

BOG MONETARY POLICY RATE

MARCH 2022

WRITTEN BY

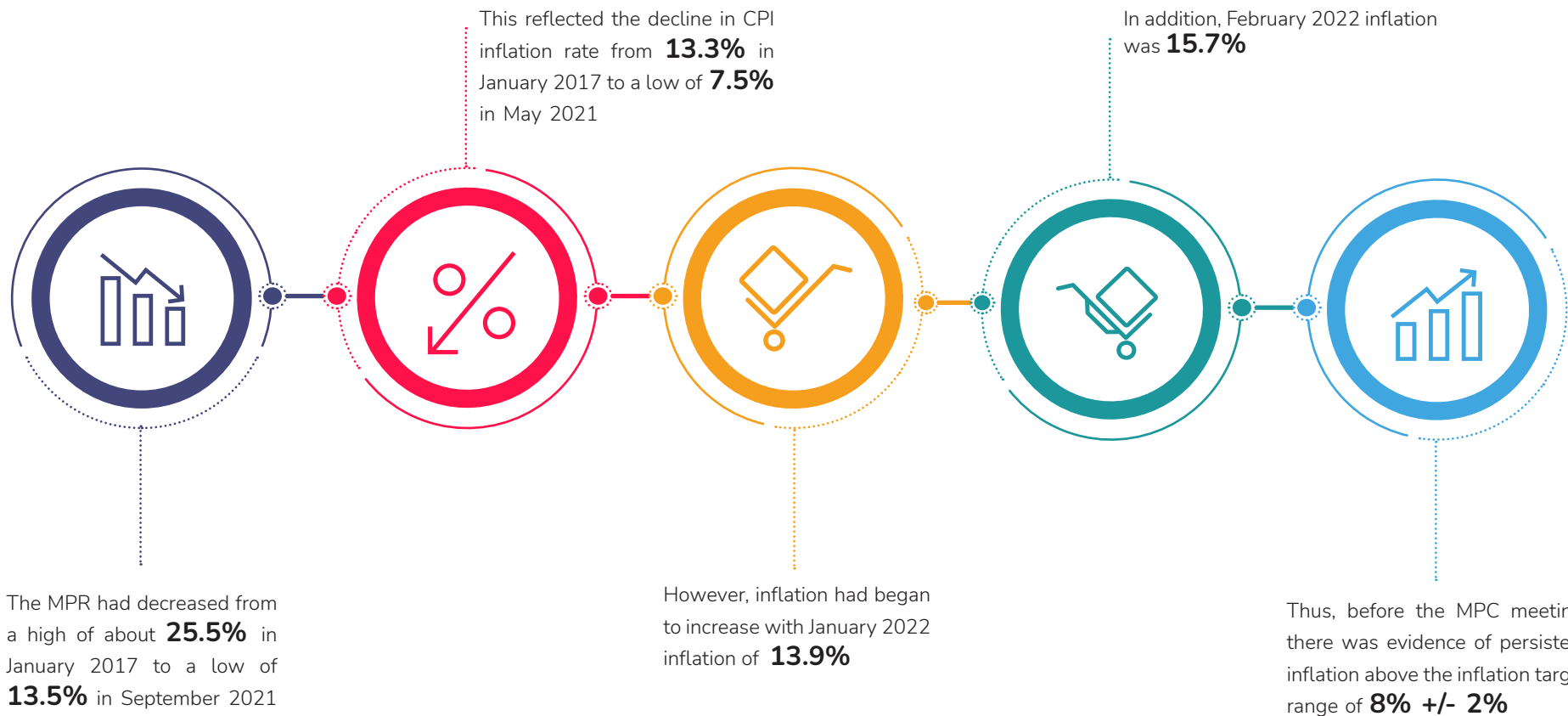
Elikplimi Komla Agbloyor
Associate Professor, Department of Finance
University of Ghana Business School
Chair of Research Committee, Tesah Capital



CONTEXT/BACKGROUND

It is a bold decision by the Monetary Policy Committee (MPC) to increase the policy rate by **250 basis points**, signaling the committee's commitment to achieve its inflation target.

Since **2002**, this is the first time that the policy rate has been increased by **250 basis points**.



FACTORS NECESSITATING THE INCREASE IN THE POLICY RATE AND OTHER MEASURES INTRODUCED BY THE MPC



Decline in economic activity



Decrease in both consumer **(0.7%)** and business confidence **(9.6%)**



Higher than expected fiscal deficit/GDP of **9.7%** as opposed to target of **9.4%**



Increase in interest rates across the yield curve



Low returns on the Ghana Stock Exchange in 2022 – **(-3.33%)**



Narrowing of trade surplus – exports of **\$2.7 billion** compared to imports of **\$2.3 billion**



MPR increased by 250 basis points to **17%**



In addition, the MPC increased the cash reserve ratio to **12%**



The capital conservation buffer was increased by **3%**, thus increasing the capital adequacy ratio to **13%**



Finally, the provisioning rate for loans in the Other Loans Especially Mentioned (OLEM) category has been reset to **10%**

WHAT HAVE OTHER CENTRAL BANKS BEEN DOING?

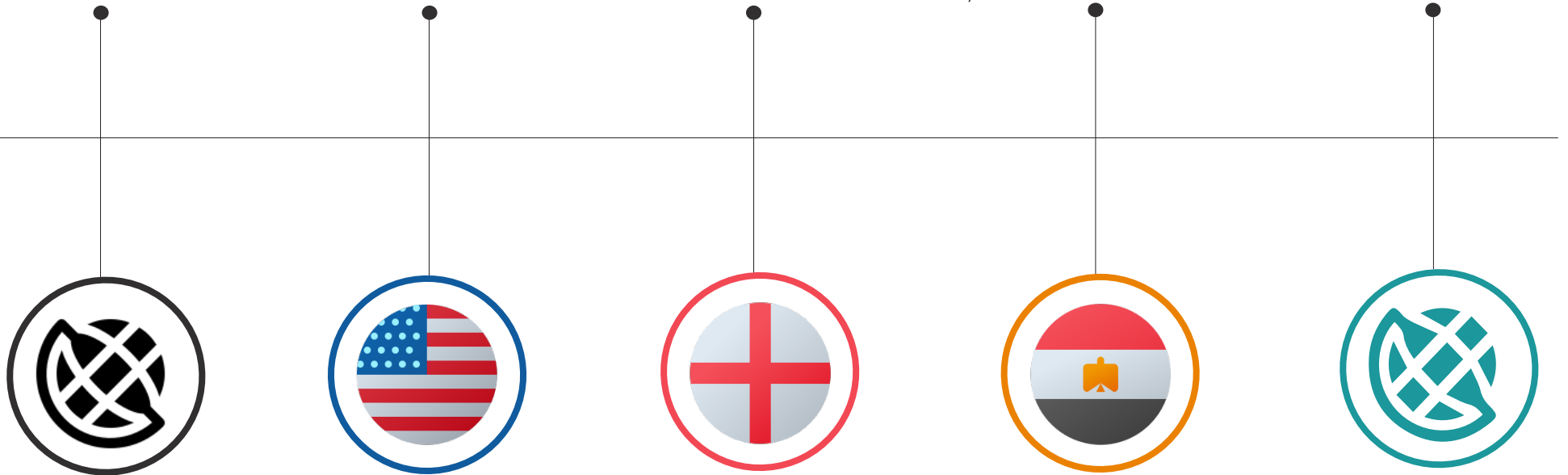
Globally, central banks around the world are increasing their interest rates and winding down quantitative easing.

The Federal Reserve in the U.S increased its rate by 25 basis points last week and is expected to increase rates for the remainder of its meetings in 2022.

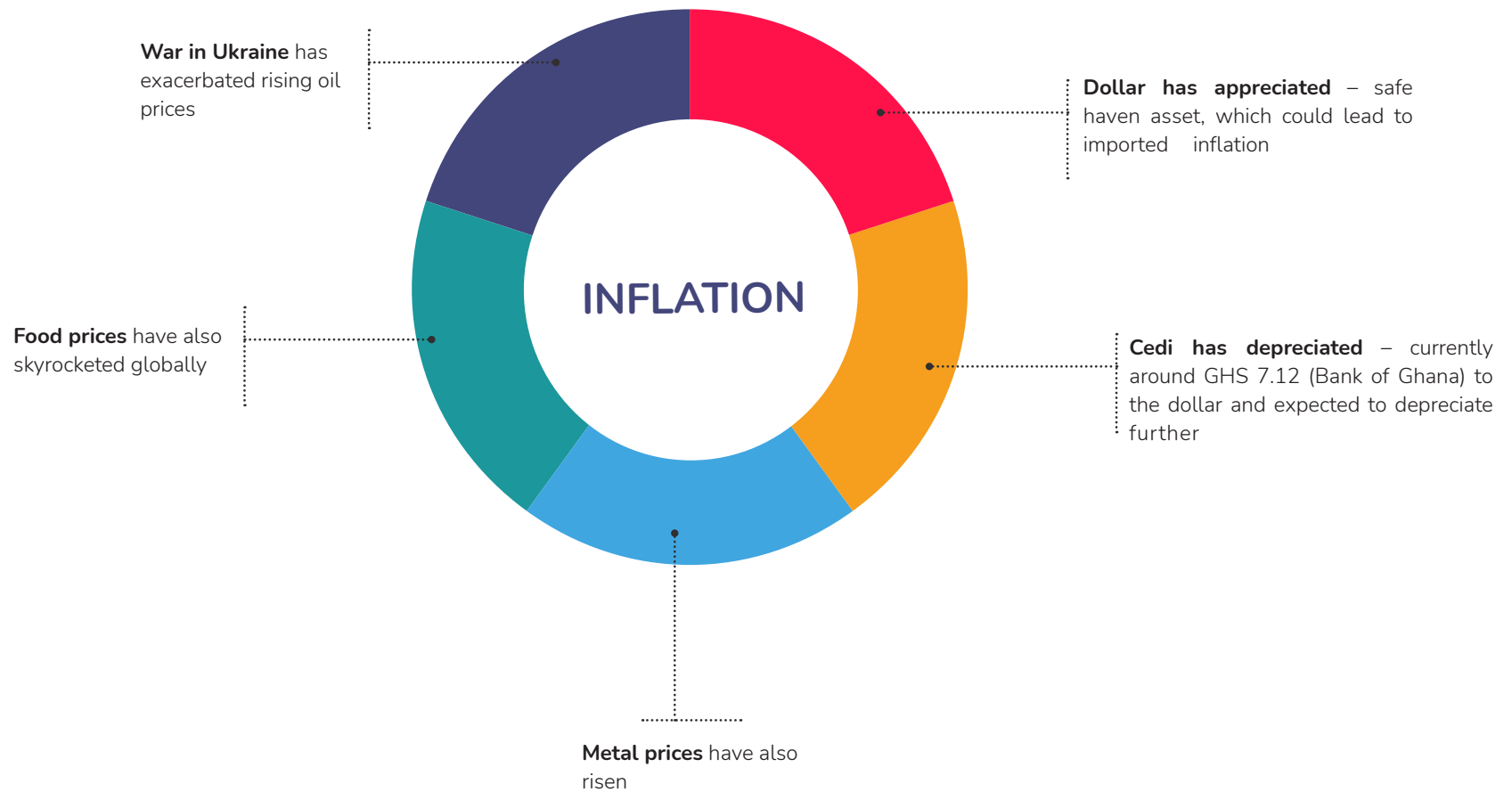
The Bank of England also increased its policy rate by 25 basis points.

The Egyptian Central Bank increased its deposit and lending rates by 100 basis points for the first time since 2017. The Egyptian pound has depreciated sharply this year.

A rate hike is therefore in line with what central banks across the world are doing now.



WHY HAS INFLATION BEEN RISING?



IMPLICATIONS OF THE POLICY RATE INCREASE

1 COST OF BORROWING

- The cost of borrowing is likely to go up.
- Doesn't necessarily mean banks will make more profits.
- The demand for bank loans may reduce and bad loans may increase.
- Lending to the agricultural sector may suffer because it is already seen by lenders as high risk.

2 STOCK MARKET

- The stock market may suffer as borrowing cost and the cost of doing business begins to bite companies.
- Also, because fixed income instruments will become more attractive, investors are likely to shift their funds from the stock market into the fixed income market.

3 FIXED INCOME MARKET

- Fixed income markets are likely to become more attractive.
- However, the high interest rates that the government would have to pay will lead to an increase in public debt which as of December 2021 stood at 80.1% of GDP.

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Allied Heights
2nd Floor, 10 Olusegun Obasanjo Way,
Abelenkpe-Accra
+233 (0) 302 977 813/471
www.tesahcapital.com
info@tesahcapital.com

