GHANA | MACROECONOMIC UPDATE | MONETARY POLICY | INSIGHTS

FUNDAMENTALS

GHANA MPC UPDATE: A HAWKISH HOLD

28 NOVEMBER 2023

Head, Insights
Courage Kingsley Martey
+233 240 970 832
Courage.martey@ic.africa

IN BRIEF

- The Monetary Policy Committee (MPC) of Ghana's Central Bank expectedly left the policy rate unchanged at 30.0% during its final MPC meeting for 2023.

- The MPC's "hold" decision firmly aligns with our views on the near-term outlook for the policy rate as both core and headline inflation remain at over 3.5x the upper target of 10.0% as of October 2023. Furthermore, we opine that the authorities require a positive real policy rate to achieve a sufficiently tight monetary policy stance. Our forecast decline in inflation, potentially below 29.0% in November 2023, makes it possible to restore positive real rate within the next month at the prevailing 30.0% nominal policy rate.

- Although the policy rate decision was roundly expected, the MPC surprised the market with additional policy measures to tighten the prevailing interbank liquidity conditions. Overall, these additional measures will tighten local currency liquidity on the interbank market, giving a hawkish feel to the decision to "hold" the policy rate unchanged at 30.0%.

- Using data on banking sector portfolio as of October 2023, we opine that the hike in the Cash Reserve Ratio (CRR) will mop up at least GHS 3.2bn of extra interbank liquidity in the base case scenario. Over the next 3-months, we estimate the cumulative Treasury bill maturities at GHS 42.0bn with an average weekly refinancing obligation of GHS 3.2bn. In view of this, the liquidity-restraining impact of the CRR hike could partly weaken investor demand and introduce some near-term stickiness in yields and prevent a sharp decline as the Treasury faces refinancing risk.

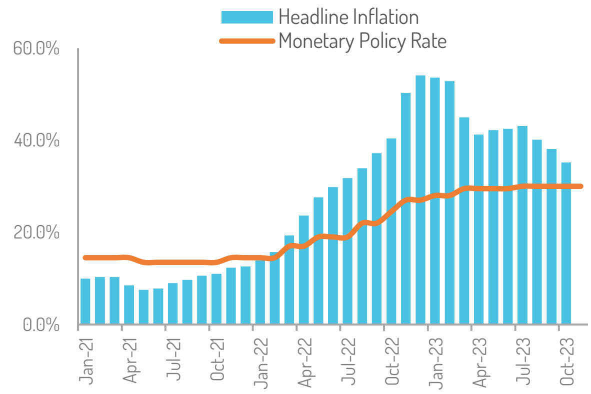
- The BOG appears cautiously bullish on the near-term outlook for FX due to the steady rebuild in forex reserves, mainly supported by the ongoing "Gold-for-Reserves" programme. We generally align with the BOG's cautiously optimistic near-term FX outlook as we expect USD 300mn DPO facility from the World Bank in December 2023 in addition to the imminent cocoa loan. We also opine that the latest decision to hike the CRR will tighten Cedi liquidity, limit the FX demand pressures and anchor the near-term outlook. We are, however, mindful of the likely seasonal pressures in 1Q2024 and potential election-related uncertainty in the coming year.

Staying the policy rate as expected

The Monetary Policy Committee (MPC) of Ghana's Central Bank left the policy rate unchanged at 30.0% at its final MPC meeting for 2023. The "hold" decision was in line with our expectation and the consensus forecast as the recent declines in inflation with expected disinflation in the months ahead erases the need for further rate hikes. However, the MPC views the current inflation rate as high relative to its target, underscoring the need to keep the policy rate "tighter-for-longer" until inflation is firmly anchored towards the medium-term target of 8.0% ± 2.0pp.

The MPC's "hold" decision firmly aligns with our views on the near-term outlook for the policy rate as both core and headline inflation remain at over 3.5x the upper target of 10.0% as of October 2023. Furthermore, we opine that the authorities require a positive real policy rate to achieve a sufficiently tight monetary policy stance. Our forecast decline in inflation, potentially below 29.0% in November 2023, makes it possible to restore positive real rate within the next month at the 30.0% nominal policy rate.

INFLATION AND POLICY RATE PATH SINCE 2021



SOURCE: BANK OF GHANA, GHANA STATISTICAL SERVICE

......but it's a "hold" with hawkish tilt

Although the policy rate decision was roundly expected, the MPC surprised the market with additional policy measures to tighten the prevailing interbank liquidity conditions. The Committee decided to:

- Unify the currency holding for the Cash Reserve Ratio (CRR) requirement, by introducing a single CRR for total deposits of banks. This directive has consequently reversed the early-year DDEP-induced measure which had reduced the foreign currency-related CRR to 12.0% and the local currency CRR maintained at 14.0%.
- Reset the unified CRR for total deposits (local and foreign currency) to 15.0% with effect from 30 November 2023, to be held in local currency.

We draw two main implications from the additional monetary policy measures. Firstly, the unified reset CRR of 15.0% translates into a 300bps hike in the CRR on foreign currency deposits (to be held in local currency) and 100bps hike in the CRR on local currency deposits. Secondly, the directive for banks to hold CRR on foreign currency deposits in local currency reserves will increase demand for GHS-denominated cash balances as the Central Bank mops up interbank local currency liquidity.

Given that cash reserves do not earn interest, unlike Central Bank securities, the CRR hike will ease the interest burden on the Bank of Ghana as commercial banks took advantage of the high-yielding BOG bills at the expense of loan book expansion.

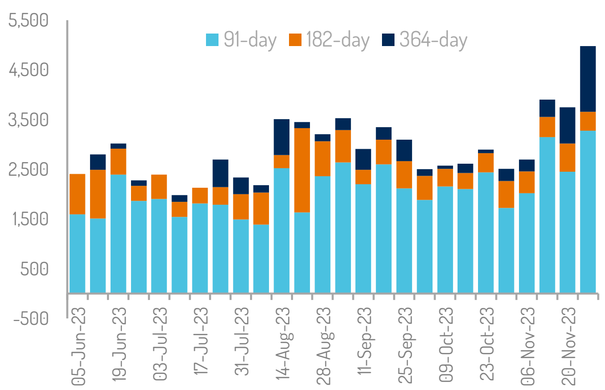
Overall, these additional measures will tighten local currency liquidity on the interbank market, giving a hawkish feel to the decision to "hold" the policy rate at 30.0%.

The increased unified CRR will drain liquidity and potentially weaken demand at the weekly T-bill auctions. Using the latest available data on banking sector portfolio as of October 2023, we estimate that the hike in CRR to 15.0% on total deposit will mop up additional GHS 3.2bn in the base case scenario.

This could weaken demand for T-bills at the weekly auctions against the high Treasury borrowing need as banks prioritize the minimum reserve requirements. Given the multiple bank holidays anticipated in December 2023 and January 2024, banks could further prioritize higher cash balances to meet customers' cash needs for festivities-related spendings.

Over the next 3-months, we estimate the cumulative Treasury bill maturities at GHS 42.0bn with an average weekly refinancing obligation of GHS 3.2bn. Including expected new issuances for deficit financing, we foresee elevated borrowing need for the Treasury over the next 3-months, which requires strong liquidity to absorb. In view of this, the liquidity-restraining impact of the CRR hike could partly weaken investor demand and introduce some near-term stickiness in yields and prevent a sharp decline as the Treasury faces refinancing risk.

UPTAKES AT WEEKLY TREASURY BILL AUCTIONS



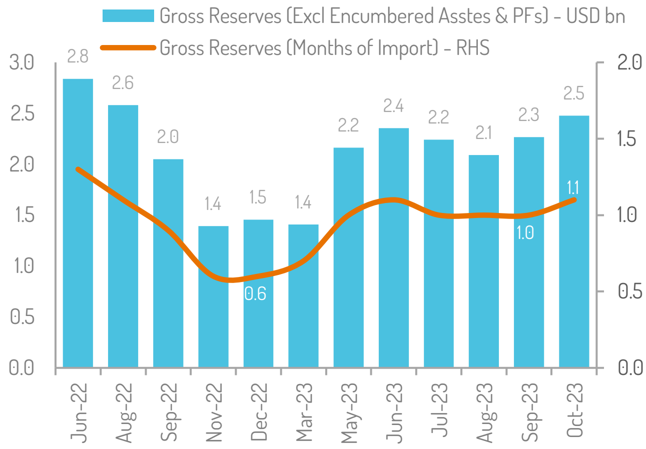
SOURCE: BANK OF GHANA, IC INSIGHTS

The BOG appears cautiously bullish on the near-term outlook for FX due to steady rebuild in forex reserves. Gross reserves (excluding encumbered assets and petroleum funds) increased by 70.3% YTD to USD 2.5bn in October 2023, equivalent to 1.1 month of import cover. This represents forex accumulation of USD 1.0bn in 10M2023, and puts the authorities firmly ahead of the IMF's minimum accumulation target of USD 655.0mn by December 2023. The Central Bank attributes the reserves build up mainly to the ongoing "Gold-for-Reserves" programme in which the authorities have purchased 35 tons of gold.

Despite the steady progress in accumulation of forex reserves, the seeming drag in negotiations with bilateral creditors remains a source of FX uncertainty as it is a prior condition to trigger USD 600mn from the IMF. However, the Governor expressed optimism in the near-term FX outlook with the capacity to "manage" the situation over the next 6-months. His optimism is backed by the support of the "Gold-for-Reserves" programme, and the imminent inflows from the USD 800mn cocoa syndicated loan.

We generally align with the BOG's cautiously optimistic near-term FX outlook as we expect USD 300mn DPO facility from the World Bank in December 2023 in addition to the imminent cocoa loan. We also believe that the latest decision to hike the CRR will tighten Cedi liquidity and limit the FX demand pressures. Furthermore, we think the required conversion of foreign currency CRR into Cedi-equivalent cash reserves would prompt banks with excess US Dollars to partly offload these positions, thereby providing intermittent market flow of FX. We believe these FX supply side and demand management measures will anchor the Ghanaian Cedi on the forex market in the near-term, pending the resolution of the ongoing negotiations with bilateral creditors and second tranche disbursement from the IMF. We are, however, mindful of the likely seasonal pressures in 1Q2024 and potential election-related uncertainty in the coming year.

EVOLUTION OF GROSS INTERNATIONAL RESERVES



SOURCE: BANK OF GHANA, IC INSIGHTS

For more information contact your IC representative

Business Development & Client Relations

Derrick Mensah
Head, Business Development
+233 24 415 5765
derrick.mensah@ic.africa

Dora Youri
Head, Wealth Management
+233 23 355 5366
dora.youri@ic.africa

Corporate Access

Joanita Hotor
Corporate Access
+233 50 137 6100
joanita.hotor@ic.africa

Insights

Courage Kingsley Martey
Head, Insights
+233 240 970 832
courage.martey@ic.africa

Churchill Ogutu
Economist
+254 711 796 739
churchill.ogutu@ic.africa

Lydia Adzobu
Senior Analyst, Financial Sector
+233 24 656 8669
Lydia.adzobu@ic.africa

Investing

Isaac Adomako Boamah
Chief Investment Officer
030 225 2623
isaac.boamah@ic.africa

Obed Odenteh
Portfolio Manager, Fixed Income
+233 54 707 3464
obed.odenteh@ic.africa

Timothy Schandorf
Portfolio Manager, Risk Assets
+233 24 292 2154
timothy.schandorf@ic.africa

Herbert Dankyi
Portfolio Manager
+233 55 710 6971
herbert.dankyi@ic.africa

Clevert Boateng
Analyst, Risk Assets.
+233 24 789 0452
Clevert.boateng@ic.africa

Operations

Nana Amoa Ofori
Chief Operating Officer
+233 24 220 6265
nanaamoa.ofori@ic.africa

Emmanuel Amoah
Fund Administrator
+233 20 847 2245
emmanuel.amoah@ic.africa

Kelly Addai
Fund Accountant
+233 20 812 0994
kelly.addai@ic.africa

Trading

Randy Ackah-Mensah
Head, Global Markets
+233 24 220 6265
randy.mensah@ic.africa

Allen Anang
Trader, Equities
+233 54 084 8441
allen.anang@ic.africa

Daniel Asante
Trader, Fixed Income
+233 55 285 7164
daniel.asante@ic.africa

Terms of use - disclaimer - disclosure
This communication is from the Insights desk of IC Asset Mangers (Ghana) LTD, a member of IC Group (IC). The message is for information purposes only and it is subject to change as it is only indicative and not binding. It is not a recommendation, advice, offer or solicitation to buy or sell a product or service nor an official confirmation of any transaction. It is directed at both professionals and retail clients. This message is subject to the terms and conditions of IC Group. IC is not responsible for the use made of this communication other than the purpose for which it is intended, except to the extent this would be prohibited by law or regulation. All opinions and estimates are given as of the date hereof and are subject to change. IC is not obliged to inform investors of any change to such opinions or estimates. The views are not a personal recommendation and do not consider whether any product or transaction is suitable for any particular type of investor.