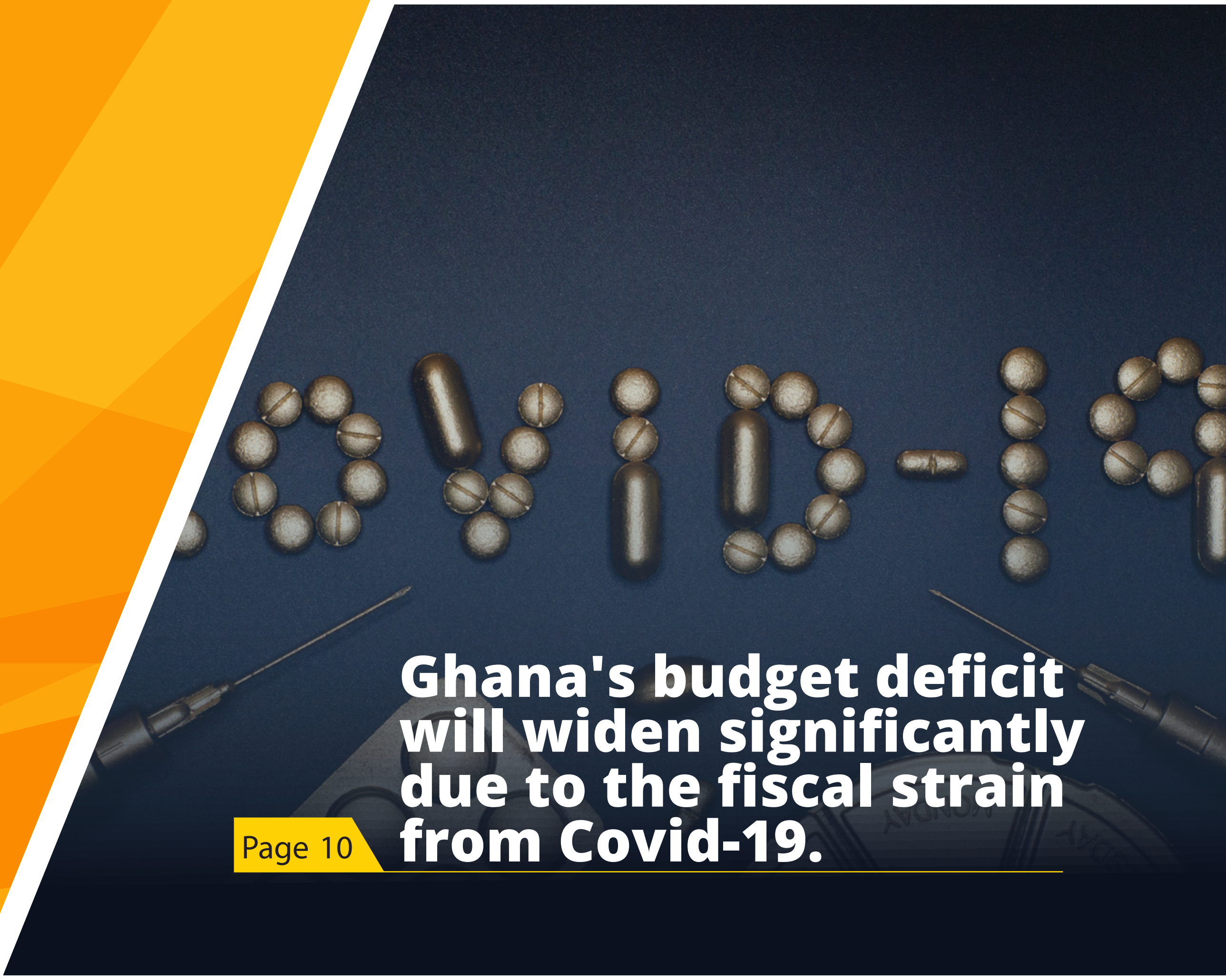
ISSUE 17



Ghana's budget deficit will widen significantly due to the fiscal strain from Covid-19.

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PLANNING & RESEARCH MONTHLY ECONOMIC UPDATES

April | 2019

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	Actual					Forecast	
In Percent (%)	**Dec-19**	**Jan-20**	**Feb-20**	**Mar-20**	**Apr-20**	**May-20**	**Dec-20**
GDP (%)	6.5%	-	-	3.5%*			**1.5%**
Inflation (Consumer Price Index)	7.9%	7.8%	7.8%	7.8%	7.8%	7.9%*	**8.5%**
MPR (Monetary Policy Rate)	16.0%	16.0%	16.0%	14.5%	14.5%	13.5%	**13.0%**
91-Day Treasury Bill	14.7%	14.7%	14.8%	14.6%	14.0%	13.9%	**14.2%**
182-Day Treasury Bill	15.2%	15.1%	15.2%	15.2%	14.0%	14.1%	**14.5%**
1-Year Bond Rate	17.9%	17.9%	17.8%	17.6%	16.7%	16.6%	**16.9%**
FX Rate (USD/GHS)	5.5337	5.4672	5.2949	5.4423	5.6010	5.6060	**5.8000**
FX Rate (GBP/GHS)	7.3164	7.1924	6.7881	6.7583	7.0584	7.0605	**7.6470**
FX Rate (EUR/GHS)	6.2114	6.0476	5.8048	5.9752	6.1276	6.1294	**6.6700**
Gold (US$/oz)	1,523.10	1,587.90	1,566.70	1,596.60	1,694.20	1,709.39	**1,791.49**
Cocoa (US$/ton)	2,457.47	2,699.56	2,584.87	2,218.36	2,414.00	2,420.00	**2,339.28**
WTI (US$/bbl)	61.06	51.56	44.76	20.48	18.84	19.69	**28.69**
Brent (US$/bbl)	66.00	56.62	49.67	26.35	25.27	24.75	**32.35**
***Forecast - GDP, Inflation**							

Executive Summary		
Macro Indicators	**Current Situation**	**Outlook**
Economic growth	• On the domestic front, the latest provisional GDP estimates for 2019 released by the Ghana Statistical Services (GSS) showed a growth rate of 6.5% compared to 6.3% in 2018. • The Services sector recorded the highest growth rate of 7.6%, followed by Industry (6.4%) and Agriculture (4.6%) sectors.	• In the outlook, we anticipate enormous negative impact on FDI inflows, the hospitality industry, trade and industrial sectors and Agriculture sector due to supply chain challenges arising out of Covid-19 pandemic. Ghana's GDP growth is therefore projected to decline from 6.5% to 2.6% in a baseline scenario and to 1.5% in a worst case scenario in 2020.
Fiscal Policy	• Provisional budget estimates from January to December 2019 indicated that total revenue and grants amounted to GH¢52.97 billion (15.3 percent of GDP) compared with the projected target of GH¢54.56 billion (15.8 percent of GDP). • Total expenditures, including arrears clearance was GH¢67.67 billion (19.6 percent of GDP), below the target of GH¢70.19 billion (20.3 percent of GDP). • These developments resulted in an overall fiscal deficit (on a cash basis) of 4.8 percent of GDP, slightly above the target of 4.7 percent of GDP but below the 5.0 percent fiscal rule.	• In the outlook, Ghana's budget deficit for 2020 will widen significantly due to the fiscal strain that could arise from Covid-19. • The total estimated fiscal impact from the shortfall in petroleum receipts, shortfall in import duties, shortfall in other tax revenues, the cost of the preparedness plan, and the cost of Coronavirus Alleviation Programme is estimated at GH₵9,505 million (2.5% of revised GDP). • This shows that the overall fiscal deficit will increase from the programmed GH₵18.9 billion (4.7% of GDP) to GH₵30.2 billion (7.8% of revised GDP) in 2020. • The primary balance will correspondingly worsen from a surplus of GH₵2,811 billion (0.7% of GDP) to a deficit of GH₵5.6 billion (1.4% of GDP).
Debt Sustainability	• Provisional estimates for the stock of public debt rose to 63.1 percent of GDP (GH¢218.0 billion), at the end of 2019 compared with 57.6 percent of GDP (GH¢173.1 billion) at the end of 2018. • Of the total debt stock, domestic debt was GH¢105.5 billion, while external debt was GH¢112.5 billion with a share of 51.6 percent in total public debt.	• Ghana's debt sustainability will remain a cause for concern in the years ahead, although we do expect that it will improve from current levels. • Our expectation is for the debt to be a little elevated due to the Coronavirus pandemic. This is expected to lead to a marginal increase in the debt to GDP ratio to about 72% in 2020.
Inflation	• The national year-on-year inflation rate was 7.8% in March 2020, same rate as the previous month. The stability in inflation was driven by a decline in non-food inflation. • The Food and Non-alcoholic beverages division recorded a year-on-year inflation rate of 8.4%. This was 0.5 percentage points higher than what was recorded in February 2020 (7.9%). • The non-food year-on-year inflation for March 2020 was 7.4%, down from 7.7% recorded in February 2020.	• We project a subdued rise in prices of goods and services in the coming month. This would be on the back of ongoing currency weakness and upward pressure on the prices of some goods as a result of pandemic-related restrictions and shortages. • Also, fiscal pressures as well as current global supply disruptions present an upside risk to inflation. • We therefore forecast inflation of **7.9±0.2%** for the month of April and **8.5±0.2%** for year-end 2020.
Interest Rate	• Interest rates on the money market decreased slightly across the various maturities of the yield curve in April 2020. The government of Ghana 91-day Treasury bill went down marginally to 14. 03% as at the end of April from 14.64% in March. • The 182-day Treasury bill also declined slight to 14.03% in April from 15.15% in March. • The Monetary Policy Rate declined by 150 basis points to 14.5% from 16% in the last MPC meeting. • The interbank market rates ranged between 14.00% and 13.92% as at the end of April 2020 averaging 13.96%.	• Our expectation is for the BoG to undertake further near term monetary easing in the course of the year. Should the negative impact of the Covid-19 pandemic on the expected downturn in economic activity deteriorates further as the situation unfolds, our expectation is for BoG to make another 100 basis point (bps) cut in the policy rate to support growth. • For T-bill rates, our expectation is for the short end of the market to be fairly stable rising gradually on the back of expected increases in domestic borrowing to support the fiscal gap created by Covid-19.
Exchange Rate	• The cedi recorded a depreciation rate of 2.8%, 4.3% and 2.5% against the dollar, GBP and EUR respectively in April 2020 compared to a depreciation of 2.7% and 2.9% against the dollar and the Euro respectively and an appreciation of 0.4% against the GPB in the month of March. • Year to date, the cedi has seen a cumulative depreciation of 1.2% to the dollar and an appreciation of 3.7% and 1.4% in that order to the GBP and EUR. • YoY, the cedi has depreciated by 9.2%, 6.1% and 7.0% respectively to the dollar, GBP and EUR.	• In line with other emerging-market currencies, we expect the cedi to remain weak in the face of heightened global risk perceptions—which, in Ghana's case, will be accentuated by increasing uncertainty ahead of the December 2020 elections. • Against this backdrop, we forecast that the cedi will depreciate to an average of **GH¢5.80:US$1** in 2020. • In the short term our expectation is for the cedi to get some support from the **US$1 billion** Rapid Credit Facility from IMF and the Central Bank's intervention in the Fx market through its auction strategy.
Business Impact	• **Pricing of our Products-** Interest rates on the money market decreased slightly across the various maturities of the yield curve. Our expectation is for the decrease to reflect in the pricing of our assets and liabilities. • **Revenue Generation**- Ramping up fee income from our various digital services (G-Money & Others) and providing premiums services through private banking would serve as a sustainable source of revenue generation for Bank in the medium to long term as interest rate decline.	

02 Economic Developments

Global Overview - *Global growth projected to contract due to the impact of global lockdowns on economic activities.*

The COVID-19 pandemic is inflicting high and rising human costs worldwide. Protecting lives and allowing health care systems to cope have required isolation, lockdowns, and widespread closures to slow the spread of the virus. The health crisis is therefore having a severe impact on economic activity. As a result of the pandemic, the global economy is projected to contract sharply by –3 percent in 2020, much worse than during the 2008–09 financial crisis. In a baseline scenario, which assumes that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound, the global economy is projected to grow by 5.8 percent in 2021 as economic activity normalizes, helped by policy support.

There is extreme uncertainty around the global growth forecast. The economic fallout depends on factors that interact in ways that are hard to predict, including the pathway of the pandemic, the intensity and efficacy of containment efforts, the extent of supply disruptions, the repercussions of the dramatic tightening in global financial market conditions, shifts in spending patterns, behavioural changes (such as people avoiding shopping malls and public transportation), confidence effects, and volatile commodity prices. Many countries face a multi-layered crisis comprising a health shock, domestic economic disruptions, plummeting external demand, capital flow reversals, and a collapse in commodity prices. ***Risks of a worse outcome predominate.***

Effective policies are essential to forestall worse outcomes. Necessary measures to reduce contagion and protect lives will take a short-term toll on economic activity but should also be seen as an important investment in long-term human and economic health. The immediate priority is to contain the fallout from the COVID-19 outbreak, especially by increasing health care expenditures to strengthen the capacity and resources of the health care sector while adopting measures that reduce contagion. Economic policies will also need to cushion the impact of the decline in activity on people, firms, and the financial system; reduce persistent scarring effects from the unavoidable severe slowdown; and ensure that the economic recovery can begin quickly once the pandemic fades.

Because the economic fallout reflects particularly acute shocks in specific sectors, policymakers will need to implement substantial targeted fiscal, monetary, and financial market measures to support affected households and businesses. Such actions will help maintain economic relationships throughout the shutdown and are essential to enable activity to gradually normalize once the pandemic abates and containment measures are lifted. The fiscal response in affected countries has been swift and sizable in many advanced economies (such as Australia, France, Germany, Italy, Japan, Spain, the United Kingdom, and the United States). Many emerging market and developing economies (such as China, Indonesia, and South Africa) have also begun providing or announcing significant fiscal support to heavily impacted sectors and workers. Fiscal measures will need to be scaled up if the stoppages to economic activity are persistent, or the pickup in activity as restrictions are lifted is too weak. Economies facing financing constraints to combat the pandemic and its effects may require external support. Broad-based fiscal stimulus can pre-empt a steeper decline in confidence, lift aggregate demand, and avert an even deeper downturn. But it would most likely be more effective once the outbreak fades and people are able to move about freely.

The significant actions of large central banks in recent weeks include monetary stimulus and liquidity facilities to reduce systemic stress. These actions have supported confidence and contribute to limiting the amplification of the shock, thus ensuring that the economy is better placed to recover. The synchronized actions can magnify their impact on individual economies and will also help generate the space for emerging market and developing economies to use monetary policy to respond to domestic cyclical conditions. ***Supervisors should also encourage banks to renegotiate loans to distressed households and firms while maintaining a transparent assessment of credit risk.***

Strong multilateral cooperation is essential to overcome the effects of the pandemic, including to help financially constrained countries facing twin health and funding shocks, and for channelling aid to countries with weak health care systems. Countries urgently need to work together to slow the spread of the virus and to develop a vaccine and therapies to counter the disease. Until such medical interventions become available, no country is safe from the pandemic (including a recurrence after the initial wave subsides) as long as transmission occurs elsewhere.

Ghana Economic Growth - *Growth to contract in Ghana in 2020 due to the impact of Covid-19 on economic activity.*

On the domestic front, the latest provisional GDP estimates for 2019 released by the Ghana Statistical Services (GSS) showed a growth rate of 6.5% compared to 6.3% in 2018. The Services sector recorded the highest growth rate of 7.6%, followed by Industry (6.4%) and Agriculture (4.6%) sectors.

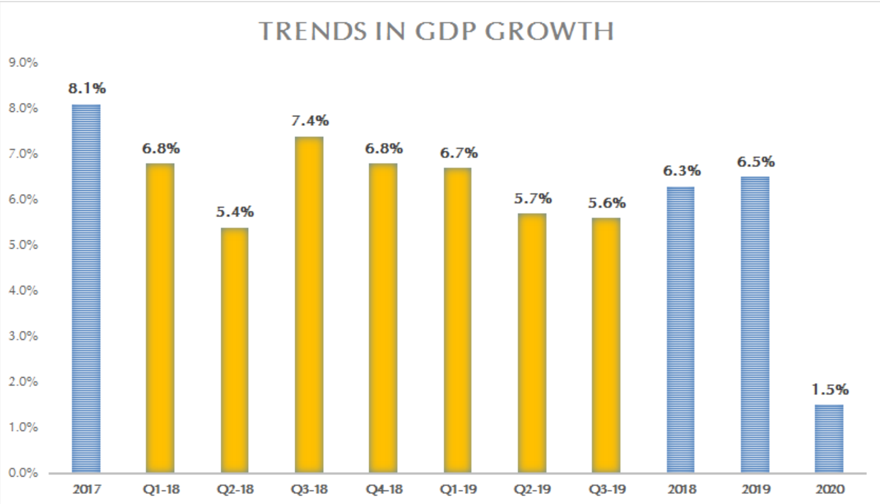
Services remain the largest sector. Its share of GDP increased from 46.3% in 2018 to 47.2% in 2019. The sector's GDP growth rate increased from 2.7% in 2018 to 7.6% in 2019 and contributed 2.8 percentage points (43.4%) to the 2019 annual growth rate of 6.5%. Two of the sub-sectors in this sector contributed more than 5 percent to the 2019 annual growth rates. These are the Information and Communication with a growth rate of 46.5% and a contribution of 1.0 percentage points (15.7%) to annual growth and the Trade; Repair of Vehicles, Household Goods sub-sector (3.7%) which contributed 0.4 percentage point to annual GDP growth.

The Industry sector contributed 2.4 percentage points (37.5%) to 2019 annual GDP growth rate, though its share of GDP at basic prices increased by 0.2% from 34.0% in 2018 to 34.2% in 2019. The main driver of the 2019 GDP growth was the Mining and Quarrying subsector with a growth rate of 12.6% and contribution to growth of 2.0 percentage points (31.2%). There was contraction in the Construction (-4.4%) and Water and Sewerage, Waste Management & Remediation Activities (-4.4%).

The Agriculture sector saw a growth of 4.6% in 2019 compared to a growth rate of 4.8% in 2018. Its share of GDP declined from 19.7% in 2018 to 18.5% in 2019. Crops being the third largest activity in Ghana had a share of 13.8% of GDP and contributed 0.7 percentage points to 2019 annual GDP growth. The Forestry and logging sub-sector contracted (-1.7%) having recorded 2.4% in 2018.

The Non-Oil annual GDP growth rate decreased from 6.5% in 2018 to 5.8% in 2019. The slowdown in growth rate could be attributed to a 10.4 percent growth rate in Mining and Quarrying activities (excluding Oil and Gas) in 2019 compared to 48.6% in 2018. Contractions in the Forestry & logging, Water & Sewerage and Construction sub-sectors also contributed to the slowdown in the non-oil GDP growth in 2019.

Fig 1: Trends in Real GDP Growth Rate



Source: Ghana Statistical Service (GSS)

In the outlook, the outbreak of the novel coronavirus is expected to affect the Ghanaian economy directly and indirectly. Directly, the disease would affect production, trade and investment within Ghana and between Ghana and the rest of the world (especially China, Europe and the United States), on global commodity (crude oil, gold, and cocoa) prices, on tourist flows, on fiscal stance, and on human life, especially the health and life of the most vulnerable. Indirectly, it would impact on the Ghanaian economy through the slowing of global economic growth, supply chain disruptions, and by extension, impacting negatively on growth.

More specifically, our expectation is for a significant slowdown in our GDP growth, significant shortfalls in petroleum revenues and import duties and tighter financing conditions globally and in the domestic financial sector. Aside the above, we anticipate enormous negative impact on FDI inflows, the hospitality industry, trade and industrial sectors and Agriculture sector due to supply chain challenges arising out of the pandemic. Ghana's GDP growth is therefore projected to decline from 6.5% to **2.6%** in a baseline scenario and to **1.5%** in a worst case scenario in 2020.

Also, the key hydrocarbons sector will be badly hit. In addition to the ongoing operational difficulties facing Tullow Oil, a UK based oil company, at the Jubilee and Tweneboa-Enyenra-Ntomme oilfields,

the sharp plunge in global oil demand and prices will weigh heavily on the sector. The downturn in the hydrocarbons sector will also have spill over effects on the wider economy, by negatively affecting industrial production, infrastructure investment and auxiliary services. Private consumption will also
weaken.

However gloomy the situation may be, the COVID-19 pandemic also presents an opportunity to boost domestic production and consumption of some food commodities, such as rice, maize, cassava, yam and chicken. This could be a possible plan and opportunity for Ghana to increase the production and export of commodities for which the country has comparative advantage in to trade within the West African region, among countries that have not closed their borders to cargo. This we believe could go a long way to boost some level of growth in the economy.

Furthermore, a recent easing in monetary policy, together with other supportive measures, will provide some partial relief. Nonetheless, the banking sector is still hampered by massive legacy debts to state owned energy firms. Fearful of a run on banks, the BoG in mid-March instructed financial institutions to activate their business continuity and disaster recovery plans, and to keep these plans under review as the situation evolves.

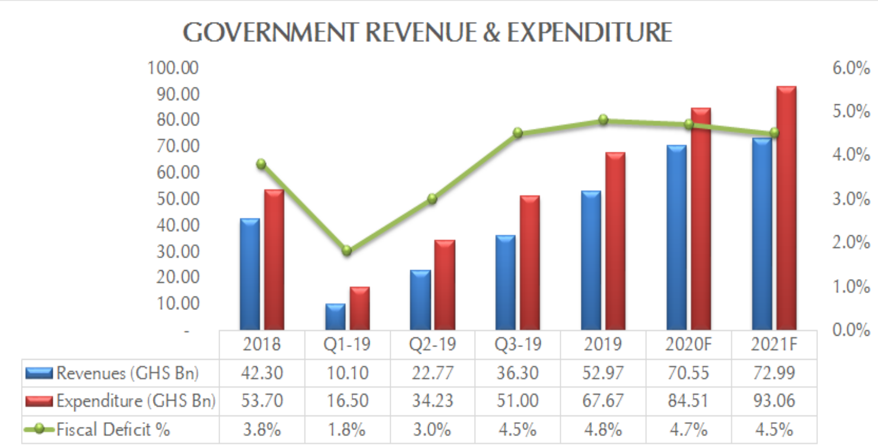
As the pandemic starts to abate, we expect real GDP growth to recover to 3.5% in 2021, helped by a pickup in oil prices and production. The economic rebound will continue in the medium to long term, as existing oilfields ramp up production and new ones come on stream. The development of the Pecan oilfield by Aker Energy, a Norwegian firm, has been delayed by bureaucracy, but production could begin in early 2022. Thus, we expect real GDP to expand by an annual average of 6.4% in 2022-24.

Fiscal Policy - *Ghana's Budget Deficit to Widen due to Covid-19*

Provisional budget estimates from January to December 2019 indicated that total revenue and grants amounted to GH¢52.97 billion (15.3 percent of GDP) compared with the projected target of GH¢54.56 billion (15.8 percent of GDP). Total expenditures, including arrears clearance was GH¢67.67 billion (19.6 percent of

GDP), below the target of GH¢70.19 billion (20.3 percent of GDP). These developments resulted in an overall fiscal deficit (on a cash basis) of 4.8 percent of GDP, slightly above the target of 4.7 percent of GDP but below the 5.0 percent fiscal rule.

Fig 2: Trends in Budget Deficit



Source: MoFEP/Budget Statement

In the outlook, Ghana's budget deficit will widen significantly due to the fiscal strain from Covid-19. The novel Coronavirus would impact on fiscal stance due to the following:

- significant shortfalls in petroleum receipts due to fall in crude oil prices on the international market as a result of low demand due to Covid-19 and price war between Russia and Saudi Arabia. The authorities now estimate that oil receipts will be some GH¢5.7bn (US$989m) below the figure they previously forecast (which was based on an average oil price assumption of US$58/barrel)
- shortfalls in import duties due to the anticipated decline in import volumes and values, as well as the slowdown in economic activity.
- shortfall in other tax revenues due to projected slowdown in non-oil GDP (excluding oil tax revenues and import duties) amounting to GH₵1,446 million, bringing the total estimated shortfall in non-oil tax revenues to GH₵2,254 million.
- increased health- related expenditures with initial estimates of about US$100 million.

Therefore, the total estimated fiscal impact from the shortfall in petroleum receipts, shortfall import duties, shortfall in other tax revenues, the cost of the preparedness plan, and the cost of Coronavirus Alleviation Programme is estimated at GH₵9,505 million (2.5% of revised GDP). This shows that the overall fiscal deficit will increase from the programmed GH₵18.9 billion (4.7% of GDP) to GH₵30.2 billion (7.8% of revised GDP) in 2020. The primary balance will correspondingly worsen from a surplus of GH₵2,811 billion (0.7% of GDP) to a deficit of GH₵5.6 billion (1.4% of GDP). The government therefore has put in place the following measures to close the fiscal gap of GH₵11.4 billion (2.9% of revised GDP).

- Lower the cap on the Ghana Stabilisation Fund (GSF) from the current US$300 million to US$100 million in accordance with Section 23 (3) of the Petroleum Revenue Management Act (PRMA).
- Arrange with BOG to defer interest payments on non-marketable instruments estimated at GH₵1,222.8 million to 2022 and beyond.
- Adjust expenditures on Goods & Services and Capex downwards by GH₵1,248 million.
- Secure the World Bank Development Policy Operations (DPO) of GH₵1,716 million.
- Secure the IMF Rapid Credit Facility of GH₵3,145 million.
- Reduce the proportion of Net Carried and Participating Interest due GNPC from 30% to 15%.
- Amend the PRMA to allow a withdrawal from the Ghana Heritage Fund to undertake urgent expenditures in relation to the coronavirus pandemic. There is an estimated US$591.1 million in the Ghana Heritage Fund.
- Amendment of the Bank of Ghana Act to allow for government borrowing from BOG beyond the stimulated threshold in the Act in the event of tight domestic financing market conditions. This constraint has been in place since 2015 in line with IMF recommendations. Given the current exceptional circumstances, we expect the IMF to agree to a temporary waiving of this requirement.

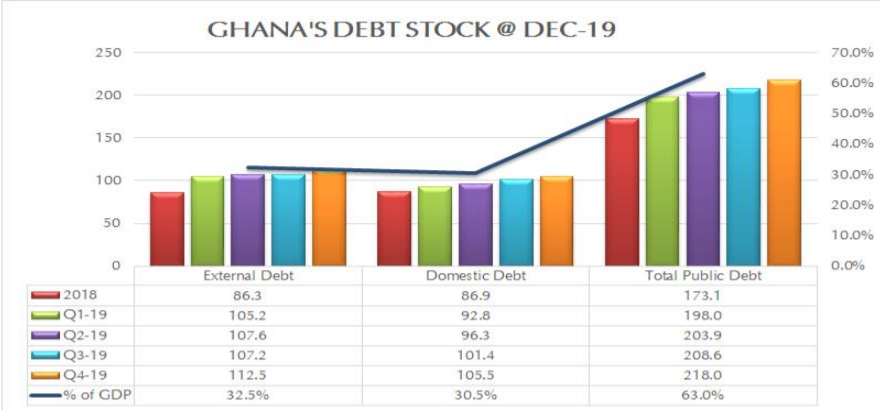
In 2021-24 we expect the expenditure/GDP ratio to decline, as the government seeks to narrow the fiscal deficit in the wake of the elections and an anticipated recovery from the pandemic.

Meanwhile, rising oil production from new fields and higher oil prices in 2021-23 will support revenue growth. Although many loopholes are likely to remain, tax reforms will also help to boost government receipts. Overall, we expect the fiscal deficit to decline steadily, to 3.5% of GDP in the medium term.

Debt Sustainability - *Ghana's debt sustainability will remain a cause for concern in the years ahead.*

In line with the fiscal developments, provisional estimates for the stock of public debt rose to 63.1 percent of GDP (GHS218.0 billion), at the end of 2019 compared with 57.6 percent of GDP (GHS173.1 billion) at the end of 2018. Of the total debt stock, domestic debt was GHS105.5 billion, while external debt was GHS112.5 billion with a share of 51.6 percent in total public debt.

Fig 3: Public Debt Development



Source: Bank of Ghana

Ghana's debt sustainability will remain a cause for concern in the years ahead, although we do expect that it will improve from current levels. Our expectation is for the debt to be a little elevated due to the coronavirus pandemic. This is expected to lead to a marginal increase in the debt to GDP ratio of about 72% in 2020.

Furthermore, on the back of fiscal consolidation, we forecast that the public debt/GDP ratio will fall from a peak of 76% in 2021 to 69% in 2024. Given weak local demand for government debt, owing to limited liquidity in the domestic capital market, the government will continue to depend on external borrowing. In February Ghana raised US$3bn through a Eurobond issue that was five times oversubscribed. However, given the current turbulence in global capital markets, the near-term focus will shift increasingly to borrowing from multilateral lenders. In this respect, Ghana is expecting assistance from the World Bank, alongside a disbursement under the IMF's rapid credit facility.

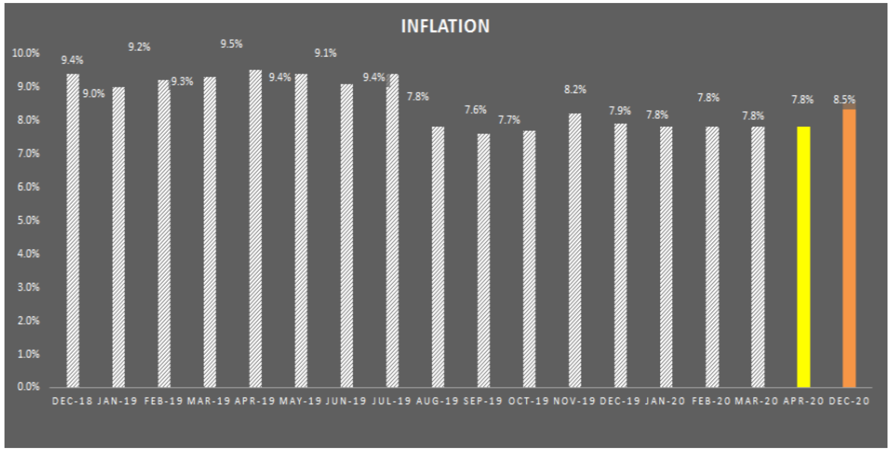
Inflation - *Concerns of an Upside Risk to Inflation Outlook due to Fiscal Pressures and Global Supply disruption arising out of Covid-19.*

The national year-on-year inflation rate was 7.8% in March 2020, same rate as the previous month. The stability in inflation was driven by a decline in non-food inflation.

The Food and Non-alcoholic beverages division recorded a year-on-year inflation rate of 8.4%. This was 0.5 percentage points higher than was recorded in February 2020 (7.9%). Eight subgroups recorded inflation rates higher than the group's average rate of 8.4 percent. They are Cocoa drinks (14.1%), Vegetables (14.1%), Fruits and Nuts (12.9%), Ready-made food (10.6%), Coffee and coffee substitutes (8.7%), Fish and other seafood (8.6%), soft drinks (8.6%), Fruits and Vegetable juice (8.6%).

The non-food year-on-year inflation for March 2020 was 7.4%, down from 7.7% recorded in February 2020. Alcoholic Beverages, Tobacco and Narcotics (11.4%), Transport (9.2%) Recreation, Sports and culture (9.0%), clothing and footwear (8.4%) and Food and Non Alcoholic beverages (8.4%) were the key drivers of the non-food inflation in March.

Fig 4: Inflation rate



Source: GSS/ GCB Research Forecast

We project a subdued rise in prices of goods and services in the coming month. This would be on the back of on-going currency (cedi) weakness and upward pressure on the prices of some goods because of pandemic-related restrictions and shortages. In addition, fiscal pressures as well as current global supply disruptions present an upside risk to inflation. In the medium term, our expectation is for inflation to moderate to an annual average of about 8.8%, helped by a slower pace of cedi depreciation—although this will be partly offset by the impact on imported inflation of a pick-up in global commodity prices. We believe that the BoG will keep inflation within the official target band, but with relatively slow fiscal consolidation, robust domestic demand and ongoing currency depreciation, it will remain elevated. We therefore forecast inflation of **7.9±0.2% for** the month of April and **8.5±0.2%** for year-end 2020.

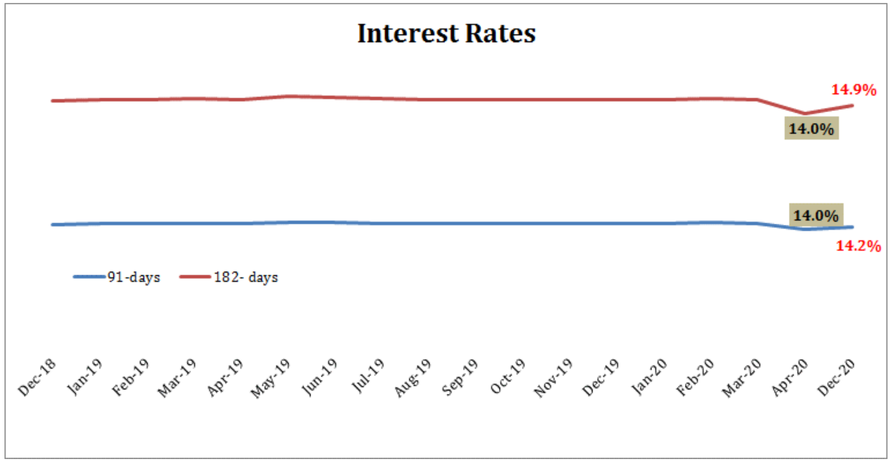
Interest Rates - *The Possibility of Further Rate Cut by BoG with Economic Activity Set to Weaken Sharply over the coming Months*

Interest rates on the money market decreased slightly across the various maturities of the yield curve in April. The government of Ghana 91-day Treasury bill went down marginally to 14. 03% as at the end of April from 14.64% in March. The 182-day Treasury bill also decreased slight to 14.03% in April from 15.15% in March.

The Monetary Policy Rate went down by 150 basis points to 14.5% from 16.0% at the last MPC meeting in March. This was on the back of the negative impact of Covid-19 on fiscal stance and economic growth for 2020.

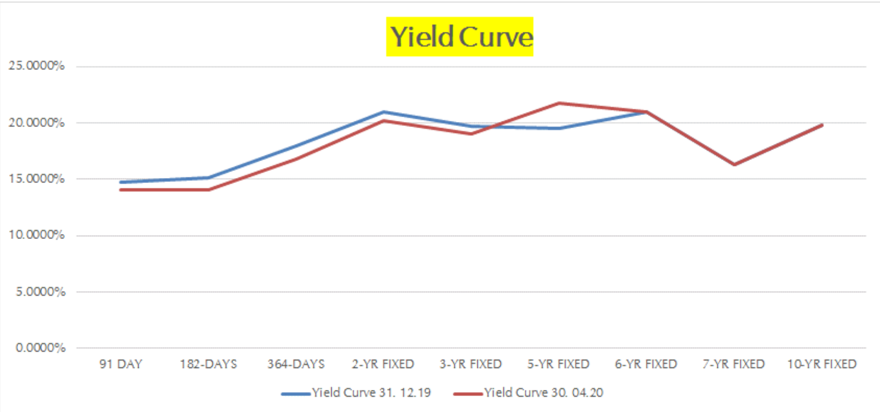
The interbank market rates ranged between 14.00% and 13.92% as at the end of April 2020 averaging 13.96%.

Fig 5: Interest rates



Source: Bank of Ghana/ GCB Research

Fig 6: Yield Curve



Source: Bank of Ghana/ GCB Research

Our expectation is for BoG to undertake further near-term monetary easing in the course of the year. Incentives for monetary easing would be due to the expected sharp increase in deterioration of economic activity over the coming months. We expect average annual inflation to increase slightly in 2020, but to remain within the BoG's target range of 6-10% limiting monetary easing. However, should the expected downturn in economic activity deteriorate further as the Covid-19 situation unfolds, our expectation is for BoG to make another 100 basis point (bps) cut in the policy rate to support growth.

For T-bill rates, our expectation is for the short end of the market to be stable rising gradually on the back of expected increases in domestic borrowing to support the fiscal gap created by Covid-19. We expect the yield curve to continue to steepen over the near term with long term rates rising faster than short term rates supported by tight monetary policy and the re-profiling of government debt.

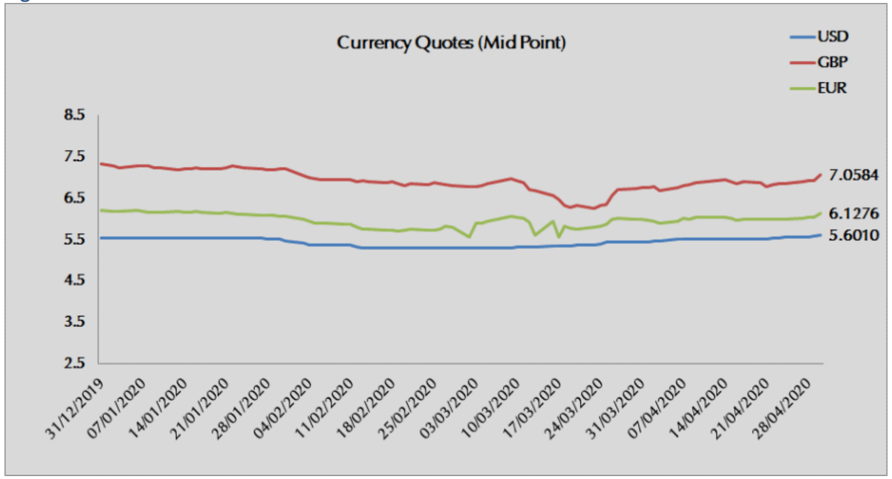
Currency - *Cedi's to Continue its Deprecation on the back of the Pandemic, Collapse in Oil Prices and global risk perceptions.*

The cedi after paring back some losses in 2019 at the beginning of this year has seen consistent depreciation in the last month. This has been due to risk aversion on the part of non-resident investors in the local bonds market as result of the uncertainty surrounding Covid-19 pandemic.

The cedi recorded a depreciation rate of 2.8%, 4.3% and 2.5% against the dollar, GBP and EUR respectively in April 2020 compared to a depreciation of 2.7% and 2.9% against the dollar and the Euro respectively and an appreciation of 0.4% against the GPB in the month of March.

Year to date, the cedi has seen a cumulative depreciation of 1.2% to the dollar and an appreciation of 3.7% and 1.4% in that order to the GBP and EUR. YoY, the cedi has depreciated by 9.2%, 6.1% and 7.0% respectively to the dollar, GBP and EUR.

Fig 7: Performance of the Cedi



Source: Bank of Ghana/ GCB Research

As at the end of April, the cedi was trading at GHS5.5982/5.6038, GHS7.0543/7.0625 and GHS6.1256/6.1296 per the USD, GBP and EUR respectively on the interbank market.

Table 1: Depreciation/Appreciation (%)

	FY-19	Jan-20	Feb-20	Mar-20	Apr-20	YTD	YoY
USD	-12.9%	1.2%	3.3%	-2.7%	-2.8%	-1.2%	-9.2%
GBP	-15.7%	1.7%	6.0%	0.4%	-4.3%	3.7%	-6.1%
EUR	-11.2%	2.7%	4.2%	-2.9%	-2.5%	1.4%	-7.0%

Source: Bank of Ghana/ GCB Research

Reflecting concerns caused by the pandemic and a collapse in oil prices, the cedi has come under increasing downward pressure recently. At GH¢5.54:US$1 on April 24th on the interbank market it was 4.5% lower than its level at the start of March. In line with other emerging-market currencies, we expect the cedi to remain weak in the face of heightened global risk perceptions—which, in Ghana's case, will be accentuated by increasing uncertainty ahead of the December 2020 elections. Against this backdrop, we forecast that the cedi will depreciate to an average of **GH¢5.80:US$1** in 2020. In the short term, our expectation is for the cedi to get some support from the US$1 billion Rapid Credit Facility from IMF and the Central Bank's intervention in the Fx market through its auction strategy. However, even though we expect domestic and global sentiment to improve next year and beyond, our expectation is for the cedi to depreciate further as a strong US dollar weighs on the currency in 2021. A shrinking of the fiscal deficit and a strengthening in the current-account position will then provide greater support to the currency in the medium term.

Public Borrowing- ***Government borrowed about GHS 4.6 billion in Apr-20***

In the month of April, the government accepted a total bid of GHS4.62 billion of bills and notes less than the targeted borrowing of GHS5.52 billion. In the same period last year, the government accepted bids of GHS 5.66 billion against a targeted borrowing of GHS4.15 billion. Majority of the bids accepted were for the payment of maturing debts and the rest for government financing requirements.

Table 2: Bids Accepted for GoG Bills, Apr-2020 (GHS M)

Date	91-days	182-days	364-days	2-years	3-years	5-yers	7-yers	10-yers	15-yers	Total
06/04/2020	366	122								488
13/04/2020	1,024	136	475							1,635
20/04/2020	492	17			849					1,359
27/04/2020	821	173	141							1,135
										-
Actual	**2,703**	**449**	**616**	-	**849**	-	-	-	-	**4,617**
Budget	2,600	520	800		800		800			5,520
Diff	**(103)**	**71**	**184**	-	**(49)**	-	**800**	-	-	**903**

Source: BoG/GCB Research Database

External Sector Outlook – *Ghana's Current Account Deficit to Widen slightly in the Short Term*

The economic fallout from the coronavirus will place significant additional pressure on Ghana's external accounts, particularly as a result of a near-halving in global oil prices. Cocoa production will also decline, as the industry is constrained by poor weather conditions and crop disease, but this will be partly compensated for by higher international prices. Meanwhile, revenue from gold exports will expand sharply, helped by both rising production and prices. Together with lower imports on the back of a contracting economy, this will help to limit the deterioration in the trade balance in 2020-21.

We expect export revenue to recover over the medium term, owing primarily to rising oil production from new fields and steadily increasing prices. In addition, government efforts to formalise small-scale mining and provide large mines with better protection from illegal incursions will—along with new investment—support gold production volumes. Structural weaknesses will continue to constrain cocoa output, although revenue will increase gradually as conditions improve slowly and investment arrives (following a loan to support long-term growth from the African Development Bank in November 2019).

Goods imports will expand in the medium term, driven by strong growth in the domestic economy and—because of low levels of domestic tertiary manufacturing—demand for capital goods imports to develop the downstream oil industry.

The services deficit will remain large. It will rise to an average of 5% of GDP in 2020-21, reflecting a fall in tourist receipts. As visitor arrivals recover, it will then decline to an average of 3.9% of GDP in the medium term, despite sustained expenditure on technical services for oil and gas projects. The primary income deficit will also remain large, owing to interest payments on external debt and profit repatriation. The secondary income account will continue to post large surpluses, underpinned by inflows of remittances. Overall, we forecast that the current-account deficit will expand to 5% of GDP in 2020, before shrinking slightly, to 4.3% of GDP, in 2021. Helped by rising exports, the deficit will continue to narrow in the medium to long term, falling to 0.3% of GDP.

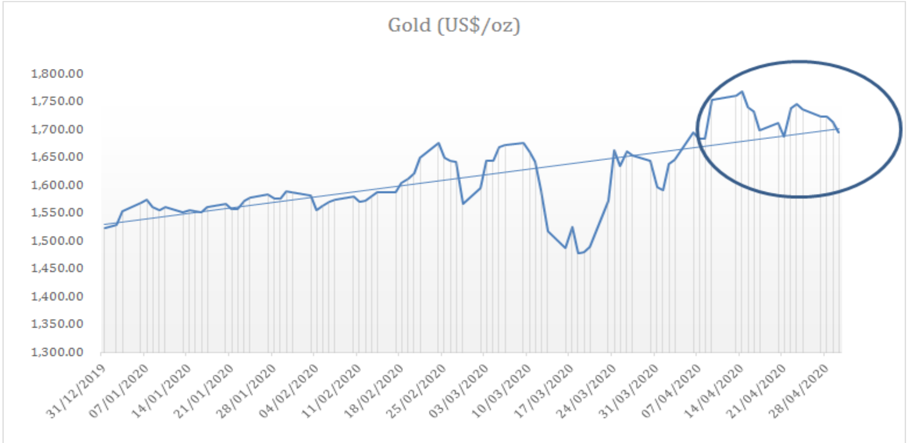
03 International Commodities Market

Gold - *Gold Prices to remain strong due to Geo-Political Tensions and Bad Economic data.*

Gold prices traded on the high in the month of April spurred on by its safe haven status in the event of global uncertainty due to the coronavirus pandemic. The pandemic has pushed most central banks globally into monetary easing to boost growth in their respective economies. Also, governments all over the world have instituted stimulus packages to boost production and demand. Gold thrives greatly in periods of stimulus packages and since the start of the year the price of gold has seen a cumulative appreciation of about 12%. Between the month of March and April, gold has increased by 6.7%.

Gold started the year at US$1,528.10/oz and as at the end of the April it was trading at US$1,694.20/oz. At the beginning of the month of April, gold was trading at US$1,591.40/oz. The maximum price for the month stood at US$1,768.90/oz and the minimum price was US$1,591.40/oz averaging US$1,707.73/oz.

Fig.8: Gold



Source: Bloomberg Commodities

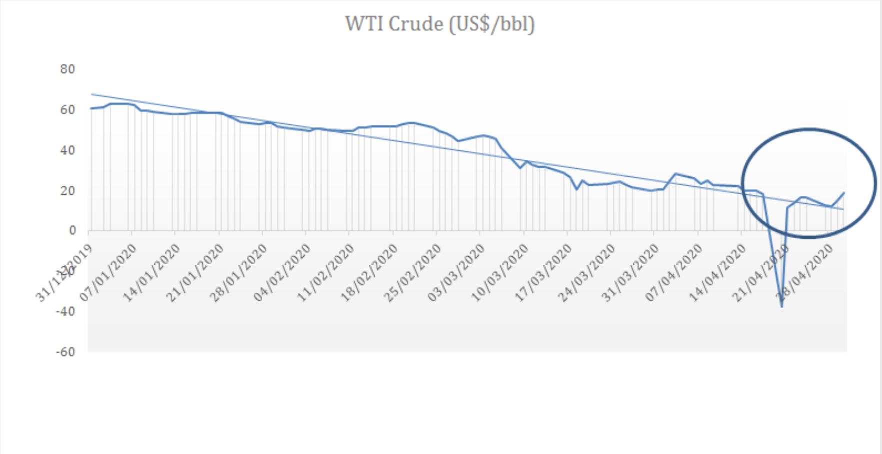
Gold has managed to pull itself back up above the US$1,700/oz on the first day of the month of May as U.S. President Donald Trump turned up the geopolitical pressure by threatening new tariffs against China over the coronavirus crisis. We forecast gold to remain high in the month of May on increased geopolitical tensions and more bad economic data in the month of May. June Comex gold futures were trading at $1,706.80, up 0.74% on the day after tumbling below $1,700 an ounce earlier in the session. Many analysts view lower level in gold as only temporary. The outlook is still bullish for gold in general. A must-watch driver for the month will be the U.S.-China tensions with markets eyeing any potential escalation from either side. Long before the coronavirus, the big geopolitical and macroeconomic factor for gold was the trade war between the U.S. and China. Therefore, if those tensions again escalate, we could revert to that being the main driver for global markets, especially if China retaliates rhetorically against the U.S. Furthermore, investors will see a lot of bad economic data in May, including the U.S. unemployment numbers for April — the key release to watch in the month. More than 30 million Americans have filed for unemployment benefits in the past six weeks, and the next nonfarm payrolls data due 8/05/20 might reveal more information. Attention will turn to the size of the damage caused by the lockdowns. The forecast by most analysts is for 21 million jobs to be lost in the April nonfarm payrolls report, triggering a spike in the unemployment rate to 16%. A further decline of 12 million jobs and a rise in the jobless rate to 22% may be seen in the May report. Hence, geopolitical tensions and bad economic data are expected to drive up gold price for the month of May. Therefore, we project gold to end 2020 at **US$ 1,791.49/oz.**

Crude Oil - *Oil to be under Continuous pressure due to Weak demand and oversupply.*

Oil prices have been tumbling in the month of April decreasing by 69.1% since the beginning of the year. In the month of April, the price of oil decreased by 8.0% compared to the price in March. This has been on the back of weak demand arising out of Covid-19 and price war between Russia and Saudi Arabia.

WTI crude oil started the year at US$61.18/bbl and as at the end of April it was trading at US$18.84/bbl. The maximum price for the month stood at US$28.34/bbl and the minimum price was US$-37.63/bbl bringing the average price to US$16.77/bbl.

Fig 9: Crude Oil



Source: Bloomberg Commodities

WTI crude futures struggled to keep a floor beneath a three-day rebound, as traders and investors looked for fresh signs that production cuts, well shut-ins and rig losses were biting in a bigger way on in the highly-efficient oil sector. Just a week earlier, U.S. crude prices were struggling to stay in double digit territory on fears the United States will run out of place to store oil from all the piled-up supply since the country went into lockdown to curb the spread of the Covid-19. Slower crude builds since have eased some of the storage fears, helping WTI rebound. June WTI was up 94 cents, or 5%, at $19.78 per barrel on Friday (01/05/20), after hitting a two-week high of $20.45 earlier. For the last week of April, it rose 17%.

Brent, the global crude benchmark, meanwhile, slid on Bloomberg data showing that OPEC's crude production, which surged by the most in almost 30 years in April as its biggest members fought to dominate a global market devastated by the coronavirus crisis. July Brent settled down 4 cents, or 0.2%, on 01/05/2020 at $26.44. For the last week of April, it rose 24%. In the weeks and the months ahead, our expectation is for less market rally for crude oil and therefore we forecast it to remain a little over the US$20/bbl range due to weak demand. Ultimately, this is a market that we think will continue to be very vibrant, but ultimately there is much more downward pressure than up due to much oversupply making it difficult for the market to simply take off. Furthermore, supply issues are going to flood the little storage available over the next month, and therefore it is possible that we could see another downward prices into the negatives like that of last month. On the basis of the above developments we have reviewed our forecast for the price of crude oil for 2020 from **US$53.25/bbl** in February report to **US$32.35/bbl**.

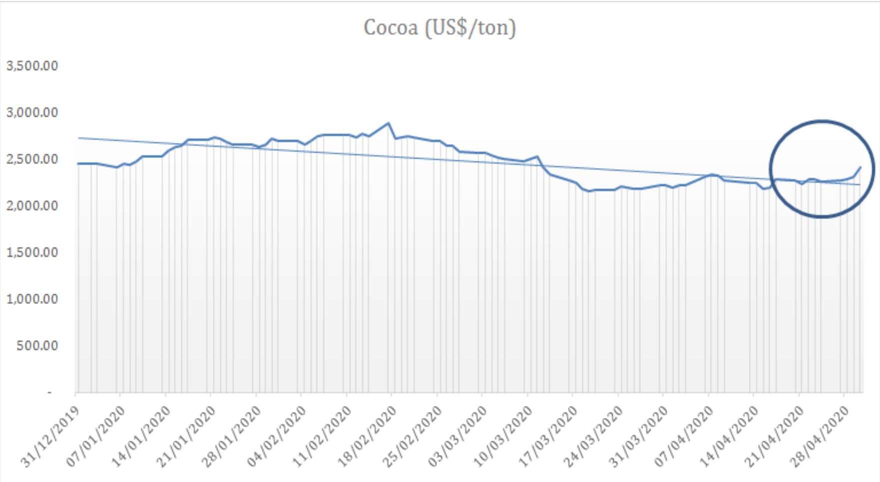
Cocoa - *Cocoa Prices to be under pressure with Concerns that Coronavirus will Undercut Global Cocoa Demand*

Cocoa prices on the international market for the month of April has been mixed; after a steady start in 2020 and dips in the month of

February and March, the price rebounded in the month of April appreciating by 8.8% compared to the price of March. This has been largely due to demand and supply concern for the crop.

Cocoa started the month of April at the price of US$2,201.24/ton and as at the end of the month, it was trading at US$2,414.00/ton up by US$195.64. The highest price for cocoa recorded for the month was US$2,414.00/ton whilst the lowest price recorded was US$2,182.36/ton. The average price for the month stood at US$2,273.55/ton.

Fig 10: Cocoa



Source: ICCO

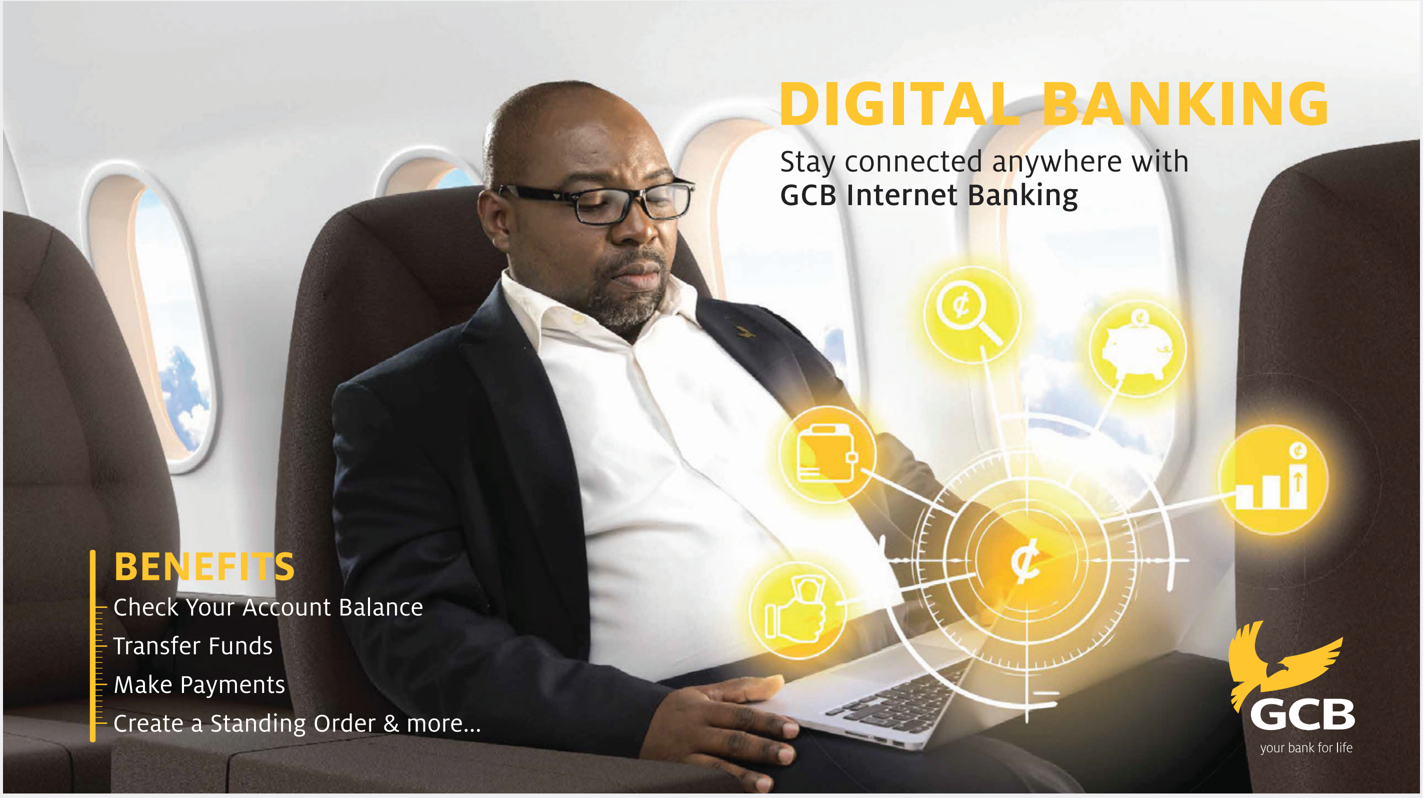
In the outlook, NY cocoa on the last day of the month of April rose to a 1-1/2 month high and London cocoa rose to a 1-3/4 month high. Cocoa prices rallied on strength in U.S. chocolate demand after Nielsen reported that U.S. retail chocolate sales rose +5.7% y/y in the eight weeks to April 18. The price of cocoa is also forecast to get some support after the Ivory Coast government extended its state of emergency from the coronavirus outbreak to May 15, which may disrupt the delivery of cocoa supplies from farms to Ivory Coast ports. Furthermore, news of reduced cocoa shipments from West Africa could push up prices in the month of May. The Ivory Coast government reported in the last week of April that Ivory Coast farmers sent 23,2872 MT of cocoa to ports during April 20-26, down -38.4% from a year earlier. However, longer-term deliveries are bearish with Ivory Coast cocoa farmers delivering 1.872 MMT of cocoa during Oct 1-Apr 26, up +1.7% y/y. The Ghana Cocoa Board reported on 27/05/20 that it purchased 695,402 MT of cocoa from farmers during Oct 1-Apr 9, down -1.4% from the same time last year. Also, the Ghana Cocoa Board on the same date cut its Ghana 2019/20 cocoa crop estimate to a 4-year low of 780,000 MT, down slightly from an October estimate of 800,000 MT. Aside the weak supply, stronger-than-expected European cocoa demand is bullish for cocoa prices after the European Cocoa Association in the last week of April reported that European Q1 cocoa processing unexpectedly rose +0.9% y/y to 373,625 MT, stronger than expectations for a -3.0% y/y decline and a record high for a first-quarter (data since 2003). However, cocoa demand in Q1 was weak in North America and Asia. The Cocoa Association of Asia reported on Apr 17 that Asian Q1 cocoa grindings fell by -0.5% y/y to 207,356 MT. The National Confectioners Association reported that North American Q1 cocoa grindings fell -5.1% y/y to 115,591 MT. Putting it together, the world cocoa production in 2019/20 (Oct-Sep) will climb +1.7% y/y to 4.824 MMT, and global cocoa grindings will rise +1.2% y/y to a record 4.861 MMT (ICCO). The world cocoa market will be in a deficit of -85,000 MT in 2019/20, narrowing from the -107,000 MT deficit in 2018/19. The 2019/20 stocks/grindings ratio will tighten to a 36-year low of 31.5% from 33.6% in 2018/19. Ivory Coast 2019/20 cocoa production (main crop Oct-Mar; mid-crop May-Aug) is projected +1.2% y/y to 2.18 MMT, while Ghana 2019/20 cocoa production (main crop Sep-Mar; mid-crop May Aug) is projected up +2.3% y/y to 850,000 MMT (ICCO). We believe that the demand and supply factors in the cocoa sector will continue to weigh on the price of cocoa in the months ahead and therefore we forecast the price of cocoa to close 2020 at **US$2,339.28/ton.**

04 Conclusions - *Economic Growth in Ghana to be impacted by Covid-19 in 2020.*

On the global scale, the COVID-19 pandemic is inflicting high and rising human costs worldwide. Protecting lives and allowing health care systems to cope have required isolation, lockdowns, and widespread closures to slow the spread of the virus. The health crisis is therefore having a severe impact on economic activity. As a result of the pandemic, the global economy is projected to contract sharply by –3 percent in 2020, much worse than during the 2008–09 financial crisis.

On the domestic economy, the latest provisional GDP estimates for 2019 released by the Ghana Statistical Services (GSS) showed a growth rate of 6.5% compared to 6.3% in 2018. However, the Ghanaian economy is already set to suffer a significant blow as a result of the depressive effect of the virus on global oil demand and prices. The coronavirus fallout will also affect Ghana in a number of other ways—for example, by weighing on the country's tourism sector, inflows of foreign direct investment, international trade (in terms of both export receipts and imported goods) and the availability of financing (through domestic and external debt). On the basis of the above, our expectation is for the economy to contract this year with the government forecasting a real GDP growth of 1.5% compared to 6.5% in 2019.

In the medium to long term, Ghana's prospects are very bright as it is supported by strong activity in the extractive industry (oil, gold, and bauxite), a safer and more resilient banking system, prudent macroeconomic policy stance, rapid infrastructure and oil sector investment, an improving environment for our private sector, and being a favourable destination for FDI with strong potential for becoming a hub for business, aviation, education, financial sector and the Head Quarters of the African Continental Free Trade Authority, among others.



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