The End of An Unprecedented Rate Tightening Cycle?

The Bank of Ghana is Set to Significantly Lower its Benchmark Interest Rate.

July, 2025

Introduction

The Bank of Ghana's Monetary Policy Committee (MPC) is holding its scheduled 125th meeting from July 28th to July 30th, 2025, with a press release expected shortly afterwards. Coming off some of the highest policy rates (PR) in its history, with inflation now only 1.37 times above the Central Bank's upper inflation band of 10%, and with real policy rates above the median (4%) since 2002, the Bank of Ghana has room to significantly lower its benchmark interest rate.

The Central Bank can afford to take its legs of the brakes (be less restrictive in its stance) and usher in a more accommodative monetary policy stance starting from this meeting. We expect a substantial drop of between 200 – 400 basis points in the policy rate in this meeting. We expect a further drop of about 100 - 200 basis points each in its September and November meetings bringing the policy rate to about 20% - 24% by the close of the year. The size and speed of the drop may be moderated by the usually cautious approach taken by the Central Bank as evidenced in our analysis.

What is Happening Globally?

Central banks across the world continued to navigate a delicate balancing act in the first half of 2025—managing inflationary pressures while supporting economic recovery amid slowing global growth. The overall direction of monetary policy has begun to shift from tightening to easing, but this transition remains uneven across regions, driven by local inflation dynamics, currency volatility, and geopolitical risks. In North America, the Bank of Canada reduced its key policy rate by 25 basis points to 2.75 % earlier in the year, citing persistent core inflation and the need to anchor expectations. Similarly, the U.S. Federal Reserve concluded its tightening cycle at a terminal rate of 4.25%–4.50%, adopting a data-driven pause. While internal debate persists—some policymakers advocate for early rate cuts—core inflation remains above target, keeping the Fed cautious.

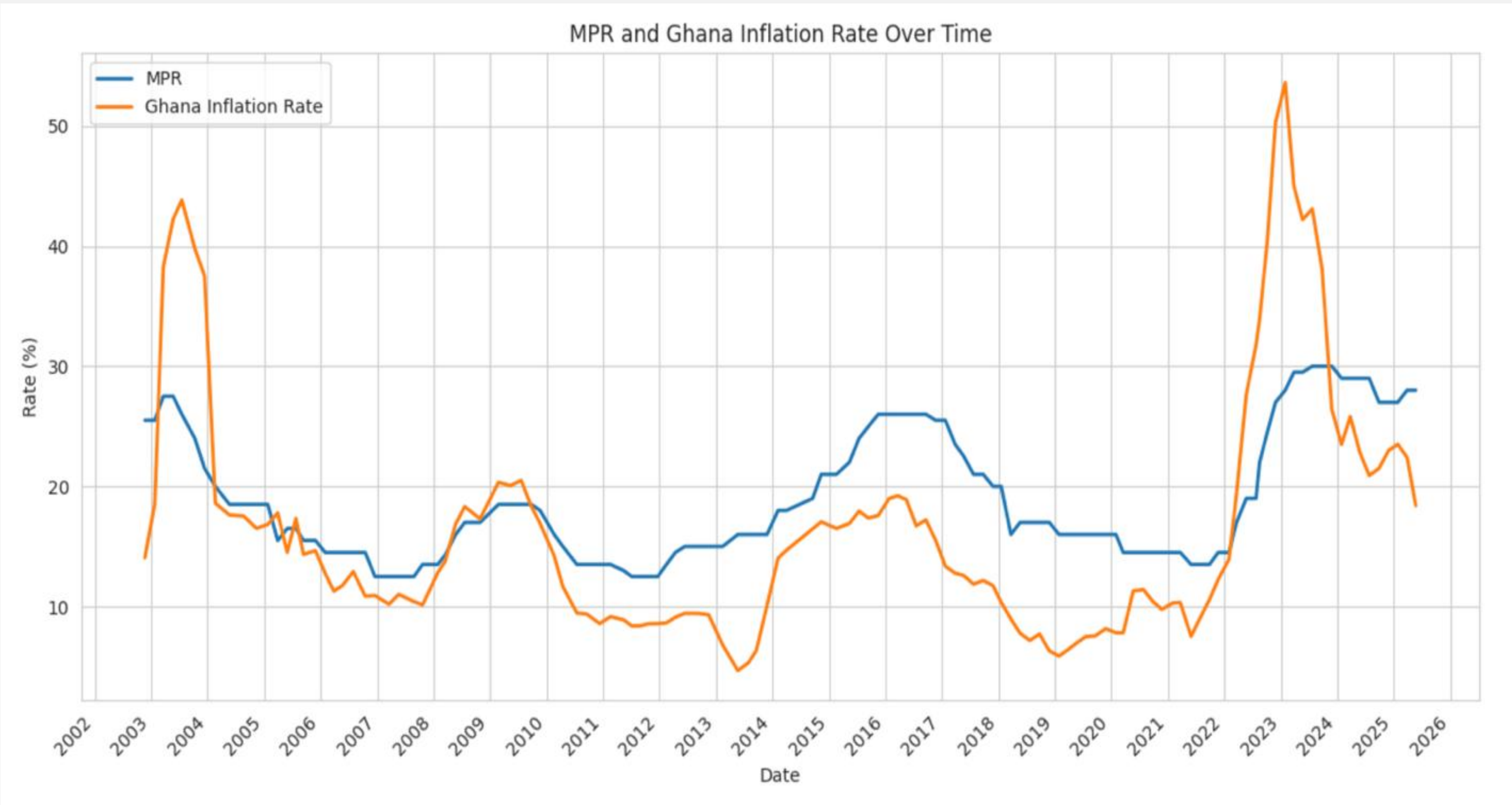
In Europe, the European Central Bank (ECB) ended its rate-cutting streak after eight successive reductions at 2.00%, with policymakers signaling a pause due to recent euro strength and ongoing uncertainty. Meanwhile, the Bank of England (BoE) cut its policy rate to 4.25% in May, reflecting progress in disinflation, though future rate decisions will hinge on labor market developments and wage growth. Across Scandinavia, Norges Bank became the first mover in the region to pivot towards easing, reducing its policy rate by 25 basis points to 4.25% in June. The move was unexpected but aligns with moderating inflation and weaker growth forecasts. Additional cuts are being considered in the second half of the year.

In Africa, monetary policy directions diverged. South Africa's Reserve Bank raised its key interest rate by 25 basis points to 7.25%, maintaining its hawkish stance amid stubborn inflation. Nigeria, on the other hand, maintained their policy rate at 27.5%, with Angola also maintaining at 19.5%. Mozambique on the other hand cut its policy rate by 500 basis points to 11.75%. The divergence reflects varying inflation paths and domestic economic pressures.

Trends in the Policy Rate and Inflation

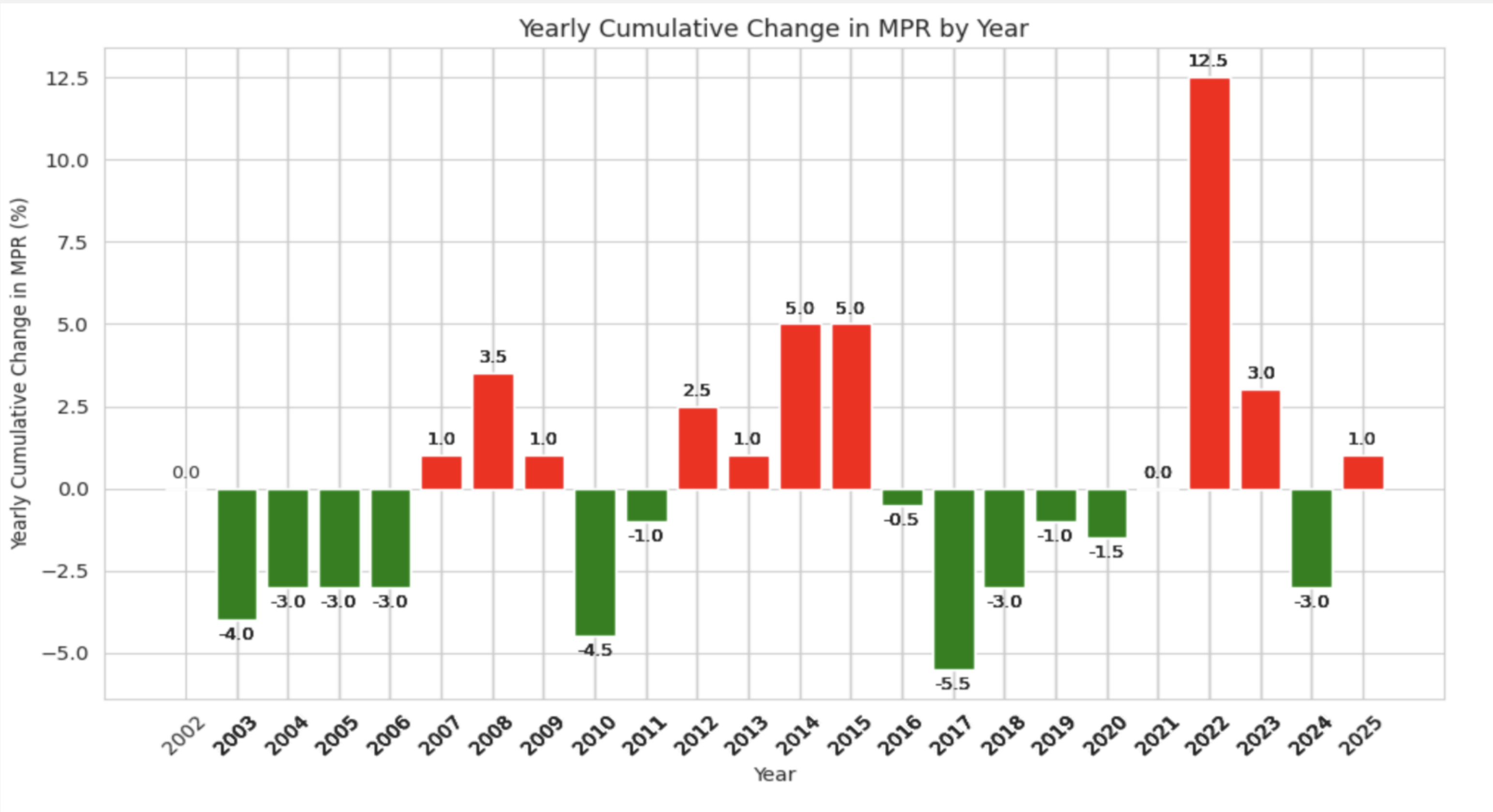
Figure 1 presents the trends in the monetary policy rate and inflation since 2002. The highest policy rates occurred in 2023 (30%), 2024 (29%) and 2025 (28%) respectively. Prior to 2023, the highest policy rate of 27.5% was recorded over 20 years ago in 2003. The policy rate largely dropped between 2016 and 2021 after which it largely assumed an upward trend peaking in 2023. We expect the declines in 2024 and 2025 to continue. Whilst inflation fell from a high of 53.6% in January 2023 to 13.7% by June 2025 representing a cumulative drop of 39.9%, the policy rate has reduced only marginally.

Figure 1: Trends in the Monetary Policy Rate and Inflation



From Figure 2, it can be seen that the MPC increased the policy rate by 1250 basis points in 2022 alone This represents the largest cumulative annual increase in the policy rate since 2002. Prior to this, the largest cumulative increase in a year was 500 basis points in 2014 and 2015 respectively. In addition, the MPC further hiked the policy rate by 300 basis points in 2023. On the other hand, the largest cumulative drop in the policy rate occurred in 2017 coming off the back of a rate tightening cycle that started in 2012 and ended in 2015. Whilst, the MPC reduced the policy rate by 300 basis points in 2024, this appears to have been a blip as 2025 started with a hike in the policy rate.

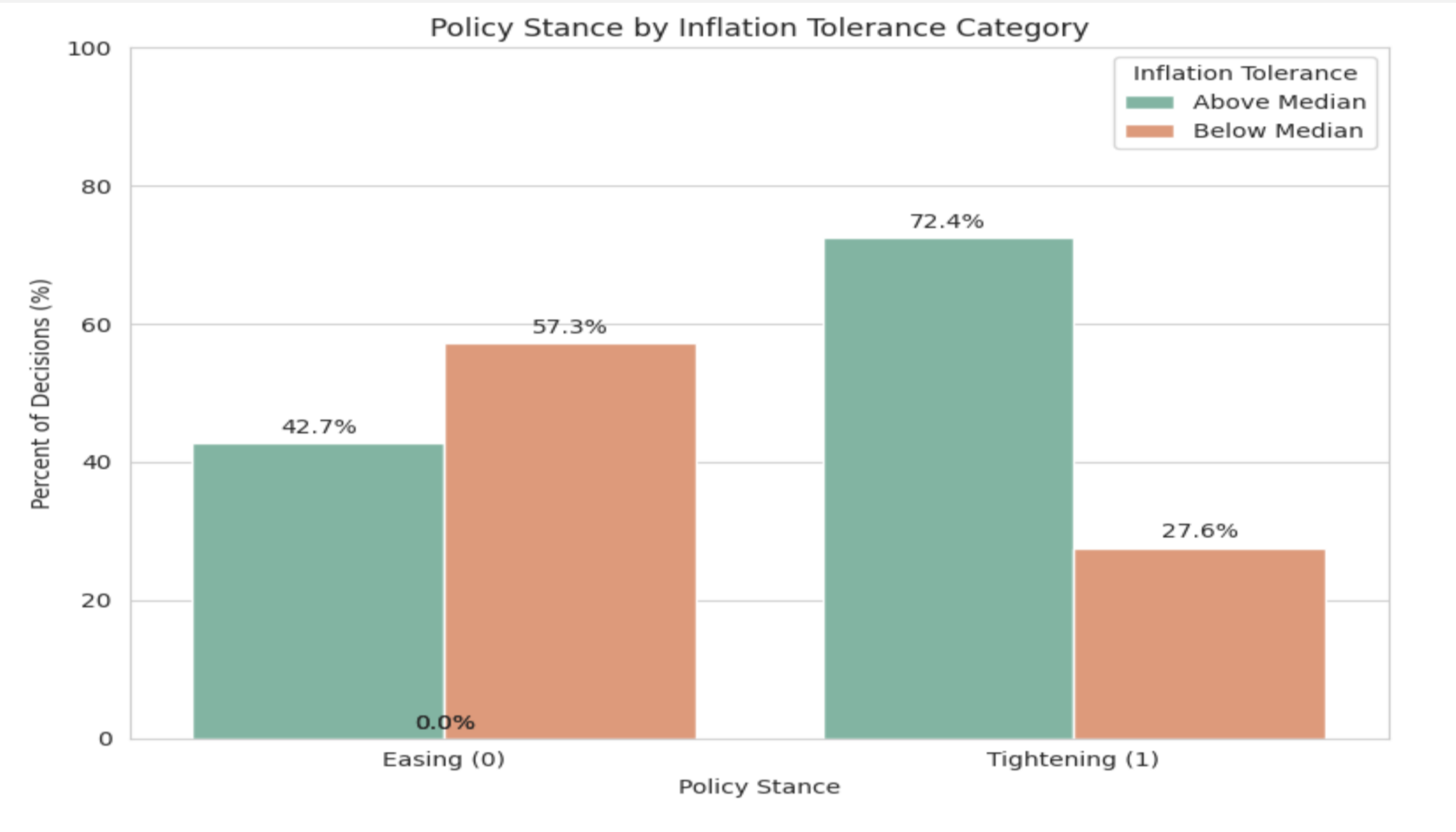
Figure 2: Monetary Policy Rate Cycles



NB: *Red values represent positive changes in the PR (rate tightening cycle), the green values represent negative changes in the PR (rate easing cycles) and the yellow values represent no change in the PR (neutral rate cycles)*

From Figure 3, our analysis shows that the Central Bank tends to tighten policy rates 72.4% of the time when inflation deviations exceed the median (1.39) inflation tolerance (defined here as inflation divided by the 10% upper band). Conversely, it tends to lower policy rates 57.3% of the time when inflation deviations are below this median. The lower frequency of easing compared to tightening suggests a generally cautious monetary policy stance. With the current inflation tolerance measure (1.39) now slightly below the historical median, this implies the Central Bank is more likely to ease policy going forward.

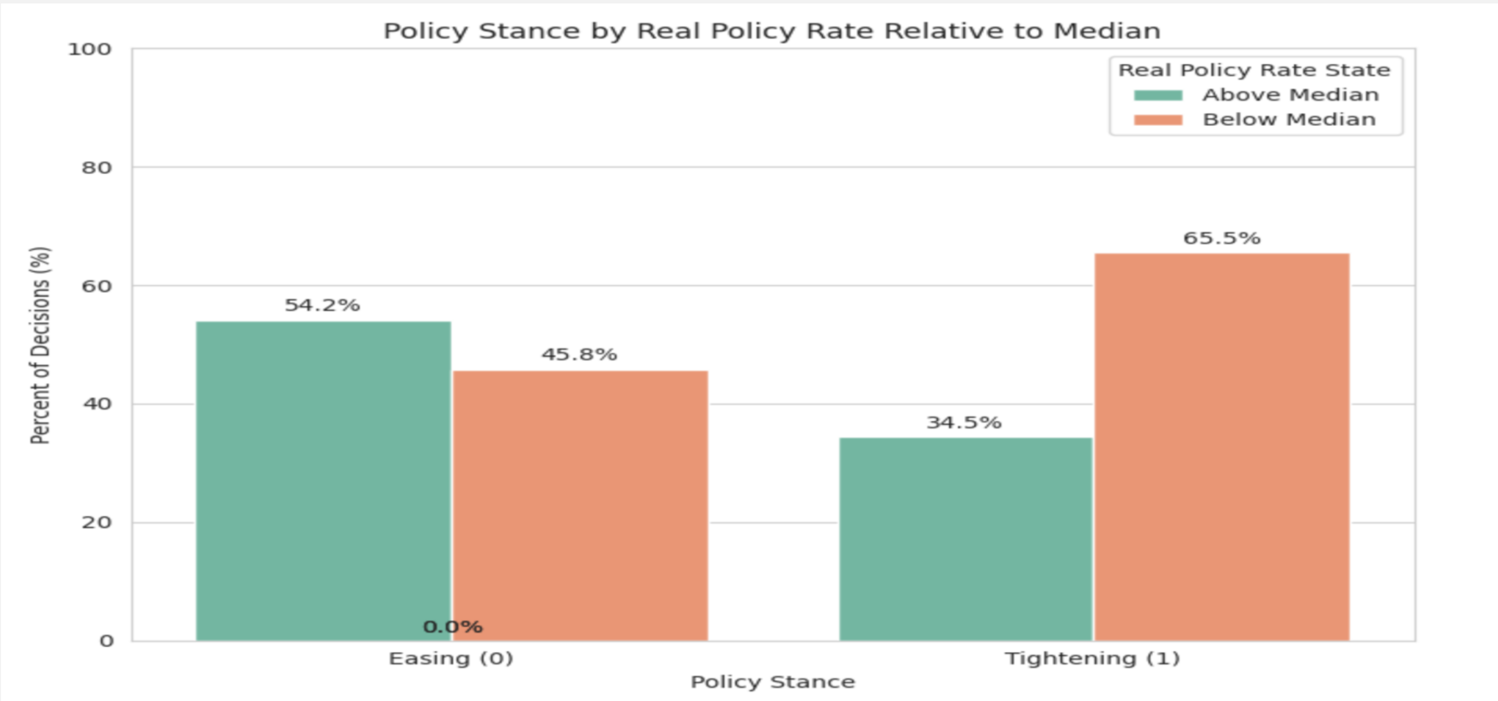
Figure 3: Monetary Policy Stance Relative to Inflation Tolerance



Further, from Figure 4, the analysis further suggests that the Central Bank tends to ease (54.2%) monetary policy when the real policy rate (policy rate – inflation) is above the median due to the fact that high real policy rates suggest a restrictive or tight monetary policy stance. On the other hand, the Central Bank tends to tighten (65.5%) monetary policy when the real policy rate is below the median due to the fact that low real policy rates suggest an accommodative or loose monetary policy stance. Again, the Central Bank tends to err on the side of caution by tightening faster than it loosens.

From the data, the real policy rate now sits at 14.3%, far above the median real policy rate of 4% recorded since 2002. This suggests that the Central Bank can afford to take its legs of the brakes (be less restrictive in its stance) and usher in a more accommodative monetary policy stance starting from this meeting.

Figure 4: Monetary Policy Stance Relative to Real Policy Rates



Summary of the BOG's Emergency Meeting

In its Emergency Meeting held on the 17th of July 2025 with the press release on 18th July 2025, the Committee decided not to make a policy rate decision. It decided to defer the decision to it's regularly meeting that would take place in a little over a week.

Inflation

In this meeting, the Committee noted that the disinflation process had gained momentum, and inflation had declined from 23.8 percent at the end of December 2024 to 13.7% at the end of June 2025. This represents a significant drop of about 10.1% in half a year.

Performance of the Economy

The MPC also noted that the performance of the economy remained robust with real GDP growth and non-oil GDP growth reaching 5.3% and 6.8% respectively.

The strong performance of the economy suggests that the risk to growth is low, providing further room or leverage for a rate cut.

In addition, the Committee observed that the provisional trade surplus and the current account surplus in the first half of the year increased to $5.6 billion ($283.1 million during the same period in 2024) and $3.4 billion ($1.4 billion during the same period in 2024) respectively. This contributed to an increase in international reserves of $11.1 billion as at the end of June 2025 compared to $8.98 billion at the end of December 2024. This represented 4.8 months of import cover.

Appreciation of the Cedis

According to the Bank of Ghana, the Ghana Cedis appreciated by 42.6% against the US dollar. The Cedis also appreciated against the other main trading currencies such as the Pound and Euro.

This contributed to the disinflation process as prices of goods and services were reduced by providers of goods and services due directly to the exchange rate gain. This provides further impetus to lower the PR.

The MPC concluded by saying that "The Committee reaffirmed its commitment to support the recovery process without compromising the gains achieved so far".

This in our view suggests that the MPC is likely to drop the policy rate whilst maintaining a cautious approach (not dropping by too big an amount and too quickly). The cautious approach is borne out by our analysis.

Conclusion

Based on our analysis we project that the MPC will reduce the monetary policy rate by 200 to 400 basis points. We anticipate the MPR to be announced to be in the range of 24% to 26%. We further expect subsequent declines of between 100 to 200 basis points each in September and November, bringing the PR to about 20% - 24% by the close of the year. The size and speed of the drop may be moderated by the usually cautious approach taken by the Central Bank as evidenced in our analysis.

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