Policy Insights: Sept-22 Inflation Update

13th October 2022

Ghana's Headline Inflation for Sept-22 Came in at 37.2%; Price Reference Year Adjusted to 2021

Ghana's headline CPI Inflation for Sept-22 came in at 37.2% y/y, with housing and utilities, furnishing and household equipment, transport, personal care and miscellaneous and the food and non-alcoholic beverages divisions being the top three drivers of inflation for the reference period. The m/m inflation print for Sept-22 was 2%.

Inflation from the food basket (with a weight of 43.7%) came in at 37.8% and accounted for 16.5% of the 37.2% inflation print for Sept-22 (m/m: 2.2%). The heavily weighted non-food inflation (with a weight of 56.3%) also came in 1% lower at 36.8% (m/m: 1.7%). The drivers of inflation for Sept-22 reflect the impact of the major utility tariff hike that took effect from September 1, 2022, the pass-through of Cedi deprecation and its lagged impact on inflation and the rising ex-pump fuel prices mainly due to the depreciation effect on fuel price computation.

The Ghana statistical service started a new CPI series from this Sept-22 print. Therefore, the inflation rate of 37.2% is not comparable to the inflation figures under the old series until the chain-linked inflation numbers are published. The new inflation series extended coverage to the 16 administrative regions (from the previous 10) but maintained the composition of the CPI baskets and their respective weights. The GSS also adjusted the CPI price reference year to 2021 (from 2018) and re-distributed the regional weights to include the new regions.

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

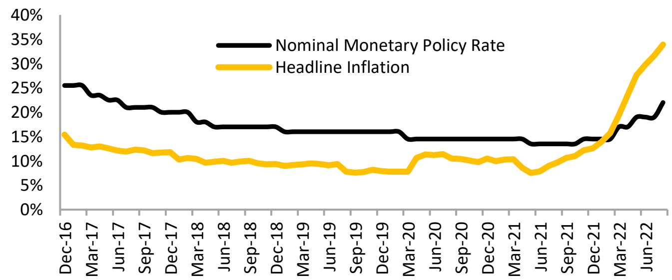
Inflation expectations are still elevated, and we expect the pass-through of Cedi depreciation, the upward utility tariff adjustment, and the increasing central bank monetization of the fiscal deficit to sustain inflation higher. The continuous Cedi depreciation pressure remains a major driver of inflation as its pass-through effects keep general prices elevated. The Cedi depreciated by 5.12% vs the USD in September (-41% YTD), keeping inflation on imported items elevated at 40.70%. While crude oil traded below US$100/bbl. in Sept-22, the depreciation effect kept ex-pump petroleum prices high and filtered through to transport fares and general prices. Additionally, the increasing monetization of the fiscal deficit due to the challenging domestic and external financing conditions partly accounts for the sustained inflation run.

Thus, the lagged impact of the increased utility tariffs and the potential seasonal price effects around the Yuletide season could further heighten inflation expectations. With the near-term risks to inflation still pointing to the upside, we now expect inflation to climb higher in Q4 2022 and end the year significantly above the government's target of 28.5%.

Implications for nominal yields: With the heightened inflation expectations, the extremely hawkish monetary policy stance, and the lingering concerns about a potential debt treatment, we expect nominal yields to climb higher in Q4 2022. However, fixed-income valuations are already at their lowest, and we believe investors have priced the prevailing macro-fiscal risks into their valuations. Thus, we expect the upward movements in yields to be marginal. However, expedited negotiations with the IMF and clarity on the nature and form of any potential debt treatment could improve market sentiments.

Implications for monetary policy: Given the persistent inflation run, the elevated underlying inflationary pressures and the emerging upside risks to inflation, we maintain scope for further monetary tightening in Nov-22. However, given the tightening credit stance and the controlled loan book expansion, the risks to growth are pronounced. Thus, the MPC's final meeting in Nov-22 could consider balancing the risks to both inflation and growth.

Figure 1: Inflation and the Monetary Policy Stance



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

Figure 2: Disaggregation of y/y inflation for Sept-22

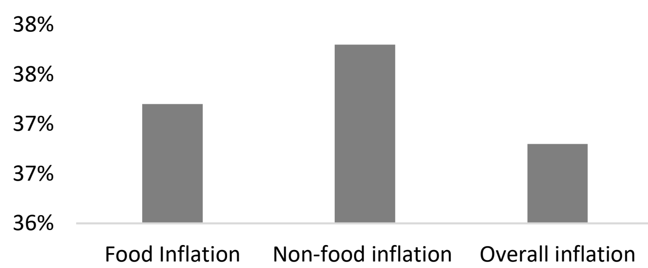


Figure 3: Disaggregation of m/m inflation for Sept-22

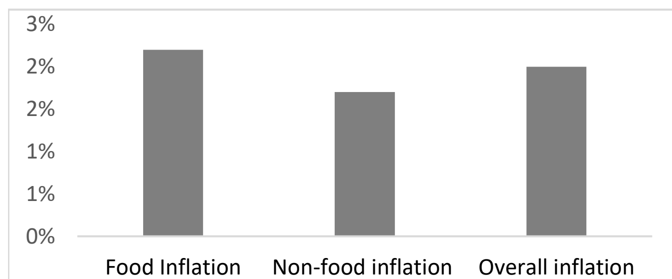
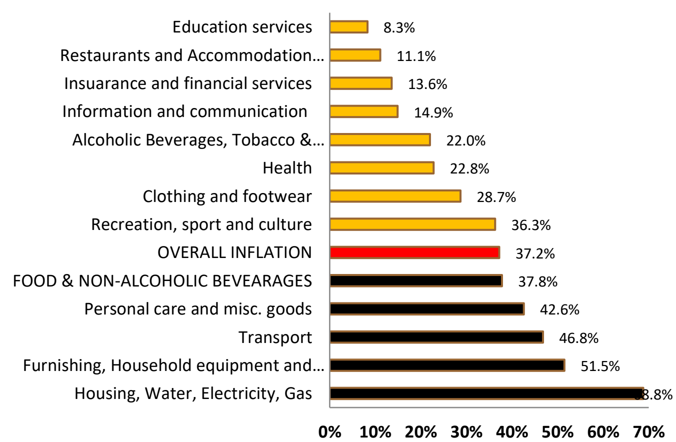


Figure 4: Disaggregated Year-on-Year Headline Inflation



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