Bank of Ghana
Monetary Policy Committee
Press Release

27th September, 2024

Good morning, Ladies and Gentlemen of the Media, and welcome to the press briefing for the 120th Monetary Policy Committee (MPC) meeting. The Committee met this week, deliberated and assessed global and domestic macroeconomic developments, and the balance of risks to the outlook. 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 growth continued at a steady pace in the second quarter of 2024, supported by stronger spending, a resilient services sector, and declining crude oil prices**. However, continued weakness in the manufacturing sector, moderating growth momentum in China, cooling labour markets in advanced economies, escalating geopolitical tensions, and rising uncertainties related to elections in many countries could potentially weigh on growth prospects in the second half of 2024. The latest projections by the International Monetary Fund forecasts growth to remain unchanged at 3.2 percent for 2024 and slightly up to 3.3 percent in 2025.

2. **Global inflation continues to slow down, on account of declining crude oil prices, food prices and moderating wage growth**. Crude oil prices fell due to the weaker than expected economic growth in China. The Food and Agriculture Organization global food price index declined by 1.1 percent in August, on the back of lower prices for cereals, meat and sugar. In addition, cooling labour markets in advanced economies have contributed to a moderation in wage growth, which has helped reduce services inflation. Core inflation has also declined in both advanced and emerging market economies, with the weakening US dollar playing a crucial role in alleviating inflationary pressures for Emerging Market and Developing Economies. Looking ahead, the ongoing global disinflation is expected to continue, albeit at a slower pace.

3. **Central banks in major Advanced Economies have begun the much-anticipated policy easing cycle amid declining inflation rates.** The Federal Reserve Bank, the European Central Bank and the Bank of England have all reduced their policy rates in recent months as inflation gradually approaches target. The expectation for lower policy rates has brought down long-term bond yields, supported a rebound in equity prices, and led to a strengthening of portfolio flows to Emerging

Market and Developing Economies in recent months as investors search for higher yields. Further declines in the policy rate in Advanced Economies is expected to result in an ease in global financial conditions in the near-term.

B. Domestic Macroeconomic Conditions

4. **Provisional GDP data from the Ghana Statistical Service for the second quarter of 2024 point to a stronger growth outturn than expected**. Real GDP grew by 6.9 percent in the second quarter of 2024, compared with 2.5 percent in the corresponding quarter of 2023, and 4.7 percent in the first quarter of 2024. Non-oil GDP growth was 7.0 percent compared with 3.1 percent in the same period of 2023. The growth outturn was largely driven by a strong performance in the industry sector, which grew by 9.3 percent, having contracted by 2.6 percent same time last year. The services and agricultural sectors also grew by 5.8 percent and 5.4 percent, respectively.

5. **Trends in the Bank's high frequency real sector indicators point to a sustained pickup in economic activity.** The updated real Composite Index of Economic Activity (CIEA) recorded an annual growth of 1.6 percent in July 2024, compared to a contraction of 2.8 percent for the corresponding period of 2023. Construction activities, consumption demand by households and firms, exports, imports, and tourist arrivals contributed to the improvement in economic activity during the period.

6. **The latest surveys conducted in August 2024 showed a rebound in both consumer and business confidence**. Consumer confidence improved on account of easing inflationary pressures which has led to optimism about future economic conditions. Similarly, business confidence firmed up as firms met their short-term targets and expressed positive sentiments about company and industry prospects amidst improving macroeconomic conditions. The survey findings were broadly in line with observed trends in Ghana's Purchasing Managers' Index (PMI), which improved to 51.1 in August 2024 from 50.1 in the previous month.

7. **Domestic price developments since the last MPC indicate a disinflation process that remains on track.** This was largely supported by the still tight monetary policy stance and easing food inflation. Headline inflation has declined consistently since the last MPC to 20.4 percent in August from 22.8 percent in June, and 20.9 percent in July 2024, driven mainly by food inflation. Food inflation declined to 19.1 percent in August from 24.0 percent in June, and 21.5 percent in July, while non-food inflation dropped marginally to 21.5 percent from 21.6 percent in June 2024. The Bank's main core measure of inflation, which isolates prices of energy and utility items from the consumer basket, eased to 19.4 percent in August 2024 from 22.1 percent in June.

8. **Provisional data on budget execution from January to July 2024 indicated an overall fiscal deficit (commitment basis) of 2.4 percent of GDP, against the budget target of 2.8 percent of GDP**. The deficit of GH¢24.8 billion was financed from domestic (GH¢ 24.2 billion) and foreign (GH¢17.4 billion) sources. The primary balance for the period was a deficit of GH¢3.8 billion (0.4 percent of GDP), against a primary deficit target of GH¢3.5 billion (0.3 percent of GDP).

9. **Developments in August 2024 showed a decline in total liquidity relative to the corresponding period in 2023**. Annual growth in M2+ declined to 37.1 percent in August 2024, relative to 40.8 percent in August 2023, due to a moderation in the pace of growth in Net Domestic Assets of depository institutions. In contrast Net Foreign Assets of depository institutions increased significantly, reflecting a net build-up in foreign assets. The decline in broad money supply was reflected in a slower pace of growth in demand deposits, savings and time deposits, and foreign currency deposits. Growth in currency held by the public, however, increased over the same comparative period.

10. **Private sector credit continued to grow during the review period** to 21.7 percent in August 2024, from 10.7 percent in August 2023. In real terms, private sector credit recorded a growth of 1.1 percent, relative to a 21.0 percent contraction in 2023.

11. **On year-on-year basis, money market interest rates broadly trended downwards**. The 91-day and 182-day Treasury bill rates declined to 24.85 percent and 26.76 percent respectively, in August 2024, from 26.35 percent and 27.84 percent respectively, in the corresponding period of 2023. Similarly, the rate on the 364-day instrument declined to 27.90 percent in August 2024 from 30.88 percent in August 2023.

12. **The weighted average lending rate on the interbank market increased.** The rate increased to 28.84 percent in August 2024 from 26.59 percent in August 2023. The average lending rates of banks to households and firms over the period declined marginally to 30.79 percent in August 2024 from 31.78 percent in August 2023.

13. **The banking sector's performance continued to improve, with assets growing at 38.7 percent at end-August 2024, compared to 19.6 percent in August 2023.** Both pre-tax and after-tax profits were higher in the first eight months of 2024 relative to the same period last year. On solvency, the Capital Adequacy Ratio (CAR) of the industry stood at 10.3 percent in August 2024, higher than the 7.5 percent recorded in August 2023. With reliefs, CAR was 13.8 percent in August 2024, compared to 14.2 percent in August 2023. Liquidity and efficiency ratios also improved during the first eight months of the year, highlighting that broadly, key financial soundness indicators are improving in the banking sector and remaining positive. Despite these improvements, the NPL ratio was 24.3 percent in August 2024, up from 20.0 percent in August 2023, reflecting increased defaults from large borrowers and highlighting that elevated credit risk remains the primary concern for the sector's outlook.

14. **On the international commodities market, trends in the prices of Ghana's major export commodities were mixed.** From the beginning of the year to August 2024, crude oil prices declined by 2.1 percent to settle at an average price of US$78.92 per barrel, due to slowing demand in China and the U.S. Cocoa prices eased to US$7,409.50 per tonne in August, after climbing to an all-time high of US$10,116.86 per tonne in April 2024. In contrast, gold prices rose by 21.3 percent on year-to-date to an average price of US$2,469.39 per fine ounce on the back of geopolitical tensions and expectations of rate cuts by the U.S. Federal Reserve.

15. **The external payment position was strong in the first eight months**. The trade balance recorded a provisional surplus of US$2.78 billion, higher than the surplus of US$1.66 billion recorded in the corresponding period of 2023. The surplus was primarily driven by an increase in gold and crude oil exports. Total exports went up by 22.3 percent to US$12.92 billion. Notably, gold exports rose by 62.2 percent to US$7.27 billion, while crude oil exports went up by 16.7 percent to US$2.77 billion. In contrast, cocoa exports – both beans and products – fell by 42.7 percent to US$917.8 million in August 2024, mainly due to challenges posed by extreme weather conditions. The total imports bill increased by 14.0 percent to US$10.14 billion over the same period. Of the total, oil imports increased by 3.6 percent to US$3.0 billion, while non-oil imports went up by 19.0 percent to US$7.1 billion.

16. **The strong buildup in international reserves continued into August 2024.** Gross International Reserves increased by US$1.58 billion to US$7.50 billion at end-August 2024, equivalent to 3.4 months of import cover. Net International Reserves also increased by US$1.73 billion to US$4.92 billion at end-August 2024. The higher build-up in Gross International Reserves was largely on account of the strong performance of the domestic gold purchase programme.

17. **After coming under pressure in May and June, the exchange rate has generally stabilized in recent times**. This was mainly driven by the still tight monetary policy stance and improved forex liquidity support. From the beginning of the year to 25th September 2024, the Ghana cedi depreciated by 24.3 percent against the U.S dollar. In the second half of the year the cedi has witnessed a slower pace of depreciation of 7.1 percent.

C. Summary and Outlook

18. **The external environment has improved since the last MPC meeting as global economic activity remained resilient in the second quarter of 2024**. Growth was supported by private and government spending, a resilient services sector and declining oil prices. Additionally, the anticipated policy easing cycle initiated by major central banks in advanced economies, in response to declining inflation rates, have also been supportive of growth. These conditions are favorable for the domestic economy.

19. **The domestic economy continues to recover, evidenced by the stronger than expected GDP outturn for the second quarter of the year.** Growth in the second half of the year is also expected to be firm, supported by sustained activities in the construction sector, consumption of goods and services by households and firms, exports of gold and crude oil production, as well as banks' extension of credit to the private sector.

20. **The external payment position continues to improve, characterized by higher trade surplus, and strong reserves build-up.** Notably, the robust growth in gold exports has helped to improve the trade surplus and international reserves, complimented by external financial inflows from the

IMF and the World Bank. These together have contributed to an improved balance of payments position in the first half of 2024. Looking ahead to the end of the year, the balance of payments is projected to achieve a surplus, driven by increased exports, stronger remittance growth, and lower government external payments.

21. **In the assessment of the Committee, preliminary data since the last MPC meeting held in July 2024 indicates that macroeconomic conditions have generally improved.** Headline inflation has eased, and growth has `picked up. Fiscal policy implementation has been robust, providing impulse that is supportive of growth, while monetary conditions have remained tight and supportive of the disinflation process.

22. **Headline inflation, since the first quarter, has declined for 5 consecutive months by 5.4 percentage points.** Core inflation has also declined sharply over the same comparative period by 6.9 percentage points. These trends suggest that the disinflation process is on course. The latest forecasts show that inflation will continue to ease towards the range target of 13-17 percent for the year and steadily track back towards the medium-term target of 6-10 percent by the end of 2025, barring unanticipated shocks. At the current juncture, the committee judged the risks to inflation outlook as fairly balanced.

23. Given these considerations, the Committee decided to lower the Monetary Policy Rate by 200 basis points to 27.0 percent.

D. Informational Note

The next Monetary Policy Committee (MPC) meeting is scheduled for November 20-22, 2024. The meeting will conclude on Monday, November 25, 2024, with the announcement of the policy decision.