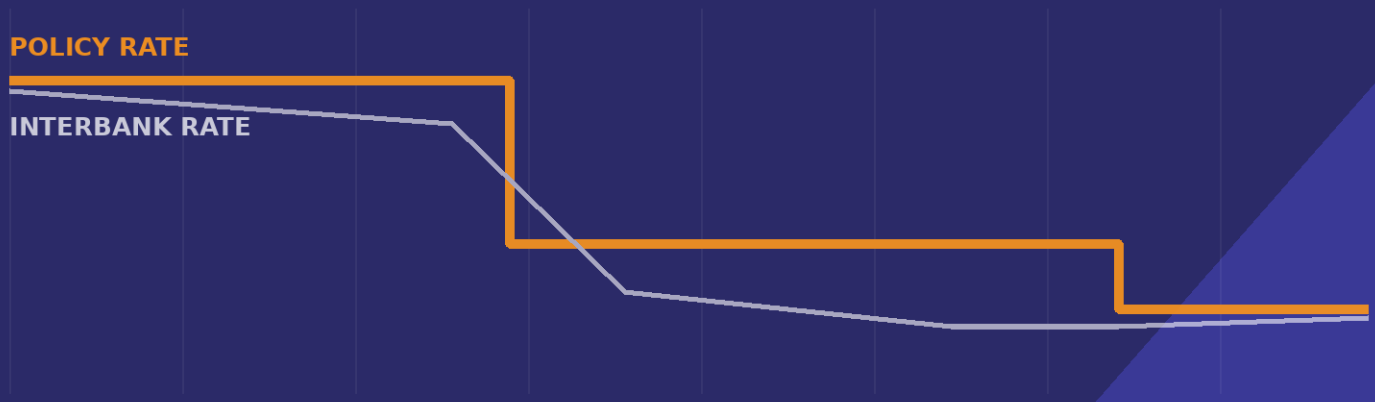
MONETARY POLICY COMMENTARY

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Bank of Ghana's 300-Basis-Point Rate Cut

Why it may not be the monetary easing it appears



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The Bank of Ghana cut its policy rate by 300 basis points on November 18, 2026. Read alongside its reforms to the monetary policy operating framework, the move looks less like an easing of financial conditions and more like a realignment of the policy rate with where the market already was.

01 A Surprising Decision

The Bank of Ghana's decision on November 18, 2026, to reduce its Monetary Policy Rate (MPR) by 300 basis points, from 14% to 11%, initially took me by surprise. I had expected the Monetary Policy Committee (MPC) to maintain the policy rate, particularly given emerging inflationary pressures and recent monetary developments.

My expectation was informed by the Bank's cautious approach at its previous meeting, when it maintained the MPR at 14% despite inflation remaining below the lower bound of its target range. It therefore seemed reasonable to expect similar caution now that inflation was picking up.

Headline inflation increased from 5.0% in August to 5.5% in October 2026. More importantly, non-food inflation rose from 6.2% in September to 7.9% in October, while core inflation, excluding energy, utilities, and volatile food prices, increased from 6.0% to 6.9%. The Bank also acknowledged an increase in inflation expectations.

Monetary developments reinforced my expectation of a hold. Reserve money expanded by 22.6% year-on-year in October, compared with just 0.1% a year earlier, while broad liquidity (M2+) grew by 20.5%. Private sector credit also expanded by 37.2% in nominal terms.

Table 1 **Price and monetary indicators were pointing up**

Indicator	Earlier reading	Latest reading	Change
Headline inflation	5.0% (Aug)	5.5% (Oct)	**+0.5 pp**
Non-food inflation	6.2% (Sep)	7.9% (Oct)	**+1.7 pp**
Core inflation	6.0% (Sep)	6.9% (Oct)	**+0.9 pp**
Reserve money, y/y	0.1% (Oct 2025)	22.6% (Oct 2026)	**+22.5 pp**
Broad liquidity (M2+), y/y	–	20.5% (Oct)	**–**
Private sector credit, nominal y/y	–	37.2% (Oct)	**–**

Source: Bank of Ghana. Core inflation excludes energy, utilities and volatile food prices.

Although rapid growth in monetary aggregates does not automatically translate into higher inflation, these developments warrant attention. Changes in reserve requirements and banks' demand for reserves also complicate the interpretation of reserve money growth as an indicator of the monetary policy stance.

Looking ahead, the 2027 Budget introduces another consideration. The government projects a cash fiscal deficit of 3.6% of GDP, with approximately GH¢85 billion in net domestic financing. Planned public investment could strengthen aggregate demand and add to inflationary pressures, depending on the economy's productive capacity and the pace of implementation. Meanwhile, increased domestic borrowing could influence government securities yields, banking-system liquidity, and private sector financing conditions. These possibilities reinforce the need for monetary policy vigilance.

Against this background, the announced rate reduction initially appeared difficult to reconcile with the emerging risks to price stability. However, examining the decision alongside the Bank's reforms to its monetary policy operating framework provides a coherent economic explanation for its magnitude.

02 Why the 300-Basis-Point Reduction Makes Economic Sense

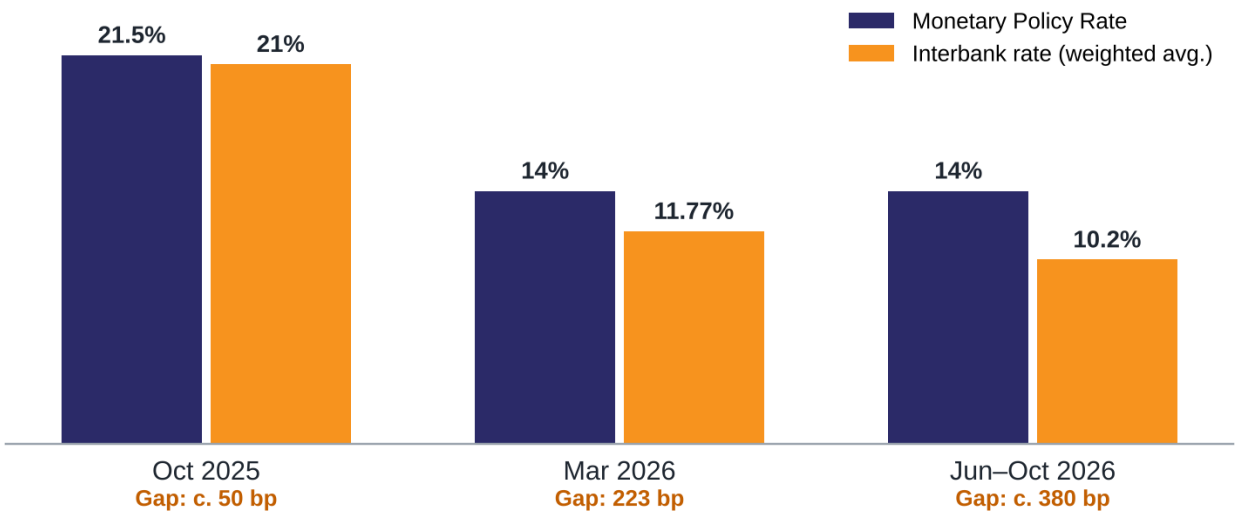
The key lies in distinguishing between the announced monetary policy rate and the interest rates actually prevailing in financial markets.

In an interest-rate-based monetary policy framework, the policy rate is intended to anchor short-term money market rates. These rates subsequently influence banks' lending and deposit rates, financial conditions, aggregate demand, and ultimately inflation.

However, Ghana's interbank market rate has been trading significantly below the announced MPR.

In October 2025, the MPR stood at 21.5%, while the interbank weighted average rate was approximately 21%. By March 2026, the respective rates had declined to 14% and 11.77%. Between June and October, the MPR remained at 14%, while the interbank rate stabilized around 10.2%.

Figure 1 The interbank rate drifted well below the policy rate



Source: Bank of Ghana. Interbank rate is the weighted average; Jun–Oct 2026 shows the approximate level over the period.

Consequently, although the announced policy rate was 14%, short-term interbank transactions were already taking place at an interest rate nearly 400 basis points lower.

> *"Reducing the MPR to 11% therefore does not necessarily represent an equivalent easing of monetary conditions. Instead, it largely aligns the announced policy rate with prevailing market conditions.*

This provides a coherent operational explanation for the magnitude of the announcement, although it does not establish whether the resulting monetary policy stance is appropriate for the medium-term inflation outlook.

Importantly, the Bank has combined this adjustment with two additional reforms designed to strengthen monetary policy implementation.

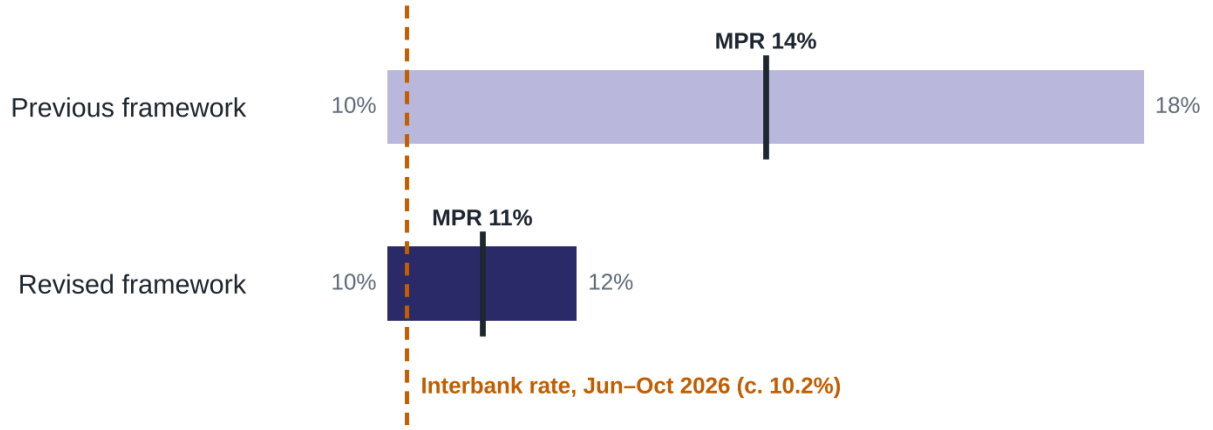
03 Two Additional Reforms That Could Strengthen Monetary Policy Transmission

A narrower interest rate corridor

First, narrowing the interest rate corridor from ±400 to ±100 basis points creates a tighter framework for managing short-term interest rates.

Under the previous framework, the MPR of 14% was associated with an interest rate corridor extending from 10% to 18%. Under the revised framework, the MPR of 11% is associated with a much narrower corridor extending from 10% to 12%.

Figure 2 **The corridor has narrowed, but its floor has not moved**



Source: Bank of Ghana.

The most revealing observation is that the lower boundary remains unchanged at 10%.

This matters because the interbank rate had been trading around 10.2% for several months, close to the lower boundary of the previous corridor. Consequently, while the announced MPR has declined by 300 basis points, the lower corridor boundary, already close to prevailing interbank rates, has not changed.

This provides perhaps the strongest indication that the decision is primarily an operational realignment rather than a conventional 300-basis-point easing of overnight monetary conditions.

The narrower corridor should also help contain fluctuations in short-term interest rates. Provided the Bank's standing facilities and liquidity operations function effectively, this can reduce uncertainty about banks' short-term funding costs, improve liquidity planning, and strengthen the predictability of monetary policy transmission.

A shorter open market operations instrument

Second, replacing the 14-day Open Market Operations (OMO) instrument with a seven-day instrument should allow more responsive liquidity management.

Open market operations enable the central bank to absorb or inject liquidity into the banking system to influence short-term interest rates.

Replacing the 14-day instrument with a seven-day instrument allows the Bank to adjust liquidity absorption over a shorter horizon. This can improve responsiveness to changes in banking-system liquidity and support closer alignment of short-term market rates with the MPR.

The reform is particularly relevant given recent changes in reserve requirements, the substantial expansion in reserve money, and prospective government domestic financing operations.

Together, these three measures offer a coherent approach to improving monetary policy implementation. The MPR realignment improves policy signalling, the narrower corridor strengthens the framework for guiding short-term interest rates, and the shorter OMO instrument provides greater flexibility in managing liquidity.

For Ghana's economy, the potential benefits extend beyond the interbank market. More predictable short-term interest rates can improve banks' funding decisions and interest rate pricing, thereby supporting more reliable monetary policy transmission. However, transmission to lending rates will also depend on banking-sector competition, credit risk, and financial market structure.

04 A Sensible Reform, but Inflation Risks Remain

The operational rationale for the decision is persuasive, but it should not distract from emerging inflationary pressures.

Headline inflation remains below the Bank's target range, yet underlying inflation and inflation expectations have increased. Monetary aggregates and private sector credit have also expanded considerably. Furthermore, the 2027 fiscal outlook introduces additional uncertainty regarding aggregate demand and domestic financing conditions.

These developments call for continued vigilance, even if the announced rate reduction does not translate into an equivalent easing of effective monetary conditions.

Indeed, if the new framework succeeds in moving the interbank rate from its previous level of approximately 10.2% toward the new MPR of 11%, the effective overnight interest rate could increase slightly despite the reduction in the announced policy rate.

The distinction between the announced policy rate, prevailing overnight interest rates, and broader financial conditions is therefore crucial to interpreting the decision.

> *"The broader lesson is that monetary policy should be judged not merely by changes in the announced policy rate, but by how those changes influence actual financial conditions and support the central bank's price stability objective.*

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