**Fundamentals**



Macroeconomic update | West Africa

# Inflation

# on the boil

**IN BRIEF**

* **Compass**
* Are you confused about inflation? You are not alone. Inflation remains the biggest anomaly in the world to date.
* Like an ill wind that blows no good, the cost of everything is going up: electricity, diesel, vegetables, the internet, hotels, flights, and even, the cost of borrowing.
* Much to the dismay of West Africa’s (WA’s) central bankers, inflation continues to break monthly records despite their raising interest rates in a bid to tame soaring inflation.
* But the effects of monetary policy can take up to 12 months to materialise and are therefore unlikely to offer an instant solution to the most pressing challenges.
* As inflation in the United States (US) came off the boil in July, the global inflation outlook is brighter and can bode well for local currencies if it persists.
* But it is too early to throw a party.



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Although the inflation outlook for the United States (US) brightened in July, West Africa’s (WA) inflation pressures hit a rapid boil in every corner of the region’s economy with inflation rates more-than-doubled for about one-third of the sub-region’s economies since 2021. Ghana (GH) and Nigeria (NG) stand out among the most affected as inflation reached fiery heights in July.

Inflation has been putting a strain on about two-thirds of WA’s economies, reflecting higher international food and energy prices, energy shortage, and weaker local currencies, and the price pressures are not likely to abate in the near term. This will keep WA’s policymakers on their toes as they seek to balance multiple economic risks.

Another month, another inflation peak

As economic conditions remain eerie, there is room for WA’s economies to run hot and inflation to rise higher than current levels. Inflation is on the boil across WA’s economies, printing at 19.6% y/y (+105bps) in Nigeria and 31.7% y/y (+193bps) in Ghana. While inflation in Africa’s biggest economy, Nigeria, has been in double-digits since 2016 partly due to a weakening of the Naira, elevated energy prices and the weaker Cedi are today the main drivers behind the price rises in Ghana.

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| Key annual inflation trends (%) |
| (Change since the start of the conflict 24 February 2022) |
| Sources: Ghana Statistical Services, National Bureau of Statistics |

Energy prices - from transportation to housing utilities - are a major culprit, as petrol and electricity are commodities that people use regardless of how much they cost. In Nigeria, transport inflation reached a record 17.6% y/y (+60bps) as the pump price of petrol and flight tariffs were reviewed upwards. Premium motor spirit (PMS) saw its pump price increase from NGN 165/litre (USD 0.38/litre) to NGN 179/litre (USD 0.42/litre) while local airline operators have once again raised their tariffs to between NGN 75,000 (USD 174.1) and NGN 90,000 (USD 209.0) for a 45-minute trip from NGN55,000 (USD 127.7).

Ghana also recorded the fastest pace of price growth on the transport sub-index, with transport inflation printing at 44.6% y/y (+294sbps). However, while the average cost of petrol across the oil marketing companies (OMCs) dropped by 5% m/m in July, diesel prices were 2% higher m/m. Data from the National Petroleum Authority (NPA) reveals that petrol was sold at an average of GHS 7.7/litre (USD 0.90/litre) at the pumps in July - down from GHS 8.1/litre (USD 0.95/litre) in June, while diesel sold at an average cost of GHS 9.4/litre (USD 1.10/litre) at the pumps – up from GHS 9.2/litre (USD 1.08/litre).

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| Month-on-month change in fuel costs |
| (Change since the start of the conflict 24 February 2022) |
| Sources: National Petroleum Authority, National Bureau of Statistics |

WA’s consumers neither got a break at the pump nor at the grocery store as rising food prices have been one of the most visceral reminders of red-hot inflation. In July, food prices – especially the cost of food at home – quickened once again in both Nigeria and Ghana. Prices on food and non-alcoholic beverages (FNAB) rose by 32.3% y/y (+158bps) in Ghana with a 6.7% m/m depreciation of the Cedi, while Nigeria’s FNAB inflation came in at 21.9% y/y (+140bps) as the non-official rate of the Naira that most food importers procure with depreciated by 16.3% m/m.

As the European war protracts, the risk factors to consumer prices in the near term are skewed to the upside. From the price of animal feed and fertilizer to the availability of produce, coupled with elevated transport costs, there is scope for inflation to run hot for a little longer.

Brace up for baleful consequences

WA’s households should brace up for more financial pressure as the war in Ukraine protracts with a whiplash effect on the global and domestic economies via supply chain bottlenecks and rising production costs. Unusually high inflation rates can rapidly put the kibosh on the benefits reaped in the previous prosperous years, erode the value of private savings, and pilfer into the profits of private companies.

Inflation is rapidly crushing the real value of money across WA’s states, further constraining consumers’ budgets as bills are becoming more expensive for economic agents: consumers, businesses, and governments. In Ghana, for instance, GHS 100 at the end of last year was worth only GHS 79.1 in July, while in Nigeria NGN 100 within the same time frame could only purchase NGN 90.7-worth of goods and services as of July. These dynamics leave consumers to pinch pennies amid the tricky budget battle, and often result in economic distress.

At the current breakneck pace of inflation, the social and economic costs of living in Ghana have worsened significantly as indicated by the misery index, but Nigeria’s high unemployment rate continues to fuel economic distress among its citizens. Estimated as the simple sum of inflation and unemployment in a particular country, the misery index seeks to measure the degree of economic distress felt by citizens due to actual joblessness and increasing living costs. With a reading of 52.9 in July, Nigerians are being dealt a harder blow than their Ghanaian counterparts in the current economic topsy-turvy.

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| West Africa misery index reading |
| (Change since the start of the conflict 24 February 2022) |

Monetary policy: A straw to a drowning man

Although the monetary policy may not be as effective in reining in near-term inflationary pressures, it remains the only arsenal available to policymakers in this prolonged inflation fight. Due to the nature of current inflationary pressures – i.e. large global component from higher international commodity prices and supply chain bottlenecks, to a stronger greenback, there is limited scope for monetary policy tools to effectively stall price growth, at least not without further dampening the economic growth outlook.

Already, the Bank of Ghana (BoG) has once again re-calibrated its monetary policy tools – raising its monetary policy rate (MPR) by 300bps to 22% and implementing a phased increase in the cash reserve ratio (CRR) from 12% to 15% over a three-month period (September-November). We see other central banks in the region following suit by further tightening the reins in the September round of monetary policy meetings.

Conclusion

As inflation continues to be a thorn in the side, food and energy prices, both globally and in WA, remain wild cards and are likely to continue fuelling higher inflation expectations for the rest of the year. Therefore, goods and services will continue to cost an arm and a leg, and loans and advances will attract higher rates of interest. This implies that living standards will be squeezed further as inflation continues its relentless march upwards in most of WA’s countries, leading the sub-region’s central bankers to wave their interest rate wands.

Source: Trading Economics

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