# Bank of Ghana
# Monetary Policy Committee
# Press Release

**27th November, 2023**

Good morning, Ladies and Gentlemen of the Media and welcome to the press briefing for the 115th Monetary Policy Committee (MPC) meetings which took place last week. The Committee deliberated on global and domestic macroeconomic developments including assessment of the performance of the economy and the risks to the outlook for inflation. 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 economic activity improved in the first half of the year, but continued weakness in the manufacturing sector and moderation in the services sector linger**. These conditions coupled with weakening consumer and business confidence, especially in advanced economies, have moderated the pace of recovery in global growth. In addition, the observed growth rebound in China, in the third quarter, has slowed down, reflecting deflation concerns, and persistent contraction in the property market and has further weakened growth prospects. In view of these developments, the October 2023 IMF World Economic Outlook projects global growth at 3.0 percent in 2023 and 2.9 percent in 2024, down from 3.5 percent in 2022. For Emerging Market and Developing Economies (EMDEs) growth is projected to remain stable at 4.0 percent in both 2023 and 2024.

2. **Global headline inflation remains on a downward trajectory, largely supported by the decline in energy and food prices**. However, the pace of the disinflation has slowed underscored by still tight labour markets across advanced economies. Longer-term inflation expectations, however, remain anchored, reflecting the continued tightening policy stance of central banks and the recent trend declines in headline and core inflation. In the outlook, the gradual disinflation process should continue as the effects of tighter monetary policy passes through to core inflation.

3. **Global financing conditions remain tight reflecting tighter monetary policy stances globally.** Most central banks expect policy rates to remain high for longer to fully dampen inflationary pressures, as a result, long-term bond yields remain high. Meanwhile, EMDEs have continued to face high borrowing costs amid higher long-term bond yields and elevated sovereign spreads. At the same time, lending standards have tightened, and loan demand has dropped in advanced economies. There are, however, emerging signs of recovery in the equity markets supported by the expectation that central banks in advanced economies have reached the peak of their tightening cycle, while outflows from EMDEs have declined sharply.

## B. Domestic Macroeconomic Conditions

4. **Economic activity continued to recover beyond the first half of the year.** After recording an average real GDP growth of 3.2 percent in the first half of the year, indications are that growth is still firming up. In the third quarter, the Bank's high frequency real sector

indicators pointed to continued pick-up in economic activity, although at a moderate pace. The updated Composite Index of Economic Activity (CIEA) contracted at a lower rate of 0.4 percent in September 2023, compared with a sharper contraction of 1.2 percent in the same period of last year. The main indicators that contributed to the relative improvement in the CIEA were industrial consumption of electricity, private sector contributions to Social Security, and tourist arrivals. The momentum in credit to the private sector, cement sales, and port activity, however, slowed down over the period.

5. **The Bank's confidence surveys conducted in October 2023 reflected emerging positive sentiments about the economy.** The Business Confidence Index improved as firms met their short-term targets and expressed optimism about business prospects, while the Consumer Confidence Index remained generally unchanged and stable over the August survey. Also, Ghana's Purchasing Managers' Index (PMI) for October 2023 was at 50.5, unchanged from the previous month level.

6. **Inflationary pressures continue to ease in line with the tighter monetary policy stance.** In October 2023, headline inflation declined to 35.2 percent, further down from 38.1 percent in September, and 40.1 percent in August 2023. These trends were supported by broad-based deceleration in prices of items in the consumer basket. The decline in October's inflation was driven by both food and non-food prices. Food inflation declined to 44.8 percent in October 2023, from 49.3 percent in September, while non-food inflation eased further to 27.7 percent from 29.3 percent, over the same comparative period.

7. **Core inflation has also eased significantly, reinforcing the broad deceleration in prices**. All core inflation measures monitored by the Bank declined, with the Bank's main core inflation measure, which excludes energy and utility, decelerating to 36.2 percent in October, from 39.0 percent in September, and 41.0 percent in August 2023. Similarly, inflation expectations of banks, consumers, and businesses, all eased in October 2023.

8. **Fiscal Policy Implementation for the first half of the year has been in line with the performance criteria under the IMF ECF-supported programme**. The targets on the primary fiscal balance on a commitment basis, non-accumulation of external debt payment arrears, and newly collateralized debt by central government and public entities were all attained. Fiscal performance based on the narrow budget shows a deficit of 2.9 percent of GDP for the period January through October 2023, against a target of 5.1 percent of GDP.

9. **The pace of growth in monetary aggregates has significantly slowed, underpinned by tighter liquidity management**. Reserve money contracted by 2.6 percent on a year-on-year basis in October 2023 compared to an increase of 62.7 percent recorded for the corresponding period in 2022. The significant contraction in reserve money was on the back of strict adherence to zero financing of the budget and sustained liquidity withdrawal efforts of about GHS44.9 billion (5.3 percent of GDP, year-to-date). As a result of these, broad money supply (M2+) growth declined to 20.4 percent in October 2023, relative to 45.2 percent in October 2022.

10. **Credit to the private sector contracted during the review period.** Banks continue to deploy their resources towards short-term investments as opposed to extension of credit, in response to the increased risks associated with lending following the deteriorating macroeconomic conditions and the impact of the Domestic Debt Exchange Programme (DDEP). Private sector credit contracted by 7.5 percent in October 2023, compared with a 57.3 percent growth recorded in October 2022. In real terms, credit to the private sector contracted significantly by 31.6 percent relative to a growth of 3.0 percent recorded over the same comparative period.

11. **On the money market, interest rates broadly tightened at the short end of the yield curve**. The 91-day and 182-day Treasury bill rates fell marginally to 29.40 percent and 31.37 percent respectively, in October 2023, from 31.53 percent and 32.61 percent

respectively, in October 2022. The rate on the 364-day instrument, however, increased to 33.16 percent from 32.32 percent over the same comparative period.

12. **The interbank weighted average rate, the rate at which banks lend among themselves, increased to align with the policy corridor.** The weighted average rate increased to 28.49 percent in October 2023 from 23.98 percent in October 2022, in line with movements in the monetary policy rate and an increase in the Cash Reserve Ratio. This led to an improvement in the policy transmission as the average lending rate of banks increased to 32.69 percent in October 2023, from 31.40 percent recorded in the corresponding period of 2022.

13. **The banking sector remained stable, sound, liquid and profitable, even as banks continue to adjust to the impact of the DDEP.** The sector's capital adequacy levels remained above the minimum regulatory level with regulatory reliefs, with most banks carrying excess liquidity. The industry's NPL ratio increased to 18.3 percent in October 2023, from 14.0 percent in October 2022 – and 15.7 percent in January 2023 – reflecting elevated credit risk associated with the lagged effects of the macroeconomic crisis of 2022. Profitability continues to improve as banks continue to invest in high yielding short-dated BOG and GOG instruments. The banking sector showed some resilience as the various stress tests on banks' capital, following adverse macroeconomic shocks, pointed to stability.

14. **Developments on the international commodity market show that prices of Ghana's major export commodities recorded gains relative to price conditions at the beginning of the year**. Since January 2023, crude oil prices have registered a 9.1 percent increase to US$88.7 per barrel in October 2023 driven in large part by concerns about global supply shortfalls arising mainly from the extension of production cuts from Saudi Arabia and Russia. Cocoa prices have risen sharply to levels last seen in the 1970's to US$3,603.3 per tonne in October 2023. The 41.9 percent increase in cocoa prices is mainly attributed to mounting concerns over tight supplies in Ivory Coast and Ghana stemming from adverse weather conditions. Gold prices gained 6.6 percent to settle at US$1,913.79 per fine ounce largely due to expectations of a pause in the U.S. Federal Reserve rate hikes and demand for the commodity on account of its safe-haven status amid heightening geopolitical tensions.

15. **There was further improvement in the trade balance over the first ten months of the year, partly reflecting the generally favourable commodity prices alongside import compression.** The trade account indicated a higher surplus of US$2.1 billion for the first ten months of 2023, relative to a trade surplus of US$1.8 billion in the same period of 2022. This was driven by a greater reduction in imports relative to exports. Total imports declined by 8.9 percent to US$11.4 billion, driven by both non-oil imports and oil and gas imports. Non-oil imports were estimated at US$7.7 billion, down by 9.3 percent, while oil and gas imports also declined by 8.1 percent to US$3.7 billion. Merchandise exports also declined by 6.4 percent to US$13.4 billion and this was weighed down by crude oil exports and cocoa products. Of the total, gold export earnings increased by 13.9 percent to US$6.1 billion benefiting from both volume and prices increases. Cocoa beans exports also increased by 6.1 percent to US$1.1 billion on the back of higher volumes. In contrast, crude oil exports decreased sharply by 33.5 percent to US$3.1 billion mainly driven by reduced volumes, while 'Other' exports, including non-traditional exports, decreased marginally by 1.1 percent to an estimated value of US$2.6 billion.

16. **Data up to the third quarter of the year shows that the current account recorded a surplus of US$1.0 billion, in contrast to a deficit of US$1.8 billion recorded for the same period of 2022.** The surplus was driven by improvements in the trade account, a sharp drop in income payments, and strong growth in remittance inflows. The income account improved significantly on the back of the debt standstill, which led to a sharp decline in net income payments by 56 percent to US$1.4 billion and in interest payments on public debt by 89.8 percent to US$134 million compared with US$1.3 billion same time in 2022. Remittance

flows, however, increased to US$3.2 billion compared with US$2.5 billion in the same period of 2022.

17. **The capital and financial accounts are benefitting from reduced portfolio outflows and lower amortization payments**. The capital and financial accounts recorded a net outflow of US$1.5 billion in the review period, slightly lower than the net outflow of US$1.6 billion a year earlier, due to lower portfolio payments and reduced government amortization. In the period, portfolio outflows reduced to US$195 million compared with US$1.9 billion a year earlier. Also, government loan amortization declined by 41.7 percent to US$523 million, mainly due to the debt standstill. Foreign direct investment also moderated to US$926 million from US$1.1 billion in 2022.

18. **The favourable developments in the current, and the capital and financial accounts impacted positively on the balance of payments**. By the end of the third quarter, the trade surplus, the current account surplus, and the lower capital outflows helped lower the overall balance of payments deficit to US$617 million in the third quarter of 2023 from a deficit of US$3.4 billion in the third quarter of 2022.

19. **Gross International Reserves, excluding pledged assets and petroleum funds, reflected a build-up in reserves**. The level of reserves, as defined under the IMF-supported programme increased to US$2.5 billion (equivalent to 1.1 months of import cover) at the end of October 2023, from the December 2022 position of US$1.5 billion (0.6 month of import cover). This indicates a build-up of about US$1.0 billion, mainly driven by the gold for reserves programme.

20. **The above favourable external developments and tighter monetary policy stance have resulted in a relatively stable Ghana cedi in the year so far**. Excluding the sharp depreciation of 20.6 percent in January, the Ghana cedi has cumulatively depreciated by 6.6 percent against the US dollar between February and November 20, 2023. The relative stability in the foreign exchange market has largely been supported by inflows from the IMF ECF first tranche, the Ghana's Domestic Gold Purchase Programme, as well as purchases of repatriated export proceeds from mining companies and oil and gas producers.

## C. Summary and Outlook

21. **The Committee noted that tighter financing conditions, slower growth in the manufacturing and services sectors, and China's slower recovery were exerting some moderating influence on global economic activity**. Earlier aggressive policy tightening by advanced economies central banks has contributed to the dampening of inflationary pressures with headline inflation decelerating in many of their economies. This has led to a pause in the tightening cycle. But core inflation remains high and is declining slowly due to strong labour markets. In the outlook, central banks are expected to maintain policy rates at high levels for much longer periods to contain the still-elevated inflation levels relative to targets. The prevailing higher policy rates, long-term bond yields, and renewed strength of the US dollar could continue to keep global financing conditions tight with consequences for Emerging Market and Developing Economies. Furthermore, rising geopolitical tensions is creating uncertainty about crude oil prices and full crystallization of this risk could undermine the disinflation process in many economies, including Ghana.

22. **On the domestic macroeconomic environment, the Committee observed the broad improvements in the economy, reflecting stable exchange rates, the sustained disinflation process, and increased accumulation of foreign exchange reserves.** These developments reflect improvements in underlying policies, including fiscal consolidation, zero financing of the budget by the central bank, and relatively favourable external conditions. In the outlook, the improvements will be sustained by the continued maintenance of tight

monetary conditions, sustained fiscal consolidation, and continued reserve accumulation supported through the Gold for Reserves programme.

23. **On growth, domestic economic activity continues to recover evidenced by the steady improvement in the Bank's high frequency economic indicators**. The CIEA is recovering from negative territory and is likely to turn positive by year end, showing a more solid rebound in economic activities. Both business and consumer sentiments remain largely stable. Private sector credit growth, however, remains dampened due to risk aversion by banks amid tightened policy conditions and rising credit risk. With continued improvement in the macroeconomic conditions supported by declining inflation, credit conditions are expected to improve with a turnaround in credit extension to support growth.

24. **The external payment position is expected to improve, underpinned by continuous implementation of the IMF-supported programme, and the Gold for Reserves programme, among others**. The early completion and settlement of favourable agreement terms with bilateral creditors and commercial bondholders will help boost confidence and trigger resource flows to the economy. The strong build up in reserves have provided cushion against external vulnerabilities, including the delay in the cocoa syndicated loan. Reserve build-up will even be stronger by the end of the year on receipt of the cocoa loan and disbursement of the IMF second tranche.

25. **In the outlook, sustained fiscal consolidation will be needed to place the economy firmly on the course of disinflation and economic growth.** The implementation of the budget thus far has been strong reflecting the attainment of fiscal targets under the programme for the first review. The 2024 budget statement is also designed to reinforce the ongoing fiscal consolidation.

26. **Headline inflation has continued to decelerate in the past few months consistent with forecasts.** The latest Bank forecast indicates that the disinflation process is expected to continue, supported by the current tight monetary policy stance, relatively stable exchange rate, and base drift effects. All the core measures of inflation and inflation expectations are pointing downwards, and the Bank will remain vigilant on risks to the disinflation process.

27. **The Committee noted that although inflation is decelerating, it remains high relative to target.** Therefore, there is a need to keep the policy rate tighter-for-longer until inflation is firmly anchored on a downward trajectory towards the medium-term target. Given these considerations, the Committee decided to maintain the monetary policy rate at 30.0 percent.

## D. Additional Monetary Policy Measure

28. The Committee also made the following changes to:

- Unify the currency holding for the Cash Reserve Ratio requirement on foreign currency denominated deposits and domestic currency deposits for banks.

- The new unified Cash Reserve Ratio for total deposits (cedi and foreign currency) – are to be held in cedis – and this is therefore being reset to 15 percent effective 30th November 2023.

This measure is to reinforce the Bank's liquidity management operations to address excess structural liquidity conditions in the market and provide additional impetus to the disinflation process. The Committee will continue to monitor developments in the banking sector and deploy other policy tools, as and when required, to support stability.

## E. Informational Note

29. The next Monetary Policy Committee (MPC) meeting is scheduled for January 23 - 26, 2024. The meeting will conclude on Monday, January 29, 2024, with the announcement of the policy decision.