GHANA | MACROECONOMIC UPDATE | MONETARY POLICY | INSIGHTS

FUNDAMENTALS

GHANA MPC UPDATE:
LEANING ON THE FISCUS

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IN BRIEF

- The Monetary Policy Committee (MPC) of the Bank of Ghana left the policy rate unchanged at 27.0% at its first MPC meeting in 2025, despite significantly overshooting its inflation target for end-2024. With the IMF mission expected in Accra from 10th – 14th February to align Ghana's FY2025 budget with the ongoing reforms programme, the MPC opted to lean on the expected fiscal tailwind for disinflation as against stirring market uncertainty with a rate hike.

- **The FY2025 budget takes on more significance as the MPC leans on fiscal tightening to revive disinflation.** We fully align with the Bank of Ghana's position on fiscal tailwind to drive down inflation in the months ahead as renewed fiscal tightening will curb the demand pressures without further policy rate hike. Additionally, we expect the proposed tax reforms to ease the multiple price build-up, especially in the VAT regime, to quicken the pace of disinflation in 2H2025.

- **Forex market operation ostensibly triggered to avert rate hike.** After suspending its recent aggressive FX Forward sale on 20 December 2024, we had ruled-out the return of FX sale on a similar scale in 1Q2025 with authorities mindful of IMF reserve accumulation target for 2025 (+USD 1.5bn). However, the Bank of Ghana surprised the market last week, selling a total of USD 320.0mn in 7-day FX forwards to cap the renewed forex pressure as the MPC meeting was underway. Given the inflation overshooting last year and the consequence for the IMF Monetary Policy Consultation Clause, we think the MPC chose to deploy FX sale as a stopgap measure to mitigate the risk of rate hike ahead of the budget statement in late-1Q2025.

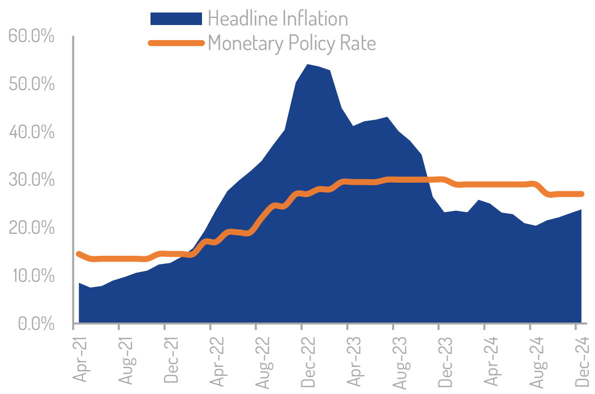
- **External account position showing rapid improvement on favourable trade balance and gold-for-reserves.** Consequently, the gross forex reserves improved remarkably to ≃USD 9.0bn (4.0 months of import cover) while the net forex reserves stood at USD 6.4bn (2.9 months cover) at FY2024. We estimate that the steady improvement in net international reserves (NIR) puts the authorities about 16-months ahead of the target to restore NIR to at least 3.0-months import cover by end of the IMF programme. This bodes well for the FX outlook as the authorities continue the gold-for-reserves programme with a tighter fiscal regime in 2025.

Standing pat; leaning on the fiscus

The Monetary Policy Committee (MPC) of the Bank of Ghana left the policy rate unchanged at 27.0% at its first MPC meeting in 2025, despite significantly overshooting its inflation target for end-2024.

Although inflation overshot the 22.0% outer upper limit for end-2024 by 180bps and should ordinarily trigger remedial measures under the Monetary Policy Consultation Clause, the MPC opted to lean on the expected disinflation tailwind ahead in the FY2025 budget. With the IMF mission expected in Accra from 10th – 14th February to align Ghana's FY2025 budget with the ongoing reforms programme, the MPC chose the path of least resistance as against stirring market uncertainty with a rate hike.

INFLATION AND POLICY RATE PATH SINCE 2021



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

The FY2025 budget takes on more significance as the MPC leans on fiscal tightening to revive disinflation. In line with our expectation for the 2025 fiscal measures to revive disinflation in the months ahead, the monetary policy committee echoed similar sentiments despite acknowledging the higher-than-projected outturn for the end-2024 inflation (23.8%).

In enumerating the main drivers of the late-2024 inflation upturn as involving unfavourable climate-related factors in food-growing regions, the late onset of rains, and supply chain issues, we believe the MPC has invoked the complementary role of fiscal policy. Beyond the structural drivers of food inflation, the monetary authorities expect renewed commitment to fiscal consolidation under the new government to trigger a resumption in disinflation.

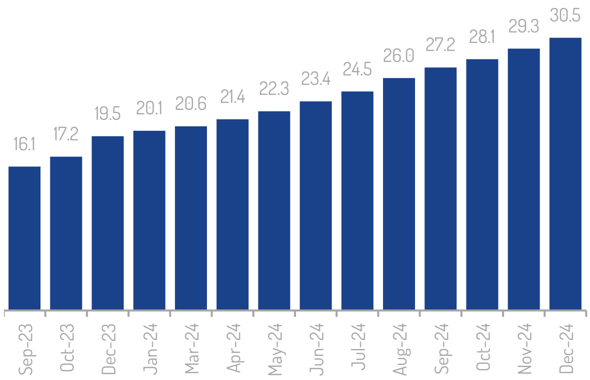
We fully align with the Bank of Ghana's position on fiscal tailwind to drive down inflation in the months ahead as renewed fiscal tightening will curb the demand pressures without further policy rate hike. Additionally, we expect the proposed tax reforms to ease the multiple price build-up, especially in the VAT regime, to quicken the pace of disinflation in 2H2025.

At its November 2024 meeting, the Committee acknowledged the elevation in Ghana's inflation profile but stayed bullish on restoring single digit inflation in 4Q2025 (IC Insights: 1Q2026). However, the MPC noted that its latest forecast at the January 2025 meeting showed an extended horizon to restore inflation within the target band of 6.0% – 10.0%, albeit without specifying the updated timeline. While we await the extent of fiscal tailwind in the FY2025 budget and maintains our 1Q2026, we foresee a possible shift of the horizon for single digit inflation into 2Q2026.

Forex market operation ostensibly triggered to avert rate hike. After suspending its recent aggressive FX Forward sale on 20 December 2024, we had ruled-out the return of FX sale on a similar scale in 1Q2025 with authorities mindful of IMF reserve accumulation target for 2025 (+USD 1.5bn). However, the Bank of Ghana surprised the market last week, selling a total of USD 320.0mn in 7-day FX forwards to cap the renewed forex pressure as the MPC meeting was underway.

Given the inflation overshooting last year and the consequence for the IMF Monetary Policy Consultation Clause, we think the MPC chose to deploy FX sale as a stopgap measure to mitigate the risk of rate hike ahead of the budget statement in late-1Q2025.

GOLD HOLDINGS IN GHANA'S FOREX RESERVE (Tonnes)



SOURCE: BANK OF GHANA, IC INSIGHTS

External account position showing rapid improvement on favourable trade balance and gold-for-reserves. Total exports increased to USD 20.2bn (+21.1% y/y) in FY2024, powered by a 53.2% y/y surge in gold earnings as the Bank of Ghana intensified its domestic gold purchase programme. Given a modest increase of 8.8% in total imports (USD 15.2bn), the trade surplus widened to a record USD 5.0bn (5.9% of GDP). We also observed an impressive outturn on the Current Account surplus, which widened to 4.2% of GDP at FY2024 with the help of lower external debt service, stronger inward remittances and FDI inflow

Consequently, the gross forex reserves improved remarkably to ≃USD 9.0bn (4.0 months of import cover) while the net forex reserves stood at USD 6.4bn (2.9 months cover). We estimate that the steady improvement in net international reserves (NIR) puts the authorities about 16-months ahead of the target to restore NIR to at least 3.0-months cover by end of the IMF programme. This bodes well for the FX outlook as the authorities continue the gold-for-reserves programme with a tighter fiscal regime in 2025.

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