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STATEMENT ON THE COMPUTATION OF CONSUMER INFLATION BY THE GHANA STATISTICAL SERVICE AND THE STEVE HANKE - PURCHASING POWER PARITY APPROACH

I. CONTEXT

The production of official statistics for national policy guidance and decision-making by households and firms are expected to follow both national and international quality assurance processes which are transparent and publicly accessible. The dispensation of the professional and technical functions of the Ghana Statistical Service (GSS) as stated in the Statistical Service Act 2019, Act (1003), are guided by the ten fundamental principles of official statistics of the United Nations. Among the provisions of the fundamental principles, National Statistical Offices (NSOs) are required to ensure that official statistics meet the test of practical utility; follow strict professional considerations, including scientific principles and professional ethics, on the methods and procedures; and adhere to international concepts, classifications and methods that promote consistency and efficiency.

Ghana has yielded to the demands for transparency in the production of Consumer Price Index (CPI) and Inflation, followed scientific and professional standards and ensured country relevance, without compromising international procedures. This is evidenced by the publication of the technical guidance for the compilation and computation of CPI and Inflation in 2020, which is accessible on the website of GSS- https://statsghana.gov.gh/gssmain/fileUpload/Price%20Indices/CPI_Technical_Guide_v5_Published_14102020.pdf. This publication uses international standards such as the United Nations' Classification of Individual Consumption According to Purpose ((COICOP) 2018 Manual). The primary aim of this international standard is to ensure that items selected for the computation of CPI and Inflation give credence to their level of importance to households and are unambiguously mutually exclusive and exhaustive.

In recent times, the media in Ghana has carried news of an alternative approach to the computation of Consumer Inflation by an individual named Professor Steve Hanke. This alternative approach (The Steve Hanke-Purchasing Power Parity Approach) presents an annual Consumer Inflation which is higher than the rates published by GSS. The consistency with the news coverage in the last couple of months and its presence on different platforms oblige GSS to engage the public and policymakers on the methodological differences and the relative superiority of Ghana's approach to the computation of CPI and Inflation.

2. GHANA STATISTICAL SERVICE'S APPROACH

The Ghana Statistical Service computes consumer inflation based on the measure of CPI. The CPI is based on a fixed basket of goods (such as food and clothing) and services (such as repairs and school fees) that are purchased by households. The basket has 307 items and their corresponding weights (share of expenditures). Prices are collected on the different brands and service providers of these 307 items leading to approximately 39,500 price quotations collected monthly from 7,726 outlets across the country.

The Statistical Service CPI computation utilises the classification of individual consumption by purpose (COICOP) which was developed specifically by the United Nations Statistics Division for the classification and analysis of household expenditures. The 307 items are ordered into a mutually exclusive hierarchy of 13 Divisions, 44 Groups, 98 Classes, and 156 Subclasses which engenders the allocation of weights and computation of category-specific rates of inflation. Furthermore, the use of weights reflect the country-relevance of the inflation measure. The weights assigned to an item are based on their share of annual household expenditure. For instance, in Ghana, among the 307 items, bus and *trotro* fares (5.8%) cooked rice e.g. *waakye*, (3.8%), and payment of rent (3.7%) have the highest weights. On the other hand, items such as the cost of public dental services, parking space, printing of pictures, and repair of tables and chairs have the least weights of less than 0.01%.

The selection of the items in this basket is based on annual household expenditure data from the 2017/2018 Ghana Living Standards Survey (GLSS). The GLSS is a nationally representative household survey which collects information on all the goods and services that households purchased over a 12-month period. This yields the fixed basket which allows for the inclusion of commodities not typically consumed in other countries such as *momoni* (fermented fish) and onboarding items that are not easily comparable across countries such as bus and *trotro* fares. The GLSS is conducted every five years which allows for revision of item weights to reflect current consumption patterns (rebasings).

3. STEVE HANKE'S PURCHASING POWER PARITY APPROACH

The Steve Hanke Purchasing Power Parity (SH-PPP) proposition for computing consumer inflation mainly relies on the role of exchange rate, as it is used to equate a country's local currency and the world's reserve currency, the U.S. dollar. Three assumptions that underpin the use of SH-PPP for computing consumer inflation are as follows (1) Countries facing high inflation rates either price all or most of items in U.S. dollar, which is assumed to be stable; (2) All goods and services that are important (share of total consumption expenditure) in individual countries are internationally tradeable and comparable. This assumption underlies the assertion that the U.S. dollar equivalent of these important country specific items can always be ascertained even if a commodity is priced in the local currency; and (3) Presence, stability, and accuracy of exchange rate data.

Premised on the assumptions and the primary use of exchange rate, the SH-PPP approach is wholly at variance with the approach used in computing CPI and inflation in Ghana.

4. POINTS OF DEPARTURE BETWEEN THE CPI AND SH-PPP APPROACHES OF MEASURING CONSUMER INFLATION

Globally, measures of CPI and inflation are based on the [Consumer Price Index Manual: Concepts and Methods](#) and should satisfy the following conditions:

4.1 Importance of Items

The GSS approach, which utilises weights, ensures that the items which make up larger share of household consumption expenditures, exert a larger influence on the CPI relative to those that have smaller shares.

The SH-PPP approach does not collect data on prices (only uses exchange rate data) and does not take expenditure weights into account.

4.2 Disaggregation

The GSS releases monthly inflation figures at the regional level and provides disaggregated rates for food and non-food inflation, and for imported and locally produced items.

The SH-PPP approach is not able to disaggregate data particularly at the geographic level as it does not involve data collection from markets.

4.3 Exhaustiveness

All the important items that are consumed in Ghana are in the basket that GSS uses to compute CPI.

The SH-PPP approach assumes that all goods and services are traded internationally. It is not all the goods and services in Ghana's CPI fixed basket that are traded internationally.

4.4 Contextualisation

The GSS approach produces statistics that consider country-specific living arrangements. For instance, it accounts for price/quantity adjustments when the use of weighing scales is not predominantly used in the determination of prices and other modes such as *olonka* and baskets are more common.

The SH-PPP is unable to provide contextualised inflation figures.

5. TAKEAWAYS

The SH-PPP approach is not the conventional mode for computing consumer inflation. Its methodology is not the internationally recognised and accepted standard for computing consumer inflation. A major weakness of the SH-PPP approach is the erosion of country specificities.