Economic and Market Insight

Policy Insights: Ghana's July -23 Inflation Update

GCB CAPITAL LTD
Research & Analytics

September 14, 2023

Headline Inflation Decelerates to 40.1% in Aug-23; the Lowest Print in 2023

After three consecutive months of an uptick since May 23, Ghana's headline inflation for August reversed course, easing to 40.1% y/y (-3% from July). The outturn is the lowest inflation print thus far in 2023, with the sharp slowdown in August inflation erasing the increases recorded since May 23. Inflation from the food and non-food baskets recorded sharp declines from the Jul-23 print, while the month-on-month numbers show deflation across the food, non-food and overall inflation prints in Aug-23.

Inflation from the food and non-alcoholic beverages basket declined for the first time in five (5) months, easing to 51.9% y/y (-3.1% vs Jul-23) and recorded a deflation of 0.3% m/m. Non-food inflation recorded a sharper decline in August, at 30.9% (-2.9% vs. Jul-23). The non-food basket also recorded a 0.2% m/m deflation in August, resulting in a deflation on the headline for the August data window. Overall, eight (8) out of thirteen (13) divisions of inflation recorded deflation m/m, headlined by education services (-2.8%).

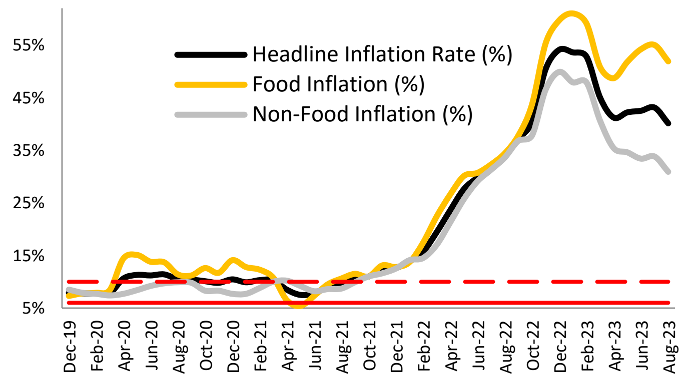
The inflation print in Aug-23 reflects the decaying lag impact of the revenue and tariff adjustments and the effect of the main crop harvest season on food prices. We note that eleven (11) out of the fifteen (15) sub-classes of the food basket recorded lower inflation rates on a y/y basis and deflation on a m/m basis. Oil and fats (-2.3%), tea and related products (-1.9%), sugar confectionaries (-1.2%), vegetables and tubers (-1.1%) and cereals (-1%) were the five items with the highest rates of deflation m/m. The food and non-alcoholic beverages division still dominates, accounting for 22.09% of the 40.1% overall inflation print.

Analysis of Inflation and Implications for Interest Rates and Monetary Policy

The harvest-induced slowdown in food inflation and the anticipated favourable base drifts could support continuous disinflation through Q4-23: While there are emerging risks to inflation from the rising petroleum prices and the quarterly utility tariff adjustments in the near term, we expect the harvest-induced slowdown in food inflation to continue through Sept-23. Despite the risk factors, we expect base drift effects to trigger sharper declines in inflation beyond September, all things being equal. We believe utility tariffs are nearly cost-reflective following two major utility tariff adjustments in 1H23, reflecting the marginal upward adjustment in Q3 2023. With the exchange rate under-recoveries almost eliminated, utility tariff adjustments should be marginal going forward. However, we flag the simmering petroleum price pressures and potential seasonality effects together with its likely impact on the exchange rate around the festive season as risks to continuous disinflation, potentially moderating the impact of the favourable base drifts through Q4 2023.

Implications for monetary policy and interest rates: With inflation at 40.1%, there is, theoretically, more than a 10% monetary policy gap, which leaves scope for further policy tightening. However, we believe the causes of inflation transcend demand-pull. We expect the ongoing macroeconomic and structural reforms, particularly the frontloaded fiscal tightening, the debt reforms, and the memorandum on zero-deficit financing, to anchor the disinflation process once the process begins. Thus, barring any exogenous shocks to inflation in the immediate term, we expect a rate-neutral monetary policy stance through the next two policy meetings, and monetary policy is likely to pivot in Q1 2024 if the pulse of disinflation strengthens sufficiently through Q4 -2023 as envisaged. Another sharp decline in headline inflation in Sept-23 will narrow the negative real returns sufficiently and potentially reset interest rate expectations lower.

Figure 1: Dynamics of headline inflation



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

Figure 2: Inflation and the Monetary Policy Stance

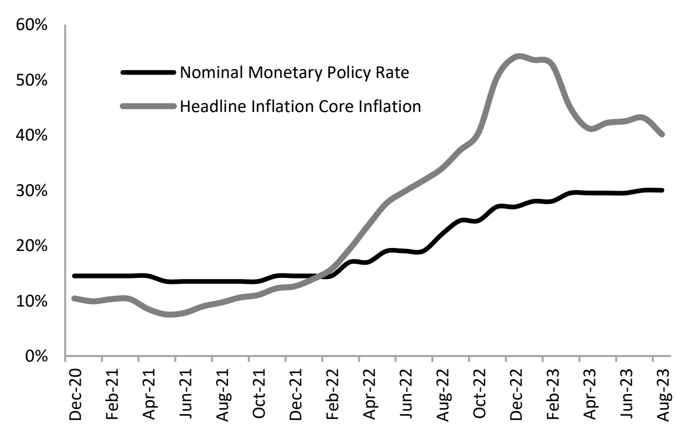
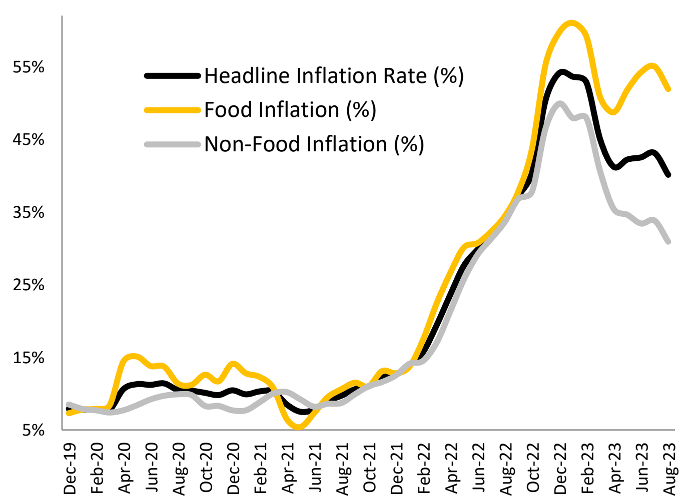


Figure 3: Month-on-Month disinflation trend stalls, reflecting the impact of new revenue measures.



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