

September 14, 2023

Ghana: Headline Inflation Ease to a 12-Month Low of 38.1% Y/Y in Sept-22 with the M/M Numbers Showing Lingering Underlying Price Pressures

Ghana's headline inflation expectedly declined for the second consecutive month to 38.1% y/y in Sept-23 (-2% from Jul-23 |-16% YTD), recording a 12-month low and continuing the disinflation trend that started in Aug-23. The food and non-food inflation baskets recorded declines, with food inflation falling below 50% for the first time in five (5) months.

Inflation from the food and non-alcoholic beverages basket came in at 49.4%, down from 51.9% in Aug-23, along with a 160bps decline in non-food inflation to 29.3% – the lowest print in 15 months. Despite the continuous decline in the y/y headline number and its components, m/m inflation reversed course, increasing across the headline, food, and non-food baskets. From a deflation of 0.2% in Aug-22, the m/m headline inflation quickened to 1.9% in Sept-23, with the food and non-food baskets also recording higher m/m prints at 1.6% (+1.9% m/m) and 2.1% (+2.3% m/m), respectively.

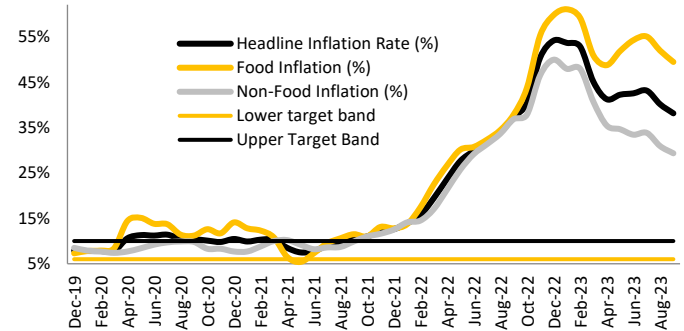
The reversal in the m/m inflation prints following the widespread deflation across all 13 divisions in Aug-23 reflects, among other factors, the simmering upside risks to inflation from the upward petroleum price adjustments in recent weeks, inflation on imported items and other lingering price pressures from both the food and non-food baskets. Household utilities (5.6% |+5.7% m/m); alcoholic beverages, tobacco, and narcotics (2% |+1.7% m/m); transport (1.6% |+1.8%); food and non-alcoholic beverage (1.6% |+1.9% m/m) and hospitality services (1.5% |+0.4%) were the six divisions that drove inflation in Sept-23.

Analysis of Inflation and Implications for Interest Rates and Monetary Policy

Notwithstanding the simmering inflation pressures from petroleum prices and recent currency weaknesses, the disinflation trend could extend through Q4-23: The harvest-induced slowdown in food inflation will wane going forward. However, owing to the rising petroleum prices, lingering exchange rate pressures due to resurgent corporate FX demand in recent weeks, the imminent Q4-23 utility tariff adjustments and potential seasonality pressures, upside risks to the near-term inflation outlook remain. These risk factors could moderate the anticipated pace of disinflation through Q4 2023. Accordingly, we expect a favourable base drift in Q4-23 to trigger a more moderate decline in headline inflation in Oct-23, followed by potentially sharper decline in November. Headline inflation could print 32% by Nov-23 if the anticipated upside risks to inflation from the seasonality effects and petroleum price pressures soften sufficiently.

Implications for monetary policy and interest rates: A disinflation process is in motion, and the outlook supports a continuous decline in inflation through Q4-23 despite the emerging upside risks. Accordingly, we reiterate that the Monetary Policy Committee (MPC) will hold the policy rate constant at 30% at the Nov-23 MPC meeting. 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. Thus, the MPC could maintain a rate-neutral decision through Jan-24 to anchor the disinflation process, and the monetary policy stance could pivot by Mar-24 if the inflation outlook improves sufficiently. Again, we expect that nominal interest rates will continue the northward trek through the quarter but at a slower pace as the negative real return gap closes.

Figure 1: Dynamics of headline inflation



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

Figure 2: Inflation and the Monetary Policy Stance

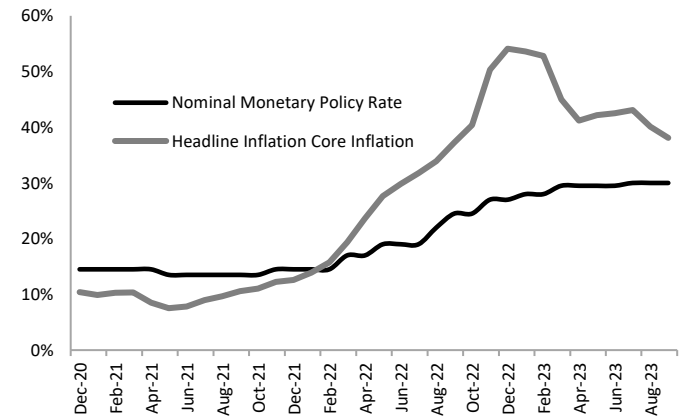
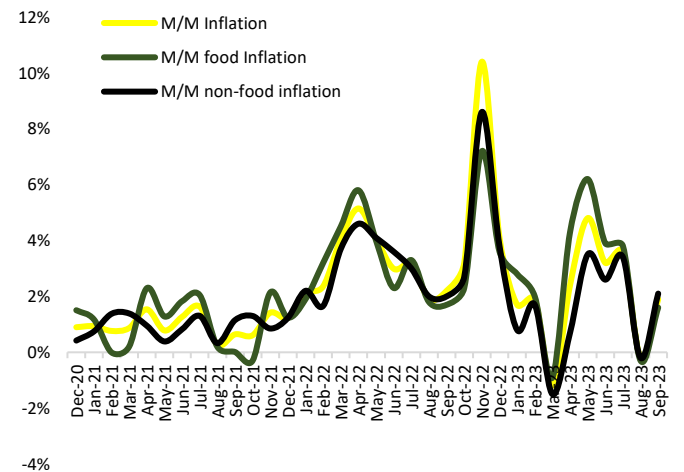


Figure 3: Month-on-Month disinflation trend stalls, reflecting the impact of new revenue measures.



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