

# The Current State of Ghana's Inflation Expectations

A comprehensive analysis of inflation expectations in Ghana, key statistics on inflation trends, and recommendations for managing inflation and stabilizing the economy.



## Highlights

Analysis of inflation expectations in Ghana and their impact on monetary policy and economic growth.

Key statistics on inflation trends, business and consumer sentiment, and policy responses in 2023.

Projections and recommendations for managing inflation expectations and stabilizing the economy.

## Content

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## Research Methodology

This article draws from data and reports provided by the Bank of Ghana, Ghana Statistical Service (GSS), the International Monetary Fund (IMF), and the World Bank. The methodology includes an analysis of inflation trends, business and consumer surveys, and forward-looking inflation expectations based on economic forecasts and sentiment indicators. The article also reviews policy measures undertaken by the Bank of Ghana to manage inflationary pressures and compares current inflation expectations with historical data.

## Top 10 Key Statistics and Facts

- 1. Inflation Rate (2023):** Ghana's overall inflation rate stood at 30% in 2023, with food inflation contributing significantly to the headline figure.
- 2. Core Inflation:** Core inflation, which excludes volatile food and energy prices, reached 21% in 2023, signaling persistent underlying inflationary pressures.
- 3. Business Inflation Expectations:** According to a Bank of Ghana survey, 70% of businesses expect inflation to remain above 25% in 2024, reflecting concerns over rising costs.
- 4. Consumer Price Expectations:** 65% of households expect prices to continue rising over the next 12 months, particularly for essential goods like food and fuel.
- 5. Interest Rate (2023):** The Bank of Ghana raised its policy interest rate to 30% in 2023 in response to rising inflation expectations and persistent price pressures.
- 6. Inflation Targeting:** The Bank of Ghana's inflation target range is 6-10%, but inflation has consistently exceeded this range in recent years, peaking at 54.1% in early 2023.
- 7. Cedi Depreciation Impact:** The cedi depreciated by over 20% in 2023, contributing to rising import costs and fueling inflation expectations.
- 8. Imported Inflation:** Imported inflation, driven by global supply chain disruptions and rising commodity prices, accounted for 40% of the inflationary pressures in 2023.
- 9. Wage Growth vs Inflation:** Real wage growth lagged behind inflation, with wages increasing by an average of 10% in 2023, significantly below the inflation rate.
- 10. Inflation Outlook (2024):** The IMF projects inflation to remain above 15% in 2024, though global commodity prices and monetary policy actions could affect this forecast.

## Body of Article / Critical Analysis

Inflation expectations play a pivotal role in shaping economic decisions for businesses, consumers, and policymakers. In Ghana, where inflation reached 30% in 2023, expectations have become increasingly elevated, driven by a combination of global and domestic factors. Businesses and households are bracing for continued price increases, with inflation expectations for 2024 suggesting persistent concerns about rising costs, especially in sectors like food, energy, and imports.

One of the most significant drivers of inflation expectations in Ghana is the sharp depreciation of the cedi. In 2023, the cedi lost over 20% of its value against major currencies, raising the cost of imported goods such as fuel, machinery, and food. The impact of this currency depreciation is reflected in rising inflation expectations, particularly for essential goods. As businesses anticipate higher input costs due to currency weakness, they are likely to pass these costs on to consumers, further driving inflationary pressures.

Another factor influencing inflation expectations is global commodity price volatility. Ghana, as an importer of key goods such as fuel and food, is highly exposed to global price fluctuations. The Russia-Ukraine conflict, for instance, has led to disruptions in global energy and food markets, causing significant price increases for oil, wheat, and other essential commodities. These external shocks have elevated expectations that inflation will remain high, particularly in the near term.

The Bank of Ghana has responded to rising inflation expectations with aggressive monetary tightening, raising its policy interest rate to 30% in 2023. While this is aimed at curbing inflation, the policy has yet to fully anchor inflation expectations. Core inflation, which excludes volatile items like food and energy, remains elevated at 21%, signaling that underlying inflationary pressures are still entrenched in the economy.

Inflation expectations are also being shaped by consumer and business sentiment. Surveys conducted by the Bank of Ghana show that 70% of businesses and 65% of households expect inflation to remain elevated in 2024. This sentiment is driven by ongoing supply chain disruptions, high transportation costs, and uncertainty over future global commodity prices. If these expectations persist, they could lead to wage-price spirals, where businesses raise prices in anticipation of higher costs, and workers demand higher wages to keep up with inflation, perpetuating the cycle of rising prices.

## Current Top 10 Factors Impacting Ghana's Inflation Expectations

- 1. Cedi Depreciation:** The weakening of the cedi has increased the cost of imported goods, fueling inflation expectations.
- 2. Global Commodity Prices:** Rising global prices for fuel, food, and raw materials have increased the cost of imports, contributing to inflationary pressures.
- 3. Monetary Policy Response:** The Bank of Ghana's interest rate hikes have sought to curb inflation, but persistent inflation expectations suggest that monetary tightening has not yet fully anchored expectations.
- 4. Supply Chain Disruptions:** Global supply chain disruptions, exacerbated by geopolitical tensions, have raised the cost of imports and fueled inflation expectations.
- 5. Imported Inflation:** Ghana's reliance on imported goods, particularly fuel and food, has made the economy vulnerable to global price shocks, which shape inflation expectations.
- 6. Consumer Sentiment:** Surveys show that consumers expect prices to continue rising, especially for essentials such as food, fuel, and transportation.
- 7. Business Sentiment:** Businesses are passing on higher input costs to consumers, further fueling inflation expectations.
- 8. Real Wage Growth:** Wages have not kept pace with inflation, eroding household purchasing power and contributing to inflationary expectations.
- 9. Government Spending:** Expansionary fiscal policies, including increased government spending, have added to inflationary pressures and shaped inflation expectations.
- 10. External Shocks:** Geopolitical events and natural disasters affecting global markets are external factors that continue to impact inflation expectations in Ghana.

## Projections and Recommendations

Projections for 2024 suggest that inflation expectations in Ghana will remain elevated, although a moderation in global commodity prices and more aggressive monetary policy could help reduce inflationary pressures. However, given the persistence of core inflation and ongoing external risks, inflation expectations are likely to remain above the Bank of Ghana's target range in the near term.

To manage inflation expectations more effectively, the following recommendations are critical:

**Stabilize the Cedi:** Strengthening the cedi through improved foreign exchange reserves and sound monetary policy will help reduce imported inflation and lower inflation expectations.

**Targeted Monetary Policy:** The Bank of Ghana should continue its monetary tightening while providing targeted support to vulnerable sectors to mitigate the impact of rising interest rates.

**Reduce Import Dependency:** Investing in local production of essential goods, particularly food and energy, can help reduce reliance on imports and cushion against external price shocks.

**Fiscal Discipline:** The government should implement fiscal consolidation

measures to reduce inflationary pressures from increased public spending.

**Anchor Inflation Expectations:** Clear communication from the Bank of Ghana on its inflation-fighting strategies can help anchor expectations and restore confidence in monetary policy.

## Conclusion

Ghana's inflation expectations reflect a combination of global and domestic challenges that have driven price levels higher in 2023. The depreciation of the cedi, rising global commodity prices, and ongoing supply chain disruptions have fueled expectations that inflation will remain elevated in the near term. While the Bank of Ghana's monetary tightening measures are necessary to control inflation, more comprehensive policy actions, including fiscal discipline and efforts to reduce import dependency, will be needed to anchor inflation expectations and stabilize the economy.

## Notes

This analysis is based on inflation data as of 2023. Any significant changes in global commodity markets or domestic policies could impact future inflation expectations.

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