

FUNDAMENTALS

GHANA'S NOVEMBER 2024 INFLATION:

Relentless

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IN BRIEF

- Ghana's CPI inflation accelerated by 90bps to 23.0% y/y in November 2024 as the relentless climb in food inflation (25.9% y/y | +310) outweighed the modest decline in non-food inflation (20.7% y/y | -80bps), fanning the price pressure.
- We note that the main drivers of the recent food price surge are predominantly agrarian commodities which include crops and aquatic products. In our view, the relentless upswing in food inflation over the past three months reflects the price shocks emanating from the weak crop harvest induced by the adverse weather conditions during Ghana's planting season. Also, we observed that the disinflation in non-food inflation reflects a moderation in services inflation with prospects for further decline in the December 2024 CPI
- **We see a high likelihood to overshoot the authorities' revised target of 18.0% in December 2024.** Despite the recent upward revision in the year-end central target to 18.0%, we believe the latest inflation upsurge has increased the odds of missing the revised central target as lingering upside risks persist in the immediate term. While we expect the sharp appreciation of the Ghanaian Cedi to tame the inflationary pressures in the December 2024 CPI window, we remain cautious about food price uncertainty which poses a risk to restraining headline inflation below 22.0%.
- **The BOG swings into action to avoiding triggering the MPCC.** According to the Monetary Policy Consultation Clause (MPCC) for Ghana's ongoing IMF programme, if actual inflation falls outside the lower or upper outer bands for the test dates, the MPCC will be triggered. This will involve discussions with the IMF Board with proposed remedial actions to be implemented by the Ghanaian authorities. Given the revised central target of 18.0%, we estimate the upper outer band at 22.0%, above which the authorities would have to trigger the MPCC. With the risk of overshooting the upper outer band, which would trigger the MPCC, we believe the Bank of Ghana opted for the aggressive FX sales to ensure a favourable pass-through of FX appreciation and contain inflation below 22.0% by end-2024.

Food costs fan the flame

Ghana's CPI inflation sustained its upsurge in November 2024 as the relentless climb in food inflation outweighed the modest decline in non-food inflation, fanning the price pressure. Headline inflation quickened by 90bps to 23.0% year-on-year, against our expectation for a modest decline in November 2024.

The month-on-month inflation also increased to 2.6% (vs 0.8% m/m in October 2024), underscoring the renewed price pressure in recent months. We attribute the rise in the sequential rate to the sharp depreciation of the Ghanaian Cedi in October 2024, which heightened price pressures during the November 2024 CPI data window.

The latest increase in the annual CPI inflation represents the third consecutive rise in headline inflation, mirroring the trend in food inflation while non-food fluctuated around the average of 21.5% in 11M2024. At this level, we foresee a strong possibility for the end-2024 inflation to overshoot our year-end upper forecast of 21.3% and the Bank of Ghana's revised central target of 18.0%.

Food inflation went into overdrive in November, accelerating by 310bps to 25.9% y/y on the back of the unstable prices of agrarian commodities while the steady pass-through of prior depreciation added further push. Specifically, the top four catalysts for the rise in food inflation were cereal & cereal products (22.6% y/y | +620bps), fish & other seafoods (24.5% y/y | +420bps), ready-made food (21.3% y/y | +380bps), and vegetables & tubers (40.0% | +110bps).

We note that the main drivers of the recent food price surge are predominantly agrarian commodities which include crops and aquatic products. In our view, the relentless upswing in food inflation over the past three months reflects the price shocks emanating from the weak crop harvest induced by the adverse weather conditions during Ghana's planting season. Given the limited impact of the proposed fiscal interventions announced in September, we flag food inflation as an upside risk to inflation as we approach the year-end festivities.

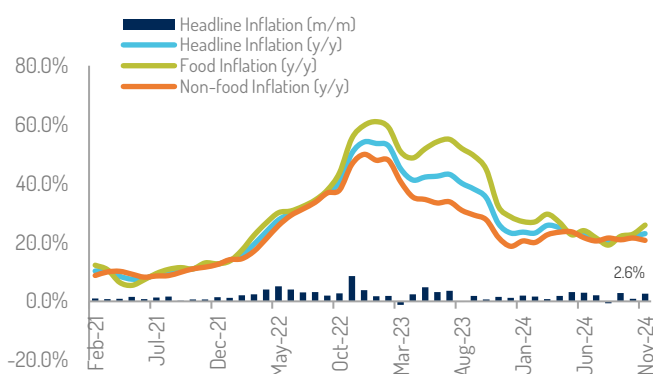
Non-food inflation expectedly eased by 80bps to 20.7% year-on-year, capping the upward pressure on headline inflation. We observed disinflation for 9 out of the 12 divisions of non-food inflation with the combined weight of almost 60.0% outweighing the uptick from influential items such as transport and energy & utilities. Generally, we observed that the disinflation in non-food inflation reflects a moderation in services inflation with prospects for further decline in the December 2024 CPI. Specifically, we noted disinflation for hospitality services (18.4% y/y | -620bps), education services (19.5% y/y | -220bps), health (22.0% y/y | -190bps), information & communications (11.9% y/y | -120bps) and recreation (17.9% y/y | -120bps).

A high likelihood to overshoot the authorities' revised target of 18.0% in December 2024. We reiterate our longstanding view held since [July 2024](#) that Ghana faces the likelihood to overshoot its end-2024 inflation target. Despite the recent upward revision in the year-end central target to 18.0%, we believe the latest inflation upsurge has increased the odds of missing the revised central target as lingering upside risks persist in the immediate term. While we expect the sharp appreciation of the Ghanaian Cedi to tame the inflationary pressures in the December 2024 CPI window, we remain cautious about food price uncertainty which poses a risk to restraining headline inflation below 22.0%.

According to the Monetary Policy Consultation Clause (MPCC) for Ghana's ongoing IMF programme, if actual inflation falls outside the lower or upper outer bands for the test dates, the MPCC will be triggered. This will involve discussions with the IMF Board with proposed remedial actions to be implemented by the Ghanaian authorities. Given the revised central target of 18.0%, we estimate the upper outer band at 22.0%, above which the authorities would have to trigger the MPCC.

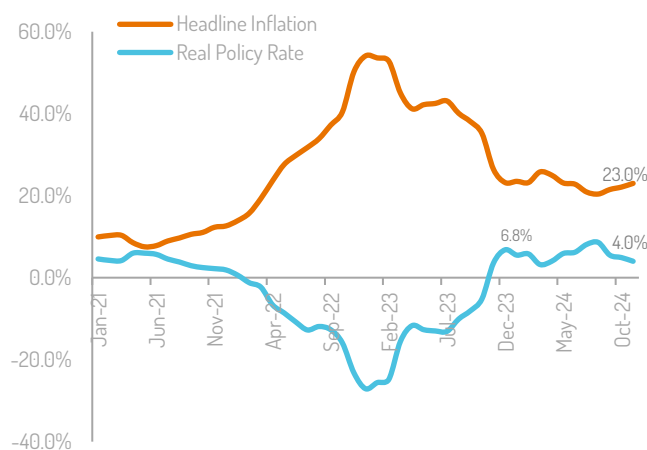
With the risk of overshooting the upper outer band, which would trigger the MPCC, we believe the Bank of Ghana opted for the aggressive FX sales to ensure a favourable pass-through of FX appreciation and contain inflation below 22.0% by end-2024.

DISAGGREGATED CONSUMER PRICE INFLATION



SOURCE: GHANA STATISTICAL SERVICE, IC INSIGHTS

INFLATION PATH AND REAL POLICY RATE



SOURCE: IC INSIGHTS, GHANA STATISTICAL SERVICE, BANK OF GHANA



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