GHANA | MACROECONOMIC UPDATE | MONETARY POLICY | INSIGHTS

FUNDAMENTALS

GHANA MPC UPDATE:

CAUTION OVER ACTION

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IN BRIEF

- The Bank of Ghana's Monetary Policy Committee (MPC) did not surprise at its final meeting for 2024 as the authorities chose the path of caution over action by staying the policy rate at 27.0% (IC Insights: 27.0% I Market expectation: 26.75%).

- The MPC decision came against the backdrop of elevated inflation profile, post-US election policy uncertainty, and recent BOG-induced appreciation of the Ghanaian Cedi which blurred the near-term outlook. In view of this, we believe the MPC chose the optimal path which would allow the authorities to observe the evolution of Ghana's election and political transitions (including the US) as well as the Cedi's recent trend.

- **The BOG's updated inflation forecast showed a slightly elevated profile but remains a tad bullish on time horizon for single digit.** While the MPC was silent on the updated forecast for end-2024, the Committee revealed a slight elevation in the one-year ahead average inflation to 20.1% (vs 19.0% at the September MPC meeting). As a result, the authorities observed that the horizon for attaining the single digit target has shifted forward to 4Q2025 (vs 3Q2025 prior). Similar to the BOG's observation, our updated forecast for single digit inflation shifted forward by one quarter, albeit into 1Q2026, on account of the sluggish disinflation and earlier FX pressures.

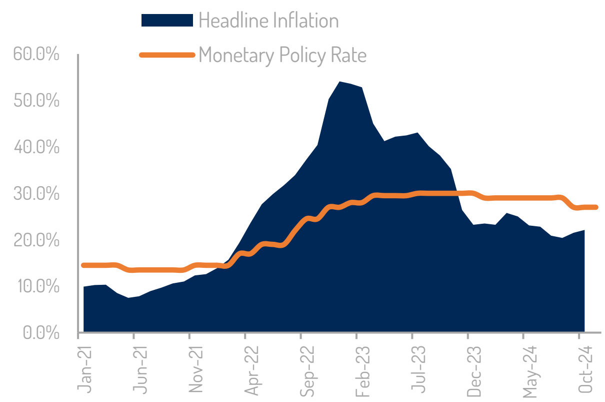
- **The Ghana gold rush and remittance inflows are holding up external account balances.** We laud the Bank of Ghana's decision to provide an update on its Gold Holdings as this enhances the credibility of the authorities' Gold-for-Reserves programme and boosts our confidence. We note the impressive growth in the stock of gold held in Ghana's forex reserves to 28.1 tonnes as of October 2024 (from 8.77 tonnes at the start of the programme in mid-2021). Per our estimation, this translates to USD 2.5bn, equivalent to about one-third of the gross forex reserves and almost half of the net forex reserves.

Waiting for the dust to settle

The Bank of Ghana's Monetary Policy Committee (MPC) did not surprise at its final meeting for 2024 as the authorities chose the path of caution over action by staying the policy rate at 27.0% (IC Insights: 27.0% | Market expectation: 26.75%). The MPC decision came against the backdrop of elevated inflation profile, post-US election policy uncertainty, and recent BOG-induced appreciation of the Ghanaian Cedi which blurred the near-term outlook.

In view of this, we believe the MPC chose the optimal path which would allow the authorities to observe the evolution of Ghana's election and political transitions (including the US) as well as the Cedi's recent trend.

INFLATION AND POLICY RATE PATH SINCE 2021



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

The BOG's inflation forecast showed a slightly elevated profile but remains a tad bullish on horizon for single digit. In our June 2024 inflation update – Canary in the Coal Mine – we raised our FY2024 inflation forecast to between 19.3% - 21.3% as the sluggish disinflation heightened the risk of overshoot on BOG's initial end-2024 target of 15.0% ± 2.0%. While the MPC was silent on the updated forecast for end-2024, the Committee revealed a slight elevation in the one-year ahead average inflation to 20.1% (vs 19.0% at the September MPC meeting). As a result, the authorities observed that the horizon for attaining the single digit target has shifted forward to 4Q2025 (vs 3Q2025 prior).

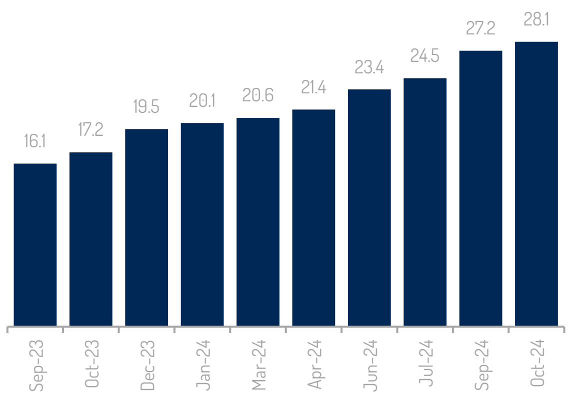
Similar to the BOG's observation, our updated forecast for single digit inflation shifted forward by one quarter, albeit into 1Q2026, on account of the sluggish disinflation and earlier FX pressures. We also flag the renewed external policy uncertainty as a risk to exchange rate, energy, and food prices with a pass-through to inflation in 2025. However, the recent strong appreciation of the Ghanaian Cedi will tame the price pressures in December 2024 into early 2025, potentially capping the upside risk.

The Ghana gold rush and remittance inflows are holding up external account balances. The trade surplus showed a remarkable improvement to USD 3.9bn (4.6% of GDP) as of October 2024 compared to 2.5% in same period of 2023. The robust improvement was mostly supported by higher gold output inspired by the BOG's gold purchase programme and firmer price on the international market, which propelled a 61.7% y/y growth in gold export revenue.

The current account also witnessed a marked improvement to a surplus equivalent to 2.6% of GDP in 9M2024 (vs +1.2% in same period 2023), helped by a 25.4% y/y growth in remittance inflows. With this and a lower net outflow on the capital and financial accounts, the gross forex reserve improved to USD 7.9bn (3.5 months of import) as of 22 November 2024.

We laud the Bank of Ghana's decision to provide an update on its Gold Holdings as this enhances the credibility of the authorities' Gold-for-Reserves programme and boosts our confidence. We note the impressive growth in the stock of gold in Ghana's forex reserves to 28.1 tonnes as of October 2024 (from 8.77 tonnes at the start of the programme in mid-2021). Per our estimation, this translates to USD 2.5bn, equivalent to about one-third of the gross forex reserves and almost half of the net forex reserves.

GROWTH IN GOLD HOLDINGS IN GHANA'S FX RESERVE



SOURCE: BANK OF GHANA, IC INSIGHTS

The banking sector is making good progress on capital restoration as we head into the final year of regulatory relief. The disaggregated data on the banking sector's solvency position showed steady improvement in the industry's capital adequacy ratio as CAR (with regulatory relief) stood at 14.3% in October 2024. Notably, the CAR level (without regulatory relief) stood at 11.1%, indicating an improvement from 7.3% in the prior year with optimism for continued progress as we head into FY2025 – the final year of regulatory reliefs.

In our estimation, only about 22% of the industry currently falls below the 13.0% required minimum CAR (without regulatory relief). These banks would require continuous adherence to recapitalisation plan, enforcement of strict credit risk standards, and continued profitability to restore capital buffers to pre-DDEP levels.

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