Economic and Market Insight

Policy Insights: Ghana's April-24 Inflation Update

GCB CAPITAL LTD
Research & Analytics

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Ghana: Disinflation Resumes in April 2024 Amidst Simmering Upside Risks

Ghana's headline inflation expectedly returned to the path of disinflation but at a relatively slower pace than we envisaged. The April inflation print came in at 25% (-80bps| GCL's Apr-24 forecast: 24.6%), with the seasonality effects on vegetables and fruit & nuts, the lagged impact and second-round effects of Cedi depreciation during the Apr-24 inflation data window and the rising ex-pump petroleum prices moderating the disinflationary impact of a favourable base drift.

Food inflation continued downward, printing at 26.8% y/y (-2.8%), while non-food inflation continued on the opposite path, climbing to 23.5% y/y (+90bps). Overall, four (4) out of the thirteen (13) divisions recorded higher rates of inflation in April, headlined by housing and utilities (28.1%|+3.2%), transport (10.3% |+2.4%) and restaurants & accommodation services (33.9%|+1.2%). Despite the generally declining trend since July 23, the heavily weighted food and non-alcoholic beverages division (weight: 42.7%) remains the dominant driver of inflation out of the 13 divisions, contributing 45.7% to the overall inflation print for April 2024.

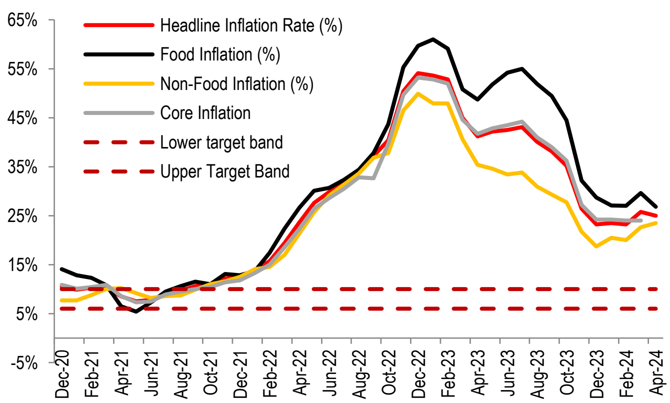
The m/m numbers reveal a clearer picture of renewed upside risks to inflation across multiple divisions, moderating the impact of a favourable base drift and resulting in a slower-than-expected disinflation in April. The m/m headline, food and non-food inflation prints increased across the board to 1.8% (+1%), 2.1% (+1.1%) and 1.5% (+0.8%), respectively, revealing the simmering upside risks to inflation from Cedi depreciation, rising petroleum prices and seasonally effects on the supply of some staple foods. Unlike the y/y trend, food inflation surged to a 10-month high largely due to pressures from vegetables and fruits & nuts (both seasonal crops). Eleven (11) out of the thirteen (13) divisions of the inflation basket recorded higher rates of inflation m/m, reflecting the simmering price pressures.

Analysis of Inflation and Implications for Interest Rates and Monetary Policy

Disinflation trend to continue in May-24; expected to come in around 21.5%: Adjusting for the currency pressures and the increasing petroleum prices, we see headline inflation for May 2024 in the neighbourhood of 21.5%, all things equal, with the risk factors mentioned above only moderating the pace of decline. The continuous disinflation will be driven largely by favourable base drift, resulting in sharp declines in the food and non-food categories of the inflation basket y/y. We see y/y headline, food and non-food inflation around the mid-to-upper 21% bracket in May, with the m/m headline and non-food prints also coming in broadly unchanged, but m/m food inflation could record a marginal decline. While the cease-fire talk between the feuding factions in the Middle East conflict is still inconclusive, petroleum prices have broadly receded from the US$91/bbl levels on demand concerns and appear stable around US$83/bbl in recent days. However, with ex-pump fuel prices around the GHS15/litre mark amidst continuing cedi pressures, we see upside risks to transport costs and general prices. Public transport fares could also see a significant hike in Q2-24. Similarly, the utility tariffs could also see an upward review in the second quarter review window, given the dynamics of input prices. We flag these factors as upside risks to inflation in the near term.

Implications for monetary policy and outlook for nominal interest rates: Against the backdrop above, we expect the monetary policy committee, at its May 2024 meeting, to signal a continuing commitment to firmly anchor the disinflation process with a rate-neutral decision. With most banks yet to fully comply with the new CRR directive, we believe the current policy rate stance and supporting policy tools support the disinflation process. Full compliance with the directive in the coming weeks/months could sufficiently normalize liquidity levels in the interbank market. We tip July 2024 as a more appropriate window to deliver another rate cut. We also see a gradual shift to a more accommodating credit stance to avoid the higher brackets of CRR, which should trim lending rates over time in support of the growth.

Figure 1: Dynamics of headline inflation



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

Figure 2: Inflation and the Monetary Policy Stance

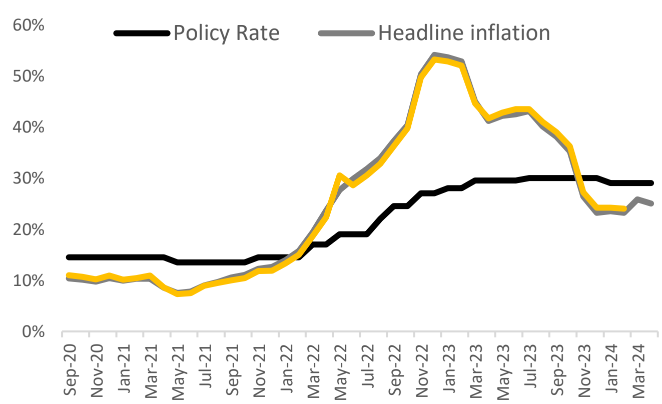
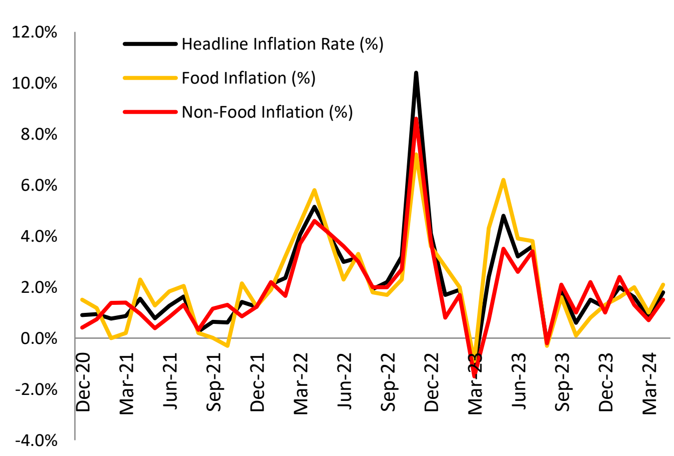


Figure 3: Month-on-Month disinflation trend stalls, reflecting the impact of new revenue measures.



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