

Ghana's Headline Inflation Quickens to 29.8% in Jun-22; Could Peak in Jul-22

Ghana's Jun-22 CPI inflation came in at 29.8% y/y (+220bps from May-22), continuing the inflationary run that has stretched over 12 months. To date, headline inflation has increased by 22.28% as the elevated cost pressures resulting from domestic and external supply-side bottlenecks and the pass-through of high fuel prices and exchange rate depreciation sustain general price pressures.

The inflation pressures emanated from both domestic and external sources and kept food and non-food elevated. Food inflation increased by 60bps to 30.70% y/y and contributed 13.42% to the overall inflation print, with non-food inflation also nudging higher to 29.1% y/y (+3.4% from May-22). Imported inflation dominated, coming in 3.1% higher at 31.3% vs. an inflation rate of 29.2% on locally produced items. Month-on-month inflation sustained the decline for the second consecutive month, easing to 3% (vs. 4% in May-22), driven by marginal decreases in food and non-food components.

Analysis of the inflation and implications for interest rates and monetary policy

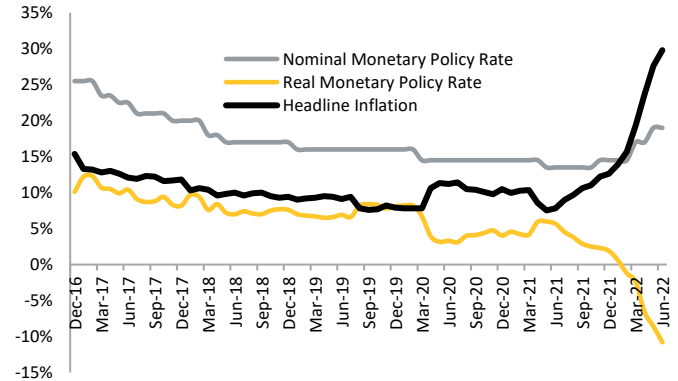
We reckon that the inflation curve is at the point of inflexion and could peak in Aug-22 as favorable base effects kick in: We note a 13.69-point jump in the CPI index in Jun-22 to 161.65pts vs. an average rise of 2.8pts on the index since Jan-22. Regardless, the increase in headline inflation declined to 2.2% in Jun-22, continuing the trend of decline from the highest monthly increase of 4.2% in Apr-22. Similarly, month-on-month inflation from the food and non-food baskets declined since Apr-22 and came in at 2.3% and 3.6%, respectively, in Jun-22. Thus, the slope of the month-on-month inflation curve peaked across the headline, food and non-food baskets in Apr-22 (See Figure 2), and we expect only an even slower increase in headline inflation for Jul-22.

We flag two sets of opposing forces impacting inflation going forward. First, we flag cost pressures to inflation from high petroleum prices, potential currency pressures, high input costs, and an imminent utility tariff review as upside risks to near-term inflation. However, we note that a favorable base drift has set in from Jun-22 and will continue through 2H-22. Already, the slope of the food inflation is near its peak, and given the encouraging rainfall patterns, we cautiously anticipate a good harvest, which could set a run of disinflation from the food basket in motion from Sept-22. **Thus, we expect headline inflation to peak near 32% in Aug-22 and decrease thereafter.**

Implications for interest rate and monetary policy: The market has responded favorably to Ghana's request for BoP support from the IMF thus far, with between 50bps to 200bps compression in LCY Bonds and Eurobond yields at the close of last week. This positive spin, together with the better-than-expected June inflation print could broadly stabilize nominal yields in the interim. However, an IMF program is a long way off as negotiations continue, and macroeconomic developments in the quarters ahead will shape yield expectations. Potentially, the IMF could demand debt restructuring under the common framework as a pre-condition for a Fund-supported program. We expect this uncertainty to weigh on investor sentiments as the negotiations continue. Thus, the slight compression in yields over the last fortnight could be short-lived.

Given the inflation dynamics, we expect a rate-neutral decision at the next Monetary Policy Committee (MPC) meeting later in July. We believe liquidity levels remain tight, affecting general credit conditions, and concerns about growth are beginning to emerge following a below-par growth outturn in 1Q22. Thus, we expect the MPC to take a breather and allow the 450bps cumulative cut in the policy rate through 1H-22 to filter through the market.

Figure 1: Inflation and the Monetary Policy Stance



Source: GCB Capital Research | Ghana Statistical Service | Bank of Ghana

Figure 2: The Slope of the Inflation Curve

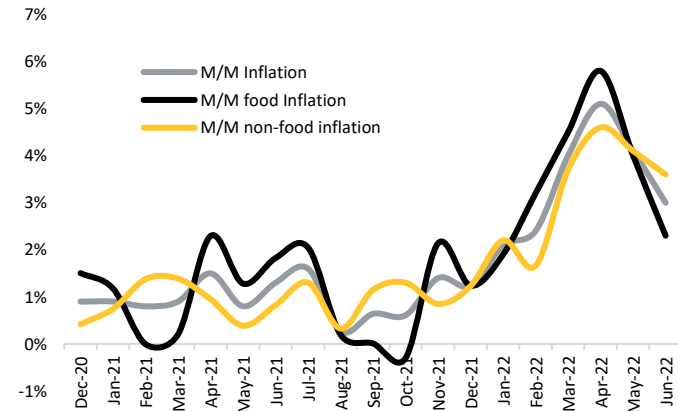
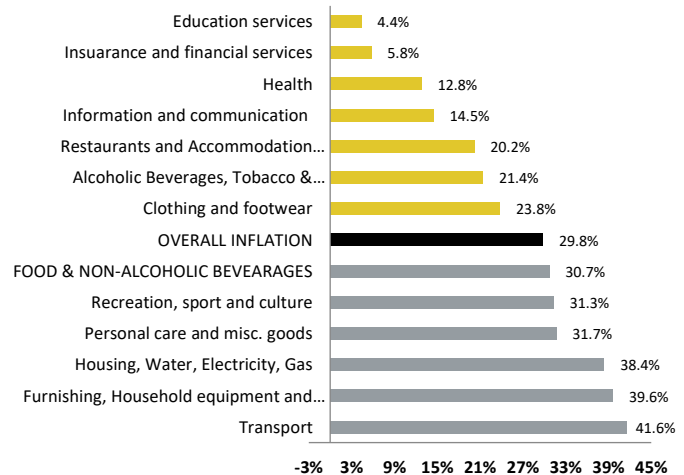


Figure 3: Disaggregated Year-on-Year Headline Inflation



GCB Capital Research | Ghana Statistical Service

Research Contacts

Courage Kwesi Boti
Economist/ Research Lead
+233302945848 | +233302945838
ckboti@gcb.com.gh

Fund Management Contacts

Afua Akyaa Osei
Vice President, Fund Management
+233302945848 | +233302945838
aaosei@gcb.com.gh

Debt Capital Market (DCM) Contacts

Baffour Agyarko Kwakye
Vice President, DCM
+233302945848 | +233302945838
bakwakye@gcb.com.gh

Wilson Kyeremeh
Portfolio Manager, HSG
+233302945848 | +233302945838
wkyeremeh@gcb.com.gh

Michelle Nana Ohenewaa Kitson-Amoah
Associate, DCM
+233302945848 | +233302945838
mnodadey@gcb.com.gh

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49 Ndabaningi Sithole Rd

Labone, Accra