

## The Bank of Ghana Hikes Policy Rate Substantially to 24.5%

The Monetary Policy Committee (“MPC” or “the Committee”) of the Bank of Ghana (BoG) increased the benchmark rate substantially by 250 basis points to 24.50% from the previous rate of 22%, to address the economy's rapid deterioration amid crippling inflation. This is the fourth time that the rate has been increased and makes for a cumulative 1,000 basis points this year.

The MPC's decision to increase the policy rate is due to the depreciation of the Ghana Cedi against foreign currencies, surging inflation due to continuous fuel price increments and fiscal challenges emanating from poor revenue performance among others. The Committee asserts that current economic condition is sub-optimal and will be interim until agreements are reached on an IMF-supported programme to re-anchor expectations and help foster macroeconomic stability.

The increase in the policy rate means cost of borrowing is expected to go up significantly and consequently increase cost of living and doing business in the country. A higher policy rate alone may not be sufficient to stabilise the economy in the very near term, it will at least provide reassurance on the seriousness of Ghana's negotiations with the IMF. To address the immediate economic challenges, the Committee has taken the following measures;

### **Strong pick-up in economic activities**

- ❖ Real GDP grew by 4.8% in the second quarter of 2022 as compared to 4.2% in same period of 2021. Similarly, non-oil GDP grew slowly at 6.2%, slightly down from 6.6% in the same comparative period. The strong pick-up in economic activity in the second quarter was largely driven by the services and industry sectors.
- ❖ Crude oil prices since the start of the year slowed to settle at USD97.7 per barrel in August 2022, representing a 30.7% on a year-to-date basis on the back of global recession concerns.
- ❖ On a year-to-date basis, gold prices fell by 1.5% to average USD 1,763.71 per fine ounce in August 2022. Cocoa prices also slipped to USD 2,385.96 per tonne, representing a contraction of 3.9% on year-to-date basis.

### **Inflation inched up beyond Medium Term Target Band**

- ❖ Headline inflation surged from 31.7% in July 2022 to 33.9% in August 2022. The increase came on the back of rising food prices, continued upward adjustments in ex-pump petroleum prices and transportation costs and possible increases in utility tariffs.
- ❖ Core inflation measure, which excludes energy and utility, up from 30.2% in July 2022 to 32.6% in August 2022

### **Summary of Government Fiscal Operations and Banking Sector**

- ❖ Provisional fiscal data indicated an overall budget deficit, on a cash basis, of 6.4% of GDP for the first 9-months of 2022, compared to a revised target of 5.0% of GDP.
- ❖ Total revenue and grants for the period amounted to GH¢51.49 billion (8.7% of GDP), falling below the target of GH¢60.08 billion (10.2% of GDP) mainly due to shortfalls from tax and non-tax sources. Total expenditure amounted to GH¢89.04 billion (15.0% of GDP), below the target of GH¢89.46 billion (15.1% of GDP).
- ❖ The weighted average interbank lending rate inched up to 29.81% in September 2022 from 20.20% recorded in September 2021. Capital Adequacy Ratio of the industry stands at 18.1% in at end-August 2022, well above the 13.0% minimum regulatory benchmark.

The next MPC meeting is scheduled for November 22 - 25, 2022. The meeting will conclude on Monday, November 28, 2022 with the announcement of the policy decision.

#### **ANALYSTS**

Godwin Kojo Odoom: Senior Research Analyst  
[gkodoom@sicbrokerage.com](mailto:gkodoom@sicbrokerage.com)

Obed Owusu Sackey: Analyst  
[oosackey@sicbrokerage.com](mailto:oosackey@sicbrokerage.com)

Wisdom Kwame Asigbetse  
[wkasigbetse@sicbrokerage.com](mailto:wkasigbetse@sicbrokerage.com)