GHANA | MACROECONOMIC UPDATE | INFLATION | INSIGHTS

FUNDAMENTALS

GHANA'S DECEMBER INFLATION: THE UPSWING CONTINUES

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IN BRIEF

- Headline inflation raced to 54.1% year-on-year in December 2022 (vs 50.3% in November), beating our estimate by 90bps and the market expectation by 135bps.

- The price pressures remained broad-based with food inflation rising to 59.7% (vs 55.3% in November) while non-food inflation climbed to 49.9% (vs 46.5% in November 2022).

- Notwithstanding the moderation in the rate of increase in headline inflation, we observed that the 380bps increase in headline inflation is still higher than the 2022 average increase of 280bps (excl. the 990bps surge in November 2022). We believe this performance trend suggests that headline inflation could still rise in the next month, although it seems much closer to the peak.

- In our November 2022 inflation update, we called a policy rate hike of up to 200bps for 1Q2023, taking our forecast terminal rate to 29.0%. We maintain this upside view on the policy rate with the January 2023 MPC meeting providing the earliest opportunity for the Central Bank to sustain the signalling of its commitment to price stability.

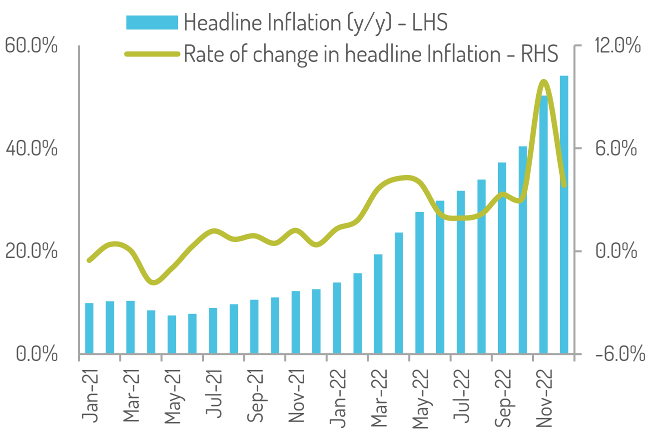
The climb continued in December 2022

Headline inflation raced to 54.1% year-on-year in December 2022 (vs 50.3% in November), beating our estimate by 90bps and the market expectation by 135bps.

The price pressures remained broad-based with food inflation rising to 59.7% (vs 55.3% in November) while non-food inflation climbed to 49.9% (vs 46.5% in November 2022). Although inflation for the heavily-weighted utilities (82.3%) and transport (71.4%) continued to rise, we observed a mixed outturn in their influence on the headline inflation. In December 2022, inflation for utilities accounted for 15.7% of the headline inflation, marginally down from 16.3% in the previous month. However, the share of transport inflation grew in the same period to 14.0% compared to 12.9% share in November 2022.

On a month-on-month basis, inflation however declined to 3.8% (vs 8.6% in November 2022), partly reflecting the 3.4% appreciation of the GHS against the USD during the December 2022 price data window.

CHANGES IN GHANA'S CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE, IC INSIGHTS

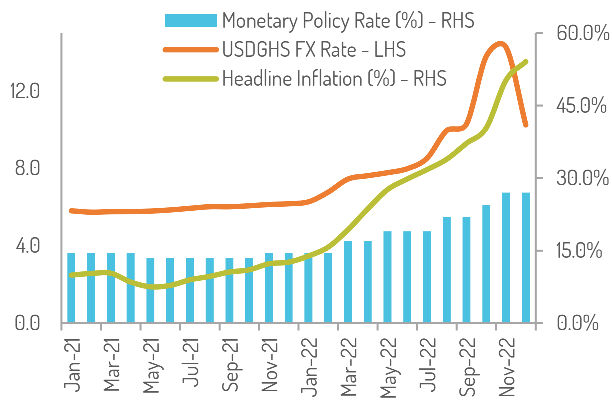
The rate of increase slows but remains above the average climb in 2022

As expected, the rate of increase in headline inflation moderated in December 2022, showing an increase of 380bps in the headline rate (vs +990bps in November 2022). We attribute this slowdown in the rise of inflation to the appreciation of the GHS in late 2022, which capped the upside motion in the year-on-year inflation.

Notwithstanding this moderation in the rate of increase in headline inflation, we observed that the 380bps increase is still higher than the 2022 average increase of 280bps (excl. the 990bps surge in November 2022). When we include the November jump in headline inflation, we obtained an average increase of 340bps in headline inflation during 2022 which is still lower than the December increase.

We believe this performance trend suggests that headline inflation could still rise in the next month, although it seems much closer to the peak.

INFLATION AND EXCHANGE RATE MOVEMENTS



SOURCES: GHANA STATISTICAL SERVICE, BANK OF GHANA, BLOOMBERG

Renewed GHS depreciation and higher taxes pose upside risk

After a surprisingly strong appreciation in late 2022, the GHS returned under pressure in the first 2-weeks of 2023.

During the January 2023 price data window (starting 2nd week in December 2022 to end of 1st week in January 2023), we observed a 24.3% appreciation of the GHS against the USD. However, we note renewed depreciation pressure at the turn of the year, culminating in a year-to-date USDGHS depreciation of 3.8%. While the Cedi's appreciation should exert downside pressure on inflation, the surprisingly strong recovery (not supported by economic fundamentals) immediately followed by renewed depreciation sustains the feeling of price uncertainty.

Furthermore, implementation of the new taxes in the 2023 budget, particularly the 250bps hike in the VAT rate to 15.0%, has commenced. We believe these FX uncertainty and higher taxes will exert a further upside risk to consumer prices, especially in January 2023.

Consequently, we foresee headline inflation at 56.5% in January 2023 but potentially peaking in late 1Q2023, barring further shocks via utility tariff hikes and unexpected FX pressures.

Beyond 1Q2023, we expect a much tighter GHS supply due to limited maturity and coupon payments if the domestic debt restructuring is successfully concluded in January. This will limit demand-side pressures and support a decline in inflation. Against this backdrop, we now see FY2023 headline inflation at 22.7% (GoG: 18.9%).

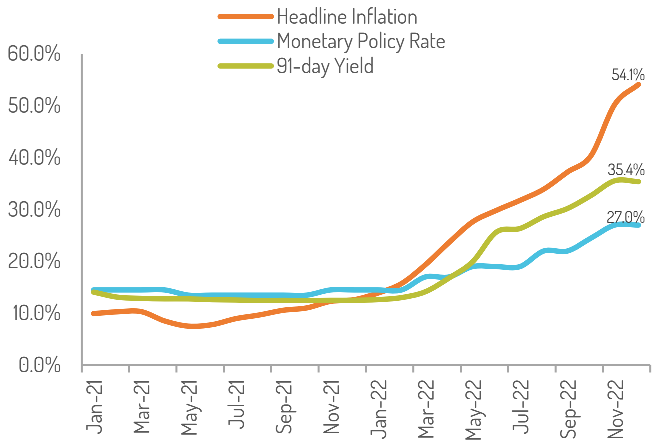
We maintain our upside view on the policy rate in 1Q2023

In our November 2022 inflation update, we called a policy rate hike of up to 200bps for 1Q2023, taking our forecast terminal rate to 29.0%. We maintain this upside view on the policy rate with the January 2023 MPC meeting providing the earliest opportunity for the Central Bank to sustain the signalling of its commitment to price stability.

The lingering uncertainty around Ghana's ongoing negotiations for debt restructuring continues to blur the outlook for the start of the IMF programme. The uncertain policy outlook could take a toll on the GHS as depreciation pressure appears to intensify. This provides justification for an early rate hike to anchor exchange rate expectations amidst the protracted debt negotiations.

Furthermore, the tax hikes will pose a first round shock to general price levels in 1Q2023. Consequently, we believe a tighter monetary stance will be required to minimize the 2nd round effect of the tax-induced price shocks.

INFLATION AND INTEREST RATE TREND



SOURCE: GHANA STATISTICAL SERVICE, BANK OF GHANA

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