BoG Rate Decision Inline with Expectations Due to Broadly Balanced Outlook

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- **MPR was maintained at 16.0% for the sixth consecutive session**
- **YoY inflation increased from 7.6% in Sept-19 to 7.7% in Oct-19 due to higher prices in the transport sub-sector**
- **Core inflation excluding energy, utility and all food items increased from 5.3% in Sept-19 to 7.2% in Oct-19**

At the 91st and last MPC meeting of the year, the MPC held the policy rate at 16.0%, citing a stable inflation outlook and confidence in GoG not exceeding the 5% of GDP fiscal deficit ceiling.

Since the 100 bps reduction in the MPR in January, the MPC has maintained the policy rate at 16.0%, discontinuing the easing cycle due to risks to the inflation outlook, risks from the banking turbulence and fiscal slippage. We think the MPC made the right decision as seasonal changes add to risks in the short term amid the broadly balanced outlook.

In addition, credit to the private sector is not expected to pick up in the short term due to high bank operating costs, an elevated business risk environment and GoG appetite for domestic borrowing. The BoG mentioned plans to release 2% of bank primary reserves in 2020 for lending to SMEs under the Enterprise Credit Scheme announced in the 2020 budget, however, we believe credit will remain low.

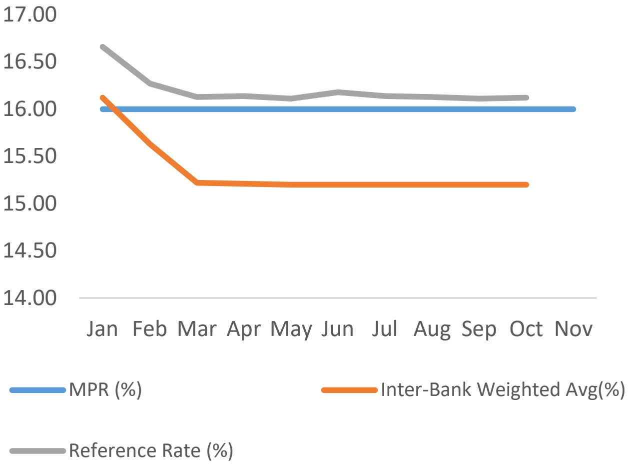
The decision of the MPC should have a muted impact on yields. In the primary market, treasury bills have remained fairly stable over the last 6 months but demand for medium term securities (2-5 years) have caused prices to rise.

The following factors support the case for the MPC maintaining the rate:

- **Inflation expectations remain within the target band of 8±2.** Due to higher fares and fuel cost, y/y CPI increased from 7.6% in Sept-19 to 7.7% in Oct-19. BoG forecasts report that inflation will remain within the target band, barring any unforeseen shocks. Even though core inflation increased significantly in Oct-19 due to the transport sub-sector, inflation expectations, derived from BoG surveys, remain fairly anchored in single digits and core inflation (excl. energy and utilities) is expected to remain low.

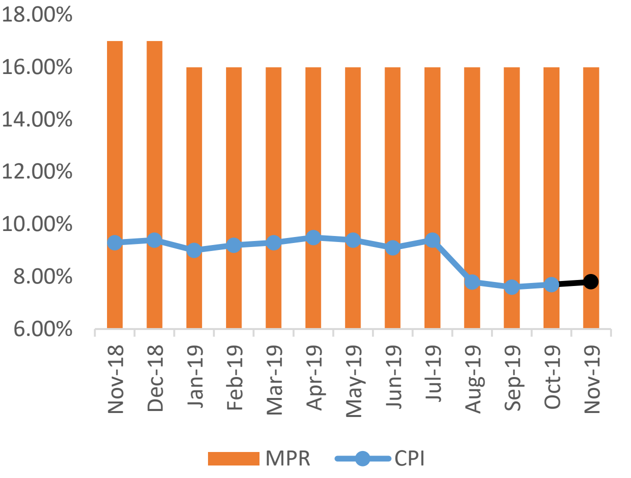
MPR Review, Nov 2019

Rates



Source: Bank of Ghana

CPI vs. MPR



Source: Ghana Statistical Service, Bank of Ghana

- **BoG's uncertainty of fiscal slippage ahead of the 2020 elections.** The fiscal deficit is projected to reach 4.7% of GDP in 2019, close to the Fiscal Responsibility Rule ceiling of 5% of GDP. 2020's revenue target of GH¢67.07 billion (+22.92% y/y) is ambitious, especially because of the target revenue shortfall of 7.4% in 2019 and the lack of innovative plans to ramp up tax and non-tax revenue in 2020 amid an expenditure target of GH¢85.95 billion (+21.20% y/y).

- **Currency risks in the last quarter.** Historically, the cedi has consistently underperformed against major currencies during the first and fiourth quarters of every year. This year has not been any different. The cedi depreciated by -0.40%, -5.22% and -2.51% against the dollar, pound and euro, respectively in Oct-19 due to higher imports ahead of the festive season. BoG believes that interventions through forward forex auctions have cushioned the cedi from a bigger drop but demand continues to outweigh supply.

- **Uncertainty in economic activity.** While economic activity remains positive, the rate of growth (CIEA) has slowed from 11.6% in Sept-18 to 8.9% in Sept-19. Real GDP declined from GH¢40.50 billion in 1Q19 to GH¢39.95 billion in 2Q19 as growth excluding oil fell. Consumer confidence has also slowed amid stronger business confidence.

Next Meeting

The next Monetary Policy Committee (MPC) meeting is scheduled for January 22-24, 2020. The meeting will conclude on Monday, January 27, 2020 with the announcement of the policy decision.

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