Economic and Market Insight

Policy Insights: **Ghana's December-23 Inflation Update**

GCB CAPITAL LTD
Research & Analytics

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Ghana: Consumer Inflation Cools to end 2023 at 23.2%, with the Disinflation Process Set to Continue but a Moderated Pace

Ghana's Consumer inflation extended the decline, closing 2023 7.9% below the government's revised target at 23.2%. The Dec-23 inflation print represents the fifth consecutive decline since Aug-23 (9/12 declines in 2023) and the lowest headline inflation print in 21 months, after recording a cumulative decline of 30.9% y/y (2023 average: 40.28%) in 2023.

Food inflation continued the sharp decline, cooling from a peak of 61% at the start of 2023 to close Dec-23 at 28.7% y/y (-3.5% from Nov-23 |-32.3% in 2023). Fourteen (14) out of the fifteen sub-classes of the food basket recorded lower inflation mainly due to favourable base drifts, sustaining the broad-based decline in price pressures from the food basket. Regardless, the food and non-alcoholic beverages division (with a weight of 42.7%) dominated the inflation basket, accounting for 12.2% of the 23.2% headline number in Dec-23. Non-food inflation also continued to decline steadily, easing from 49.9% at the start of 2023 to 18.7% y/y (-3% from Nov-23|-31.2% y/y) in Dec 2023. The m/m headline, food and non-food inflation prints came in at 1.2%, 1.3% and 1%, respectively, emphasizing the volatile trend that has persisted through 2023.

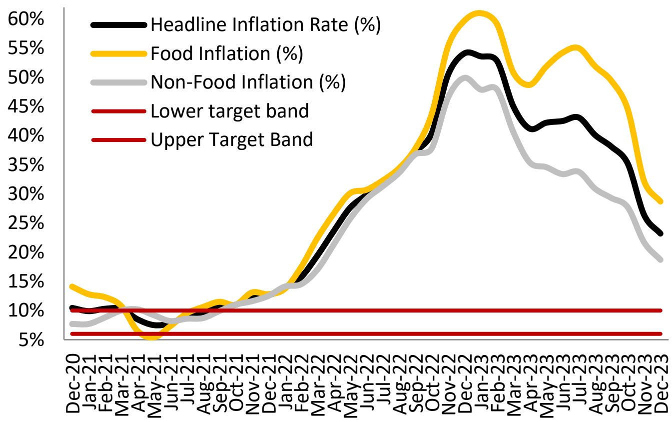
Analysis of Inflation and Implications for Interest Rates and Monetary Policy

The disinflation trend is set to continue but at a slower pace: The ongoing macroeconomic reforms and favourable base effects have supported the disinflation process, underscoring the steep decline in inflation in 2023. However, the Cedi remains relatively stable, and the anticipated inflows from the IMF and the World Bank after the first review is completed should shore up the FX reserves and considerably improve FX liquidity conditions on the domestic market. Cost pressures from petroleum prices and other categories of imports should also remain fairly tame, given the outlook for the exchange rate, oil market outlook and the easing inflation conditions.

However, the risks to inflation are still pronounced. The favourable base effects should wane through Q1 2024, resulting in a much slower pace of disinflation through April 2024. We also flag risks to inflation from potential election-induced expenditure overruns to inflation in 2024, which, if not contained, can stoke renewed demand-driven price pressures. The imposition of VAT on domestic electricity consumption in 2024, if maintained, also represents a risk to the near-term outlook for inflation. Against this backdrop, we expect headline inflation to inch lower in January and February 2024 before reversing course to close Mar-23 around the 24.60% due to base effects. However, we expect the disinflation trend to resume from April 24, all things being equal.

Implications for monetary policy and interest rates: While we argued initially that monetary policy could pivot from March 2024, amidst the urgent need for stimulus for growth, the substantial risks to the inflation outlook could keep the monetary policy tighter for a bit longer. We now expect the Monetary Policy Committee to defer its first interest rate action to the May 2024 policy window, particularly as inflation is expected to reverse course in the Mar-24 data window. Accordingly, we see up to three interest rate cuts in 2024 to around 26% as the Central Bank balances the risks to inflation and growth. T-bill yields should also continue the steady decline through Q1 2024, with the anticipated inflows from multilateral partners for budgetary support expected to ease the immediate appetite for short-term borrowing and usher in an aggressive yield compression strategy.

Figure 1: Dynamics of headline inflation



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

Figure 2: Inflation and the Monetary Policy Stance

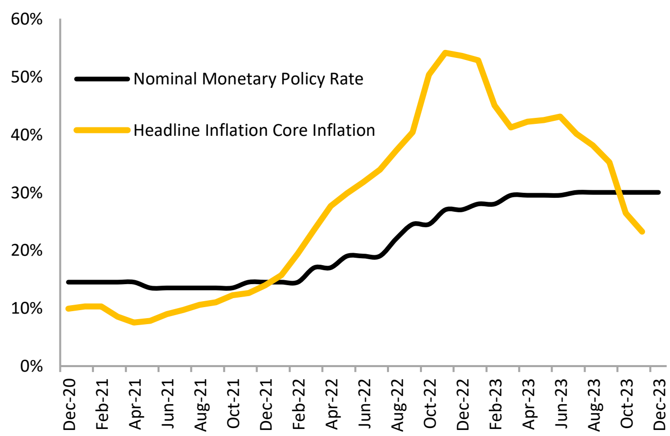
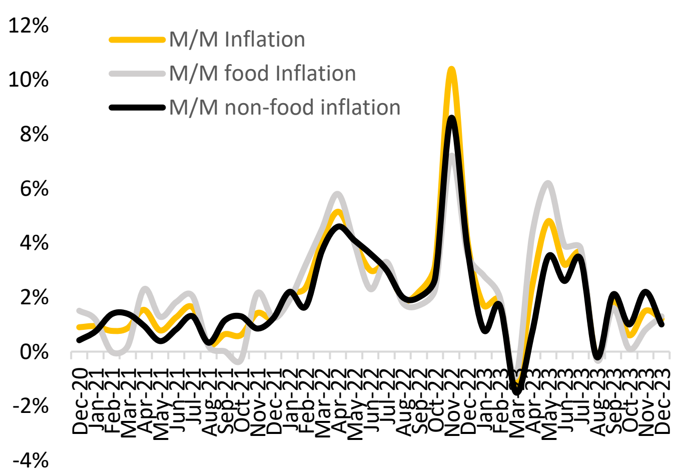


Figure 3: Month-on-Month disinflation trend stalls, reflecting the impact of new revenue measures.



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