GCB BANK LIMITED

Planning and Research Monthly/Quarterly Economic Updates **Issue 24** **April 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 (%)	0.4%			3.6%*			4.0%*	4.2%
Inflation (Consumer Price Index)	10.4%	9.9%	10.3%	10.3%	10.5%*	10.5%	10.2%	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%	12.8%	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%	16.5%	16.7%	16.6%	16.9%
FX Rate (USD/GHS)	5.7602	5.7604	5.7374	5.7288	5.7322	5.7374	5.7425	6.0200
FX Rate (GBP/GHS)	7.8742	7.8996	7.9945	7.8619	7.9222	7.9245	7.9269	7.9800
FX Rate (EUR/GHS)	7.0643	6.9929	6.9545	6.7182	6.8958	6.8979	6.8999	6.8300
Gold (US$/oz)	1,895.10	1,850.30	1,728.80	1,715.60	1,767.70	1,771.80	1,768.30	1,719.90
Cocoa (US$/ton)	2,424.35	2,401.55	2,507.04	2,347.85	2,382.00	2,459.00	2,428.00	2,496.00
WTI (US$/bbl)	48.52	52.20	61.50	59.16	63.58	63.52	63.43	61.47
Brent (US$/bbl)	51.80	55.53	64.42	62.74	66.76	66.67	66.23	64.68
*Forecast - GDP, Inflation								

Executive Summary

Macro Indicators	Current Situation	Outlook
Economic growth	• Provisional GDP estimates for 2020 showed a growth rate of 0.4 percent compared to 6.5 percent in 2019. The Agriculture sector recorded the highest growth rate of 7.4 percent, followed by Service (1.5%) and Industry (-3.6%) sectors. • For the fourth quarter of 2020, provisional real gross domestic product (QGDP) growth rate including Oil and Gas, was 3.3% year on year. In the same period of 2019, the growth was 6.0%.	• In the outlook, we forecast real GDP growth of 4.2% in 2021 compared to growth of 0.4% 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).	• After peaking at 76.1% in 2020, we expect the public debt/GDP ratio to fall gradually to 72.9% of GDP in the medium term, owing to a period of economic growth. The government will remain reliant on borrowing from both external and domestic sources. Government has raised US$3bn Eurobond early 2021, which will be used primarily to roll over existing obligations, alongside financing the fiscal deficit.
Inflation	• The national year-on-year inflation rate was 10.3% in March 2021, which was the same as the 10.3% recorded in February 2021. This was on the back of a drop in food inflation for the period. • Food and Non-Alcoholic Beverage inflation decreased to 10.8% in the month of March compared to 12.3% in February 2021. Non-food inflation on the other hand went up to 10.0% in March 2021 from 8.8% in February.	• Inflation will remain elevated in 2021, declining only slightly from an annual average of 8.8% in 2019 to 8.4% in 2021. Although domestic demand is still fairly weak, supply-side price pressures (including rising global commodity prices, supply-chain disruption due to the pandemic, rising transport price and currency depreciation) would continue to put upside pressure on inflation. • For the month of April 2021, we forecast inflation of **10.5±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 12.78 percent and 13.58 percent respectively in April 2021, from 12.87 percent and 13.65 percent respectively, in March 2021. The 364-day Treasury bill stood at 16.53% in April compared to 16.57% in March 2021. • 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 13.58% and 13.56% in the month of April compared to 13.57% and 13.58% in the month of March 2021.	• With inflation remaining near the upper bounds of the BoG's target range (8% plus or minus two percentage points) and rising global commodity prices supporting supply-side inflationary pressures, we believe that the BoG will lack the scope for monetary easing. Hence the benchmark policy rate is likely to remain on hold in 2021. • 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	• The cedi depreciated against the dollar, GBP, EUR respectively by 0.06%, 0.64% and 2.66% respectively in the month of April 2021 compared to an appreciation of 0.15%, 1.56% and 3.61% against the dollar, GBP and the EUR separately in the month of March. • Year to date, the cedi has appreciated by 0.49% and 2.44% against the dollar and the EUR respectively. It has however, depreciated by 0.61% against the GBP. • Year on Year, the cedi has seen a cumulative depreciation of 2.29%, 10.90% and 11.14% respectively against the dollar, GBP and EUR.	• In 2021 the cedi will depreciate at a slower rate (to an average of GH¢5.84:US$1) owing to improved domestic and global sentiment, as well as narrowing fiscal and current-account deficits. • By the end of the second quarter, our expectation is for the cedi to be trading at GHS5.74, GHS7.92, GHS6.89 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-*Divergent Recoveries amid High Uncertainty*

One year into the COVID-19 pandemic, the accumulating human toll continues to raise concerns, even as growing vaccine coverage lifts sentiment. High uncertainty surrounds the global economic outlook, primarily related to the path of the pandemic. The contraction of activity in 2020 was unprecedented in living memory in its speed and synchronized nature. But it could have been a lot worse. Although difficult to pin down precisely, IMF staff estimates suggest that the contraction could have been three times as large if not for extraordinary policy support. Much remains to be done to beat back the pandemic and avoid divergence in income per capita across economies and persistent increases in inequality within countries.

After an estimated contraction of –3.3 percent in 2020, the global economy is projected to grow at 6 percent in 2021, moderating to 4.4 percent in 2022. The contraction for 2020 is 1.1 percentage points smaller than projected in the October 2020 World Economic Outlook (WEO), reflecting the higher-than-expected growth outturns in the second half of the year for most regions after lockdowns were eased and as economies adapted to new ways of working. The projections for 2021 and 2022 is on the back of additional fiscal support in a few large economies and the anticipated vaccine-powered recovery in the second half of the year. Global growth is expected to moderate to 3.3 percent over the medium term—reflecting projected damage to supply potential and forces that predate the pandemic, including aging-related slower labour force growth in advanced economies and some emerging market economies. Thanks to unprecedented policy response, the COVID-19 recession is likely to leave smaller scars than the 2008 global financial crisis. However, emerging market economies and low-income developing countries have been hit harder and are expected to suffer more significant medium-term losses.

Future developments will depend on the path of the health crisis, including whether the new COVID-19 strains prove susceptible to vaccines or they prolong the pandemic; the effectiveness of policy actions to limit persistent economic damage (scarring); the evolution of financial conditions and commodity prices; and the adjustment capacity of the economy. The ebb and flow of these drivers and their interaction with country-specific characteristics will determine the pace of the recovery and the extent of medium-term scarring across countries. In many aspects, this crisis is unique. In certain countries, policy support and lack of spending opportunities have led to large increases in savings that could be unleashed very quickly should uncertainty dissipate. At the same time, it is unclear how much of these savings will be spent, given the deterioration of many firms' and households' balance sheets (particularly among those with a high propensity to consume out of income) and the expiration of loan repayment moratoria. In sum, risks are assessed as balanced in the short term, but tilted to the upside later on.

Table 1: Overview of the World Economic Outlook

		Projections		Difference from January 2021 WEO *Update*[1]		Difference from October 2020 WEO[1]	
	2020	2021	2022	2021	2022	2021	2022
World Output	**–3.3**	**6.0**	**4.4**	**0.5**	**0.2**	**0.8**	**0.2**
Advanced Economies	**–4.7**	**5.1**	**3.6**	**0.8**	**0.5**	**1.2**	**0.7**
United States	–3.5	6.4	3.5	1.3	1.0	3.3	0.6
Euro Area	–6.6	4.4	3.8	0.2	0.2	–0.8	0.7
Germany	–4.9	3.6	3.4	0.1	0.3	–0.6	0.3
France	–8.2	5.8	4.2	0.3	0.1	–0.2	1.3
Italy	–8.9	4.2	3.6	1.2	0.0	–1.0	1.0
Spain	–11.0	6.4	4.7	0.5	0.0	–0.8	0.2
Japan	–4.8	3.3	2.5	0.2	0.1	1.0	0.8
United Kingdom	–9.9	5.3	5.1	0.8	0.1	–0.6	1.9
Canada	–5.4	5.0	4.7	1.4	0.6	–0.2	1.3
Other Advanced Economies[2]	–2.1	4.4	3.4	0.8	0.3	0.8	0.3
Emerging Market and Developing Economies	**–2.2**	**6.7**	**5.0**	**0.4**	**0.0**	**0.7**	**–0.1**
Emerging and Developing Asia	–1.0	8.6	6.0	0.3	0.1	0.6	–0.3
China	2.3	8.4	5.6	0.3	0.0	0.2	–0.2
India[3]	–8.0	12.5	6.9	1.0	0.1	3.7	–1.1
ASEAN-5[4]	–3.4	4.9	6.1	–0.3	0.1	–1.3	0.4
Emerging and Developing Europe	–2.0	4.4	3.9	0.4	0.0	0.5	0.5
Russia	–3.1	3.8	3.8	0.8	–0.1	1.0	1.5
Latin America and the Caribbean	–7.0	4.6	3.1	0.5	0.2	1.0	0.4
Brazil	–4.1	3.7	2.6	0.1	0.0	0.9	0.3
Mexico	–8.2	5.0	3.0	0.7	0.5	1.5	0.7
Middle East and Central Asia	–2.9	3.7	3.8	0.7	–0.4	0.7	–0.2
Saudi Arabia	–4.1	2.9	4.0	0.3	0.0	–0.2	0.6
Sub-Saharan Africa	–1.9	3.4	4.0	0.2	0.1	0.3	0.0
Nigeria	–1.8	2.5	2.3	1.0	–0.2	0.8	–0.2
South Africa	–7.0	3.1	2.0	0.3	0.6	0.1	0.5
Memorandum							
World Growth Based on Market Exchange Rates	–3.6	5.8	4.1	0.7	0.3	1.0	0.3
European Union	–6.1	4.4	3.9	0.3	0.2	–0.6	0.6
Middle East and North Africa	–3.4	4.0	3.7	0.9	–0.5	0.8	–0.2
Emerging Market and Middle-Income Economies	–2.4	6.9	5.0	0.5	0.0	0.8	0.0
Low-Income Developing Countries	0.0	4.3	5.2	–0.8	–0.3	–0.6	–0.3
World Trade Volume (goods and services)	**–8.5**	**8.4**	**6.5**	**0.3**	**0.2**	**0.1**	**1.1**
Imports							
Advanced Economies	–9.1	9.1	6.4	1.1	0.4	1.8	1.3
Emerging Market and Developing Economies	–8.6	9.0	7.4	–1.1	0.3	–2.0	1.4
Exports							
Advanced Economies	–9.5	7.9	6.4	1.0	0.2	0.9	1.3
Emerging Market and Developing Economies	–5.7	7.6	6.0	–0.7	–0.2	–1.9	0.3
Commodity Prices (US dollars)							
Oil[5]	–32.7	41.7	–6.3	20.5	–3.9	29.7	–9.3
Nonfuel (average based on world commodity import weights)	6.7	16.1	–1.9	3.3	–0.4	11.0	–2.4
Consumer Prices							
Advanced Economies[6]	0.7	1.6	1.7	0.3	0.2	0.0	0.1
Emerging Market and Developing Economies[7]	5.1	4.9	4.4	0.7	0.2	0.2	0.1
London Interbank Offered Rate (percent)							
On US Dollar Deposits (six month)	0.7	0.3	0.4	0.0	0.0	–0.1	–0.1
On Euro Deposits (three month)	–0.4	–0.5	–0.5	0.0	0.1	0.0	0.0
On Japanese Yen Deposits (six month)	0.0	–0.1	0.0	0.0	0.1	–0.1	0.0

Source: IMF staff estimates.
Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during January 18–February 15, 2021. 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, January 2021 WEO *Update*, and October 2020 WEO forecasts.
[2]Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.
[3]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.

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

Provisional GDP estimates for 2020 showed a growth rate of 0.4 percent compared to 6.5 percent in 2019. The Agriculture sector recorded the highest growth rate of 7.4 percent, followed by Service (1.5%) and Industry (-3.6%) sectors.

Services remain the largest sector. Its share of GDP decreased from 48.3 percent in 2019 to 44.6 percent in 2020. The sector's GDP growth rate decreased from 7.6 percent in 2019 to 1.5 percent in 2020 and contributed 0.6 percentage points to the 2020 annual growth rate of 0.4%. The information & Communication sub-sector was the main driver of growth within the Services sector.

The Industry sector contributed -3.6 percentage points (-1.3%) to 2020 annual growth rate. Within the Industry sector the Mining and Quarrying subsector contracted by -11% and the main driver for the contraction in the Industry sector. All the other subsectors within the Industry sector recorded positive growths; Manufacturing (1.4%), Electricity (7.9%), Water and Sewerage (2.2%) and Construction (2.9%).

The Agriculture sector grew by 7.4% percent in 2020 compared to a growth rate of 4.7 percent in 2019. Its share of GDP increased from 18.5% percent in 2019 to 19.1 percent in 2020. Crops was the second largest activity in Ghana with a share of 15.5 percent of GDP and contributed 1.3 percentage points to 2019 annual GDP growth. The Forestry and logging sub-sector contracted (-9.2%) having recorded -1.7% in 2019 and contributed -0.1 percentage points to 2020 annual GDP growth rate.

The Non-Oil annual GDP growth rate decreased from 5.6 percent in 2019 to 1.3 percent in 2020. The slowdown in growth rate was attributed to a -13.0 percent contraction in Mining and Quarrying activities (excluding Oil and Gas) in 2020 compared to 8.3% in 2019. Contractions in the Forestry & logging, Hotels & Restaurants and Trade; Repair of Vehicles, Household Goods sub-sectors also contributed to the slowdown in the non-oil GDP growth in 2020.

Total GDP in nominal terms for 2020 stood at GHS404,874 million compared to GHS350,788 million in 2019. Real GDP stood at GHS165,993 million in 2020 compared to GHS165,308 million in 2019.

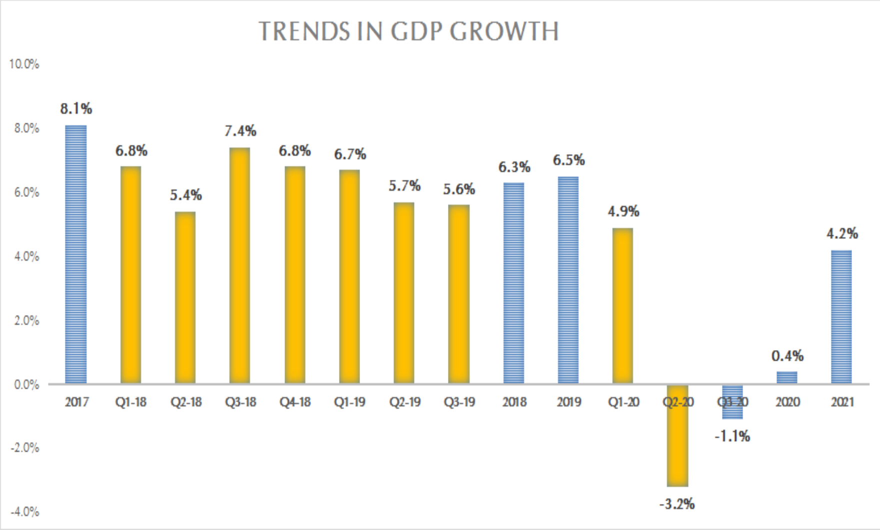
For the fourth quarter of 2020, provisional real gross domestic product (QGDP) growth rate including Oil and Gas, was 3.3% year on year. In the same period of 2019, the growth was 6.0%. GDP growth rate without oil and gas (Non-Oil GDP) for fourth quarter 2020 was 4.5% which compares to the same period in 2019 with a growth rate of 5.9%. The Agriculture sector recorded the highest growth of 8.2% and was followed by the Services sector with a growth of 4.6%. There was however a contraction (-0.4%) in the Industry sector.

The GDP (Including Oil & Gas) estimate at constant 2013 prices for the 4th quarter of 2020 was GHS43,842.6 million compared to GHS42,455.3 million in the 4th quarter of 2019. The GDP (Including Oil & Gas) estimate at constant 2013 prices for the 4th quarter of 2020 was GHS43,842.6 million compared to GHS42,455.3 million in the 4th quarter of 2019. The Non-oil GDP at constant 2013 prices for the 4th quarter of 2020 was GHS40,616.8 million compared to GHS38,877.2 million in the 4th quarter of 2019.

The GDP estimate at current prices (nominal) in purchaser's value for the 4th quarter of 2020 was GHS101,856. million compared to GHS91,225.9 million in the 4th quarter of 2019. The Non-oil GDP (GDP without Oil and Gas) estimate at current prices for the 4th quarter of 2020 was GHS87,878.7 million compared to GHS81,095.5 million in the 4th quarter of 2019.

The Services sector was the largest sector of the Ghanaian economy in the fourth quarter of 2020 with a share of 40 percent of GDP at basic prices. The GDP share of Industry and Agriculture were 39 percent and 21 percent respectively.

Fig 1: Trends in Real GDP Growth Rate

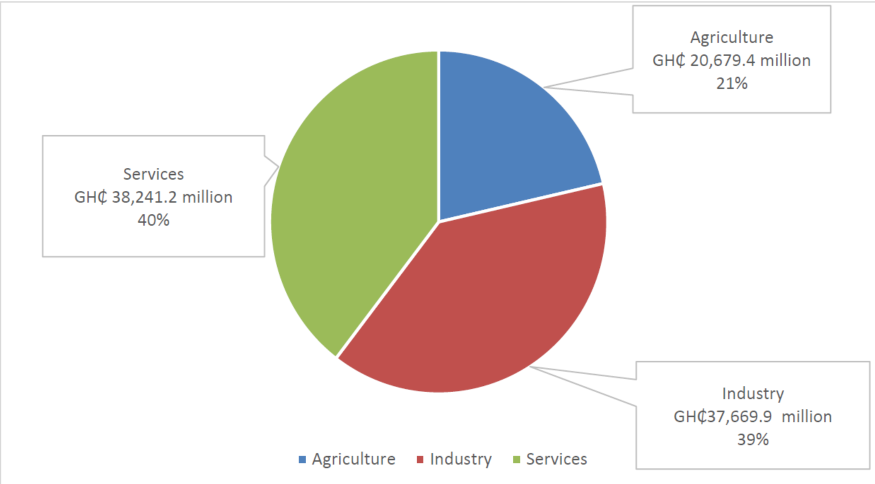


Source: Ghana Statistical Service (GSS)

Fig 2: Quarterly real GDP growth rate (2018Q4-2020Q4)

Source: Ghana Statistical Service (GSS)

Fig 3: Sectoral distribution (%) of nominal GDP at basic prices



Source: Ghana Statistical Service (GSS)

Table 2: Year-on-year growth rates in 4th quarter of 2020

Sector	Expanding sub-sectors		Contracting sub-sectors	
Agriculture (8.2%)	Crops and cocoa	10.6%	Forestry & Logging	-9.3%
	Livestock	5.1%		
	Fishing	1.6%		
Industry (-0.4%)	Manufacturing	14.2%	Electricity	-15.0%
	Construction	8.5%	Mining & Quarrying	-10.9%
	Water Supply, Sewerage, Waste Management & Remediation Activities	1.9%		
Services (4.6%)	Real Estate	43.5%	Hotel & Restaurants	-35.1%
	Information & Communication	22.5%	Professional, Administrative & Support	-5.2%
	Public Administration & Defence, Social Security	16.4%		
	Health & Social Work	15.8%		
	Education	11.7%		
	Trade, Repair of Vehicle, Household Goods	5.5%		
	Transport & Storage	5.4%		
	Finance & Insurance	1.3%		
	Other Personal Service Activities	1.0%		

Source: Ghana Statistical Service (GSS)

In the outlook, we forecast real GDP growth of 4.2% in 2021 compared to 0.4% 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 and crop yields. In medium term oil production will rise further at existing fields, but development work at new sites will be slow. A final investment decision (FID) on the Pecan offshore oilfield (managed by Aker Energy, a Norwegian firm) was originally scheduled for 2020, but has been delayed indefinitely. We expect the FID to be announced in 2022, with production to begin in 2024 (delayed from the previous target of 2022).

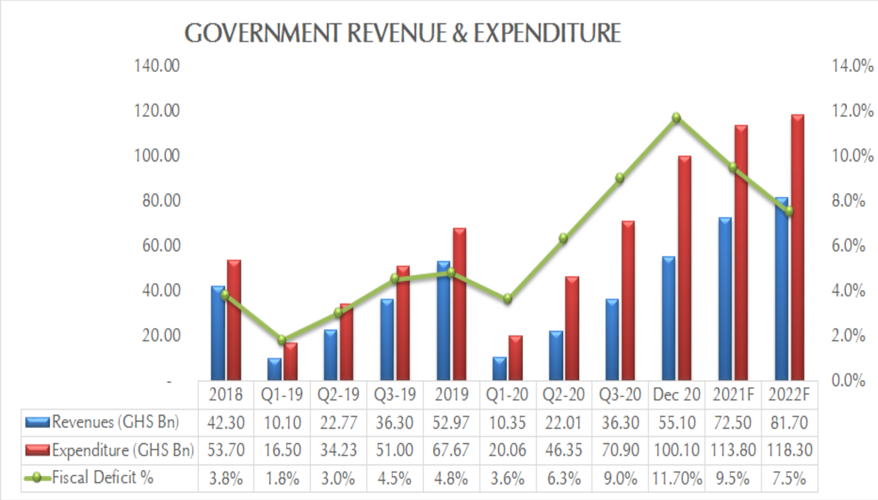
The government has set a new deadline of May 2022 for the unification of the existing Sankofa and adjoining Afina oilfields (discovered in 2019 by Ghana's Springfield, but lacking an approved Plan of Development). However, development work at Afina has not started, and previous deadlines for unification have been missed, owing to questions about commercial viability from Eni, an Italian oil firm that is a joint operator. Transparency regarding due diligence work undertaken at the oilfield has been limited, and the government has pushed for stringent terms regarding profit-sharing. Springfield will struggle (in terms of financing and technical capacity) to develop the site independently, owing to its small size. We do not expect the project to be developed in the near term, owing to the long timescale needed to produce and approve plans, find suitable commercial partners and begin production. Despite limited development work, rising oil output (from existing fields and Pecan from 2024) will boost real GDP growth to an annual average of 3.6% in the medium term.

Additionally, 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 9.5% in 2021 due to increase in fiscal revenues and marginal drop in expenditures.***

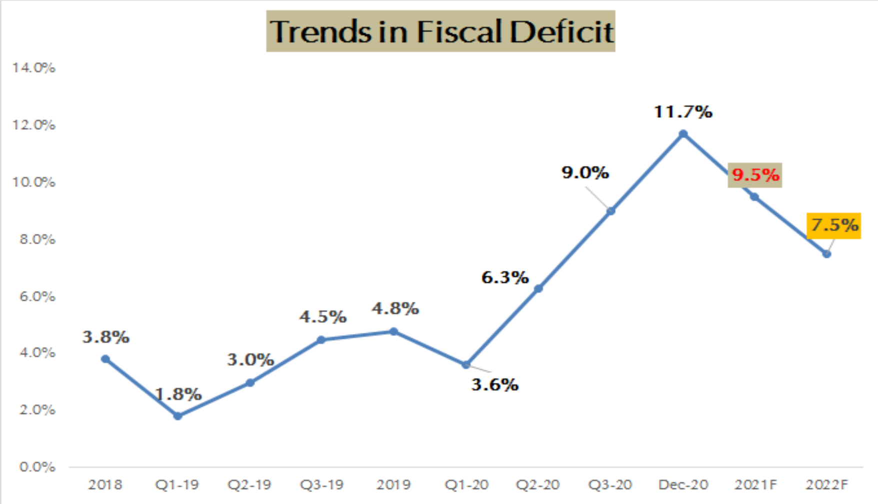
On fiscal policy, provisional data from the Ministry of Finance indicated that 2020 recorded an overall broad cash budget deficit of 11.7 percent of GDP against the revised target of 11.4 percent of GDP for 2020. The primary balance also recorded a deficit of 5.3 percent of GDP compared to the revised target deficit of 4.6 percent of GDP. Over the review period, total revenue and grants amounted to GHS55.1 billion (14.3 percent of GDP), marginally higher than the revised target of GHS53.7 billion (13.9 percent of GDP). Total expenditures and arrears clearance amounted to GHS100.1 billion (26.1 percent of GDP) against the revised target of GHS97.7 billion (25.4 percent of GDP).

Fig 4: Trends in Budget Deficit



Source: MoFEP/Budget Statement

Fig 5: 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.

After falling in 2020, fiscal revenue will increase in 2021, owing to a rise in both oil production volumes and global oil prices in that year. Nonoil revenue—which was also hit in 2020 by a smaller tax take due to declining domestic economic activity and by lower import duty receipts due to reduced trade flows—will increase in 2021 as the economy recovers. Tax increases, combined with efforts to improve tax collection methods, such as digitising services, will help to boost government receipts, although many loopholes are likely to remain in place.

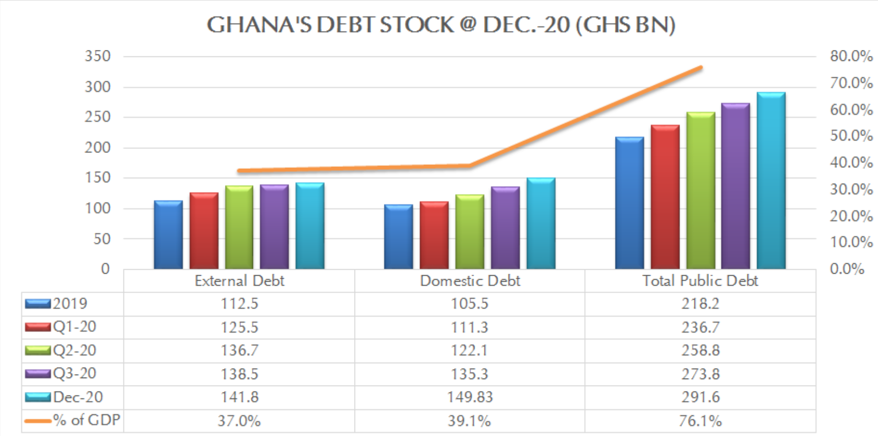
Government expenditure rose sharply in 2020, owing to the coronavirus—with increased healthcare spending and social security payments—and to election related spending. In response to these pressures, in August parliament approved the suspension of the Fiscal Responsibility Act (FRA, which limited fiscal deficits to 5% of GDP) until 2024, facilitating a sharper rise in expenditure in 2020 and allowing for larger deficits in the coming years. As a result, the government's 2021 budget projection anticipates further strong nominal growth in expenditure. We still expect spending to fall as a share of GDP, but not particularly rapidly in the context of the sharp increase in 2020. In the next two years, fiscal expenditure will moderate, although ongoing infrastructure development and industrialisation projects will prevent a faster reduction in public spending and the removal of the FRA reduces the need to avoid fiscal slippages.

The fiscal deficit is expected to narrow to 9.5% of GDP in 2021, from 11.7% of GDP in 2020, before narrowing further, to 7.5% of GDP in 2022, as spending falls and revenue picks up. This is expected to narrow to 5.4% of GDP in the medium term on the back of cuts in expenditure.

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 (GHS291.6 billion) at the end of December 2020 compared with 62.4 percent of GDP (GHS218.2 billion) at the end of December 2019. Of the total debt stock, domestic debt amounted to GHS149.8 billion (39.1 percent of GDP), while the external debt was GHS141.8 billion (37 percent of GDP).

Fig 6: 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

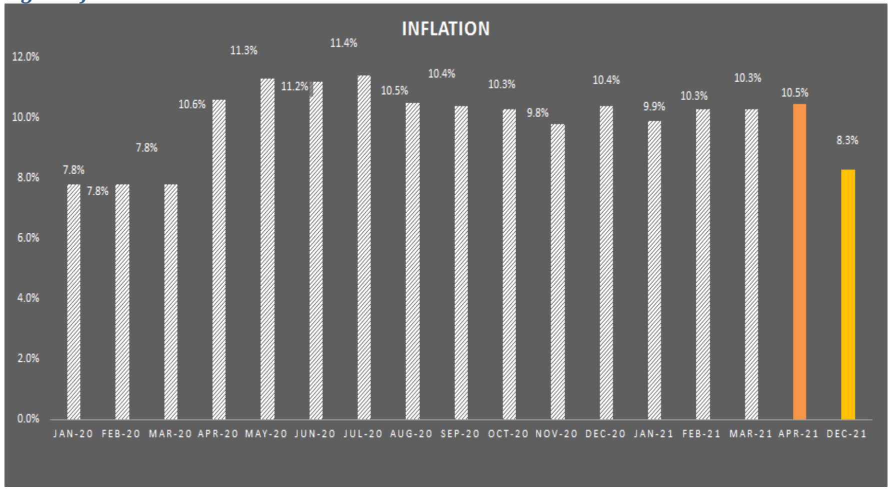
After peaking at 76.1% in 2020, we expect the public debt/GDP ratio to fall gradually to 72.9% of GDP in the medium term, owing to a period of economic growth. The government will remain reliant on borrowing from both external and domestic sources. Government has raised US$3bn Eurobond early 2021, which will be used primarily to roll over existing obligations, alongside financing the fiscal deficit.

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

The national year-on-year inflation rate was 10.3% in March 2021, which was the same as the 10.3% recorded in February 2021. This was on the back of a drop in food inflation for the period.

Food and Non-Alcoholic Beverage inflation decreased to 10.8% in the month of March compared to 12.3% in February 2021. Non-food inflation on the other hand went up to 10.0% in March 2021 from 8.8% in February.

Fig 7: Inflation rate



Source: GSS/ GCB Research Forecast

Inflation will remain elevated in 2021, declining only slightly from an annual average of 8.8% in 2019 to 8.4% in 2021. Although domestic demand is still fairly weak, supply-side price pressures (including rising global commodity prices, supply-chain disruption due to the pandemic, rising domestic transport price and currency depreciation) would continue to put upside pressure on inflation. During 2022 inflation will stay elevated as global commodity prices remain high and domestic demand starts to pick up. Inflation is forecast to average 9.1% a year in the medium term, remaining towards the upper end of the official target range of 6-10%, as weaker supply-side price pressures are offset by strengthening demand and ongoing local-currency depreciation. However, with the BoG 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 10.5±0.2% due to the effect of the implementation of the new taxes announced in the recent government budget statement and price pressures that may emanate from increases in ex-pump prices and transport fares.

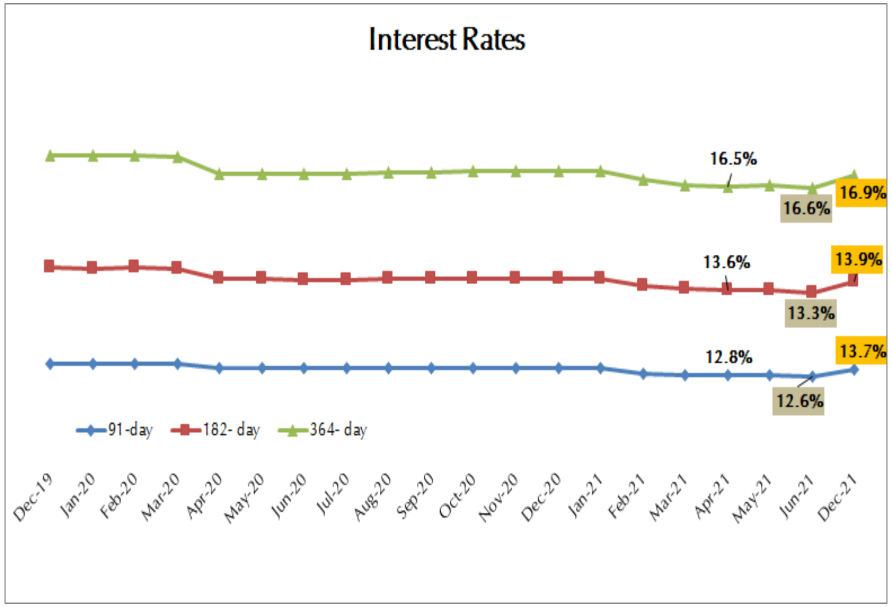
Interest Rates-*P The BoG will lack the scope of Monetary easing due to rising global commodity prices supporting supply-side inflationary pressures.*

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 12.78 percent and 13.58 percent respectively in April 2021, from 12.87 percent and 13.65 percent respectively, in March 2021. The 364-day Treasury bill stood at 16.53% in April compared to 16.57% in March 2021

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.

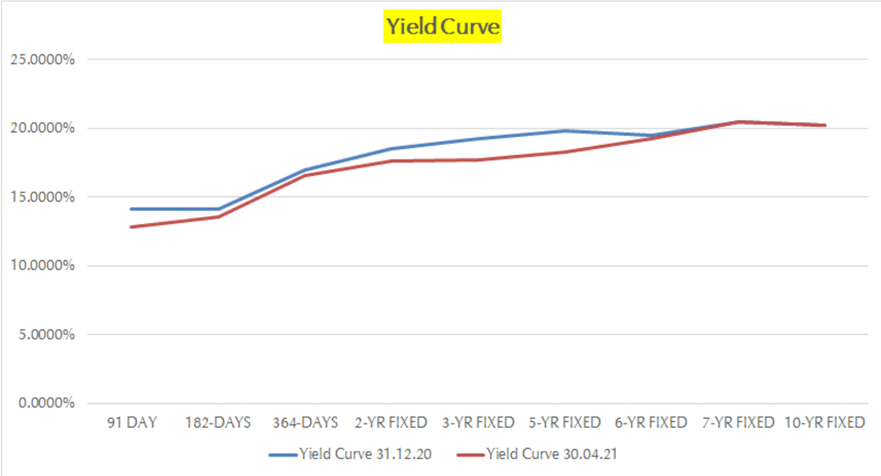
The interbank market rates fluctuated between 13.58% and 13.56% in the month of April compared to 13.57% and 13.58% in the month of March 2021.

Fig 8: Interest rates



Source: Bank of Ghana/ GCB Research

Fig 9: Yield Curve



Source: Bank of Ghana/ GCB Research

The Bank of Ghana (BoG, the central bank) has kept the policy interest rate on hold at 14.5% for the past year. With inflation remaining near the upper bounds of the BoG's target range (8% plus or minus two percentage points) and rising global commodity prices supporting supply-side inflationary pressures, we believe that the BoG will lack the scope for monetary easing. Although the authorities will remain keen to support access to credit in the context of the ongoing pandemic, the benchmark policy rate is likely to remain on hold in 2021. We then expect progressive tightening of monetary policy in the medium term 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 June 2021. The 364-day instrument is also forecast at 16.64% for the same period.

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.***

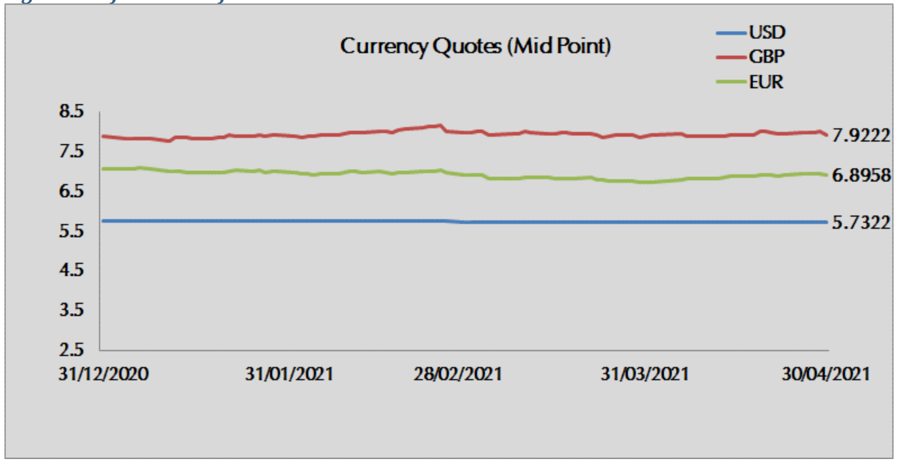
The relative stability in the cedi in the last quarter of 2020 continued into the first four months of 2021 with the cedi sometimes showing weekly appreciations to some of the major currencies. This has been on the back of strong foreign exchange reserve position, broadly reflecting improvements in global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

The cedi depreciated against the dollar, GBP, EUR respectively by 0.06%, 0.64% and 2.66% respectively in the month of April 2021 compared to an appreciation of 0.15%, 1.56% and 3.61% against the dollar, GBP and the EUR separately in the month of March.

Year to date, the cedi has appreciated by 0.49% and 2.44% against the dollar and the EUR respectively. It has however, depreciated by 0.61% against the GBP.

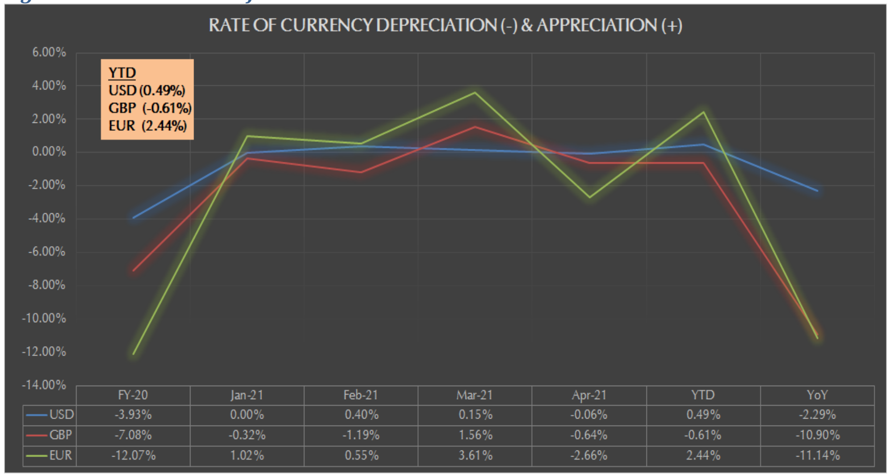
Year on Year, the cedi has seen a cumulative depreciation of 2.29%, 10.90% and 11.14% respectively against the dollar, GBP and EUR.

Fig 10: Performance of the Cedi



Source: Bank of Ghana/ GCB Research

Fig 11: Trends in Cedi Performance



Source: Bank of Ghana/ GCB Research

As at the end of April, the cedi was trading at GHS5.7293/5.7351, GHS7.9179/7.9264 and GHS6.8924/6.8992 per the dollar, GBP and EUR respectively on the interbank market.

Table 3: Depreciation/Appreciation (%)

	FY-20	Jan-21	Feb-21	Mar-21	Apr-21	YTD	YoY
USD	-3.93%	0.00%	0.40%	0.15%	-0.06%	0.49%	-2.29%
GBP	-7.08%	-0.32%	-1.19%	1.56%	-0.64%	-0.61%	-10.90%
EUR	-12.07%	1.02%	0.55%	3.61%	-2.66%	2.44%	-11.14%

Source: Bank of Ghana/ GCB Research

The cedi came under pressure in 2020—reflecting the pandemic and heightened uncertainty ahead of the elections—and averaged GH¢5.59:US$1 over the year. In 2021 the cedi will depreciate at a slower rate (to an average of GH¢5.84:US$1) owing to improved domestic and global sentiment, as well as narrowing fiscal and current-account deficits. We then expect a slower rate of depreciation in the medium term (when the cedi will average GH¢6.31:US$1) as monetary tightening supports the currency.

Public Borrowing- ***Government borrowed about GHS4.9 billion in the Month of April 2021.***

In the month of April, the Government accepted a total bid of GHS4.9 billion of bills and notes. 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 4: Bids Accepted for GoG Bills, April-2021 (GHS M)

Date	91-days	182-days	364-days	2-years	3-years	5-yers	7-yers	10-yers	20-yers	Total
05/04/2021	979	117								1,096
12/04/2021	851	153	167							1,171
19/04/2021	812	74								886
26/04/2021	781	222	757							1,760
										-
Actual	3,423	567	923	-	-	-	-	-	-	4,913

Source: BoG/GCB Research

External Sector Outlook – ***Ghana's Current Account Deficit to narrow slightly to 2.0% of GDP in 2021.***

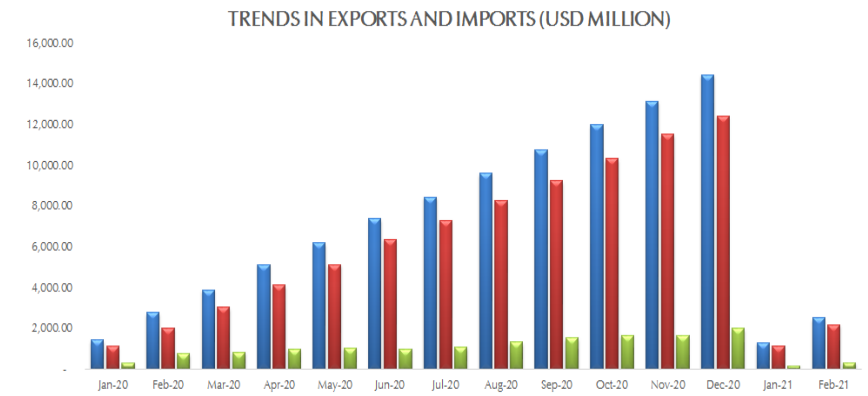
On the external sector, commodity price developments impacted on the trade balance. Total exports contracted by 9.2 percent year-on-year to US$2.5 billion in the first two months of 2021. This was driven mainly by a 25.8 percent year-on-year decline in crude oil exports (due to lower volumes), 12.2 percent 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$1,846.3 million (US$ 1,635.8 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

Our expectation is for the trade surplus from last year to continue in 2021 as export earnings recover (reflecting higher average oil and gold prices and production, but offset slightly by falling cocoa revenue). As a share of GDP, the trade surplus will then steadily decline in the medium term, mainly reflecting firmer growth in imports as domestic demand picks up and, from 2023, lower oil prices. The services account will remain in deficit over the medium term period owing to sustained expenditure on technical services for oil and gas projects, but this will narrow gradually as the Pecan oilfield starts up in 2024. 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 after a sharp drop in 2020). Overall, we forecast that the current-account deficit will narrow to 2.0% of GDP in 2021 (from 3.2% of GDP in 2020), before widening steadily to 2.4% of GDP in the medium term. The deficits will be financed through external borrowing and FDI flows.

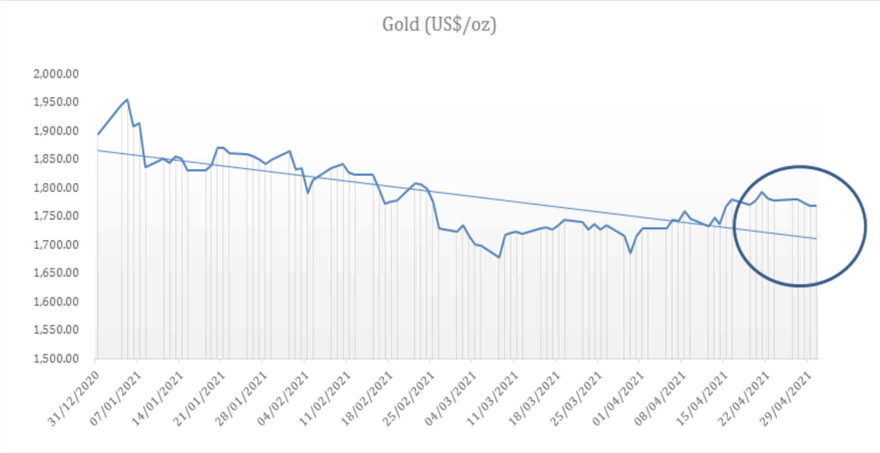
03 International Commodities Market

Gold- ***Gold could see some easing as yields rise.***

Gold has found some space to recover slightly in the month of April due to rising covid-19 cases in India, weak dollar and dovish tone on monetary policy direction from the FED.

Gold started the month of April trading at US$1,728.40/Oz and as at the end of the month it was trading at US$1,767.70/Oz, up by 3.0%. The maximum price for the month stood at US$1,793.10/Oz and the minimum price was US$1,728.40/Oz, averaging US$1,759.45/Oz.

Fig.13: Gold



Source: Bloomberg Commodities

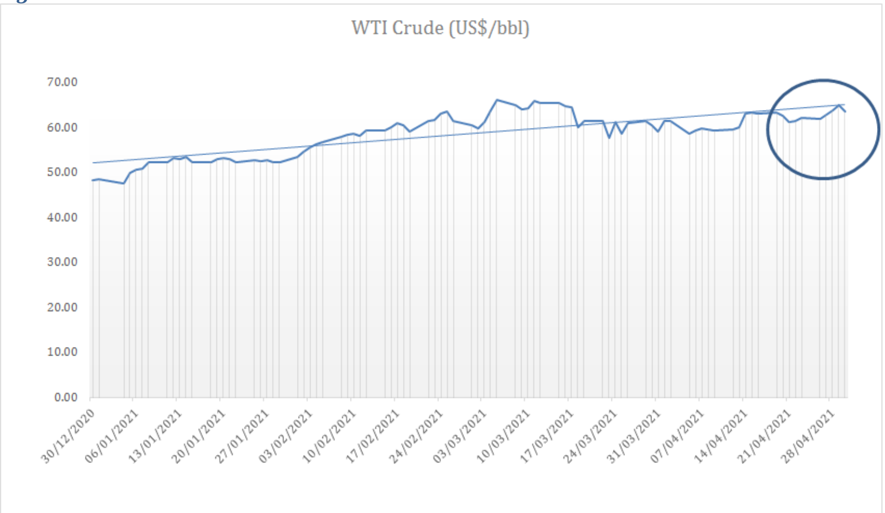
In the outlook, the rebounding US dollar and rising treasury yields could once again be raining on gold's parade. The precious metal had enjoyed some gains in the month of April by about 3% on the back of a weaker greenback. While the Fed insisted any increase in inflation would be temporary, yields are advancing as recovery and inflation expectations tick higher. Rising yields are adding bearish pressure to the precious metal. Joe Biden declared that a corner had been turned on the pandemic as he laid out a broad vision for the country's recovery. This included eye-watering levels of spending, partly funded by higher taxes on America's most wealthy. US first-quarter GDP data posted a healthy gain of 6.4% on an annualised basis in the first three months of the year. This was just shy of the 6.5% forecast and up from 4.3% for the fourth quarter in 2020. Therefore, in the months ahead, the direction for gold will largely depend on US treasury yields and US dollar price dynamics. Therefore, our forecast is for gold to end the year 2021 at US**$1,719.90**.

Crude Oil- ***Crude Oil Markets Pressing Higher on demand optimism.***

The bounce back in Crude oil from the beginning of the year continued in the month of April on demand optimism and production cuts by OPEC.

WTI crude oil started the month of April at US$61.45/bbl and as at the end of the month it was trading at US$63.58/bbl indicating an increase of 7% month on month. The maximum price for the month was US$65.01/bbl and the minimum price was US$58.65/bbl bringing the average price to US$61.70/bbl.

Fig 14: Crude Oil



Source: Bloomberg Commodities

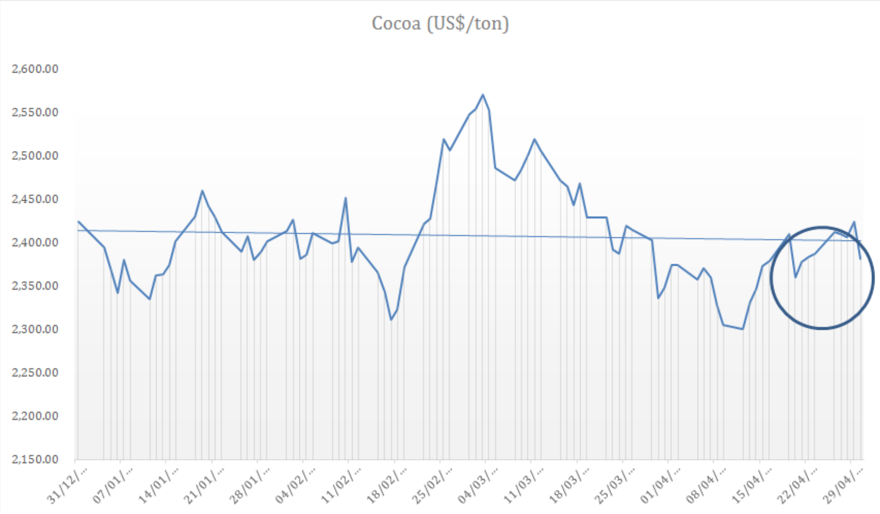
In the outlook, Oil prices are charging higher on the international commodities market on fuel demand optimism. The oil market is looking through the Covid crisis in India, focusing instead on better-than-expected US crude inventories and the ramping up of refining activity. The oil markets see the light at the end of the Covid tunnel. US crude inventories rose by 90,000 barrels last week when expectations had been for a 659,000-barrel build. Meanwhile, distillate stockpiles, including diesel, fell by 3.3 million barrels, yet refining activity rose to 85.4% of capacity. Optimism surrounding the improving demand outlook is overshadowing the OPEC+ decision to stay on track to raise production levels. Goldman Sachs' forecasts of oil at USD80 is just adding fuel to the fire. The downside to the outlook is the fear that surging COVID-19 cases in India will dent fuel demand in the world's third-biggest oil importer, while the end of a force majeure on exports from a Libyan terminal and an expected supply increase from OPEC+ could add to the pressure. Concerns over lower crude production in Libya offset expectations that rising coronavirus cases in India and Japan would cause energy demand to decline and put pressure on oil prices. On the basis of the above developments we forecast the price of WTI Crude Oil to end the year at **US$ 61.47/bbl** and Brent Crude at **US$64.68/bbl.**

Cocoa- ***Cocoa Prices forecast to trade higher on Optimism About Global Chocolate Demand.***

Cocoa prices traded slightly higher on the international commodities market in the month of April due to weaker dollar and prospects of higher demand amid upbeat economic data for the US and Europe.

Cocoa began the month of April trading at U$2,374.10/ton and by the end of the month it was trading at US$2,382.00 /ton up by 1%. The highest price for cocoa recorded for the month of Aprils was US$2,425.04/ton whilst the lowest price recorded was US$2,300.98/ton. The average price for the month stood at US$2,370.68/ton.

Fig 15: Cocoa



Source: ICCO

In the outlook, July ICE NY cocoa (CCN21) on 29/04/2021closed up +27 (+1.09%), and July ICE London cocoa #7 (CAN21) closed up +7 (+0.43%). Optimism about global cocoa demand is pushing cocoa prices higher after Hershey, the fifth largest chocolate manufacturer in the world, raised its 2021 full-year financial outlook in the last week of April. Also, during the month of April, the CEO of Barry Callebaut, the world's largest manufacturer of cocoa and chocolate products, said that he sees a very strong rebound in chocolate demand in most of Asia with a "remarkable" recovery in China and "impressive" performance in India. Even though demand optimism is supporting prices, ample cocoa supplies from the Ivory Coast, the world's largest cocoa producer could derail the push for prices. The Ivory Coast government reported on 26/04/2021 that cumulative cocoa bean deliveries to Ivory Coast ports during Oct 1-Apr 25 were up +5.3% y/y at 1.97 MMT. Also, current inventories are abundant after ICE-monitored cocoa inventories climbed to a 2-3/4 year high. Cocoa prices have recently been in a slump and fell to 5-1/2 month lows earlier this month. The outlook for bumper cocoa crops in West Africa has undercut cocoa prices and sparked fund selling in cocoa futures. Cocoa farmers in the Ivory Coast and Ghana are reporting favourable growing conditions that bode well for the mid-crop harvest that just began. Global demand is mixed for cocoa prices after the National Confectioners Association reported that Q1 North American cocoa processing rose +2.0%

y/y to 117,956 MT, below expectations of +2.5% y/y. Also, the European Cocoa Association reported European Q1 cocoa processing fell -3% y/y to a 4-year low of 357,815 MT, a larger decline than expectations of -2% y/y. On the positive side, Q1 Asian cocoa processing rose +3.1% y/y to 213,858, above expectations of +0.3% y/y. A negative factor for cocoa could be the 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. The outlook for ample cocoa supplies is bearish for prices. On January 29, Marex Spectron projected that the global 2020/21 cocoa surplus would widen to +190,000 MT from +8,000 MT in 2019/20. Marex Spectron also projects global 2020/21 cocoa production will increase +5.4% y/y to 4.9 MMT due to a bumper crop in the Ivory Coast.

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$2,496/ton**.

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 in 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 interest rates trending downwards in the first four months of the year and expected to trend down marginally for the rest of 2021, 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. Also, the marginal drop in interest rates across the various maturities on the yield curve should reflect in our pricing.

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

With an economy battered by Covid-19 pandemic in 2020, the outlook for 2021 indicates a turnaround with some green shoots in certain sectors of the economy from the Q4-20 GDP data released by the Ghana Statistical Service. 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 livestock production, crops and cocoa yields will drive 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, uncertainty surrounding the threat of Covid to our economy has again highlighted the threat of the pandemic in the near term, which could hamper the recovery process. 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, after an estimated contraction of –3.3 percent in 2020, the global economy is projected to grow at 6 percent in

2021, moderating to 4.4 percent in 2022. The projections for 2021 and 2022 is on the back of additional fiscal support in a few large economies and the anticipated vaccine-powered recovery in the second half of the year.

On the domestic front, provisional GDP estimates for 2020 showed a growth rate of 0.4 percent compared to 6.5 percent in 2019. For the fourth quarter of 2020, provisional real gross domestic product (QGDP) growth rate including Oil and Gas, was 3.3% year on year. 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. Key macroeconomic indicators have been relatively stable in the first fourth months of the year with marginal stability in the cedi against the major currencies. Inflation has been relatively stable decreasing marginally from 10.4% in December 2020 to 9.9% in January 2021 before surging up marginally, peaking at 10.3% in the month of February and March. The forecast for inflation is expected to remain broadly unchanged with an expectation of it returning to the BoG target band (6-10%) in the second half of 2021.

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.