

POLICY BRIEF



Inflation Dynamics and Cost of Credit: Ghana's Macro-Financial Story Post Covid

INFLATION DYNAMICS AND COST OF CREDIT: GHANA'S MACRO-FINANCIAL STORY POST COVID

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Executive Summary

Ghana's macro-financial story from 2020 to 2025 shows a clear and direct link between inflation and the cost of credit. When inflation went up, lending rates went up too, and when inflation went down, lending rates went down.

The lessons from this period are straightforward; when inflation becomes unanchored, the policy rate, the Ghana reference rate and market rates rise sharply, making credit expensive. Conversely, when inflation stabilizes, financing conditions improve and credit becomes more affordable. Creating an affordable credit market and sustaining its positive turns therefore requires deliberate action from both the banking sector and policymakers.

It is therefore crucial for banks to strengthen their risk-based pricing frameworks, enhance credit assessments, and extend more lending toward productive sectors such as agriculture and manufacturing, especially now that inflation and interest rates are cooling. For the managers of the economy, the priority must be to maintain macroeconomic stability without compromise. Disciplined fiscal management, credible inflation targeting, and consistent exchange-rate stability are essential to preventing another 2022-style spike in inflation and borrowing costs.

Together, these actions will ensure that the ongoing decline in inflation translates into sustained reductions in the cost of credit, a healthier banking system, and a more resilient macro-financial environment for Ghana.

Introduction

Ghana's macro-financial trajectory from 2020 to 2025 is essentially the story of how surging inflation redefined the cost of credit, with both variables rising through calm phases, converging in a perfect storm, and now easing into a more tempered and cooling horizon. Throughout this six-year period of macroeconomic shifts and challenges, the country faced pronounced exchange rate volatility, persistent fiscal imbalances, public debt distress and restructuring, alongside elevated and rising general price levels. Inflation was not just another macro variable; it was the single most powerful force that influenced, both directly and indirectly, the direction of monetary policy adjustments, real treasury yields, and ultimately the cost of credit.

The objective of this write-up is to descriptively examine how inflation trends during the 2020–2025 period influenced monetary policy rate movements, treasury bill rates, the Ghana Reference Rate, and lending conditions, and to highlight the broader implications for credit pricing in Ghana's banking sector. The focus is not on causal inference but on tracing the co-movement of inflation and credit costs to better understand how macroeconomic instability translates into tighter financial conditions.



Methodology

This analysis relies purely on descriptive trend assessment, using monthly macro-financial data sourced exclusively from the Bank of Ghana's online database portal. The variables considered for this descriptive study include the monetary policy rate, 91-Day treasury bill rate, Ghana reference rate, average lending rate, inflation (annual, all items). Eviews Software have been used to generate the descriptive statistics on the series and for the graphical presentation. As such, the study does not establish causality but rather illustrates the co-movement of inflation and credit conditions across the 2020–2025 period.

Summary of Descriptive Statistics

In the analysis undertaken, the descriptive statistics show a period of significant macroeconomic turbulence, driven largely by sharp swings in inflation arising from fiscal imbalances, exchange rate depreciation, and key supply-side pressures including surges in food prices. Over the period, general price levels averaged about 21.78%, spiking as high as 54% in late 2022, creating strong volatility that pushed both the Monetary Policy Rate (MPR) and the 91-day T-bill rates into unusually high territory. These policy and credit market rates rose aggressively in response, with the MPR reaching 30% and T-bill rates climbing above 35% at the peak. During this period, the Ghana Reference Rate and the Average Lending Rate moved steadily upward, reflecting both the direct impacts and pass-through effects as banks cautiously adjusted lending conditions amidst the shocks.

Overall, the data reveal a financial environment defined by inflation-driven tightening, elevated interest rates, expensive financing costs for businesses, and a banking sector striving to balance risk with credit provision in an unstable post-COVID economy. From 2024 through 2025, as inflation pressures ease, credit market rates have declined markedly and continue to trend downward. This descriptive trend underscores the strong and direct association between inflation levels and the effective price of banks' credit in Ghana.

Table1: Summary of Descriptive Statistics on Selected Variables

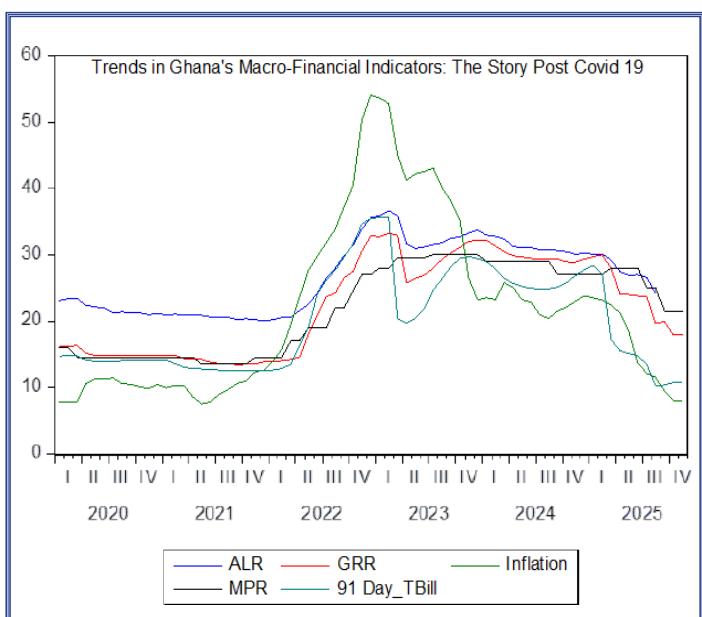
Descriptive	91Day-TBill	ALR	GRR	Inflation	MPR
Mean	19.95	26.75	22.35	21.78	22.00
Maximum	35.67	36.64	33.25	54.1	30.00
Minimum	10.26	20.04	13.46	7.50	13.50
Std. Dev.	7.52	5.31	7.24	13.18	6.58
Skewness	0.47	0.12	0.048	0.88	-0.11
Kurtosis	1.85	1.50	1.32	2.77	1.24
Jarque-Bera	6.52	6.52	8.41	9.42	9.25

Source: Bank of Ghana Online Database Portal; Graph construction by authors using Eviews Software

2020-2021: Calm Waters Before the Storm

The pre-crisis environment looked quite stable. Inflation hovered around 8% in early 2020, rising briefly to 10.6% at the height of the pandemic but settling near 10% thereafter. This moderate inflation levels allowed the policy rate to hovered around 14.5% for about four quarters. With borrowing conditions softening, the average lending rate drifted from 23% to about 20%.

Yet behind the apparent calm, banks were cautious as Covid-19 affected most business in 2020, hindering their capacity to repay loans contracted. Credit growth slowed from 16% to about 13%, showing that confidence remained shaky despite accommodative policy. Meanwhile, Treasury yields slipped to roughly 12.5%, reflecting low government borrowing pressure and still-anchored inflation expectations. This was the last stretch of macro-financial balance before the system met the lagged effects of the covid shocks as witnessed in 2022.



Source: Bank of Ghana Online Database Portal; Graph construction by authors using Eviews Software

2022: The Inflation Inferno and the Explosion in the Cost of Credit

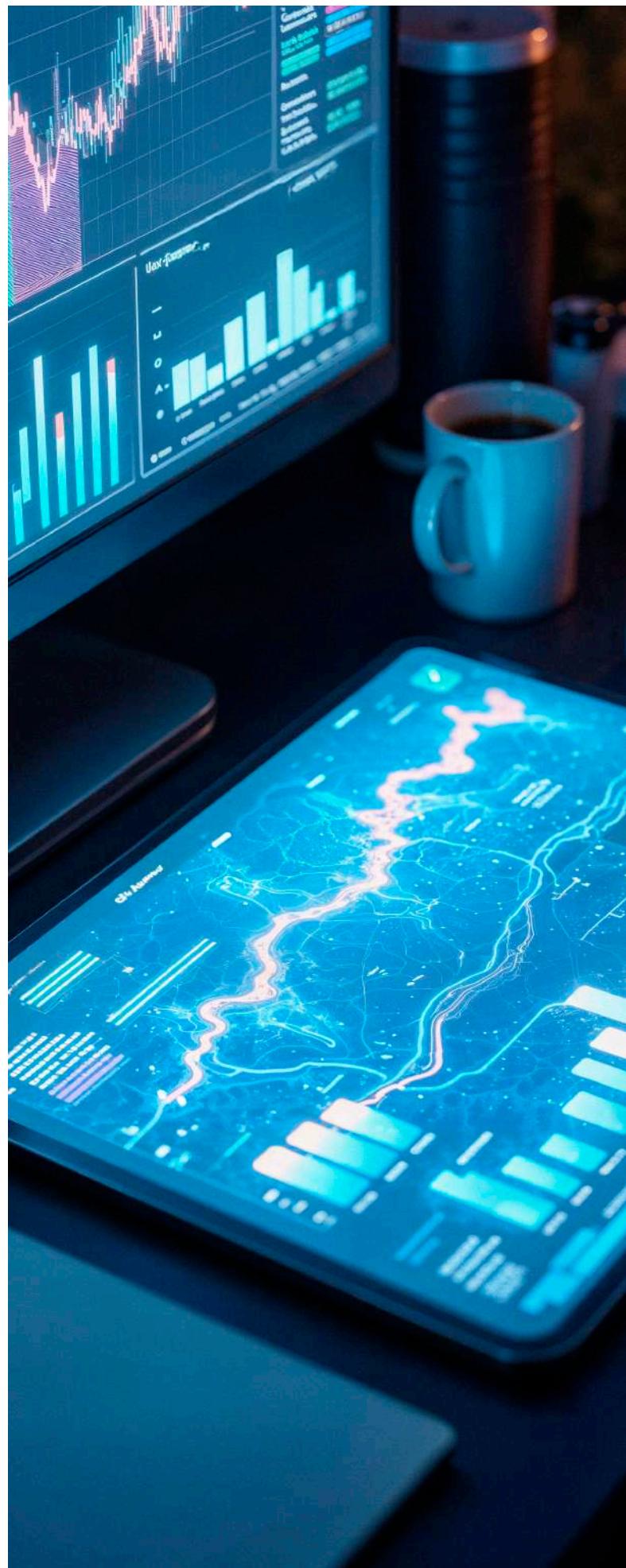
2022 was the regime break—the turning point where inflation became a runaway train. Starting at 13.9% in January, it spiraled to 54.1% by December, igniting the fastest inflation surge in the period with high levels of exchange rate volatility. This inflation shock did not occur in isolation: it rapidly fed into monetary tightening, interest-rate spikes, fiscal stress, and a dramatic repricing of credit.

In response to the rapid inflation rates, the Bank of Ghana deployed a very fastest tightening during the period, raising the policy rate from 14.5% at the beginning of 2022 to 27% by year end representing a cumulative 1,250 basis points increase over 12 months. Similarly, the base lending rate (GRR), jumped from 13.9% as at January 2022 to 32.83% in December 2022. Treasury yields mirrored the distress, tripling from 12.55% to 35.48%. The lending rate, in turn, shot from 20.16% to 35.58%, the steepest jump on record in the same period. Everything about 2022 was an outlier—the year the inflation fire burned through every financial indicator.

2023: Tight Conditions, Cooling Pressures

By 2023, the economy entered a phase of stabilization under the IMF-supported reforms. Inflation decelerated from 54% to the low 23.2 by December 2023. Yet the tightening carried over: the policy rate was held at 30% as the central bank continued to monitor the progress of the disinflation trend, making 2023 one of the most restrictive monetary conditions on record.

Curiously, treasury yields pulled back to around 28–29% despite the high policy rate. This reflected improved fiscal discipline and weak private-sector liquidity, which forced banks to absorb government bills even at lower yields. Lending rates remained above 33%, but credit growth slowed into the mid-20s as inflation's nominal distortions eased. The year marked the beginning of recovery—but not relief.



2024: A Soft Landing and the First Signs of Credit Relief

The year 2024 started with an inflation rate of 23.5 % in January, stabilized quietly within the 20s and ended the year around 23.8, allowing the Bank of Ghana ease cautiously by cutting the MPR to first 29% in January and 27% in September 2024. With risks moderating, Treasury yields fell to marginally from 28.93 at the beginning of the year to 27.3 by December 2024. Borrowing conditions improved gradually: lending rates dipped to about 30%, and GRR continued its descent toward 28-29%. This was the first year since the crisis where the cost of credit finally began to trend down. This highlights how inflationary dynamics would directly drag the cost of credit along.

2025: The Cooling Horizon – Inflation Falls, Credit Costs Ease Sharply

If 2022 was the year of inflation flames, 2025 was the year of cooling winds. Inflation fell from 23.5% in January to just 8% by November 2024, delivering the sharpest disinflation in six years. Monetary policy responded decisively: the MPR fell from 27% to 21.5% by September, and to 18% in November 2025 while T-bills rates declined significantly from 28% to 10.8%—the lowest in the entire period.

The base lending rate (GRR) also moved down significantly, reaching 17.93% in November 2024, with the average lending rate falling to 22.22% in October 2025, marking genuine relief for firms and households which reflects more realistic pricing and reduced inflation distortions with real private sector credit growth standing at 5.4% as at October 2025. This trend reaffirms the strong direct relation between inflation and the cost of credit in Ghana.

Final Reflection: Inflation Always Spills into the Cost of Credit

The 2020–2025 cycle makes one lesson unmistakably clear: inflation directly translates into higher cost of credit in Ghana. The inflation shock of 2022 did not merely raise prices—it triggered an aggressive monetary tightening cycle, pushed treasury yields above high, and drove the average lending rate from 20% to over 35% within a single year. Every credit market indicator moved in response to macro stress, showing the tight coupling between inflation dynamics, policy rate adjustments, and banks' pricing behaviour.

The behaviour of the benchmark cost of lending (GRR) demonstrates this relationship. Ghana's GRR computation places a strong weight on the policy rate (MPR), meaning that sharp increases in the MPR in response to inflationary pressures mechanically raise nominal lending rates. This is why GRR spiked from 13.9% in January 2022 to 32.83% in December 2022.

Across the entire period, the data reaffirms a simple but powerful conclusion: when inflation becomes unanchored, the cost of credit rises sharply; when inflation stabilizes, credit conditions ease. Ghana's rapid disinflation in 2024–2025 restored alignment between inflation and cost of credit interest rates,—proving that macroeconomic stability is not just a policy target, but the foundation for affordable credit and sustainable financial sector performance.



Recommendations for Banks and policy Makers

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Banks and policy makers must work together to lock in the gains of disinflation and prevent a return to the instability that drove credit costs to historic highs. For banks, the priority is to strengthen risk-based pricing, deepen credit assessment, and expand lending toward productive sectors, especially agriculture and manufacturing, now that inflation and interest rates are easing. Banks should take advantage of the declining policy and treasury rates to reprice loans more competitively and support SMEs with structured credit.

For policy makers, maintaining macroeconomic stability must be non-negotiable: disciplined fiscal policy, credible inflation targeting, and continued exchange rate stability will keep borrowing costs predictable and prevent another 2022-style spike. Government must avoid excessive domestic borrowing that crowds out the private sector, while accelerating reforms that strengthen the transmission of monetary policy so that reductions in the policy rate translate more quickly into lower lending rates. Structural investments in food systems, energy reliability, and logistics are also essential to keep inflation anchored from the supply side. Together, these measures ensure that declining inflation translates into sustained reductions in the cost of credit, a healthier banking system, and a more resilient macro-financial environment.

Limitation

While this approach effectively highlights the patterns and turning points within Ghana's macroeconomic environment, it comes with limitations, particularly the absence of econometric identification. Nevertheless, the trends presented here are broadly consistent with extensive empirical findings and well-established theoretical frameworks that document the strong linkage between inflation dynamics, monetary policy adjustments, and the cost of credit

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