Economic and Market Insight

Policy Insights: Ghana's Feb-23 Inflation Update

GCB CAPITAL LTD
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Headline Inflation Eased Again in Feb-2023 Despite the Inflationary Effects of The New Revenue Interventions

Ghana's headline inflation eased marginally for the second consecutive month to 52.8% in February 2023 (-80bps from January 2023). The slowdown follows on the heels of the 50bps decline in headline inflation in Jan-2023, effectively ending the 18-month inflationary run that lifted CPI inflation to a multi-year high.

Food inflation dipped by 1.9% to 59.1%, while the heavily weighted non-food inflation was unchanged at 47.9% in Feb-23, reflecting the easing cost pressures from the main triggers of inflation. The Cedi, even if volatile, has been range bound thus far in Q1 2023 with the limited depreciation pressure, the interventions in the downstream petroleum market and general demand and supply conditions on the global oil market supporting the continued easing of petroleum prices at the pumps. Consequently, their collective passthrough to transport fares and general prices are broadly contained, thereby tilting headline inflation downward.

The 80bps decline in Feb-2023 is particularly significant given that several new revenue measures, including the 2.5% increase in the VAT rate, the complete reversal of the benchmark value policy and the 2023 utility tariff hike took effect around the Feb-23 inflation data window. However, the month-on-month headline and non-food inflation prints reversed course, increasing marginally to 1.9% (+0.2% from Jan-23) and 1.7% (+90bps from Jan-23), respectively, with only food inflation sustaining the decline, coming in at 2% (-0.8% from Jan-23). We believe the reversal in the month-on-month inflation trend in Feb-23 reflects the impact of these price pressures from the revenue interventions and utility tariff review around the Feb-23 inflation data window. Thus, we expect the full effect of these upside pressures to reflect on inflation over the following two inflation windows before a clear disinflationary trend emerges.

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

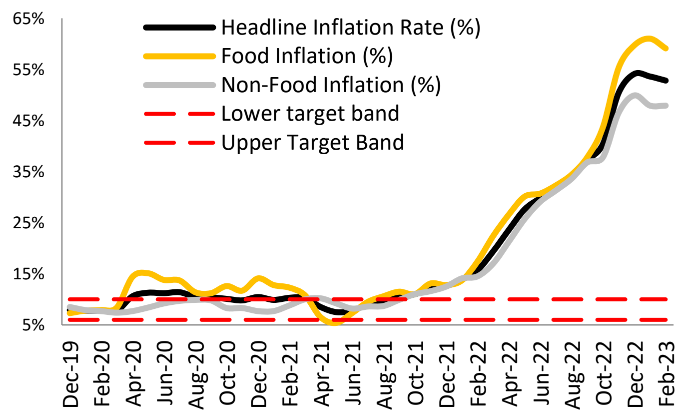
Interventions in the downstream petroleum sector and tamer Cedi pressures to sustain the cooling of inflation: We reckon that sharp Cedi depreciation, elevated petroleum prices and their passthrough to general prices were the main factors that sustained the 18-month inflationary run. Crude oil prices on the global market are easing from the high points recorded in 2022 as the demand and supply forces counterbalance, and oil demand growth remains subdued. Given these market dynamics and the interventions in the downstream petroleum sector through the Gold-for-Oil policy, albeit temporal, and the anticipated stability of the Cedi during an IMF programme, we expect the inflationary pressures to ease through 2023.

A sustained disinflation process will require a cautious monetary policy stance: The regulatory reliefs that included a reduction in the Cash Reserve Requirement in response to the anticipated liquidity shocks from the Domestic Debt Exchange Programme (DDEP) have boosted GHS liquidity levels. Additionally, banks appear to have adopted a cautious credit stance to preserve capital, and the excess liquidity could prove inflationary due to the limited investment options. Given the government's strategy to compress money market yields, the excess GHS liquidity could fuel speculative activity on the FX market without tighter regulatory oversight.

Thus, we expect a cautious monetary policy stance, balancing the risks to growth and inflation. We envisage another 100% hike in the policy rate at the Mar-2023 policy meeting as an intervention to mop up excess liquidity on the market or a reversal of the reduction in the Cash Reserve Requirement (CRR) to tighten GHS liquidity conditions on the market.

Impact on yields: While the risks to investment remain, the continuous oversubscription at the T-bill auction will sustain the Treasures yield compression strategy until nominal rates realign sufficiently.

Figure 1: Dynamics of headline inflation



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

Figure 2: Inflation and the Monetary Policy Stance

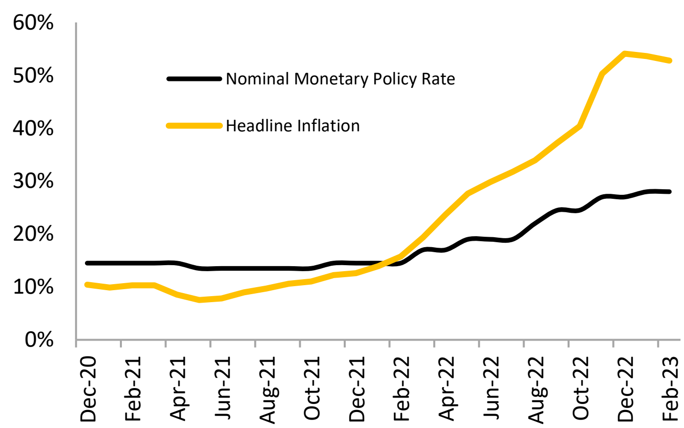
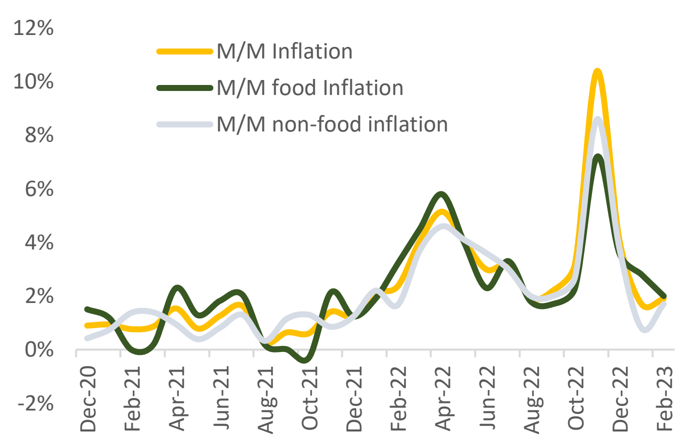


Figure 3: Month-on-Month disinflation trend stalls, reflecting the impact of new revenue measures.



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

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

Advisory & Capital Markets Contacts

Baffour Agyarko Kwakye
Vice President, Advisory & Capital Markets
+233302945848 |+233302945838
bakwakye@gcb.com.gh

Michelle Nana Ohenewaa Kitson-Amoah
Associate, Advisory & Capital Markets
+233302945848 |+233302945838
mnodadey@gcb.com.gh

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GCB CAPITAL LTD.

49 Ndabaningi Sithole Rd

Labone, Accra