GHANA | MACROECONOMIC UPDATE | MONETARY POLICY | INSIGHTS

FUNDAMENTALS

GHANA MPC UPDATE: THE END OF A CYCLE

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IN BRIEF

- The Bank of Ghana's Monetary Policy Committee (MPC) left the Monetary Policy Rate (MPR) unchanged at 30.0% at its latest MPC meeting in September 2023, in line with market expectations. The MPC cited the sharp decline in inflation in August 2023 with expectation of continued disinflation in the months ahead as a basis to maintain the status quo on the policy rate.

- Overall, our key takeaway from the MPC engagement is that the Committee is confident of a sustained decline in CPI inflation, with a potential return to single digits anticipated within three years. In view of this generally favourable inflation guidance, we believe the MPC has signalled an end to the rate hiking cycle after a cumulative increase of 16.5pp, which began in November 2021.

- In our update on the August 2023 inflation – Coming in from the Cold – we expressed optimism that a favourable base effect will quicken the pace of disinflation in 4Q2023 to between 29.7% y/y – 31.7% y/y by FY2023 (GOG target: 31.3%), Refreshingly, the MPC anticipates a similar path for inflation in the months ahead with the Committee's expectation for year-end inflation around the 29.0% area, following the sharp decline witnessed in August 2023.

- We think the MPC would lean on sustained decline in inflation in the months ahead to restore positive real policy rate within the next six months. Against this view, we do not expect any cut in the policy rate until 2H2024, subject to election-related risks. For Treasury yields, we think the expected disinflation in the months ahead will cap the upside and do not envisage the peak 35.0% levels observed pre-March 2023. We perceive the 30.0% – 33.0% range as the potential peak for yields across the 91-day to the 364-day tenors.

- Drawing inspiration from recent indicators of real sector activity, the MPC sounded a bullish tone on the growth outlook for FY2023 and signalled an imminent discussion with the IMF review team to align on growth. The authorities now expect growth in the 3.0% area, slightly above our expectation of between 1.9% – 2.9% for FY2023 and higher than the IMF's 1.5% forecast.

Disinflation prompts a "Hold" on policy rate

The Bank of Ghana's Monetary Policy Committee (MPC) left the Monetary Policy Rate (MPR) unchanged at 30.0% at its latest MPC meeting in September 2023, in line with market expectations.

The MPC cited the sharp decline in headline inflation to 40.1% y/y and a similar moderation in all measures of core inflation in August 2023 as a basis to maintain the status quo on the policy rate. The Committee expects the resumption of disinflation to sustain a gradual return towards the target band of 6.0% – 10.0% in the medium-term.

The end of rate hiking cycle is here

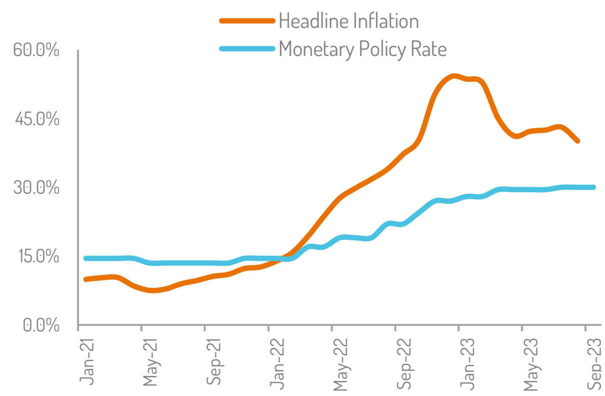
In justifying the "hold" decision, the authorities view the current MPR of 30.0% as appropriately positioned to deliver the inflation target in the medium-term. While the MPC emphasized its readiness to respond appropriately should inflation deviate from broad expectations, we felt a sense of overriding optimism from the Governor about continued decline in inflation. As expected, the MPC also noted that the one-year ahead survey-based inflation expectation seemed well anchored, ostensibly softening the hawkish policy tone.

Overall, our key takeaway from the MPC engagement is that the Committee is confident of a sustained decline in CPI inflation, with a potential return to single digits anticipated within three years. In view of this generally favourable inflation guidance, we believe the MPC has signalled an end to the rate hiking cycle after a cumulative increase of 16.5pp, which began in November 2021.

On the near-term outlook for key macroeconomic indicators, such as inflation and real GDP growth for FY2023, the Committee appeared generally in line with our year-end forecasts.

Additionally, and in line with our expectation, the Governor expressed confidence in the authorities' capacity to secure a staff-level agreement with the IMF as the Fund begins the first review of Ghana's 3-year Extended Credit Facility programme.

INFLATION AND POLICY RATE PATH SINCE 2021



SOURCE: BANK OF GHANA, GHANA STATISTICAL SERVICE

Renewed optimism on disinflation is refreshing. In our update on the August 2023 inflation – [Coming in from the Cold]() – we expressed optimism that a favourable base effect will quicken the pace of disinflation in 4Q2023 to between 29.7% y/y – 31.7% y/y by FY2023 (GOG target: 31.3%).

Refreshingly, the MPC anticipates a similar path for inflation in the months ahead with the Committee's expectation for year-end inflation around the 29.0% area, following the sharp decline witnessed in August 2023. We believe the tailwind for sustained disinflation is strengthened by the observation that inflation expectations for the one-year ahead "seem well anchored".

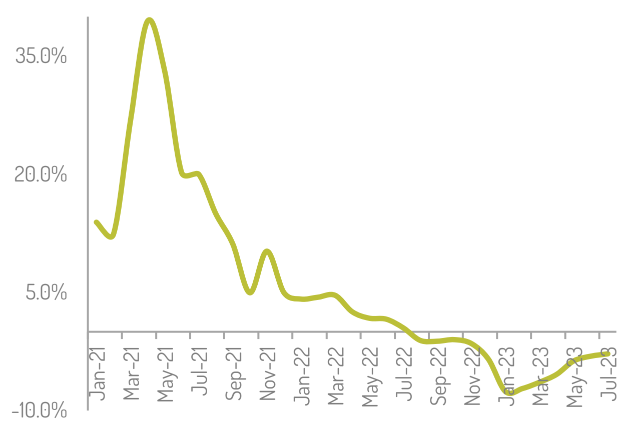
We think that a sustained decline in inflation along the forecast path will support our view that the MPC has reached the terminal policy rate at 30.0%. However, we do not anticipate a policy easing over the next six months as we expect the MPC to restore positive real policy rate in the near-term.

The MPC turns more bullish on the 2023 growth outlook than the IMF. Drawing inspiration from recent indicators of real sector activity, the MPC sounded a bullish tone on the growth outlook for FY2023 and signalled an imminent discussion with the IMF review team to align on growth. The authorities now expect growth in the 3.0% area.

Under the ongoing IMF-supported fiscal adjustment programme, the government slashed its earlier growth target of 2.8% to align with the IMF programme forecast of 1.5% for FY2023. However, real GDP growth printed 3.3% in 1Q2023 and 3.2% in 2Q2023 (1H2023 average: 3.3%).

Furthermore, the real Composite Index of Economic Activity (CIEA) showed a sustained recovery from a sharp contraction of 7.6% in January 2023 to a mild contraction of 2.8% in July 2023. This was helped by the general stability of the Ghanaian Cedi since February, which supported a rebound in port activity as well as rising industrial consumption of electricity.

COMPOSITE INDEX OF ECONOMIC ACTIVITY (REAL GROWTH)



SOURCE: BANK OF GHANA, IC INSIGHTS

In our view and like the MPC's observation, the 2023 growth momentum appears stronger than the 1.5% anticipated within the macro-fiscal framework under the IMF programme. While we expect the contractions in manufacturing and construction sectors to weigh on industry sector growth in 2023, we opined in our 2Q2023 growth update that ICT-led services sector and agrarian output will anchor FY2023 growth between 1.9% – 2.9%.

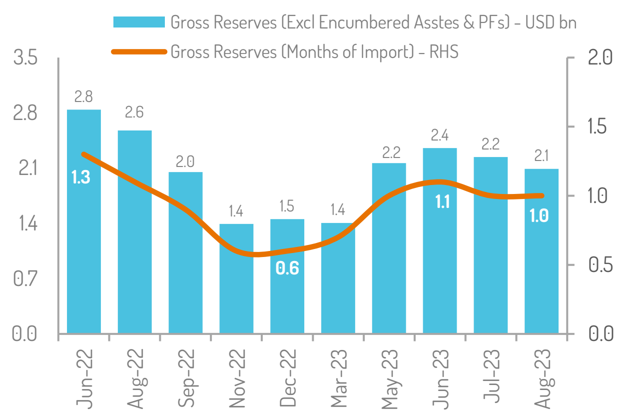
The MPC views the domestic gold purchase programme as a key support for forex reserves in 2023. The Governor revealed that the domestic gold purchase programme was a major contributor to forex reserves and Cedi stability in 2023. In June 2021, the authorities launched a "Gold-for-Reserves" programme with the aim of doubling the country's gold holdings in its forex reserves from 8.7 tons to 17.4 tons in five years. In early 2023, the programme was augmented to include "Gold-for-Oil" to enable the authorities directly utilize gold proceeds to finance oil imports.

In our understanding of the gold purchase programme, the "Gold-for-Reserves" aim to organically rebuild forex reserves while the "Gold-for-Oil" aim to bypass the use of liquid forex reserves for oil imports, thereby easing the FX pressures.

The updated information from the monetary authorities suggests that the programme remains on track with the desired outcomes. The Governor revealed that the Gold-for-Reserves programme has yielded over USD 700mn addition to the forex reserves via an increase in the gold holding to 13.7 tons. This represents 78.7% of the five-year target, which appears to have been achieved in two years.

We believe the Gold-for-Reserves largely helped the authorities to outperform the IMF's performance criteria on net international reserves target for the June 2023 review. With expected inflows from the World Bank (USD 250mn), IMF (USD 600mn), and annual Cocobod loan syndication (USD 800mn), we foresee a strong possibility to exceed the IMF target of cumulative growth of USD 655mn in net reserves by December 2023.

EVOLUTION OF GROSS INTERNATIONAL RESERVES



SOURCE: BANK OF GHANA, IC INSIGHTS

The peak for Treasury yields is near. The MPC's decision to leave the policy rate unchanged at 30.0% with strong expectation for continued decline in CPI inflation all but confirms the end of rate hiking cycle. In our view, this also indicates limited upside scope for money market yields which has been on the upturn since April 2023, after a brief decline in March 2023.

The Governor's indication on the outlook for potential downward correction in yields suggests that the authorities would seek to restore positive real interest rates as a first step in the near-term. We think the MPC would lean on sustained decline in inflation in the months ahead to restore positive real policy rate within the next six months. Against this view, we do not expect any cut in the policy rate until 2H2024, subject to election-related risks.

For Treasury yields, we think the expected disinflation in the months ahead will cap the upside and do not envisage the peak 35.0% levels observed pre-March 2023. We perceive the 30.0% – 33.0% range as the potential peak for yields across the 91-day to the 364-day tenors. This projected peak rates will also ensure a return to positive real yields for Treasury bills over the next six months.

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