

FUNDAMENTALS

GHANA MPC UPDATE: Steering through a minefield

A large orange circle with a diagonal line pattern is positioned in the bottom left. To its right, two smaller orange circles are stacked vertically, with a grey shadow cast to their right.

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**Economist and Head, Insights**

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IN BRIEF

- **Navigating inflation crosswinds.** The Bank of Ghana's monetary policy committee voted by a majority decision to retain the policy rate at 14.0%, in line with our expectation. This decision was due to emerging inflation risk from the Middle East conflict, potential utility tariff hikes, and unfavourable base effects which balanced-out the downside growth concerns. Although the authorities' latest forecast and our outlook projects inflation to rise above 6.0%, the firmly anchored core inflation, continued fiscal discipline, relative exchange rate stability, and lower VAT rate should keep the end-2026 inflation below 10.0%.
- **The new CRR regime: A liquidity minefield for banks and markets.** The Bank of Ghana unexpectedly replaced the dynamic cash reserve ratio (CRR) regime with a uniform 20.0% CRR to be maintained in Cedis with effect from 04 June 2026, signalling a fresh liquidity tightening pivot. We estimate the move could sterilise over GHS 16.0bn while releasing USD 1.4bn, partly easing the recent FX pressure. However, we expect the new CRR regime to penalise FX deposits as banks will incur higher cost to keep reserve in local currency for every unit of Cedi depreciation. Also, banks (such as Societe Generale Ghana) which previously faced 15.0% CRR will now face a higher CRR burden of 20.0%, reducing deployable earning assets and straining profitability.
- **CRR-induced tightening of Cedi liquidity creates opportunity for increased REPO activity.** We foresee an increase in REPO transactions as banks with large FX deposits and sizeable investment securities will seek to collateralise part of the securities to unlock short-term Cedi funding for CRR compliance. However, an increase in demand for local currency liquidity ahead of the CRR monitoring dates will exert upward pressure on REPO rates.

Caught between the risk; Staying steady

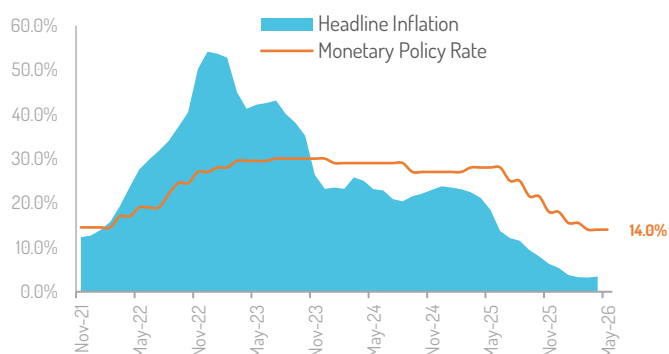
In line with our expectation, the Bank of Ghana's Monetary Policy Committee (MPC) voted by a majority decision to leave the policy rate unchanged at 14.0% during its May 2026 meeting, being the first rate-hold decision in exactly a year. The decision aligns with [our call](#) for a rate-hold at this MPC meeting, which we expressed in our April 2026 inflation note. We opined that although inflation is firmly anchored, upside risks are emerging and the authorities would seek to maintain sufficient policy headroom to accommodate future inflation shocks. This reasoning and the inflation outlook appeared visible in the MPC's deliberation, justifying the decision to maintain the current stance of double-digit real policy rate.

Navigating the inflation crosswinds. As expected, the potential spillovers from the ongoing Middle East war were a dominant theme at this month's MPC meeting, and this reflected in the Committee's press statement. We got the impression that the authorities' view and expectation of the war is shifting from a short-lived conflict to a protracted crisis which will pose upside risk to near-term inflation. In his responses to questions, the Governor seemed to suggest a 24-month modelling for the war with crude oil prices above USD 100 per barrel but probably capped at USD 120 per barrel. The MPC also viewed the quarterly increases in utility tariff as an upside risk to inflation in the months ahead with further push from unfavourable base effect (which we expect to begin from the June 2026 CPI).

Unsurprisingly, the Bank of Ghana's latest forecast confirmed our longstanding view that inflation is set to commence an upward trend above 6.0%. However, continued fiscal discipline, relative exchange rate stability, and lower VAT rate will cap inflation below 10.0% by end-2026, underscoring the rate-hold decision.

Underlying pressure remains anchored despite recent uptick in headline inflation. Encouragingly, we noticed a 20bps decline in core inflation (CPI ex. energy & utilities) to 2.7% y/y in April 2026 despite the much-publicised uptick in the headline rate. This indicates continued low underlying price pressure which has been clouded by the energy price shocks, albeit with marginal pick-up in inflation expectation which requires cautious policy path.

INFLATION AND POLICY RATE PATH SINCE 2021



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

The new CRR regime: A liquidity minefield for banks and markets. The Bank of Ghana unexpectedly amended the cash reserve ratio (CRR) requirement, shifting from the 2-year long dynamic CRR system to a uniform ratio of 20.0% for all banks with effect from 04 June 2026. Additionally, the new reserve will be maintained in the domestic currency, effectively rolling back the year ago change which matched reserve currency with underlying currency of deposits.

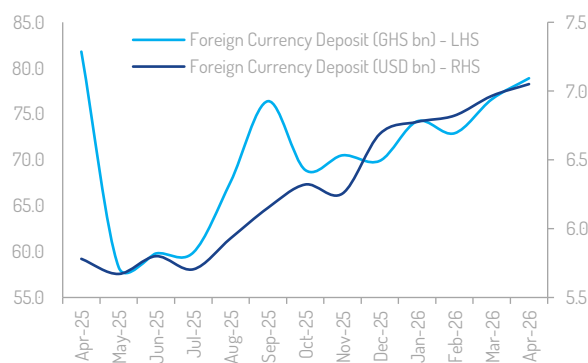
From a monetary policy perspective, we believe the BOG seeks to deploy this measure to further tighten Cedi liquidity as banks will now need to convert foreign currency reserves into Cedi reserves. Based on the value of foreign currency deposit as of April 2026, we estimate that the BOG would likely mop over GHS 16.0bn into unremunerated CRR while simultaneously releasing USD 1.4bn from CRR. We expect this to create interbank demand for the Cedi as banks recalibrate their liquidity framework to comply within the next 2-weeks. This could potentially ease the exchange rate pressure in the short-term, barring impact of higher energy import bills. For the BOG, this could reduce banks' holding of Open Market Operation securities, thereby cutting its sterilisation cost.

From banks' view, we expect the new CRR regime to penalise FX deposits as banks will incur higher cost to keep reserve in local currency for every unit of Cedi depreciation. We foresee stress for banks who have high FX deposits but tight Cedi funding. Also, Banks such as Societe Generale Ghana which previously enjoyed the lowest CRR of 15.0% (due to high loan-to-deposit ratio) will now face a higher CRR burden of 20.0%, reducing deployable earning assets and potentially straining profitability.

Our Market Views

Fixed Income: Tighter Cedi liquidity creates opportunity for increased REPO activity. We foresee increased REPO activity in the weeks ahead as banks with high FX deposit and significant holdings in investment securities will likely opt to collateralise the securities for short-term funding towards compliance. We expect this to exert upward pressure on REPO rates as Cedi funding need intensifies in the lead-up to the CRR monitoring dates.

FOREIGN CURRENCY DEPOSITS (GHS Bn and USD Bn)



SOURCE: BANK OF GHANA, IC INSIGHTS

Foreign Currency Deposits (in USD) is author's computation based on BOG data

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