TESAH CAPITAL

Monetary Policy Update

26th September, 2023

POLICY RATE MAINTAINED

30%

GLOBAL

Economy

Global economy weakened since July due to:

- Loss of momentum in manufacturing and services.
- Lower export demand and tighter financing.
- China's Q1 2023 rebound slowed from reduced consumer spending.

IMF revised global growth from 3.5% to 3.0% in 2023 and 2024.

Emerging Markets' growth stable at 4.0% in 2023, 4.1% in 2024.

Inflation

Global inflation is projected to decline from 8.7% in 2022 to 6.8% and 5.2% in 2023 and 2024, respectively.

Recent hikes in crude oil prices are likely to exert upward pressure, despite robust labor markets and the pass-through of past cost shocks.

There is an increase in inflation in Emerging Markets and Developing Economies (EMDEs), driven by a pickup in oil prices and renewed currency pressures.

Financing

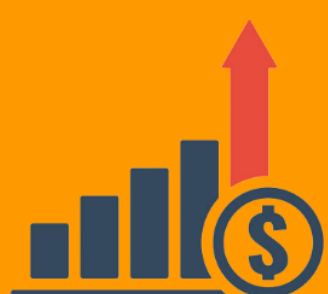
Global financing conditions remain tight due to:

- Rising interest rates due to past policy rate hikes.
- A stronger US dollar, amid higher treasury yields, has triggered renewed currency pressures in Emerging Markets and Developing Economies (EMDEs).
- There is risk aversion for emerging market economies' assets.

DOMESTIC

Economic growth was relatively stronger in H1 of 2023. Real GDP growth at 3.2% in Q2 of 2023 which is a marginal decline from the 3.3% recorded in Q1 2023. It also compares with the 3.5% recorded in the same period of 2022.

Growth was driven by the services and agriculture sectors at 6.3% and 6.0% respectively. On the contrary, industry contracted by 1.9%.



Headline inflation declined after consecutive hikes since May 2023, dropping to 40.1% from 43.1% and 42.5% in July and June, respectively.

Reasons:

- The Bank's core measure of inflation trended downwards, with core inflation decreasing from 44.2% in July to 41.0% in August 2023showed mixed sentiments, reflecting both improving consumer demand and relative stability in the local currency.
- Real GDP growth increased to 3.2% in the second quarter of 2023, compared with 3.5% growth recorded in the same quarter of 2022. This growth was driven by positive performance in the agriculture and services sectors.
- There was a contraction of the real Composite Index of Economic Activity (CIEA) in July 2023 by 2.8%, compared to a contraction of 3.1% in June 2023. This contraction was attributed to industrial consumption of electricity, tourist arrivals, and private sector contributions to SSNIT.
- The business confidence survey in August 2023

BANKING SECTOR

Credit to the private sector increased year on year, rising by 10.7%, compared to 35.80% in August 2022.

There was an increase in the interbank weighted average rate from 21.93% in August 2022 to 26.59% in August 2023.

Total assets of banks increased to GHS 244.7 billion from GHS 204.6 billion in August 2022. There was significant growth in deposits, rising by 38.9% to GHS 189.9 billion in August 2023.

Key financial soundness indicators remained strong, with the regulatory adjusted Capital Adequacy Ratio at 14.2% in August 2023, higher than the minimum level of 10%.

Banks' profitability improved in the first eight months of 2023, with a 41.4% increase in profit-before-tax in August 2023, compared to 26.5% in August 2022. The profit-after-tax stood at GH¢5.7 billion.

TESAH'S OPINION

- It is evident that inflation persists at elevated levels and exhibits a widespread impact. While there have been some indications of a slight reduction, the anticipated timeline for a return to the target remains uncertain.

- Despite a substantial increase in the nominal policy rate, rising from 22.00% in August 2022 to 30.00% in July 2023, our assessment leads us to conclude that financial conditions have not reached a level of stringency that would fully harness the intended effects of monetary policy.

- Ghana's monetary policy framework adheres to inflation targeting. In light of the challenges posed by the current situation, we propose a more pronounced role for fiscal policy. Such an adjustment could effectively temper demand pressures, thereby mitigating the imperative for further interest rate hikes.

- We maintain the perspective that a reduction in policy rates, even if aimed at preserving overall financial conditions, might be misconstrued as a wavering commitment to combat inflation effectively.

- Our anticipation is that the Bank of Ghana (BoG) will uphold the policy rate at 30.00% during its forthcoming Monetary Policy Committee (MPC) meeting, given the persistence of high inflation. While we expect a gradual disinflation trend in the upcoming months, driven by moderating global energy prices and greater exchange rate stability, it is important to note that inflation is poised to remain significantly above its target threshold. Consequently, we anticipate policymakers will remain steadfast in their endeavors to manage inflationary pressures in the short term, with a focus on achieving a more substantial disinflationary trajectory before concluding the tightening phase.

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