

The Current State of Ghana's Core Consumer Prices

A critical analysis of Ghana's core consumer price trends, key statistics, and recommendations for managing inflationary pressures and stabilizing core prices.



Highlights

In-depth analysis of core consumer price trends in Ghana and their divergence from headline inflation.

Key statistics on price movements in key sectors such as housing, transportation, and healthcare.

Projections and policy recommendations for stabilizing core consumer prices in the context of Ghana's macroeconomic challenges.

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Research Methodology

This article is based on data from the Ghana Statistical Service (GSS), the Bank of Ghana, and international financial institutions such as the International Monetary Fund (IMF) and the World Bank. The analysis focuses on core consumer prices, which exclude volatile items like food and energy, offering a more stable view of inflation trends. The research examines how core inflation interacts with broader economic indicators and compares Ghana's core price trends with those of other emerging markets. Historical data from previous years provide a backdrop for current developments.

Top 10 Key Statistics and Facts

- 1. Core Inflation Rate (2023):** Ghana's core inflation rate, excluding food and energy, stood at 21% in 2023, compared to the overall inflation rate of 30%.
- 2. Housing Costs:** Housing and utilities accounted for 11% of the CPI basket, with core prices in this sector increasing by 18% in 2023 due to rising construction costs.
- 3. Transportation Inflation:** Transportation costs, a major component of core inflation, surged by 24% in 2023, driven by fuel price increases and higher vehicle maintenance costs.
- 4. Healthcare Costs:** Healthcare services experienced a 15% rise in 2023, contributing to the overall increase in core consumer prices.
- 5. Clothing and Footwear:** Prices in the clothing and footwear category rose by 10% in 2023, reflecting higher import costs due to currency depreciation.
- 6. Education Services:** Core prices for education services saw a 9% increase in 2023, influenced by rising operational costs for schools.
- 7. Imported Inflation Impact:** About 40% of the increase in core consumer prices is attributed to imported inflation, driven by the depreciation of the cedi.
- 8. Core CPI Weighting:** Core items such as housing, transportation, healthcare, and education make up approximately 57% of Ghana's total CPI basket.
- 9. Monetary Policy Response:** The Bank of Ghana raised interest rates to 30% in 2023 in response to rising core inflation, although this has yet to fully curb price growth.
- 10. Urban vs Rural Inflation:** Urban areas experienced a higher core inflation rate (23%) compared to rural areas (18%), reflecting different cost structures and economic conditions.

Body of Article / Critical Analysis

Core consumer prices are a crucial indicator of inflationary pressures in an economy, as they exclude the volatile components of food and energy, providing a clearer picture of underlying inflation trends. In Ghana, core inflation has remained persistently high, reaching 21% in 2023, a substantial increase from 15% in 2022. This rise in core prices is symptomatic of broader economic challenges, including currency depreciation, rising import costs, and supply chain disruptions.

One of the most affected sectors within the core CPI is housing. Housing and utilities, which account for 11% of the CPI basket, saw an 18% increase in prices in 2023. Rising construction costs, coupled with higher utility prices, have driven up housing-related expenses. This trend is concerning, as housing is a basic necessity, and continued price increases in this sector could exacerbate housing affordability issues for many Ghanaians.

Transportation, another critical component of core consumer prices, experienced a sharp rise of 24% in 2023. The surge in transportation costs can be attributed to increases in fuel prices, which have been driven by both global oil price hikes and local currency depreciation. Higher transportation costs have a knock-on effect across the economy, raising the price of goods and services and contributing to overall inflationary pressures.

Healthcare costs have also risen significantly, with a 15% increase in 2023. The rising cost of healthcare services is partly due to the depreciation of the cedi, which has increased the cost of imported medical supplies and equipment. This increase poses a challenge to the healthcare system, as higher costs may reduce access to essential services, particularly for low-income households.

Overall, the rise in core consumer prices reflects structural weaknesses in the Ghanaian economy. The high dependency on imports, particularly for essential goods like fuel and healthcare supplies, makes the economy vulnerable to external shocks. Additionally, the depreciation of the cedi has amplified inflationary pressures by increasing the cost of imports, which is reflected in the high core inflation rate.

Current Top 10 Factors Impacting Ghana's Core Consumer Prices

- 1. Currency Depreciation:** The depreciation of the cedi has made imports more expensive, contributing to higher prices across many core consumer categories.
- 2. Fuel Price Increases:** Rising global oil prices have increased transportation costs, a significant driver of core inflation.
- 3. Supply Chain Disruptions:** Global and local supply chain issues have raised the cost of goods and services, particularly in sectors like healthcare and housing.
- 4. Housing Costs:** Rising construction material costs and utility price increases are key contributors to core inflation in the housing sector.
- 5. Healthcare Expenses:** The cost of healthcare services has risen due to the higher cost of imported medical supplies and equipment.
- 6. Wage Growth Lagging:** Wage growth in Ghana has not kept pace with inflation, limiting consumer purchasing power and exacerbating the impact of rising core prices.
- 7. Government Fiscal Policy:** Expansionary fiscal policies, including public sector wage increases, have contributed to inflationary pressures.
- 8. Monetary Policy Tightening:** While the Bank of Ghana's interest rate hikes have aimed to curb inflation, core inflation remains high, indicating limited effectiveness.
- 9. Imported Inflation:** Ghana's heavy reliance on imported goods, particularly for essential items, makes the economy vulnerable to global price fluctuations.
- 10. Business Cost Increases:** Rising operational costs for businesses, particularly in transportation and utilities, are being passed on to consumers, further driving up core prices.

Projections and Recommendations

Projections for core consumer prices in 2024 suggest that inflationary pressures are likely to persist in the short term, with core inflation expected to remain above 15%. However, if global oil prices stabilize and the cedi regains some value, core inflation could begin to ease by the second half of the year. The effectiveness of the Bank of Ghana's monetary tightening policies will also play a crucial role in determining the trajectory of core inflation.

To mitigate the impact of rising core consumer prices, the following recommendations are crucial:

Currency Stabilization: Policies aimed at stabilizing the cedi, such as boosting foreign exchange reserves and reducing the trade deficit, could help control import costs and reduce core inflation.

Energy Subsidies: Targeted energy subsidies could help alleviate the impact of rising fuel prices on transportation costs, thereby reducing core inflation.

Promoting Local Production: Reducing reliance on imported goods by promoting local manufacturing and agriculture could help shield the economy from global price shocks.

Monetary Policy Coordination: The Bank of Ghana should continue to coordinate closely with fiscal authorities to ensure that inflationary pressures are managed without stifling economic growth.

Conclusion

The current state of Ghana's core consumer prices reflects deep-rooted inflationary pressures that are being driven by both domestic and external factors. While the Bank of Ghana's efforts to curb inflation through monetary tightening are a step in the right direction, structural reforms aimed at reducing import dependency, stabilizing the cedi, and managing fuel costs will be essential for long-term price stability. As core consumer prices continue to rise, addressing these challenges will be critical to safeguarding the purchasing power of households and ensuring sustainable economic growth.

Notes

This analysis is based on core CPI data as of 2023. Future developments in global commodity prices or currency exchange rates could impact these projections.

Bibliography and References

1. Ghana Statistical Service. "Core Consumer Price Index Report 2023."
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Author: Professor of Economics and Statistics, Researcher in Residence at Leading Economic Think Tank

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