GHANA | MACROECONOMIC UPDATE | MONETARY POLICY | INSIGHTS

FUNDAMENTALS

GHANA MPC UPDATE:

Rate Cut Resumes with a Dovish Bias

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IN BRIEF

- **From hawkishness to dovishness, as expected.** The Bank of Ghana's MPC resumed policy easing in July 2025 with a 300bps rate cut to 25.0%, in line with our expectations, after hiking in March and pausing in May to re-anchor inflation expectations. The sharp disinflation in 1H2025 pushed the real policy rate to a restrictive 14.3%, creating vast room for this decisive move while maintaining a tight enough stance to guard against upside risks, including a potential utility tariff hike in 4Q2025.

- **A first cut with dovish signalling.** With inflation expectations now seen as broadly anchored, the MPC's revised forecast points to single-digit inflation by end-2025, earlier than previously projected, and validating our outlook despite lingering uncertainty from a potential 4Q2025 utility tariff hike. While the Committee opted for a 300bps cut, we believe minority dissent likely leaned toward a deeper cut. The MPC's forward guidance was notably dovish, hinting at further easing if disinflation persists. We expect another rate cut in September 2025, as strong harvests and Cedi gains support continued disinflation, potentially pushing the real policy rate well above the already tight 11.3%.

- **Real Effective Exchange Rate (REER) appreciation suggests a likely corrective depreciation ahead, albeit modest.** The sharp Cedi rally in 1H2025 created a dual FX market, with the interbank rate at 10.5/USD and retail near 12.0/USD, aligning with our estimated fair value of 12.2/USD. Concurrently, the REER index dropped sharply (-31.3%) to 92.7pts, signalling possible over-valuation and prompting BOG to scale back FX interventions per IMF advice. With FX forward sales down 53.6% m/m and tighter supply, the Cedi has slipped 1.7% post-IMF review. We expect a continued but gradual BOG pullback, guiding the interbank rate toward 10.95/USD ±0.5 by year-end. without triggering disorderly market moves.

- **Banking sector recovery nears pre-DDEP solvency although asset quality may require regulatory intervention.** Ghana's banking sector capital position improved sharply in 1H2025, with the CAR (without regulatory reliefs) rising to 18.2%, supported by NIB's recapitalization and private banks' progress. However, asset quality remains weak, with gross NPL ratio at 23.1% (8.5% excluding loss loans). We expect the BOG to begin approving write-offs in the quarters ahead to clean-up bank balance sheets.

From hawk to dove..........as expected

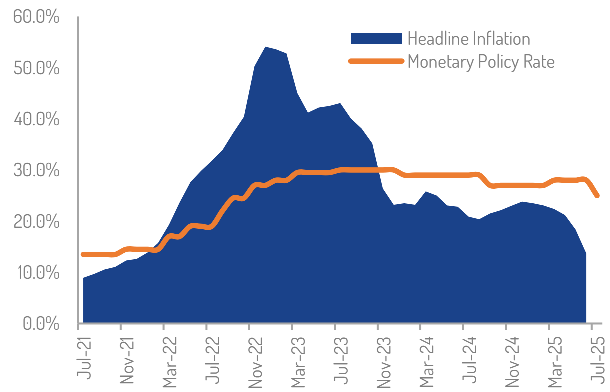
The Bank of Ghana's Monetary Policy Committee (MPC) resumed its rate-cutting cycle in July 2025, following a hawkish detour in March 2025 which was retained at the subsequent meeting in May to re-anchor inflation expectations. Following the sharp disinflation in 1H2025, the MPC voted by a majority decision to cut the monetary policy rate by 300bps to 25.0%, aligning with our pre-MPC expectation for at least 300bps rate cut.

In our June 2025 inflation update, we projected policy easing to commence at the July 2025 MPC meeting with at least 300bps reduction in the nominal rate. We opined that the disinflation-induced sharp rise in the real policy rate to 14.3% (pre-MPC) has provided a wide scope for a deep cut in the nominal policy rate. However, we opted for a first cut of at least 300bps in July to preserve the tight stance and sustain the disinflation trend ahead of expected steep hike in electricity tariff in 4Q2025. The MPC appeared to echo our view when it cited lingering upside risk emanating from global trade tensions and expected hike in utility tariff with the sustained tight policy stance as a mitigation.

A first cut with dovish signalling. Having expressed confidence that inflation expectations are broadly anchored, the authorities backed this view with the Committee's updated forecast which showed continued disinflation in 3Q2025 with single digit by end-2025, earlier than the May 2025 MPC forecast. The MPC's updated forecast appears to confirm our view of a strong possibility for single digit inflation by end-2025, although uncertainty around the 4Q2025 utility tariff hike restrained the size of cut in our end-2025 revised inflation forecast.

Given the widely expected sharp cut in the policy rate ahead of the July MPC meeting, we strongly believe that the dissenting minority vote(s) likely tilted in favour of a deeper rate cut than the 300bps majority decision. Ostensibly recognising the dovishness, the MPC signalled a likely further cut in the policy rate ahead, if disinflation continues. We see a strong possibility for another cut in September 2025 as favourable crop harvest and ongoing Cedi appreciation pass-through sustains the disinflation to widen the real policy rate beyond the latest level of 11.3% (which still appears significantly tight).

INFLATION AND POLICY RATE PATH SINCE 2021



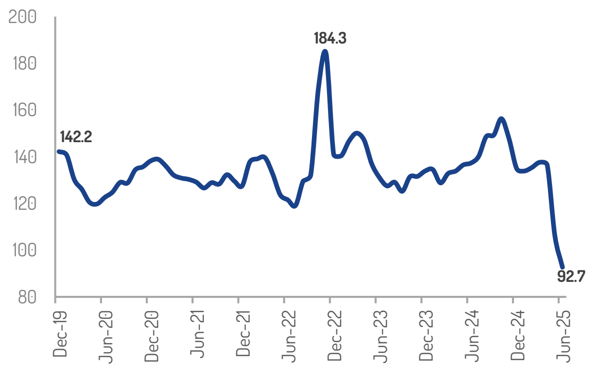
SOURCE: BANK OF GHANA, GHANA STATISTICAL SERVICE, IC INSIGHTS

Real Effective Exchange Rate (REER) appreciation suggests a likely corrective depreciation ahead, albeit modest. The sharp appreciation of the Ghanaian Cedi in 1H2025 has created multiple FX rates with the interbank level at mid-10/USD while the retail rate is quoted around 12.0/USD, with the latter aligning with our estimated fair value of 12.2/USD.

Our analysis of Ghana's FX trend suggests a sharp appreciation of the real exchange rate as the REER index declined sharply by 31.3% in 6M2025 to 92.7pts in June 2025. The sharp appreciation of the real exchange rate began in April 2025 and deepened in the subsequent two months to June, aligning with the appreciation of the nominal bilateral FX rates.

Ostensibly realising this trend and in response to the IMF's call to reduce its footprint in the FX market, we note that the Bank of Ghana is scaling back its size and frequency of FX forward sale. As of 29 July 2025, the total FX forward sales in July 2025 stood at USD 822.8mn (-53.6% m/m) while the BOG was absent from the market on 25th and 29th July 2025, the first absence since April. This has resulted in a tighter FX supply with a cumulative USDGHS depreciation of 1.7% post-IMF Board approval (interbank: 10.5/USD). In view of the need to avert protracted over-valued FX rate and close the arbitrage gap in the market, we expect the BOG to continue the gradual softening of its FX market presence. This will likely culminate in a non-disruptive uptick in the interbank USDGHS rate to between 10.45 and 11.45/USD (midpoint: 10.95/USD) by end-2025.

REAL EFFECTIVE EXCHANGE RATE TREND



SOURCE: BANK OF GHANA, IC INSIGHTS

Banking sector recovery nears pre-DDEP solvency although asset quality may require regulatory intervention. The latest banking sector data showed a sharp recovery in the industry's average Capital Adequacy Ratio (without regulatory reliefs) to 18.2% in June 2025. We believe this improvement reflects the recent capital injection into the National Investment Bank by the Ghanaian Government as most of the privately-owned banks had made strong progress on capital restoration.

However, asset quality issues persist in the industry with the gross NPL ratio at 23.1%, although the ratio drops to 8.5% when loss category is excluded. We thus expect the Bank of Ghana to begin approval of write-off requests by banks in the quarters ahead.

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