Economic and Market Insight

Policy Insights: Ghana's March-23 Inflation Update

GCB CAPITAL LTD
Research & Analytics

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Headline Inflation Drops to 45% in Mar-2023 as Favourable Base Drift and Easing Price Pressures Set a Disinflation Cycle in Motion.

For the third consecutive month, Ghana's headline inflation declined, this time more sharply to 45% y/y in March 2023 (-7.8% from Feb-2023 |-9.1% since the start of the year), sustaining the disinflation process that commenced in January 2023.

According to the data from the Ghana Statistical Service, food inflation declined sharply by 8.3% in Mar-2023 to 50.8%, with a 7.3% decline in the heavily weighted non-food inflation to 40.6% y/y over the Mar-2023 data window. The sharp drop continues the declining trend from the food and non-food inflation baskets. The headline numbers on a month-on-month basis recorded a deflation of 1.2%, with the food and non-food groups also returning a deflation of 0.9% and 1.5%, respectively.

The disaggregated numbers also show that while 5 divisions of the inflation basket recorded higher inflation rates than the national average of 45% in Mar-2023, there was a marked slowdown in inflation from those divisions. Instructively, the transport division recorded a sharp disinflation to 52% in Mar-2023 (-18.3% from Feb-2023). The transport division dropped three places to the fourth highest inflation rate in Mar-2023 (from the highest position in Feb-2022). In terms of contribution, the transport division contributed 12.2% to overall inflation, down from 14.1% in Feb-2023.

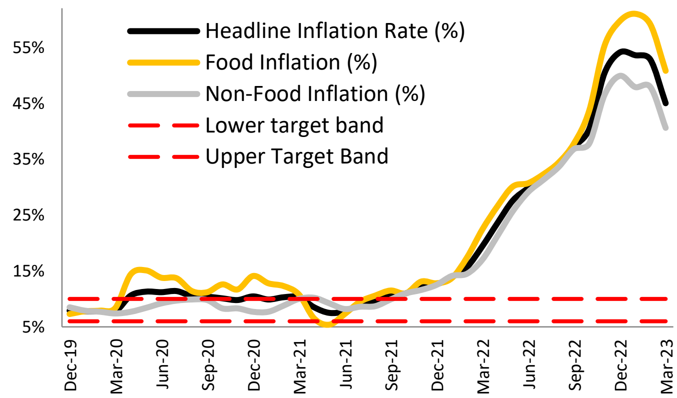
The inflation dynamics mirror the movements of energy prices on the global market and at the pumps and the Cedi's relative resilience in recent weeks, albeit indirectly. Petroleum prices have declined at the pumps by more than 20% since Feb-2023, with petrol and diesel, two leading items driving inflation, falling out of the top 20 items driving inflation for the first time in five (5) months and eight (8) months, respectively. We also note that while the top 20 drivers of inflation, cutting across both the food and non-food baskets, recorded y/y inflation rates higher than the national average, the inflation rates eased significantly from the Feb-2023 levels. Additionally, 14 items in that list recorded deflation m/m, indicating the start of a broad-based disinflation process.

Analysis of the Inflation and Implications for interest rates and monetary policy

Inflation peaked at 54.1% in Dec-2022; set to go on a disinflationary run: All is set for a disinflationary run through the second and third quarters as we believe inflation peaked in Dec-2022. With three consecutive months of disinflation, m/m deflation across the food and non-food baskets and the main items driving inflation, we expect sharp drops in inflation in the coming months, sustained by Cedi appreciation, easing petroleum prices at the pumps and favourable base drift. We believe the 1.5% hike in the policy rate in March and the 2% increase in the Cash Reserve Ratio have forestalled immediate liquidity pressure from the cash-rich banking system to inflation. We expect the tight monetary policy stance to run a little longer, and the Monetary Policy Committee could hold the policy rate at 29.5% for a while to anchor inflation expectations firmly. Again, the memorandum on zero Central Bank deficit financing is set to come into force imminently, potentially limiting the risks to inflation from the demand-pulled angle in the future. However, the weak currency fundamentals, the price effects of crude oil output cuts and the uncertain global economic outlook remain upside risks to inflation in the near term.

Interest rate outlook: We expect nominal money market yields to continue their northward trek in the next few auctions as the latest monetary policy interventions drain liquidity from the banking system. However, a continuous decline in inflation will set interest rates on the path of decline once the imminent IMF programme unlocks alternative financing sources and reduces the need for short-term financing. However, the scope for the decline is limited as we expect inflation to end the year above 20%, and T-bill yields could close the year between 16% and 20%.

Figure 1: Dynamics of headline inflation



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

Figure 2: Inflation and the Monetary Policy Stance

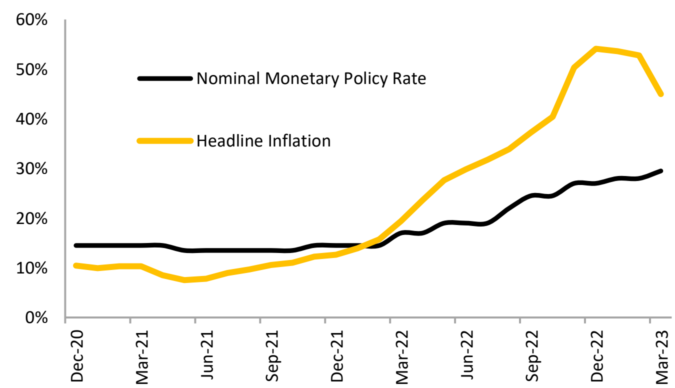
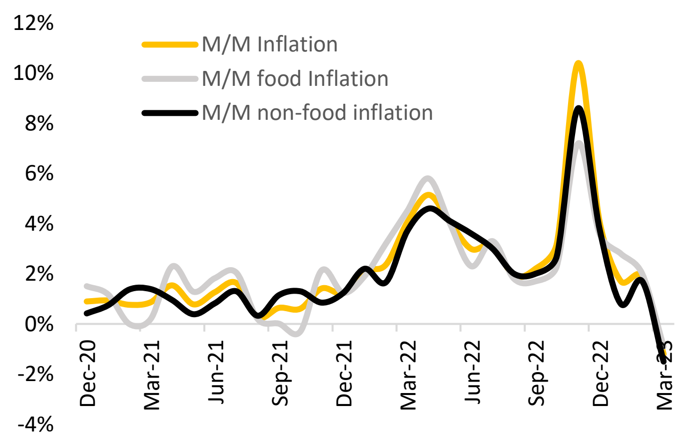


Figure 3: Month-on-Month disinflation trend stalls, reflecting the impact of new revenue measures.



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