FUNDAMENTALS

GHANA MPC UPDATE:
Steady hands in choppy waters

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IN BRIEF

- **Anchored amid uncertainty.** The Bank of Ghana's monetary policy committee unanimously maintained the policy rate at 14.0%, in line with our expectations for the July 2026 MPC meeting. Despite highlighting the war-related global risks, we did not perceive an imminent hawkish shift in the Committee's tone. We view the "rate-hold" decision as a strategic use of the monetary policy headroom created by inflation remaining below target, despite edging up towards the lower bound of the 6.0% – 10.0% target band.

- **Liquidity Recalibration: The BOG's CRR reform is gaining traction, but more work ahead.** The June 2026 reform to the Cash Reserve Ratio (CRR) is delivering results, as the Governor indicated that GHS12.0bn has been absorbed so far (broadly in line with our projected GHS 16.0bn mop-up), although the full impact remains ahead. We also observed that the Bank of Ghana continues to refine its liquidity tools, including ending GOLDBOD prefinancing and considering a 7-day tenor for future BOG bills, to address excess liquidity and restore interbank rates closer to the policy corridor.

- **Strong forex buffers mask external vulnerabilities.** Ghana's gross forex reserve remains resilient at 5.0 months of import cover (USD 12.9bn) as of June 2026, despite a USD 1.2bn quarter-on-quarter decline. We attribute the drawdown to the USD 811.0mn FX intervention in early June, and the USD 700.0mn Eurobond payment whose drawdown likely occurred in late-June for the 03 July 2026 debt settlement. While we believe that external buffers remain strong, the sharp quarter-on-quarter decline in FX reserves highlights Ghana's continued exposure to external shocks and financing pressures.

Anchored, Not Adrift

In line with both consensus and our expectations, the Monetary Policy Committee (MPC) of the Bank of Ghana voted unanimously to keep the policy rate unchanged at 14.0% during the July MPC meeting. This represents the second consecutive "hold" decision following the 150bps cut in March 2026 when inflation bottomed out and spillovers from the Middle East war was yet to materialise. Despite the noticeable emphasis on the war-induced external uncertainty, we did not perceive any indication of an imminent hawkish tilt from the policy statement nor the Governor's responses to questions. Rather, we view the "rate-hold" decision as leveraging the policy headroom afforded by the inflation out-performance, given that inflation remains below target despite rising closer to the lower bound of the 6.0% – 10.0% target band.

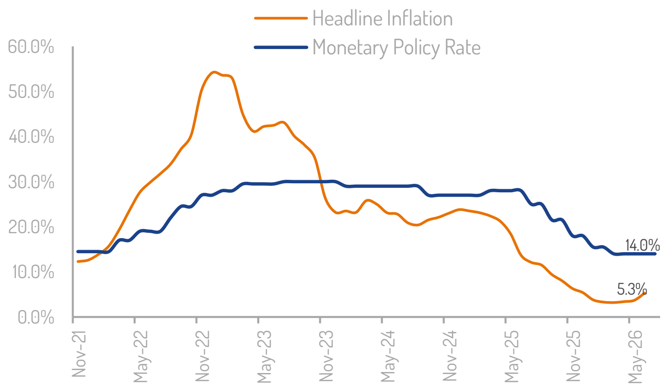
At the July 2026 MPC deliberations, four crucial issues dominated the Committee's consideration.

- The inflation outlook
- The effectiveness of the May 2026 CRR reform
- The changing composition of domestic liquidity, and
- The external environment

The inflation path remains anchored within the target band. The Committee noted that its latest survey indicates an uptick in both inflation expectation and core inflation measures but remain broadly within target band. Our review of the latest macro data pack confirmed this position as all measures of core inflation ticked higher in June 2026 and mostly at a faster pace than the headline change revealed. While this reflects firming price expectations, we note that the rates remain broadly within target with core 1 (CPI excluding energy & utilities) landing 100bps below the lower bound of the target band. Notably, the MPC's updated inflation forecast in July remained broadly unchanged from the May 2026 MPC round with headline inflation forecast to rise into the target band.

Our in-house forecast indicates a similar inflation path with a modestly elevated profile in 2H2026 translating into a year-end outturn around 7.5% ± 1.0pp, largely due to unfavourable base drift and a modest cost-push offset by firm policy anchors.

INFLATION AND POLICY RATE PATH



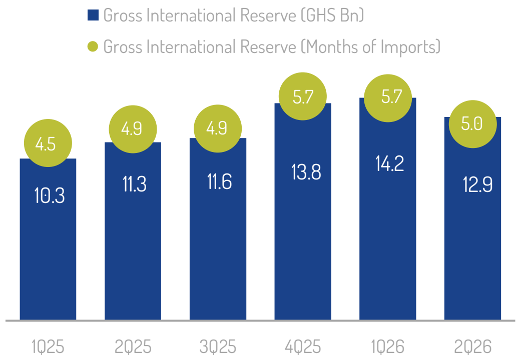
SOURCE: BANK OF GHANA, GHANA STATISTICAL SERVICE, IC INSIGHTS

The CRR tweak is yielding the desired results, but full impact is yet to be realised. With effect from June 2026, the MPC tweaked the CRR system to introduce a unified rate of 20.0% with all reserves to be held in local currency. In our May MPC note, we estimated that this measure could mop over GHS 16.0bn into cash reserves at the Central Bank. Unsurprisingly, the Governor noted that about GHS 12.0bn has been mopped up by this decision while indicating that it is early days in the process as the longer run target is to transition the CRR towards the historical 8.0% – 9.0% area. The authorities continue to calibrate liquidity management tools to regulate the structurally high system liquidity, and, in this regard, the Bank of Ghana revealed that it has ceased the prefinancing of GOLDBOD on 01 July 2026 for the latter's gold purchases. This is aimed at curbing the growth in broad money supply and curtailing the inflation risk.

Also, the Governor revealed that the Committee considered a re-introduction of the 7-day tenor for BOG bills in the future with decision to be appropriately communicated. We think this would likely be a response to the BOG's cessation of prefinancing for GOLDBOD, which could tighten interbank liquidity and require greater policy flexibility to regulate supply of short-term funds. Furthermore, we note that the interbank interest rate remains below the lower bound of the policy corridor and this appears to be undesirable for the Central Bank, underpinning the CRR tweak. We believe this persistent stickiness below the lower bound of the policy corridor will be a trigger for the authorities to consider further calibrations to the liquidity management toolkit to improve interest rates alignment with the policy rate.

Forex buffer remains strong, but high external financing needs expose lingering vulnerability. We noticed a surprise USD 1.2bn quarter-on-quarter decline in the gross international reserves in June 2026. Our analysis attributes the decline to the USD 811.0mn FX intervention in early June and USD 700.0mn FX purchase by the Treasury in late June for settling the second tranche of the Eurobond debt service for 2026. This view was largely confirmed by the Governor as he cited the Eurobond payment and higher oil-related imports occasioned by the war-induced spike in global energy prices. Our view is that 5.0-months import cover remains a comfortable cushion, but the sharp drawdown emphasizes lingering vulnerability to external shocks.

TREND IN GROSS INTERNATIONAL RESERVES



SOURCE: BANK OF GHANA, IC INSIGHTS

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