Economic and Market Insight

Policy Insights: Ghana's April-23 Inflation Update

GCB CAPITAL LTD
Research & Analytics

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The Disinflationary Run on Course with Inflation Easing to 41.2% y/y in Apr-2023

Ghana's headline CPI inflation eased for the fourth consecutive month in April 2023 to 41.2% y/y (-3.8% from Mar-2023 |-12.9% since the start of the year), sustaining the disinflationary run that commenced in January 2023. Despite the slowdown in both food and non-food inflation baskets, we note a 3.9-point increase in the CPI for Apr-2023, which is sharper than expected (the CPI declined by 2.1 points in Mar-2023), resulting in a slower decline in the Apr-2023 inflation print relative to Mar-2023.

While inflation from the non-food basket eased sharply to 35.4% y/y (-5.2% from Mar-2023), food inflation declined at a relatively slower rate compared to Mar-2023 to 48.7% y/y (-2.1% from Mar-2023). The disaggregated numbers also show a reversal of the deflation recorded in March. The Apr-2023 print shows inflation rates of 2.4%, 4.3% and 0.7% for the headline, food and non-food inflation, respectively, on a month-on-month basis. The food basket remains the main contributor to overall inflation, accounting for 50.9% of the headline number for Apr-23. While five (5) divisions recorded inflation rates higher than the national average, the inflation rates from these divisions are slowing down considerably. In particular, the volatile transport division recorded another sharp decline to 42.5% (-9.5% from March) and a deflation of 1.1% m/m in Apr-23. Consequently, the transport division dropped places to the division with the 5th highest inflation rate in Apr-2023 (from the 4th and 2nd highest inflation rates over the last two prints).

The Cedi has been relatively more resilient against the major trading currencies thus far in 2023, limiting the indirect pressure from the pass-through effects of depreciation to general prices. Additionally, petroleum prices continue to decline at the pumps, which underpins deflation from the transport division for the second consecutive month. We believe the moderating price pressures from these volatile Inflation triggers and the favourable base effects underpin the easing inflation expectations despite the renewed upside risks from increased GHS liquidity and new revenue interventions.

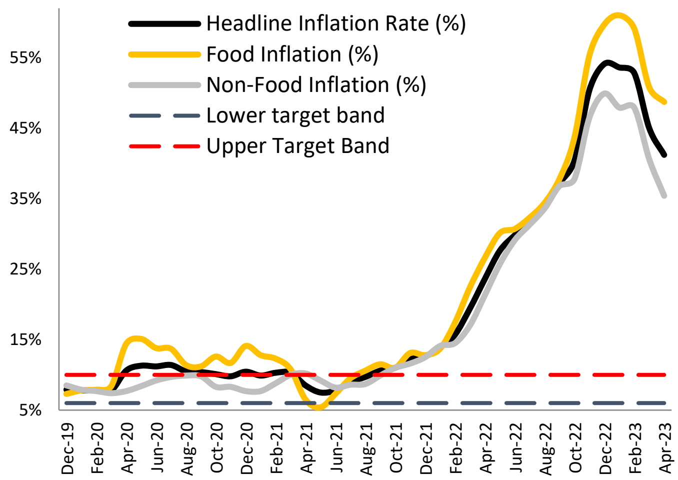
Analysis of the Inflation and Implications for interest rates and monetary policy

New and revised taxes to moderate the pace of disinflation from May-2023: We maintain scope for continuous disinflation through 2023, supported by favourable base drift and easing price pressures from the primary drivers of inflation. However, we expect the price effects of the new and revised taxes, particularly the excise tax amendment act, to trigger the re-pricing of goods from the May 2023 inflation data window. Thus, the anticipated price effect of these tax measures, the lagged impact of the utility tariff adjustments and the simmering food price pressures represent upside risks to inflation in the near term, potentially moderating the pace of disinflation through Q2 2023.

We expect the CB to maintain a cautious policy stance to anchor the disinflation process: The interbank market is still awash with liquidity despite the hike in the policy rate and the Cash Reserve Ratio in Mar-2023. While the Bank of Ghana is regularly mopping up GHS liquidity through the weekly 56-day OMO bill, the pent-up liquidity on the interbank market remains an upside risk to inflation, and we expect the Monetary Policy Committee (MPC) to maintain the tight policy stance to anchor the disinflation process in the immediate term, albeit at a slower pace.

Interest rate outlook: Despite the continuous decline in inflation, real returns are still negative, and given the Treasury's strong appetite for short-term funds, we expect nominal yields to remain elevated amidst the prevailing uncertainty. However, we expect nominal yields to resume a decline in 2H22 once the IMF deal is secured and the Treasury trims its appetite for short-term funds.

Figure 1: Dynamics of headline inflation



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

Figure 2: Inflation and the Monetary Policy Stance

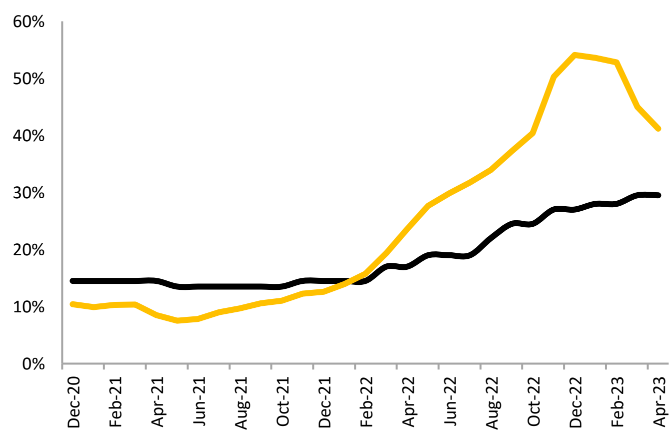
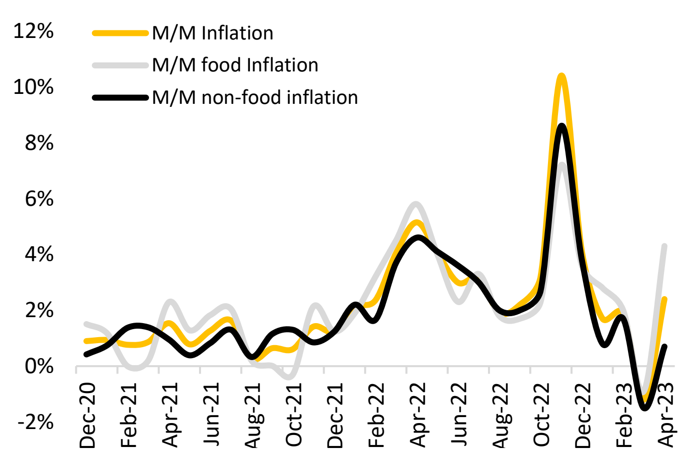


Figure 3: Month-on-Month disinflation trend stalls, reflecting the impact of new revenue measures.



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