GHANA | MACROECONOMIC UPDATE | MONETARY POLICY | INSIGHTS

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FUNDAMENTALS

GHANA MPC UPDATE:

STEADY HAND, STRATEGIC MOVE

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IN BRIEF

- The Monetary Policy Committee (MPC) of Ghana's Central Bank kept the policy rate steady at 29.0%, in line with our expectation for the March 2024 meeting. Given that our year-start forecast was a "Hold" in January and a "Cut" in March 2024, the surprise rate cut in January 2024 flipped our March expectation to a "Hold" amidst the FX pressure. Inevitably, the Committee leaned in the same direction at the March MPC meeting, nudged by the seeming elevation in the near-term risk to CPI inflation.

- However, the tone of the press statement does not suggest an overly concerned MPC on the outlook for inflation as the authorities reiterated "close monitoring" of the "slightly" increased upside risk to inflation. Reviewing the Monetary Policy Consultation Clause under the IMF programme, our projected jump in the March 2024 inflation to 26.0% indicates virtually no risk of breaching the IMF inflation target for March 2024. Consequently, we think the Committee is probably justified to be less concerned but more strategic in its policy move to avert losing the grip on the inflation wheels.

- In addition to the "hold" decision on the policy rate, the authorities announced a calibration of the minimum Cash Reserve Ratio (CRR), introducing a three-level CRR, subject to the loan-to-deposit ratio (LDR) of commercial banks. Essentially, we observed that the lower the LDR of banks, the higher would be the CRR requirement up to a maximum of 25.0% with effect from April 2024.

- Given the current industry average LDR of 33.3%, which is below 40.0%, we opine that the average industry CRR will likely increase by between 5.0% - 10.0% if the status quo is maintained until April 2024. In our estimation, this could translate into extra tightening of Cedi liquidity by between GHS 11.2bn and GHS 22.4bn.

- We continue to delay revision to our FY2024 USDGHS forecast with the recent tightening as a crucial anchor to reduce the imbalance in the FX market. However, we expect the potentially tighter liquidity from the CRR calibration to weaken the bid sizes at the weekly T-bill auctions towards the low-GHS 4.0bn area with a likely slowdown in the pace of yield decline.

Policy rate unchanged as expected

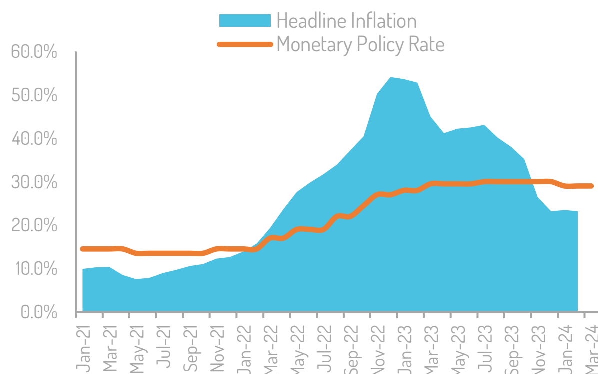
The Monetary Policy Committee (MPC) of Ghana's Central Bank kept the policy rate steady at 29.0%, in line with our expectation for the March 2024 MPC meeting. Having surprised the market with the unexpected cut in January 2024 amidst the prevailing FX pressure, the ensuing two month's inflation prints showed little downward progress compared to what we witnessed in 2H2023.

Given that our year-start forecast was a "Hold" in January and a "Cut" in March 2024, the surprise rate cut in January 2024 flipped our March expectation to a "Hold" amidst the FX pressure. Inevitably, the Committee leaned in the same direction at the March MPC meeting, nudged by the seeming elevation in the near-term risk to CPI inflation.

We think the MPC is beginning to flash the amber on the potential exchange rate pass-through following the sustained depreciation of the Ghanaian Cedi which has reached 8.7% YTD. The MPC noted that the latest forecast showed a slightly elevated inflation profile emanating from possible increase in transport fares, hikes in utility tariffs, higher ex-pump prices, and some pass-through of exchange rate depreciation. However, the tone of the press statement does not suggest an overly concerned MPC on the outlook for inflation as the authorities reiterated "close monitoring" of the "slightly" increased upside risk to inflation.

Reviewing the Monetary Policy Consultation Clause under the IMF programme, our projected jump in the March 2024 inflation to 26.0% indicates virtually no risk of breaching the IMF inflation target for March 2024. In our view, the MPC possibly has the inflation path largely under its control, despite the near-term upside risk. Consequently, we think the Committee is probably justified to be less concerned but more strategic in its policy move to avert losing the grip on the inflation wheels.

INFLATION AND POLICY RATE PATH SINCE 2021



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

.... strategically fine-tuning the policy levers

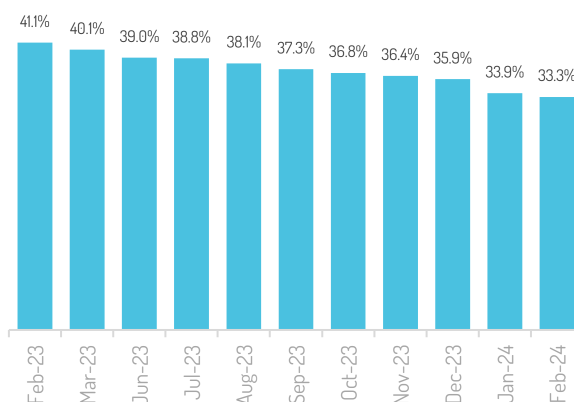
In addition to the "hold" decision on the policy rate, the authorities announced a calibration of the minimum Cash Reserve Ratio (CRR), introducing a three-level CRR, subject to the loan-to-deposit ratio (LDR) of commercial banks. Essentially, we observed that the lower the LDR of banks, the higher would be the CRR requirement up to a maximum of 25.0% with effect from April 2024.
Specifically;

- banks with LDR above 55.0% will have to meet a CRR of 15.0%, which is the status quo.
- However, banks with LDR within the range of 40.0% – 55.0% will have to meet a CRR of 20.0%,
- while banks with LDR below 40.0% will require a CRR of 25.0%.

Although the decision to maintain the policy rate at 29.0% does not fully reveal the authorities' hawkish call, we view the extra fine-tuning of the policy levers as strategic move to tighten Cedi liquidity. In our January 2024 MPC Note – A Balancing Act – we flagged the renewed increase in local currency liquidity as a risk to FX stability, underpinning our year-start call for a "hold" on the policy rate at the time. The post-MPC worsening of the exchange rate appears to have nudged the Committee into a more strategic play to ease the FX pressure without overtly signalling upturn in interest rates.

Based on the latest banking sector indicators, we estimate the average loan-to-deposit ratio of banks at 33.3% as of February 2024. This represents a 2.6pp decline from the LDR of 35.9% as of FY2023 and a 7.8pp drop from the 41.1% as of February 2023, reflecting banks' steady risk-aversion amidst the elevated credit risk. Accounting for the pre-MPC uniform CRR of 15.0%, we infer that banks continue to hold liquidity in excess of 51.0% of deposits which supported the increased allocation to investment securities with likely spillovers into the FX market.

LOAN-to-DEPOSIT RATIO IN THE BANKING INDUSTRY



SOURCE: BANK OF GHANA, IC INSIGHTS

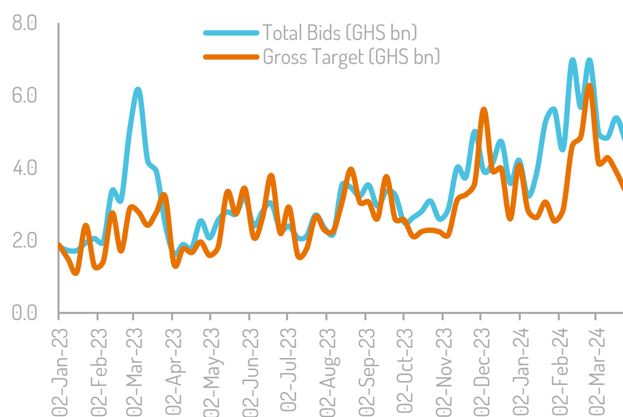
Given the current industry average LDR of 33.3%, which is below 40.0%, we opine that the average industry CRR will likely increase by between 5.0% - 10.0% if the status quo is maintained until April 2024. In our estimation, this could translate into extra tightening of Cedi liquidity by between GHS 11.2bn and GHS 22.4bn.

We continue to delay revision to our FY2024 FX forecast with recent tightening as a potential anchor. Following the surprise cut in the policy rate in January 2024, we signalled the possibility to raise our FY2024 USDGHS forecast by mid-2024 from the initial 13.2/USD if anticipated multilateral inflows do not stem the tide. Amidst the seeming delay in the expected disbursement of the USD 550mn from the World Bank, we view the latest liquidity tightening measures as a crucial anchor to reduce the imbalance in the FX market. We expect this to slightly ease the depreciation pressure on the Ghanaian Cedi while we await the much-needed external inflows to prop-up FX supply. Consequently, the planned revision to our end-2024 FX forecast remains on hold until mid-year, albeit with a strong inclination towards a raise in the forecast USDGHS.

Tighter Cedi liquidity could slow the pace of yield decline. Yields on Treasury bills have been on the downturn since January 2024 as the strong GHS liquidity fuelled investor demand amidst lower inflation expectations. However, with the liquidity condition potentially tightening in the near-term and the MPC's indication of a slightly elevated upside risk to inflation, we foresee a likely softening in demand for T-bills and a potential slowdown in yield decline.

Having enjoyed average weekly bids of GHS 5.1bn in 1Q2024 (vs GHS 3.5bn in 4Q2023), the Treasury comfortably exceeded its net borrowing target for the quarter by 24.8% to raise GHS 24.6bn in new debt. The favourable demand condition culminated in an average of 340bps decline in yields across the T-bills despite the less inspiring inflation outturn in 1Q2024. However, we expect the potentially tighter liquidity from the CRR calibration to soften the average weekly bid sizes towards the low-GHS 4.0bn area with a likely slowdown in the pace of yield decline.

INVESTOR BIDS VS OFFERS AT WEEKLY T-BILL AUCTIONS



SOURCE: BANK OF GHANA, IC INSIGHTS

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