

### Depreciation Pass-through Lifts Headline Inflation above 50% in Nov-22

Ghana's CPI inflation surprised again, surging past 50% y/y in Nov-22 and continuing the relentless run-in general prices for the 18th consecutive month. Inflation is no longer hot; it is super scorchy, with the 50.3% print for November primarily driven by the Cedi's collapse in Q4 2022 which triggered a widespread re-pricing of general goods and services.

The speculation-motivated collapse of the Cedi between Aug-22 and November 24, 2022, resulted in a 41.7% depreciation of the Cedi versus the USD. The local unit also lost 25.9% of the USD during the Nov-22 inflation data window. The pass-through effect of pronounced Cedi depreciation and its second-round effects sustained the surge in general prices from both the food and non-food inflation baskets. While crude oil prices continued to decline, the depreciation kept ex-pump petroleum prices elevated and triggered upward revision of transport fares.

Consequently, inflation surged across the board, reflected in the higher m/m inflation of 8.6% for Nov-22. Food inflation for the period came in at 55.5% y/y (+9.6% from Oct-22 | m/m:10.4%), with the heavily weighted non-food basket printing 8.7% higher at 46.5% (m/m: 7.2%). Transport recorded the highest m/m inflation of 12.8% in Nov-22 and was among the five divisions that recorded y/y inflation rates higher than the national average. Inflation on imported items also came in at 6.8% higher than inflation on locally produced goods at 55.1%, reflecting the impact of the high inflation environment prevailing in the external markets.

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

#### Inflation to Continue higher in December and January, albeit at a moderated pace:

Regardless of the sharp appreciation of the Cedi and the marked slowdown in ex-pump fuel prices, we expect inflation to continue higher through Jan-23, albeit at a moderated pace. The anticipated downward price adjustment in response to Cedi's resilience and the easing fuel prices could be marginal. The Yuletide-induced demand pressures could also sustain the uptick in headline inflation.

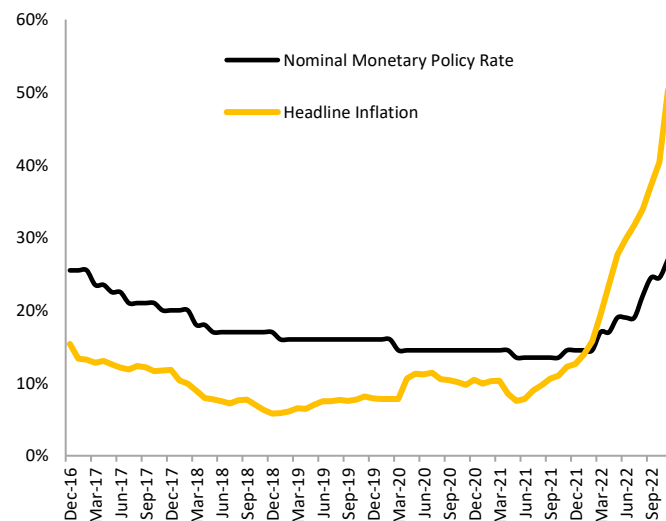
**We anticipate a sharper cooling of inflation beyond 1Q 2023 as we believe we have seen the worst of Cedi Depreciation:** With the government committing to fiscal consolidation under an IMF programme from 2023, we expect the much-needed BoP support and policy credibility from the programme to anchor Cedi stability through 2023. Additionally, the extended Covid-induced lockdown in China and the increasing threat of recession in major economies continue to undermine oil demand. However, Chevron and other major oil producers have resumed production in Venezuela following the US government lifting sanctions against the oil major. The anticipated increase in oil supply will moderate the impact of the supply shock from Russia.

We believe Cedi depreciation and rising petroleum prices are the primary triggers of inflation, and given this improved outlook for 2023, we expect a sharper cooling of inflation beyond 1Q 2023.

**Implications for nominal yields:** Given the clarity on domestic debt restructuring, we expect domestic market sentiments to improve steadily and nominal yields to gradually correct across the curve. Excess demand for T-bill has started to depress T-bill yields despite the pronounced negative real returns and the elevated inflation profile; T-bill yields could fall sharply once inflation peaks.

**Implications for monetary policy:** While inflation remains elevated, the anticipated risks to inflation appear to moderate in the near term. Headline inflation is on course to peak in 1Q 2023, even though we expect further increases through Jan-23. Thus, the monetary authorities could hold the policy rate at the Jan-23 meeting as the balance of risk weighs heavily on growth.

Figure 1: Inflation and the Monetary Policy Stance



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

Figure 2: Disaggregated y/y Inflation Across Divisions

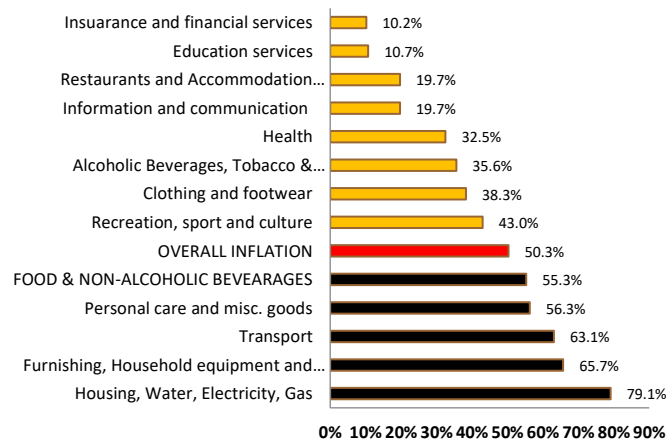
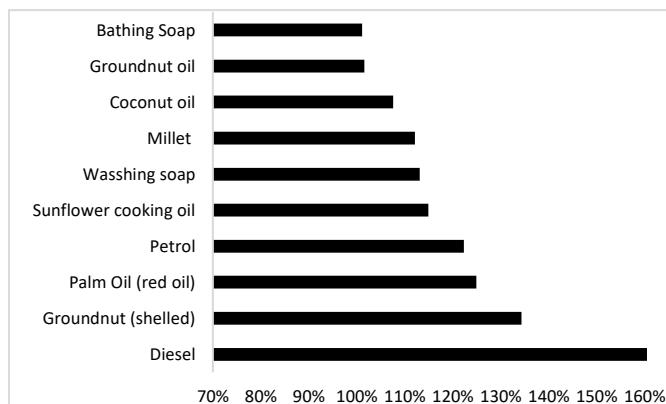


Figure 3: Top 10 Items with Highest y/y Inflation



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