GHANA | MACROECONOMIC UPDATE | MONETARY POLICY | INSIGHTS

FUNDAMENTALS

GHANA MPC UPDATE: A BALANCING ACT

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IN BRIEF

- The Bank of Ghana's Monetary Policy Committee (MPC) delivered a 100bps cut to its policy rate, lowering the benchmark interest rate to 29.0% at the January 2024 MPC meeting.

- Ahead of the MPC meeting, we viewed the sharp disinflation and the Treasury's exclusive reliance on T-bills for its 2024 deficit financing as a compelling case for the monetary authorities to ease the domestic financing conditions. However, we were minded by the potential FX risk from the renewed increase in money market liquidity, which strengthened the counter case to stay on "hold" a while longer.

- The Committee's updated inflation forecast of 13.0% – 17.0% by end-2024 (IC Insights: 15.1% – 17.1%) appears to have tipped the argument slightly in favour of the doves. Against this backdrop, we view the 100bps cut as a balancing act of containing the upside risk to inflation and easing the financing conditions for the Treasury's T-bill issuances.

- The unexpected cut in the policy rate triggers a case to raise our forecast end-2024 USDGHS from the current 13.2/USD. However, we would lean against the wind until mid-2024 as we think the first quarter seasonal FX pressures would be absorbed by the anticipated inflows over the course of the year with a potential frontloading in 1H2024.

- There is light at the end of the DDEP tunnel for banks. Encouragingly, the Governor noted that the yet-to-be released financial position of banks in FY2023 suggests the possibility for some affected banks to markedly close their capital shortfalls with the 2023 profits. This places the banking sector firmly ahead of the three-year capital restoration plan, spanning 2023 to 2025. Against this backdrop, we believe a window of opportunity may be opening up for investors to take position in some listed banks with over-priced DDEP impact. However, we remain concerned about the weak asset quality within the banking industry, with sticky NPLs around the 20.0% mark and reflects the high credit risk environment.

An unexpected but unsurprising policy rate cut

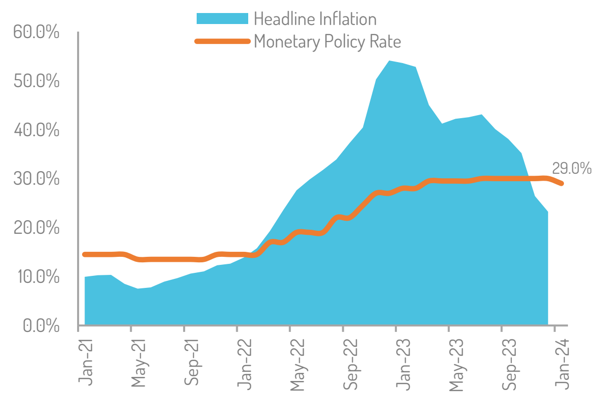
The Bank of Ghana's Monetary Policy Committee (MPC) delivered a 100bps cut to its policy rate, lowering the benchmark interest rate to 29.0% at the January 2024 MPC meeting.

Ahead of Ghana's January 2024 MPC meeting, we had observed a window of opportunity for the monetary authorities to signal an easing bias for the upcoming meetings in the year. Our view was largely underpinned by the 30.9pp decline in annual CPI inflation to 23.2% in December 2023, which flipped the real policy rate from -27.1% in December 2022 to +6.8% in December 2023. We also viewed the Treasury's exclusive reliance on T-bills for its 2024 budget deficit financing as a compelling case for the monetary authorities to ease the domestic financing conditions.

However, we were minded by the potential FX risk from the renewed increase in money market liquidity after banks had fully adjusted to the new and unified CRR regime of 15.0%. As if to confirm our fears, the Ghanaian Cedi suffered a 3.1% depreciation between 9th to 26th January 2024, with almost three-quarter of this depreciation recorded last week as the MPC convened.

With real sector indicators and business confidence showing signs of earlier-than-expected rebound at the 30.0% policy rate, we thought the MPC would favour FX support while guiding the market towards a March 2024 rate cut. Our inflation forecast also showed a likely rise in March 2024 inflation, possibly towards the end-2023 level, strengthening the case to stay on "hold" a while longer.

INFLATION AND POLICY RATE PATH SINCE 2021



SOURCE: BANK OF GHANA, GHANA STATISTICAL SERVICE, IC INSIGHTS

......but the policy posture is a balancing act

While the MPC perceive upside risks to the disinflation outlook, we believe the authorities are minded by the need to chaperone the domestic market to accommodate the Treasury's 2024 large funding needs. The Committee's updated inflation forecast of 13.0% – 17.0% by end-2024 (IC Insights: 15.1% – 17.1%) appears to have tipped the argument slightly in favour of the doves. Against this backdrop, we view the 100bps cut as a balancing act of containing the upside risk to inflation and easing the financing conditions for the Treasury's T-bill issuances.

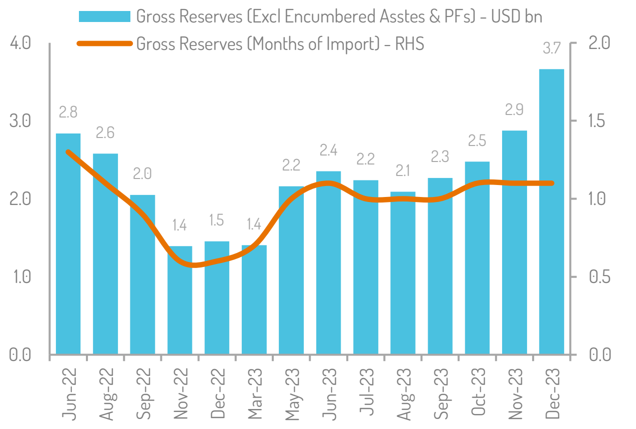
Comfort from external inflows and debt relief

As it turned out, the MPC appears confident about the cushioning effect of expected multilateral inflows, including the IMF and the World Bank. Additionally, the authorities found solace in the ongoing "Gold-for-Reserve" programme which added USD 1.1bn to Ghana's forex reserve in 2023. The Central Bank also expects repatriation of foreign exchange from the export of mining and oil companies as well as restructuring-induced reduction in external debt service payments to support reserve build-up and improve the FX outlook.

The unexpected cut in the policy rate triggers a case to raise our forecast end-2024 USDGHS from the current 13.2/USD. However, we would lean against the wind until mid-2024 as we think the first quarter seasonal FX pressures would be absorbed by the anticipated inflows over the course of the year with a potential frontloading in 1H2024. We estimate the total guaranteed inflows in 1Q2024 at USD 1.35bn, comprising USD 600mn from the IMF, USD 550mn from the World Bank, and USD 200mn final tranche of cocoa syndicated loan.

Given the IMF-supported net reserve accumulation target by at least USD 1.59bn in 2024, we expect the Central Bank to restrain its FX intervention sales on the forex market to conserve reserves. In line with the ongoing rebuild of forex reserves, the Governor noted that the 2nd tranche USD 600mn of IMF disbursements pushed up the net international reserve to USD 3.4bn in January 2024 (vs USD 3.1bn at FY2023). We view this possible bias for a more flexible exchange rate in defence of forex reserves as a depreciation risk.

EVOLUTION OF FOREIGN EXCHANGE RESERVES



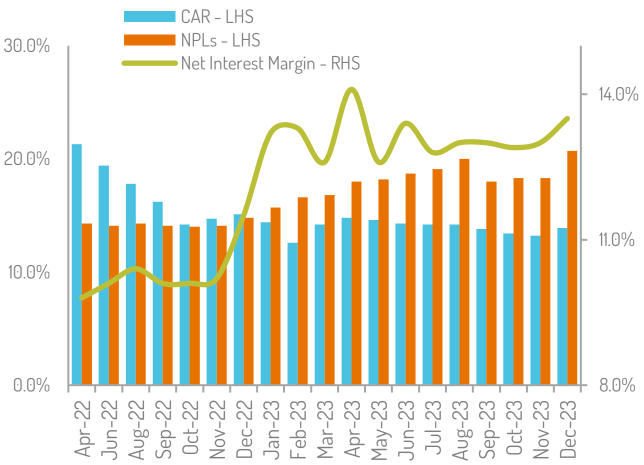
SOURCE: BANK OF GHANA, IC INSIGHTS

There is light at the end of the DDEP tunnel for banks. Following the sharp de-recognition losses in FY2022, induced by the Domestic Debt Exchange Programme (DDEP), the Central Bank confirmed post-DDEP improvements in profitability and liquidity of commercial banks in FY2023. More encouragingly, the Governor noted that the yet-to-be released financial position of banks in FY2023 suggests the possibility for some affected banks to markedly close their capital shortfalls with the 2023 profits. While the Regulator expect the capital restoration plans to be implemented within the agreed period (2023 – 2025), the strong profit outturn in 2023 places the banking sector firmly ahead of the set time for capital restoration. Against this backdrop, we believe a window of opportunity may be opening up for investors to take position in some listed banks with over-priced DDEP impact.

Following reports in the local media that the Ministry of Finance has provided GHS 2.5bn to recapitalize Consolidated Bank Ghana (CBG), the Governor confirmed the disbursement of the stated amount without indicating the recipient bank. As the bank with most impaired post-DDEP capital, we believe CBG's balance sheet support from its sole shareholder significantly reduces the risk to banking sector stability.

However, we remain concerned about the weak asset quality within the banking industry, with sticky NPLs around the 20.0% mark and reflects the high credit risk environment. Consequently, we expect banks to maintain their conservative stance despite the 100bps reduction in the policy rate, and only explore opportunistic risk asset creation amidst the capital rebuild.

FINANCIAL SOUNDNESS INDICATORS OF THE BANKS



SOURCE: BANK OF GHANA, IC INSIGHTS

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