GHANA | MACROECONOMIC UPDATE | INFLATION | INSIGHTS

FUNDAMENTALS

GHANA'S SEPTEMBER 2023 INFLATION:
TAMING THE BEAST

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IN BRIEF

- Headline inflation declined by 200bps to 38.1% y/y in September 2023, a tad below our expectation of 38.4% (market expectation: 37.3%). On a month-on-month basis, headline inflation however edged up to 1.9% m/m in September 2023 (vs our forecast of 2.1% m/m) from a deflation of 0.2% m/m in August 2023.

- On an annual basis, we observed a decline in food and non-food inflation rates to 49.4% y/y (-250bps m/m) and 29.3% y/y (-160bps m/m), respectively. We attribute the drop in the annual inflation rate partly to favourable base effect and the impact of cereal harvest while the uptick in the monthly inflation partly reflects the recent hike in utility tariffs.

- We recalled that the authorities commenced a quarterly review of utility tariffs in September 2022 with jumbo hikes of 27.2% for electricity and 21.6% for water. With a modest hike of 4.2% for electricity and 1.2% for water in September 2023, the annual comparative changes triggered a favourable base effect in the CPI for utilities, resulting in the sharp disinflation observed for this division.

- A further disaggregation of the CPI data suggests a decline in core inflation in lockstep with the headline rate below 40.0%. However, we believe the core measure (overall CPI excl. energy & utilities) likely remained above the headline inflation, suggesting lingering underlying price pressures which require continued tight policy stance.

- Under the IMF programme, the authorities had a central target rate of 40.6% ± 3.0pp (inner band) for September 2023. Impressively, the outturn of 38.1% pushed Ghana's September 2023 inflation towards the lower limit of the inner band and raises the prospect for achieving the December central target of 29.4% ± 2.0pp (inner band). In October 2023, we forecast annual inflation at 37.6% y/y and the month-on-month rate at 2.3% against the backdrop of favourable base effect partly offset by lagged impact of utility tariff hike, higher energy prices, and emerging FX pressures.

Annual inflation is moderating as expected

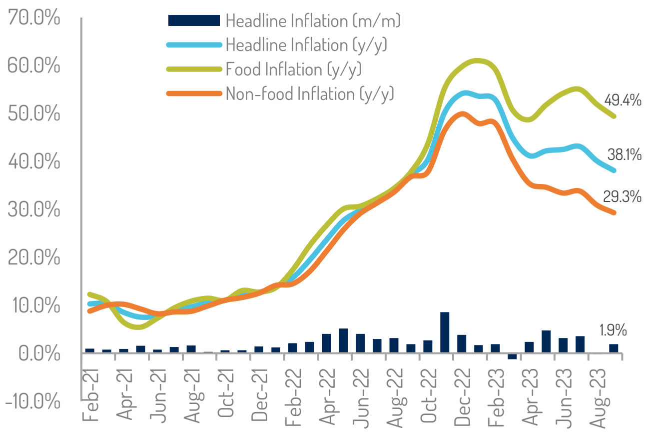
Headline inflation declined by 200bps to 38.1% y/y in September 2023, a tad below our expectation of 38.4% (market expectation: 37.3%). The latest annual headline inflation rate represents a 12-month low and translates into a year-to-date drop of 16.0pp. The decline in the September 2023 rate also represents the second successive drop in annual inflation, with the potential for further deceleration on the back of favourable base effect in 4Q2023.

On a month-on-month basis, headline inflation however edged up to 1.9% m/m in September 2023 (vs our forecast of 2.1% m/m) from a deflation of 0.2% m/m in August 2023. The upturn in the sequential inflation rate was underpinned by a rise in price pressures for all components of non-food inflation compared to m/m deflation for 62.0% of the items in the previous month. Chiefly, inflation for Housing, utilities, gas, & other fuels surged to 5.6% m/m in September 2023 from a m/m deflation of 0.1% in August 2023. We attribute this jump to the hike in electricity and water tariffs by 4.2% and 1.2%, respectively, which took effect on 1st September 2023 and impacted the final window for tracking the September 2023 CPI.

On an annual basis, we observed a decline in food and non-food inflation rates to 49.4% y/y (-250bps m/m) and 29.3% y/y (-160bps m/m), respectively.

Food inflation was dragged down by a sharp easing of price pressures for Cereal & cereal products (50.7% y/y | -820bps) as well as Live animals, meat, & other parts of slaughtered land animals (48.8% y/y | -410bps). Contrary to our expectation for the ongoing crop harvest and resumption of industrial fishing to suppress inflation for the agrarian items and seafoods, we observed the opposite. Inflation for Vegetables & tubers (46.3% y/y) climbed by 380bps despite a slump of 14.5pp in inflation for fresh tomatoes (60.3% y/y) while Fish & other seafoods (56.9% y/y) increased by 490bps.

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE

Utilities enjoyed a favourable base effect

We unpacked the annual non-food inflation data and found the influence of a favourable base effect on inflation for heavily-weighted Housing, utilities, gas, & other fuels, which tumbled by 13.6pp to 28.6% y/y in September 2023. We recalled that the authorities commenced a quarterly review of utility tariffs in September 2022 with jumbo hikes of 27.2% for electricity and 21.6% for water. With a modest hike of 4.2% for electricity and 1.2% for water in September 2023, the annual comparative changes triggered a favourable base effect in the CPI for utilities, resulting in the sharp disinflation observed for this division.

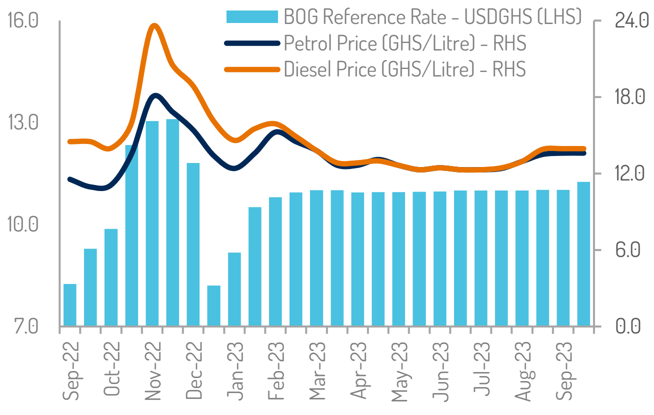
In the quarters ahead, we expect continued but moderate hikes in utility tariffs towards full cost recovery as envisaged in the energy sector recovery plan under the ongoing IMF-supported reforms programme. While the continued hikes will pose upside risk, we believe the potentially modest nature of future increases will limit the upside risk, barring the impact of escalating tensions in the Middle East on global energy prices.

Core inflation declined but likely remains sticky above headline inflation

A further disaggregation of the CPI data suggests a decline in core inflation in lockstep with the headline rate below 40.0%. However, we believe the core measure (overall CPI excl. energy & utilities) likely remained above the headline inflation, suggesting lingering underlying price pressures which require continued tight policy stance.

Specifically, we observed mixed outturn in inflation for services items. Transport (25.9% y/y | -50bps), Education (11.3% y/y | -170bps), and Health (31.3% y/y | -700bps) witnessed cooling price pressures. However, Information & communication (21.1% y/y | +70bps), Restaurant & accommodation services (19.5% y/y | +1,190bps), and Recreation, sport & culture (30.1% y/y | +140ps) recorded inflation upturn, suggesting a long road to price stability.

EXCHANGE RATE AND PETROLEUM PRICE DYNAMICS



SOURCES: GHANA OIL COMPANY LIMITED, BANK OF GHANA, IC INSIGHTS

Sitting pretty within IMF target with disinflation tailwind ahead

In relation to the key performance criteria under the ongoing IMF programme, the latest inflation rate of 38.1% is firmly within the IMF Monetary Policy Consultation Clause for September 2023. The authorities had a central target rate of 40.6% ± 3.0pp (inner band) for September 2023. Impressively, the outturn of 38.1% pushed Ghana's September 2023 inflation towards the lower limit of the inner band and raises the prospect for achieving the December central target of 29.4% ± 2.0pp (inner band).

We anticipate stronger influence from a favourable base effect in 4Q2023, particularly for the November 2023 inflation rate. This will drag down the year-end inflation to between 29.7% – 31.7%. In October 2023, we forecast annual inflation at 37.6% y/y and the month-on-month rate at 2.3% against the backdrop of favourable base effect partly offset by lagged impact of utility tariff hike, higher energy prices, and emerging FX pressures.

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