GHANA | MACROECONOMIC UPDATE | INFLATION | INSIGHTS

FUNDAMENTALS

GHANA'S DECEMBER 2024 INFLATION:

Beyond the bullseye

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IN BRIEF

- Headline inflation came in higher than expected for December 2024, closing the year with a feeling of anti-climax as the late-year upturn completely eroded the downturn in 2Q2024. Annual inflation went up 80bps to 23.8% in December 2024, exceeding the authorities' 22.0% target upper outer band under the IMF programme by 180bps.

- Following the Bank of Ghana's FX market operations late last year, which triggered a strong appreciation of the Ghanaian Cedi, we had anticipated a favourable pass-through to inflation. While we observed the favourable pass-through of the Cedi's strong appreciation to non-food inflation, food inflation remained under pressure with agrarian produce prices sustaining the heat.

- Food inflation surged 190bps to 27.8% y/y and sustained the general price pressure in the final months of 2024. We believe the sustained rise in food inflation in the past four months underscores the lingering impact of the hot weather conditions during the 2024 planting season, which keeps us cautious on the immediate term outlook. Non-food inflation declined for the second consecutive month to 20.3% y/y in December 2024, ostensibly suppressed by the favourable pass-through of the strong Cedi appreciation.

- **Target overshooting raises the prospect of triggering the IMF Monetary Policy Consultation Clause (MPCC).** In our inflation update for November 2024 – Relentless – we flagged the elevated risk of overshooting the authorities' end-2024 upper outer band target of 22.0%, which will trigger remedial measures to restore inflation within target band. Given the latest uptick in annual inflation, Ghana's real policy rate has further softened to 3.2%, requiring further hikes in the nominal policy rate to restore a sufficiently restrictive monetary stance. We think the authorities may require a real policy rate of between 5.0% and 7.0% to tighten monetary conditions and restore disinflation in the ensuing months. Against this backdrop, we envisage up to 200bps hike at the January 2025 MPC meeting.

Food prices heat on

Headline inflation came in higher than expected for December 2024, closing the year with a feeling of anti-climax as the late-year upturn completely eroded the downturn in 2Q2024. Annual inflation went up 80bps to 23.8% in December 2024, exceeding the authorities' 22.0% target upper outer band under the IMF programme by 180bps.

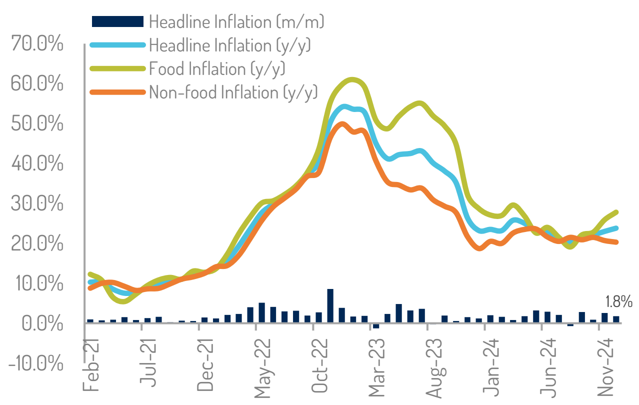
Following the Bank of Ghana's FX market operations late last year, which triggered a strong appreciation of the Ghanaian Cedi, we had anticipated a favourable pass-through to inflation, albeit with only 20bps dip to 22.8%. While we observed the favourable pass-through of the Cedi's strong appreciation to non-food inflation, food inflation remained under pressure with agrarian produce prices sustaining the heat.

On a month-on-month basis, headline inflation declined to 1.8% in December 2024 (vs 2.6% m/m in November 2024) as both food and non-food items witnessed moderation in price hikes. We attribute the decline in the sequential inflation rate to the Cedi appreciation witnessed during the CPI data collection window in December 2024.

Food inflation continued to heat up, accelerating by 190bps to 27.8% y/y and sustaining the general price pressure in the final months of 2024. We believe the sustained rise in food inflation in the past four months underscores the lingering impact of the hot weather conditions during the 2024 planting season, which keeps us cautious on the immediate term outlook. The heavy-weight vegetables & tubers witnessed the steepest climb to 46.1% y/y (+610bps) while cereal & cereal products also exerted further push to 24.8% (+220bps).

Notably, food inflation accounted for 51.0% of the annual headline inflation rate for December 2024 as 11 out of the 15 sub-classes witnessed higher inflation in the month under review. Amidst the weather-induced shock to supply of agrarian produce, we also think a spike in food demand ahead of the December election intensified the demand-pull on food inflation.

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE, IC INSIGHTS

Non-food inflation declined for the second consecutive month to 20.3% y/y in December 2024, ostensibly suppressed by the favourable pass-through of the strong Cedi appreciation. We observed declines in annual inflation for 8 out of the 12 divisions of non-food inflation, albeit with the two most influential divisions posting contrasting outturn. While transport inflation edged up 30bps to 16.8% y/y, inflation for utilities, gas & other fuels decelerated by 290bps to 26.3%, nudging non-food inflation lower.

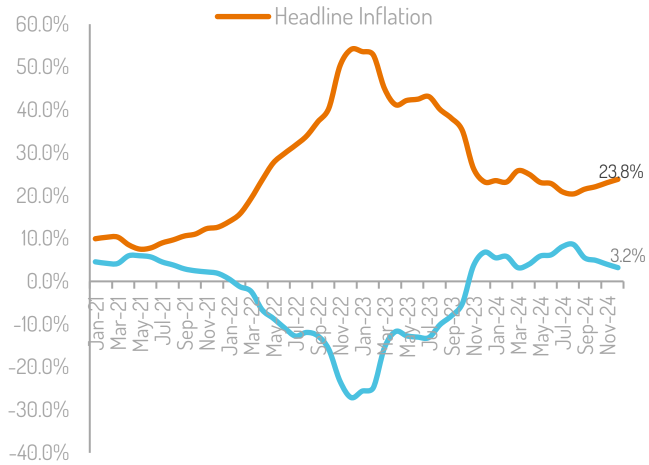
Target overshooting raises the prospect of triggering the IMF Monetary Policy Consultation Clause (MPCC). In our inflation update for November 2024 – Relentless – we flagged the elevated risk of overshooting the authorities' end-2024 upper outer band target of 22.0%. Exceeding this target will trigger an engagement with the IMF Board under the MPCC with proposed remedial measures to restore inflation to the target band.

Notwithstanding the Bank of Ghana's belatedly strong FX sale to ensure a favourable pass-through to restrain annual inflation below 22.0% by year-end, the recent inflation pressures appear structural and required complementary fiscal policy.

While we await the 2025 fiscal plan with expected softening of tax burden to ease the price buildup in 2H2025, we foresee the potential for monetary tightening to rein-in the demand-side pressure. As part of the possible remedial measures, we think the Bank of Ghana will be inclined to hike the policy rate at its first Monetary Policy Committee meeting in January 2025.

Given the latest uptick in annual inflation, Ghana's real policy rate has further softened to 3.2%, requiring further hikes in the nominal policy rate to restore a sufficiently restrictive monetary stance. We think the authorities may require a real policy rate of between 5.0% and 7.0% to tighten monetary conditions and restore disinflation in the ensuing months. Against this backdrop, we envisage up to 200bps rate hike at the January 2025 MPC meeting.

INFLATION PATH AND REAL POLICY RATE



SOURCE: IC INSIGHTS, GHANA STATISTICAL SERVICE, BANK OF GHANA

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