Fundamentals

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Ghana | Macroeconomic update | Inflation | Insights

Ghana's September Inflation: It's not hot...It's scorching

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IN BRIEF

- Ghana's headline inflation comes in at 37.2% for September 2022.
- While we cannot compare the latest inflation with the previous CPI series, the inflation rate of 37.2% gives us a familiar feel amidst the continued price pressure.
- The intensified costs and exchange rate pass-through thus far in 2022 remained unquenchable by a modest crop harvest bedevilled by challenges with fertilizer supply.
- Although we hold an upside view on near-term inflation, we reckon the pace of increase could be more modest than what was observed under the old CPI series.
- The latest inflation print could further dampen an already subdued domestic bond market with a potential upward repricing in offer yields, which currently lags behind inflation.

New CPI series with a familiar feel

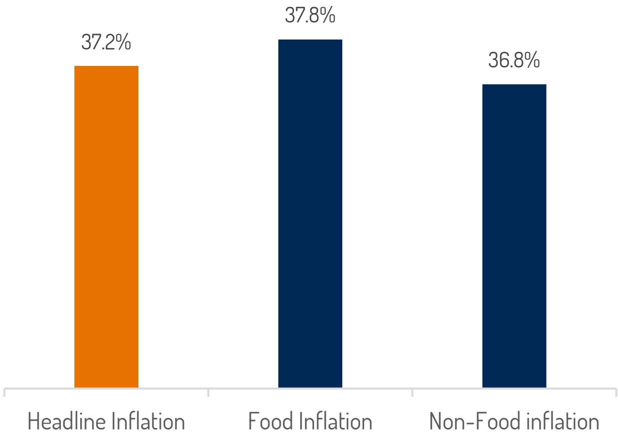
The Ghana Statistical Service (GSS) announced slight changes to its computation of Ghana's Consumer Price Index (CPI) during the publication of the September 2022 inflation rate. Going forward, the CPI data would be based on the new sixteen (16) administrative regions of Ghana compared to the previous coverage of ten (10) regions.

Consequently, 2021 becomes the new base year for the new series with a resultant modification of the regional weights as the GSS commenced the expanded coverage last year. However, we note that the modification of regional weights only splits the existing weight among the separated regions without altering the aggregate weight under the previously consolidated boundaries.

Based on the new CPI series, Ghana's headline inflation printed 37.2% year-on-year (y/y) in September 2022 (month-on-month: 2.0%). Similar to previous prints, the latest inflation rate was broad-based with food inflation at 37.8% while non-food inflation stood at 36.8% y/y.

While we cannot compare the latest inflation with the previous CPI series, the inflation rate of 37.2% gives us a familiar feel amidst the continued price pressure since 2H2021.

Disaggregation of inflation rate for September 2022



Sources: Ghana Statistical Service

Food harvest fails to douse the inflation flame

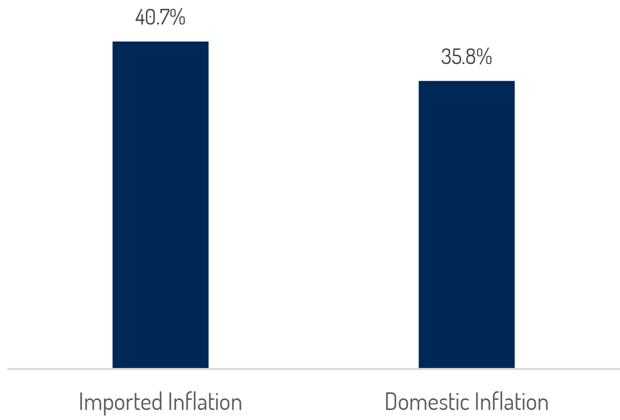
Our review of the month-on-month price change showed a 2.7% deflation for vegetables, tubers, plantains, and pulses. This reflects the price moderation occasioned by improved supply from seasonal crop harvest, which is typically witnessed in September.

However, the intensified costs and exchange rate pass-through thus far in 2022 remained unquenchable by a modest crop harvest bedevilled by challenges with fertilizer supply.

During the CPI data collection window for September 2022, the local currency suffered a sharp depreciation of 13.6% against the USD (vs -1.7% in the same period of 2021). In the first 9-months of 2022, the Ghanaian Cedi depreciated by 40.0% (vs -2.7% in the same period of 2021), elevating the exchange rate pass-through with imported inflation at 40.7% y/y.

Furthermore, the hike in tariffs for electricity (c.27%) and water (c.22%) became effective in September 2022, raising the cost pressures to push inflation for domestically produced items to 35.8%.

Disaggregation of September 2022 inflation by sources



Sources: Ghana Statistical Service

The near-term risk to inflation remains tilted to the upside

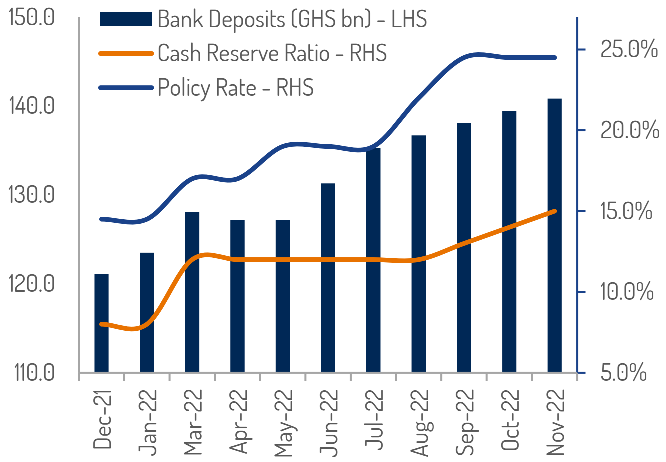
The prospect of a lagged impact from the utility tariff hike, the year-long depreciation of the local currency, and the unabating fiscal pressure remain an upside risk to Ghana's headline inflation.

Admittedly, the lack of historical data on the new CPI series blurs our outlook on the path of inflation. However, we believe the current increase in inflation expectations across consumers, businesses, and the financial sector provides fundamental support for an elevated inflation profile in the near term.

While we hold an upside view on near-term inflation, we reckon the pace of increase could be more modest than what we observed under the old CPI series. In recent months, we observe indications of demand destruction as the costly USD trimmed non-oil imports by 3.8% y/y in August 2022. We believe this reflects a steady squeeze in aggregate demand on account of the intensified price pressures since March 2022. The ongoing demand destruction could become widespread in the months ahead to tame the pace of increase in CPI inflation.

Despite the negative optics of the latest inflation rate, the Bank of Ghana could stay the policy rate at the current level of 24.5% during the November 2022 MPC meeting. Following the hawkish policy reaction in recent months, we believe the MPC would lean against the tiered increases in the Cash Reserve Ratio, which would rise by a final 100bps to 15.0% in November 2022.

Banking sector deposits amidst policy tightening



Sources: Ghana Statistical Service
**Analyst's deposit forecast for September – November 2022

No respite for domestic yields

We view the latest inflation rate as a further dampener on an already subdued domestic bond market with a potential upward repricing in offer yields, which currently lags behind inflation.

The ongoing search for liquidity by banks also remains a source of selling pressure with a push on yields. In our estimation, the cumulative increase of 300bps in the Cash Reserve Ratio (CRR) to 15.0% by November 2022 could mop up additional liquidity worth more than GHS 4.0bn on the interbank market. While the upcoming Treasury Note maturities could provide some liquidity flows, we reckon the CRR hike could drain the bulk of this liquidity. Consequently, we foresee continued bond selling by local banks in search of GHS liquidity amidst the limited buy-side interest.

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