Economic and Market Insight

Policy Insights: Ghana's May-23 Inflation Update

GCB CAPITAL LTD
Research & Analytics

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Inflation Reverses Course, Climbing to 42.2% y/y in May -2023 as the Price Effects of the New Revenue Measures Outweigh the Pull Factors

After four consecutive months of disinflation, inflation reversed course in May-2023, climbing by 100bps to 42.2% y/y. While the outturn beats our expectation of a marginal decline, it is not entirely a surprise as it appears the upward price pressures from the second-round effects of utility tariff hikes and the 2.5% increase in the VAT and the rollout of the three revenue measures from May 1, 2023 (which we flagged in our Apr-23 report) outweighed the pull factors, underscoring the marginal climb.

We note a sharp increase in food inflation for the May-2023 data window to 51.8% y/y (+3.1% from Apr-23), sustaining the inflationary pressure from the food basket. While the heavily weighted non-food inflation eased again to 34.6% y/y (-80bps from Apr-23), the pace of decline slowed markedly, reflecting the dominant upside pressures to inflation in the near term. More significantly, the month-on-month (m/m) headline, food and non-food inflation prints quickened to 4.8% (+2.4% from Apr-23), 6.2% (+1.9% from Apr-23) and 3.5% (+2.8% from Apr-23), respectively. Put into context, the m/m inflation numbers for May-2023 are near their all-time highs, with the May-23 prints continuing the run of two consecutive months of increase in m/m inflation after recording deflation of 1.2%, 0.9% and 1.5% in Mar-23 across the headline, food and non-food inflation, respectively.

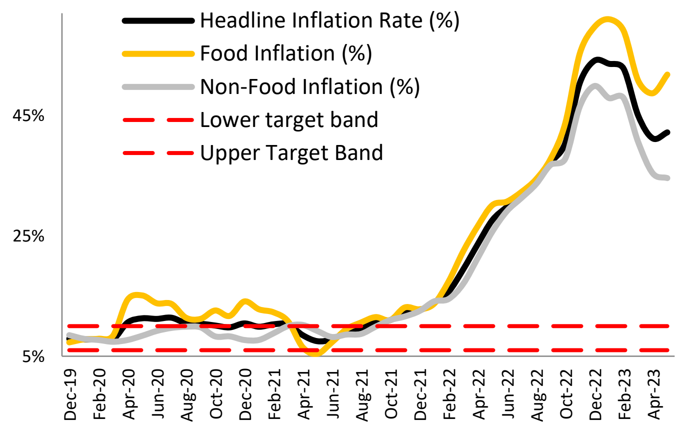
We believe this trend reflects the simmering price pressures from the direct and lagged impact of revenue interventions rolled out thus far in 2023. Thus, while the cost pressures from ex-pump fuel prices and Cedi depreciation continue to wane, the price impact of the tariff adjustments and revenue interventions appear to have weighed heavily on the more price-inelastic food basket, with the food and non-alcoholic beverages division accounting for 52.4% of the May 2023 inflation print (the highest contribution in recent months). Tea and related products, fish and other seafood, cereal and cereal products, milk and other dairy products, sugar and confectioneries and fruit and vegetable juices were among the main drivers of food inflation, recording higher inflation rates than the national average.

Analysis of the Inflation and Implications for Interest Rates and Monetary Policy

The shock to the disinflation trend is temporal: We expect the second-round effects and the lagged impact of the revenue and tariff measures and the upward adjustments to utility tariff (water, electricity, and gas) for Q2 2023, which took effect from June 1, 2023, to result in another marginal increase in headline inflation for June and potentially July 2023. However, we expect inflation to resume a decline thereafter, supported by favourable base drift and easing price pressures from the primary drivers of inflation. Additionally, we expect the official start of the IMF programme to tighten fiscal and monetary controls, with the memorandum on Zero Central Bank deficit financing and the continued tight monetary policy stance particularly important in sustaining disinflation and anchoring inflation expectations lower. However, the price effects of the new revenue measures and tariff adjustments could simmer on for a while longer before steadily easing out, potentially moderating the pace of disinflation in 2H22.

Implications for monetary policy: We do not envisage an immediate hike in the policy rate due to the near-term risks to inflation, as the underlying inflationary pressures have declined broadly with headline inflation thus far. The predictable path of petroleum prices, the relative stability of the Cedi and the easing pressures from the other sources of inflation suggest that the "noise" in general prices may be more prevalent on the headline number rather than core inflation. Thus, the tighter fiscal and monetary controls under the IMF programme should adequately anchor the disinflation process, particularly as the balance of risk weighs heavily on near-term growth. However, interest rates could remain elevated in the near term due to heightened uncertainty and the high 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

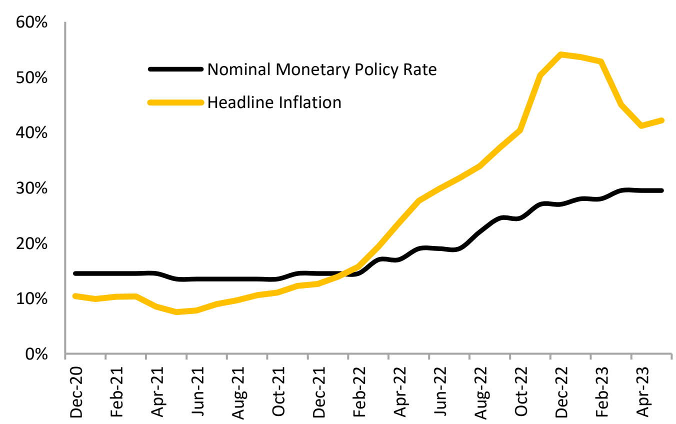
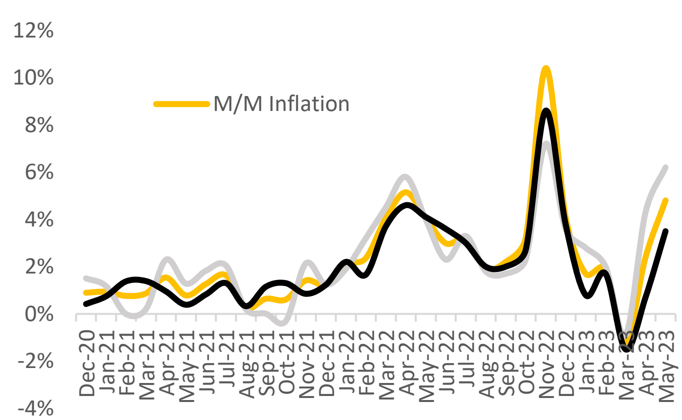


Figure 3: Month-on-Month disinflation trend stalls, reflecting the impact of new revenue measures.



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

GCB CAPITAL LTD.

49 Ndabaningi Sithole Rd

Labone, Accra