Introduction

On Friday 15th May, 2020, the Monetary Policy Committee (MPC) of the Bank of Ghana concluded its 94th regular meeting and released its report almost three months when Ghana reported its first case of coronavirus. The Bank of Ghana (BoG) maintained its policy rate at 14.5% sighting risk to the inflation and growth outlook. The discussion below presents their views and its implications for GCB.

1. Global Developments

- ✓ The COVID-19 pandemic has disrupted economic activity, created uncertainty, and weakened global growth conditions. Countries have imposed restrictions and social distancing measures, and in some cases lockdowns to slow the spread of the virus.
- ✓ These measures have come at a cost to the global economy forcing fiscal and monetary authorities to implement unprecedented policy measures to deal with the economic fallout.
- ✓ For instance, the U.S. Fed cut its policy rate by 150 basis points to a range of 0-0.25 percent in March 2020 and made US$1.5 trillion available for short-term interbank lending among other liquidity measures.
- ✓ Multilateral institutions like the IMF and World Bank, and the G20 have also introduced loans and debt initiatives to support vulnerable countries in their fight against the COVID-19 pandemic.
- ✓ In addition to the weak growth prospects, the inability of OPEC+ to agree on production cuts led to the collapse of oil prices, further sending shock waves across financial markets.
- ✓ Events related to the spread of the pandemic and its impact are still evolving and the heightened uncertainty has added to the challenge of assessing the overall economic impact.

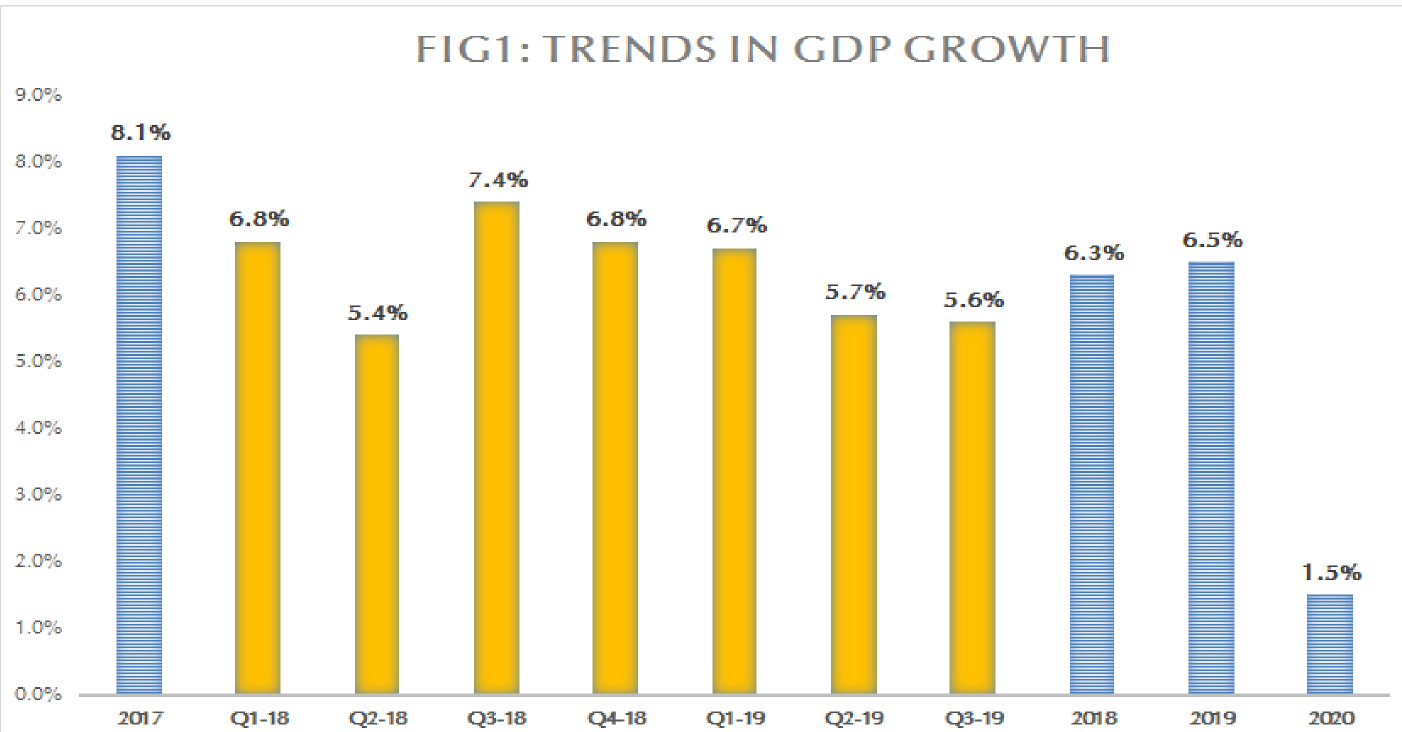
Prior to the coronavirus outbreak our expectation was for global real GDP growth to be lacklustre this year. The pandemic is a game-changer, and we now expect global output to contract by about 2.5% this year—a worse outturn than during the global financial crisis. The negative effect on growth will come via both demand and supply channels. On the one hand, quarantine measures, illness and negative consumer and business sentiment will suppress demand. On the other, the closure of factories and disruption to supply chains will create supply bottlenecks. The economic shock will be concentrated in the first half of this year, with regional variations that will follow the gradual spread of the pandemic across the globe.

We expect a modest rebound in global output in the second half of 2020, provided that the spread of the coronavirus is largely contained globally and that no second or third waves of the pandemic occur. However, the impact on confidence and demand will be long lasting. A rise in uncertainty will lead to increased precautionary saving among households and delayed business investment. Some consumers may also continue to self-quarantine after governments lift lockdowns, for fear of contracting the coronavirus, and this will constrict the recovery in private consumption. In a worst-case scenario, if efforts to contain the pandemic drain fiscal revenues and drastically increase public expenses across developed countries, this could trigger sovereign debt crises. This is compounded by the fact that many of the European countries that are among the worst affected by the pandemic, such as Italy and Spain, already had weak fiscal positions before the outbreak. A potential debt crisis in any of these countries would quickly spread to other developed countries and emerging markets, sending the global economy into another downturn.

2. Domestic Economy

Real Sector Developments

- ✓ Leading indicators of economic activity during the first quarter of the year suggests some slowdown, reflecting the restrictions, social distancing, and the partial lockdown measures introduced by the government in the middle of March.
- ✓ Retail sales picked up in March 2020 due to panic buying which preceded the partial lockdown, while consumption, proxied by Domestic VAT receipts, dipped.
- ✓ The slow conditions in economic activity is reflected in port activities and a sharp decline in tourist arrivals. The slowdown also affected the private sector's contributions to social security.
- ✓ As a result of these developments, the Bank of Ghana's Composite Index of Economic Activity (CIEA) contracted by 2.2 percent in March 2020, compared to a growth of 5.6 percent for the corresponding period of 2019.
- ✓ Preliminary estimates by the Bank of Ghana shows that growth in 2020 is likely to be between 2.0 and 2.5 percent.



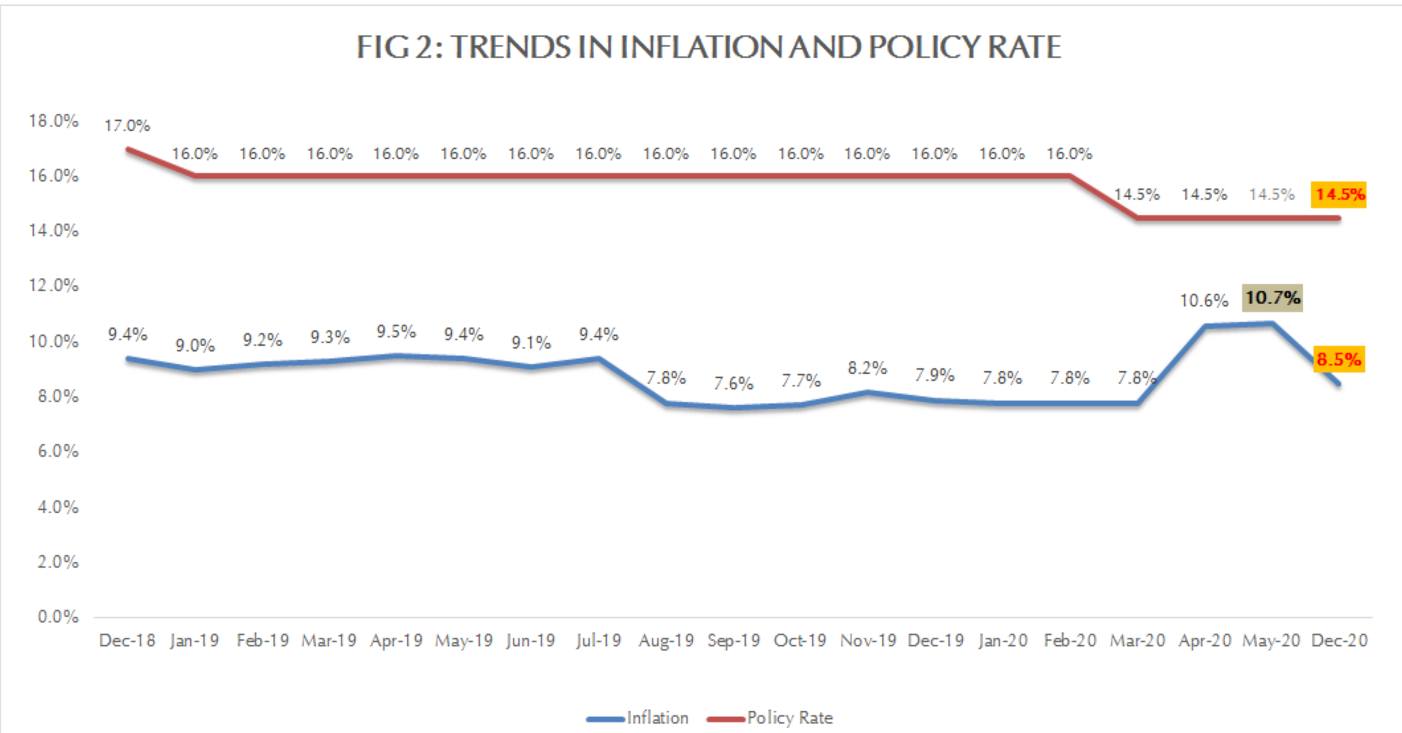
Source: Ghana Statistical Service

In the outlook, we anticipate enormous negative impact on Foreign Direct Investment (FDI) inflows, the hospitality industry, trade and industrial sectors and Agriculture sector due to supply chain challenges arising out of the coronavirus pandemic to culminate in a slowdown in economic activity. 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. Despite the anticipation of the slow down in economic activity, we expect some spillover from oil and gas investment into the economy, with increases in broader industrial production from the pharmacautical/health sectors, infrastructure investment and auxiliary services to support growth.

3. Price Developments

Inflation

- ✓ After remaining flat at 7.8 percent for three consecutive readings (January-March 2020), headline inflation jumped up in April to 10.6 percent—outside the Bank's inflation target band.
- ✓ The sharp rise in inflation is attributed to increased demand for food items stemming from the two panic-buying episodes preceding the market fumigation exercises across the country and the partial lockdown in both Accra and Kumasi—the two largest cities. This led to exaggerated food prices in April.
- ✓ Food and non-alcoholic beverages prices rose to 14.4 percent, significantly higher than the 8.4 percent recorded in March 2020.
- ✓ Non-food inflation increased to 7.7 percent in April 2020 from 7.5 percent in March 2020.



Source: Bank of Ghana

The BoG's latest forecast points to elevated risks to the inflation outlook in the forecast horizon, underscored by the recent jump in headline inflation. On the downside, relief measures on water and electricity tariffs and declining crude oil prices are likely to ease price pressures in the outlook. The recent rise in inflation is projected to peak in the second quarter and begin to return to the disinflation path in subsequent quarters with inflation settling within the medium-term target band by the end of the year. On our part, we project a subdued rise in prices of goods and services in the month of May. This would be on the back of 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. We therefore forecast inflation of 10.7±0.2% for May 2020 and 8.5±0.2% for end of Dec. 2020.

4. External Sector Developments

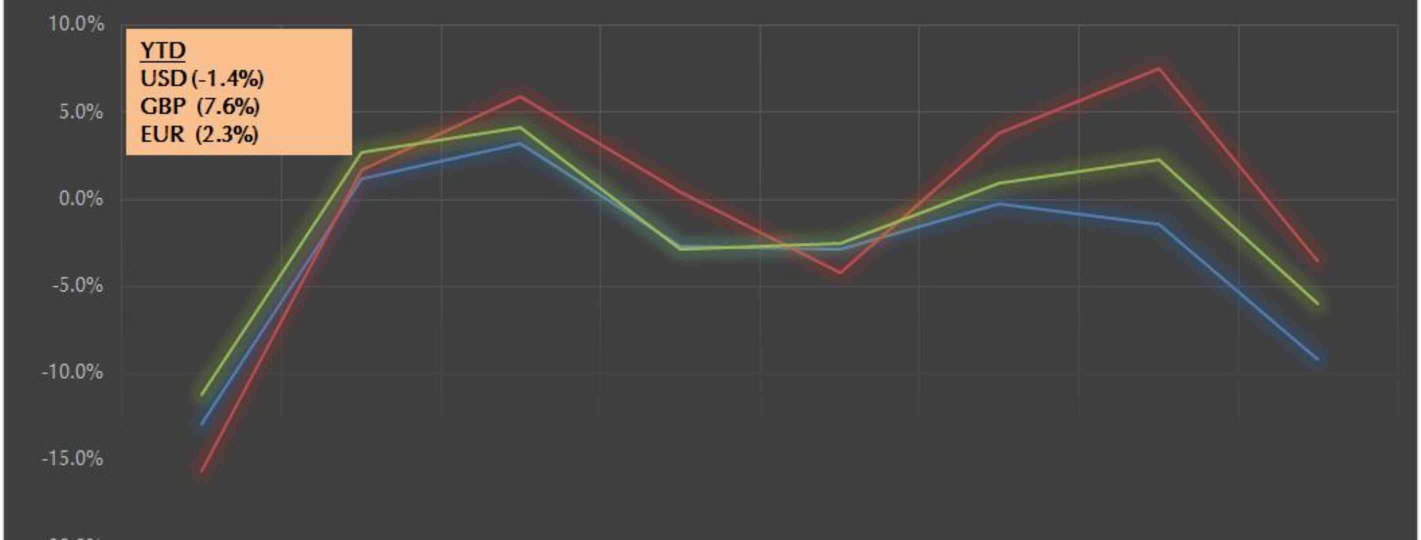
- Notwithstanding the unfavourable global developments, the performance of the external sector has been strong in the first quarter of 2020, reflecting in a higher trade surplus and higher capital inflows.
- The trade balance recorded a surplus of US$936.4 million (1.4% of GDP) compared with a surplus of US$642.4 million (1.0% of GDP) recorded for the same period in 2019. This outturn was on account of lower imports and a marginal fall in export receipts.
- The lower oil imports value is primarily as a result of a switch in the energy generation mix in favour of domestically produced gas. Demand for non-oil imports also dropped in line with the slowdown in economic activity.
- The Government of Ghana's decision to access the Eurobond market earlier in the year, and the Rapid Credit Facility (RCF) financing from the IMF resulted in a build-up in reserves of US$1.5 billion (2.2% of GDP).
- Gross International Reserves therefore increased from a level of US$8.4 billion at the end of December 2019 to US$10.3 billion at the end of April 2020, sufficient to provide 4.8 months of imports cover.

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. 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.

Exchange Rate Developments

- The strong reserve position has helped to ensure stability in the foreign exchange market even as external financing conditions tighten, and emerging and frontier economies see capital flow reversals as a result of the heightened global uncertainty.
- Between the month of April and 15th May, 2020, the cedi has seen a depreciation of 0.2% to the dollar and an appreciation of 3.8% and 0.9% in that order to the GBP and EUR.
- Year to date, the cedi has seen a cumulative depreciation of 1.4% to the dollar and an appreciation of 7.6% and 2.3% respectively to the GBP and the EUR.
- To further boost foreign exchange liquidity, the Bank of Ghana (BOG) has concluded a US$1 billion Repurchase Agreement (Repo) facility with the U.S. Federal Reserve under its Repo facility for Foreign and International Monetary Authorities (FIMA Repo Facility).
- This facility is expected to be available for at least six months, provides an important foreign exchange buffer to boost dollar liquidity amid the COVID-19 global pandemic, and will further enhance the BOG's dollar liquidity.

FIG 3: RATE OF CURRENCY DEPRECIATION & APPRECIATION



	FY-19	Jan-20	Feb-20	Mar-20	Apr-20	15 May-20	YTD	YoY
USD	-12.9%	1.2%	3.3%	-2.7%	-2.8%	-0.2%	-1.4%	-9.2%
GBP	-15.7%	1.7%	6.0%	0.4%	-4.3%	3.8%	7.6%	-3.6%
EUR	-11.2%	2.7%	4.2%	-2.9%	-2.5%	0.9%	2.3%	-6.0%

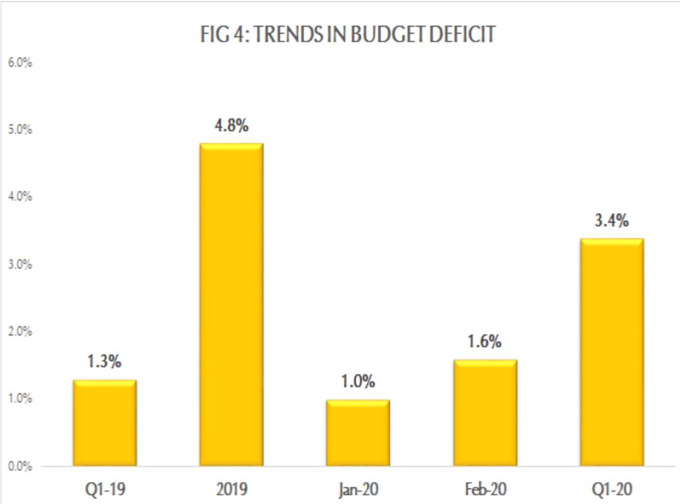
Source: Bank of Ghana.

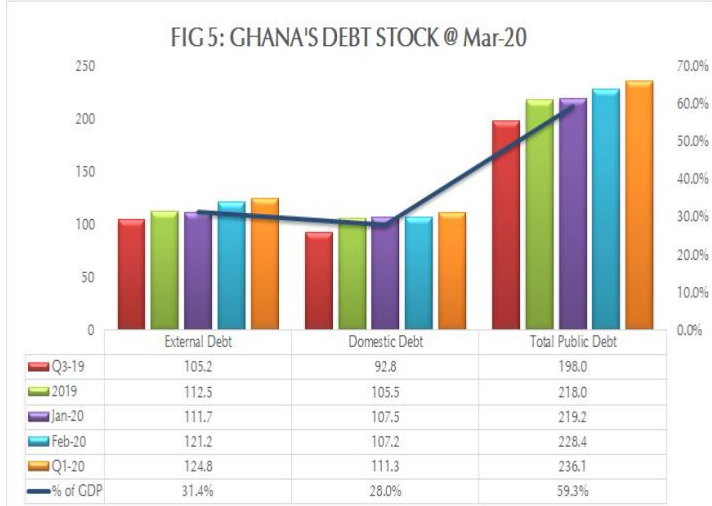
In line with other emerging-market currencies, we expect the cedi to remain weak in the face of heightened global risk perceptions—which, in Ghana's case, will be accentuated by increasing uncertainty ahead of the December 2020 elections. On the other hand, the cedi is expected to get some support in the short term from the US$1 billion Repurchase Agreement (Repo) facility between BoG and the U.S. Federal Reserve and US$1 billion IMF Rapid Credit Facility. Against this backdrop, we forecast that the cedi will depreciate to an average of GH¢5.80:US$1 in 2020.

5. Fiscal Developments

Fiscal/Debt Situation

- ✓ Provisional data for the first quarter on the execution of the budget show a widening of the deficit relative to what was observed for the same period in 2019.
- ✓ As at the end of the first quarter, a deficit, equivalent to 3.4 percent of GDP has been recorded compared with a deficit target of 1.9 per cent of GDP.
- ✓ The larger deficit is explained by shortfalls in tax revenues — on the back of shortfalls in international trade taxes, taxes on goods and services and taxes on income and property in response to unfavourable external and domestic conditions — and higher pace of spending, which included some unbudgeted COVID-19 related expenditure.
- ✓ The expanded deficit led to an increase in the debt stock to 59.3 percent of GDP at the end of March 2020.





Source: Bank of Ghana.

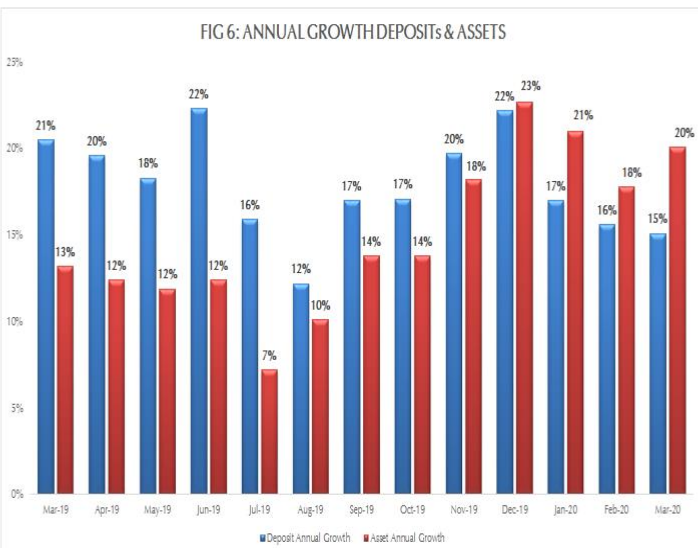
Policy Measures on Fiscal Developments

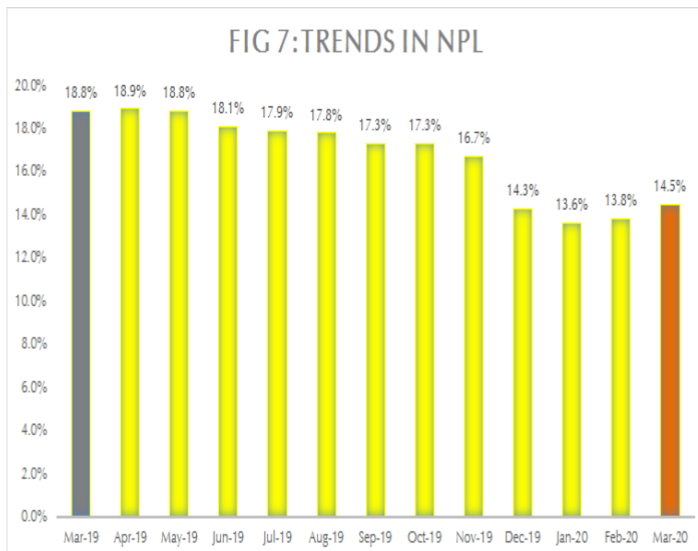
- ✓ The COVID-19 pandemic has put a severe strain on the budget, manifesting in petroleum revenue shortfalls as a result of plunging crude oil prices, shortfalls in import duties, other tax revenues, and non-tax revenues.
- ✓ Preliminary assessments show that the financing gap that was estimated at the time of applying for the IMF RCF in March has widened significantly, resulting in a large residual financing gap. Current market conditions in the wake of the pandemic, will not allow the financing of the gap from the domestic debt capital markets without significantly increasing interest rates. *This is likely to result in relative stability or marginal drop in interest rates.*
- ✓ Under the circumstances and in line with section 30 of the Bank of Ghana Act, 2002 (Act 612) as amended, the Bank of Ghana has triggered the emergency financing provisions, which permits the Bank to increase the limit of BOG's purchases of government securities in the event of any emergency to help finance the residual financing gap.
- ✓ Under the Bank of Ghana's Asset Purchase Programme, BoG has purchased a Government of Ghana COVID-19 relief bond with a face value of GH¢5.5 billion at the Monetary Policy Rate with a 10-year tenor and a moratorium of two (2) years (principal and interest).
- ✓ The Bank stands ready to continue with its Asset Purchase Programme up to GH¢10 billion in line with the current estimates of the financing gap from the COVID-19 pandemic.

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 significantly due to shortfalls in petroleum receipts (fall in crude oil prices on the international market), shortfalls in import duties due to anticipated decline in import volumes and value, shortfall in other tax revenues due to projected slowdown in non-oil GDP and increased health related expenditures. 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). 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.

6. Monetary and Banking Sector Developments

- ✓ The lockdown resulted in a decline in currency as consumers resorted to the use of electronic modes of payment.
- ✓ General economic uncertainty reduced demand for credit, as commercial banks tightened their credit stance. As a result, credit to the private sector remained virtually flat during the period.
- ✓ Broad money supply (M2+) slowed significantly to 13.5 percent in March 2020, compared with 21.6 percent growth a year ago.
- ✓ The latest stress tests conducted in April 2020 suggest that banks are strong and resilient and are well-positioned to withstand mild to moderate liquidity and credit shocks on the basis of strong capital buffers and high liquidity positions.
- ✓ Capital Adequacy Ratio is well above the revised regulatory floor of 11.5 percent.
- ✓ However, the industry NPL ratio has inched up during the quarter, reflecting the emerging impact of the pandemic on low credit growth and higher loan provisioning.
- ✓ So far, banks are also responding positively to the recently-announced policy initiatives to support the economy by reducing lending rates and supporting credit growth, as well as offering moratoriums on loan repayments to cushion customers.





Source: Bank of Ghana

Relief Measures to the SDI Sector due to Covid-19 Pandemic

- ✓ The BoG has activated section 46A of the Bank of Ghana Act 2002 (Act 612) as amended, to provide liquidity support to savings and loans and finance house companies facing temporary liquidity challenges. Eligibility for this facility and the terms and conditions upon which it will be granted will be based strictly on the provisions of section 46A and BoG's updated liquidity support policy framework.
- ✓ Strengthen the capacity of the ARB Apex Bank to provide liquidity support for rural and community banks facing temporary liquidity challenges in line with a framework to be agreed. Microfinance companies who meet eligibility criteria agreed will also qualify for this support from ARB Apex Bank.
- ✓ Extend the deadline for SDIs (MFIs and RCBs) to meet new capital requirements to December 2021. This is expected to provide temporary relief to SDIs, given current economic conditions.

- ✓ Reduce the 8 percent primary reserve ratio for savings and loans companies, finance house companies, and rural and community banks to 6 percent, and the 10 percent primary reserve ratio for micro finance companies to 8 percent.
- ✓ These measures are designed to release liquidity to the SDI sector to enable them to support their customers and ensure that the Micro Small and Medium Enterprises (MSME) sector and low-income households do not lose access to critical financial services in these uncertain times.
- ✓ The Bank will provide guidance to banks and SDIs on the accounting treatment of loan restructuring, classifications, provisioning, and expected credit losses, and prudential assessments of credit risk and capital ratios.
- ✓ Such guidance should help banks and SDIs make quicker decisions on customers' requests for loan restructuring. BoG expects fair and equitable treatment of all customers of banks and SDIs at all times, and especially at this time.
- ✓ The Bank will strictly monitor business conduct rules for banks and SDIs in their dealings with customers, particularly in relation to transparency and fairness in revisions to loan terms and conditions, fee charges, and related issues.
- ✓ The Bank of Ghana has also indicated that it will continue to monitor developments in the banking and SDI sector and take additional decisions as may be necessary.

7. Our View and Outlook for the Policy Rate

Our expectation is for BoG to undertake further near term monetary easing in the course of the year. Incentives for monetary easing would be anchored on the rate at which economic activity deteriorates in the months ahead. We expect average annual inflation to increase slightly in 2020, but to remain within the BoG's target range of 6-10% which may limit monetary easing for the rest of the year. 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.

Meanwhile, BoG in its MPC report indicated that the recent rise in inflation is projected to peak in the second quarter and begin to return to the disinflation path in subsequent quarters with inflation settling within the medium-term target band by the end of the year. Contrary, if we begin to see an uptick in inflation due to upward pressure on prices of some goods because of pandemic-related restrictions and shortages in the months ahead, it could prompt BoG to increase the policy rate to fight inflation.

8. Implications for GCB Bank

1. We foresee relative stability or a drop in interest rates especially at the short end of the debt market as the financing of government budget deficit by BoG kicks in. Already, BoG has indicated that market conditions in the wake of the pandemic will not allow the financing of the gap from the domestic debt market because it could lead to significant increases in interest rate. Also, we predict the continuous tightening of credit stance by Banks with GCB not an exception to prevent bad loans due to the general economic uncertainty arising out of the Covid-19 pandemic. These developments would impact discreetly on the Bank's interest income and other fee income the Bank generates from administering credit for the year. We therefore recommend the ramping up of non-funded sources of generating revenue from our various digital services (G-Money & Others) to cover up for the shortfall that may arise from interest income as consumers resort to the use of electronic modes of payment.
2. The coronavirus pandemic and the unprecedented containment measures being taken by the authorities to mitigate its spread would adversely affect economic activity in Ghana. Before the outbreak, our expectation for real GDP growth was 6.8%. The pandemic has changed the calculations entirely. Preliminary estimates by the Bank of Ghana shows that growth in 2020 is likely to be between 2.0 and 2.5 percent whilst the government anticipate a decline in growth to 1.5%. This could weigh on the business of the Bank directly or indirectly this year. Therefore, to mitigate the impact, we recommend the following for management decision making:

- The need for heads of business units and RMs to engage key customers to evaluate impact on their business and fashion solutions together with them to forestall defaults.
- Cherry-pick and slowdown in the approval of business loans.
- The need to engage vendors to renegotiate prices especially maintenance contracts to bring down cost in line with the anticipated reduction in revenue.
- Aggressively market and sell the Bank's electronic products (G-Money) designed to bring convenience to customers and the unbanked to shore up our deposits and fee income as more customers adopt online banking due to Covid-19.