GHANA | MACROECONOMIC UPDATE | MONETARY POLICY | INSIGHTS

FUNDAMENTALS

GHANA MPC UPDATE:

HOLDING STEADY.......
WITH VIGILANCE

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IN BRIEF

- As expected, the Monetary Policy Committee (MPC) of Ghana's Central Bank voted to retain the policy rate at 29.0%, together with the dynamic Cash Reserve Ratio (CRR) of between 15.0% - 25.0% at the July 2024 MPC meeting.

- Unsurprisingly, the Committee reiterated its expectation for the year-end inflation to land within the target range of 13.0% – 17.0%, maintaining the target range under the IMF Monetary Policy Consultation Clause (IC Insights: 19.3% – 21.3%). Despite expressing its confidence in the disinflation outlook for 2H2024, the MPC rightly flagged the elevation in the upside risk, which has persisted since the assessment in the May 2024 MPC meeting.

- While the decision to maintain the policy rate at the 29.0% level appeared to downplay the upside risk, we think the Committee is leaning on the liquidity squeeze being exerted by the tight CRR stance. In our estimation, the return to disinflation coincided with the hike in CRR for banks in April 2024, which has drained GHS 21.9bn of bank deposit into Reserve Money as of June 2024. We think the MPC rightly observed the CRR-induced progress together with the signalling effect of the high policy rate and is counting on its sustained cooling impact on price momentum in 2H2024.

- We believe that the potential for a relatively stable Cedi in 2H2024 is supported by expected inflows of USD 300.0mn from the World Bank in 3Q2024, IMF disbursement of USD 360.0mn and a likely cocoa syndicated loan in 4Q2024. However, uncertainty related to the upcoming elections in December 2024 could heighten safe-haven demand for forex. Additionally, the Treasury will pay GHS 6.1bn as coupon on the restructured bonds in August 2024 amidst cumulative payment of GHS 1.5bn as part of financial sector bailout in 2H2024. Against the backdrop of election uncertainty, these payments could sustain the robust growth observed in currency outside banks, which keeps us cautious on the FX, inflation, and interest rate path.

A routine decision

As expected, the Monetary Policy Committee (MPC) of Ghana's Central Bank voted to retain the policy rate at 29.0%, together with the dynamic Cash Reserve Ratio (CRR) of between 15.0% - 25.0% at the July 2024 MPC meeting. The rate-hold decision represents the third consecutive MPC meeting which concluded with a freeze on the policy rate and the second straight retention of the dynamic CRR system.

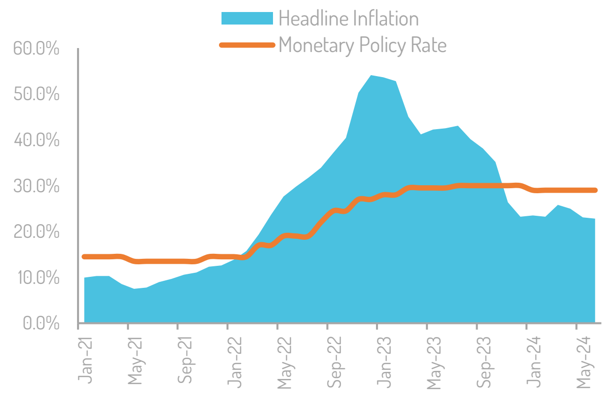
Unsurprisingly, the Committee reiterated its expectation for the year-end inflation to land within the target range of 13.0% – 17.0%, maintaining the target range under the IMF Monetary Policy Consultation Clause (IC Insights: 19.3% – 21.3%).

Despite expressing its confidence in the disinflation outlook for 2H2024, the MPC rightly flagged the elevation in the upside risk which has persisted since the assessment in the May 2024 MPC meeting. While the decision to maintain the policy rate at the 29.0% level appeared to downplay the upside risk, we think the Committee is leaning on the liquidity squeeze being exerted by the tight CRR stance.

The return to disinflation in 2Q2024 backs the MPC's optimism on achieving the year-end target. After stalling in 1Q2024, disinflation resumed in the second quarter as headline inflation declined for three straight months to 22.8% y/y in June 2024 (-300bps q/q | -40bps YTD). Although the pace of decline was slower-than-expected, the Committee hailed the progress with a positive signalling effect on price expectations.

In our estimation, the return to disinflation coincided with the hike in CRR for banks in April 2024, which has drained GHS 21.9bn of bank deposit into Reserve Money as of June 2024. We believe the squeeze in Cedi liquidity contributed to the slowdown in the rise of the CPI in 2Q2024, allowing a favourable base effect to drag down annual inflation, despite FX-induced upside risk. We think the MPC rightly observed the CRR-induced progress together with the signalling effect of the high policy rate and is counting on its sustained cooling impact on price momentum.

INFLATION AND POLICY RATE PATH SINCE 2021



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

The Cedi's return to stability bodes well for the outlook but risks abound. The Cedi found a much-needed stability in July 2024 after a difficult 1H2024 where the local currency lost 21.9% against the USD. The modest depreciation of 1.2% as of 26th July (vs average loss of 4.7% per month in 2Q2024) has raised optimism about a return to FX stability with containment of price pressure.

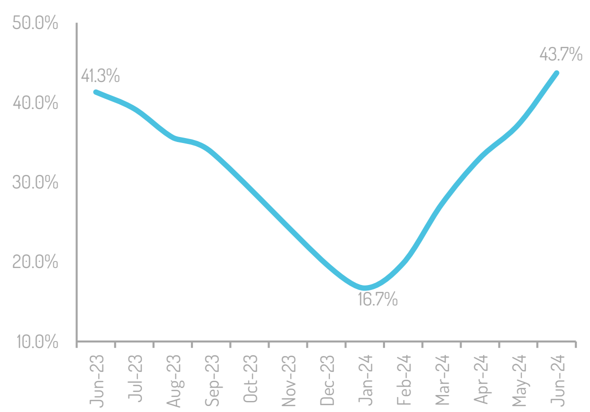
We believe that the potential for a relatively stable Cedi in 2H2024 is supported by the expected inflows of USD 300.0mn from the World Bank in 3Q2024, IMF disbursement of USD 360.0mn and a likely cocoa syndicated loan in 4Q2024. However, uncertainty related to the upcoming elections in December 2024 could heighten in late-2024 and revive safe-haven demand for forex.

Additionally, the Treasury has indicated a planned payment of GHS 1.5bn cumulatively to customers of defunct Asset Managers by end-October 2024. In August 2024, the Treasury will pay GHS 6.1bn as coupon to all categories of investors in the restructured bonds. We view these expected flows of local currency liquidity to the market as a key risk to the FX outlook which would pose upside risk to energy prices, utility tariffs, and transport fares with implication for the disinflation outlook.

We perceive additional risk in the renewed increase of currency outside banks. Our review of the summary of economic and financial data revealed a re-acceleration in growth of currency outside the banking system in 1H2024. Having dropped consistently from 41.3% y/y in June 2023 to 16.7% y/y in January 2024, the growth in currency outside banks resumed an uptrend in 1H2024.

We view this phenomenon as a risk to the Cedi's stability and the disinflation outlook for 2H2024. We note that the re-acceleration in the growth of currency outside banks and the heightened FX pressure in 1H2024 coincided with payment of contractor arrears. Against this backdrop, we view the planned payment of GHS 1.5bn to customers of defunct Asset Managers, a GHS 6.1bn coupon payment in August 2024 and election-related uncertainty as upside risks that keeps us cautious on the FX, inflation, and interest rate path.

GROWTH IN CURRENCY OUTSIDE BANKS (YoY)



SOURCE: BANK OF GHANA, IC INSIGHTS

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