Bank of Ghana
Monetary Policy Committee
Press Release

May 22, 2023

Good morning, Ladies and Gentlemen of the Media and welcome to the press briefing after the 112th Monetary Policy Committee (MPC) meetings which took place last week. The Committee deliberated on a variety of macroeconomic issues including the impact of the Domestic Debt Exchange on the economy, recent macroeconomic developments and risks to the inflation and growth outlook. A summary of the assessment and key considerations that informed the Committee's decision on the stance of monetary policy is provided below:

1. The global economic outlook remains uncertain despite declining food and energy prices, re-opening of the Chinese economy, and improvements in business and consumer confidence. The latest Purchasing Managers' Indices (PMI) point to some rebound in economic activity driven mainly by the services sector. Notwithstanding these positive global developments, factors such as the recent financial sector turbulence in the United States, and lingering geopolitical tensions continue to keep uncertainty at heightened levels. In broad terms, downside risks remain and continue to drag rebound in economic activity. These are further being compounded by difficult policy trade-offs and sovereign debt distress in some Emerging Market and Developing Economies. Against this backdrop, the IMF has revised its growth projections downwards by 0.1 percent to 2.8 percent in 2023, compared with 3.4 percent in 2022.

2. Global headline inflation continues to ease in several economies, reflecting synchronized monetary policy tightening, declining energy and food prices, and an ease in supply chain bottlenecks. However, underlying inflationary pressures have

remained strong due to the lingering effects of past shocks, tight labour markets and strong wage growth. Consequently, central banks have continued to tighten policy rates, albeit at a slower pace, as headline inflation moderates. Weaker growth prospects and anticipation of less hawkish monetary policy stance have resulted in lower government bond yields in advanced economies. Global equity prices, which fell following the recent failure of some banks in the United States, have since recovered. In the outlook, the expectation is for further ease in financing conditions stemming from moderating inflation, slower pace of policy rate hikes by central banks, and relative stability in the banking sector in key jurisdictions.

3. On the domestic front, price developments since the last MPC meeting in March 2023, point to continued easing of inflationary pressures, with two additional consecutive declines in headline inflation. There has been a further deceleration in headline inflation to 45.0 percent in March and then to 41.2 percent in April 2023. The ease in inflation has been largely supported by monetary policy tightening, relatively stable exchange rate, and declining international crude oil prices which have allowed ex-pump petroleum prices to be adjusted downwards. From the beginning of the year to April 2023, headline inflation has recorded a decline of 12.9 percent, non-food inflation has declined by 14.5 percent, while food inflation also fell by 11.1 percent.

4. Underlying inflationary pressures are also easing, as the Bank's core measure of inflation declined for the fourth consecutive month. Core inflation, which excludes energy and utility prices, declined to 41.7 percent in April 2023, from 44.6 percent in March, and 52.0 percent in February. Similarly, except for the banking sector's inflation expectations which was broadly unchanged, both consumer and business inflation expectations dipped in April 2023.

5. On growth conditions, the latest release by the Ghana Statistical Service shows that real GDP growth moderated to 3.1 percent in 2022, compared with 5.1 percent growth recorded in 2021. Non-oil GDP growth was 3.8 percent, down from 6.6 percent over the same comparative period. The decline in growth was driven by a slowdown in the agriculture and services sectors, whereas industry recovered driven by increased gold production relative to the contraction recorded in 2021.

6. The updated real Composite Index of Economic Activity (CIEA) contracted by 6.4 percent in March 2023, compared to a contraction of 7.2 percent in the previous month, and a growth rate of 4.6 percent in March 2022. The main indicators that weighed down the Index during the period were imports, cement sales, credit to the private sector and port activity. Domestic VAT collections, industrial consumption of electricity and tourist arrivals, however, improved in the review period.

7. The Bank's latest confidence surveys conducted in April 2023 showed further improvement in sentiments. Consumer confidence improved on the back of easing inflationary pressures, which led to consumer optimism about prospects of future economic conditions. Similarly, businesses met short-term company targets during the period and expressed positive sentiments about company and industry prospects on the back of improving consumer demand and relative stability in the local currency. The survey findings were broadly aligned with observed trends in Ghana's PMI for April 2023, which signalled improvements in business conditions for the third successive month.

8. In the first four months of the year, broad money supply recorded strong growth, driven an expansion in Net Domestic Assets of the depository corporation sector, largely on account of net claims on government. Net Foreign Assets, on the other hand, contracted. Annual growth in broad money supply was 45.6 percent in April 2023, compared with 19.9 percent growth in April 2022. The growth in M2+ reflected in all the components. Reserve money also grew by 46.5 percent year-on-year in April 2023, compared with 33.8 percent annual growth, a year earlier.

9. Private sector credit generally slowed in line with the tight monetary policy stance, banks' portfolio rebalancing after the domestic debt exchange and moderation in economic activity. Nominal growth in private sector credit eased to 19.8 percent in April 2023, relative to 26.5 percent growth recorded in April 2022. In real terms, private sector credit contracted by 15.2 percent compared with the 2.4 percent growth recorded over the same comparative period.

10. On the money market, interest rates broadly trended upward in April 2023 at the short end of the yield curve, consistent with the tightening policy stance. The 91-day and 182-day Treasury bill rates increased to 19.67 percent and 22.29 percent respectively, in April 2023, from 16.22 percent and 16.72 percent respectively, in April 2022. Similarly, the rate on the 364-day instrument increased to 27.04 percent in April 2023 from 18.93 percent in April 2022.

11. The interbank weighted average rate increased to 25.89 percent in April 2023 from 16.46 percent in April 2022, underpinned by policy rate hikes during the review period. In tandem, average lending rates of banks rose to 31.66 percent in April 2023, compared with 21.61 percent in the same period of 2022.

12. The 2022 audited financial statements of banks reflected the full impact of the Domestic Debt Exchange Programme (DDEP) and the challenging operating environment that prevailed in the year. Most banks reported significant losses on the back of the mark-to-market valuation losses on their respective holdings in Government of Ghana bonds following the implementation of the DDEP. Other losses were due to higher impairments on loans and rising operating costs. The industry posted before-tax losses of GH¢8.0 billion in 2022 compared with a profit of GH¢7.4 billion recorded in 2021. After-tax loss was GH¢6.6 billion in 2022 relative to profit-after-tax of GH¢4.8 billion in 2021. The main profitability indicators, namely, return-on-assets and return-on-equity all turned negative in 2022 because of the industry's loss position.

13. The 2022 audited financial statements of banks also pointed to some impairments in capital levels, although most banks posted Capital Adequacy Ratios (CAR) above the 10 percent regulatory minimum at end-December 2022. This was attributed to the effect of the roll-out of the temporary regulatory reliefs extended to the banks to cushion them against the impact of the DDEP as was done at the onset of the pandemic.

14. In the first four months of this year, prudential data show some turnaround in the banking sector's performance following the conclusion of the DDEP, and following

consensus reached among stakeholders on the treatment of losses arising from same. Banks continue to rebalance their portfolios in response to the impact of the DDEP on their balance sheet shifting away from medium-to-long term investments to short term investments and increases in new loans. In general, the banks returned to making profits in the first four months of 2023, broadly reflecting higher operating income. Loan loss provisions also increased relative to a year ago, due to the pickup in credit growth and elevated credit risks. These developments culminated in a 47.0 percent increase in profit-before-tax in April 2023 compared with 26.3 percent growth recorded during the same period a year ago. Similarly, the industry's net income or profit-after-tax increased to GH¢2.8 billion from GH¢1.9 billion, representing 45.8 percent increase in April 2023. The industry's return-on-assets increased to 5.5 percent from 4.7 percent, while return-on-equity rose to 36.3 percent from 22.3 percent.

15. Key financial soundness indicators remained strong on the back of the impact of the regulatory reliefs. The industry's Capital Adequacy Ratio, adjusted for the regulatory reliefs, was 14.8 percent in April 2023, higher than the revised prudential minimum of 10 percent, but lower than the 21.3 percent recorded in April 2022. The decline in the ratio highlights the increase in risk-weighted assets of banks from the impact of exchange rate changes and some losses on mark-to-market investments. The industry's Non-Performing Loans (NPL) ratio deteriorated to 18.0 percent in April 2023 from 14.3 percent in April 2022, reflecting higher loan impairments and elevated credit risks. The industry's liquidity indicators have also improved following the implementation of the revised Cash Reserve Requirement.

16. Provisional data on budget execution for the first quarter of 2023 indicated an overall cash budget deficit of GH¢6.7 billion (0.8 percent of GDP), against a programmed deficit of GH¢18.5 billion (2.3 percent of GDP). The outturn was based on total revenue and grants of GH¢26.0 billion (3.3 percent of GDP), which was below the programmed target of GH¢33.6 billion (4.2 percent of GDP). Total expenditure amounted to GH¢32.7 billion (4.1 percent of GDP) below the target of GH¢52.1 billion (6.5 percent of GDP). The resulting cash deficit was financed mainly from domestic sources. The corresponding primary balance (on cash basis) for the period was a

deficit of GH¢596 million (0.1 percent of GDP), against the target deficit of GH¢4.6 billion (0.6 percent of GDP).

17. On the international commodities market, prices of Ghana's key exports remained volatile. Brent crude oil prices fell by 21.8 percent on year-on-year basis to US$82.7 per barrel in April 2023, compared with US$105.8 per barrel in April 2022, mainly on the back of reduced demand amid fears of a recession. Cocoa prices remained elevated during the first four months of 2023 driven mainly by lower production volumes from top grower Ivory Coast. At US$2,612.80 per tonne in January 2023, cocoa prices rose by 13.0 percent on year-on-year basis to US$2,924.37 per tonne in April. Gold prices have remained bullish this year, supported by economic uncertainty. In April 2023, the average price of gold reached an all-time high of US$2,000.69 per fine ounce, up 3.4 percent on a year-on-year basis.

18. The price volatility and varied production volumes of the key commodities impacted export performance during the period. From January to April, total export earnings declined by 3.6 percent year-on-year to US$5.6 billion, on the back of lower crude oil exports and to a lesser extent non-traditional exports, as gold and cocoa exports increased. Crude oil exports fell by 36.7 percent to US$1.2 billion, mainly on account of both lower price and production volume effects as the TEN fields declined from a production of 30,000 barrels per day to 24,000 barrels per day. However, gold exports increased by 15.9 percent to US$2.2 billion driven by higher export volumes, and cocoa beans export also rose by 30.3 percent to US$950.8 million, largely on the back of increased production volumes.

19. The total import bill over the review period was provisionally estimated at US$4.0 billion, down by 13.9 percent year-on-year, and driven largely by non-oil imports and to a lesser extent by oil and gas imports. Non-oil imports compressed by 16.8 percent year-on-year to US$2.8 billion, in line with slowdown in economic activities, currency depreciation and easing global inflation. Oil and gas imports dropped by 6.3 percent to US$1.2 billion, due to declining crude oil prices on the international market. The higher import compression relative to the marginal decline in export earnings resulted

in a trade surplus of US$1.6 billion in the first four months of 2023, compared to a trade surplus of US$1.2 billion in the same period of 2022.

20. The current account recorded a surplus of US$661 million in the first quarter of 2023, compared with a deficit of US$554 million over the same period in 2022, on account of the larger trade surplus, lower services, and income payments due to the external debt service suspension and higher remittance flows. The capital and financial accounts, however, recorded a net outflow of US$956 million, compared with a net outflow of US$451 million in the corresponding period of 2022. This was on the back of lower foreign direct investment inflows, portfolio reversals and other investment outflows. The developments in the current and capital and financial accounts resulted in an overall balance of payments deficit of US$354 million in the first quarter of 2023 compared with US$934 million deficit recorded in the same period in 2022.

21. Gross International Reserves at the end of March 2023 stood at US$5.1 billion, equivalent to 2.4 months of import cover, compared with the end-December 2022 stock position of US$6.2 billion, equivalent to 2.7 months of import cover. Gross International Reserves, excluding oil funds, encumbered and pledged assets, stood at US$1.4 billion. Net International Reserves as of March 2023 stood at US$2.1 billion. With the approval of the IMF-supported programme and receipt of the first tranche of the disbursement, Gross International Reserves have increased to US$5.7 billion as at Friday, 19th May, 2023, equivalent to 2.6 months of imports cover.

22. The local currency recorded some gains amid positive sentiments on developments in the economy. The Ghana cedi depreciated by 1.9 percent in March 2023 and appreciated by 0.6 percent, in April. The marginal recovery was supported by the successful conclusion of the DDEP, progress made with Ghana’s external debt restructuring towards attainment of the IMF programme, weakening US dollar and muted demand pressures.

Summary and Outlook

23. In summary, the Committee observed that the recent global outlook remains uncertain with concerns about the potential spillovers from the recent bank failures in the US amid a credit crunch and persisting geopolitical tensions. Based on these downside risks, global growth is projected to remain subdued in 2023, relative to 2022. Global headline inflation has moderated in many economies, but underlying inflationary pressures remain strong due to tight labour markets and strong wage growth. Thus, central banks have continued to tighten policy rates, though at a slower pace and financing conditions remain somewhat tight. In the near term, expectations for slower policy rate hikes in the US have weakened the US dollar somewhat, supporting investor risk appetite for emerging market and developing economies' assets.

24. The Committee acknowledged that the developments in the global economy will have implications for the domestic economy. Domestic economic activity remained weak in the first quarter of 2023. The latest GDP data suggested some slowdown, despite the positive signals of renewed consumer and business confidence in the economy. Indications are that growth will remain below potential in the medium term.

25. Performance of the banking sector broadly reflected the general macroeconomic operating environment as well as the impact of the DDEP as indicated in the 2022 audited financial statements. However, prudential returns for the first four months of 2023 have shown signs of recovery in the profitability of banks and a gradual improvement in the solvency positions, supported by the regulatory reliefs issued to safeguard stability of the financial sector.

26. The Committee assessed that recent approval of the US$3.0 billion ECF arrangement has reinforced recovery efforts at restoring macroeconomic stability and debt sustainability. This should further help re-establish investor confidence in the domestic economy. While this development is positive for the domestic economy, it is conditional on a strong implementation of the fiscal and structural policies under the programme going forward. This includes structural reforms on tax policy, revenue administration, and public financial management to boost revenues and reposition fiscal policy implementation on a consolidated and sustainable path.

27. The Committee further noted the significant decline in headline inflation from the beginning of the year of more than 12.0 percent. The percentage of items in the CPI basket with inflation of more than 50 percent and above is receding, an indication of a strong return to the disinflation path. This is also supported by core inflation, which is also easing at a fast pace. The tight monetary policy through additional liquidity management operations to address excess liquidity conditions in the market, relative stability in the local currency, and easing of ex-pump petroleum prices have supported the disinflation process. Furthermore, the Bank of Ghana has signed the Memorandum of Understanding on zero financing to the budget to eliminate fiscal dominance and allow for a faster ease in inflation towards the target band. These policies should provide the much-needed anchor to reinforce the disinflation process and reset the economy on the path of recovery.

28. Given these considerations, the MPC decided to maintain the Monetary Policy Rate at 29.5 percent.

Informational Note

The next Monetary Policy Committee (MPC) meeting is scheduled for July 19 - 21, 2023. The meeting will conclude on Monday, July 24, 2023, with the announcement of the policy decision.