GHANA | MACROECONOMIC UPDATE | INFLATION | INSIGHTS

FUNDAMENTALS

GHANA'S APRIL 2025 INFLATION:

From Blaze to Breeze

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IN BRIEF

- Ghana's headline inflation eased by 120 basis points to 21.2% year-on-year in April 2025, outpacing our expectations of a 70bps decline. This marks the fourth straight monthly drop and the lowest level since September 2024. The cumulative 260bps decline from January to April signals a notable shift in inflation dynamics, contrasting sharply with the 190bps increase recorded over the same period in 2024. This suggests that price pressures are easing more decisively and reinforces our optimism about Ghana's disinflation path.

- **Food inflation** fell for a third consecutive month, dropping by 150bps to 25.0% y/y in April 2025 and marking a notable surprise given Ghana's seasonal planting pressures. However, the upsurge in m/m inflation for vegetable to 1.5% from a deflation of 1.2% suggests caution amid the ongoing planting season. **Non-food inflation** continued its steady descent, falling 80bps to 17.9% y/y and representing its lowest level in three years. **For services inflation,** our estimation suggests a more modest decline compared to the drop in the headline rate. However, the renewed decline in services inflation in April 2025 from a likely unchanged level in March 2025 strengthens our optimism that Ghana's CPI inflation dynamics is moving from blaze to breeze, although the breeze is yet to get cooler.

- **We expect further decline in headline inflation for May 2025, although the start of higher utility tariff will be a slight dampener.** Our inflation forecast suggests a further decline in the annual inflation rate to 19.4% (-180bps) in May 2025 while the sequential rate surges to 1.6% m/m. We expect favourable base effect, the Cedi's strong appreciation, lower energy prices and the prevailing tight policy stance to quicken the disinflation in May.

- **The intensifying disinflation bodes well for the policy stance** as the real policy rate has widened to 6.8% and is sufficiently tight to anchor the disinflation process, in our view. However, we believe the May 2025 MPC meeting comes too soon to consider the start of rate easing. We thus expect a "Hold" decision at the May MPC meeting. We also expect the re-anchoring of inflation expectations to ease investor preference for FX hedging.

The drop gets deeper

Ghana's headline CPI inflation declined by 120bps to 21.2% y/y in April 2025, dropping faster than our forecast 70bps decline to 21.7%. The latest moderation represents the fourth consecutive month of decline in annual inflation and brings the headline rate to its lowest level since September 2024. We also note that this sequence of decline with a cumulative drop of 260bps (vs our forecast 210bps drop) from January – April 2025 suggests easing price pressures compared to the cumulative upsurge of 190bps in the same period of 2024.

The moderation in the annual inflation rate was underpinned by easing food and non-food inflation with food inflation sustaining its strong disinflation for the second straight month. In our view, the prevailing tightness in the fiscal and monetary policy stance are key anchors for curbing demand-side pressure. Additionally, the impressive stability of the Ghanaian Cedi during the April CPI data was a major contributor to the disinflation with the recent appreciation trend boosting the prospects for further declines in the months ahead.

As expected, the sequential rate ticked higher despite rising at a slower pace than we anticipated. The month-on-month inflation increased by 60bps to 0.8% (IC Insights: 1.2% m/m), reflecting a surge in m/m food inflation to 0.9% from the deflation of 0.2% in March 2025 while non-food inflation remained unchanged at 0.7% m/m.

Food inflation moderated for the third straight month, declining by 150bps to 25.0% y/y. We view the sizable decline as a pleasant surprise as it represents the second consecutive month of similar moderation in food price hikes, defying the upward pressure that is typical of the planting season currently underway. Impressively, we note disinflation for 7 out of the 15 sub-classes with heavy-weight items such as vegetables & tubers (34.3% | -600bps) and fish & other seafoods (18.6% | -350bps) acting as the catalysts. However, the upsurge in m/m inflation for vegetable to 1.5% from a deflation of 1.2% suggests caution amid the ongoing planting season

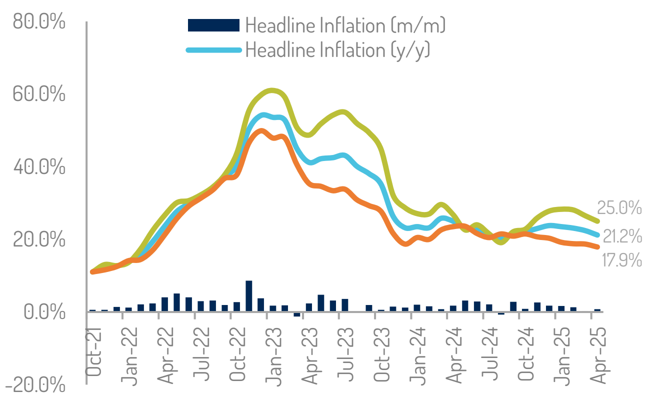
Non-food inflation sustained its downward momentum to 17.9% y/y (-80bps) in April 2025, declining for the sixth straight month to its lowest level since March 2022. Unsurprisingly, the decline in non-food inflation was underpinned by sharp disinflation for the two most influential items – Transport (14.9% | -190bps) and Utilities, gas & other fuels (22.5% | -260bps). Our review of fuel price dynamics during the April 2025 CPI data revealed a lower y/y rise in petrol prices (+5.9%) compared to April 2024 (+11.9%). We also observed a similarly measured uptick for diesel (+4.6%) compared to +14.8% in April 2024. This relatively modest y/y uptick in energy prices underpinned the disinflation for Transport and Utilities, gas & other fuels.

For services inflation, our estimation suggests a more modest decline compared to the drop in the headline rate. However, the renewed decline in services inflation in April 2025 from a likely unchanged level in March 2025 strengthens our optimism that Ghana's CPI inflation dynamics is moving from blaze to breeze, although the breeze is yet to get cooler.

We expect further decline in headline inflation for May 2025, although the start of higher utility tariff will be a slight dampener. Our inflation forecast suggests a further decline in the annual inflation rate to 19.4% (-180bps) in May 2025 while the sequential rate surges to 1.6% m/m. We expect favourable base effect, the Cedi's strong appreciation, lower energy prices and the prevailing tight policy stance to quicken the disinflation in May. Our review of energy prices for the May 2025 CPI window showed a 4.9% y/y decline in petrol price and 1.6% y/y drop in diesel price. We expect the lower energy prices to hasten the disinflation in the months ahead, although the 14.75% and 4.02% respective hikes in electricity and water tariffs will slightly dampen the decline.

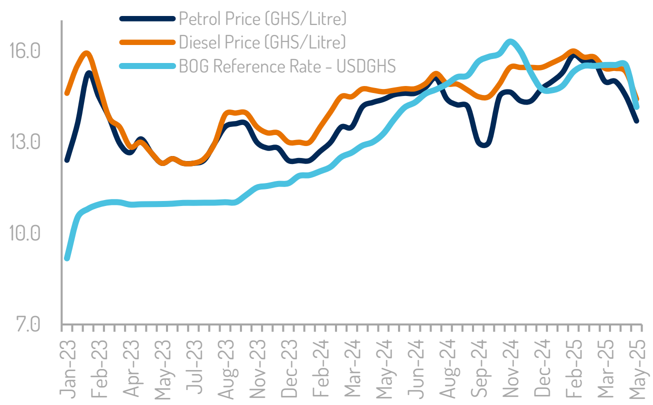
The intensifying disinflation bodes well for the policy stance as the real policy rate has widened to 6.8% and is sufficiently tight to anchor the disinflation process, in our view. However, we believe the May 2025 MPC meeting comes too soon to consider the start of rate easing. We thus expect a "Hold" decision at the May MPC meeting. We also expect the re-anchoring of inflation expectations to ease investor preference for FX hedging.

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE, IC INSIGHTS

PETROLEUM PRICES AND EXCHANGE RATE TREND



SOURCE: IC INSIGHTS, GOIL, BANK OF GHANA

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