Economic and Market Insight

Policy Insights: Ghana's June -23 Inflation Update

GCB CAPITAL LTD
Research & Analytics

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CPI Inflation Expectedly Increased Again in Jun-23 But at a Moderated Pace

Ghana's year-on-year headline inflation climbed for the second consecutive month since May 2023, rising by 30bps to 42.5% y/y in Jun-2023. The Jun-23 inflation print continues the reversal in the inflation trend, albeit at a moderated pace, after four consecutive months of disinflation from the start of 2023.

While the lagged impact of recent utility tariff adjustments and the implementation of the revenue measures are expected to decay over time, they remain pronounced in the time being, as reflected in the 5.7 points increase in the CPI index for Jun-23. However, the drag factors on inflation - including a favourable base pull, relative Cedi resilience as well as easing petroleum prices and their pass-through effects to transport fares and general prices, continue to moderate the impact of the push factors, which we believe, underscores the marginal increase in inflation for Jun-23.

The disaggregated numbers show that food inflation remains elevated, increasing by 240bps (from May 2023) to 54.2% in Jun-2023. However, non-food inflation continued to decline, easing to 33.4% y/y (-120bps from May-23), which sustained the widening disparity between the weightier non-food inflation basket and the more price-inelastic food basket. However, we recorded a reversal in the month-on-month (m/m) inflation trend for the first time in three (3) months across the headline, food and non-food baskets. The m/m headline, food and non-food inflation prints eased to 3.2% (-1.2% from May-23), 3.9% (-2.3% from May-23), and 2.6% (-0.9% from May-23), respectively, departing from the uptick in m/m inflation that followed the deflation in March-2023. We believe this trend reflects the waning lagged impact of the immediate upside risks to inflation.

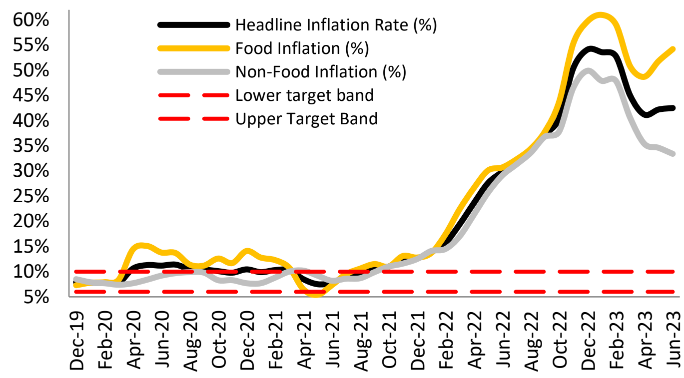
Thus, the food basket remains the dominant driver of inflation and an immediate source of upside pressure to general prices, accounting for 54.7% of the overall inflation print for June-2023 (the highest contribution in recent months) and ranks among the top five divisions with inflation rates significantly above the national average.

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

While the disinflation process could resume in Jul-23, the food basket remains a significant source of price pressure: While the personal care & miscellaneous goods, furnishing & household equipment, housing & utilities and the alcoholic beverages & narcotics divisions continue to record inflation rates higher than the national average, the disaggregated data shows inflation is easing across these divisions. Their contribution to the overall inflation print is also continuously declining, underscoring the continued decline in non-food inflation. However, food prices appear to be sticky, with the combination of seasonality effects and unfavourable pricing dynamics keeping food inflation elevated. Thus, while we expected the waning lagged impact of the revenue and utility tariff measures and the favourable base effects to reset inflation on the downward path from Jul-23 and reinforce low inflation expectations, all things being equal, we flag the simmering food price pressures as a near-term upside risk to inflation, which could moderate the pace of disinflation.

Implications for monetary policy: Despite inflation increasing cumulatively by 130bps over the last two months and the unyielding food inflation which remains a concern, we maintain that the reversal is temporary. Core inflation appears broadly contained, and the balance of risks weighs more heavily on near-term growth than inflation amidst the stringent austerity environment. Additionally, interbank GHS liquidity levels are beginning to tighten, as reflected in the marginal increases in the interbank interest rate over the last five weeks. Accordingly, we expect the Monetary Policy Committee to hold the policy rate at 29.50% in support of growth and general economic activity as we expect the disinflation process to resume in Jul-23.

Figure 1: Dynamics of headline inflation



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

Figure 2: Inflation and the Monetary Policy Stance

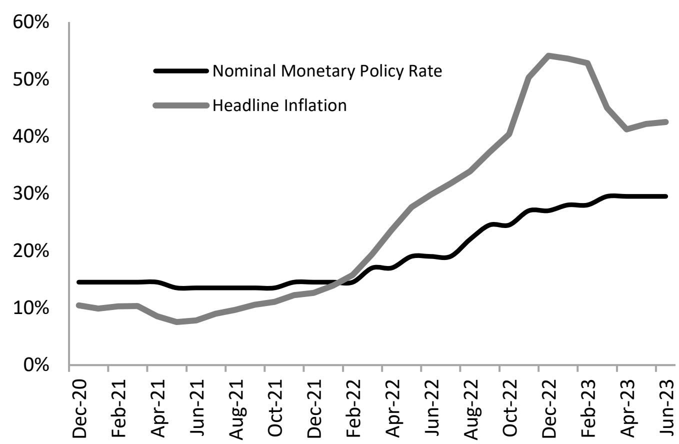
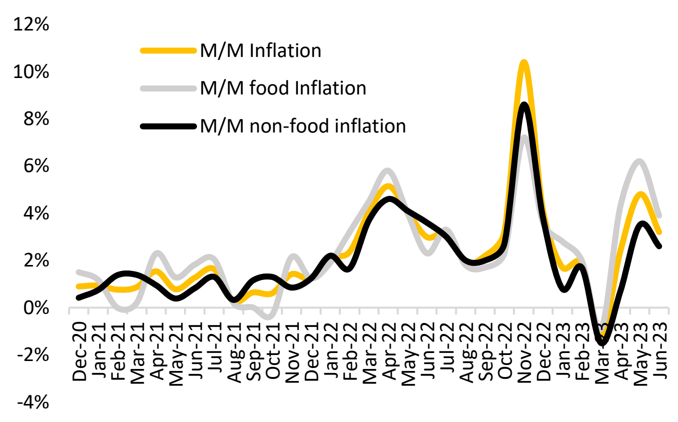


Figure 3: Month-on-Month disinflation trend stalls, reflecting the impact of new revenue measures.



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