Introduction

On Wednesday 18th March, 2020, the Monetary Policy Committee (MPC) of the Bank of Ghana concluded its 93rd regular meeting and released its second report for the year 2020 on the back of the coronavirus outbreak. The Bank of Ghana (BoG) reduced its policy rate by 150 basis points to 14.5% from 16% based on the impact of the Corona Virus (Covid-19) on the global and domestic economy. The discussion below presents their views and its implications for GCB.

1. Global Economy

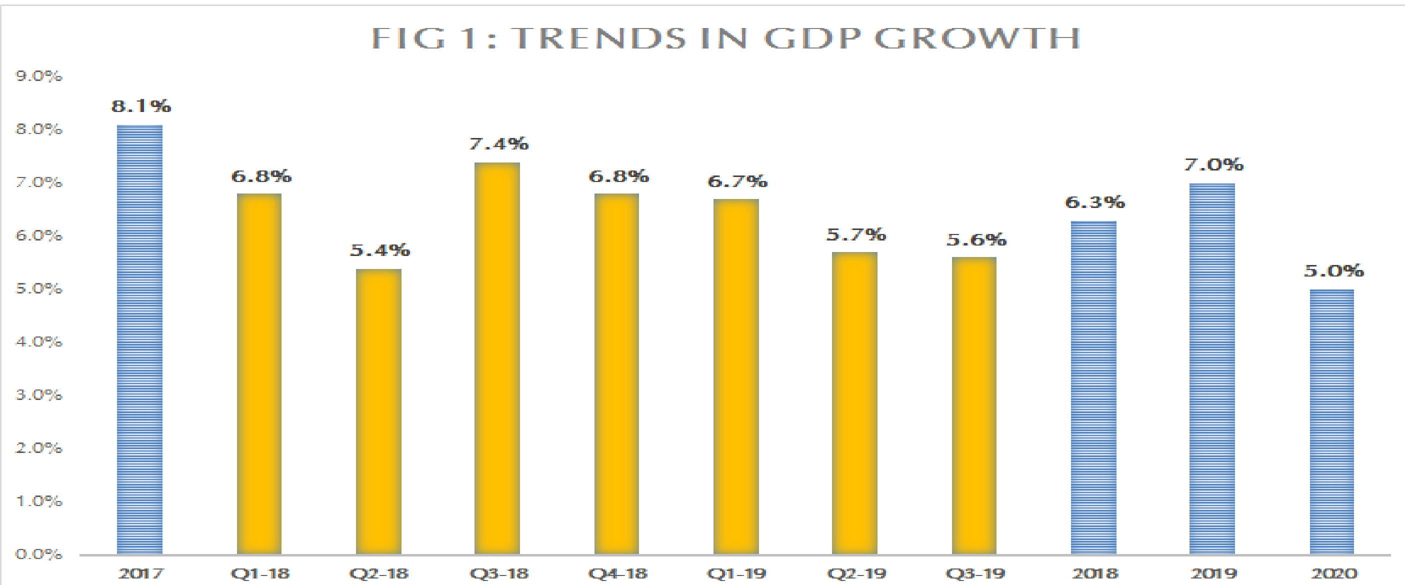
- ✓ Since the last meeting of the MPC, the epidemic has spread beyond China to almost every country in the world, and the World Health Organisation has declared it a pandemic.
- ✓ These conditions have significantly heightened uncertainty in global financial markets, causing a sharp downturn of global stock prices and a steep rise in emerging markets' sovereign bond spreads.
- ✓ These unfolding developments have further worsened the pre-existing weaknesses in global growth and caused major disruptions to global supply chains with adverse implications for the global economy.
- ✓ An initial assessment by the Organisation of Economic Co-operation and Development suggests that global growth could slow by about 0.5 percent this year, given the scale of disruptions to current economic activity.
- ✓ The slowdown could be deeper in a worst-case scenario, especially if the pandemic is not effectively contained in the near-term. The potential adverse effects of COVID-19 on growth, along with the sharp fall in commodity prices, will weigh heavily on economic activity in emerging market and frontier economies.
- ✓ In response, major central banks have already cut policy rates, in addition to other measures, to stabilise global financial markets, given that inflation remains subdued.
- ✓ The US Federal Reserve has slashed its policy rate by 150 basis points to a range of 0 – 0.25 percent in the past two weeks and introduced liquidity measures to ease tightening financing conditions.
- ✓ Other central banks in advanced and emerging market economies have followed suit with policy rate cuts.
- ✓ In addition to the monetary policy actions, major advanced economies have also initiated fiscal stimulus packages to minimise the impact of the coronavirus pandemic on the global economy.
- ✓ Several other emerging market and frontier economies have replicated such fiscal measures to protect against the economic ramifications of the pandemic.

Looking ahead, the emergence of a novel coronavirus in China and other parts of the world, will limit any pick-up in business confidence and investment, and the balance of risks to the outlook appears firmly tilted to the downside. Global growth is forecast to be 2.9% in 2020, close to decade lows. We expect economic growth in the developed world to slow in 2020, driven by a moderation in US growth. Meanwhile, the emergence of a novel coronavirus in China will not only dampen Asia's growth perspectives but also that of major world economies. In the rest of the emerging world, we expect only a modest recovery from a torrid 2019, including in Latin America, the Middle East and Sub-Saharan Africa.

To mitigate this growth outlook, most Central Banks globally have started implementing ultra-loose monetary policy and other measures to support their economies. This we believe is intended to cushion demand in developed markets and limit the financial pressures that some heavily indebted emerging-market economies might otherwise face. However, ultra-loose monetary policy also represents a risk, as it may trigger new debt crises in emerging markets.

2. Domestic Economy

- ✓ On the domestic economy, the BoG's internal assessment shows that the pandemic could impact Ghana through a number of channels.
- ✓ First, the dampened global demand for crude oil has forced oil prices down to historically low levels and this could significantly impact Ghana's crude oil export earnings with major implications for foreign inflows and tax revenues, albeit with some offsetting effects from rising gold and cocoa prices.
- ✓ There is also a likelihood of export restrictions from advanced economies and other emerging market economies which could create supply chain shortages for Ghanaian businesses, with significant impact on imports of intermediate and capital goods, as well as consumption goods.
- ✓ This is expected to negatively affect inputs in the domestic production channels with severe consequences for growth and tax revenues which could become more pronounced by the second or third quarter.



Source: Ghana Statistical Service

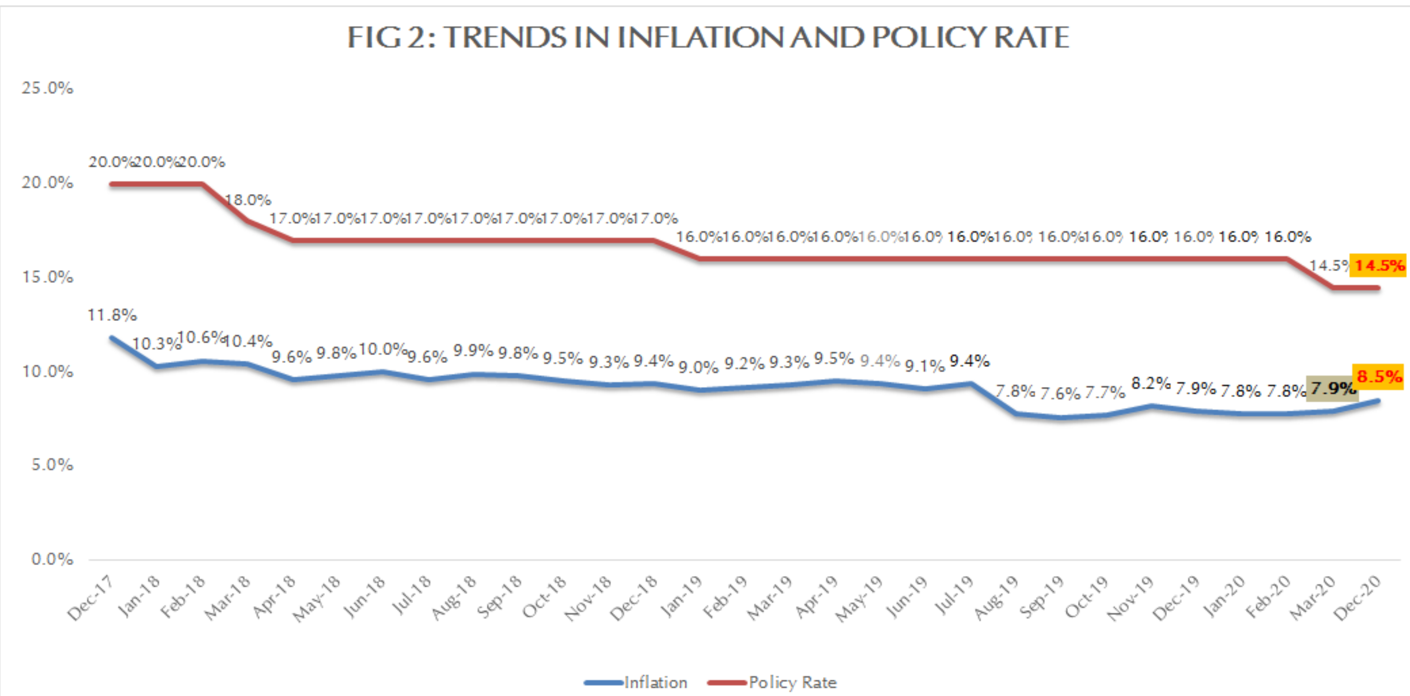
In the outlook, the negative impact of COVID-19 on exports, imports, taxes, and foreign exchange receipts will culminate in a slowdown in economic activity. The BoG has forecast GDP growth to decline to 5.0 percent in a baseline scenario. In the worst case scenario, GDP growth estimates could be halved to about 2.5 percent in 2020. They however indicated that their assessments are preliminary as the situation is very fluid and the degree of uncertainty concerning the outbreak is very high. This means that there is a likelihood that these assessments could change rapidly. Therefore economic growth in Ghana is lopsided to the downside as our expectation is for Covid-19 to impact heavily on port activities, the hydrocabon industry due to the sharp drop in oil prices on the back of low demand and price wars between Russia and Saudi Arabia, services and manufacturing sectors.

Despite slow growth in the hydrocarbons sector, we expect some spillover from oil and gas investment into the economy, with increases in broader industrial production, infrastructure investment and auxiliary services.

3. Inflation

✓ The latest inflation reading for February 2020, is estimated at 7.8 percent, unchanged from January 2020. The forecast for inflation is expected to remain within the target band for the next quarter.

For 2020, we expect modest inflation due to demand-side pressure and rising import costs due to currency depreciation, but limited global oil prices expectation in 2020 will also limit prices. We anticipate that Ghana's inflation will remain limited, averaging 7.4% in the short to medium term, thanks to a more stable currency and lower fiscal deficits. Therefore, barring any anticipated shocks that could emanate from covid-19 from shortage of goods that could result in demand-pull inflation, our forecast is for inflation to stay within the medium-term target band of 8±2 percent. We therefore forecast inflation of 7.9±0.2% for March 2020 and 8.5±0.2% for end of Dec. 2020.



Source: Bank of Ghana

4. Additional Measures

✓ The BoG also announced the following measures to contain the impact of the COVID-19 on the Ghanaian economy:
- The Primary Reserve Requirement has been reduced from 10 percent to 8 percent to provide more liquidity to banks to support critical sectors of the economy. This effectively extends the previous targeted reserves for SMEs under the enterprise credit scheme to all critical sectors.
- The Capital Conservation Buffer (CCB) for banks of 3.0 percent is reduced to 1.5 percent. This is to enable banks provide the needed financial support to the economy. This effectively reduces the Capital Adequacy Requirement from 13 percent to 11.5 percent.
- Loan repayments that are past due for Microfinance Institutions for up to 30 days shall be considered as "Current" as in the case for all other SDIs.

- Provisioning for Loans in the "Other Loans Especially Mentioned" (OLEM) category is reduced from 10 percent to 5 percent for all banks and Specialized Deposit-Taking Institutions (SDIs) as a policy response to loans that may experience difficulty in repayments due to slowdown in economic activity. Provisioning norms for loans in all other categories are maintained. This should provide capital relief to banks and SDIs in these uncertain times.

From our perspective, we believe that some of the above policy measures announced by BoG may not achieve their intended purposes. For instance, the reduction in the rate on primary reserve requirements and capital conservation buffer to free liquidity for banks to support the critical sectors may fail. This is because banks are likely to curtail credit to the private sector due to anticipated contractions expected in the various sectors of the economy due to Covid-19. This they will ensure to minimise the impact of the Probability of Default (PD) that may arise from the projected economic slowdown on the back of low consumer confidence, reduction in investment inflows, imports, exports, supply chain disruptions and foreign exchange receipts. This could create financial flow and cashflow challenges for companies and impact on their production and profitability. This therefore makes it unfriendly for banks to risk lending in an anticipated economic difficulty. Our expectation is for most banks to focus on low risk investments like bonds and government bills even though rates are expected to decline.

Measures on MoMo

✓ The Bank of Ghana has agreed with banks and mobile money operators on measures to facilitate more efficient payments and promote digital forms of payments for the next three months, subject to review, effective March 20, 2020. These are:
  - All mobile money users can send up to GH₵100 for free (excluding cash out). This includes sending to a recipient on the same network, or another network via the interoperability platform.
  - All mobile phone subscribers are now permitted to use their already existing mobile phone registration details to be on-boarded for Minimum KYC Account.
  - The daily transaction limits for mobile money are increased as follows:

Daily Transaction Limits		
KYC Account Type	**Current Limit**	**New Limit**
Minimum KYC Account	GH₵300.00	GH₵1,000.00
Medium KYC Account	GH₵2,000.00	GH₵5,000.00
Enhanced KYC Account	GH₵5,000.00	GH₵10,000.00

  - The mobile money wallet limits are also increased as follows:

Maximum Account Balance Limits		
KYC Account Type	**Current Limit**	**New Limit**
Minimum KYC Account	GH₵1,000.00	GH₵2,000.00
Medium KYC Account	GH₵10,000.00	GH₵15,000.00
Enhanced KYC Account	GH₵20,000.00	GH₵30,000.00

- The revised aggregate monthly transaction limits are as follow as:

Maximum Account Balance Limits		
KYC Account Type	**Current Limit**	**New Limit**
Minimum KYC Account	GH₵3,000.00	GH₵6,000.00
Medium KYC Account	GH₵20,000.00	No Limit
Enhanced KYC Account	GH₵50,000.00	No Limit

5. <u>Our View and Outlook for the Policy Rate</u>

Barring any unanticipated changes in the economy due to Covid-19 between now and the next meeting of the MPC, we expect the BoG to keep the policy rate unchanged at 14.5%. However, if the policy directives announced does not result in a massive pick up in banks credit to the private sector to turn the tide against economic growth, then our projection is for further decrease in the policy rate enhance lending to the private sector to boost economic growth. The BoG has indicated that it is closely monitoring developments as regards the impact of COVID-19 on the domestic economy, and will not hesitate to convene an emergency meeting to deliberate on other measures, if required.

The above notwithstanding, any **uptick in inflation** that may arise as a result of demand-pull due to shortages in goods and services – supply chain bottlenecks from Covid-19. This could prompt the BoG to increase the policy rate to fight inflation.

6. <u>Implications for GCB Bank</u>

1. The drop in the policy rate is likely to influence the cost of credit in the country. Our expectation is for a marginal drop in base rate of banks as the policy rate is a key component in the calculation of the Ghana Reference Rate (GRR), the basis for the calculation of banks' base rate. Considering this, and coupled with competition in the industry, banks are likely to drop their base rates to attract customers especially in the area of consumer lending. This is likely to result in banks thriving on volumes rather than price. Also, the marginal drop will impact interest income, affecting GCB's interest spreads. Therefore, we recommend that efforts are geared towards cheaper deposits to make healthy spreads.
2. Furthermore, the drop in the policy rate to 14.5% could trigger a downturn in the yield curve and impact the returns on the Bank. Also, our expectation is for the expected decline in interest rates to reflect in the pricing of our products.
3. With the World and the Ghanaian economy tilted to the downside due to the negative impact of Covid-19, the following consequences of Covid-19 on GCB Bank are enumerated for management decision making.
    - **What are the implications for Human Capital?** - Human capital planning and simulation of the plan, policy changes, awareness creation to protect employees through clear and simple language consistent with WHO and GHS guidelines on how to deal with Covid-19.

- What are our plans to ensure **business continuity** and also minimise infections as a service driven organisation? We believe that there is the need for the Bank to have a shadow plan in place to be able to deal with the possible effects on our business and people if the need arises.
    - We recommend the setting up a **cross-functional COVID-19 response team.**
    - **Practice the plan for business continuity**.
- What would be the impact on our **trade volumes** and **revenues** due to expected scale down in imports from China? How is it going to impact on the Bank's button line come end 2020?
- What would be the possible interruptions in the Bank's projects for the year due to supply chain disruptions. The cost the Bank would incur from the purchase of logistics to prevent infections. What would be the cost on our business?
- What is the risk of our Financial Exposures to financial institutions in affected countries i.e. placement, loans and nostro balances?
- **Credit Risk**-What would be the possible disruptions in the business of our clients especially those into import trade, manufacturing, hospitality, aviation etc.? This could affect the possibility of meeting their loan obligations. What would be the likely impact on PDs and NPLs come end 2020?
    - *We recommend the need to put on hold the creation of new assets and CAPEX. New assets creation should be aimed at less risky portfolios such as salary loans targeted at government workers and well managed private organizations.*
- **How are we going to serve and stay close to our customers?** Should we begin to see community infections, how is GCB going to navigate the disruptions that will arise in serving our customers. How are we going to make our **online channels conveniently accessible and reliable to our customers** to guard against customer changing preference?
- The need for business units (RMs) to understand which clients, particularly corporates that might be vulnerable to the disruptions in the market place (especially the supply chain disruptions) due to Covid-19. The resulting rise in risk on their portfolio and what measures are required to mitigate the risk.
- The need to carryout sensitivity and simulations analysis on the possible impact of Covid-19 on the financial performance of the Bank in relation to our financial targets for 2020.