GHANA | MACROECONOMIC UPDATE | MONETARY POLICY | INSIGHTS

FUNDAMENTALS

GHANA MPC UPDATE:
RIDING THE CURRENCY WAVE

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IN BRIEF

- Ghana's Monetary Policy Committee (MPC) did not surprise with its decision at the May 2024 meeting as the authorities left the policy rate unchanged at 29.0% while maintaining the recently introduced three-tier system of Cash Reserve Ratios (CRR).

- Throughout 5M2024, our main concern had been the unrelenting depreciation pressure on the Ghanaian Cedi with a potential pass-through to domestic price levels. Unsurprisingly, the Committee maintained the same language from its prior MPC meeting, stressing the slightly elevated inflation profile arising from the FX pressures and adjustments in transport fares. However, the authorities remain confident of containing the end-2024 inflation within the target 13.0% – 17.0% band (IC Insights 15.9% – 17.9%).

- As part of the ongoing IMF programme, the Bank of Ghana (BOG) adopted a new FX intervention framework, which defined the conditions and modalities of its FX market support. While this FX intervention framework was not made public, we believe the conditions imposed a restriction on the Central Bank FX sales, given the target to increase net international reserves by at least USD 1.6bn throughout FY2024. This ultimately allowed increased depreciation in line with the excess FX demand.

- Following the unexpected cut in the policy rate in January 2024, we indicated our deferred inclination to raise our forecast for the USDGHS FX rate as we foresaw strong selling pressure on the local currency. In view of the restrained FX support regime, we raise our forecast for end-2024 USDGHS rate to 15.91/USD (vs our initial forecast of 13.2/USD | Current midrate: 14.64/USD).

- The BOG confirmed the possibility for banks to pay dividend from the 2024 financial results, subject to stronger solvency positions. Our longstanding opinion was that some banks are well positioned to resume dividend payment once the regulatory suspension is lifted post-2025 due to their strong solvency positions. Specifically, we tipped Standard Chartered Bank (SCB) and Societe Generale Ghana (SOGEGH) as the most likely candidates for dividend payment. Given the confirmation by the BOG, we foresee sustained interest in fundamentally-strong banks as we continue to see investor interest in SCB, SOGEGH, and GCB banks.

Cautiously on hold with currency concerns

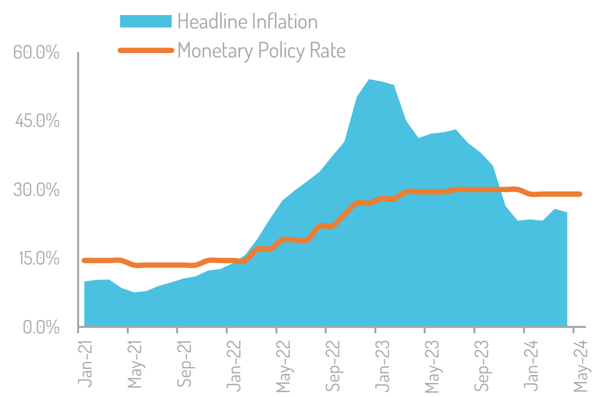
Ghana's Monetary Policy Committee (MPC) did not surprise with its decision at the May 2024 meeting as the authorities left the policy rate unchanged at 29.0% while maintaining the recently introduced three-tier system of Cash Reserve Ratios (CRR).

Throughout 5M2024, our main concern had been the unrelenting depreciation pressure on the Ghanaian Cedi with a potential pass-through to domestic price levels which we projected to modestly elevate the 2024 inflation profile. Unsurprisingly, the Committee maintained the same language from its prior MPC meeting, stressing the slightly elevated inflation profile arising from the FX pressures and adjustments in transport fares. However, the authorities remain confident of containing the end-2024 inflation within the (inner bands of) Monetary Policy Consultation Clause of 13.0% – 17.0%, subject to continued tightness in the monetary policy stance and aggressive liquidity management operations (IC Insights: 15.9% – 17.9%).

Prioritising the accumulation of forex reserves amidst a weakening current account balance is weighing on the local currency. Our review of the summary of economic and financial data showed a weaker current account balance in 1Q2024 (+0.4% of GDP) compared to the same period in 2023 (+0.8% of GDP). This was mainly due to a sluggish growth of 4.9% in exports receipt in 4M2024 against a 22.2% y/y surge in import bills as economic activity continues to recover. While forex demand outweighed the prevailing forex supply, we believe the authorities continued to prioritize the build-up of forex buffer allowing the Cedi to depreciate in line with the excess FX demand.

As part of the ongoing IMF programme, the Bank of Ghana (BOG) adopted a new FX intervention framework, which defined the conditions and modalities of its FX market support. Although this FX intervention framework was not made public, we believe the conditions imposed a restriction on the volume of Central Bank FX sales, given the target to increase net international reserves by at least USD 1.6bn throughout FY2024.

INFLATION AND POLICY RATE PATH SINCE 2021



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

Our estimation indicates that the BOG is ahead of its FY2024 reserve accumulation target under the IMF programme. The authorities grew net international reserves by USD 857.0mn to USD 4.0bn as of end-April 2024 while gross reserves (excluding encumbered assets and petroleum funds) reached USD 4.3bn (2.0months of import cover). Although the Central Bank quoted USD 600.0mn buildup in 5M2024, we think the deviation from our 4M2024 estimate reflects drawdowns for arrears payment to Independent Power Producers (IPPs) and market interventions as FX pressure intensified in May 2024.

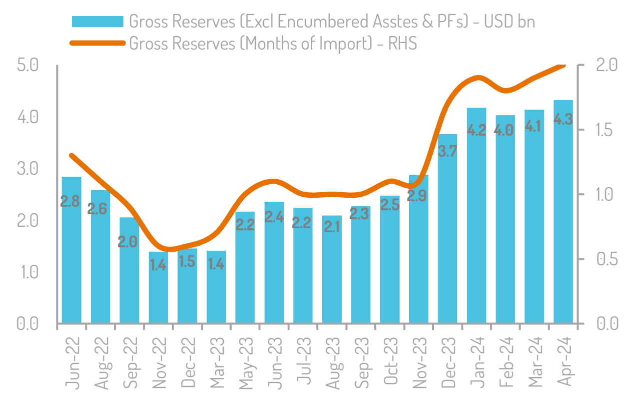
The BOG attributes the rapid build-up in FX reserves partly to the ongoing purchase of domestic gold for reserves programme with 26.6 tonnes (or USD 2.1bn) added to the reserves so far, including USD 500.0mn worth of gold accumulated YTD.

We perceive scope for further growth in forex reserves, albeit with limited intervention sales, as the authorities expect

- USD 150.0mn from the World Bank for the Greater Accra Resilient and Integrated Development project
- USD 360.0mn in June 2024 as third tranche disbursement under the IMF programme,
- USD 300.0mn from the World Bank Development Policy Operation (DPO) facility in 3Q2024, and
- USD 200.0mn from the ECOWAS Bank for Investment and Development to fund Ghana EXIM bank and GCB

Currency pressure also reflects excess GHS liquidity from higher fiscal outlay. During last week's monthly press briefing, the Ghanaian Treasury revealed that GHS 49.0bn worth of contractor arrears has been paid so far this year while approximately USD 400.0mn lump sum was paid to Independent Power producers (IPPs). The MPC confirmed these payments (without stating the amount paid) and aligned with our view that this fiscal outlay intensified the GHS supply. In our view, this sizable payment of arrears will remain a major feature of the 2024 fiscal operations as the December 2024 elections approach, requiring a more aggressive GHS liquidity management by the Central Bank to limit the FX risk.

STEADY GROWTH IN FOREIGN EXCHANGE RESERVES



SOURCE: BANK OF GHANA, IC INSIGHTS

We finally raise our end-2024 forecast of USDGHS FX rate to 15.91/USD. Following the unexpected cut in the policy rate in January 2024, we indicated our deferred inclination to raise our forecast for the USDGHS FX rate as we foresaw strong selling pressure on the local currency. Our decision to delay the revision to our forecast until mid-year was anchored on expected programme-related inflows and the final tranche of the cocoa syndicated loan for the 23/24 season. However, these inflows did not fully materialize while GHS supply overwhelmed the market. The subsequent adjustment to the CRR of banks exerted a limited squeeze on local currency liquidity as banks mostly converted their maturing BOG securities into the CRR positions. Additionally, the seeming fiscal expansion via the clearance of contractor arrears continued to propagate GHS liquidity in the forex market with a resultant pressure on the local currency.

In our view, the authorities' expected inflow of approximately USD 2.3bn in the remainder of 2024 appears largely attainable as the indicative timelines add some credibility to the expectations. Our checks revealed that the World Bank will consider Ghana's request for the much-anticipated financial stability fund (USD 250.0mn) on Thursday 30th May 2024, supporting the credibility of expected inflows to prop-up the growing forex buffer. However, we expect the Cedi to benefit more from the signalling effect of the inflows and less from actual FX sales as the BOG continues to implement constrained interventions amidst reserve build-up. While these inflows could trigger a short-term retracement, we foresee continued hedging by domestic investors as we approach the December elections, which will potentially offset any inflows-induced appreciation. Consequently, we raise our forecast for end-2024 USDGHS rate to 15.91/USD (vs our initial forecast of 13.2/USD | Current midrate: 14.64/USD).

Improving profitability and solvency in the banking sector is opening a window for dividend payments. The latest financial soundness indicators revealed an improvement in banks' Capital Adequacy Ratio (CAR) as profitability continues to expand. The industry's CAR (with regulatory relief) increased to 15.5% in April 2024 (+70bps y/y and +160bps YTD). Excluding regulatory relief, banks witnessed improved solvency positions with the industry average CAR at 11.5%, albeit below the pre-DDEP regulatory minimum of 13.0% and suggests the sector is not out of the woods.

Although asset quality issues persist (NPL at 25.7% in April 2024), the BOG Governor confirmed the possibility for dividend payment from 2024 financial results by banks with stronger solvency positions. Our longstanding opinion was that some banks are well positioned to resume dividend payment once the regulatory suspension is lifted post-2025 due to their strong solvency positions. Specifically, we tipped Standard Chartered Bank (SCB) as the most likely to resume dividend payment. Additionally, we viewed Societe Generale Ghana (SOGEGH) as a likely candidate to resume dividend payment as the multinational bank was unaffected by the DDEP shock. Reassuringly, the BOG's confirmation suggests that the regulatory framework is flexible to allow dividend payments by stronger banks ahead of the end-2025 recapitalisation plan. Against this backdrop, we foresee sustained interest in fundamentally-strong banks as we continue to see investor interest in SCB, SOGEGH, and GCB banks.

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