GHANA | MACROECONOMIC UPDATE | INFLATION | INSIGHTS

FUNDAMENTALS

GHANA'S JANUARY INFLATION: STRONGER TAILWIND, RECEDING HEADWIND

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IN BRIEF

- Headline inflation declined by 50bps to 53.6% year-on-year (y/y) in January 2023 as a rise in food inflation (61.0%) was outweighed by a sharper drop in non-food inflation (47.9%) in the month under review.

- After nineteen (19) consecutive months of increases in the year-on-year headline inflation, the lower print in January 2023 deepens our view for a near-term trend reversal. Barring unexpected FX shocks, stable global energy prices should provide a tailwind to support domestic disinflation from March 2023.

- The decline in headline inflation in January 2023 will strengthen the MPC's view on lower inflation expectations and potentially justify an end to the rate hiking cycle, which commenced in November 2021. However, inflation will remain too high for a near-term pivot on the monetary policy rate.

- Yields for Treasury bills have peaked since late November 2022, moving along the 35.0% – 36.0% band as the Treasury baits investors at the front-end of the yield curve amidst the higher inflation and restructuring of domestic bonds. We however foresee downside risks to the short-term yields on account of the ebbing inflation pressures and completion of the domestic debt restructuring.

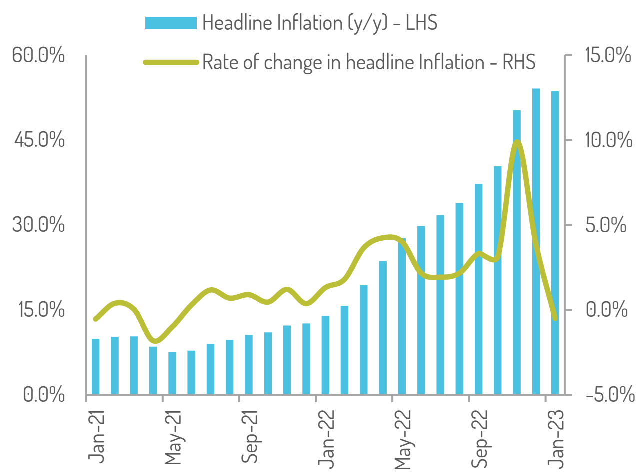
Inflation surprises to the downside at 53.6%

Ghana recorded a decline in its headline CPI inflation in January 2023, marking the first slowdown in the rate of price increases since May 2021. Headline inflation declined by 50bps to 53.6% year-on-year (y/y) in January 2023 as a rise in food inflation was outweighed by a sharper drop in non-food inflation in the month under review.

Food inflation quickened by 130bps to 61.0% y/y in January 2023 on account of higher inflation for ready-made food (63.7%), fish and other seafood (67.3%) as well as cereal and cereal products (76.2%). However, non-food inflation decelerated by 200bps to 47.9% y/y, partly due to a 7.5% decline in ex-pump prices of petrol during the January CPI data window. The contrasting movements in both food and non-food inflation underpinned the 50bps drop in headline inflation for January 2023.

On a month-on-month basis, consumer price inflation stood at 1.7% in January 2023 compared to 3.8% m/m in December 2022, reflecting an easing of price pressures across both food and non-food inflation.

CHANGES IN GHANA'S CONSUMER PRICE INFLATION



A trend reversal is near as disinflation tailwinds strengthen

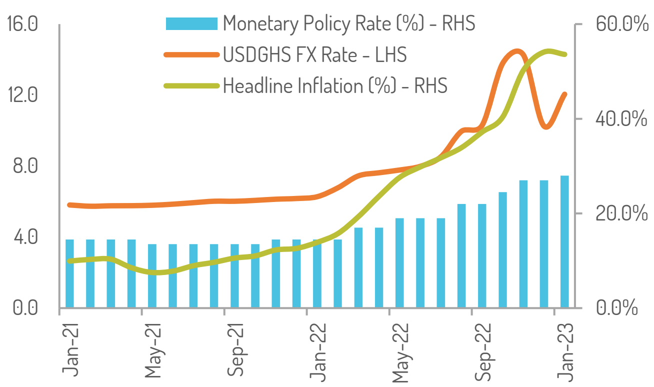
After nineteen (19) consecutive months of increases in the year-on-year headline inflation, the lower print in January 2023 deepens our view for a near-term trend reversal.

We remain mindful of upside risks such as the hikes in electricity (30.0%) and water (8.3%) tariffs, as well as the 250bps increase in VAT (pushing up the effective VAT & levies to 21.9% from 19.25%). These upside risks will balance the emerging downside forces to leave headline inflation unchanged at 53.6% in February 2023, albeit with a marginal upside bias. However, we expect the downside forces to outweigh the upside risks and translate into a sustained decline in headline inflation from March 2023.

After a 12.1% increase in ex-pump price of petrol to GHS 15.25/litre in the February 2023 CPI window, we expect a marginal decline in the prices of petroleum products during the March 2023 CPI window.

Furthermore, Brent crude oil price currently screens at USD 85pb, significantly below the USD 120pb observed a year ago at the start of the Russo-Ukrainian war. This suggests that the impact of the 2022 geo-political tension on global energy prices has fully diminished with a more stable outlook for energy prices. Barring unexpected FX shocks, stable global energy prices should provide a tailwind to support disinflation from March 2023.

INFLATION AND EXCHANGE RATE MOVEMENTS



SOURCES: GHANA STATISTICAL SERVICE, BANK OF GHANA, BLOOMBERG

A successful debt restructuring will anchor FX stability to strengthen the disinflation tailwind

The Ghanaian Cedi has enjoyed relative stability around the GHS 12/USD mark in the past one-month as the Treasury steadily reached a deal with key stakeholders on the domestic debt exchange programme (DDEP). With the DDEP successfully closed this week, a total of GHS 24.3bn out of expected 2023 bond maturities of GHS 27.3bn has been re-profiled into longer tenors.

We believe the successful re-profiling of the 2023 maturities will limit local currency liquidity to tame the emerging FX pressure that mounted over the past few days and brighten the disinflation outlook.

The suspension of external debt service ahead of negotiations with external creditors for debt restructuring will also ease the pressure on forex reserves and anchor a more stable Cedi in the months ahead. Furthermore, we expect a conclusion of Ghana's external debt restructuring in 2Q2023 (vs GOG expectation of March 2023) to pave the way for an IMF Board approval and a first tranche disbursement to kickstart the ECF reforms programme.

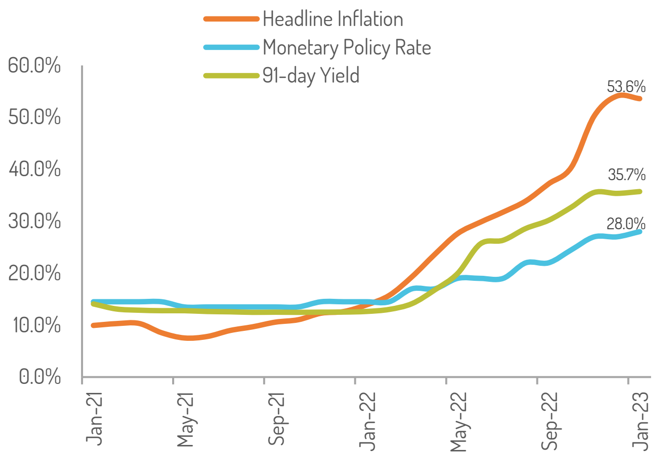
These FX-sensitive outcomes could trigger a marginal paring of the Cedi's losses and strengthen the deceleration in inflation from late 2Q2023. Consequently, we maintain our FY2023 forecast for headline inflation at 22.7% (GOG: 18.9%).

The end of a policy tightening cycle

At the January 2023 Monetary Policy Committee (MPC) meeting, the authorities hiked the policy rate by 100bps to 28.0%, albeit citing a moderation in inflation expectations of economic agents. The decline in headline inflation in January 2023 will strengthen the MPC's view on lower inflation expectations and potentially justify an end to the rate hiking cycle, which commenced in November 2021.

With a successful debt restructuring appearing more likely in recent weeks and a credible fiscal adjustment in the offing, we believe the market has seen the end of Ghana's policy tightening. However, inflation will remain too high for a near-term pivot on the monetary policy rate. Consequently, we expect the policy rate to stay unchanged at 28.0% for the rest of 2023, barring unexpected shocks to the inflation outlook.

INFLATION AND INTEREST RATE TREND



SOURCE: GHANA STATISTICAL SERVICE, BANK OF GHANA

The downside risk is mounting for short-term yields

Yields for Treasury bills have peaked since late November 2022, moving along the 35.0% – 36.0% band as the Treasury baits investors at the front-end of the yield curve amidst the higher inflation and restructuring of domestic bonds.

However, we foresee downside risks to the short-term yields on account of the ebbing inflation pressures and completion of the domestic debt restructuring. Our downside view on yields is supported by the disinflation forecast which sees inflation along the low to mid-20% area.

Furthermore, the dearth of new bond issuances will sustain investor demand for short-term securities to manage their cash flow needs. The expected strong demand for T-bills amidst fiscal adjustments and declining inflation will enable the Treasury to suppress yields for T-bills, potentially from late 2Q2023. We thus view the current level for the monetary policy rate (28.0%) as the key anchor and benchmark for our outlook on the yields for T-bills.

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