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West Africa Macroeconomic Update

March 2024

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Ghana's real GDP slows to **2.9%** in 2023 despite expansion of 3.8% in Q4'23

Inflationary pressures continue to mount in Nigeria while Ghana reverses upward trend

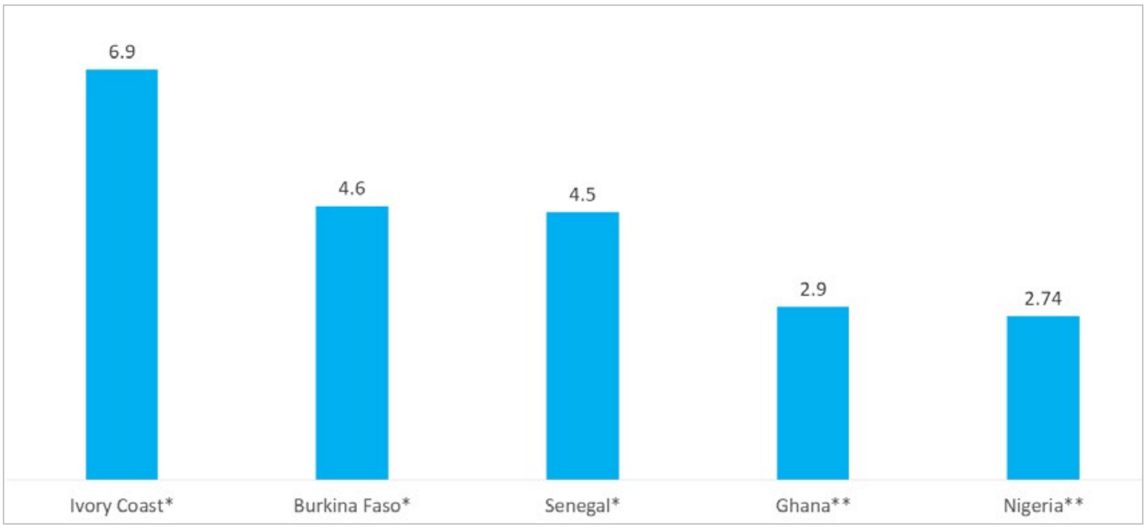
Monetary Policy update: CBN tightens further while BoG maintains status quo in March

Ghana's real GDP slows to 2.9% in 2023 despite expansion of 3.8% in Q4'23

The Ghanaian economy expanded by 3.8% in Q4'23, the country's fastest pace of growth since Q4'22. Nominally, the GDP size of the Ghanaian economy (inclusive of oil and gas estimates) expanded to GHS50.65bn in Q3'23 from GHS48.8bn in the corresponding period in 2022.

However, full year 2023, the Ghanaian economy grew at a slower pace of 2.9% from 3.8% in 2022.

Top 5 largest West African economies and their real GDP growth rates (%)



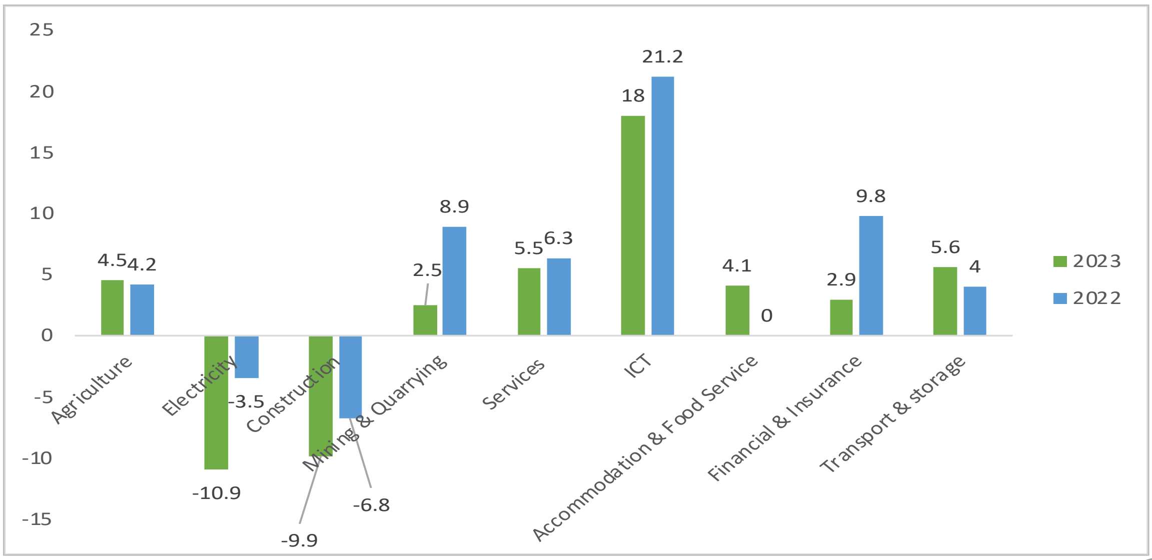
[1]

Sectoral performance in Ghana

The sectors that recorded a faster pace of growth in 2023 include agriculture (4.5%), accommodation & food service activities (4.1%) and transport & storage (5.6%). The sectors that slowed in comparison to the prior year include services (5.5%), ICT (18%) and financial and insurance (2.9%). Electricity (-10.9%) and construction (-9.9%) contracted further.

[1] Trading Economics
*Q3'23 figures
**FY'23 figures

2023 Sectoral Analysis (%)



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Analysis

Ghana's growth performance is an indication of the positive impact of the various government reforms implemented to address the country's debt crisis. Some of these reforms include the approved IMF loan of $3bn ($1.2bn has been disbursed) and the debt restructuring deal of $5.4bn with its bilateral creditors. The government is also in the process of finalizing a deal in international bonds of about $13bn.

The new money (IMF disbursements) has helped stabilize the cedi, which was pegged the world's worst performing currency by Bloomberg in 2022. In 2023, the depreciation of the cedi against the dollar was sharply lower at 27.81% at the interbank market from an approximate 50% value loss in 2022.

Is this growth trajectory sustainable in an election year?

Typically, in an election year, a number of things happen.

One is increased fiscal laxity as a result of the buildup in spending on election campaigns. Whilst this is a threat to the government's ongoing fiscal discipline plan, the election-related government spending will spur economic growth. The anticipated loosening of monetary policy will also be a major driver of economic expansion.

Second, policy decisions tend to be placed on the back burner close to election day (in this instance, December 2024). This is because government officials running for office typically spend more time and resources on the campaign trail rather than on implementing economic and policy reforms. The implication of this is a stall or slowdown in the pace of reform implementation.

[2] GSS

Third, inflationary pressures are likely to resurface from electioneering activities and the resultant increase in money supply in the system. This could make the BoG halt its accommodative stance in the interim.

Ghana is the largest producer of gold globally and the second largest producer of cocoa (after Ivory Coast) globally. The country's gold output is projected to increase to 4.5mn tonnes per year, while its cocoa output is expected to recover marginally to about 605,000 tonnes in 2024/25[3]. Production and export of these commodities will continue to drive the country's overall GDP performance in export proceeds.

Inflationary pressures continue to mount in Nigeria while Ghana reverses upward trend

Nigeria's inflation rate maintained its upward trajectory to reach 31.7% in February. This is the country's highest inflation rate in almost three decades. The inflation drivers remain the usual suspects, some of which include:

- Food insecurity, which has led to rising food prices
- High energy costs
- Exchange rate pass through effect on imported inflation
- Money supply growth

Nigeria's inflation rate has defied the odds, in spite of the ongoing contractionary monetary policy stance adopted. Since the CBN commenced its tightening stance in May 2022, interest rates have been raised by 1,325 basis points (13.25%) till date, while inflation has risen by 14.88% within the same period.

Ghana's inflation on the other hand fell to 23.2% in February. This may be an indication that the uptick witnessed in January was a flash in the pan. Ghana is in a much better state inflation-wise than Nigeria, as Ghana's inflation has fallen from a peak of 54.1% in December 2022 to its current level. The disinflation has been supported by the following factors:

- Contractionary monetary policy stance
- Stable cedi
- Base effect
- IMF loan

[3] The EIU

The bank of Ghana up till November 2023 raised its benchmark interest rates to 30% per annum before cutting by 100 basis points in January this year.

The disinflation notwithstanding, there are still pressure points in Ghana that could fuel an uptick in consumer prices. These include but are not limited to:

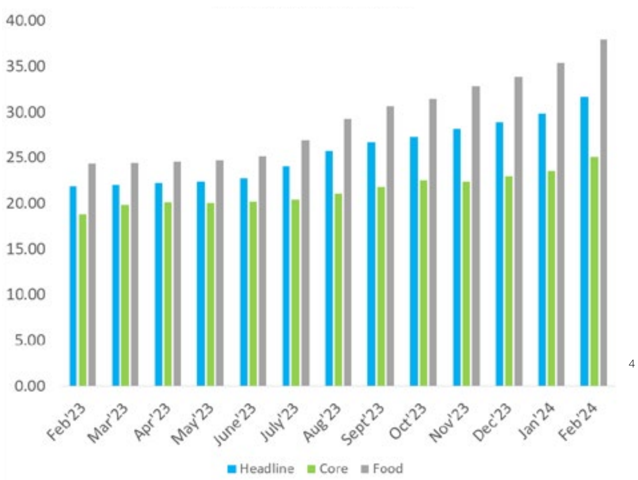
- Electioneering activities
- High costs of accommodation, electricity and clothing

Outlook

The inflation outlook for Ghana is optimistic. The Bank of Ghana may be on track to achieve its ambitious year-end forecast of 13% -17%, if the downward trend is sustained and fiscal laxity is curbed.

Nigeria on the other hand will not be that lucky. The inflation drivers are more structural and would require more than an increase in interest rates to rein in rising costs. The CBN has adopted an inflation targeting framework with an inflation target of 21.4% in 2024. Achieving this feat may be a tall order for the CBN.

Nigeria's Inflation Breakdown (%)



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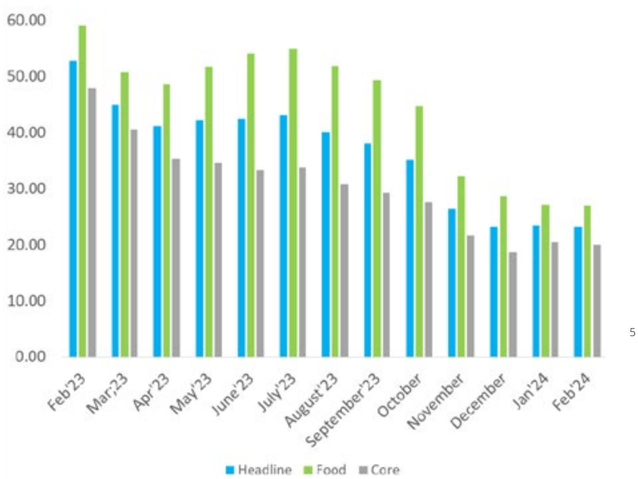
Ghana's Inflation Breakdown (%)



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[4] NBS, Deloitte Research
[5] GSS, Deloitte Research

Monetary Policy Update: CBN tightens further while BoG maintains status quo in March

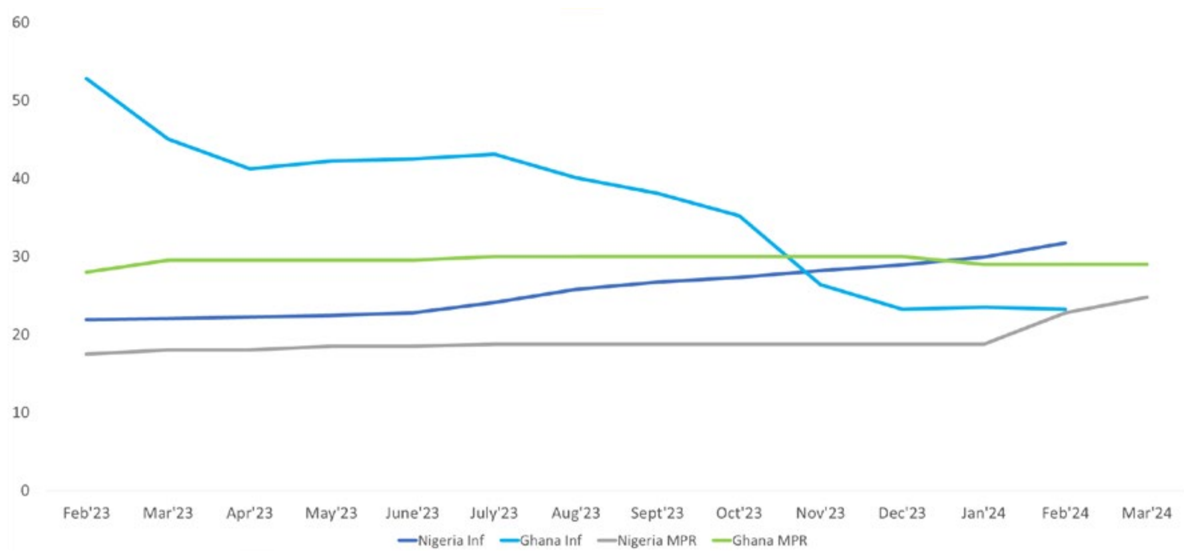
CBN maintains tightening streak (MPR raised to 24.75%)

> *"At all times, in all markets, in all parts of the world, the tiniest change in rates changes the value of every financial asset."*
>
> **- Warren Buffet**

Nigeria's monetary policy committee (MPC) tightened its policy stance further by raising the monetary policy rate (MPR) to 24.75% pa in its recently concluded meeting on March 25/26. This is a further 200 basis points (bps) increase from its last hike of 400bps in February. The MPC also adjusted the asymmetric corridor around the MPR from +100/-700 bps to +100/-300 bps. Other indicators were left unchanged (cash reserve ratio: 45%; liquidity ratio: 30%).

The further hike in interest rates was expected by most analysts due to burgeoning inflationary pressures. The good news is that the naira has recouped some of its losses (NAFEX rate: ₦1,328.51/$ as of March 27) and the spread between the official and unofficial markets has narrowed. In addition, the CBN has cleared all its forex backlog ($7bn).

Inflation (%) vs MPR (%)



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[6] GSS, NBS, CBN, Deloitte Research

The bad news is that economic growth will be affected as credit to the real sector is stifled. Bank interest rates will rise further and with it, default rates. Stock market values are expected to decline further as portfolio investors rotate their asset holdings to interest bearing securities, such as Treasury bills. In addition, dividend payments may be put on hold.

Ghana keeps MPR at 29% pa

Ghana's MPC kept its monetary policy rate at 29% pa, citing the need to further monitor the country's inflation trend following the choppy movement experienced in the last two months. The status quo stance was largely expected as this will allow for a more effective transmission mechanism and evaluation of the impact of recent policy decisions on the financial markets, consumer prices and the overall economy.

What to expect in the next 8 weeks

If Ghana's inflation continues its downward trend, the probability of another interest rate cut (100 bps) by the Bank of Ghana's MPC is high at its next meeting in May. This is favorable for investment and private consumption and the overall recovery of the Ghanaian economy.

The Nigerian counterpart, on the other hand, is expected to toe the opposite path, i.e., raise interest rates further if inflation continues to rise. This implies a further hike in effective interest rates and cost of funds, heightened risk of loan default and a weakened capital base of financial institutions. The proposed bank recapitalization will come in handy at this point in time to boost the capital adequacy needs of the financial system amid severe macroeconomic challenges.

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