GHANA | MACROECONOMIC UPDATE | INFLATION | INSIGHTS

## FUNDAMENTALS

# GHANA'S NOVEMBER INFLATION:
## A SWING TO DIZZYING HEIGHTS

15 NOVEMBER 2022

**Head, Insights**
Courage Kingsley Martey
+233 240 970 832
Courage.martey@ic.africa

# IN BRIEF

- Headline inflation churned out an unsurprising but dizzying surge to 50.3% year-on-year in November 2022 from 40.4% in October 2022.

- Inflation for food, energy and imported items remain the major drivers of domestic price pressures both on year-on-year and month-on-month bases.

- The recent decline in the prices of domestic petroleum products amidst a strong recovery of the Ghanaian Cedi could anchor an inflation peak in December 2022 or January 2023 with a potential disinflation from 1Q2023.

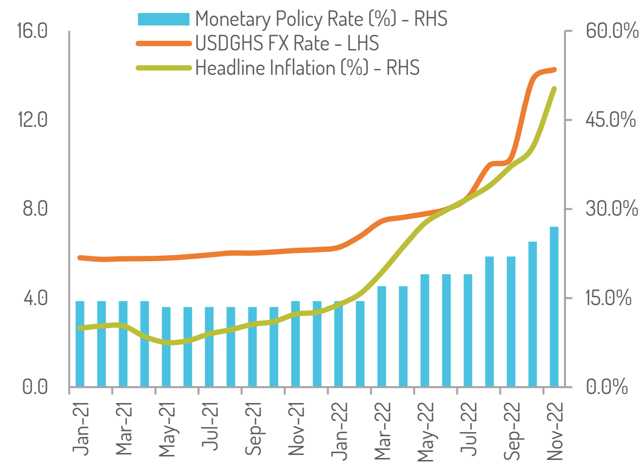
- Despite the expectation of a near-term peak, we maintain our upside view on the policy rate potentially terminating at 29.0%, implying a pre-emptive hike of up to 200bps in 1Q2023 to counter the potential inflation risk from the tax measures in the 2023 budget

## Inflation swings to dizzying heights

Unsurprisingly, Ghana's consumer price inflation churned out another aggressive increase in November 2022, albeit to a level we did not envisage. Headline inflation surged to 50.3% year-on-year in November 2022 from 40.4% in October 2022. On a month-on-month basis, inflation quickened to 8.6% m/m (vs 2.7% in October 2022), the highest m/m inflation since February 2003.

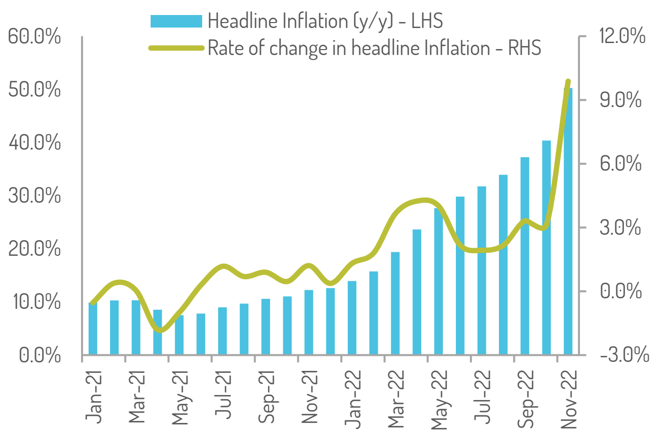
In our [inflation update for October 2022](), we anticipated another strong rise in the consumer price index (CPI) for November after the GHS plummeted by c.22% in the November CPI window. We also flagged the surge in petrol (+c.29%) and diesel prices (+c.50%) during the same period as a potential source of price pressures in November 2022. However, the jump of almost 10ppts in a single month was unimagined and gives us the sense that we may be seeing the darkest hour of inflation before the dawn of disinflation.

**INFLATION AND EXCHANGE RATE MOVEMENTS**




SOURCES: GHANA STATISTICAL SERVICE, BANK OF GHANA,

**CHANGES IN GHANA'S CONSUMER PRICE INFLATION**




SOURCE: GHANA STATISTICAL SERVICE, IC INSIGHTS

## The Cedi's rebound improves the outlook with a near-term peak in sight

In the past four weeks, we have observed a strong recovery in the Ghanaian Cedi with a 38.1% appreciation against the USD since 23 November 2022. This followed the Treasury's confirmation of domestic debt exchange and the announcement of a staff-level agreement (SLA) with the IMF for a Fund-supported programme.

During the December 2022 CPI window, the GHS gained 11.1% against the USD (vs the 22% depreciation during the November CPI window). The Cedi's gain culminated in an average reduction of c.8.0% in ex-pump prices of petrol (GHS 15.41/ltr) and diesel (GHS 18.86/ltr) in the first fuel pricing window for December.

For the second fuel pricing window in December 2022, we expect the Cedi's gain post-SLA announcement to exert further downward pressure on ex-pump prices. This should provide a tailwind for the inflation outlook as we head into 1Q2023. Consequently, we believe the recent GHS rally improves the near-term inflation outlook with a potential peak in December 2022 or January 2023 while a favourable base effect triggers disinflation from 1Q2023.

## Sizzling hot import inflation fuelled by GHS depreciation

In the year to 7 November 2022, the Ghanaian Cedi depreciated by c.57.2%, pushing up the cost of sales for importers with a staggered impact on consumer prices. Consequently, new inflation prints continue to show the lagged impact of the year-long depreciation with inflation for imported items rising to 55.1% year-on-year (vs 43.7% in October 2022).

The domino effect from the Cedi's depreciation extends from food inflation (55.3% y/y in November 2022), to utilities (79.1% y/y), housing (65.7% y/y), and Transport (63.1% y/y).

## We still perceive upside for the policy rate

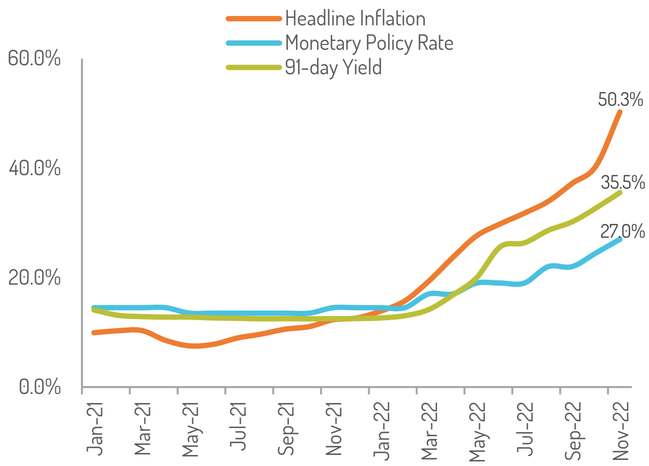
Although the GHS recovery improves the outlook for inflation in addition to a favourable base effect in 2023, we reckon the Bank of Ghana will sustain the signalling of its commitment to price stability.

The Central Bank has announced reductions in the Capital Adequacy Ratio (CAR) for banks participating in the domestic debt exchange programme to 10% and the Cash Reserve Ratio to 12%.

We expect these regulatory measures to support GHS liquidity flow to banks and mitigate the potential squeeze from the domestic debt operation. This will strengthen the need to sustain the use of the policy rate to anchor inflation expectations.

Furthermore, the 2023 budget proposed new tax measures to raise additional fiscal revenue equivalent to 1.35% of GDP. While these tax measures will support fiscal consolidation, we perceive a resultant upside risk to inflation as consumers bear the tax burden. Consequently, we expect the Central Bank to deliver a pre-emptive rate hike of up to 200bps in 1Q2023 to peg the terminal policy rate at 29.0%.

INFLATION AND INTEREST RATE TREND




SOURCE: GHANA STATISTICAL SERVICE,

# For more information contact your IC representative

## Business development & client relations

**Derrick Mensah**
Head, Business Development
+233 24 415 5765
derrick.mensah@ic.africa

**Dora Youri**
Head, Wealth Management
+233 23 355 5366
dora.youri@ic.africa

**Kelvin Quartey**
Analyst, Business Development
+233 57 604 2802
kelvin.quartey@ic.africa

## Corporate Access

**Joanita Hotor**
Corporate access
+233 50 137 6100
Joanita.hotor@ic.africa

## Insights

**Courage Kingsley Martey**
Head, Insights
+233 240 970 832
courage.martey@ic.africa

**Churchill Ogutu**
Economist, East Africa & Egypt
+254 711 796 739
churchill.ogutu@ic.africa

**Lydia Adzobu**
Senior Analyst, Financial sector
+233 24 656 8669
Lydia.adzobu@ic.africa

**Clevert Boateng**
Analyst, Consumer, Technology, Media & Telecommunication
+233 24 789 0452
clevert.boateng@ic.africa

## Investing

**Isaac Adomako Boamah**
Chief Investment Officer
030 225 2623
isaac.boamah@ic.africa

**Obed Odenteh**
Portfolio Manager, Fixed Income
+233 54 707 3464
obed.odenteh@ic.africa

**Timothy Schandorf**
Portfolio Manager, Risk Assets
+233 24 292 2154
Timothy.schandorf@ic.africa

**Herbert Dankyi**
Analyst, Rates
+233 55 710 6971
herbert.dankyi@ic.africa

**Bernard Tetteh**
Analyst, Risk Assets
+233 24 864 7114
bernard.tetteh@ic.africa

## Operations

**Nana Amoa Ofori**
Chief Operating Officer
+233 24 220 6265
nanaamoa.ofori@ic.africa

**Emmanuel Amoah**
Fund Administrator
+233 20 847 2245
emmanuel.amoah@ic.africa

**Kelly Addai**
Fund Accountant
+233 20 812 0994
kelly.addai@ic.africa

## Trading

**Randy Ackah-Mensah**
Head, Global Markets
+233 24 332 6661
randy.amensah@ic.africa

**Allen Anang**
Equities,Trader
+233 54 084 8441
allen.anang@ic.africa

**Isaac Avedzidah**
Trader, Fixed Income
+233 24 507 7382
isaac.avedzidah@ic.africa