

16. **Total import bill also increased, driven by both oil and non-oil imports**. Oil imports increased by 6.1 percent to US$2.3 billion while non-oil imports increased by 17.2 percent to

US$5.1 billion. Consequently, the total imports bill rose by 13.5 percent to US$7.42 billion in the first half of the year.

17. **The current and capital accounts improved over the period supported by higher external inflows and lower outflows.** The improved trade surplus, alongside higher remittance flows resulted in a higher current account surplus of US$1.28 billion in the first half of the year, compared to a surplus of US$863.0 million in the same period in 2023. The capital and financial account reduced from a net outflow of US$1.04 billion in 2023 to a lower net outflow of US$367.5 million in 2024, due to higher government loan disbursements, reduced amortizations and significantly lower portfolio outflows. Other capital flows, including private capital, recorded a net outflow of US$1.6 billion, from an outflow of US$1.1 billion over the same period in 2023.

18. **These developments in the external sector resulted in an improved balance of payments position**. The current account surplus, together with the reduced capital outflows, resulted in an overall balance of payments surplus of US$942.3 million in the first half of 2024, compared to a deficit of US$341.0 million in the same period in 2023.

19. **There was significant buildup in international reserves during the first six months of the year**. Gross International Reserves (GIR) increased by US$947 million to US$6.87 billion at end-June 2024, equivalent to 3.1 months of import cover. Net International Reserves also increased by US$1.31 billion to US$4.50 billion at end-June 2024. The higher build-up in Gross International Reserves was aided by the strong performance of the domestic gold purchase programme.

20. **The Ghana cedi came under pressure in the first half of the year, especially in May 2024, but has since eased.** The relative stability on the foreign exchange market in the past few weeks reflects the continued tight monetary policy stance, implementation of the dynamic Cash Reserve Ratio (CRR) to mop excess liquidity, revised regulations on advanced payments for imports by the Bank, and positive sentiments from the third tranche of the IMF Extended Credit Facility and agreement in principle with external creditors. From the beginning of the year to 19th July 2024, the Ghana Cedi depreciated by 19.6 percent against the US Dollar, compared with 22.1 percent for the same period of last year.

C. Summary and Outlook

21. **Global economic activity generally surprised on the upside in many countries in the first quarter of 2024.** IMF growth estimates for the advanced economies show that growth is expected to remain stable. Growth moderation in the United States is expected to be offset by a modest pickup in the Euro Area in 2024, driven by stronger momentum in services and higher-than-expected net exports. For Emerging Markets and Developing Economies (EMDEs), growth is projected at 4.3 percent in both 2024 and 2025, driven largely by strong economic activity in Asia. However, persistence in services inflation tied to wage growth, could result in central banks keeping rates higher -for-longer, and weigh on growth prospects.

22. **On the domestic scene, GDP growth outturn for the first quarter of 2024 was stronger than expected.** Economic activity remained resilient in the context of generally tight policy stance. This is shown in the latest GDP data release by the Ghana Statistical Service and the subsequent upward revision of the growth numbers. Similarly, high frequency indicators of economic activity, which are more recent suggest stronger growth outcomes. Consumer and business confidence sentiments softened, driven by the rapid exchange rate depreciation observed in May and high food prices in June 2024. As the exchange rate stabilizes and macroeconomic stability takes hold, a reversal of these sentiments will further help support economic activity.

23. **Reserve Build-up has been strong in the first half of the year.** The external payments position improved in the first half of the year. The current account surplus significantly improved, aided by strong gold exports, robust remittances, and effect of the debt suspension. This development, along with the Domestic Gold Purchase Programme helped accumulate reserves faster than envisaged under the IMF-supported programme. With a favourable external position and a strong reserve build-up, the Bank of Ghana is better positioned to provide cushion against external shocks to the economy and thereby provide stability in the foreign exchange market.

24. **Fiscal policy implementation so far has been on track and aligned with the programme**. Staying on the course of the fiscal consolidation path for the rest of the year should lock-in stability in the overall macroeconomic conditions.

25. **On domestic price developments, there is some uncertainty regarding the inflation path for the year, given recent exchange rate pressures, upward adjustment in utility tariffs and increases in ex-pump fuel prices.** The above developments have resulted in a slightly elevated inflation profile for the year. Even though inflation is expected to remain within the target year band, the risks are tilted slightly on the upside. This will require maintaining the strong monetary policy stance supported by strong fiscal consolidation efforts including remaining vigilant to ensure that the end year inflation objectives are achieved.

26. Given these considerations, the Committee decided to maintain the policy rate at 29 percent.

D. Informational Note

The next Monetary Policy Committee (MPC) meeting is scheduled for September 25-27, 2024. The meeting will conclude on Monday, September 30, 2024, with the announcement of the policy decision.