GHANA | MACROECONOMIC UPDATE | INFLATION | INSIGHTS

FUNDAMENTALS

GHANA'S JANUARY 2025 INFLATION:

Cooling off, Boiling over

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IN BRIEF

- Ghana's consumer price inflation got off to a promising start in 2025 but served a strong reminder that disinflation tailwind is yet to fully set in. Headline inflation declined by 30bps to 23.5% year-on-year in January 2025, a slower decline than our expectation of -50bps but a tad faster than the market expectation of -20bps.

- In our view, the inflation decline in January 2025 reflects the belated pass-through of the strong appreciation of the Ghanaian Cedi in November and December 2024. This will likely strengthen the authorities' case to deploy forex intervention as a stopgap measure ahead of the disinflation tailwind expected in the 2025 budget.

- **Non-food inflation** extended its cooling momentum into the 3rd straight month, declining by 110bps to 19.2% year-on-year while **food inflation** continued to boil over, rising for the 5th straight month to 28.3% year-on-year (+50bps).

- The moderation in the annual inflation rate raises optimism about the near-term return to disinflation. However, we flag the continued increase in food inflation as a strong indication of lingering upside risk. This will extend the time for resuming monetary easing to mid-2025 after the extent of fiscal interventions to curb food price pressure is fully laid out in the 2025 budget in March.

- **Moderation in services inflation bodes well for near-term disinflation.** We believe the broad decline in services inflation reflects the pass-through of the Cedi's appreciation in late 2024 which had an immediate impact on non-food inflation but a delayed drag on the headline rate. While we continue to view food inflation as a lingering upside risk to headline inflation, we expect the Bank of Ghana to keep a tight grip on the exchange rate in a bid to strengthen the emerging disinflation. Thus far in the February 2025 CPI window, we note a 4.8% decline in Brent crude oil price while the Cedi weakened by 3.6%. This will cap the upward pressure on prices of petroleum products and sustain the cooling non-food inflation against upside push from food inflation. As a result, we forecast a 30bps downtick in annual inflation to 23.2% with the m/m rate at 1.3%.

A tale of two inflations

Ghana's consumer price inflation got off to a promising start in 2025 but served a strong reminder that disinflation tailwind is yet to fully set in. Headline inflation declined by 30bps to 23.5% year-on-year in January 2025, a slower decline than our expectation of -50bps but a tad faster than the market expectation of -20bps.

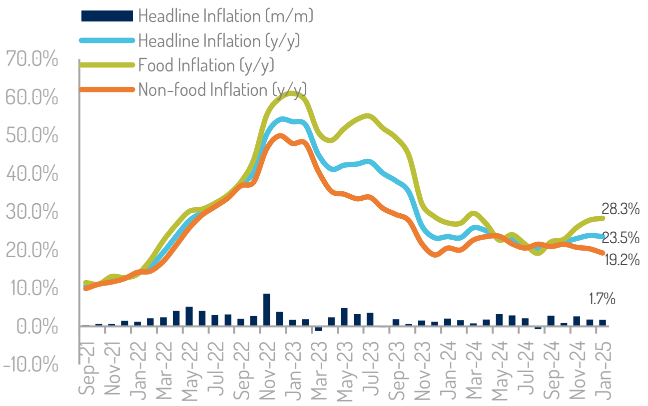
The lower inflation print represents the first moderation in annual headline inflation since August 2024 and seemingly justifies the Bank of Ghana's decision to maintain the policy rate in favour of forex interventions. In our view, the inflation decline in January 2025 reflects the belated pass-through of the strong appreciation of the Ghanaian Cedi in November and December 2024. This will likely strengthen the authorities' case to deploy forex intervention as a stopgap measure ahead of the disinflation tailwind expected in the 2025 budget.

The sequential rate suggested easing price pressures as the month-on-month inflation dipped for the second consecutive month to 1.7%, likely strengthening the authorities' expectation of a near-term return to disinflation on the annual rate.

While the moderation in the annual inflation rate raises optimism about the near-term return to disinflation, we flag the continued increase in food inflation as a strong indication of lingering upside risk. This will extend the time for resuming monetary easing to mid-2025 after the extent of fiscal interventions to curb food price pressure is fully laid out in the 2025 budget in March.

Food inflation continued to boil over, rising for the 5th straight month to 28.3% year-on-year (+50bps) to limit the decline in the headline inflation rate. The food price pressures in January 2025 emanated from fish & other seafoods (25.2% | +100bps), cereal & cereal products (25.4% | +60bps), live animals & meat (28.9% | +250bps), and milk & other dairy products (18.3% | +150bps). Despite a slight downtick in inflation for vegetables & tubers (46.0% | -10bps) and ready-made food (21.0% | -80bps), we foresee early-year stickiness in food inflation as the planting season approaches while we await fiscal interventions.

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE, IC INSIGHTS

Non-food inflation extended its cooling momentum into the 3rd straight month, declining by 110bps to 19.2% year-on-year and representing its lowest level since December 2023. The cool-off in non-food inflation was broad-based in January 2025 as 9 out of the 12 divisions witnessed lower inflation while only transport inflation ticked marginally higher by 10bps to 16.9%.

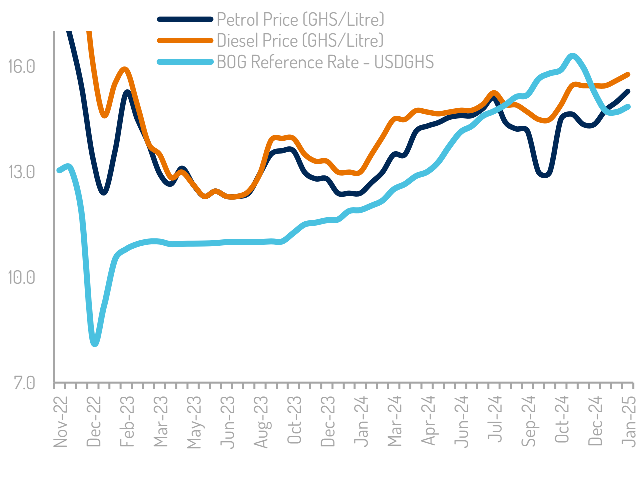
Moderation in services inflation bodes well for near-term disinflation. Our analysis of the various divisions of non-food inflation suggests broad-based moderation in price pressure within the services items. Specifically, inflation declined across education services (13.9% | -520bps), utilities (24.6% | -170bps) amongst other services division.

We believe the broad decline in services inflation reflects the pass-through of the Cedi's appreciation in late 2024 which had an immediate impact on non-food inflation but a delayed drag on the headline rate.

The Bank of Ghana appears fortified to sustain its ad hoc forex sales to anchor price pressures. Amidst the January 2025 MPC meeting, the Bank of Ghana surprised the market with renewed aggressive forex sales to ease the emerging pressure on the local currency. We reiterate our view that the intervention decision is aimed at curbing the upside risk from FX pressures and the encouraging decline in headline inflation potentially fortifies the authorities' case in favour of deploying the short-term FX anchor.

While we continue to view food inflation as a lingering upside risk to headline inflation, we expect the Bank of Ghana to keep a tight grip on the exchange rate in a bid to strengthen the emerging disinflation. Thus far in the February 2025 CPI window, we note a 4.8% decline in Brent crude oil price while the Cedi weakened by 3.6%. This will cap the upward pressure on prices of petroleum products and sustain the cooling non-food inflation against upside push from food inflation. As a result, we forecast a 30bps downtick in annual inflation to 23.2% with the m/m rate at 1.3%.

PETROLUM PRICES AND EXCHANGE RATE TREND



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

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