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133rd MPC Update and Outlook: MPC Cuts Policy Rate to 11.0% as BoG Realigns Policy Signal

Summary

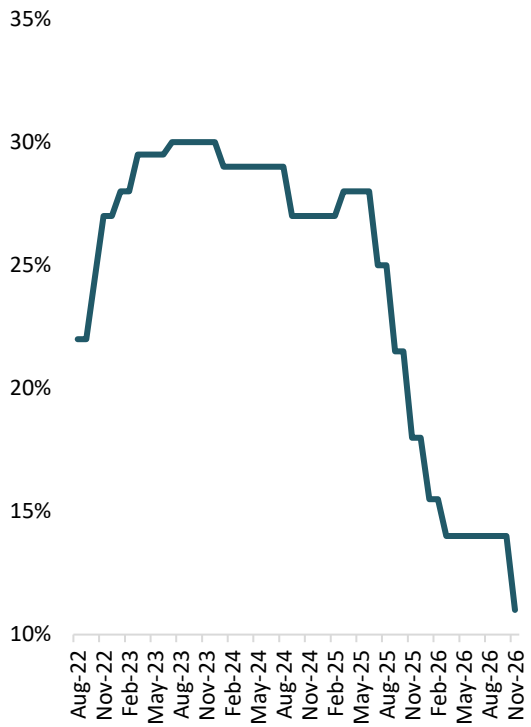
The Monetary Policy Committee cut the Monetary Policy Rate by 300bps to 11.0%, which we view primarily as an alignment of the policy signal with prevailing market conditions rather than a new round of monetary easing. The Bank of Ghana (BoG) also replaced the 14-day Open Market Operations instrument with a 7-day instrument and narrowed the policy corridor from MPR ±400bps to MPR ±100bps to improve monetary policy transmission. Headline inflation rose to 5.5% in Oct-2026, while Gross International Reserves (GRR) stood at USD12.1bn, equivalent to 4.4 months of import cover, as at 17 Nov-2026. We expect the adjustment to have a greater impact on loan pricing and banks' interest margins than on already low money market rates. Accordingly, we anticipate the MPC will maintain the policy rate at 11.0% at its January 2027 meeting.

Unpacking The MPC's Policy Decision

We view the cut as a reset of the policy signal rather than a fresh round of easing, as the floor of the policy corridor remains unchanged at 10.0%. Under the previous 14.0% ±400bps corridor, the floor stood at 10.0%, while the new 11.0% ±100bps corridor retains the same floor but lowers the upper bound from 18.0% to 12.0%. This is important because the interbank rate had already remained close to 10.2% from May through October. In our view, this suggests limited immediate change in overnight market rates, while the new MPR now provides a more credible guide to prevailing short term funding conditions. More importantly, bringing the MPR closer to prevailing market rates should restore its effectiveness as a policy anchor ahead of 2027, ensuring that future rate changes transmit more clearly to market conditions if inflation or foreign exchange pressures re-emerge.

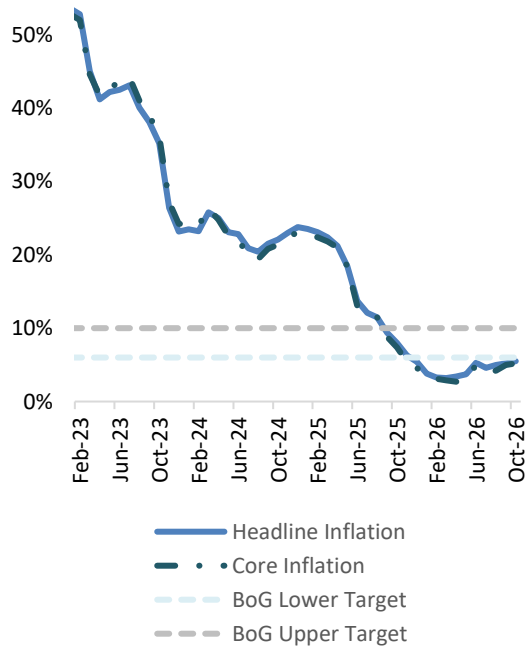
We believe the more meaningful impact will come through policy transmission to loan pricing. The Ghana Reference Rate (GRR), which serves as the base for pricing bank loans, incorporates the MPR alongside the 91-day Treasury bill and interbank rate. The lower policy rate would therefore place downward pressure on the GRR and lending rates over the coming months. Average lending rates had remained around 15.8% since May, even as short term market rates declined. At the same time, headline inflation and inflation expectations have risen, reducing the scope for further immediate easing. We therefore view the decision as defensible given that the effective policy stance was already below 14.0% but expect the BoG to remain cautious with further adjustments.

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

CIEA: Composite Index of Economic Activity, GHS: Ghana Cedi, MPC: Monetary Policy Committee, GIR: Gross International Reserves

Our Views on the Latest Economic Data

We believe inflation is turning higher on non- food pressures, while softer food prices continue to cushion the headline rate. Headline inflation rose to 5.5% in Oct-2026, driven by non-food inflation of 7.9%, while food inflation fell to 2.8%. Core 1 inflation also increased to 5.2%, while the BoG noted a pickup in inflation expectations. This points to gradually rising underlying price pressures, with utility tariffs, energy costs and potential El Niño related food supply disruptions remaining key risks.

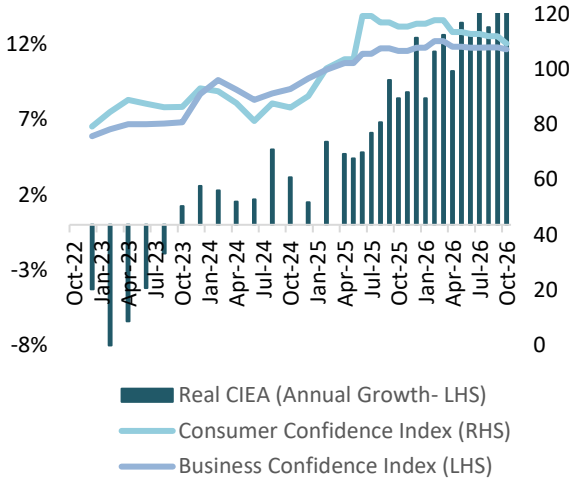
We view economic activity as strong, although higher fuel and transport costs are weighing on consumers. Real CIEA growth accelerated to 17.7% y/y in September, its strongest pace in 2026, supported by credit, exports, tourism and construction. Private sector credit also expanded by 37.2% in nominal terms and 30.0% in real terms in October. However, consumer confidence declined to 109.2, its lowest level this year, while business confidence remained broadly stable at 107.1. This suggests that strong economic activity is being sustained more by credit and investment related activity than by household sentiment.

We view the external position as stronger than expected at the September MPC meeting, although strong external surpluses have not translated into sustained reserve accumulation. The cumulative trade surplus widened to USD13.02bn by October, while the current account remained in surplus in Q3-2026. GIR stood at USD11.90bn in October before improving to USD12.1bn as at 17 November, still below USD13.83bn at end-2025. The cedi was also 10.6% weaker against the US dollar YTD as at 13 November. Hence, despite strong external surpluses and export earnings, reserve accumulation remains relatively weak, reflecting continued external payment obligations and FX demand pressures.

We believe the yield curve continues to reflect easy conditions at the short end and higher risk compensation further along the curve. The 91-day bill yield fell to 4.62% in October, below headline inflation of 5.5%, while the 364-day yield declined to 9.74%. In contrast, 10-year and 15-year yields remained relatively stable at around 15.0%. Fiscal performance remains ahead of target, but net domestic financing rose to 2.7% of GDP and domestic debt reached 26.8% of GDP in October. This helps explain why longer dated yields remain elevated despite lower short term interest rates.

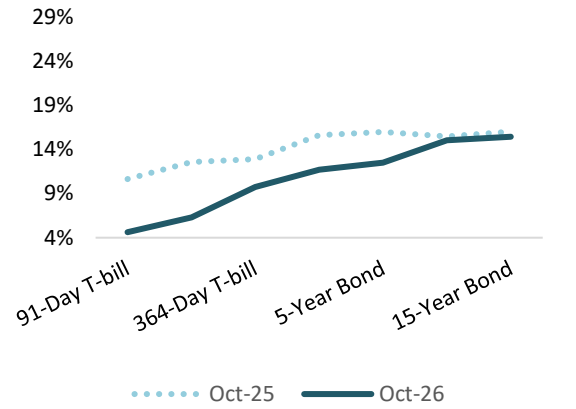
We believe bank fundamentals are improving on credit growth and asset quality, but profitability indicators are weakening. Total advances grew by 36.7% y/y in October, while the NPL ratio declined to 13.1% from 19.5% a year earlier. However, net interest margin fell to 8.1%, return on equity declined to 19.0%, and the Capital Adequacy Ratio eased to 18.5%. This points to a growing trade off between stronger balance sheet growth and weaker profitability as banks adjust to a lower interest rate environment.

Figure 3: Rebound in economic activity



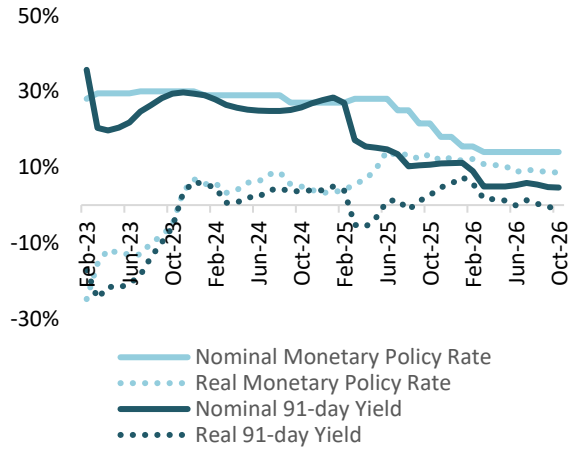
Sources: BoG, Laurus Africa Securities

Figure 4: Evolving treasury yield curve



Sources: BoG, Laurus Africa Securities

Figure 5: Nominal versus real interest rates



Sources: BoG, Laurus Africa Securities

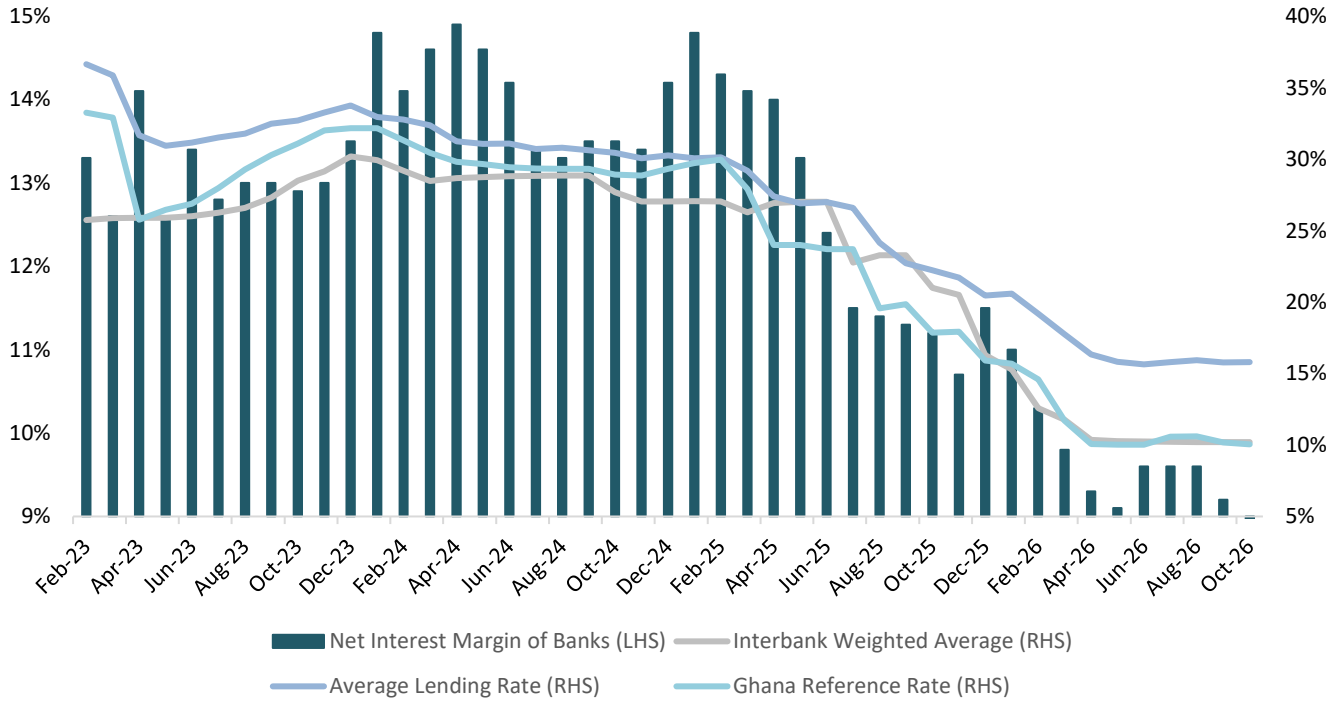
Outlook and Bottomline for Investors

We expect the MPC to hold the MPR at 11.0% at the Jan-2027 meeting. Inflation remains below target, but rising non-food and underlying price pressures, utility tariff adjustments and the need to rebuild reserves leave limited room for another immediate cut. We believe further easing would require clearer evidence that inflation pressures are stabilising alongside sustained reserve and cedi stability. Renewed currency weakness or another oil price shock would strengthen the case for a tighter stance.

For fixed income, we expect the additional impact of the MPR adjustment to be more visible in loan pricing than in short term market yields, which had already adjusted lower. With short term yields already compressed, we see limited value at the very short end and continue to favour building positions gradually in medium to longer dated bonds, where yields offer better compensation for inflation and duration risk. However, planned net domestic financing of GHS84.9bn in 2027 could keep longer dated yields elevated if new issuance outpaces investor demand.

We remain constructive on domestic equities but expect performance to remain selective. Lower lending rates should support companies with meaningful credit exposure and businesses that benefit from stronger consumer and investment demand. The GSE Composite Index remained up 63.1% year to date at end October, while the Financial Stock Index stood at 59.0%. Within financials, we expect the lower rate environment to place further pressure on margins, making low-cost funding, asset quality, capital strength and the ability to sustain dividend payments increasingly important differentiators.

Figure 6: Easing interest rates trims banks' NIM



Sources: BoG, Laurus Africa Securities

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