GHANA | MACROECONOMIC UPDATE | INFLATION | INSIGHTS

FUNDAMENTALS

GHANA'S FEBRUARY 2025 INFLATION:

Steady as she slows

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IN BRIEF

- Headline inflation printed broadly in line with our expectation as both the annual and sequential rates slowed in February 2025. Annual inflation came in 40bps lower at 23.1% (IC Insights: 23.2%) while the sequential rate declined for the third consecutive month, landing on our projected 1.3% m/m.

- Unlike the January 2025 outturn which was solely driven by non-food disinflation, the latest decline in headline inflation was helped by lower inflation for both food and non-food items. **Food inflation** witnessed a first decline in 6-months with a 20bps dip to 28.1% year-on-year as nine out of the fifteen sub-groups posted lower inflation rates. **Non-food inflation** continued to exhibit cooling price pressure, declining for the 4th consecutive month to 18.8% year-on-year (-40bps) although a 100bps upsurge in the heavy-weight transport inflation (17.9% y/y) restrained the decline.

- The latest disinflation slightly elevates the real policy rate to 3.9% but still within a less restrictive territory, in our estimation, and potentially keeps the MPC in wait until mid-2025. We estimate that the fiscal measures to be implemented post-2025 budget presentation and approval in March would start to yield modest impact and more durable disinflation, paving the way for rate cut to resume in May 2025.

- We expect the impressive stability of the Ghanaian Cedi to continue to tame the upside for price levels, sustaining the downside for headline inflation. We also view the ongoing fiscal tightening as a potential curb on aggregate demand while our observed 1.3% decline in prices of petrol and diesel in the March 2025 CPI data period (vs 7.0% hike a year ago) caps transport inflation. However, we think food prices remain vulnerable to supply-side shocks as we begin the lean season. Additionally, the unexpectedly modest rise in the CPI level (+1.7pts) in March last year poses a risk of unfavourable base effect for the March 2025 inflation estimates. With the confluence of downside and upside risks, we expect a 20bps rise in March inflation to 23.3% y/y, although m/m likely dips to 1.0%.

Inflation clouds are clearing, but no sun yet

Headline inflation printed broadly in line with our expectation as both the annual and sequential rates slowed in February 2025 to align with our forecast of sticky disinflation in early-2025 before fiscal interventions strengthen the tailwind in 2H2025.

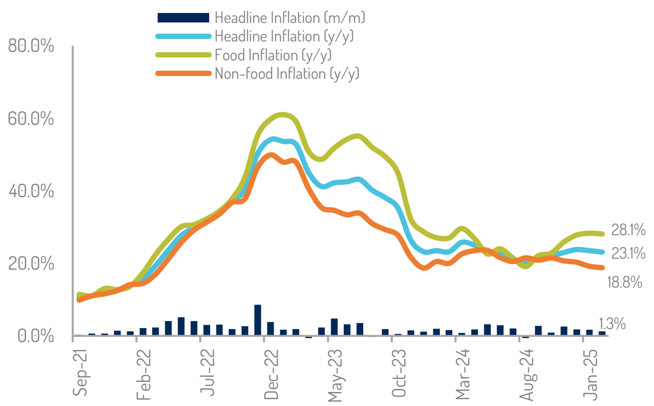
Annual inflation came in 40bps lower at 23.1% in February 2025, a tad below our projected 23.2%. This represents the second successive decline in the annual headline rate and sustains our bullish outlook on renewed disinflation in 2025. However, we think the pace of disinflation for the first 2-months of the year is expectedly too feeble to change our call for a "hold" on the monetary policy rate at the March 2025 MPC meeting.

The sequential rate declined for the third consecutive month, landing on our projected 1.3% m/m from 1.7% in January 2025. The decline was mainly helped by the relatively stable Ghanaian Cedi and m/m deflation for two of the food inflation sub-groups during the price data window. We note that FX risks have largely moderated following the renewed active market support by the BOG since late January 2025, culminating in lower price pressure.

Unlike the January 2025 outturn which was solely driven by non-food disinflation, the latest decline in headline inflation was helped by lower inflation for both food and non-food items.

Food inflation witnessed a first decline in 6-months with a 20bps dip to 28.1% year-on-year as nine out of the fifteen sub-groups posted lower inflation rates. Heavily-weighted sub-groups such as ready-made food (18.6% I -240bps), vegetables & tubers (45.5% I -50bps), and cereals & cereal products (25.2% I -20bps) were the main downside catalysts. While the modest easing in price pressure for these agrarian products is encouraging, we remain cautious as we approach the planting season which is typically associated with lean supply and potential price hikes. The inflation uptick for fish & other seafoods and poultry products emphasizes our near-term caution about lingering supply-side push for food prices.

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE, IC INSIGHTS

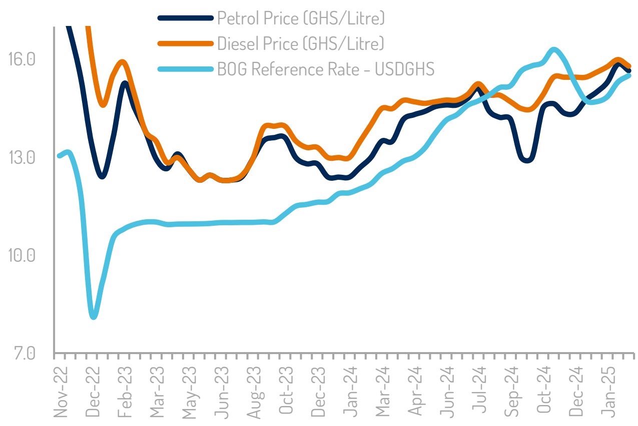
Non-food inflation continued to exhibit cooling price pressure, declining for the 4th consecutive month to 18.8% year-on-year (-40bps) although a 100bps upsurge in the heavy-weight transport inflation (17.9% y/y) restrained the decline. We attribute the rise in transport inflation to higher fuel cost during the CPI data window as our investigation revealed a 5.7% and 2.5% hike in the prices of petrol and diesel, respectively.

The emerging disinflation is encouraging but pace of decline is too feeble to revive policy rate cut. The latest disinflation slightly elevates the real policy rate to 3.9% but still within a less restrictive territory, in our estimation, and potentially keeps the MPC in wait until mid-2025. We estimate that the fiscal measures to be implemented post-2025 budget presentation and approval in March would start to yield modest impact and more durable disinflation, paving the way for rate cut to resume in May 2025.

Although the Bank of Ghana's supply-side presence on the FX market has cushioned the Ghanaian Cedi thus far, we think the sharp decline in T-bill rates opens up a likely FX risk as excess Cedi liquidity spills over into the FX market. In view of this, we believe the MPC will defer any cut in the policy rate amidst the current inflation levels to avoid intensifying the FX pressures.

Unfavourable base effect will likely nudge inflation up in March 2025 despite emerging downward pressure. We expect the impressive stability of the Ghanaian Cedi to continue to tame the upside for price levels, sustaining the downside for headline inflation. We also view the ongoing fiscal tightening as a potential curb on aggregate demand while our observed 1.3% decline in prices of petrol and diesel in the March 2025 CPI data period (vs 7.0% hike a year ago) caps transport inflation. However, we think food prices remain vulnerable to supply-side shocks as we begin the lean season. Additionally, the unexpectedly modest rise in the CPI level (+1.7pts) in March last year poses a risk of unfavourable base effect for the March 2025 inflation estimates. With the confluence of downside and upside risks, we expect a 20bps rise in March inflation to 23.3% y/y, although m/m likely dips to 1.0%.

PETROLEUM PRICES AND EXCHANGE RATE TREND



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

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