

RATES COMPASS

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FROM LIQUIDITY TO CREDIBILITY



IN BRIEF



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- Ghana's short-term interest rates have fallen sharply, easing the government's near-term financing costs. However, this relief comes at investors' expense. With the policy rate at 25% but Treasury bills clearing at just 10–11%, liquidity is ample but real income remains scarce. Given inflation at 11.5%, real returns at the front end remain negative.
- History offers a guide. Each time 91-day yields dropped sharply—by about 1,000 basis points in six months—it typically took nine months for rates to re-align with their 12-month average. The lesson: duration adds should be paced, not rushed
- The cedi's earlier rally has stalled, making hedged carry attractive but leaving unhedged investors vulnerable to FX moves. The smart play now is to stay relatively liquid, lean into the 2–5 year belly, and use swaps to smooth the 2027–2028 maturity bulges, especially for pension funds.
- Ghana's rates market is evolving from a liquidity story to a credibility story. The easy trade in Treasury bills is gone; what matters now is whether fiscal anchors and IMF discipline restore enough trust for investors to re-engage.

Introduction

Ghana's rates market is moving into a new phase. The story is no longer just about liquidity at the front end—where Treasury bills rates have collapsed into the low teens and real income has all but vanished. The story now is about credibility: can fiscal anchors, IMF discipline, and steady disinflation convince investors to look further along the curve?

The shift is clear. Low real returns in Treasury bills mean the old strategy of chasing the highest quoted yield is no longer viable. Investors must now judge where the right balance lies between carry, duration, and flexibility—while keeping an eye on whether Ghana can sustain the trust required to bring them back into the primary bond market.

In this edition of Rates Compass: From Liquidity to Credibility, we unpack two critical insights:

1. A rules-based guide for navigating Ghana's rate cycles, drawn from history.
2. A tactical playbook for positioning today—anchored in belly carry, supported by liquidity, and flexible enough to add duration when overshoots appear.

Market Snapshot (10th September 2025)

Indicator	Jan	June	10-Sep-25
91-Day	28.1%	14.2%	10.4%
Inflation	23.5%	13.7%	11.5%
Policy Rate	27.0%	28.0%	25.0%
USDGHS	14.7	10.3	12.1
GH-29 Local Bond	26.5%	20.3%	16.0%
GH-29 Eurobond	8.2%	7.0%	6.7%

Source: Bank of Ghana, ICAM Research

Macro Context – All Eyes on the Cedi

The cedi's fortunes have reversed. After a strong rally in April–May, the currency weakened ~14% last month as FX demand rose and the BoG cut back interventions. By August, the interbank closed at 11.65/USD and retail around 12.40/USD. Narrower spreads suggest improved price discovery.

The BoG sold about USD 737mn in August, down 23% from July, signalling a deliberate pullback. Into year-end, we expect the interbank to average 12.38 ± 0.5, with the BoG defending ~12 as a fair value anchor.

Meanwhile, inflation is sliding toward single digits. This opens the door to measured—not aggressive—policy cuts. For investors, this means treasury bill rates will remain compressed while belly carry and selective long-end adds beyond 2029 look more

attractive if disinflation holds. A mix of debt restructuring, recognition that liabilities were overstated by nearly USD 10bn, and two years of GDP growth above 5% has pulled Ghana's debt-to-GDP ratio below 45%. On the surface, this improves the optics of fiscal space; in practice, interest payments tell another story. Interest payments now absorb roughly 30% of tax revenues, up from 26% last year, reflecting the resumption of Eurobond coupon payments. This metric, more than headline debt ratios, shapes investor confidence.

Investors generally prefer an interest-to-revenue ratio closer to 20% before declaring sustainability credible. Until then, Ghana's "lower-debt" narrative will face scepticism. Fresh borrowing should remain selective and programme-consistent, guided by interest-to-revenue and market conditions.

Scenario Expectations

Treasury bill rates will likely remain steady as demand holds and inflation trends lower. But investors are being paid for liquidity, not for real income.

Our cycle study from 1976 to 2025 shows that after 1,000bps collapses in 91-day rates, it takes ~9 months for yields to mean-revert. This guidepost highlights the value of patience: keep dry powder and add duration when the market overshoots. In other words, pace matters more than being first.

Table Summary of Analysis on Ghana's interest rate cycle

Type	Count	10% T-Mean (months)	10% W-Mean (months)
Fall	26	9.0	10.3
Rise	25	31.6	37.3

T-Mean: Trimmed mean; W-Mean – Winsorized mean

Investors should resist rushing into duration after sharp moves. Keep liquidity ready and redeploy when overshoots occur.

A soft inflation print or smooth IMF milestone could flatten the curve from the belly inward; FX pressure or stalled disinflation would instead steepen it, with long tenors under pressure rather than a treasury bill sell-off.

Investor Psychology: Domestic vs Offshore

Domestic accounts—pension funds, insurers, and banks—remain yield-hungry and are likely to support new issuance, even after the DDEP scars. For offshore investors, re-entry is more tactical. Hedged carry still works, but unhedged allocations remain hostage to the cedi.

Credibility milestones—IMF reviews, BoG's FX management, and fiscal discipline—will decide whether foreign demand turns from event-driven to strategic.

Strategy Implications

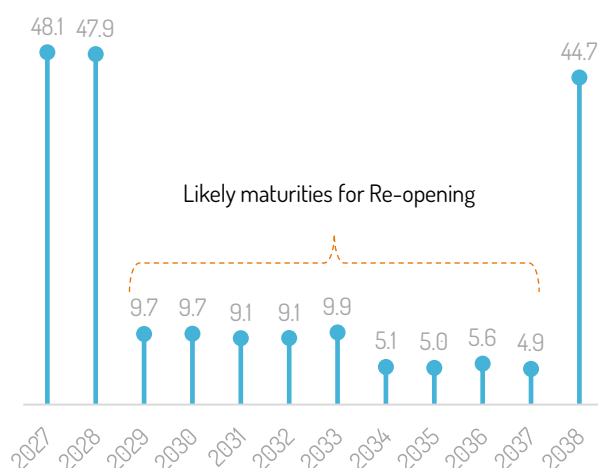
With real yields compressed and convexity minimal, chasing Treasury bills is hard to justify. The 2–5-year belly offers a sturdier risk–reward profile supported by carry and roll–down.

For longer mandates, selective adds beyond 2030 can capture term premium if disinflation holds. Short- to medium-dated corporates with strong fundamentals add incremental carry, but should complement, not replace, belly sovereigns.

With the maturity hump in 2027 and 2028, the government may prefer to test the market with a 4-year or 5-year bond rather than adding more risk to the near term. Such an issuance would help smooth the debt profile and extend duration at a time when short-end rates are already well anchored. Pension funds on the other hand must urgently address the 2027–2028 maturity bulge by using swaps to stagger exposure into 2029–2031.

The question, however, is whether investors are sufficiently convinced by the recent fiscal anchoring—lower debt-to-GDP, IMF programme progress, and disinflation—to step back into longer tenors. Domestic investors may view a 4–5 year paper as manageable if it comes with a modest premium over running Treasury bills. Offshore investors, on the other hand, will want to see more durable proof that interest-to-revenue ratios are falling and that the state is committed to cashflow discipline.

Outstanding Domestic Marketable Debt (GHS bn)



Source: ICAM Research

If credibility continues to build, a well-priced 4-or 5-year note could attract meaningful local demand and serve as a gradual reopening of the curve beyond the belly. But until then, issuance at that tenor will remain more a test of confidence than a straightforward funding exercise.

Key Risks

1. **Fiscal slippage:** Long-term, the incentive to loosen fiscal discipline rises as elections approach —via supplementary spending, wage drift, or arrears accumulation (notably in energy sector). Such slippage would elevate funding needs, pressure the cedi, and widen spreads just as investors are testing the credibility and sustainability of fiscal anchors. For markets, the issue is less the headline debt ratio than the ability to avoid election-cycle slippage that could erode recent stabilization gains.
What we are monitoring: monthly outturns, interest-to-revenue, arrears, Treasury bill yields, and MoF signals.
2. **Commodity shocks:** Weak cocoa/gold prices or delayed COCOBOD financing could threaten reserves, heighten FX volatility, and raise external funding costs, typically.
What we are monitoring: gross reserves, import cover, export volumes, production, and price trends
3. **IMF programme risk:** Missed benchmarks or delayed reviews could pause disbursements, dent sentiment and thin market depth, amplifying volatility for the long-dated Ghana Eurobonds.
What we are monitoring: SLAs/Board dates, revenue mobilisation, energy reforms, and arrears reduction.
4. **US rates:** If Fed cuts slip and USTs reprice higher, tighter conditions and bear-steepening would see 2035/2037 Eurobonds underperform their mid-to-short end counterparts.
What we are monitoring: We are tracking the 10-year and real rates, US inflation, FOMC guidance (FED rate trajectory) and the Dollar Index (DXY).

Closing Thoughts

Ghana's rates market is evolving from a liquidity story to a credibility story. The easy trade in Treasury bills is gone; what matters now is whether fiscal anchors and IMF discipline restore enough trust for investors to re-engage.

Our conviction is clear: Despite the low-interest rate environment, investors should limit a short-term bias by avoiding concentrating positions solely at the front end. Instead, anchor portfolios in the 2–5 year belly, while keeping some short-term exposure to capture potential interest rate surprises. Offshore investors should hedge FX until stability is proven.

The reintroduction of a 4-or 5-year note will be a litmus test of confidence. Domestic buyers may step up, but foreign inflows will remain tactical until interest-to-revenue narrows toward sustainable levels. Fed cuts in 2026 strengthen the case for Ghana, but credibility must do the rest.



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