

Ghana's Headline Inflation Surged Past 40% in Oct-22 Amidst the Persistent Price Pressures

The run of inflation shows no sign of abating as Ghana's headline CPI Inflation rose sharply again in Oct-22 to 40.4% y/y (+3.2% from the Sept-22 print). While the long-standing supply chain disruptions and the resultant cost pressure underscore the continuous rise in inflation, new inflationary forces have emerged. We believe the Oct-inflation print reflects the impact of the major utility tariff hike that took effect in Sept-22, the Cedi's slide thus far in Q4 2022 and the surge in petroleum prices due to the depreciation effect and the associated surge in transport fares.

Food inflation (weight: 43.7%) quickened to 43.7% y/y over the data window (+5.9% from Sept-22), with the m/m food inflation print coming in at 3.2% (from 2.2% in Sept-22). The food and non-alcoholic beverages division remains the dominant driver of inflation, accounting for 20.5% of the headline print in Oct-22. While the September and October inflation data windows typically reflect the favourable impact of the new food harvest on food and overall inflation, this trend was non-existent in 2022, with food prices spiking instead.

The heavily weighted non-food inflation (with a weight of 56.3%) also increased by 1% to 37.8% (m/m: 2.3%). Overall, five divisions of the inflation basket, including housing and utilities, furnishing, household equipment and maintenance and transport, recorded higher inflation rates than the national average. At 40.4%, inflation is 3,040bps above the upper band of the Central Bank's inflation target band, and the continuing and emerging price pressures could keep inflation elevated through the remainder of 2022.

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

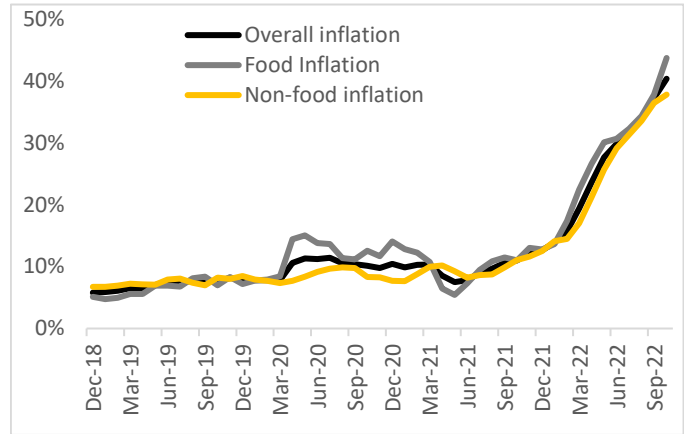
Inflation to continue higher through 2022: We expect inflation to remain elevated over the remaining data windows of 2022. The passthrough effects of the sharp Cedi depreciation in Q4 2022 are yet to fully filter through to general prices. Additionally, the more than 60% hike in ex-pump petroleum prices and the consequent upward adjustment in transport fares and the passthrough to general prices will linger. We also expect the lagged impact of the upward utility tariff adjustments to continue, and together with the anticipated surge in consumer demand around the Yuletide season, will keep inflation higher.

Additionally, the increasing monetisation of the fiscal deficit poses an upside risk to inflation unless the MPC sustains its aggressive monetary policy stance to moderate the impact of the liquidity injection. Accordingly, we expect inflation around 44% in Nov-22 and 45% in Dec-22, with inflation potentially remaining above 40% through Q1 2023.

Implications for nominal yields: We believe the domestic market is closed to medium and long-term bond offers, at least for the remainder of 2022, amidst the increased uncertainty about the government's approach to achieving debt sustainability. Given this uncertainty, we expect yields to remain elevated across the curve. Thus, the high inflation profile, the tight GHS liquidity conditions and the increasing cash preference could sustain T-bill yields higher in the coming weeks.

Implications for monetary policy: Besides the cost-push factors and the supply shocks, we believe there is now a significant upside risk to inflation from the demand side. Underlying inflationary pressures are also showing little sign of abating, which could sustain the hawkish monetary policy stance at the Nov-22 policy meeting despite the apparent downside risks to near-term growth.

Figure 1: Inflation and the Monetary Policy Stance



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

Figure 2: Top 15 Items with the Highest y/y Inflation

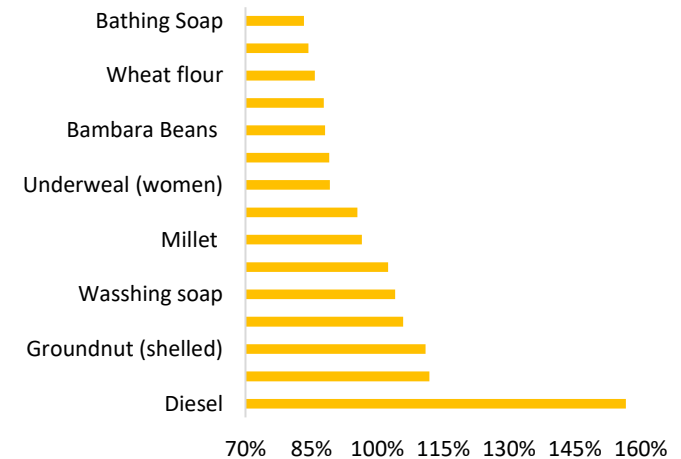
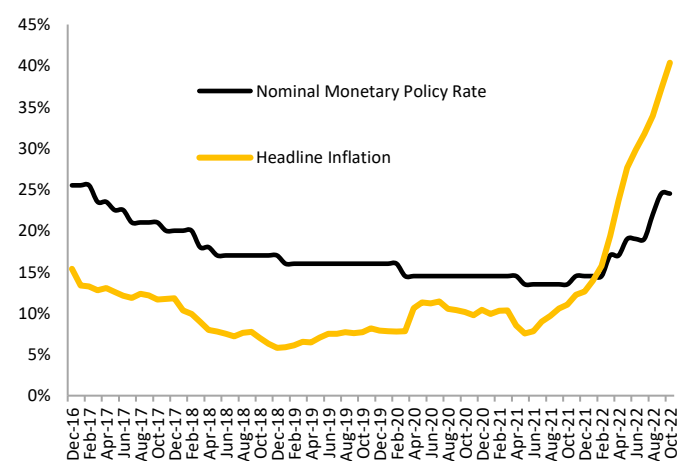


Figure 3: Inflation and the Monetary Policy Stance



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