GCB BANK LIMITED

Planning and Research Monthly/Quarterly Economic Updates **Issue 23** **March 2021**

CONTENT

Key Macroeconomic Indicators and Forecast	Actual				Forecast			
	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Dec-21
GDP (%)	1.9%*			0.9%*			2.2%*	4.2%
Inflation (Consumer Price Index)	10.4%	9.9%	10.3%	10.2%*	10.1%	10.0%	9.9%	8.3%
MPR (Monetary Policy Rate)	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%	14.5%	14.0%
91-Day Treasury Bill	14.1%	14.1%	13.1%	12.9%	12.9%	12.8%	12.6%	13.7%
182-Day Treasury Bill	14.1%	14.1%	14.0%	13.7%	13.6%	13.5%	13.3%	13.9%
1-Year Bond Rate	17.0%	17.0%	16.9%	16.6%	16.7%	16.7%	16.6%	16.9%
FX Rate (USD/GHS)	5.7602	5.7604	5.7374	5.7288	5.7340	5.7391	5.7443	6.0200
FX Rate (GBP/GHS)	7.8742	7.8996	7.9945	7.8619	7.8643	7.8666	7.8690	7.9800
FX Rate (EUR/GHS)	7.0643	6.9929	6.9545	6.7182	6.7202	6.7222	6.7242	6.8300
Gold (US$/oz)	1,895.10	1,850.30	1,728.80	1,715.60	1,717.90	1,713.90	1,715.30	1,719.90
Cocoa (US$/ton)	2,424.35	2,401.55	2,507.04	2,347.85	2,377.00	2,377.00	2,408.00	2,421.00
WTI (US$/bbl)	48.52	52.20	61.50	59.16	59.58	59.60	59.45	57.36
Brent (US$/bbl)	51.80	55.53	64.42	62.74	62.74	62.36	62.01	60.42
*Forecast - GDP, Inflation								

Executive Summary		
Macro Indicators	**Current Situation**	**Outlook**
Economic growth	• The Ghanaian economy is on a rebound with a sustained momentum in pick-up in economic activity. The Bank of Ghana's (BoG) updated Composite Index of Economic Activity (CIEA) recorded an annual growth of 13.9 percent in January 2021, the highest since December 2019, compared to 3.4 percent in the corresponding period of 2020. The key drivers of economic activity during the period were construction, imports, industrial consumption of electricity, domestic VAT, passenger arrivals at the airport, and port activity. • Also, results from the BoG's latest confidence surveys conducted in February 2021 showed some softening of both consumer and business sentiments.	• In the outlook, we forecast real GDP growth of 4.2% in 2021, following an estimated growth of 1.9% in 2020. The key hydrocarbons sector, gold production, a bounce back in the service sector and agriculture sector benefiting from government efforts to improve cocoa yields will drive the growth.
Fiscal Policy	• On fiscal policy, provisional data from the Ministry of Finance indicated that 2020 recorded an overall broad cash budget deficit of 11.7 percent of GDP against the revised target of 11.4 percent of GDP for the year. • The primary balance also recorded a deficit of 5.3 percent of GDP compared to the revised target deficit of 4.6 percent of GDP. • Over the review period, total revenue and grants amounted to GH¢55.1 billion (14.3 percent of GDP), marginally higher than the revised target of GH¢53.7 billion (13.9 percent of GDP). • Total expenditures and arrears clearance amounted to GH¢100.1 billion (26.1 percent of GDP) against the revised target of GH¢97.7 billion (25.4 percent of GDP).	• Looking ahead, the 2021 budget has set fiscal policy on an adjustment path albeit slower than originally anticipated. The adjustment for 2021 is expected to be driven, mainly by revenue-enhancing measures, and to a lesser extent, expenditure rationalization due to the need to continue the stimulus programmes and vaccine rollout of the Covid-19 pandemic. • The fiscal deficit will narrow to 9.5% of GDP in 2021, from 11.7% of GDP in 2020, before narrowing further, to 4.5% of GDP in medium term as some fiscal consolidation is undertaken while revenue picks up.
Debt Sustainability	• The high deficit pushed the stock of public debt to 76.1 percent of GDP (GH¢291.6 billion) at the end of December 2020 compared with 62.4 percent of GDP (GH¢218.2 billion) at the end of December 2019. • Of the total debt stock, domestic debt amounted to GH¢149.8 billion (39.1 percent of GDP), while the external debt was GH¢141.8 billion (37 percent of GDP).	• The public debt/GDP ratio will decline in 2021, to 74% at year-end, after a soaring fiscal deficit caused it to rise to 76.1% at end-2020, with the Bank of Ghana playing a greater role in its financing. It will fall further in the medium term, to 68.9%, following further fiscal consolidation and GDP growth. The government will continue to depend on borrowing from both external and domestic sources..
Inflation	• Inflation remained above pre-pandemic levels with price developments in the first two months of 2021 broadly mixed. The two readings in the first two months showed that headline inflation eased from 10.4 percent in December 2020 to 9.9 percent in January 2021, and subsequently went up to 10.3 percent in February. • The uptick in inflation in February was mainly driven by non-food inflation, which rose to 8.8 percent from 7.7 percent in January. Food inflation, on the other hand, eased to 12.3 percent from 12.8 percent over the same comparative period.	• Inflation will moderate in 2021 to 8.3±0.2%, mainly reflecting weak domestic demand. The BoG's forecast, however, remain broadly unchanged with headline inflation expected to return to their target band of 8±2 percent in the second quarter of 2021. • Risks to inflation in the near-term are broadly balanced, but there are emerging short-term pressures emanating from the rising crude oil prices and the direct and secondary price effects of the revenue measures announced in the 2021 budget. • For the month of March 2021, we forecast inflation of **10.2±0.2%**
Interest Rate	• Interest rates on the money market broadly showed downward trends for short-dated instruments. The 91-day and 182-day Treasury bill rates declined to 13.6 percent and 14.0 percent respectively in February 2021, from 14.7 percent and 15.2 percent respectively, in February 2020. As at the end of the first quarter, the 91-day and 182-day bills stood at 12.9 percent and 13.7 percent respectively. • Similarly, the rate on the 364-day instrument decreased to 16.9 percent in February from 17.8 percent in January. As at the end of the first quarter the 364-day bill was 16.6%. • The interbank market rates fluctuated between 13.56% and 13.58% in the first quarter of 2020. • The Monetary Policy Rate was unchanged at 14.5% in the last MPC meeting in March 2021 due to risks to inflation outlook.	• Our expectation is for a small rate cut in 2021, to 14%, as inflation stays within the BoG's 6-10% target range over the year and the authorities remain keen to support access to credit. • Furthermore, we forecast interest rates on the short end of the money market to remain steady in 2021 declining marginally on the back of a progressive tightening of monetary policy as domestic demand strengthens and inflationary pressures persist. • We forecast the 91-day and the 182-day bills at 12.61% and 13.34% respectively by the end of the second quarter. The 364-day instrument is also forecast at 16.64% by the end of the second quarter.
Exchange Rate	• As at the end of the first quarter, the cedi has shown a cumulative appreciation of 0.55%, 0.03% and 5.25% against the dollar, EUR and GBP respectively. This shows a comparative position of an appreciation of 1.68%, 8.26% and 3.95% against the dollar, GBP and EUR in that order as at Q1-20.	• In 2021 the cedi will depreciate at a slower rate (to GH¢6.02:US$1) owing to improved domestic and global sentiment, and the fiscal and current account deficits will both narrow. • As at the end of the second quarter, our expectation is for the cedi to be trading at GHS5.74, GHS7.87, GHS6.72 against the dollar, GBP and EUR respectively.
Business Impact	• Trade Transactions. • Digital Payments as a Key for off-balance sheet income and cheap deposits. • Asset Creation and Deposit Mobilisation on positive economic growth conditions in the outlook.	

02 Economic Developments

Global Overview-*From the great lockdown to the great rebound*

Amid exceptional uncertainty, the global economy is projected to grow 5.5 percent in 2021 and 4.2 percent in 2022 according to IMF. Their projection is conditional on a successful deployment and spread of effective COVID-19 vaccines and continued accommodative fiscal, financial and monetary conditions. Nevertheless, the next three to six months will continue to be challenging, particularly for the Northern Hemisphere countries going through the winter months as they could be forced to further localised or full economy-wide lockdowns (as recently displayed in the UK). Output in some advanced economies, for example, could contract in Q1 of the year. We think that economic growth is more likely to pick up in the second half of the year, which is also when we expect large advanced economies to have vaccinated a substantial share of their population.

By the end of 2021 or early 2022, we expect the global economy to revert to its pre-pandemic level of output. However, this picture masks an uneven pattern. At one end of the spectrum is the Chinese economy, which is already bigger compared to its pre-pandemic size. On the other end are mostly advanced economies which are either service-based (UK, France, Spain) or more focused on exporting capital goods (Germany, Japan) and are unlikely to recover to their pre-crisis levels by the end of the year. In these economies, growing but lower levels of output is projected to lead to push up unemployment rates. In its December 2020 economic outlook, the Organisation for Economic Co-operation and Development (OECD) projects an unemployment rate of around 7% in its member states compared to pre-pandemic levels of around 5.5%. Most of the jobs affected are likely to be those at the bottom end of the earnings distribution which is likely to exacerbate income inequalities. We therefore expect governments' focus to gradually shift from fighting the COVID-19 virus to dealing with higher unemployment rates by upskilling their workforce and creating jobs in newly emerging labour-intensive sectors.

2021 will be the first year where the three main economies or trading blocs of the world — the US, the European Union (EU) and China — will refocus their efforts on fighting climate change. The US is expected to re-join the Paris Accord and host an international climate summit early in the year. EU member states

are expected to finalise their plans to accelerate the transition towards a greener (and more digital) economy by the end of April. The EU Commission is then expected to release the first tranche of grants and loans worth around 0.5% of Eurozone GDP (or 5% over five years) to speed up the process. Finally, China's 14th Five Year Plan is expected to be put to action — part of which includes increasing energy efficiency. This and other issues are also expected to be discussed at the United Nations Climate Change Conference (COP26) in Glasgow later this year.

Table 1: Overview of the World Economic Outlook

Table 1. Overview of the *World Economic Outlook* Projections

(Percent change, unless noted otherwise)

	Year over Year						Q4 over Q4 2/		
		Estimate	Projections		Difference from October 2020 WEO Projections 1/		Estimate	Projections	
	2019	2020	2021	2022	2021	2022	2020	2021	2022
World Output	**2.8**	**–3.5**	**5.5**	**4.2**	**0.3**	**0.0**	**–1.4**	**4.2**	**3.7**
Advanced Economies	**1.6**	**–4.9**	**4.3**	**3.1**	**0.4**	**0.2**	**–3.9**	**4.6**	**1.9**
United States	2.2	–3.4	5.1	2.5	2.0	–0.4	–2.1	4.0	2.0
Euro Area	1.3	–7.2	4.2	3.6	–1.0	0.5	–6.8	5.8	2.0
Germany	0.6	–5.4	3.5	3.1	–0.7	0.0	–5.3	5.2	1.7
France	1.5	–9.0	5.5	4.1	–0.5	1.2	–8.2	7.4	2.0
Italy	0.3	–9.2	3.0	3.6	–2.2	1.0	–8.3	4.2	2.3
Spain	2.0	–11.1	5.9	4.7	–1.3	0.2	–9.8	7.1	2.0
Japan	0.3	–5.1	3.1	2.4	0.8	0.7	–2.3	2.7	1.6
United Kingdom	1.4	–10.0	4.5	5.0	–1.4	1.8	–8.3	6.0	1.9
Canada	1.9	–5.5	3.6	4.1	–1.6	0.7	–4.0	3.7	2.7
Other Advanced Economies 3/	1.8	–2.5	3.6	3.1	0.0	0.0	–2.2	4.5	1.9
Emerging Market and Developing Economies	**3.6**	**–2.4**	**6.3**	**5.0**	**0.3**	**–0.1**	**0.9**	**3.7**	**5.4**
Emerging and Developing Asia	5.4	–1.1	8.3	5.9	0.3	–0.4	3.2	3.8	6.4
China	6.0	2.3	8.1	5.6	–0.1	–0.2	6.2	4.2	6.0
India 4/	4.2	–8.0	11.5	6.8	2.7	–1.2	0.6	1.7	7.8
ASEAN-5 5/	4.9	–3.7	5.2	6.0	–1.0	0.3	–3.2	5.2	6.1
Emerging and Developing Europe	2.2	–2.8	4.0	3.9	0.1	0.5	–2.7	4.8	3.0
Russia	1.3	–3.6	3.0	3.9	0.2	1.6	–4.6	5.3	2.6
Latin America and the Caribbean	0.2	–7.4	4.1	2.9	0.5	0.2	–4.8	2.3	2.8
Brazil	1.4	–4.5	3.6	2.6	0.8	0.3	–1.9	1.6	2.6
Mexico	–0.1	–8.5	4.3	2.5	0.8	0.2	–5.4	2.2	2.4
Middle East and Central Asia	1.4	–3.2	3.0	4.2	0.0	0.2	. . .	. . .	. . .
Saudi Arabia	0.3	–3.9	2.6	4.0	–0.5	0.6	–3.1	3.5	4.0
Sub-Saharan Africa	3.2	–2.6	3.2	3.9	0.1	–0.1	. . .	. . .	. . .
Nigeria	2.2	–3.2	1.5	2.5	–0.2	0.0	. . .	. . .	. . .
South Africa	0.2	–7.5	2.8	1.4	–0.2	–0.1	–6.2	2.8	0.6
Memorandum									
Low-Income Developing Countries	5.3	–0.8	5.1	5.5	0.2	0.0	. . .	. . .	. . .
World Growth Based on Market Exchange Rates	2.4	–3.8	5.1	3.8	0.3	0.0	–2.0	4.3	3.1
World Trade Volume (goods and services) 6/	**1.0**	**–9.6**	**8.1**	**6.3**	**–0.2**	**0.9**	**. . .**	**. . .**	**. . .**
Advanced Economies	1.4	–10.1	7.5	6.1	0.4	1.0	. . .	. . .	. . .
Emerging Market and Developing Economies	0.3	–8.9	9.2	6.7	–1.0	0.8	. . .	. . .	. . .
Commodity Prices (US dollars)									
Oil 7/	–10.2	–32.7	21.2	–2.4	9.2	–5.4	–27.6	13.5	–2.2
Nonfuel (average based on world commodity import weights)	0.8	6.7	12.8	–1.5	7.7	–2.0	15.4	2.0	–0.1
Consumer Prices									
Advanced Economies 8/	1.4	0.7	1.3	1.5	–0.3	–0.1	0.5	1.5	1.6
Emerging Market and Developing Economies 9/	5.1	5.0	4.2	4.2	–0.5	–0.1	3.2	3.8	3.7
London Interbank Offered Rate (percent)									
On US Dollar Deposits (six month)	2.3	0.7	0.3	0.4	–0.1	–0.1	. . .	. . .	. . .
On Euro Deposits (three month)	–0.4	–0.4	–0.5	–0.6	0.0	–0.1	. . .	. . .	. . .
On Japanese Yen Deposits (six month)	0.0	0.0	–0.1	–0.1	–0.1	–0.1	. . .	. . .	. . .

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during October 23–November 20, 2020. Economies are listed on the basis of economic size. The aggregated quarterly data are seasonally adjusted. WEO = World Economic Outlook.

1/ Difference based on rounded figures for the current and October 2020 WEO forecasts. Countries whose forecasts have been updated relative to October 2020 WEO forecasts account for 90 percent of world GDP measured at purchasing-power-parity weights.

2/ For World Output, the quarterly estimates and projections account for approximately 90 percent of annual world output at purchasing-power-parity weights. For Emerging Market and Developing Economies, the quarterly estimates and projections account for approximately 80 percent of annual emerging market and developing economies' output at purchasing-power-parity weights.

3/ Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.

4/ For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with fiscal year 2011/12 as a base year.

5/ Indonesia, Malaysia, Philippines, Thailand, Vietnam.

6/ Simple average of growth rates for export and import volumes (goods and services).

7/ Simple average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil. The average price of oil in US dollars a barrel was $41.29 in 2020; the assumed price, based on futures markets (as of January 4, 2021), is $50.03 in 2021 and $48.82 in 2022.

8/ The inflation rate for the euro area is 0.9% in 2021 and 1.2% in 2022, for Japan is –0.1% in 2021 and 0.5% in 2022, and for the United States is 2.1% in 2021 and 2022, respectively.

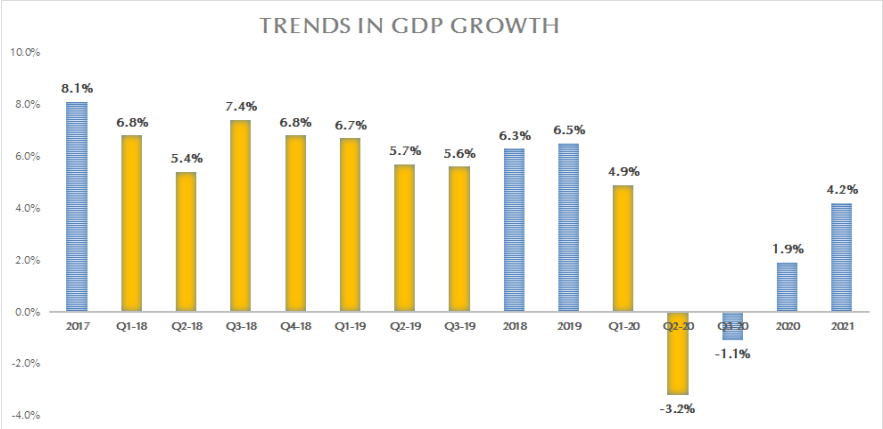
9/ Excludes Venezuela.

Ghana Economic Growth- ***Growth to rebound in 2021 on the back of hydrocarbons, mining, agriculture and service sectors.***

The Ghanaian economy is on a rebound with a sustained momentum in pick-up in economic activity. The Bank of Ghana's (BoG) updated Composite Index of Economic Activity (CIEA) recorded an annual growth of 13.9 percent in January 2021, the highest since December 2019, compared to 3.4 percent in the corresponding period of 2020. The key drivers of economic activity during the period were construction, imports, industrial consumption of electricity, domestic VAT, passenger arrivals at the airport, and port activity.

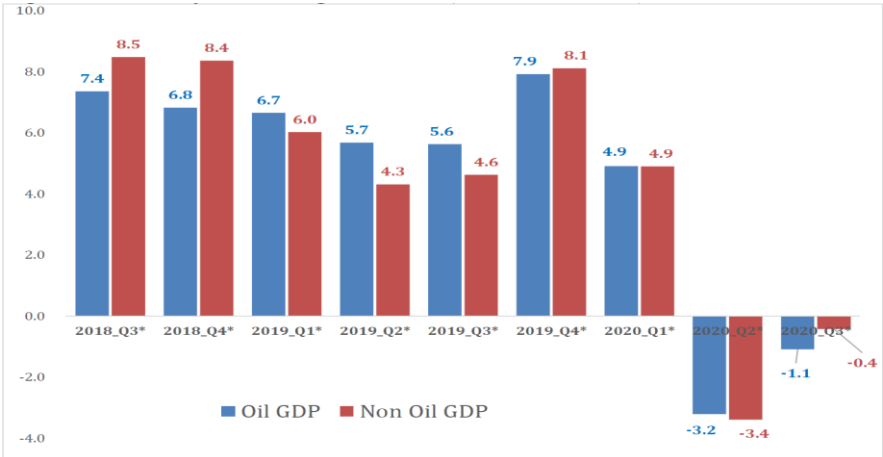
Also, results from the BoG's latest confidence surveys conducted in February 2021 showed some softening of both consumer and business sentiments. The softening of consumer confidence reflected heightened concerns about the potential re-imposition of restrictions following the upsurge in COVID-19 cases in the first two months of the year. Similarly, business sentiments about the general economic situation also deteriorated on concerns that re-imposition of restrictions would further have detrimental consequences on the attainment of their short-term goals. However, with the commencement of the vaccine roll out and gradual lifting of remaining restrictions, the expectation is for both business and consumer confidence to rebound.

Fig 1: Trends in Real GDP Growth Rate



Source: Ghana Statistical Service (GSS)

Fig 2: Quarterly real GDP growth rate (2018Q3-2020Q3)



Source: Ghana Statistical Service (GSS)

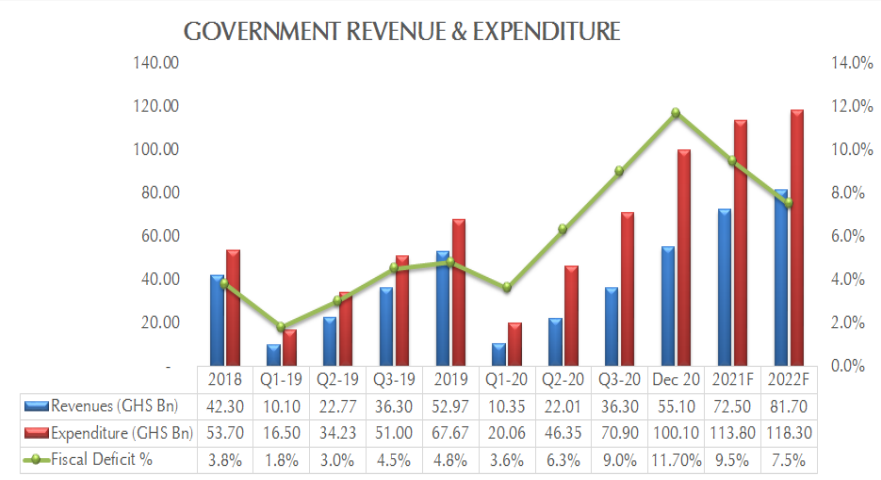
In the outlook, we forecast real GDP growth of 4.2% in 2021, from an estimated growth of 1.9% in 2020. The hydrocarbons sector is expected to be one of the main drivers of growth in 2021. With prices forecast to rise slightly in 2021 as global energy demand recovers, oil production will increase. Gold production, which fell in 2020 despite surging global prices, will rise in 2021 as prices remain elevated and government efforts to curtail illegal mining boost formal activity. Services, which were affected by lockdown measures and falling private consumption in 2020, will recover somewhat in 2021 as most measures are lifted and private consumption picks up. Similarly, the agricultural sector will also register growth, benefiting from government investment in improving cocoa yields. In medium term oil production will rise further (with output at the Pecan oilfield starting in 2024), boosting real GDP growth to an annual average of 3.8%. It is worthy to note that, the renewed threat from the second-wave of the pandemic has again heightened uncertainty and could hamper the recovery process in the near-term.

With the government paring back spending, a fast pace of economic growth will require industrial activity pulling out of a slump, which to a large extent would be dependent on increased foreign investment in hydrocarbons, 1D1F and the auto industry project.

Fiscal Policy- ***Ghana's Budget Deficit to narrow to 8.9% in 2021 due to increase in fiscal revenues and marginal drop in expenditures.***

On fiscal policy, provisional data from the Ministry of Finance indicated that 2020 recorded an overall broad cash budget deficit of 11.7 percent of GDP against the revised target of 11.4 percent of GDP for the year. The primary balance also recorded a deficit of 5.3 percent of GDP compared to the revised target deficit of 4.6 percent of GDP. Over the review period, total revenue and grants amounted to GH¢55.1 billion (14.3 percent of GDP), marginally higher than the revised target of GH¢53.7 billion (13.9 percent of GDP). Total expenditures and arrears clearance amounted to GH¢100.1 billion (26.1 percent of GDP) against the revised target of GH¢97.7 billion (25.4 percent of GDP).

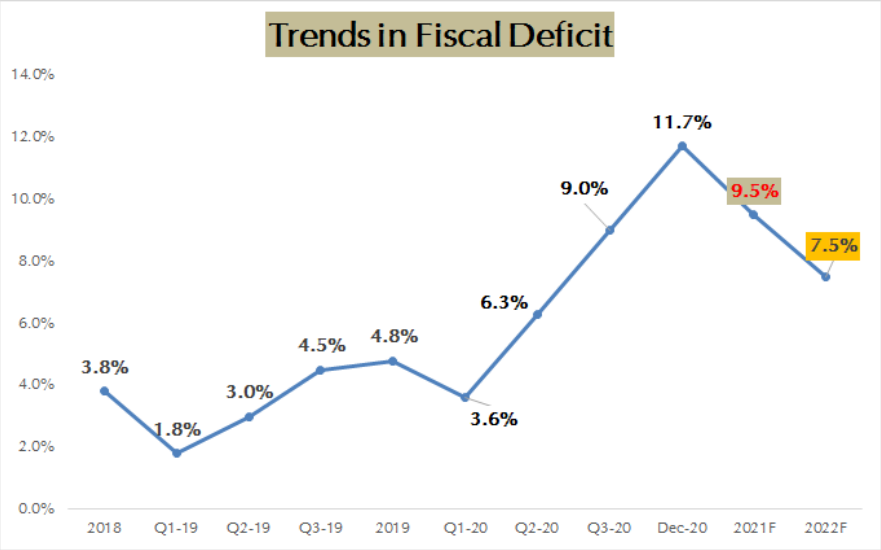
Fig 3: Trends in Budget Deficit



	2018	Q1-19	Q2-19	Q3-19	2019	Q1-20	Q2-20	Q3-20	Dec 20	2021F	2022F
Revenues (GHS Bn)	42.30	10.10	22.77	36.30	52.97	10.35	22.01	36.30	55.10	72.50	81.70
Expenditure (GHS Bn)	53.70	16.50	34.23	51.00	67.67	20.06	46.35	70.90	100.10	113.80	118.30
Fiscal Deficit %	3.8%	1.8%	3.0%	4.5%	4.8%	3.6%	6.3%	9.0%	11.70%	9.5%	7.5%

Source: MoFEP/Budget Statement

Fig 4: Trends in Budget Deficit



Source: MoFEP/Budget Statement

Looking ahead, the 2021 budget has set fiscal policy on an adjustment path albeit slower than originally anticipated. The adjustment for 2021 is expected to be driven, mainly by revenue-enhancing measures, and to a lesser extent, expenditure rationalization due to the need to continue the stimulus programmes and vaccine rollout of the Covid-19 pandemic. We project that fiscal revenue will increase in 2021 owing to a rise in both oil production volumes and global prices this year. Non-oil revenue—which was also hit in 2020 by a smaller tax take due to declining domestic economic activity and lower import duty receipts due to reduced trade flows—will increase in 2021 as the economy recovers from the vaccine rollout culminating into the total removal of restrictions. Also, ongoing tax reforms combined with tax policy measures announced in the 2021 budget—will help to boost government receipts, although many loopholes are likely to remain in place. The government budget is projecting a total tax revenue of GHS72.50 billion for 2021.

In 2021, with the elections over, expenditure will decline and subsidies and coronavirus-support measures will continue to be gradually reduced. The coronavirus vaccine rollout will be

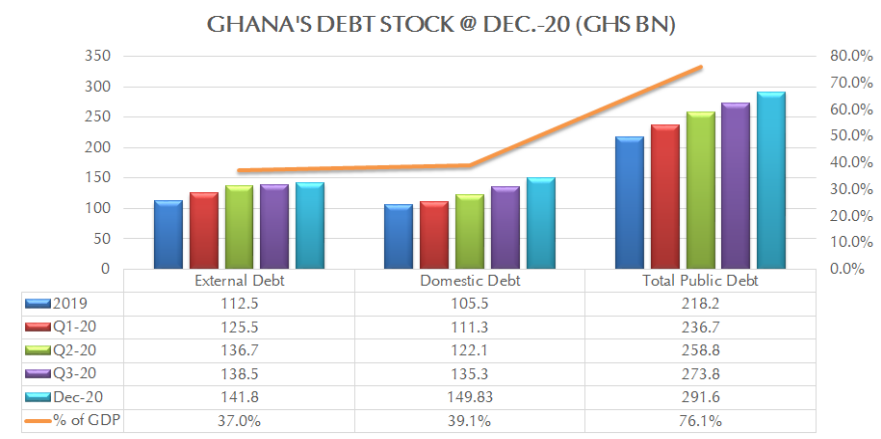
financed largely by international partners, with some government funds diverted from other current spending. Government is projecting GHS113.80 billion as its expenditure for the year 2021.

In the medium term fiscal tightening will continue, although ongoing infrastructure development and industrialisation projects will prevent a faster reduction in public spending and the removal of the Fiscal Responsibility Act (FRA) reduces the need to avoid fiscal slippages. Deferred debt service will need to be paid over five years from 2022, also keeping spending elevated. The fiscal deficit will narrow to 9.5% of GDP in 2021, from 11.7% of GDP in 2020, before narrowing further, to 4.5% of GDP in the medium term, as spending falls and revenue picks up.

Debt Sustainability-*Ghana's debt likely to remain above the debt sustainability level of 70% of GDP in 2021.*

The high deficit pushed the stock of public debt to 76.1 percent of GDP (GH¢291.6 billion) at the end of December 2020 compared with 62.4 percent of GDP (GH¢218.2 billion) at the end of December 2019. Of the total debt stock, domestic debt amounted to GH¢149.8 billion (39.1 percent of GDP), while the external debt was GH¢141.8 billion (37 percent of GDP).

Fig 5: Public Debt Development



	External Debt	Domestic Debt	Total Public Debt
2019	112.5	105.5	218.2
Q1-20	125.5	111.3	236.7
Q2-20	136.7	122.1	258.8
Q3-20	138.5	135.3	273.8
Dec-20	141.8	149.83	291.6
% of GDP	37.0%	39.1%	76.1%

Source: Bank of Ghana

The public debt/GDP ratio will decline in 2021, to 74% at year-end, after a soaring fiscal deficit caused it to rise to 76.1% at end-2020, with the Bank of Ghana playing a greater role in its financing. It will fall further in the medium term, to 68.9%, following further fiscal consolidation and GDP growth. The government will continue to depend on borrowing from both external and domestic sources. Ghana is looking to raise US$5bn in 2021 through two Eurobond issues, with US$3.5bn to be used primarily to roll over existing obligations and US$1.5bn to support government spending.

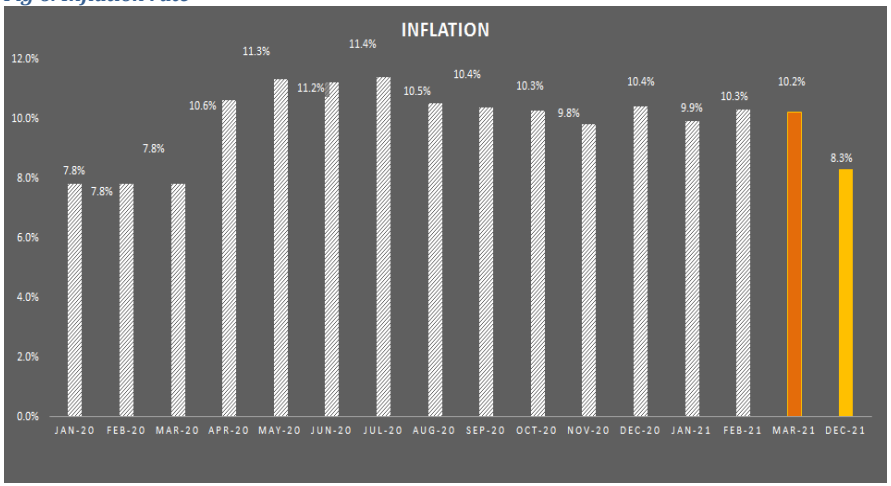
Inflation-*Inflation would moderate in 2021 to 8.3% on the back of weak domestic demand.*

Inflation remained above pre-pandemic levels with price developments in the first two months of 2021 broadly mixed. The two readings in the first two months showed that headline inflation eased from 10.4 percent in December 2020 to 9.9 percent in January 2021, and subsequently went up to 10.3 percent in February.

The uptick in inflation in February was mainly driven by non-food inflation, which rose to 8.8 percent from 7.7 percent in January. Food inflation, on the other hand, eased to 12.3 percent from 12.8 percent over the same comparative period.

According to the Bank of Ghana, underlying inflation pressures went up marginally over the last two months, consistent with headline inflation trends. The BoG's core inflation measure, which excludes energy and utility, moved up marginally. Inflation expectations of businesses inched up in February, while both consumer and financial sector inflation expectations declined.

Fig 6: Inflation rate



Source: GSS/ GCB Research Forecast

Inflation will moderate in 2021 to 8.3±0.2%, mainly reflecting weak domestic demand. The BoG's forecast, however, remain broadly unchanged with headline inflation expected to return to their target band of 8±2 percent in the second quarter of 2021. Risks to inflation in the near-term are broadly balanced, but there are emerging short-term pressures emanating from the rising crude oil prices and the direct and secondary price effects of the revenue measures announced in the 2021 budget.

From 2022 inflation will pick up slightly, owing to higher global commodity prices, ongoing currency depreciation, as well as

stronger demand-side price pressures. Inflation is forecast to average 9.1% a year in 2022-25, remaining towards the upper end of the official target range, but with the central bank set to tighten monetary policy, we do not expect inflation to breach the 10% mark for any prolonged period. For the month of March 2021, we forecast inflation of 10.2±0.2%.

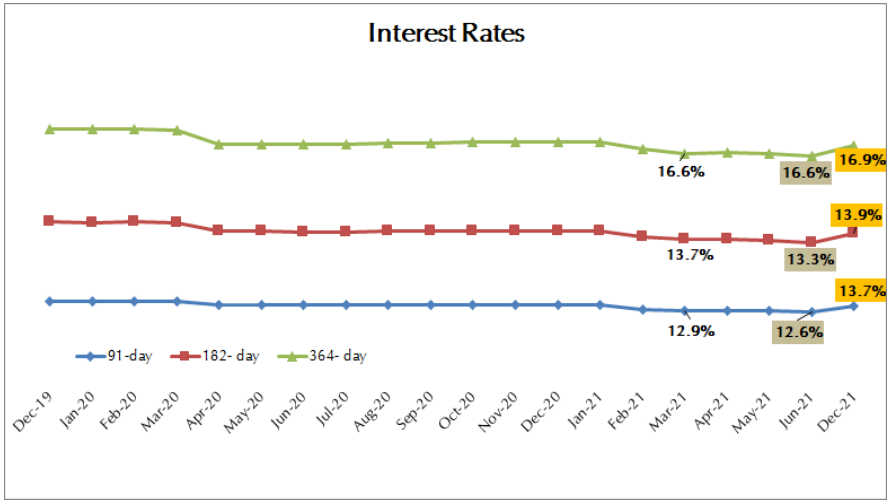
Interest Rates-*Possibility of marginal rate cut to 14% in 2021 as inflation stays within the BoG target band of 6-10%.*

Interest rates on the money market broadly showed downward trends for short-dated instruments. The 91-day and 182-day Treasury bill rates declined to 13.6 percent and 14.0 percent respectively in February 2021, from 14.7 percent and 15.2 percent respectively, in February 2020. As at the end of the first quarter, the 91-day and 182-day bills stood at 12.9 percent and 13.7 percent respectively. Similarly, the rate on the 364-day instrument decreased to 16.9 percent in February from 17.8 percent in January. As at the end of the first quarter the 364-day bill was 16.6%.

The Monetary Policy Rate was unchanged at 14.5% in the last MPC meeting in March 2021 due to risks to inflation that may arise from the emerging short-term pressures emanating from the rising crude oil prices and the direct and secondary price effects of the revenue measures announced in the 2021 budget.

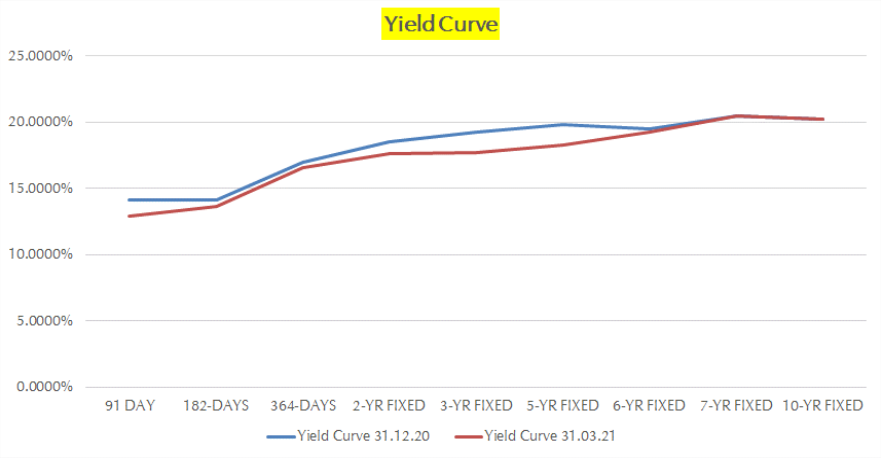
The interbank market rates fluctuated between 13.56% and 13.58% in the first quarter of 2020. It inched up marginally to 13.58% in March compared to 13.57% as at the end of February 2021.

Fig 7: Interest rates



Source: Bank of Ghana/ GCB Research

Fig 8: Yield Curve



Source: Bank of Ghana/ GCB Research

Our expectation is for a small rate cut in 2021, to 14%, on the assumption that annual inflation falls from the upper bounds of the central bank's target range 0f 6-10%. Given the ongoing economic impact of the coronavirus pandemic, the authorities will remain keen to support access to credit. We then expect progressive tightening of monetary policy in 2022-25, to 16.5%, as inflationary pressures start to pick up, although rates will remain low by historical standards.

Furthermore, we forecast interest rates on the short end of the money market to remain steady in 2021 declining marginally on the back of a progressive tightening of monetary policy as domestic demand strengthens and inflationary pressures persist. We forecast the 91-day and the 182-day bills at 12.61% and 13.34% respectively by the end of the second quarter. The 364-day instrument is also forecast at 16.64% by the end of the second quarter.

Currency- ***We forecast a depreciation of the cedi at a slower rate in 2021 owing to improved domestic and global sentiment, and narrow fiscal and current accounts deficits.***

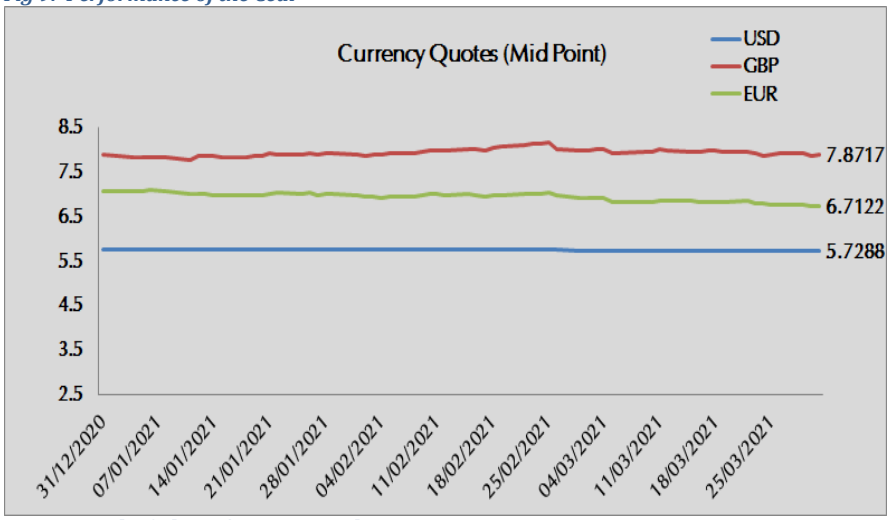
The relative stability in the cedi in the last quarter of 2020 continued into the first quarter of 2021 with the cedi sometimes showing weekly appreciations to some of the major currencies. This has been on the back of strong foreign exchange reserve position, broadly reflecting improvements in global financial market risk sentiments and forward sales of foreign exchange by the Bank of Ghana.

The cedi appreciated against the dollar, GBP, EUR respectively by 0.15%, 1.56% and 3.61% in the month of March 2021 compared to an appreciation of 0.40% and 0.55% against the dollar and the

EUR and a depreciation of 1.19% against the GBP in the month of February. In the month of January 2021, the cedi was flat against the dollar, appreciated by 1.02% against the EUR and depreciated by 0.32% against the GBP. As at the end of the first quarter, the cedi has shown a cumulative appreciation of 0.55%, 0.03% and 5.25% against the dollar, EUR and GBP respectively. This shows a comparative position of an appreciation of 1.68%, 8.26% and 3.95% against the dollar, GBP and EUR in that order as at Q1-20.

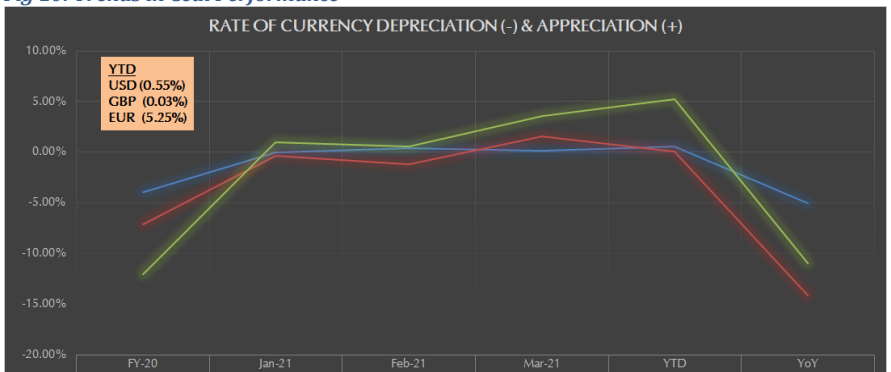
Year on Year, the cedi has depreciated by 5.00%, 14.14% and 10.98% to the dollar, GBP and EUR correspondingly.

Fig 9: Performance of the Cedi



Source: Bank of Ghana/ GCB Research

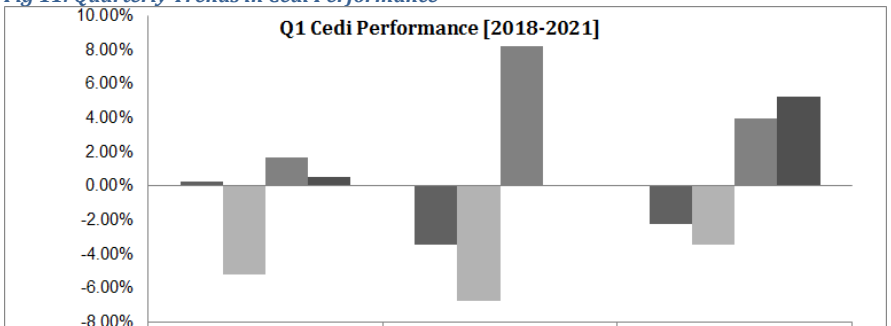
Fig 10: Trends in Cedi Performance



	FY-20	Jan-21	Feb-21	Mar-21	YTD	YoY
USD	-3.93%	0.00%	0.40%	0.15%	0.55%	-5.00%
GBP	-7.08%	-0.32%	-1.19%	1.56%	0.03%	-14.14%
EUR	-12.07%	1.02%	0.55%	3.61%	5.25%	-10.98%

Source: Bank of Ghana/ GCB Research

Fig 11: Quarterly Trends in Cedi Performance



	USD	GBP	EUR
Q1-18	0.26%	-3.47%	-2.24%
Q1-19	-5.18%	-6.73%	-3.42%
Q1-20	1.68%	8.26%	3.95%
Q1-21	0.55%	0.03%	5.25%

Source: Bank of Ghana/ GCB Research

As at the end of March, the cedi was trading at GHS5.7259/5.7317, GHS7.8663/7.8770 and GHS6.7090/6.7153

per the dollar, GBP and EUR respectively on the interbank market.

Table 2: Depreciation/Appreciation (%)

	FY-20	Jan-21	Feb-21	Mar-21	YTD	YoY
USD	-3.93%	0.00%	0.40%	0.15%	0.55%	-5.00%
GBP	-7.08%	-0.32%	-1.19%	1.56%	0.03%	-14.14%
EUR	-12.07%	1.02%	0.55%	3.61%	5.25%	-10.98%

Source: Bank of Ghana/ GCB Research

In 2021 the cedi will depreciate at a slower rate (to GH¢6.02:US$1) owing to improved domestic and global sentiment, and the fiscal and current account deficits will both narrow. We then expect a slower rate of depreciation in the medium term (when the cedi will average GH¢6.35:US$1) as monetary tightening supports the currency. As at the end of the second quarter, our expectation is for the cedi to be trading at GHS5.74, GHS7.87, GHS6.72 against the dollar, GBP and EUR respectively.

Public Borrowing- ***Government borrowed about GHS25.73 billion in the first quarter of 2021.***

In the month of March, the Government accepted a total bid of GHS10.37 billion of bills and notes, more than the targeted borrowing of GHS9.30 billion as depicted in the table below. As at the end of the first quarter, the government has issued a total of GHS25.73 billion as against a target of GHS22.35 billion. These borrowings are mostly based on Government's liability management programme, market developments (both domestic and international) and the Treasury & Debt Management objective of lengthening the maturity profile of the public debt. Majority of the bids accepted for the period were for the payment of maturing debts and the rest for government financing requirements.

Table 3: Bids Accepted for GoG Bills, March-2021 (GHS M)

Date	91-days	182-days	364-days	2-years	3-years	5-yers	7-yers	10-yers	20-yers	Total
01/03/2021	1,014	124	235							1,374
08/03/2021	1,145	90	96			1,770				3,102
15/03/2021	715	674	95							1,484
22/03/2021	984	135			1,610					2,729
29/03/2021	744	674	265							1,682
Actual	**4,601**	**1,698**	**691**	-	**1,610**	**1,770**	-	-	-	**10,371**
Budget	4,300	550	535	700	1,700	1,400	-	-	111	9,296
Diff	**(301)**	**(1,148)**	**(156)**	**700**	**90**	**(370)**	-	-	**111**	**(1,074)**

Source: BoG/GCB Research

Table 4: Bids Accepted for GoG Bills, Q1-2021 (GHS M)

	Jan	Feb	Mar	Total
91-Days	3,082	3,164	4,601	10,847
182-days	515	529	1,698	2,743
1-year	455	699	691	1,845
2-years	1,030	3,000	-	4,030
3-Yrs	-	-	1,610	1,610
5-Yrs	-	-	1,770	1,770
6-Yrs	2,884	-		2,884
10-Yrs		-		-
20-Yrs				-
Total	**7,966**	**7,392**	**10,371**	**25,730**

Source: BoG/GCB Research

External Sector Outlook – ***Ghana's Current Account Deficit to narrow slightly to 1.6% of GDP in 2021.***

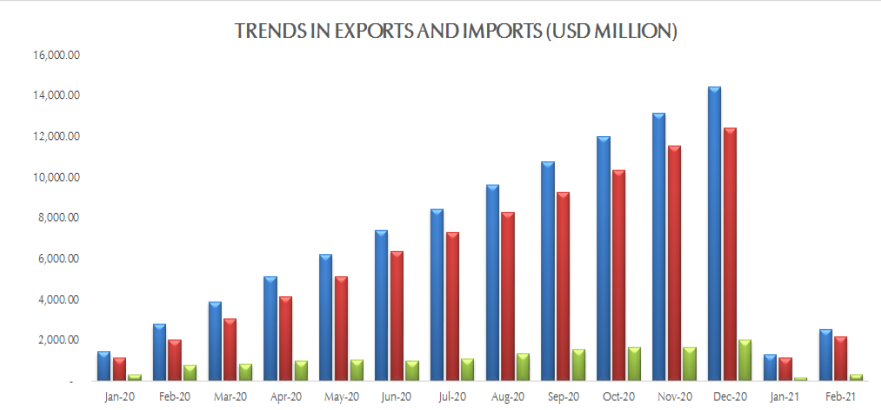
On the external sector, commodity price developments impacted on the trade balance. Total exports contracted by 9.2 percent year-on-year to US$2.5 billion in the first two months of 2021. This was driven mainly by a 25.8 percent year-on-year decline in crude oil exports (due to lower volumes), 12.2 percent decline in cocoa beans exports (due to lower volumes and prices), and 5.6 percent decline in gold exports (due to lower volumes). Total imports, on the other hand, went up by 9.6 percent to US$2.2 billion, underpinned by a 12.9 percent year-on-year increase in non-oil imports due to a pick-up in economic activities in the beginning of the year. Consequently, the trade balance recorded a lower surplus of US$339.7 million (0.5 percent of GDP) in the first two months of 2021, compared with US$791 million (1.2 percent of GDP) same period in 2020.

Gross International Reserves at the end of February 2021 was US$8,719.7 million, providing cover for 4.2 months of imports of goods and services. The reserve level compares with the end-December 2020 position of US$8,624.4 million, equivalent to 4.1 months of import cover.

Gold exports as at the end of February 2021 stood at US$931.2 million (US$985.9 million in February, 2020) whilst Crude Oil exports amounted to US$505.9 million (US$681.8 million in February, 2020). That for Cocoa beans and products came in at US$657.1 million (US$716.3 million in February 2020).

On the imports side, oil imports were US$356.6 million in February 2020 (US$374.8 million in February, 2020) and non-Oil imports totalled US$1,846.3 million (US$ 1635.8 million in February, 2020).

Fig 12: Trends in Exports and Imports



	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21
Export	1,437.10	2,801.60	3,890.00	5,134.30	6,209.00	7,386.80	8,438.30	9,620.60	10,789.60	12,001.30	13,162.80	14,452.80	1,327.20	2,542.60
Import	1,132.40	2,018.40	3,041.00	4,132.70	5,143.50	6,390.50	7,323.40	8,271.60	9,244.00	10,332.30	11,518.10	12,437.40	1,152.30	2,202.90
Trade Balance	304.70	783.20	849.00	1,001.60	1,065.50	996.30	1,114.90	1,349.00	1,545.60	1,669.00	1,644.70	2,015.40	174.90	339.70

Source: Bank of Ghana/ GCB Research

Although the external accounts have been affected by the economic fallout from the pandemic, owing mainly to falling oil export revenue, the fact that Ghana's other major export commodities (gold and cocoa, which account for some 40% and 10% of export earnings, compared with 30% for oil) held up well in 2020 cushioned the overall impact on the current account. Trade data indicate that export earnings fell by 7.8% in 2020—a much less pronounced decline than elsewhere in the region. Import spending fell by 7.3%, with the trade account remaining comfortably in surplus. We expect this surplus to increase in 2021 as export earnings recover (reflecting higher average oil and gold prices and production; offset slightly by falling cocoa revenue). As a share of GDP, the trade surplus will then steadily decline in the medium to long term, mainly reflecting firm growth in imports as domestic demand picks up. Global commodity prices are broadly expected to stabilise in the medium term, meaning that export growth will mainly depend on growth in volumes.

The services account will remain in deficit over the forecast period owing to sustained expenditure on technical services for oil and gas projects, although it will narrow gradually as the Pecan oilfield starts up in 2024-25. The primary income deficit will narrow but remain large, reflecting interest payments on external debt and profit repatriation. The secondary income account will continue to post large surpluses, underpinned by inflows of workers' remittances (which will recover from 2021 onwards). Overall, we forecast that the current-account deficit will narrow to 1.6% of GDP in 2021 (from an estimated 3.0% of GDP in 2020), before widening steadily until 2024 (to 2.7% of GDP) as imports rise at a faster rate than exports, before

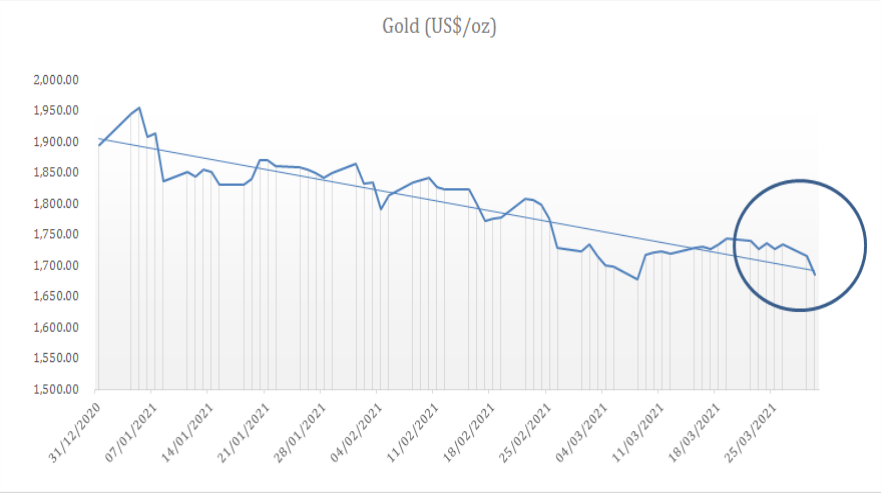
narrowing to 2.4% of GDP in 2025 as exports pick up. The deficits will be financed through external borrowing and Foreign Direct (FDI) flows.

03 International Commodities Market

Gold- ***Gold Falters on Brightening Economic Outlook***

Gold suffered some losses in the first quarter of 2020 due to the strengthening of the US dollar, low inflation expectations, a dramatic rise in cryptocurrency bitcoin and a strong U.S. equities markets. Gold started the quarter trading at US$1,946.60/oz and as at the end of the quarter it was trading at US$1,686.00/oz down by 9.4%. The maximum price for the quarter stood at US$1,954.40/oz and the minimum price was US$1,678.00/oz, averaging US$1,795.82/oz.

Fig.13: Gold



Source: Bloomberg Commodities

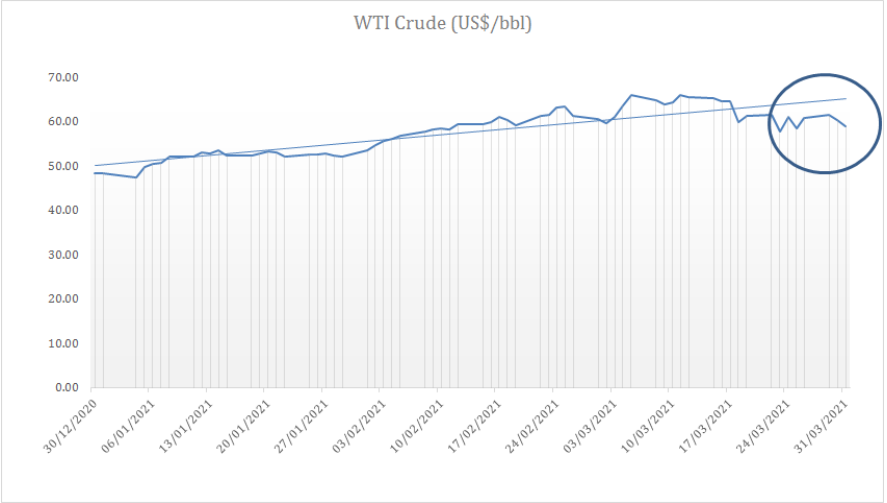
In the outlook, gold rallied in the last day of the quarter after dodging bear market territory as some investors anticipate the weaker dollar trend can't be too far away. Gold needs pricing pressures to grow and that will take a few months at the very least. Gold had one of its best runs ever in mid-2020 when it rose from March lows of under $1,500 to reach a record high of nearly $2,100 by August, responding to inflationary concerns sparked by the first U.S. fiscal relief of $3 trillion approved for the coronavirus pandemic. Breakthroughs in vaccine development since November, along with optimism of economic recovery,

forced gold to close 2020 trading at just below $1,900. Since the start of this year, the rut in the yellow metal has worsened despite the Biden administration issuing another Covid-19 relief of $1.9 trillion. Meanwhile, the White House has detailed President Joe Biden's infrastructure spending plan for some $2 trillion. In a speech given in Pittsburgh 31/03/2021, the president laid out his "America Jobs Plan" which he called the "next major initiative" since implementing his Covid-19 relief bill. In spite of the dollar debasement expected from all these relief measures, the greenback has rallied so far at the expense of gold, which strayed near bear market territory at least twice in the month of March 2021 when it lost 81% from its August 2020 record highs. Both the dollar and bond yields have surged this year on the argument that U.S. economic recovery from the pandemic could exceed expectations, leading to spiralling inflation as the Federal Reserve insists on keeping interest rates at near zero. We believe that these factors could present a downside risks to the price of gold in the second quarter of 2021. Therefore, our forecast is for gold to end second quarter and Dec. 2021 at **US$1,715.30** and US**$1,719.90** respectively.

Crude Oil- ***Oil prices to remain steady no matter the outcome of OPEC+ decision on production targets.***

Crude oil has seen a bounce back since the beginning of the year supported by lower US crude inventories, rising winter fuel demand, and the massive rollout of vaccine which improved global growth prospects. WTI crude oil started the first quarter at US$47.62/bbl and as at the end of the quarter it was trading at US$59.16/bbl indicating an increase of 21.9%. The maximum price for the quarter was US$66.09/bbl and the minimum price was US$47.62/bbl bringing the average price to US$58.07/bbl.

Fig 14: Crude Oil



Source: Bloomberg Commodities

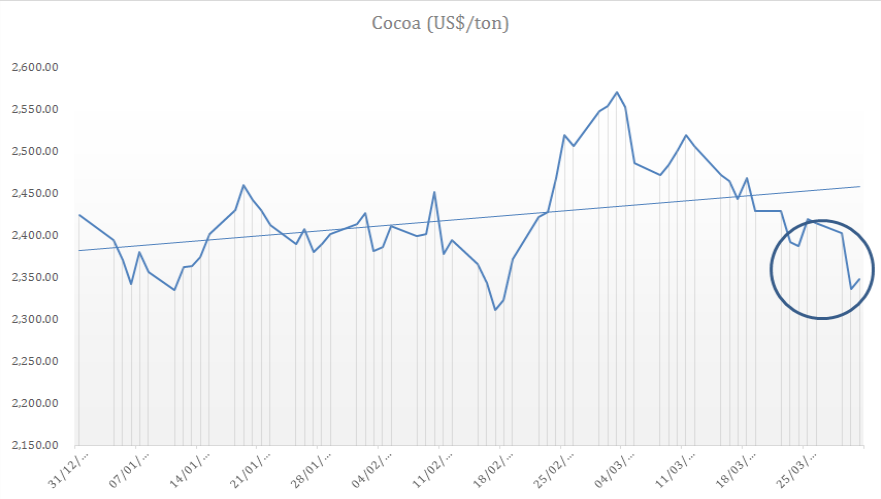
In the outlook, Oil prices fell on the last day of the trading session in the quarter as the OPEC+ Joint Technical Committee (JTC) produced no guidance for the ministerial meeting which started 31/03/2021, and OPEC quietly reduced their global consumption forecast by 300,000 barrels per day reflecting concerns about the market's recovery as new coronavirus lockdowns take hold, a move that could strengthen the case for a cautious output decision. Official US Crude Inventories fell by 900,000 barrels, but that was not enough to support prices, with markets pricing in no change to the OPEC+ production targets as a done deal. At a higher level ministerial panel meeting on 31/03/2021, known as Joint Ministerial Monitoring Committee (JMMC), OPEC's secretary general also warned about the need for caution. "We need to remember that the environment remains challenging, complex and uncertain, with the market volatility we have witnessed in the last two weeks of March a reminder of the fragility facing economies and oil demand," Mohammad Barkindo said. Brent crude eased by 1.50% to USD63.00 a barrel, and WTI fell by 1.60% to USD59.45 a barrel on the last day of trading in March. The Ontario lockdown announcement also made both contracts ease another 0.25% in Asian trading. Oil seems to have found an equilibrium at these levels, with both contracts sitting in the middle of their admittedly wide, one-week ranges. The risks are likely to be skewed to the downside though even if OPEC+ remains unchanged as expected. If they grant Russia a slightly higher quota, the downside momentum will increase. Hence, emerging weak demand due to new Covid-19 lockdowns and the expectations of no effect of the extension of OPEC+ production target to May could put pressure on the price of oil in the next quarter. On the basis of the above developments we have revised our projection for the price of WTI Crude Oil to end the year at **US$ 57.36/bbl** (Q2-21, US$59.45) and Brent Crude at **US$ 60.42/bbl** (Q2-21, US$ 62.01)**.**

Cocoa- ***Cocoa Prices forecast to trade sideways on Concerns of demand and Supply factors.***

Cocoa prices traded mixed on the international commodities market in the first quarter on the back of a combination of weak demand due to the pandemic and excess supply in Ivory Coast. Cocoa began the quarter trading at U$2,394.80 /ton and by the end of the quarter it was trading at US$2,347.85 /ton down by 3.2%. The highest price for cocoa recorded for the quarter was

US$2,571.29/ton whilst the lowest price recorded was US$2,311.74/ton. The average price for the quarter stood at US$2,421.32/ton.

Fig 15: Cocoa



Source: ICCO

In the outlook, the forecast for bumper cocoa crops in West Africa is undercutting cocoa prices. Cocoa farmers in the Ivory Coast and Ghana are reporting favourable growing conditions that bode well for the mid-crop harvest that starts in the month of April. Cocoa supplies are ample from the Ivory Coast, the world's largest cocoa producer. The Ivory Coast government reported on 29/03/2021 that cumulative cocoa bean deliveries to Ivory Coast ports during Oct 1-Mar 28 were up +1.1% y/y at 1.77 MMT. Also, current inventories are abundant after ICE-monitored cocoa inventories climbed to a 1-1/2 year high Wednesday. Also, another factor putting pressure on the price of cocoa was the February 26 projection from the International Cocoa Organization (ICCO) that global 2020/21 cocoa production will climb +2.5% y/y to 4.8 MMT and that the global 2020/21 cocoa surplus will widen to +102.000 MT from +10,000 MT in 2019/20. Demand concerns are also weighing on cocoa prices. Chocolate demand in Europe may suffer after France, Italy, and Germany all widened their pandemic lockdown measures in an attempt to contain the third wave of Covid. On the other hand, stronger global cocoa demand is supportive for cocoa prices after data on March 11 from exporter group Gepex, a group of six of the world's biggest cocoa grinders, showed Gepex Feb cocoa processing rose +1.8% y/y to 45,087 MT. Cocoa prices is also expected to find support on better-than-expected Asian and North American Q4 grinding data. Data on January 15 showed Asia Q4 cocoa grindings fell -4.2% y/y to 217,546 MT, a smaller decline than expectations of -9% y/y. Also, North American Q4 cocoa processing unexpectedly rose +7% y/y to 118,043 MT, stronger

than expectations of a decline of -2.5% y/y and the highest for a fourth-quarter in 5 years. However, the European Cocoa Association reported January 20 that Q4 European cocoa grindings fell -3.1% y/y to 344,151 MT, a bigger decline than expectations of -1.5% y/y and the weakest report for a fourth-quarter in 4 years.

We believe that the demand and supply factors in the cocoa sector will continue to be the key factors for the price of cocoa in 2021. We therefore forecast the price of cocoa to close 2021 at **US$ 2,421.00/ton** and Q2-20 at US$ 2,408.00.

04 Business Impact- Trade Transactions, Alternative Revenue generation

Trade Transactions

Our expectation is for the gradual resurgence in import trade in in 2021 after the setback in import trade from Covid-19 2020. This is expected as traders/importers and manufacturing companies restock for sale and production. We therefore advise the need for the Bank to strategically position itself to financing the trade needs of its corporate and commercial banking customers through Letters of Credit (LCs) to generate deposits as well as off-balance sheet revenues for the Bank. It also provides the opportunity for Fx trading with these clients of the Bank. This we believe will go a long way in enhancing the financial performance of the Bank in 2021.

Digital Payments as a Key for off-balance sheet income and cheap deposits

With inflation and interest rates expected to trend downwards in 2021 and a possible cut in the MPC rate to 14%, there is no denying that margins which are already thin, are going to be reedier in the years ahead. This is an indication that strategically, off-balance sheet revenues would become the focal point of supporting revenue targets by banks in the industry. That is why a lot of banks are investing in technology related products and services that would not only make services convenient for their customers but also as an avenue of generating fee income from those transactional related digital solutions. Furthermore, the deployment of the tech related transaction products also serves as a means of mobilizing cheap and stable deposits within the ecosystem. On that basis, we recommend the need for GCB to fast-track the deployment and marketing of our digital products such

as Mobile App, PoS, Money wallet multi-currency cards, travel services, batch payment solutions, prestige banking, G-Money etc. to support on-balance sheet revenues.

Asset Creation and Deposit Mobilisation on positive economic growth conditions in the outlook

With an economy battered by Covid-19 pandemic for 2020, the outlook for 2021 indicates a turnaround with some green shoots in certain sectors of the economy per data from the BoG in the third and fourth quarters of 2020. Barring any unanticipated shocks, this bodes well for economic growth in 2021. We for see a bounce back in oil production from existing oilfields, import trade, the service sector **(Telcos, Banking and Finance, health and medical supplies, Pharmaceuticals, electricity, FMCG, and their value chain)** and agriculture sector benefiting from government efforts to improve cocoa yields will drive the growth. With such growth potential, the Bank is expected to create more appropriate assets and mop up the necessary deposits in these growth sectors of the economy. Notwithstanding the above, the renewed threat from the second-wave of the pandemic has again heightened uncertainty and could hamper the recovery process in the near-term. Therefore, we employ business managers as well as Relationship Managers to be weary of Covid stricken sectors like **hotels and restaurants, aviation etc.**

05 Conclusions- Prospects of Positive Economic Outturn in Ghana in the Medium Term

On the global scale, amid exceptional uncertainty, the global economy is projected to grow 5.5 percent in 2021 and 4.2 percent in 2022 according to IMF. Their projection is conditional on a successful deployment and spread of effective COVID-19 vaccines and continued accommodative fiscal, financial and monetary conditions.

On the domestic front, the BoG's high frequency indicators have continued to pick up, reflecting the rebound in economic activity. Although business and consumer sentiments softened on the back of the surge in COVID cases in the early months of 2021, the rollout of the vaccination programme has increased optimism about the future and will further add a boost to the anticipated recovery in growth. Also, the rebound of input supplies evidenced by increased non-oil imports should support the ongoing rebound in economic activity.

From the discussion above, it is profound that the drivers of economic growth are returning to normal with prospects for a good recovery in the medium term. However, a fast pace of economic growth will require industrial activity pulling out of a slump, which to a large extent would be dependent on increased foreign investment in hydrocarbons, 1D1F and the auto industry project.