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The monster lingers on as Jul-23 headline print increases for the third consecutive month to 43.1%; month-on-month figures give mixed signals

For the third consecutive month since May-23, Ghana's year-on-year headline inflation increased by 60bps from Jun-23 to 43.1% y/y in Jul-2023, sustaining the simmering underlying inflation pressures.

Food inflation continued higher, climbing to 55% y/y in Jul-23 (+80bps from Jun-23), with the food and non-alcoholic beverages division alone contributing 54.5% to the July-23 overall inflation print. Four sub-classes of the food basket, comprising vegetables, readymade foods, cereals, and fish & sea foods, with a combined weight of 32.9% recorded average inflation rates of 52.10% in Jul-23, remaining the main drivers of inflation from the basket.

Non-food inflation, on the other hand, changed course for the first time in eight (8) months, creeping 40bps higher to 33.8%. On a month-on-month basis, the inflation outturn was mixed. Whereas the overall and non-food inflation reversed course after just one month of decline and increased by 40bps and 80bps to 3.6% and 3.4%, respectively, food inflation inched 10bps lower to 3.8%, reflecting the contrasting forces underlying the run of inflation.

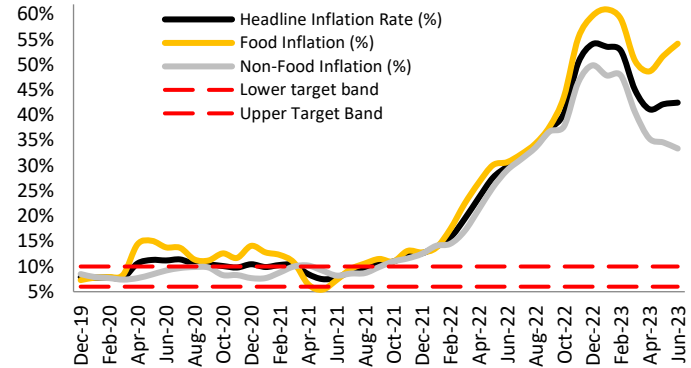
The July 2023 inflation numbers justify the Monetary Policy Committee's decision to raise the policy rate by 50bps to 30% following a slightly higher elevated profile, which the committee fears could become embedded in underlying inflationary pressures. The resurgent food price pressures, its lagged impact, and the lagged effects of the revenue measures and tariff adjustments underpin the simmering price pressures despite the relative stability from the cost-push drivers of inflation.

Analysis of Inflation and Implications for Interest Rates and Monetary Policy

It appears the simmering inflationary pressures will linger for a while: Food inflation remains a major risk to the overall inflation outlook. The contribution of the food basket to overall inflation averaged 55% since Nov-23 and remained above the national average. While the imminent main crop harvest season could moderate the price pressures from the food basket over the next two inflation windows, the second-round effects of soaring food price pressures since May-23 and the proposed quarterly utility tariff adjustment pose an inflation risk. From our simulations, the pace of inflation could quicken in Aug-23 if the anticipated price boost from the 2023 main crop harvest season underwhelms.

Implications for monetary policy and interest rates: At 30%, the monetary policy rate is already high, and the monetary policy stance is sufficiently tight, which limits the scope for further monetary policy tightening. While the MPC is open to further tightening if inflation threatens a spiral, the impact of such a move in reining inflation will be limited and may further stifle growth, especially under fiscal consolidation. The frontloaded fiscal consolidation efforts ongoing are a welcome development and fall in line with the Central Bank's call for a complementary fiscal policy stance to rein in inflation. However, a further surge in the July inflation print could warrant another 50bps to 100bps hike in the policy rate in Sept-23. Thus, nominal interest rates could remain elevated through Q3-2023.

Figure 1: Dynamics of headline inflation



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

Figure 2: Inflation and the Monetary Policy Stance

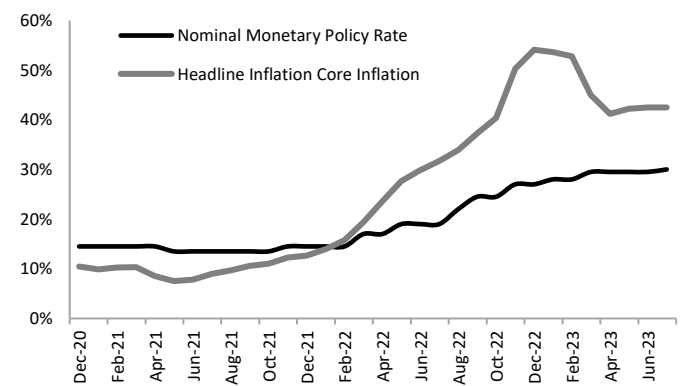
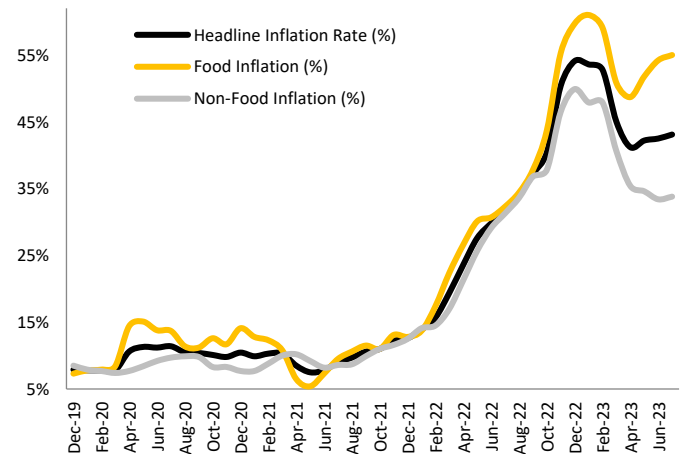


Figure 3: Month-on-Month disinflation trend stalls, reflecting the impact of new revenue measures.



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