BANK OF GHANA

MONETARY POLICY COMMITTEE DECISION SUBMISSIONS BY MEMBERS

MARCH 2025

The Bank of Ghana has taken another major step to enhance its monetary policy formulation process, anchored on the Inflation Targeting (IT) Framework, which started almost two decades ago. The enhancement is to shift from consensus building decision-making on positioning of the monetary policy rate to a majority vote decision process, akin to other major IT central banks. Consequently, the Bank will henceforth publish the decision statements which underscored the preferred direction of the policy rate of each Monetary Policy Committee (MPC) member as an additional communication tool to further enhance transparency and accountability in the policymaking process.

This maiden edition provides the public with the deliberations and voting patterns of the MPC members at the 123rd MPC meetings held from 24 – 26 March 2025. At the end of the meetings, the MPC members, by a majority decision, voted to **Increase the Monetary Policy Rate (MPR) by 100bps to 28.0 percent.** In addition to the increase in the MPR, and to strengthen liquidity management and enhance monetary policy transmission, the Bank will:

1. Introduce a 273-day instrument to augment the existing sterilisation toolkit:
2. Intensify the monitoring of banks' Net Open Positions to ensure compliance: and
3. Review the current structure of the Cash Reserve Ratio to assess its broader impact on liquidity conditions and financial intermediation in the economy.

POLICY DECISION SUBMISSIONS BY MPC MEMBERS

MEMBER 1

Information provided by staff suggested that global growth was resilient in 2024, supported by real income growth and lower interest rates. Global inflationary pressures seemed to persist in several economies amidst rising goods inflation and persistent services inflation. Policy decisions have been diverse across central banks, but interest rates generally remained high with implications for financial conditions. In the near-term, global financial conditions are expected to remain tight.

On the domestic economy, the external sector performed strongly in 2024, largely on the back of robust growth in gold exports, improved remittances, and lower capital outflows. Against this backdrop, the outlook for 2025 remains broadly positive. With respect to real sector developments, the latest data from the Ghana Statistical Service showed a strong real GDP outturn of 5.7 percent for 2024, relative to 3.1 percent recorded in 2023.

On monetary and financial developments, I observed significant growth in broad money supply. Banks' credit to the private sector continued to improve in both nominal and real terms. Though interbank trading remains concentrated within the policy corridor, it has trended below the policy rate. This deviation has been occasioned by increased liquidity on the wholesale end of the market. I take note of the increased liquidity situation in the market and the negative real rates on the money market, which could trigger speculative demand for foreign exchange, with its attendant price pressures.

I also observed improvements in solvency, liquidity and efficiency indicators in the banking sector in the first two months of 2025. However, there are concerns regarding asset quality and capital gap for some banks in the industry. There is the need to address the high non-performing loans and monitor the performance of undercapitalised banks as this would be critical in ensuring the stability of the banking sector.

On price developments, headline inflation declined in the first two months of 2025, although significantly above target, driven largely by decreasing non-food inflation. Core inflation measures have all witnessed broad declines since the January 2025 MPC meetings but remain high. Headline inflation is projected to decline moderately over the forecast horizon. Nonetheless it will remain above target band until the second quarter of 2026. In assessing the balance of risk to both inflation and growth, the analysis suggests that the balance of risk is tilted more on the upside to inflation.
Given the above considerations, I vote for a hike in the policy rate by 100 basis points to 28.0 percent to reinforce the Bank's commitment to ensuring price stability. This, coupled with the Bank's efficient liquidity management alongside the fiscal consolidation efforts, should strongly support the disinflation process.

MEMBER 2

Having carefully listened to staff presentations, clearly, there are a few issues that need to be tackled immediately to ensure that inflation slows down to within the target band. My submission will focus on three key emerging risks in the outlook —the current inflation inertia, emergence of financial repression on the money market, excess liquidity conditions, which is creating concerns, and requires sterilisation, as well as what the forecasts seem to suggest— which require immediate attention.

My first observation is on the inflation rate, which seems stuck around 23.0 percent. After rising to 54.1 percent in 2022, inflation eased to 23.2 percent in 2023 and then to 23.8 percent in 2024. The fact that inflation has stayed around 23.0 percent is not acceptable. Looking through the data, while food prices are high and out of the control of monetary policy, it is important that decisive action be taken to prevent the higher food inflation from feeding into non-food inflation and resulting in even higher overall inflation. Based on the stickiness of inflation, I am of the view that some monetary policy action will be needed.

My second point is on excess liquidity conditions in the banking system, which has been partly driven by an expansionary fiscal policy stance in the last quarter of 2024, and low government appetite for borrowing in the first three months of the year. Data also shows that in 2023, the Bank of Ghana sterilised almost 3.0 percent of GDP in the effort to get inflation down. However, this slowed to 1.7 percent of GDP in 2024 and is part of the reason why inflation seem to be experiencing its current level of stagnation. I would want to see a restoration of the strong sterilisation efforts exhibited in 2023. Although this move will result in a higher interest expense on the Bank of Ghana's balance sheet, a better outcome associated with lower inflation is always a good and preferred option. These arguments underscore the need for the current surge in liquidity to be fully and effectively sterilised through aggressive liquidity management operations.

My third point is what I refer to as the emergence of financial repression. This has reflected in a divergence of interest rates on the Bank of Ghana bills and Government of Ghana short-end money market instruments and will have to be addressed to avoid economic imbalances, especially with regards to inflation. This divergence could lead to higher inflation through the exchange rate channel as economic agents begin to search for higher yields in other instruments.
Finally, on my fourth point, and on staff forecasts, the initial economic conditions presented by staff and the forward-looking view of the economy are characterized by an elevated and persistent level of inflation, an accommodative monetary policy stance, fiscal slippages in 2024 that is feeding through the economy, a slight rise in global inflation reflecting uncertainties regarding trade wars, and potential for global interest rates to remain higher for longer. These conditions portend potential higher inflation in the outlook.

I am of the view that a stronger role for fiscal policy will be needed to reset inflation expectations. I would also want to see stronger effort with regards to liquidity operations to support the disinflation process. I also want to signal the Bank's concerns about inflation and that liquidity-mopping operations will have to be done at a slightly higher interest rate to make it effective. An upward adjustment in the policy rate, stronger Open Market Operations, and strong fiscal consolidation efforts should help deliver the Bank's inflation objective. Based on these, I vote for an upward adjustment in the policy rate by 100bps.

MEMBER 3

I note that globally, the ongoing disinflationary process, which led to the easing of monetary policy rates, has stalled in some countries due to rising inflation. Financing conditions remain restrictive, reflecting relatively high policy rates despite the easing. Also, geopolitical tensions and US-led trade wars pose a risk to the global outlook.

On the domestic market, the Ghana cedi has been relatively stable, supported by the Bank of Ghana's Gold Purchase Programme, improved remittances and inflows from the mining sector. However, heightened global uncertainty could weigh on the local currency with a potential exchange rate pass-through to inflation.

The balance of payments outturn was positive due to improved current account surplus and a decrease in net outflow from the capital and financial account. This resulted in significant reserves accumulation, with the reserve buildup exceeding the programme target for December 2024. Based on this, the external sector outlook remains buoyant against the backdrop of increases in gold exports supported by a sustainable implementation of the Gold for Reserves programme, continuous growth in remittance inflows, as well as commitment to the implementation of policies and reforms under the IMF programme. These will ensure continuous buildup of reserve buffers to stabilise the forex market— a necessary condition to help deliver on the price stability mandate of the Bank.

The increase in market liquidity indicators has broadly translated into declining short-term market rates. I believe that this could potentially weaken the transmission of monetary policy and thus require some vigilance and policy response. I am confident that the Bank's commitment to addressing excess market liquidity using all available monetary policy and macroprudential tools will succeed in the near term in mopping up the excess liquidity, which, together with the tight policy stance, should support the disinflation process.

The provisional GDP growth outturn of 5.7 percent for 2024 exceeded the growth outturn in 2023, reflecting a rebound in real sector activities, supported by mining and quarrying, information and communication, and the construction subsectors. I also note the significant improvement in consumer and business sentiments, mainly due to the easing of inflationary expectations and optimism about future economic conditions. While these sentiments have led to a decline in inflation expectations for the next six months, they also give an indication of the confidence households and businesses have in the monetary policy process to steer inflation towards its end-of-year target and within the medium-term range in the near-term.

The first two months of 2025 saw successive declines in headline inflation, although it remains elevated. Food inflation remains persistently high, underpinned by unfavourable weather conditions and exchange rate pass-through effects. Indeed, steering inflation to its medium-term target will require immediate policy response from all relevant stakeholders to address the supply constraints in food production, help stabilise food prices and support the disinflation process.

Economic activity is projected to remain steady in the forecast horizon, underpinned by fiscal impulse and positive real sector expectations. Weighing the upside and downside risks, I will lean towards a balanced inflation and growth outlook. In addition, given that headline inflation is projected to remain high in Q2 2025 but decline over the medium term, I am of the view that the monetary policy rate should be maintained at 27 percent for longer. My decision is supported by the various policy rate scenarios that were presented by staff, of which I firmly believe that staying put for longer will deliver a more stable path to a sustained decline in inflation towards the medium-term target, and which, of course, should be supported by a relatively stable cedi.

MEMBER 4

Global growth was resilient in 2024, but recent developments point to heightened uncertainty and a challenging global environment, primarily driven by US trade policies. The heightened uncertainty will likely dampen global growth, adversely impact the disinflation process, and, in turn, financing conditions for Emerging Markets Economies. These developments would require caution from policymakers.

On the domestic front, the external payments position continued to improve in 2024. The significant increase in the current account surplus, largely driven by increased gold exports and robust remittance inflows, has resulted in an accelerated accumulation of international reserves, surpassing the IMF programme expectation. This is contributing to the current stability in the foreign exchange market and should support the disinflation process.

Economic activity has continued to rebound, primarily driven by the industry and the services sectors. High-frequency data, including the Composite Index of Economic Activity and the Purchasing Managers' Index, point to the strong recovery of the real sector. These trends are further supported by significant improvements in sentiments from both the business and consumer confidence surveys.

However, fiscal consolidation envisaged under the 2025 Budget Statement provides some downside risks to growth. Despite this, I judge the balance of risks to growth on the upside.

Inflation remains a major concern. Following the disinflation path in 2023, inflation stabilised around 23.0 percent in 2024, significantly above programme expectations. While supply-side shocks drove up food prices, non-food inflation and core inflation eased gradually but remained elevated. Again, inflation expectations softened but remain higher than expected which, together with the earlier sharp currency depreciation and lower real interest rates, have given rise to a broadly accommodative stance, requiring monetary restraint to reset inflation on the disinflation path.

Under the circumstances, and in commitment to the mandate of price stability, decisive measures are needed. Both non-food and core inflation remain elevated, and there is a need to prevent potential second-round effects from the food price pressures from becoming entrenched. On the other hand, the signalled fiscal consolidation and policies, such as Agriculture for Economic Transformation Agenda, could dampen inflationary pressures. However, I judge that the upside risks to inflation far outweigh any downside risks.

Taken together, the balance of risks is tilted on the upside of inflation, requiring immediate action to re-anchor inflation expectations and reignite the disinflation process. Given this background, I vote to raise the policy rate by 100bps.

MEMBER 5

From the staff presentations, I note that on the global front, trade and geopolitical risks have heightened, with potential spillage to the domestic economy. Domestically, headline and core inflation rates are gradually declining but remain above the target range, necessitating cautious monetary policy actions. GDP growth has accelerated significantly, reaching 5.7 percent in 2024, while early indications from the high frequency economic indicators show robust activity for the first quarter of 2025.

The external sector performance has been robust, driven by a 50 percent surge in exports, leading to improvements in the current account balance, and relative stability in the exchange rate. Given the improvement in reserves, due to the Gold for Reserves programme, the stability in the exchange rate is expected to persist, alongside a strong rebound in investor confidence in the debt and equity markets.

Private sector credit growth, in real terms, improved to 3.1 percent in February 2025, compared with a contraction of 14.7 percent in the same period of 2024. This notwithstanding, credit growth remains relatively sluggish due to prevailing high non-performing loans in the banking sector. In terms of the financial soundness indicators, liquidity and profitability has improved, although asset quality challenges persist, and capital adequacy issues continue to linger for some banks.

The disinflation process has moderated somewhat, on the back of high food inflation. In the outlook, a mix of downside and upside risks are shaping the inflation trajectory. A tight monetary policy stance, zero monetary financing, increased sterilisation efforts, exchange rate stability, and fiscal consolidation offer potential downside risks to inflation in the near term. However, lingering food supply constraints and its potential second-round effects, among others, could pose some threats to price stability, but will likely be outweighed by the downside risks.

Considering the above, I consider risks to the inflation and growth outlook to be balanced. I believe that staying the policy rate is necessary to achieve a good balance between price stability, financial stability, and economic growth. Additionally, other monetary policy tools should be deployed to reinforce the Bank's tight monetary policy stance. I therefore vote to maintain the policy rate at 27.0 percent.

The next Monetary Policy Decision will be published after the MPC meetings in May 2025.
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