GHANA | MACROECONOMIC UPDATE | MONETARY POLICY | INSIGHTS

FUNDAMENTALS

GHANA MPC UPDATE:

THE HAWK'S CALL: Belatedly delivered

02 APRIL 2025

Head, Insights
Courage Kingsley Martey
+233 308 250 051
Courage.martey@ic.africa

IN BRIEF

- The Monetary Policy Committee (MPC) under the new Governor of the Bank of Ghana commenced its monetary policy signalling with a hawkish posture in March 2025 and a promise of policy reforms ahead. Having signalled its discomfort with the elevated inflation profile at the start of the MPC meeting, the Committee unsurprisingly concluded with a majority decision to hike the policy rate by 100bps to 28.0%. The MPC also introduced a 273-day instrument as an additional liquidity management tool as the authorities seek to mop-up the excess liquidity from the fiscal impulse of 2024.

- **The tightening bias belatedly aligns with our hawkish call at the January 2025 meeting.** The combined effect of the 100bps policy rate hike and the extra duration liquidity mop-up appears consistent with our call for a 200bps rate hike in January 2025, albeit belatedly delivered in March 2025. In our assessment, the Committee appeared visibly concerned about the inflation risk from the liquidity overhang, occasioned by the unexpected fiscal expansion in 2024 and the likely 2nd round effect of supply-side shocks to food prices.

- **We do not rule out a first cut in 3Q2025.** Reassuringly, the MPC left an open door for a gradual easing in the policy stance as inflation becomes firmly anchored. We think this tone reflect the authorities' confidence for a faster disinflation in the months ahead as the tighter monetary stance complements the ongoing fiscal disinflation measures. This aligns with our expectation for a faster disinflation in the months ahead, which would likely widen the real policy rate from its current 4.9% to over 8.0% by June 2025. Consequently, we maintain our expectation for a first rate cut at the July 2025 MPC meeting.

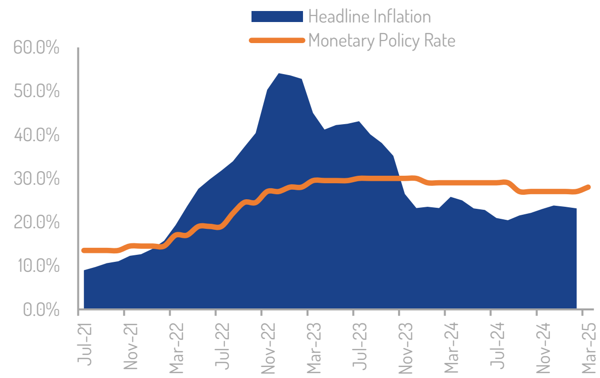
- **T-bill rates will find a floor from policy rate hike but not an upside catalyst.** The downturn in T-bill yields has dampened the appeal of the Treasury securities in favour of OMO Bills which offer the policy rate. We thus expect the 100bps hike in the policy rate to sustain attraction for the OMO securities, draining demand for T-bills and limiting the downside for yields. However, the ongoing squeeze on public spending will ease the financing requirement and avert an upward reversal in T-bill rates, barring FX shocks.

A hawkish kick-off to the new regime

The Monetary Policy Committee (MPC) under the new Governor of the Bank of Ghana commenced its monetary policy signalling with a hawkish posture in March 2025 and a promise of policy reforms ahead.

Having signalled its discomfort with the elevated inflation profile at the start of the MPC meeting, the Committee unsurprisingly concluded with a majority decision to hike the policy rate by 100bps to 28.0%. The MPC also introduced a 273-day instrument as an additional liquidity management tool as the authorities seek to mop-up the excess liquidity from the fiscal impulse of 2024.

INFLATION AND POLICY RATE PATH SINCE 2021



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

The tightening bias belatedly aligns with our hawkish call at the January 2025 meeting. In our December 2024 inflation note – Beyond the bullseye – published in early January 2025, we envisaged up to 200bps hike at the January 2025 MPC meeting. Our hawkish call was underpinned by inflation over-shooting the IMF target in December 2024, which would usually trigger the Monetary Policy Consultation Clause (MPCC) with a likely policy remediation to restore inflation to target. However, action was delayed to assess the fiscal disinflation support in the 2025 budget.

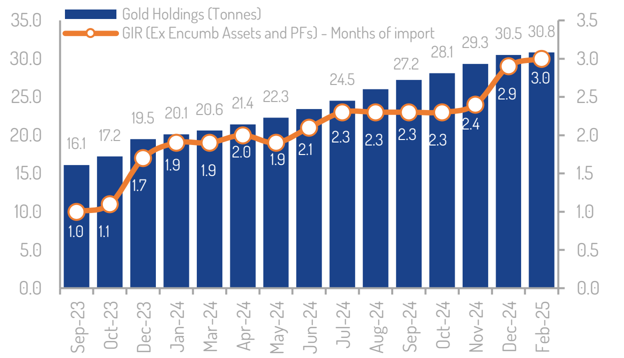
Unsurprisingly, the MPC appeared less satisfied at the March 2025 meeting about the adequacy of the fiscal measures to anchor expectations and satisfy the upcoming IMF 4th review. Against this backdrop, the monetary authorities opted for a 100bps hike in the policy rate, in addition to a more restrictive liquidity sterilisation instrument (the new 273-day OMO Bill).

The combined effect of the 100bps policy rate hike and the extra duration liquidity mop-up appears consistent with our call for a 200bps rate hike in January 2025, albeit belatedly delivered in March 2025. In our assessment, the Committee appeared visibly concerned about the inflation risk from the liquidity overhang occasioned by the unexpected fiscal expansion in 2024 and the likely 2nd round effect of supply-side shocks to food prices. While the fiscal measures in the agriculture sector could ease the supply shocks during the crop harvest in 3Q2025, the imminent planting season sustains the supply-side concerns in the near-term. Additionally, we think the Eid and Easter celebrations in April 2025 will heighten demand for food stock amidst the lean supply, underscoring the risk of a likely 2nd round effect on food prices. In view of this, we believe the MPC's hawkish tilt is necessary to limit the demand shocks while awaiting the favourable impact of the fiscal measures on subsequent inflation prints.

We do not rule out a first cut in 3Q2025. Reassuringly, the MPC left an open door for a gradual easing in the policy stance as inflation becomes firmly anchored. We think this tone reflect the authorities' confidence for a faster disinflation in the months ahead as the tighter monetary stance complements the ongoing fiscal disinflation measures. This aligns with our expectation for a faster disinflation in the months ahead, which would likely widen the real policy rate from its current 4.9% to over 8.0% by June 2025. Consequently, we maintain our expectation for a first rate cut at the July 2025 MPC meeting.

T-bill rates will find a floor from policy rate hike but not an upside catalyst. The downturn in T-bill yields has dampened the appeal of the Treasury securities in favour of BOG Bills which offer the policy rate. We thus expect the 100bps hike in the policy rate to sustain attraction for the OMO securities, draining demand for T-bills and limiting the downside for yields. However, the ongoing squeeze on public spending will ease the financing requirement and avert an upward reversal in T-bill rates, barring FX shocks.

GOLD HOLDINGS IN GHANA'S FOREX RESERVE



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Firmly ahead of schedule on forex reserve accumulation. In our January 2025 MPC update, we opined that the rate of accumulation of forex reserves puts the authorities almost 16-months ahead of the IMF target for achieving at least 3.0-months import cover. Thanks to the gold price rally and the ongoing execution of the domestic gold purchase programme, the MPC stressed the attainment of its IMF target of 3.0-months import cover in February 2025. The Gross International Reserves (per IMF definition) stood at USD 6.9bn (3.0-months of import cover) in February 2025. While we expect the BOG to offload gold buying from small scale miners to the imminent Goldbod, we do not expect a significant derailment to FX build-up as the BOG will continue buying bullion from large-scale miners. Additionally, gold exports by the Goldbod will support FX flows to the BOG.

For more information contact your IC representative

Investment Banking | Business Development & Client Relations

Derrick Mensah
Head, Investment Banking
+233 308 250 051
derrick.mensah@ic.africa

Timothy Schandorf
Head, Client Coverage
+233 308 250 051
timothy.schandorf@ic.africa

Dora Youri
Head, Wealth Management
+233 308 250 051
dora.youri@ic.africa

Corporate Access

Joanita Hotor
Corporate Access
+233 308 250 051
joanita.hotor@ic.africa

Insights

Courage Kingsley Martey
Head, Insights
+233 308 250 051
courage.martey@ic.africa

Churchill Ogutu
Economist
churchill.ogutu@ic.africa

Kwabena Obeng
Associate, Equity Research
+233 308 250 051
Kwabena.obeng@ic.africa

Emmanuel Dadzoe
Analyst, FMCG, OMC, Telecoms
+233 30 825 0051
Emmanuel.dadzoe@ic.africa

Investing

Obed Odenteh
Chief Investment Officer
+233 308 250 051
obed.odenteh@ic.africa

Herbert Dankyi
Portfolio Manager
+233 308 250 051
herbert.dankyi@ic.africa

Clevert Boateng
Portfolio Manager, Risk Assets.
+233 308 250 051
Clevert.boateng@ic.africa

Hannah Mate
Analyst, Risk Assets
+233 308 250 051
Hannah.mate@ic.africa

Operations

Nana Amoa Ofori
Chief Operating Officer
+233 308 250 051
nanaamoa.ofori@ic.africa

Kelly Addai
Fund Accountant
+233 308 250 051
kelly.addai@ic.africa

Trading

Allen Anang
Sales/Trader, Global Markets
+233 308 250 051
allen.anang@ic.africa

Johnson Asiamah
Trader, Equities
+233 308 250 051
johnson.asiamah@ic.africa

Samuel Kwame Ofori
Trader, Fixed Income
+233 308 250 051
Samuel.ofori@ic.africa

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