

March 13, 2024

### Ghana: Feb-24 CPI Inflation Print Came in 30bps Lower at 23.2% Supported by Decline in both Food and Non-food Inflation

Following the surprise reversal in the inflationary trend in Jan-24 after five consecutive months of decline, Ghana's headline inflation returned to the path of disinflation, with the Feb-24 headline inflation print coming in 30bps lower at 23.2%. Year-on-year food inflation sustained the decline for the seventh consecutive month to 27% in February (down from 27.1% in Jan-24), with non-food inflation also trimming 50bps to 20% after the Yuletide-induced increase in January, collectively accounting for the decline in y/y inflation.

While we note the simmering FX demand pressures that surfaced in the final weeks of February and their potential impact on general prices, their passthrough will lag and is yet to reflect fully in inflation for the Feb-24 data window. Thus, m/m inflation declined by 40bps to 1.6%, driven largely by a 1.1% decline in non-food inflation. Food inflation, however, climbed 40bps higher to 2% m/m, continuing the undulating m/m inflation trend from 2023. Ten (10) out of twelve divisions of the non-food inflation basket recorded lower rates of inflation m/m in Feb-2024, with education services (-2.8% m/m), housing, utility, and other fuels (-2.7% m/m) and health (-1.8%) recording the most declines. This trend reflects a broad-based disinflation from the non-food basket over the Feb-24 inflation data window.

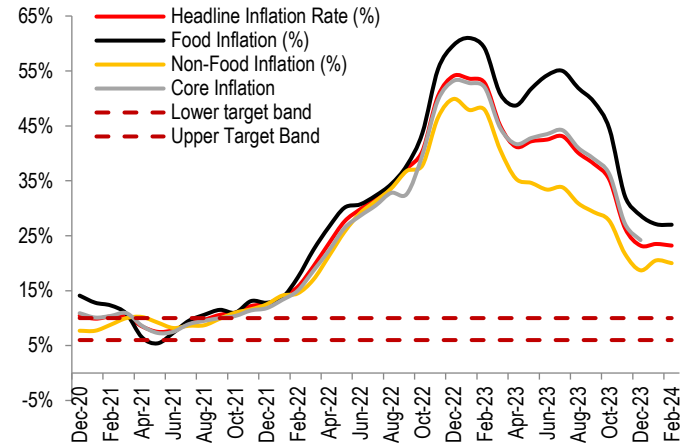
### Analysis of Inflation and Implications for Interest Rates and Monetary Policy

**We expect a sharp increase in headline inflation to a minimum of 26% in Mar-24 largely due to base effect:** Barring severe endogenous and exogenous shocks to the near-term inflation outlook, we maintain our end-2024 inflation forecast at 16.5% ±1%. Regardless, we expect a sharp increase in headline inflation in March 2024 to around 26% in March 2024, largely due to unfavourable base drifts following the contraction in CPI in March 2023, which triggered a sharp decline in headline, food, and non-food inflation. However, this increase is transitory, and we expect the disinflation trend to resume from April 2024, driven largely by base effects, which should fairly anchor inflation expectations. We, however, flag the simmering Cedi depreciation amidst immediate liquidity concerns and its potential passthrough to ex-pump fuel prices in the wake of the lingering crude oil supply concerns due to Geopolitics as an immediate upside risk to inflation through the transport channel and general market prices. We also reiterate the upside risk to inflation from potential fiscal overruns in the run-up to the 2024 election, which could reignite demand-driven price pressures in 2H24.

**Implications for monetary policy:** With the sharp increase in headline inflation envisaged in March 24, which is to be transitory, we tip the monetary policy path to remain cautious and appropriately tight. Thus, we expect the Monetary Policy Committee (MPC) at its Mar-24 monetary policy meeting to hold the policy rate at 29% to effectively steer inflation downward, deferring the next rate action to the May 2024 monetary policy window. However, given that the anticipated increase in inflation for Mar-24 is transitory and the BoG expects inflation within the range of 13% to 17% by end-2024, another marginal rate cut in support of the depressed growth conditions will not be a surprise. However, we tilt towards a rate-neutral decision at the March 24 meeting.

**Outlook for Nominal Interest Rates:** The Treasury has achieved, on average, 2.59% yield compression thus far in 2024, and with the decline in inflation in Feb-24, we expect the nominal yields to continue the downward path. Following the completion of the second coupon payment on the DDEP bonds, we expect The Treasury's appetite for new borrowing at the short ends of the curve to soften a bit going forward. The relative improvement in the macroeconomic outlook and the continuous disinflation envisaged beyond March 2024 should thus sustain the decline in nominal yields across the T-bill curve.

Figure 1: Dynamics of headline inflation



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

Figure 2: Inflation and the Monetary Policy Stance

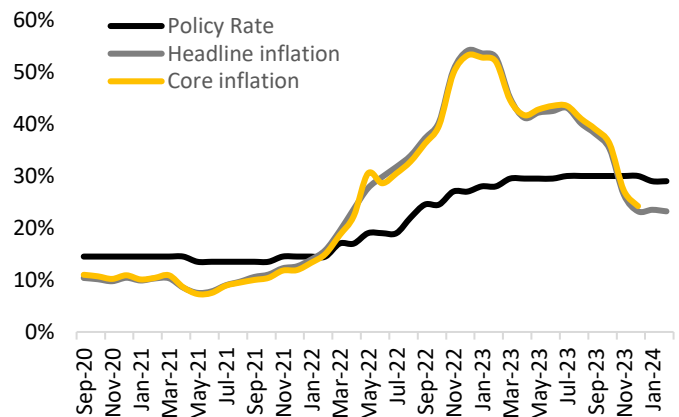
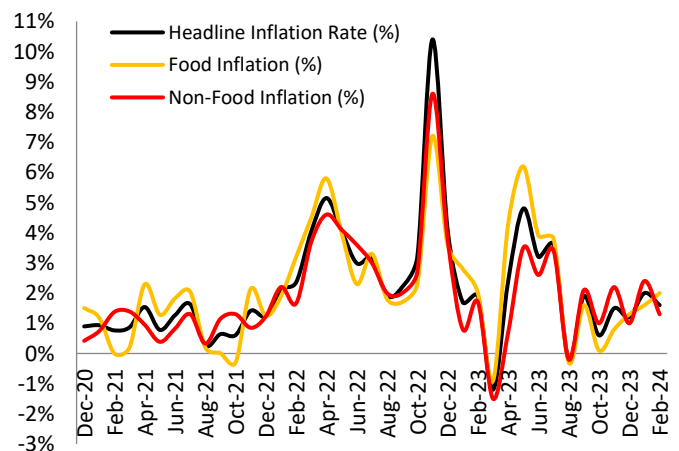


Figure 3: Month-on-Month disinflation trend stalls, reflecting the impact of new revenue measures.



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