SUMMARY FROM THE MPC MEETING

AND REASONS FOR THE 100 BASIS POINTS INCREASE

TESAH CAPITAL

Easing of inflationary expectations though core inflation increased

- Core inflation increased from 49.7% in November to 53.2% in December.

Slowdown in growth but an increase in business and consumer sentiment

- Growth was 3.6% for the first three quarters of 2022 compared to 4.8% for the same period in 2021
- The Composite Index of Economic Activity (CIEA) recorded a growth of 6.2% in November compared to 10.2% for the same period in 2021

Decline in key indicators of Financial Soundness in the banking sector

- Capital Adequacy Ratio (CAR) of Banks declined from 19.6% to 16.6% in December 2022
- Profit after Tax (PAT) for the banking industry declined by 18.9% to GHS3.9 billion in December compared to a growth of 12.3% in 2021

The broad fiscal deficit and primary balance were higher than planned whilst revenue was lower than anticipated

- Broad fiscal deficit was 9.8% (January to November) compared to a target of 6.7%
- Primary balance was 3.5% (January to November) compared to a target of 0.5%
- Total revenue and grants was GHS81.8 billion compared to a target of GHS84 billion

Acceleration in the growth in broad money supply

- M2+ grew by 33% year on year in 2022 compared to 12.5% in December 2021

The MPC believes the Government can reduce expenditure and increase revenues

✓ Though there was a narrowing of the current account deficit, portfolio reversals and reductions in FDI led to a loss of reserves

- Current account deficit narrowed from 3.2% to 2.3%
- Capital account and financial account recorded a net outflow of $2.2 billion compared to a net inflow of $3.3 billion in 2021.
- Gross internal reserves reduced from $9.7 billion dollars (4.4 months of import cover) in 2021 to $6.2 billion (2.7 months of import cover)
- Net international reserves reduced from $6.1 billion dollars in 2021 to $2.4 billion

Sharp depreciation of the cedi in January 2023 compared to the same period last year

The cedi has depreciated on average by about 20% against the major currencies in January 2023 compared to about 0.8% for the same period in 2022.

- **IMF Funds to provide stability to the economy**
- **The MPC wants to drain liquidity from the market but is also mindful of the effects of the DDE on the banking sector**
- **Though not explicitly stated, higher rates can increase the borrowing cost for businesses and especially the government.**

GLOBAL OVERVIEW

US Fed, European Central Bank (ECB) and Bank of England (BOE) are meeting this week and are all expected to increase rates.

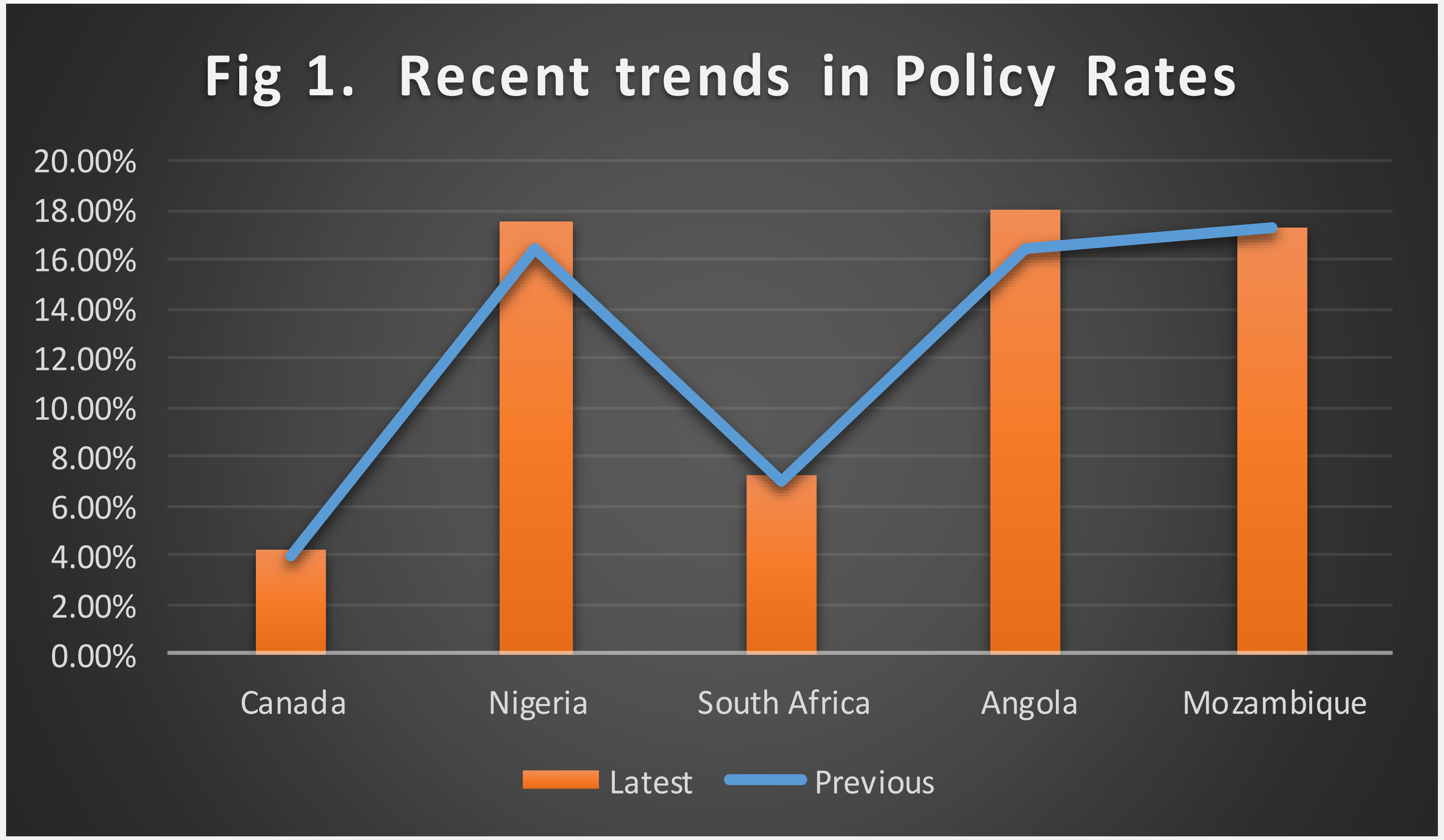
- Christine Lagarde, the President of ECB has warned that markets may not be sufficiently pricing in the increases in inflation required to bring inflation under control.
- Pierre Olivier Gourinchas, the IMF's Chief Economist has also warned that the global fight against inflation is far from over

Whilst headline inflation may be easing in a number of countries, this is not necessarily the case with core inflation

Bank of Canada raised rates by 25 basis points to 4.5% in its first rates decision of the year. This is the eighth consecutive time the Bank has hiked its rates

IN AFRICA

- Nigeria increased rates by 100 basis points to 17.5%
- South Africa increased rates by 25 basis points to 7.25%
- Angola reduced rates by 150 basis points to 18%
- Mozambique kept rates unchanged at 17.25%



Source: Tesah Research

OUR EXPECTATION AND REACTIONS TO THE MPC'S 100 BASIS POINT INCREASE

The rate increase of 100 basis points to 28% is lower than expected.

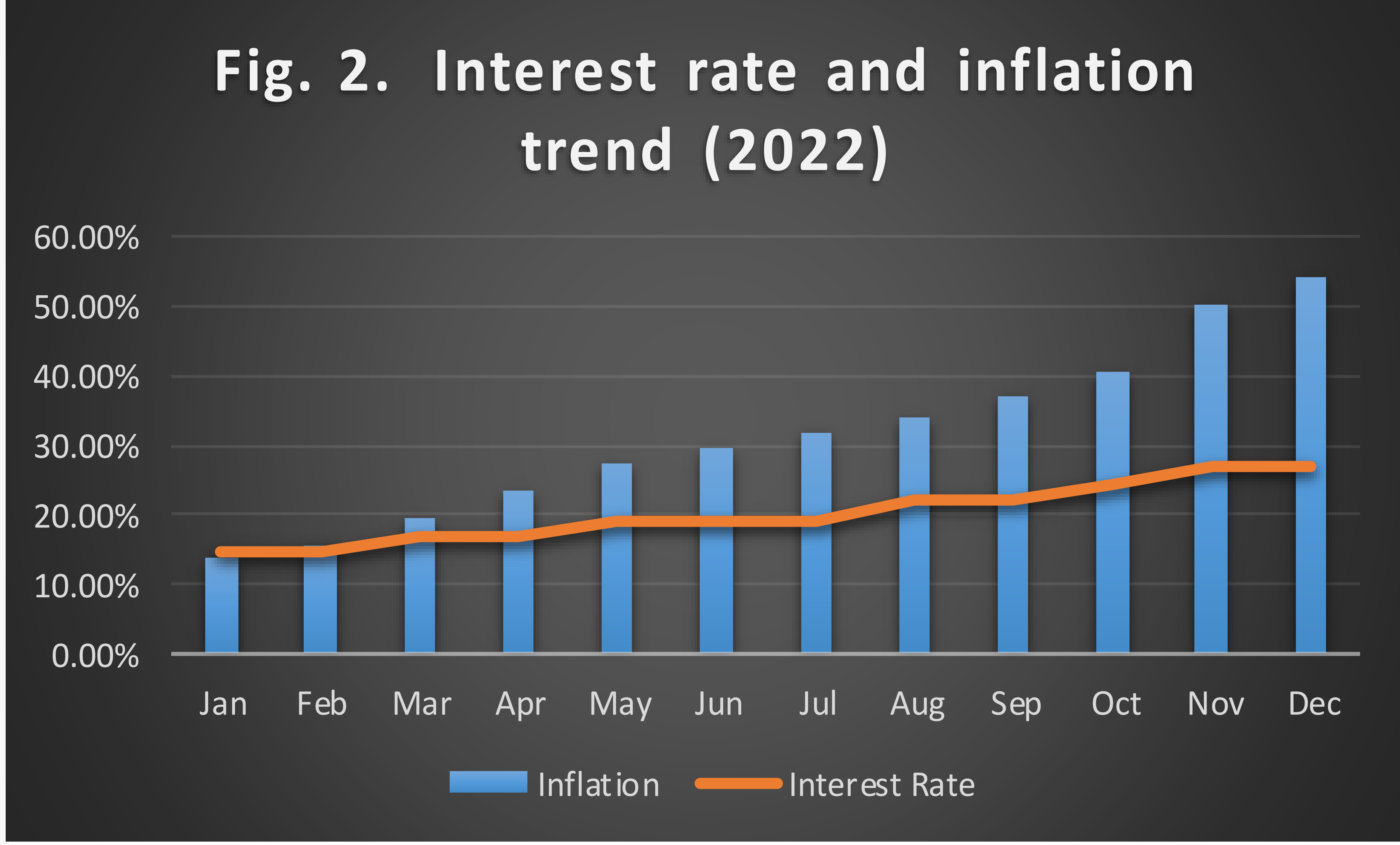
- Prior to this meeting, the MPC increased the policy rate by 250 basis points in September and November respectively.

We predicted a 300 basis points increase, with a band of 27% and 31% with 99% confidence. This prediction was made based on

- Internal forecasting models
- Expert judgement

A survey by Bloomberg of a number of Economists predicted a 200 basis points increase

- Hikes in the policy rate are used as a tool to curb inflation and drain liquidity from the economy. Inflation in Ghana remained elevated in 2022, and particularly high in the last quarter of 2022.
  - ✓ **40.4% in October 2022**
  - ✓ **50.3% in November 2022**
  - ✓ **54.1% in December 2022**



Source: Ghana Statistical Service and Tesah Research

- **Though the increase of 100 basis points was less than we expected, the rate of 28% is still the highest rate since 2002. The last time such high rates were recorded was in 2003 with a 27.5% rate.**
  - We believe the MPC should have settled on a bigger hike for a number of reasons;

GHANA HAS ONE OF THE HIGHEST NEGATIVE REAL INTEREST RATES IN THE WORLD – ONLY AFTER TURKEY AND SRI LANKA

- There has been an acceleration of this negative real rate from January 2022.
- This stood at about 27.1% in December 2022 from 15.9% in November 2022

The Inflation rate in Nigeria of about 21% hasn't changed much in the last three months but Nigeria still increased its policy rate by 100 basis points to 17.5%

- Whilst advanced economies may be nearing the end of their rate hiking cycle, we think we have a longer way to go in Ghana.

Our expectations were due to the fact that a higher increase would have

✓ Made cedi assets more attractive and dissuaded economic agents from purchasing other assets such as foreign currency.
✓ Better anchored inflationary expectations and
✓ Reduced the effects of the uncertainty surrounding the DDE and IMF Fund release on the cedi and the economy

RISKS FROM THE LOWER THAN EXPECTED RATE HIKE

- The risk is that the MPC might have to come back with an emergency meeting like they did in August 2022;

✓ If future inflation prints seem out of control
✓ The cedi continues to depreciate at a fast pace
✓ There is uncertainty surrounding the completion of the DDE
✓ Ghana is not able to secure the expected $3 billion from the IMF in a timely manner.
✓ There is an intensification of the war in Russian/Ukraine
✓ Government has no option than to continue to finance the fiscal deficit through the domestic sector and the Bank of Ghana.

RISKS FROM THE LOWER THAN EXPECTED RATE HIKE

- **It would be useful to know how the MPC members voted**
  - This does not have to include how each particular member voted but a summary of members who wanted a hold, an increase (percentage) and a decrease (percentage) would be helpful.
- **Also it would be useful if the MPC can provide forward guidance in terms of its estimates of the MPR for at least 4 quarters.**

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