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MONETARY POLICY REPORT

The Bank of Ghana increases Monetary Policy Rate substantially to 17%

The Monetary Policy Committee ("MPC" or "the Committee") of the Bank of Ghana (BoG) increased the benchmark rate substantially by 250 basis points to 17% on March 21, 2022. The hike in the policy rate is the first time since November 2018 that the rate has gone up so high. The MPC's decision to increase the policy rate is due to the current pressures on the economy, depreciation of the Ghana Cedi against foreign currencies, uncertainty about the economic outlook and developments in Russia – Ukraine, which has aggravated the COVID-related supply bottlenecks, elevated inflation expectations and triggered higher crude oil prices astronomically, compounding the already high global inflationary pressures. The move to adjust the base lending rate of the Central Bank is expected to control the rising inflation and check the rapid depreciation of the Cedi. The Committee noted that domestic growth conditions are fairly strong despite signs of weakening consumer and business sentiments.

Economic activities continued to rebound at a slower pace

- Real GDP growth for the 3Q2021 averaged 6.6%, higher than the 5.1% recorded in the second half of 2021. Similarly, non-oil GDP growth averaged 8.6% against a contraction of 6.5% in the second-half of 2021.
- Crude oil prices increased by 25.0% y/o/y to an average of USD93.5 per barrel in February 2022 driven by supply restraint and political tensions between Russia and Ukraine, which added to concerns about further disruption in an already-tight market.
- On a year-to-date basis, gold prices rose by 3.3% to average USD1,849.5 per fine ounce in February 2022. Cocoa prices also rose to USD2,659.5 per tonne in February 2022 compared to the US$2,545.9 per tonne a month earlier.

Inflation inched up beyond Medium Term Target Band

- Headline inflation increased from 13.9% in January 2022 to 15.7% in February 2022. The increase came on the back of rising food prices, rising crude oil prices and some pass-through effects of exchange rate depreciation. At 15.7% for February 2022, headline inflation had moved outside the upper band of the medium-term target of 8±2% by 5.7%
- Core inflation measure, which excludes energy and utility, increased from 11.8% in December 2021 to 15.4% in February 2022.

Summary of Government Fiscal Operations

- Provisional fiscal data indicated an overall budget deficit, on a cash basis (excluding financial sector clean-up costs), of 9.7% of GDP for the 12 months of 2021, compared to a target of 9.4% of GDP.
- Total revenue and grants for the period amounted to GH¢67.9bn (15.4% of GDP), falling below the target of GH¢ 72.5bn (16.7% of GDP) mainly due to shortfalls from tax and non-tax sources. Total expenditure amounted to GH¢ 110.4bn (25.1% of GDP), below the target of GH¢113.8bn (25.9% of GDP).
- These developments impacted the stock of public debt which increased to GH¢351.8bn (80.1% of GDP) at the end of December 2021 compared with GH¢291.6bn (76.0% of GDP) recorded at the end of December 2020.

Summary of Development in the Banking Sector

- The weighted average interbank lending rate inched up to 20.52% in February 2022 from 20.04% recorded in December 2021.
- Total assets increased by 23.5% y/o/y to GH¢187.8bn as at February 2022. Asset quality has also recorded some improvements with a decline in the Non-Performing Loans (NPL) ratio to 14.4 % in February 2022 from the peak of 15.3% in February 2021.
- Capital Adequacy Ratio of the industry stands at 19.6% in at end-February 2022, well above the 11.5% minimum regulatory benchmark.

Outlook

- The MPC is however confident that ongoing discussions will lead to very decisive policy reforms that will address underlying fiscal mismatches, restore some calm in the markets and help re-anchor inflation expectations
- In addition to the upward policy rate adjustment, BoG will, effective April 1, 2022, enforce some measures in relation to universal banks. Among these measures are the increase of Cash Reserve Ratio to 12%, resetting Capital Conservation Buffer to the pre-pandemic level of 3% hence making the Capital Adequacy Ratio a total of 13%, and resetting provisioning rate for loans in the Other Loans Exceptionally Mentioned (OLEM) category to the pre-pandemic level of 10%

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