GHANA | MACROECONOMIC UPDATE | INFLATION | INSIGHTS

FUNDAMENTALS

GHANA'S MAY 2025 INFLATION:

Locked in Reverse; Rate Cut Ahead

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IN BRIEF

- Ghana's disinflation momentum deepened in May 2025, with headline inflation dropping by 280bps to 18.4% y/y (the lowest since February 2022). This outpaced our 180bps forecast decline and marked a five-month cumulative decline of 540bps. The deceleration reflects a strong base effect, lower petroleum prices, and the favourable pass-through of the Ghanaian Cedi's sharp appreciation, which began in April but materially influenced the May 2025 CPI due to overlapping timing in data collection.

- **Food inflation** fell by 220bps to 22.8% y/y in May 2025, driven by a strong base effect in the CPI for vegetable & tuber (-10.3pp to 24.0% y/y), although the ongoing planting season pushed vegetable inflation higher on a m/m basis to 2.4%. Additionally, **non-food inflation** plunged by 350bps to 14.4% y/y — the 7th straight monthly decline — led by a sharp drop of 11.8pp in transport inflation to 3.1% y/y, reflecting fuel price reversals from the Cedi appreciation. **Goods and services inflation** both declined, with goods inflation easing to 20.1% (-170bps) and services to 14.3% (-90bps). We believe the relatively lower services inflation (weighted 27.2%) poses minimal upside risk to headline inflation, while the upcoming crop harvest in 3Q2025 will further ease goods inflation.

- **We anticipate another sharp disinflation in June 2025,** driven by a strong FX pass-through and lower energy prices. Our estimates show a 29.5% m/m and a 35.3% y/y appreciation of the Ghanaian Cedi during the June CPI data window, easing the cost of imports, fuel and transport. The announced 15.0% reduction in transport fares by commercial transport operators will further suppress transport inflation and indirectly soften food prices, especially vegetables & tubers. As a result, we forecast a 240bps decline in headline inflation to 16.0% y/y in June, with the sequential rate at 0.8% m/m.

- **We maintain our expectation for policy rate cut to resume at the July 2025 MPC meeting,** supported by the sharp disinflation in May 2025, which lifted the ex-post real policy rate to 9.6%. Our inflation forecast for June points to an ex-ante real policy rate of between 11.0% and 12.0%, giving the BOG ample room to ease. With core inflation now above the headline rate — the first time since March 2024 — we think this will temper the MPC's dovishness, limiting the cut to 200bps. Nonetheless, we acknowledge the elevated real policy rate as scope for a deeper rate cut.

Inflation takes a dive

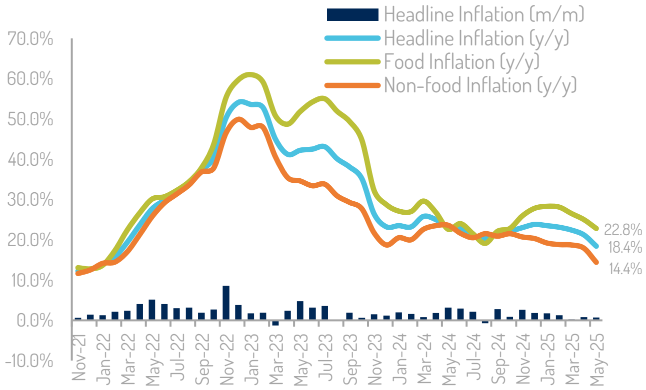
The recent downturn in Ghana's annual CPI inflation intensified in May 2025, outpacing our forecast decline and signalling a decisive shift in macroeconomic winds as disinflation gains momentum across food and non-food groups. Headline inflation decelerated by 280bps to 18.4% y/y, reflecting a sharper fall than our 180bps forecast decline and to its lowest level since February 2022. This marks the 5th consecutive decline in inflation and brings the cumulative drop in the annual headline rate to 540bps in 5M2025 compared to the cumulative dip of 10bps in the same period of 2024.

The faster disinflation reflects a strong base effect, a favourable pass-through of the recent Cedi appreciation and lower prices of petroleum products. We note that the sharp appreciation of the Ghanaian Cedi commenced in April 2025 but with most of the April gains reflected in the May 2025 CPI due to the overlapping data collection window. Given the intensified Cedi appreciation in May 2025, the overlapping CPI data window suggests a strong possibility for another sharp decline in the June 2025 inflation.

In view of the broad-base decline in price pressures amidst recent tailwind, the sequential rate also eased slightly to 0.7% m/m (vs 0.8% in April 2025 and our forecast uptick to 1.6% m/m). We attribute the slight downtick in the m/m inflation to downward pressures from lower energy prices and favourable FX pass-through which were mostly offset by the upsurge in inflation for vegetables & tubers (+2.4% m/m)

Food inflation intensified its decline, slowing by 220bps to 22.8% y/y in May 2025 on the back of a favourable base effect in the heavily-weighted CPI for vegetables & tubers which offset the uptick for fish & other seafoods. Inflation for vegetables & tubers nosedived by 10.3pp to 24.0% y/y, although the m/m rate surged to 2.4% due to the ongoing planting season. Despite the 210bps increase in inflation for fish & other seafood (20.7% y/y), we note declines in other weightier sub-classes, such as cereal & cereal products, reflecting the favourable FX pass-through.

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE, IC INSIGHTS

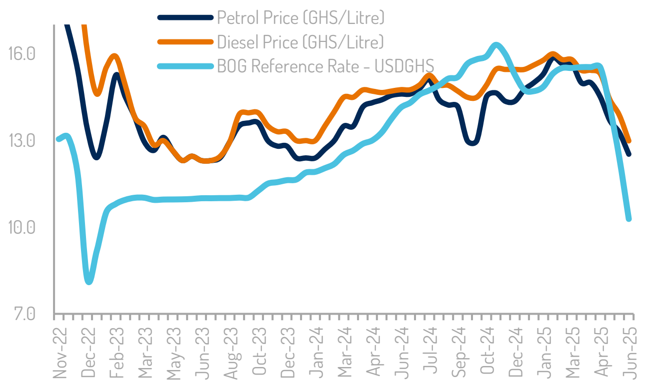
Non-food inflation plunged by 350bps to 14.4% y/y, sustaining its declining trend for the 7th successive month and anchoring the disinflation trend. Notably, we observed declines across 10 out of the 12 divisions of non-food inflation with the weightier Transport inflation tumbling by 11.8pp to 3.1% y/y as the Cedi's appreciation ignited a reversal in energy prices with a domino effect.

Services and goods inflation continues to subside although the latter remains elevated. The Statistical Service commenced the publication of services and goods inflation in May 2025 with the data confirming our in-house view of disinflation in services. The May 2025 print showed services inflation at 14.3% y/y (-90bps) and goods inflation at 20.1% (-170bps). We think the relatively modest services inflation (weighted 27.2%) poses low risk to headline inflation while higher supply of goods, especially crop harvest in 3Q2025 will potentially drag down goods inflation.

We pencil another sharp disinflation for June on the back of favourable FX pass-through and lower energy prices. The June 2025 CPI data window recorded a 29.5% m/m and 35.3% y/y appreciation of the Ghanaian Cedi against the US Dollar. This exerted downward pressure on prices of imported items with notable declines in petroleum prices and transport fares. The announced 15.0% reduction in commercial transport fares will continue to restrain transport inflation with downside spillovers for other items. Additionally, we estimate that the lower transport cost likely eased the m/m pressure observed for vegetables & tubers last month, potentially sustaining food disinflation in June. Consequently, we forecast a 240bps decline in the June 2025 annual inflation to 16.0% with the m/m rate at 0.8%.

We reiterate our expectation for policy rate cut to resume in July MPC with at least 200bps call. The sharp disinflation in May 2025 elevates the ex-post real policy rate to 9.6% while our inflation forecast for June suggests an ex-ante real policy rate of between 11.0% and 12.0%. This provides a wide scope for the Bank of Ghana to resume monetary easing in the July MPC meeting. Given that core inflation now screens above headline inflation for the first time since March 2024, we think the MPC will be constrained to a 200bps cut. However, we acknowledge that the higher real policy rate provides scope for a larger cut by the MPC.

PETROLEUM PRICES AND EXCHANGE RATE TREND



SOURCE: IC INSIGHTS, GOIL, BANK OF GHANA

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