



Bank of Ghana Monetary Policy Report

Inflation Outlook and Analysis

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1.0 Overview of Global and Domestic Economic Developments

Global economic recovery has continued, notwithstanding the spread of the Delta variant of the COVID-19 virus, and the impact of the pandemic on production constraints stemming from supply chain bottlenecks. The International Monetary Fund projects global growth of 6.0 percent in 2021 and 4.9 percent in 2022 (World Economic Outlook Update, July 2021), supported by policy measures and vaccination programmes, which have allowed the removal of restrictions and reopening of more economies. Although the global economic outlook point to a rebound in 2021, these forecasts are subject to the evolution of the COVID-19 pandemic including the spread of emerging variants of the virus, the pace of vaccination campaigns around the world and continued policy support.

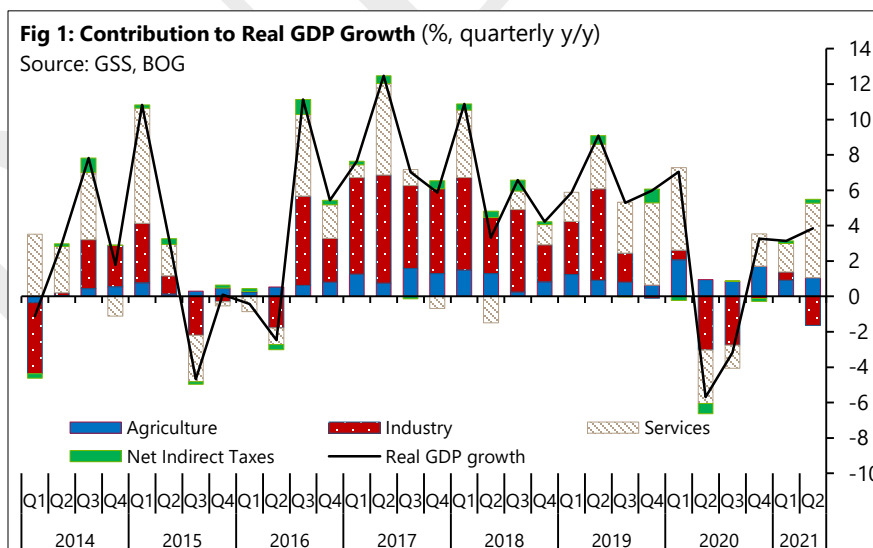
Global financial conditions have broadly remained supportive of the recovery process due largely to the continued accommodative stance of major central banks. Policy rates in major advanced economies are expected to remain low despite emerging inflationary pressures and stronger growth rebound. Yields on longer-dated bonds have declined in recent months amid concerns about the potential impact of the Delta variant of the COVID-19 virus on the global economic recovery, while sovereign spreads in emerging markets and developing economies have remained relatively compressed. The US Federal Reserve has indicated that scale back of the asset purchase programme would likely begin in November 2021 and end by mid-2022. However, previous uncertainties associated with the timing of the tapering of asset purchase programmes by the US Fed and other Central Banks in Advanced Economies have weighed on equity prices and capital flows to Emerging Market and Developing Economies, exerting some downward pressures on local currencies.

On global price developments, data points to a sharp rise in headline inflation above target in several Advanced and Emerging Market Economies, driven by higher energy prices, disruptions to supply chains

and increased aggregate demand pressures as economies re-open. Global headline inflation, however, is expected to revert to target over the medium-term, supported by the continued slack in labour market conditions and restraint in wage growth.

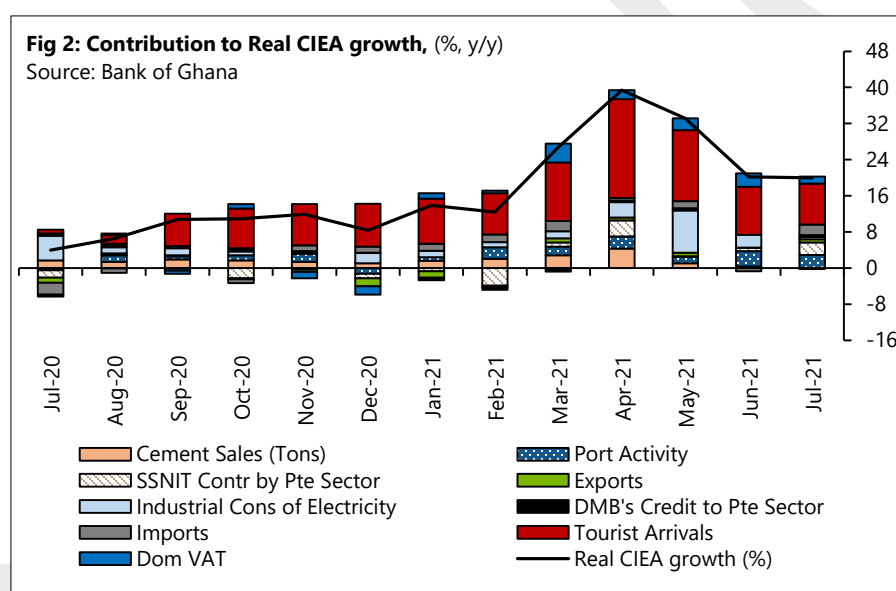
These developments—the recovery in global growth conditions, the tightening of global financing conditions and rising global inflation trends—are likely to have spill over effects on the Ghanaian economy, mainly through their potential impacts on trade, portfolio flows, financing, and exchange rate movements.

On the domestic economy, developments continue to indicate sustained recovery in economic activity following the downturn at the peak of the pandemic in the second quarter of 2020. The latest data released by the Ghana Statistical Service point to a stronger pick up in the annual GDP growth to 3.9 percent in the second quarter of 2021, from the 3.1 percent recorded in the first quarter, and a 5.7 percent contraction recorded in the same period of 2020. Non-oil GDP, for the same period, grew by 5.2 percent, compared with a contraction of 5.8 percent recorded in the corresponding period a year ago. The stronger growth performance in the second quarter reflects the sharp rebound experienced in the cocoa sub-sector which grew by 27.6 percent; supported by equally stronger growth of 18.7 percent in Hotels & Restaurants, 13.8 percent in Real Estate and 10.7 percent in trade. This stronger performance was however, moderated by a contraction of 18.9 percent in the mining and quarrying sub-sector, on account of a 10.8 percent contraction in the production of oil and gas.



Beyond the second quarter, the Bank’s update of the Composite Index of Economic Activity (CIEA) for July 2021 reflected sustained recovery in domestic economic activity. The real CIEA recorded a 20.0

percent year-on-year growth in July 2021, compared with 20.2 percent in June 2021, and 3.9 percent growth in July 2020. The growth in the indicators were somewhat broad-based with port activity, imports, domestic VAT, and air-passenger arrivals accounting for the increase (Fig 2). The Ghana Purchasing Managers Index¹ fell in August 2021 mainly on the back of rising input costs. The slow-down in the index was consistent with the results of the Bank's latest confidence surveys, conducted in August 2021, which indicated some softening of business sentiments. The survey results revealed the inability of businesses to meet their short-term company targets driven by high input costs, unavailability of raw materials, weak consumer demand, and rising labour costs. Consumer confidence, on the other hand improved, reflecting optimism about current and future economic conditions.



2.0 Domestic Price Developments

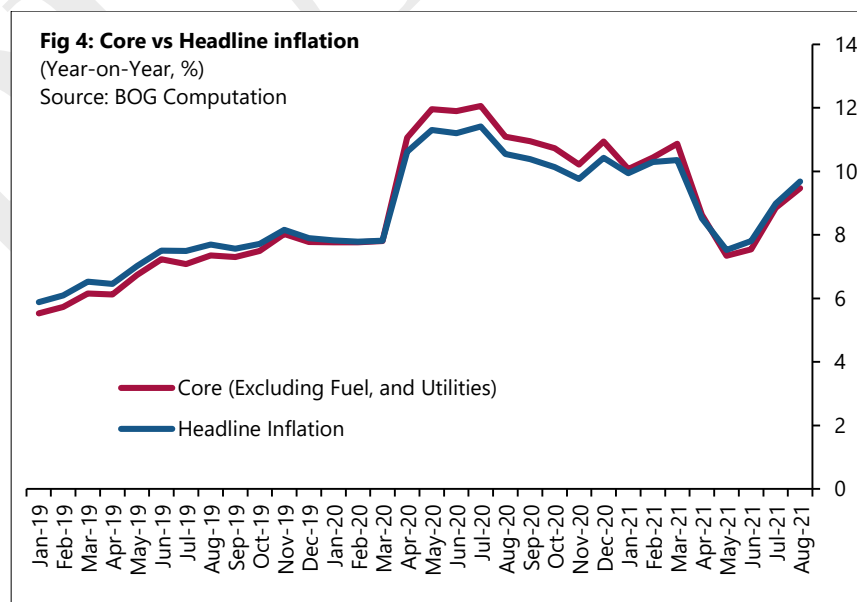
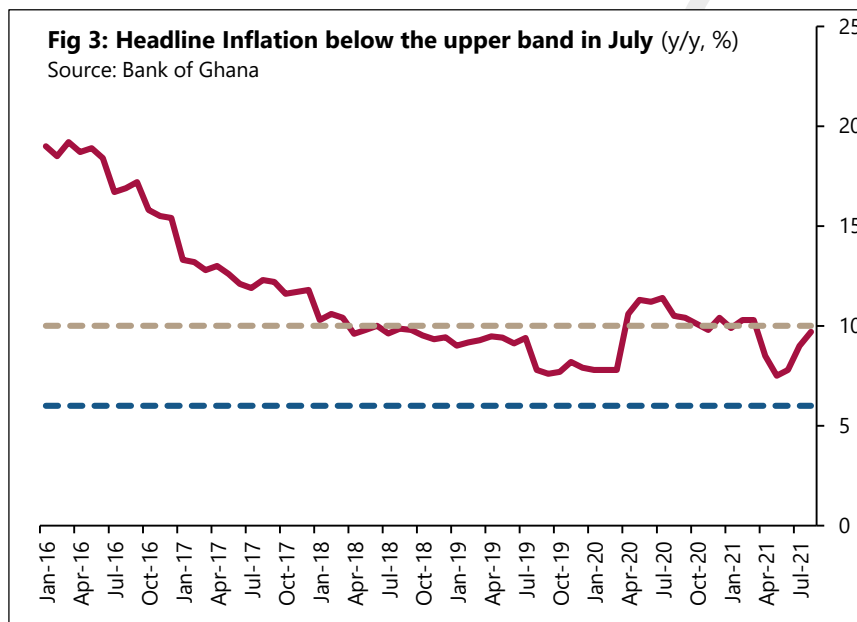
Headline Inflation

Price developments indicate an increase in the general price level during the third quarter of 2021. Two inflation readings since the last Monetary Policy Committee meeting showed significant increase in headline inflation from 7.8 percent in June to 9.0 percent in July 2021, and further up to 9.7 percent in August 2021, closer to the upper limit of the medium-term target band (Fig. 3). At the root of the upward trajectory of inflation was a surge in food prices over the period. Food inflation increased from 7.3 percent in June to 9.5 percent in July, and then to 10.6 percent in August 2021. Non-food inflation also rose

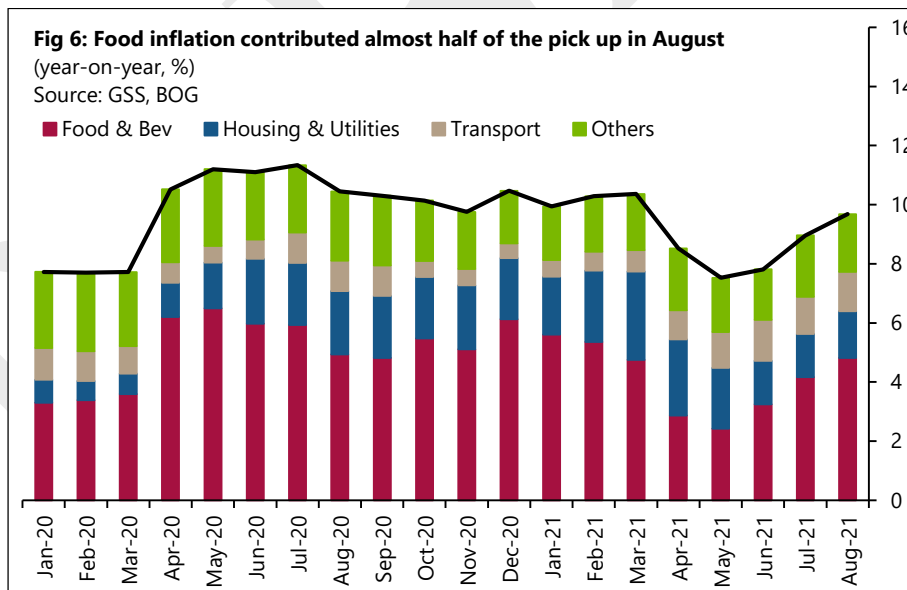
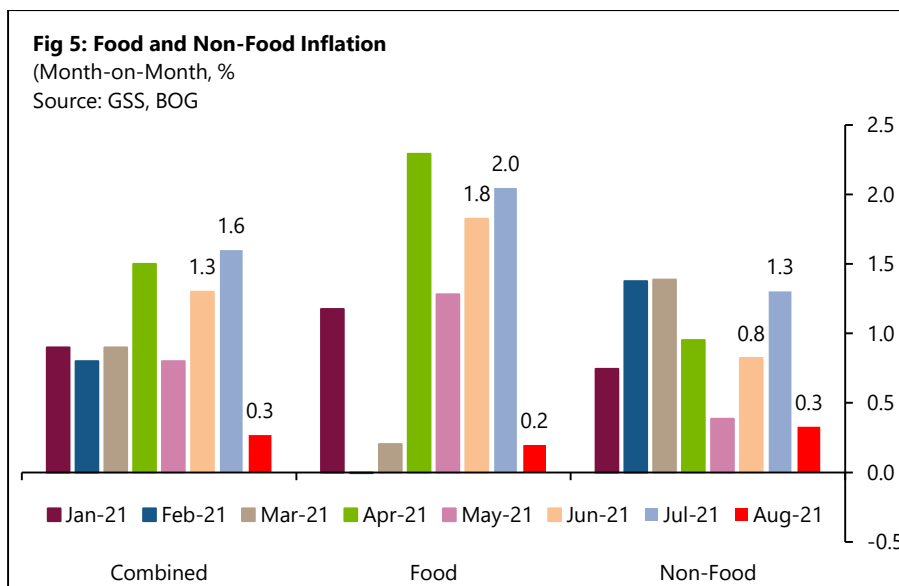
¹ The Ghana Purchasers Managers' Index (PMI) is computed by IHS Markit in collaboration with Stanbic Bank Ghana. The PMI is a composite index based on five sub-components, namely, New Orders, Output, Employment, Suppliers' Delivery Times, and Stock of Items Purchased, and the data is obtained from survey questionnaires administered to about 400 private sector companies across agriculture, construction, industry, services and wholesale & retail sectors.

marginally from 8.2 percent, 8.6 percent, and then 8.7 percent over the same comparative months.

The above trends are beginning to reflect in underlying inflation as all the Bank’s core measures of inflation increased over the period. The core inflation measure, which excludes energy and utility, increased from 7.5 percent in June 2021 to 8.9 percent in July, and then to 9.5 percent in August (Fig 4). The weighted inflation expectations index also picked up in July 2021, reflecting higher inflation expectations by businesses, consumers and the financial sector.



Over the period, month-on-month inflation climbed from 1.3 percent in June 2021 to 1.6 percent in July but fell to 0.3 percent in August 2021 (Fig 5). Monthly food inflation increased from 1.8 percent to 2.0 percent, and then dropped to 0.2 percent. Non-food monthly inflation grew from 0.8 percent in June to 1.3 percent in July 2021 and edged down to 0.3 percent in the eighth month.

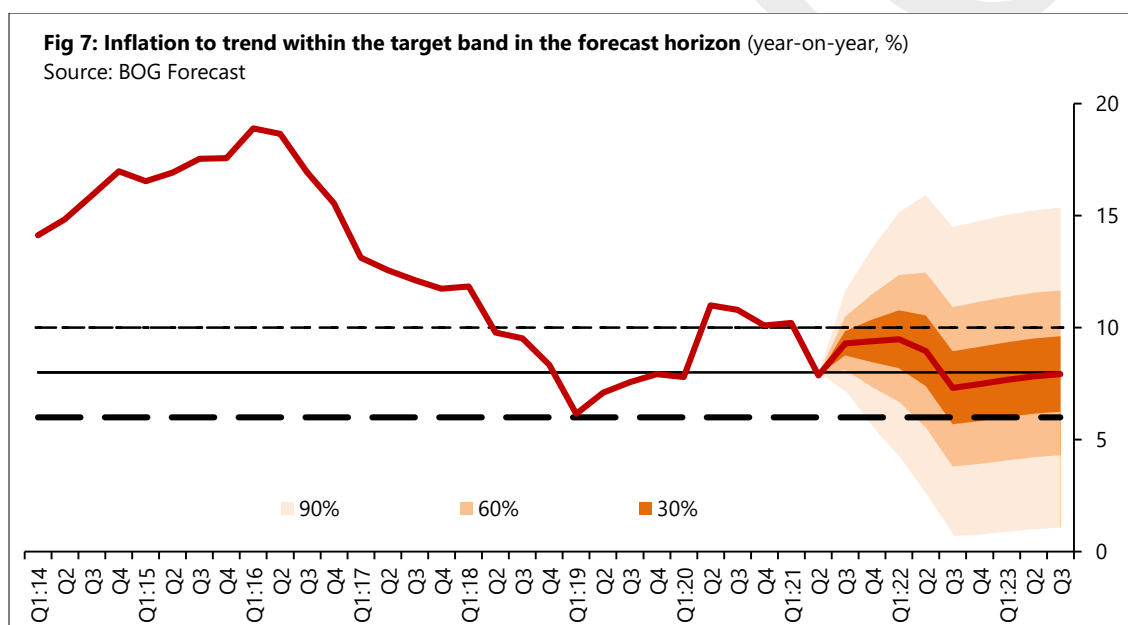


In terms of drivers of year-on-year inflation, food price increases accounted for almost half of the inflation in August (Fig 5). The rise in food inflation was occasioned mainly by a pick in cereals and fruit-bearing vegetables. Several factors have led to a crunch in the food supply chain, leading to increased costs. These factors include delayed rainfall in food producing areas and supply bottlenecks with fertilizer. The bird flu

outbreak which led to a restriction on poultry movement and the ban on importation of tomatoes due to Tomato Torado Virus (ToTV) also put pressures on food prices.

3.0 Inflation outlook

Headline inflation is projected to remain within the medium-term target band in the near-term, driven broadly by food prices. This reflects recent supply shocks which is expected to put upward pressures on food prices. Food inflation is forecast to remain elevated in the near-term before declining to the central path in the medium-term. In contrast, non-food inflation is expected to stay close to the central path in the outlook. Headline inflation is expected to ease to the central path in the medium term as food price pressures abate. Imported inflation is expected to stay elevated in the near-term and exert some upward pressures on domestic prices before easing as inflation returns to target in trading-partner countries.



Production costs in both the food and non-food sectors are forecast to remain low due to lower domestic input costs. But, over the medium-term, production costs are projected to gradually increase as the economy recovers.

Activity in the real sector is expected to remain below capacity in the near-term. Subdued real sector expectations arising from weak business confidence, tight monetary conditions, rising ex-pump petroleum prices, and fiscal consolidation are projected to moderate economic activity in the near-term. In the outlook, activity is expected to improve as businesses explore innovative ways to adjust to the impact of the pandemic.

3.1 Risks to the Inflation outlook

Assessment of risks to the inflation outlook from global economic conditions, foreign inflation, domestic economic activity and food prices suggests that the balance of risks to the inflation outlook are broadly balanced at this MPC round. The key risks as assessed at this MPC round include:

- ***Global economic conditions***

The global economic recovery continues unabated despite the spread of the Delta variant of the Covid-19 virus and supply chain bottlenecks. Global activity is currently being supported by ongoing vaccination programs and policy support in several countries. The current global economic momentum crucially hinges on the evolution of the pandemic including the emergence of new virus variants, increasing access to vaccines to developing countries and the appropriate policy mix between fiscal and monetary authorities to support economic activity.

- ***Global Inflation***

Global inflationary pressures have continued to firm up in several advanced and emerging market economies, reflecting a broad rise in commodity prices, especially crude oil, as well as disruptions to supply chains coinciding with aggregate demand pressures as economies reopen. The above-target inflation in several countries has lifted inflation expectations across the globe. In the near-term, pressures from the elevated global inflation are expected to lift domestic inflation through the imported price channel. Global inflation is expected to moderate over the medium-term, supported by slack in labour market conditions and restraint in wage growth.

- ***Domestic economic activity***

Annual GDP grew by 3.9 percent in the second quarter of 2021 compared to a 5.7 percent contraction recorded at the height of the pandemic in the second quarter of 2020 according to data released by the Ghana Statistical Service. Domestic economic activity continues to recover with the real CIEA recording a growth of 20.0 percent year-on-year in July 2021 compared to a growth of 3.9 percent a year ago. However, the marginal pickup in private sector credit remains a concern for recovery in growth conditions in the outlook. Given the subdued growth in private sector credit, the Bank of Ghana has signalled its intention to maintain the Covid-19 related macro-prudential measures to support recovery in the outlook. However, the existence of spare capacity (negative output gap) in the economy will limit the impact of the recovery in economic activity on headline inflation.

- ***Rising Food Prices***

The recent rise in food prices has been the major driver of headline inflation in recent months. The agricultural sector has been impacted by adverse supply shocks which have contributed to price pressures observed in recent months. These shocks include the outbreak of the bird flu disease which led to a ban on movements of poultry and poultry products within the country, as well as the delayed rainfall observed in many crop producing areas across the country. In addition, the outbreak of the ToTV has led to a ban on importation of tomatoes from neighbouring countries. The persistence of these supply side constraints could pose risks to inflation in the near-term.

4.0 Conclusion

Headline inflation climbed to 9.7 percent in August 2021, close to the upper band of the medium-term target, from 7.8 percent in June 2021. The September baseline forecast projects inflation to remain within the medium-term target band of 8 ± 2 percent, but closer to the upper limit in the near-term, barring any unforeseen shocks. The main upside risks to inflation in the outlook include the elevated global inflation, pressures from domestic food prices and high ex-pump prices.

Appendix Table 1: Headline Inflation

	Headline Inflation (%)			Monthly Changes in CPI (%)		
	Combined	Food	Non-food	Combined	Food	Non-food
Dec-18	9.4	8.7	9.8	1.1	1.3	1.0
Dec-19	7.9	7.2	8.5	0.3	-0.6	1.0
2020						
Mar	7.8	8.4	7.4	0.8	1.6	0.3
Apr	10.6	14.4	7.7	3.2	6.4	0.8
May	11.3	15.1	8.4	1.7	2.3	1.3
Jun	11.2	13.8	9.2	1.0	0.1	1.8
Jul	11.4	13.7	9.7	0.5	0.0	0.9
Aug	10.5	11.4	9.9	-0.4	-1.1	0.2
Sept	10.4	11.2	9.8	-0.2	-0.5	0.1
Oct	10.1	12.6	8.3	0.2	0.1	0.3
Nov	9.8	11.7	8.3	0.3	0.3	0.3
Dec	10.4	14.1	7.7	0.9	1.5	0.4
2021						
Jan	9.9	12.8	7.7	0.9	1.2	0.7
Feb	10.3	12.3	8.8	0.8	0.0	1.4
Mar	10.3	10.8	10.0	0.9	0.2	1.4
Apr	8.5	6.5	10.2	1.5	2.3	1.0
May	7.5	5.4	9.2	0.8	1.3	0.4
Jun	7.8	7.3	8.2	1.3	1.8	0.8
Jul	9.0	9.5	8.6	1.6	2.0	1.3
Aug	9.7	10.6	8.7	0.3	0.2	0.3

Source: Ghana Statistical Service

Appendix Table 2: CPI Components

CPI Components (%)											
	Weights (%)	2020						2021			
		Mar	Jun	Jul	Aug	Sept	Dec	Mar	Jun	Jul	Aug
Overall	100.0	7.8	11.2	11.4	10.5	10.4	10.4	10.3	7.8	9.0	9.7
Food and Beverages	43.1	8.4	13.8	13.7	11.4	11.2	14.1	10.8	7.3	9.5	10.6
Non-food	56.9	7.4	9.2	9.7	9.9	9.8	7.7	10.0	8.2	8.6	8.7
Alcoholic Beverages, Tobacco	3.7	11.4	8.6	7.6	9.4	9.0	6.0	7.0	6.5	7.9	6.4
Clothing and footwear	8.1	8.4	7.3	7.6	7.9	8.0	7.9	6.0	6.0	7.0	6.5
Housing and Utilities	10.2	6.7	21.3	20.3	20.8	20.3	20.1	29.0	14.2	14.1	15.2
Furnish, H/H Equipt. Etc	3.2	4.3	4.9	4.4	4.7	4.9	4.7	4.7	4.7	5.7	6.0
Health	0.7	6.2	7.8	6.8	7.2	8.9	6.0	7.1	6.0	6.3	6.3
Transport	10.1	9.2	6.3	10.0	9.9	10.1	4.8	6.8	13.4	12.1	12.8
Information and Communication	3.6	3.0	6.3	6.1	6.0	6.8	7.0	8.1	4.9	6.2	7.1
Recreation & Culture	3.5	9.0	5.8	5.3	3.8	3.4	1.8	4.0	3.6	4.7	6.3
Education	6.5	6.8	4.1	5.0	4.9	4.2	0.2	0.4	0.9	1.8	0.3
Restaurants and Accommodation	4.6	3.5	5.8	5.3	6.2	7.0	5.4	6.1	4.8	5.7	4.0
Insurance and Financial services	0.2	0.1	3.5	2.7	2.7	2.0	3.3	7.8	5.5	7.2	7.1
Miscellaneous goods & services	2.4	7.3	5.4	5.2	5.3	4.6	3.8	4.5	4.5	5.5	6.0

Source: Ghana Statistical Service