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132nd MPC Update and Outlook: MPC holds policy rate at 14.0% as external pressures limit room for further easing

Summary

The MPC maintained the Monetary Policy Rate at 14.0% for a third consecutive meeting, in line with our expectation, as external risks limited the room for a cut. Headline inflation stood at 5.0% in Aug-2026, while Core 1 inflation (excl. energy & utilities) eased to 4.2% and real GDP expanded by 6.0% in Q2-2026. Gross International Reserves (GIR) declined to USD11.07bn, equivalent to 4.2 months of import cover in August, before recovering to USD12.05bn and 4.5 months of import cover in Sep-2026. Meanwhile, elevated crude oil prices and tighter global financial conditions continue to pose risks to the cedi and inflation outlook. We view the decision as appropriate, allowing the BoG to support external stability while inflation remains below the target band and domestic growth stays resilient.

Unpacking The MPC's Policy Decision

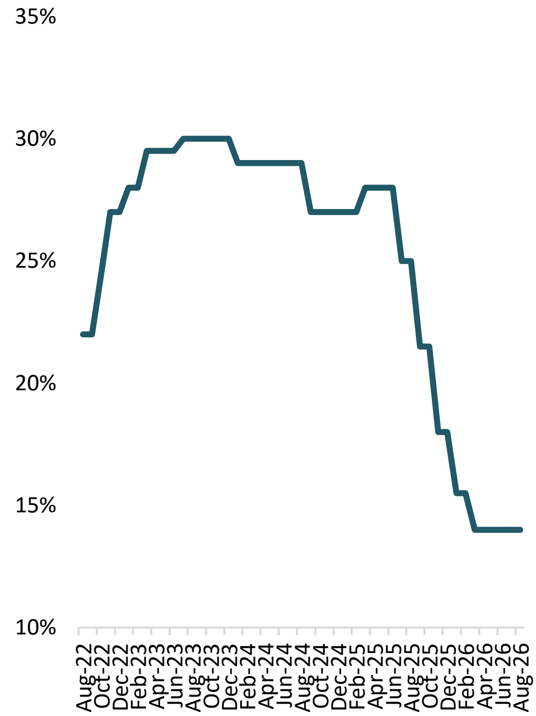
We believe the "hold" decision reflects a balanced response as inflation pressures builds but headline rate is expected to remain sticky in the near term gradually converging towards the medium-term target. Headline inflation remains below the BoG's target band, core inflation has eased, while economic growth remains resilient. These conditions provided little justification for a rate hike. At the same time, the external position limits the room to ease. Reserves remain below their March peak, the current account is expected to weaken in Q3-2026 due to elevated crude oil prices and tighter global financial conditions which continue to pose risks to the cedi and inflation outlook. In our view, maintaining the rate at 14.0% allows the BoG to preserve external stability without unnecessarily tightening domestic conditions.

Our Views on the Latest Economic Data

We believe economic activity remains strong enough to absorb the current monetary policy stance. Real GDP growth moderated slightly to 6.0% in Q2-2026 from 6.4% in Q1-2026, but services growth strengthened to 8.0%, while Real CIEA growth accelerated to 14.9% in July. This resilience reduces the urgency for monetary easing, particularly while external risks remain elevated.

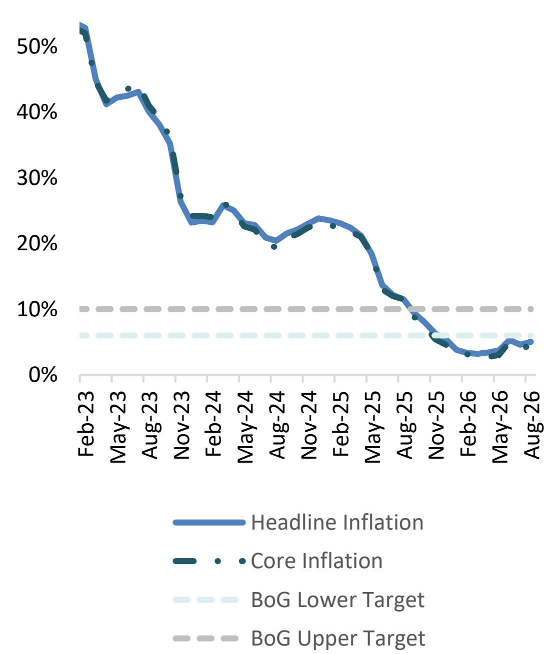
We view recent weakening in external flows as the main near-term constraint on monetary policy, despite a still strong cumulative trade position. The trade surplus increased by only USD0.17bn between June and August, while August recorded a USD90.5mn monthly deficit. GIR fell to USD11.07bn in August from USD14.16bn in March, before recovering to USD12.05bn, equivalent to 4.5 months of import cover, as at 22 September. The cedi was also 9.5% weaker against the US dollar YTD as at 18 September. In our view, the reserve recovery is encouraging, but further reserve rebuilding remains important ahead of the expected increase in

Figure 1: Overview of monetary policy rate



Sources: BoG, Laurus Africa Securities

Figure 2: Headline and core inflation all decline



Sources: BoG, Laurus Africa Securities

foreign exchange demand toward year end.

We believe fiscal performance remains supportive, but higher borrowing activity in Q4-2026 may present upside pressures to debt levels. The primary balance recorded a commitment surplus of 1.4% of GDP through Jul-2026, while public debt rose to 45.9% of GDP from 44.7% at Dec-2025, driven by higher domestic debt. In our view, heavier domestic borrowing and increased government spending in Q4-2026 could tighten liquidity conditions and push market yields higher.

We believe banking sector asset quality continues to improve, although capital buffers are easing as credit expands. Advances grew by 35.5% year-on-year (y/y) in August, while the Non-Performing Loan ratio declined to 15.7% from 20.8% a year earlier. Net interest margin held at 9.6%, but capital adequacy ratio fell to 19.1% from 22.3% in April, though it remains above the 13.0% prudential minimum. We expect strong credit growth to support bank earnings, but continued loan expansion will place further pressure on capital buffers, making capital generation an increasingly important differentiator across banks.

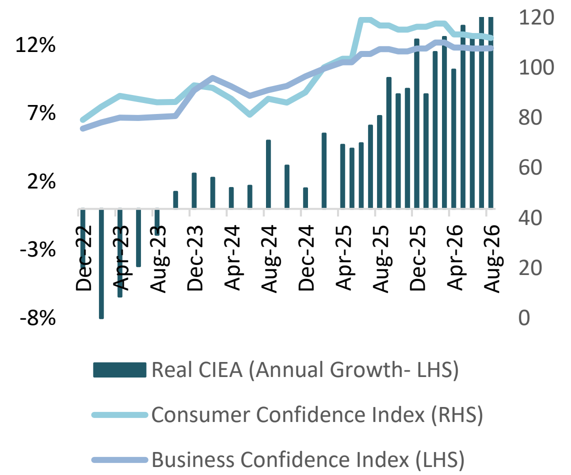
We believe liquidity growth is moderating, although monetary conditions remain supportive of credit. Nominal private sector credit growth eased to 35.5% y/y in August from 43.9% in July, while real credit growth slowed to 29.0%. Total liquidity growth also moderated to 20.4% from 28.5% in June, even as reserve money grew by 29.7%, largely reflecting higher bank reserves following the change in reserve requirements. In our view, liquidity expansion is becoming less broad based, but strong credit growth and low short-term rates suggest financial conditions remain accommodative.

We view the recent yield movements as a growing divergence between the short and long ends of the curve rather than broad based monetary tightening. The 10-year secondary market yield rose to 14.70% in August from 12.49% in May, alongside increases across several longer dated bonds, while the 91-day bill declined to 5.38% from 5.85% in July and the interbank rate remained at 10.20%. Average lending rates edged up to 15.94% but remain well below the 24.15% recorded a year earlier. In our view, longer dated yields are increasingly reflecting long term economic and fiscal execution risk, while ample liquidity continues to anchor short term rates.

Outlook and Bottomline for Investors

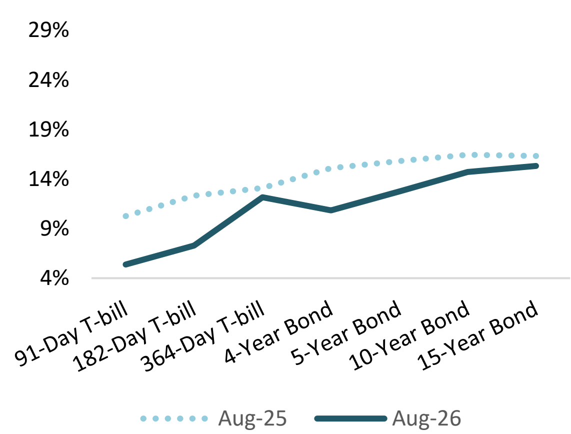
We believe prevailing conditions hint at another hold decision in Nov-2026, however, this will largely depend on the spillover effects of higher energy prices on inflation's trajectory. Inflation remains below the target band, but weaker external buffers, elevated oil prices and expected year-end FX demand limit the room for further easing. Notably, we think that a cut would require firmer reserve rebuilding, stable cedi and softer oil prices, while renewed currency weakness would raise the risk of defensive tightening. Conversely, a possible ease in crude oil prices due to US mid-term elections may likely short-live the case for a hike, thus maintaining a base case of a restrictive rate at 14%.

Figure 3: Rebound in economic activity



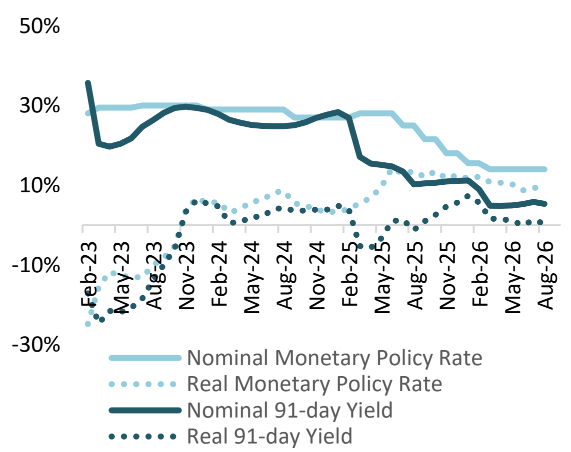
Sources: BoG, Laurus Africa Securities

Figure 4: Evolving treasury yield curve



Sources: BoG, Laurus Africa Securities

Figure 5: Nominal versus real interest rates



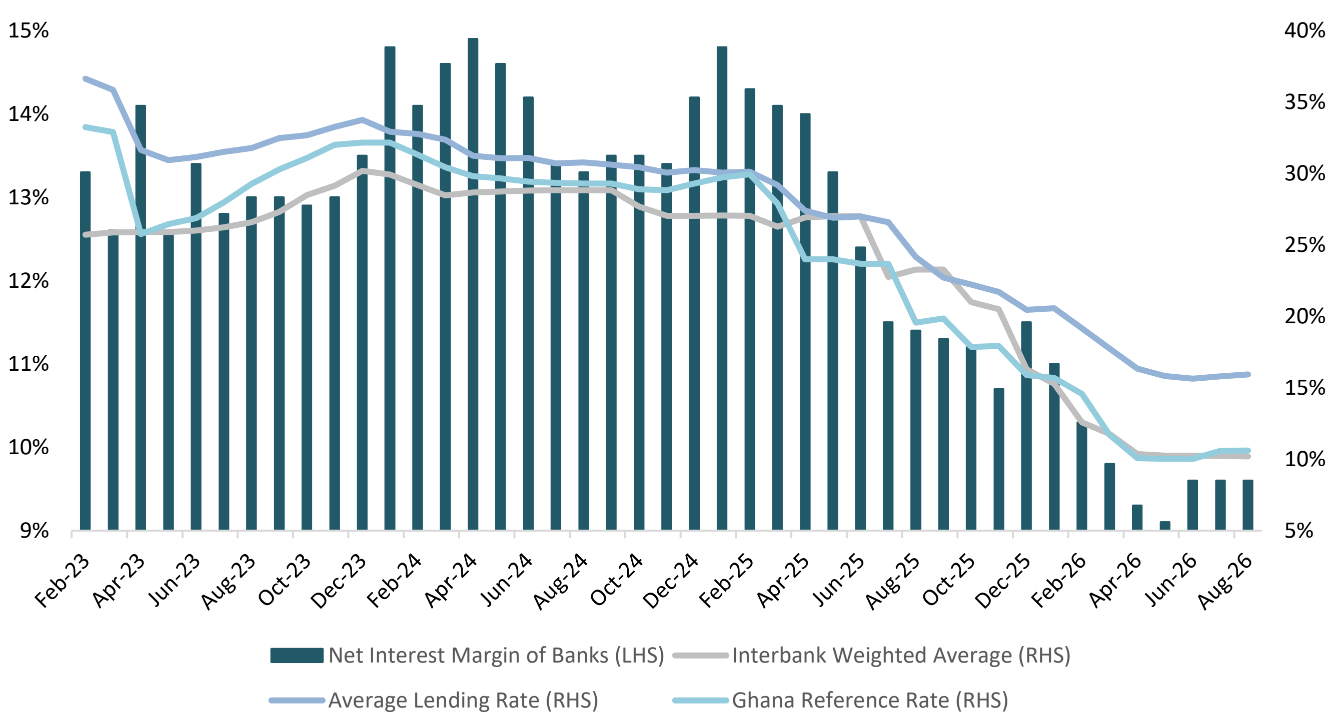
Sources: BoG, Laurus Africa Securities

We favour gradually extending duration as relative value improves further along the yield curve. Short-term yields continue to offer limited real returns, while higher medium to longer-dated yields provide better compensation for inflation and maturity risk. Strong demand from banks and pension funds, together with sizeable institutional maturities in 2027, should support longer dated securities. However, higher domestic financing needs could keep yields steady in the near term. We therefore favour building positions gradually in medium-to longer dated bonds rather than remaining concentrated at the very short end.

We remain constructive on domestic equities, but expect returns to become more selective and increasingly earnings driven. The GSE Composite Index remained up 71.9% year-to-date at end August despite a 2.3% monthly decline, while the Financial Stock Index fell about 4.0%. This supports our view that the market is shifting from broad rerating toward selective earnings validation. With longer-dated bond yields now offering a stronger alternative, we expect further equity gains to depend more on earnings delivery and balance sheet strength than another market-wide valuation expansion. We therefore favour companies with strong earnings visibility, cash generation and dividend capacity, while within banks, asset quality, capital strength, margin resilience and the ability to sustain dividend payments should increasingly differentiate performance.

The BoG announced that a new series of Ghana cedi banknotes, called the Heritage Series, will be launched on 3 Nov-2026, with enhanced security features, greater durability and updated designs. Existing banknotes will remain legal tender and circulate alongside the new series, meaning the introduction will not require an immediate exchange of old notes. We view the Heritage Series as a currency management upgrade with limited macroeconomic impact in Q4-2026, but potentially meaningful operational benefits over the medium to long term. The launch also coincides with the usual year-end increase in cash demand, so any rise in currency outside banks should be interpreted cautiously rather than automatically as excess liquidity. Currency outside banks increased from GHS67.5bn in Nov-2025 to GHS73.9bn in Dec-2025, illustrating this seasonal pattern. Beyond the transition period, we expect the main gains to come from stronger protection against counterfeiting, longer note life and more efficient currency management, which should lower note replacement costs for the BoG over time.

Figure 6: Easing interest rates trims banks' NIM



Sources: BoG, Laurus Africa Securities

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