GCB BANK LIMITED

Planning and Research Monthly/Quarterly Economic Updates **Issue 25** **June 2021**

CONTENT

Key Macroeconomic Indicators and Forecast	Actual							Forecast			
	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Dec-21
GDP (%)	0.4%			3.3%			3.6%*			4.2%	5.0%
Inflation (Consumer Price Index)	10.4%	9.9%	10.3%	10.3%	8.5%	7.5%	7.8%*	7.7%	7.8%	7.8%	8.3%
MPR (Monetary Policy Rate)	14.5%	14.5%	14.5%	14.5%	14.5%	13.5%	13.5%	13.5%	13.5%	13.5%	13.5%
91-Day Treasury Bill	14.1%	14.1%	13.1%	12.9%	12.8%	12.8%	12.6%	12.7%	12.6%	12.5%	12.4%
182-Day Treasury Bill	14.1%	14.1%	14.0%	13.7%	13.6%	13.5%	13.4%	13.3%	13.2%	13.1%	12.9%
1-Year Bond Rate	17.0%	17.0%	16.9%	16.6%	16.5%	16.5%	16.3%	16.3%	16.2%	16.2%	16.0%
FX Rate (USD/GHS)	5.7602	5.7604	5.7374	5.7288	5.7322	5.7473	5.7626	5.7678	5.7730	5.7782	5.7834
FX Rate (GBP/GHS)	7.8742	7.8996	7.9945	7.8619	7.9222	8.1672	7.9590	7.9614	7.9638	7.9662	7.9686
FX Rate (EUR/GHS)	7.0643	6.9929	6.9545	6.7182	6.8958	7.0268	6.8333	6.8353	6.8374	6.8394	6.8415
Gold (US$/oz)	1,895.10	1,850.30	1,728.80	1,715.60	1,767.70	1,905.30	1,771.60	1,759.30	1,758.00	1,760.00	1,761.50
Cocoa (US$/ton)	2,424.35	2,401.55	2,507.04	2,347.85	2,382.00	2,456.00	2,363.34	2,361.00	2,425.73	2,371.00	2,415.00
WTI (US$/bbl)	48.52	52.20	61.50	59.16	63.58	66.32	73.47	74.01	73.29	72.33	70.76
Brent (US$/bbl)	51.80	55.53	64.42	62.74	66.76	69.32	74.62	75.14	74.37	73.68	72.98

***Forecast - GDP, Inflation**

Executive Summary		
Macro Indicators	**Current Situation**	**Outlook**
Economic growth	• Provisional real Quarterly Gross Domestic Product (QGDP) growth rate including Oil and Gas, was 3.1% (year on year) in the first quarter of 2021. In the same period of 2020, the growth was 7.0%. • GDP growth rate without oil and gas (Non-Oil GDP) for first quarter 2021 was 4.6% compared to 7.9% growth rate the same period in 2020. • The Agriculture sector recorded the highest growth of 4.3% and was followed by the Services sector with a growth of 4.0%. The Industry sector also expanded by 1.3 percent.	• In the outlook, we forecast real GDP growth of 5.0% in 2021 compared to 0.4% in 2020. The hydrocarbons sector is expected to be one of the main drivers of growth in 2021. Also, 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 on budget execution for the first quarter of 2021 indicated an overall broad cash budget deficit of 2.6 percent of GDP, against the target of 2.5 percent of GDP. • The primary balance also recorded a deficit of 0.7 percent of GDP compared to the target deficit of 0.4 percent of GDP. • Over the first quarter, total revenue and grants amounted to GH¢12.8 billion (3.0 percent of GDP), lower than the projected GH¢15.8 billion (3.7 percent of GDP). • Total expenditures and arrears clearance amounted to GH¢24.3 billion (5.6 percent of GDP) against the target of GH¢26.5 billion (6.1 percent of GDP).	• Looking ahead, after falling in 2020, fiscal revenue will increase in 2021, owing to a rise in both oil production volumes and global oil prices this year. Nonoil revenue—will increase in 2021 as the economy recovers, epitomised by the Q1-21 GDP performance. For Government expenditure, in spite of the containment measures is expected to be elevated in 2021 as the authorities are still attempting to limit the fallout from the pandemic. • The fiscal deficit is expected to narrow to 9.5% of GDP in 2021, from 11.7% of GDP in 2020.
Debt Sustainability	• The stock of public debt was GH¢304.6 billion at the end of March 2021, compared with GH¢292.7 billion at the end of December 2020. • Of the total debt stock, domestic debt was GH¢163.6 billion (37.7 percent of GDP), while the external debt was GH¢141.0 billion (32.5 percent of GDP).	• After peaking at 76.1% at end-2020, we expect the public debt/GDP ratio to trend downwards to 72.1% at end-2021, as the economy grows. The government will remain reliant on borrowing from both external and domestic sources.
Inflation	• The first quarter saw headline inflation eased from 10.4 percent in December 2020 to 9.9 percent in January 2021, and 10.3% in March 2021. This has subsequently decreased to 8.5% and 7.5% respectively in April and May 2021. The decline in inflation was driven by lower food and non-food prices and base drift effects. • Food inflation dipped markedly to 5.4 percent in May from 10.8 percent in March, while Non-food inflation also followed a similar trend to 9.2 percent from 10.0 percent over the same comparative periods	• Due to the tight monetary policy stance by the BoG and the relatively stable exchange rate conditions, we do not expect inflation to breach the 10% mark by the end of the year with a forecast of **8.3±0.2%**. For the month of June 2021, we forecast inflation of **7.8±0.2%.**
Interest Rate	• Interest rates on government securities trended downwards across the maturity curve in the first half of 2021. The 91-day and 182-day Treasury bill rates declined to 12.6 percent and 13.4 percent respectively in June 2021, compared with 12.9 percent and 13.7 percent respectively, in the first quarter of 2021. • Similarly, the rate on the 364-day Government instrument declined to 16.3 percent from 16.6 percent over the same comparative period. • Between the month of May and June, the 91-day and 182-day Treasury bill rates declined from 12.8 percent and 13.5 percent respectively to 12.6 percent and 13.4 percent. • Similarly, the 364-day instrument declined marginally from 16.5 percent to 16.3 percent. • The monetary policy rate declined by 100 basis points (bsp) to 13.5 percent from 14.5 percent in the last MPC meeting in May. • The interbank market rates fluctuated between 13.58% and 12.68% in the second quarter of 2021 compared to 13.56% and 13.58% in the first quarter of 2021. Between the month of May and June the interbank rate has declined by 0.90% from 13.58% to 12.68% largely due to the drop in the policy rate.	• On the outlook of the MPR, we believe that the BoG is attempting to improve access to credit in order to engineer a firm economic recovery that is why it dropped the rate by 100bsp even though inflation remain above the upper bounds of the BoG's target range (8% plus or minus 2 percentage points). The BoG also stated that lower food prices are likely to contribute to a gradual disinflationary trend in the coming months, providing it with the scope for this recent monetary easing. We expect the policy rate to stay at 13.5% for the remainder of 2021. • We forecast interest rates on the short end of the money market to show a steady decline in the third quarter of 2021 with the 91-day and 182-day bills projected at 12.52% and 13.12% respectively. The 364-day instrument is also forecast at 16.15% for the same period.
Exchange Rate	• The cedi depreciated against the dollar by 0.27% but appreciated against the GBP and EUR respectively by 2.62% and 2.83% in the month of June 2021. • As at the end of the second quarter, the cedi has seen a cumulative depreciation of 0.59%, 1.10% and 1.77% against the dollar, GBP and EUR respectively. • Year to date, the cedi has depreciated by 0.04% and 1.07% against the dollar and GBP respectively. It has however appreciated by 3.38% against the EUR. • Year on Year, the cedi has seen a cumulative depreciation of 1.65%, 12.00% and 6.91% respectively to the dollar, GBP and EUR.	• Our expectation is for the cedi to remain fairly stable in the coming months, averaging GH¢5.78:US$1 in 2021, on the back of a strong international reserve position of the country, monetary policy support and narrowing current account deficit. • We therefore expect the cedi to be trading at GHS5.77:US$1, GHS7.97:£1 and GHS6.84:€1 respectively by the end of the third quarter of 2021.
Business Impact	• Repricing of our products. • Key Sectors for Targeting: -Consumption related activities, Construction activities, International trading activities, and Resumption of industrial production activities. • Digital Payments as a Key for off-balance sheet income and cheap deposits.	

02 Economic Developments

Global Overview-*Divergent Recoveries amid High Uncertainty*

The Economist Intelligence Unit forecasts that global GDP will rebound by 5.2% in 2021 (up from a previous forecast of 5.1%). This revision stems from a strong upward adjustment in their US real GDP growth forecast for 2021 to 6% (from a previous forecast of 5.5%). This sharp rebound will boost global GDP back to its pre-coronavirus level in late 2021. However, the pace of recovery will vary greatly across regions. Asia and North America will recover the fastest, with real GDP back to pre-coronavirus levels as early as this year. The recovery will take longer in Europe and the Middle East and Africa region, stretching into 2022. EIU forecast that Latin American GDP will return to pre-coronavirus levels in late 2022. The rollout of coronavirus vaccines will condition economic prospects this year and beyond. However, production constraints mean that global immunisation timelines will stretch beyond 2023 in many developing countries. The slow pace of vaccine distribution will weigh on the global recovery and create opportunities for variants to emerge that may prove resistant to current vaccines.

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 according to the IMF. Their 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.

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 various economies globally. 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.

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 Real Domestic Product (GDP) growth rate including Oil and Gas, was 3.1% (year on year) in the first quarter of 2021. In the same period of 2020, the growth was 7.0%. GDP growth rate without oil and gas (Non-Oil GDP) for first quarter of 2021 was 4.6% compared to 7.9% growth rate for the same period in 2020.

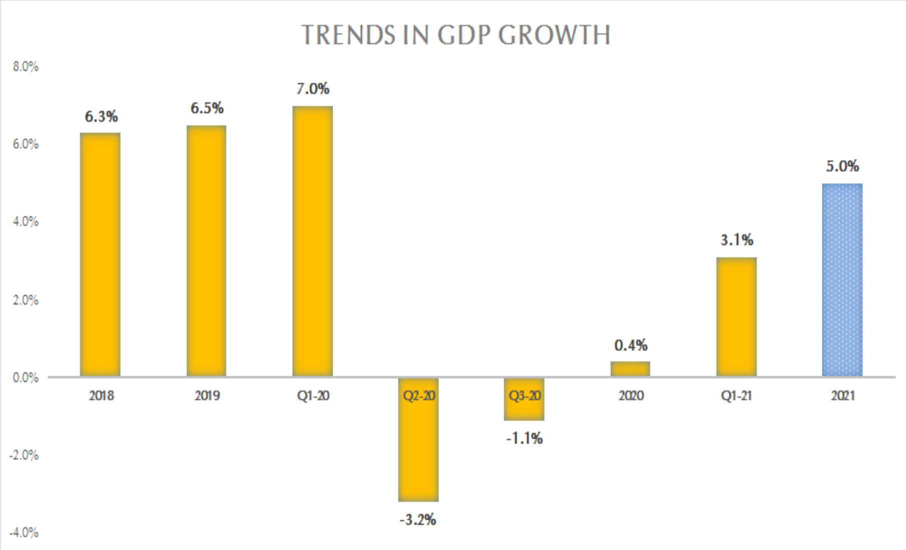
The Agriculture sector recorded the highest growth of 4.3% and was followed by the Services sector with a growth of 4.0%. The Industry sector also expanded by 1.3 percent. The Services sector was the largest sector of the Ghanaian economy in the first quarter of 2021 with a share of 53 percent of GDP at basic prices. The GDP share of Industry and Agriculture were 25 percent and 22 percent respectively.

In absolute figures, real GDP for the first quarter of 2021 was GHS45,378.1 million compared to GHS43,999.5 million for the same period in 2020. That of Non-oil GDP was GHS42,820.0 million in the first quarter of 2021 compared to GHS40,948.1 million in 2020.

Nominal GDP for the first quarter of 2021 was GHS119,383.6 million compared to GHS105,300.7 million for the same period in 2020. That of Non-oil GDP (GDP without Oil and Gas) for the first quarter of 2021 was GH¢113,608.9 million compared to GH¢100,459.9 million in 2020.

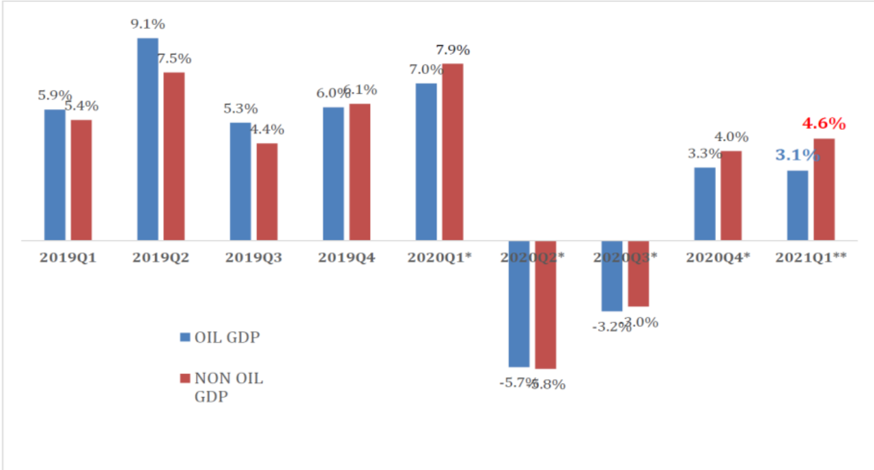
Notwithstanding the above, The BoG's updated Composite Index of Economic Activity (CIEA) registered a strong annual growth of 26.8 percent in March 2021, compared to a contraction by 1.9 percent in the corresponding period of 2020. The key drivers of economic activity during the period were domestic consumption (proxied by VAT collection), construction activities, international trading activities, resumption of industrial production activities and air-passenger arrivals. The latest Ghana Purchasers Managers Index, which gauges the rate of inventory accumulation by managers of private sector firms and measures dynamics in economic activity, also improved in April 2021. However, the BoG's confidence surveys conducted in April 2021, showed some dip in both consumer and business sentiments. Businesses however, expressed optimism about their company and industry prospects.

Fig 1: Trends in Real GDP Growth Rate



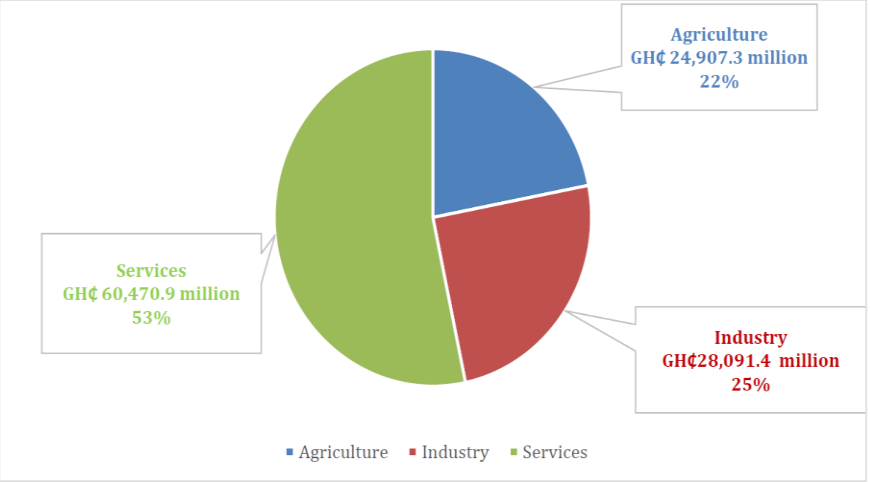
Source: Ghana Statistical Service (GSS)

Fig 2: Quarterly real GDP growth rate (2019Q1-2021Q1)



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 1st quarter of 2021

Sector	Expanding sub-sectors		Contracting sub-sectors	
Agriculture (4.3%)	Livestock	5.5%	Fishing	-3.6%
	Crops	4.9%		
	Forestry & Logging	0.5%		
Industry (1.3%)	Construction	14.2%	Mining & Quarrying	-11.2%
	Water Supply, Sewerage, Waste Management & Remediation Activities	6.6%		
	Manufacturing	6.1%		
	Electricity	0.1%		
Services (4.0%)	Information & Communication	22.1%	Hotel & Restaurants	-10.7%
	Real Estate	10.6%	Professional, Administrative & Support	-2.9%
	Health & Social Work	6.5%		
	Education	6.5%		
	Public Administration & Defence, Social Security	5.8%		
	Other Personal Service Activities	5.0%		
	Finance & Insurance	4.8%		
	Transport & Storage	3.0%		
	Trade, Repair of Vehicle, Household Goods	2.7%		

Source: Ghana Statistical Service (GSS)

In the outlook, the economy narrowly averted recession in 2020, with real GDP growth of 0.4%, but a return to strong pre-pandemic growth rates of 6-8% per year is not expected in the medium term. We forecast real GDP growth of 5.0% 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.

On the downside, our expectation is for the rolling power blackouts across large parts of the country in April-September due to upgrades and repairs to temper the pace of economic recovery in 2021.

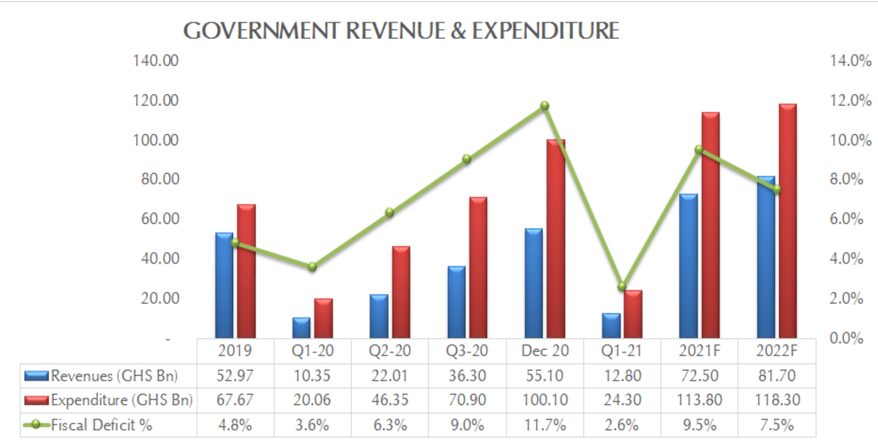
In the medium term oil production will rise further at existing fields, but development work at new sites will be slow. A final investment decision (FID) on the Pecan offshore oilfield (managed by Aker Energy, a Norwegian firm) was originally scheduled for 2020, but has been delayed indefinitely. We expect the FID to be reached by 2023, with production to begin in 2025. Therefore, rising oil output (from existing fields and Pecan from 2025) will boost real GDP growth 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.

Fiscal Policy- ***Ghana's Budget Deficit to narrow to 9.5% in 2021 due to increase in fiscal revenues and marginal drop in expenditures.***

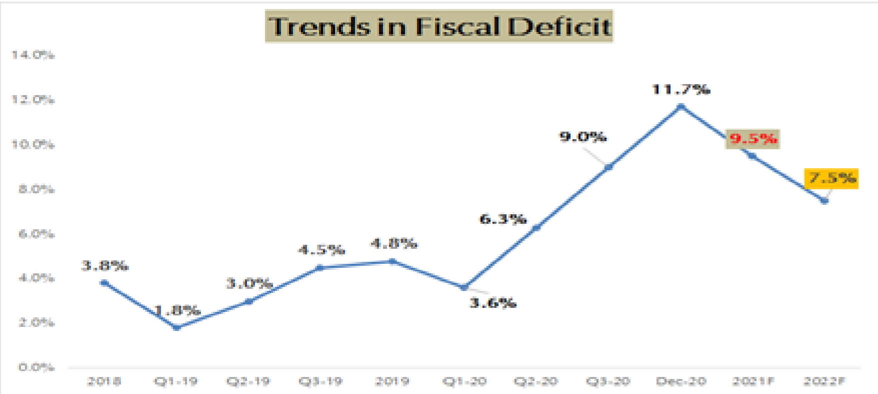
On fiscal policy, provisional data on budget execution for the first quarter of 2021 indicated an overall broad cash budget deficit of 2.6 percent of GDP, against the target of 2.5 percent of GDP. The primary balance also recorded a deficit of 0.7 percent of GDP compared to the target deficit of 0.4 percent of GDP. Over the first quarter, total revenue and grants amounted to GH¢12.8 billion (3.0 percent of GDP), lower than the projected GH¢15.8 billion (3.7 percent of GDP). Total expenditures and arrears clearance amounted to GH¢24.3 billion (5.6 percent of GDP) against the target of GH¢26.5 billion (6.1 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, after falling in 2020, fiscal revenue will increase in 2021, owing to a rise in both oil production volumes and global oil prices this year. Nonoil revenue—which was also hit in 2020 by a sluggish tax take owing to weaker domestic economic activity and by lower import duty receipts—will increase in 2021 as the economy recovers, epitomised by the Q1-21 GDP performance. Tax increases—including some temporary measures, such as proposed 1-percentage-point increases in the national health insurance levy and the value-added tax (VAT) rate, that have been imposed in 2021 to raise funds to finance the vaccine rollout—combined with efforts to improve tax collection methods, such as digitalising services, will help to boost government receipts, although many loopholes are likely to remain in place.

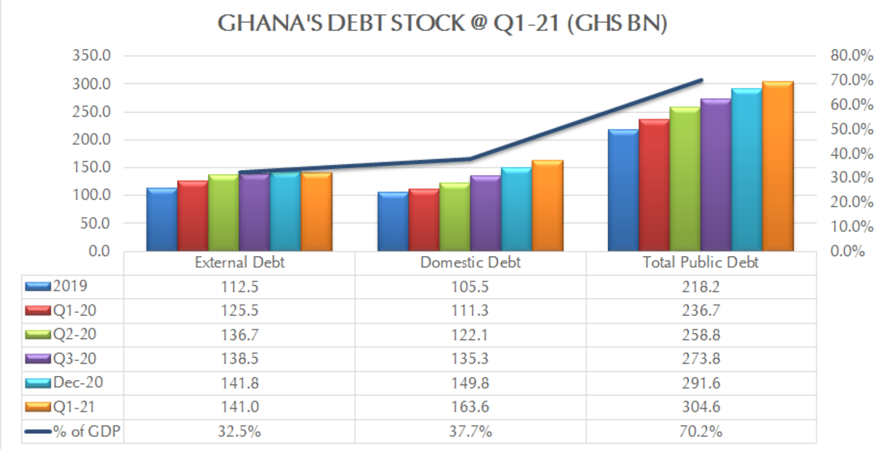
Government expenditure in spite of the containment measures is expected to be elevated in 2021 as the authorities are still attempting to limit the fallout from the pandemic. The 2021 budget envisages further strong nominal growth in expenditure. We still expect spending to fall as a proportion of GDP, but not particularly rapidly in the context of the sharp increase in 2020.

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 5.6% of GDP in the medium term due to ongoing infrastructure development, wage settlements, energy Independent Power Producers (IPP) payments, the potential for arrears build-up, potential for scaled-up expenditures associated with COVID-19 waves and industrialisation projects.

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

Financing of the fiscal deficit in the first quarter was mainly from domestic sources, which pushed up the stock of public debt to GH¢304.6 billion at the end of March 2021, compared with GH¢292.7 billion at the end of December 2020. Of the total debt stock, domestic debt was GH¢163.6 billion (37.7 percent of GDP), while the external debt was GH¢141.0 billion (32.5 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	149.8	291.6
Q1-21	141.0	163.6	304.6
% of GDP	32.5%	37.7%	70.2%

Source: Bank of Ghana

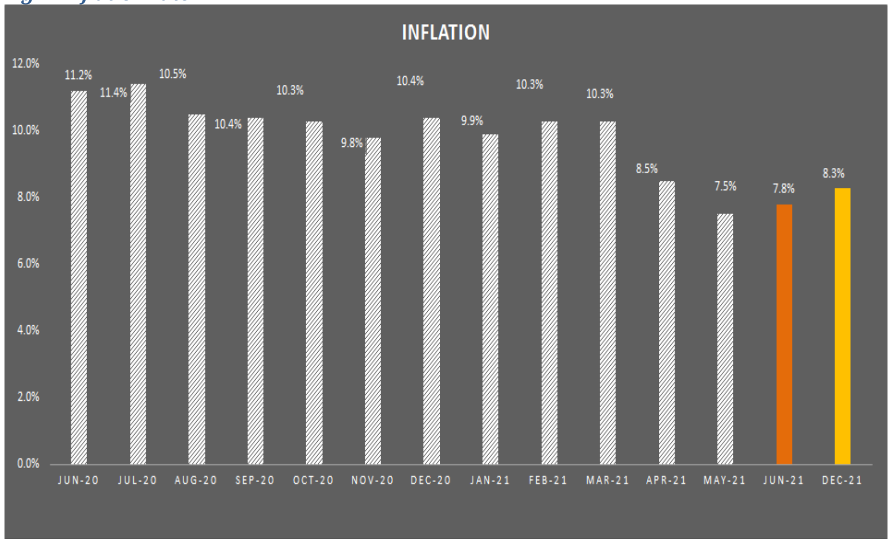
After peaking at 76.1% at end-2020, we expect the public debt/GDP ratio to trend downwards to 72.1% at end-2021, as the economy grows. The government will remain reliant on borrowing from both external and domestic sources. Ghana plans to borrow a total of US$5bn in 2021 through two Eurobond issues (of which US$3bn was raised in March), which will be used to roll over existing obligations, as well as finance the fiscal deficit.

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

Recent price developments show that headline inflation dropped sharply in the first five months of the year. The first quarter saw headline inflation eased from 10.4 percent in December 2020 to 9.9 percent in January 2021, and 10.3% in March 2021. This has subsequently decreased to 8.5% and 7.5% respectively in April and May 2021. The decline in inflation was driven by lower food and non-food prices and base drift effects.

Food inflation dipped markedly to 5.4 percent in May from 10.8 percent in March, while Non-food inflation also followed a similar trend to 9.2 percent from 10.0 percent over the same comparative periods.

Fig 7: Inflation rate



Source: GSS/ GCB Research Forecast

Inflation will remain elevated in 2021, averaging 8.9%, down from an average of 9.3% in 2020. Although domestic demand is still fairly weak, supply-side price pressures (including high food prices, rising global commodity prices, rising transport prices, and supply-chain disruption owing to the pandemic) lifted inflation in the first quarter of 2021. Even assuming gradual disinflation during the remainder of the year, the full-year average will remain high. Therefore, due to the tight monetary policy stance by the BoG and the relatively stable exchange rate conditions, we do not expect inflation to breach the 10% mark by the end of the year with a forecast of **8.3±0.2%.** For the month of June 2021, we forecast inflation of **7.8±0.2%.**

Interest Rates- ***BoG lowered the Monetary Policy Rate by 100 basis points to 13.5 percent and this is expected to remain same for the rest of 2021.***

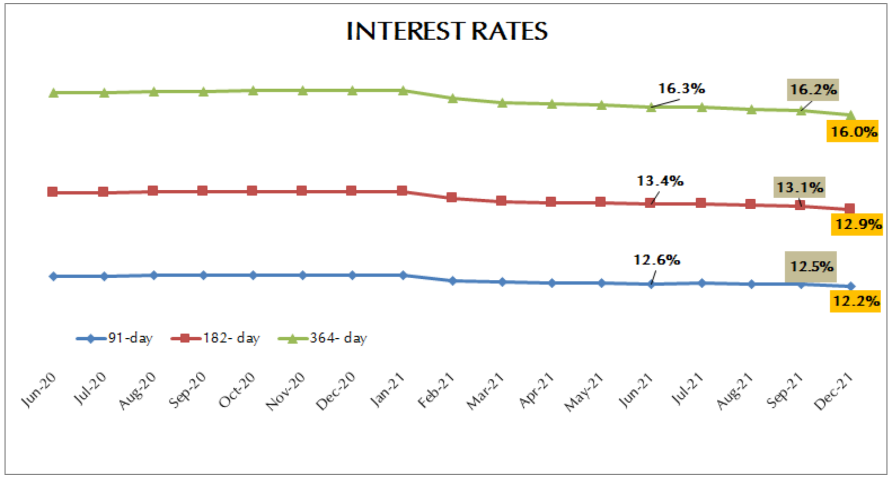
Interest rates on government securities trended downwards across the maturity curve in the first half of 2021. The 91-day and 182-day Treasury bill rates declined to 12.6 percent and 13.4 percent respectively in June 2021, compared with 12.9 percent and 13.7 percent respectively, in the first quarter of 2021. Similarly, the rate on the 364-day Government instrument declined to 16.3 percent from 16.6 percent over the same comparative period.

Between the month of May and June, the 91-day and 182-day Treasury bill rates declined from 12.8 percent and 13.5 percent respectively to 12.6 percent and 13.4 percent. Similarly, the 364-day instrument declined marginally from 16.5 percent to 16.3 percent over the same period.

The monetary policy rate declined by 100 basis points (bsp) to 13.5 percent from 14.5 percent in the last MPC meeting in May 2021. In dropping the rate, the Monetary Policy Committee (MPC) indicated that they expect inflation to be close to the central target by June 2021. They were of the view that risks to the inflation outlook appear muted in the near-term, but pressures from mostly rents and transport fares, would require some monitoring to anchor inflation expectations.

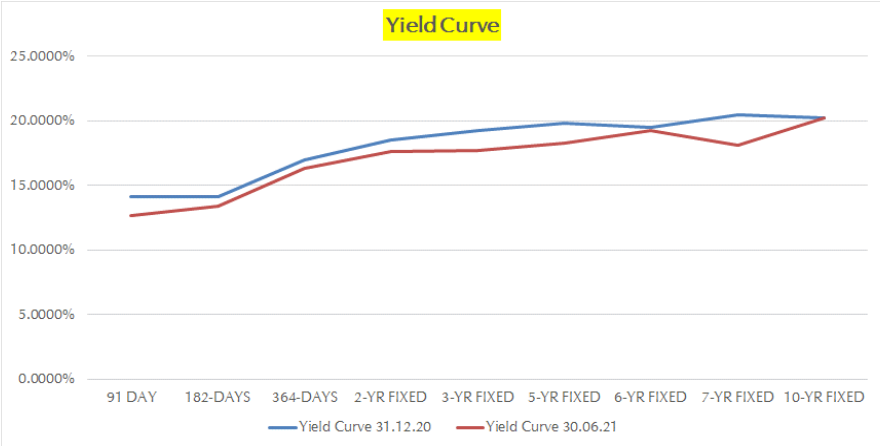
The interbank market rates fluctuated between 13.58% and 12.68% in the second quarter of 2021 compared to 13.56% and 13.58% in the first quarter of 2021. Between the month of May and June the interbank rate has declined by 0.90% from 13.58% to 12.68% largely due to the drop in the policy rate.

Fig 8: Interest rates



Source: Bank of Ghana/ GCB Research

Fig 9: Yield Curve



Source: Bank of Ghana/ GCB Research

After keeping rates unchanged for over a year, the Bank of Ghana (BoG) cut the policy rate by 100 basis points (bps) to 13.5% in May. The cut comes despite inflation remaining above the upper bounds of the BoG's target range (8% plus or minus 2 percentage points) for most of the past year, as rising global commodity prices lifted supply-side inflationary pressures. Given that domestic demand fell extremely sharply in 2020, we believe that the BoG is attempting to improve access to credit in order to engineer a firm economic recovery. The BoG also stated that lower food prices are likely to contribute to a gradual disinflationary trend in the coming months, providing it with the scope for this recent monetary easing. We expect the policy rate to stay at 13.5% for the remainder of 2021.

Furthermore, we forecast interest rates on the short end of the money market to show a steady decline in the third quarter of 2021 with the 91-day and 182-day bills projected at **12.52%** and **13.12%** respectively. The 364-day instrument is also forecast at **16.15%** 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.***

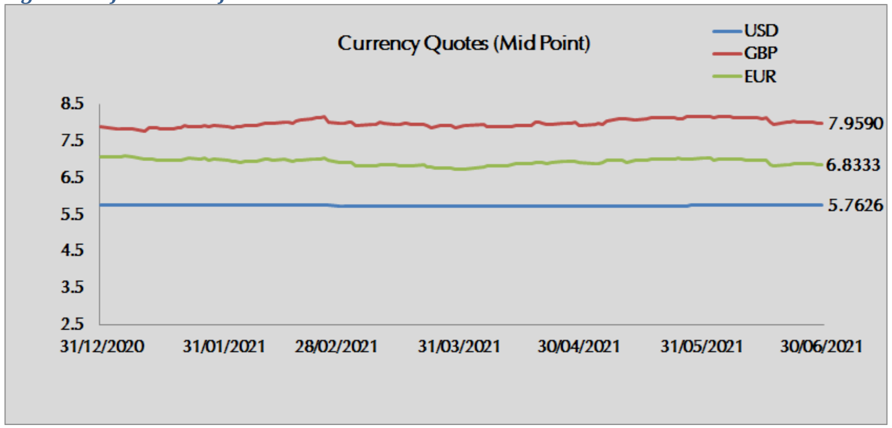
The relative stability in the cedi in the first quarter of 2021 continued in the second quarter. This has been on the back of a strong foreign exchange reserve position, broadly reflecting improvements in global financial market risk sentiment and forward sales of foreign exchange by the Bank of Ghana.

The cedi depreciated against the dollar by 0.27% but appreciated against the GBP and EUR respectively by 2.62% and 2.83% in the month of June 2021. This compares favourably to a depreciation of 0.26%, 3.00% and 1.88% against the dollar, GBP and the EUR separately in the month of May. As at the end of the second quarter, the cedi has seen a cumulative depreciation of 0.59%, 1.10% and 1.77% against the dollar, GBP and EUR respectively.

Year to date, the cedi has depreciated by 0.04% and 1.07% against the dollar and GBP respectively. It has however appreciated by 3.38% against the EUR.

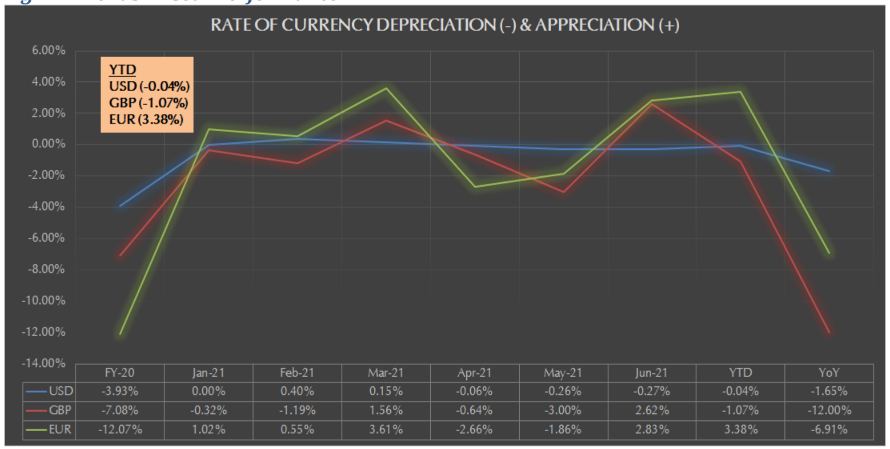
Year on Year, the cedi has seen a cumulative depreciation of 1.65%, 12.00% and 6.91% respectively to the dollar, GBP and EUR.

Fig 10: Performance of the Cedi



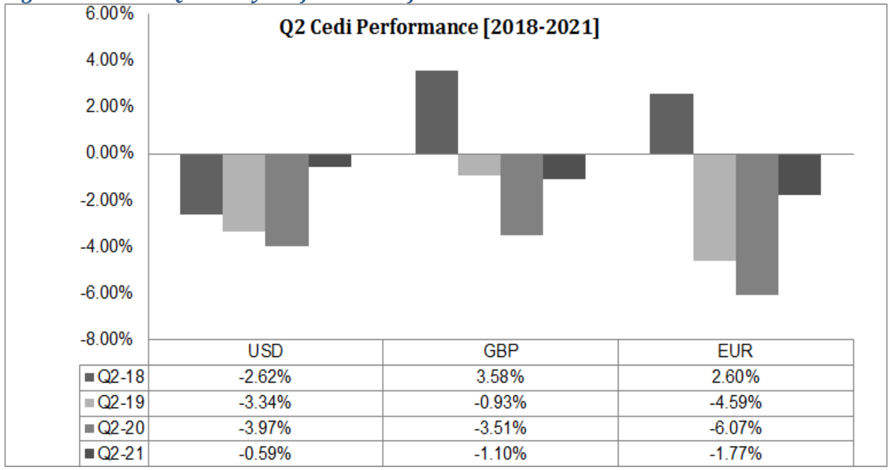
Source: Bank of Ghana/ GCB Research

Fig 11: Trends in Cedi Performance



Source: Bank of Ghana/ GCB Research

Fig 12: Trends in Quarterly Performance of the Cedi



Source: Bank of Ghana/ GCB Research

As at the end of June, the cedi was trading at GHS5.7597/5.7655, GHS7.9547/7.9633 and GHS6.8299/6.8366 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	May-21	Jun-21	YTD	YoY
USD	-3.93%	0.00%	0.40%	0.15%	-0.06%	-0.26%	-0.27%	-0.04%	-1.65%
GBP	-7.08%	-0.32%	-1.19%	1.56%	-0.64%	-3.00%	2.62%	-1.07%	-12.00%
EUR	-12.07%	1.02%	0.55%	3.61%	-2.66%	-1.86%	2.83%	3.38%	-6.91%

Source: Bank of Ghana/ GCB Research

After depreciating by nearly 4% in 2020—reflecting the pandemic and heightened uncertainty ahead of the elections—

the cedi has been more stable in the first six months of 2021, and was trading at GH¢5.76:US$1 at the end of the second quarter, similar to the end 2020 rate. Our expectation therefore is for the cedi to remain fairly stable in the coming months, averaging **GH¢5.78:US$1** by the end of 2021, on the back of a strong international reserve position of the country, monetary policy support and narrowing current account deficit. We therefore project the cedi to be trading at **GHS5.77:US$1**, **GHS7.97:£1** and **GHS6.84:€1** respectively by the end of the third quarter of 2021.

Public Borrowing- *Government borrowed about GHS17 billion in Q2- 2021.*

In the second quarter of 2021, the Government accepted total bids of GHS17 billions of bills and notes as against a total budget of GHS21 billion. Majority of the borrowings were for rollover maturing debts and the rest to meet Government's financing requirements. Also, 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.

In the month of June, the Government accepted total bids of GHS6.9 billion of bills and notes as against a target of GHS6.7 billion.

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

Date	91-days	182-days	364-days	2-years	3-years	5-yers	7-yers	10-yers	20-yers	Total
07/06/2021	1,142	99								1,242
14/06/2021	664	137	540							1,340
21/06/2021	1,049	175					1,860			3,084
28/06/2021	577	184	536							1,297
										-
Actual	**3,432**	**596**	**1,075**	-	-	-	**1,860**	-	-	**6,963**
Budget	3,700	500	700				1,800	-		6,700
Diff	268	(96)	(375)	-	-	-	(60)	-	-	(263)

Source: BoG/GCB Research

Table 5: Bids Accepted for GoG Bills, Q2-2021 (GHS M)

	Apr	May	Jun	Total
91-Days	3,423	4,104	3,432	10,959
182-days	567	701	596	1,864
1-year	923	354	1,075	2,352
2-years			-	-
3-Yrs			-	-
5-Yrs			-	-
7-Yrs			1,860	1,860
10-Yrs				-
20-Yrs				-
Total	**4,913**	**5,159**	**6,963**	**17,035**

Source: BoG/GCB Research

External Sector Outlook – *Ghana's Current Account Deficit to narrow slightly to 1.7% of GDP in 2021.*

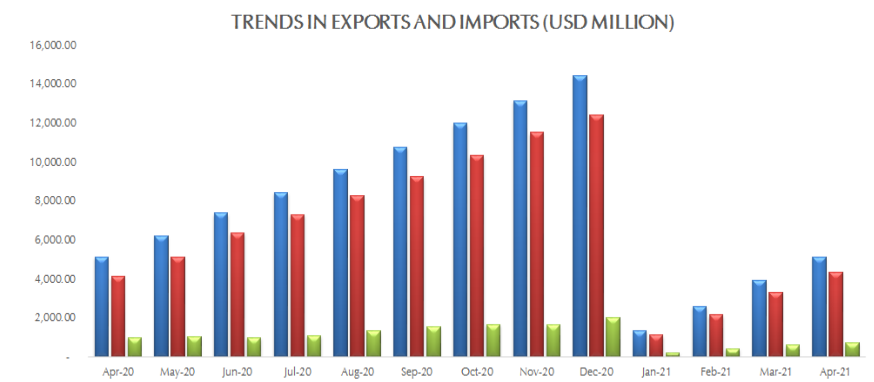
For the first four months of the year, total exports declined marginally by 0.2 percent year-on-year to US$5,131 million, driven mainly by a 21 percent decline in volume of gold exported attributed to instability in the sector. Total imports, on the other hand, rose by US$239.3 million to US$4,372 million, supported by increased non-oil imports. As a result, the trade balance recorded a surplus of US$759.1 million (1.1 percent of GDP) compared with a surplus of US$1,006.3 million (1.4 percent of GDP) in the same period of 2020.

Gross International Reserves stood at US$10,990.3 million at the end of April 2021, providing cover for 5.1 months of imports of goods and services. The reserve level compares with a stock position of US$8,624.4 million, equivalent to 4.1 months of import cover recorded at the end of December 2020.

Gold exports as at the end of April 2021 stood at US$1,808.2 million (US$2,061.8 million in April, 2020) whilst Crude Oil exports amounted to US$1,149.5 million (US$1,016.5 million in April, 2020). That for Cocoa beans and products came in at US$1,225.0 million (US$1,201.1 million in April 2020).

On the imports side, oil imports were US$705.2 million in April 2021 (US$669.5 million in April, 2020) and non-Oil imports totalled US$3,666.8 million (US$3,463.2 million in April, 2020).

Fig 13: Trends in Exports and Imports



	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21
Export	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	1,357.90	2,596.40	3,945.40	5,131.10
Import	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	1,134.30	2,160.10	3,324.40	4,372.00
Trade Balance	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	223.60	436.30	621.00	759.10

Source: Bank of Ghana/ GCB Research

We expect the trade surplus to widen marginally in 2021 as export earnings recover, reflecting higher average oil and gold prices and production, although cocoa revenue will fall. As a proportion of GDP, the trade surplus will steadily decline in the medium term, reflecting firmer growth in imports as domestic demand picks up and sluggish export growth due to the decline in oil prices in the medium term.

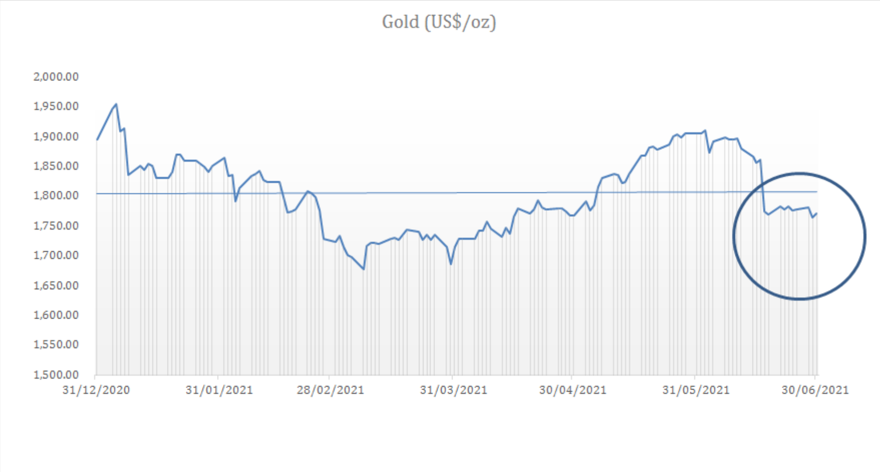
The services account will remain in deficit in 2021 and into the medium term owing to sustained expenditure on technical services for oil and gas projects, but the deficit will narrow gradually as the Pecan oilfield starts up in 2025. The primary income deficit will narrow but remain large, reflecting 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 after a sharp drop in 2020). Overall, we forecast that the current-account deficit will narrow to 1.7% of GDP in 2021 (from 3.2% of GDP in 2020), before widening steadily to 3% of GDP in the next 3 years. The deficits will be financed through external borrowing and FDI flows.

03 International Commodities Market

Gold- ***Gold could see some easing largely due to inflation and interest rates dynamics.***

Gold has been trading sideways in the second quarter with bullion recording its lowest level since mid-April and its worst decline since 2013 in the month of June. Weighing on bullion has been a pickup in yields for government debt and firmness in the U.S. dollar. Gold started the year trading at US$1,946.60/Oz and as at the end of the first quarter it was trading at US$1,686.00/Oz. Compared to the previous quarter, gold has seen a cumulative appreciation of 3.3% closing the second quarter at US$1,771.60/Oz. Between the month of May and June, gold has decreased by 7.0% from US$1,905.30/Oz to US$1,771.60/Oz. The maximum price for the quarter stood at US$1,909.90/Oz and the minimum price was US$1,728.40/Oz, averaging US$1,815.88/Oz.

Fig.14: Gold



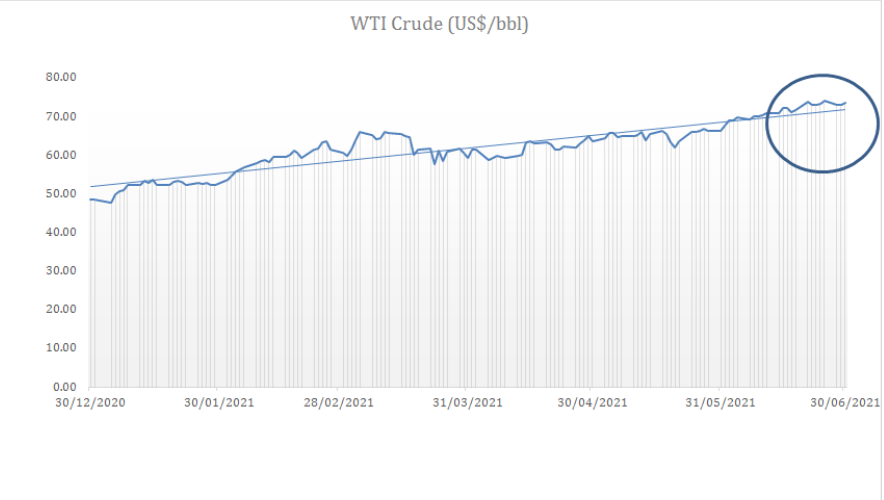
Source: Bloomberg Commodities

In the outlook, a stronger greenback is making dollar-pegged precious metals more expensive to overseas buyers, while higher bond yields are raising the opportunity costs of buying Treasury versus gold which don't offer a yield. Investors remain focused on the Federal Reserve's outlook for inflation in the recovery phase of the U.S. economy from COVID-19. The outlook for gold is complicated by the Fed's view that higher inflation is temporary and a rise in interest rates will only happen slowly and probably not until late 2022. Gold tends to benefit from rising inflation and lower interest rates. The markets appear increasingly unsettled by the Fed's taboo on inflation, with a growing number of investors taking a net view that the central bank's ambiguity, mixing a new hawkish stance with dovish declarations from some officials, will ultimately translate into higher interest rates sooner than previously expected. Such a scenario will underpin the dollar and provide more turbulence for bullion, which could therefore, generate more short-term losses for gold. Therefore, in the months ahead, the direction for gold will largely depend on inflation and interest rates dynamics. Therefore, our forecast is for gold to end the year 2021 at US**$1,761.50.**

Crude Oil- ***Crude Oil Markets Pressing Higher as Demand Optimism Outweighs Covid Fears.***

The price of crude oil has seen a marvellous bounce back since the beginning of the year and going above the US$70/bbl in the last month of the second quarter on demand optimism outweighing Covid fears. WTI crude oil started the year at US$47.62/bbl and as at the end of the first quarter it was trading at US$59.16/bbl indicating an increase of 24.2%. As at the end of the second quarter it was trading at US$73.47/bbl up by 24.2% compared to the first quarter. The maximum price for the quarter was US$74.05/bbl and the minimum price was US$58.65/bbl bringing the average price to US$66.10/bbl.

Fig 15: Crude Oil



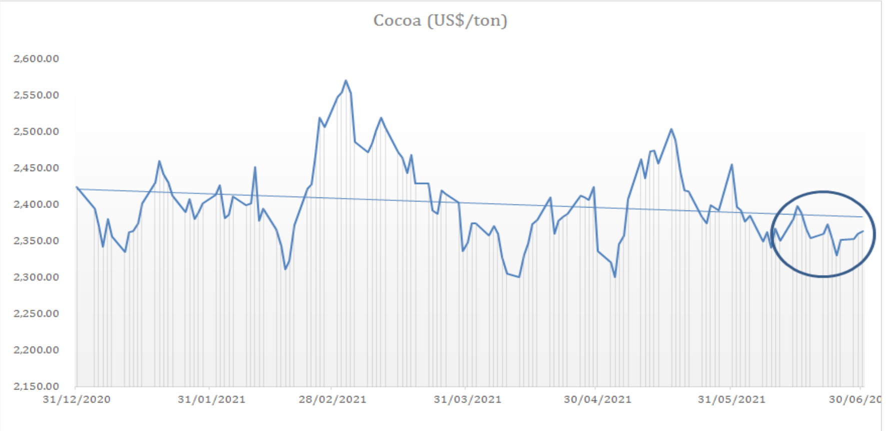
Source: Bloomberg Commodities

In the outlook, crude oil prices are expected to push higher as continuous hopes of strong demand in the second half of the year overshadows concerns over rising Covid-19 cases. Concerns about the growth of Covid cases in the U.K. but also a number of Asian countries caused by the highly infectious delta strain is expected to weigh on sentiment towards the price of crude. Traditional holiday destinations for Britons, such as Spain and Portugal, have now imposed restrictions on unvaccinated travellers, while Hong Kong also announced plans to ban flights from the U.K. However, most analysts are of the view that these worries are expected to dissipate helped by comments about rising demand ahead of the meeting of the Organization of Petroleum Exporting Countries and its allies, a group known as OPEC+ on 2/07/2021. OPEC Secretary-General Mohammed Barkindo said that oil consumption in the second half of 2021 is expected to be 5 million barrels per day higher than in the first half of the year. The group is widely expected to agree to an increase in supply in August, but there appears to be concern from some oil-producing countries that there will be oversupply in the global market once the summer holiday season ends. According to Bloomberg, if output is kept unchanged, then the market is estimated to see a deficit of 1.7MMbbls/d over August, and an average deficit of 1.9MMbbls/d over 2H21. This could mean that the group continues with its gradual increase of supplies rather than risk prices falling substantially with the agreement of a hefty increase. On the basis of the above developments we forecast the price of WTI Crude Oil to end the year at **US$ 70.76/bbl** and Brent Crude at **US$72.98/bbl.**

Cocoa- ***Cocoa Prices projected to trade sideways on the forecast of abundant global cocoa supply.***

Cocoa prices witnessed a mixed trading in the second quarter of the year due to expected abundant cocoa supply for the 2020/21 cocoa season. Cocoa began the year trading at U$2,394.80/ton and by the end of the first quarter it was trading at US$2,347.85/ton down by 3.2%. As at the end of the second quarter cocoa was trading at US$2,363.34/ton up marginally by 0.7%. The highest price for cocoa recorded for the second quarter was US$2,504.44/ton whilst the lowest price recorded was US$2,300.09/ton. The average price for the quarter stood at US$2,382.76/ton.

Fig 16: Cocoa



Source: ICCO

In the outlook, cocoa prices are forecast to trade sideways due to robust cocoa supplies and demand concerns. Signs of a bumper cocoa crop in Ghana, the world's second-largest cocoa producer is putting pressure on the price of cocoa. Ghana's 2020/21 main crop was 965,493 MT as of June 3, a 5-year high and above the government's projection of 850,000 MT and above ICCO's estimate of 950,000 MT. In addition, the Ghana Cocoa Board now expects the 2020/21 Ghana cocoa crop to exceed 1 MMT for the first time since 2010/11. The higher-than-expected cocoa production in Ghana prompted the ICCO to raise its 2020/21 global cocoa surplus estimate. The International Cocoa Organization (ICCO) on May 31 raised its global 2020/21 cocoa production estimate to a record 5.02 MMT, up +6.3% y/y. ICCO also raised its global 2020/21 cocoa surplus estimate to +165,000 MT from a Feb forecast of +102,000 MT. Current cocoa supplies are abundant after ICE-monitored cocoa inventories climbed to a 4-year high as at the end of June. There are also doubts about demand after Gepex, a cocoa exporter group that includes six of the world's biggest cocoa grinders, reported that May cocoa processing fell -35% y/y to 31,751 MT.

Cocoa prices are also under pressure on concern about the spread of the delta Covid variant around the world, which has forced renewed lockdowns across parts of Asia and Australia and undercuts economic activity and demand for commodities. The UK reported 22,868 new Covid infections on 28/06/2021, the most since January, and nearly all of the new cases are the new and more contagious delta variant strain. However, the improved pandemic statistics in the U.S. boosts hopes for stronger cocoa demand in the latter half of this year. The 7-day average of new U.S. Covid infections on 23/06/2021 fell to a 14-3/4-month low of 11,351. Recent global demand for cocoa has been mixed. 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. We believe that the demand and supply factors in the cocoa sector will continue to be the key elements in the direction of the price of cocoa in 2021. We therefore forecast the price of cocoa to close 2021 at **US$2,415.00/ton**.

04 Business Impact- ***Repricing of our Products, Key Sectors for Targeting and Off balance sheet income and deposit mobilisation.***

Repricing of our Products

Our expectation is for the marginal easing in rates on the back of the drop in the MPC rate in the months ahead to reflect in the pricing of our asset and liability products. This we believe will go a long way in improving our cost of funds especially the repricing of our maturing FDs. We therefore recommend the need for RMs to engage our customers whose FDRs will be maturing in the near term for possible reprising to minimise loses in deposits.

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

The drop in the MPC rate by 100bsp to 13.5% is expected to trigger marginal declines in interest rates in the months ahead. This is an indication that margins which are already thin, are going to be reedier come end of 2021. Hence, off-balance sheet revenues would become the focal point of supporting revenue targets by banks in the industry. Therefore, charges and fees from transactional related products such as Mobile App, PoS, Money wallet multi-currency cards, batch payment solutions, prestige banking services, credit/debit cards, G-Money and Letters of Credit (LCs) etc. would go a long way in enhancing the revenues of banks. On that basis, we recommend the need for GCB to fast-track the deployment and marketing of its digital products to augment convenience in service delivery, deposit mobilisation and revenue generation.

Key Sectors for Targeting

These are possible sectors for targeting for deposit mobilisation, asset creation and fee income, as they have been the key drivers of economic activity according to data from BoG.

- Domestic consumption (a proxy for the usage of transactional banking products i.e. PoS, Digital loans MoMo/GMoney, Mobile Apps, credit/debit cards for purchases and payments. Hence the need to make noise about these services and products for GCB not only to mobilise deposits and generate fee income but also to make sure that deposits are ring-fenced within the value chain).
- Construction activities;
- International trading activities; and
- Resumption of industrial production activities.

That notwithstanding, we employ business managers as well as Relationship Managers to be weary of Covid stricken sectors like the hospitality and aviation sectors etc.

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

On the global scale, continued policy support and increased optimism about the COVID-19 vaccinations has significantly improved the outlook, and resulted in upward revisions of global growth projections. However, the lack of certainty about further waves of the pandemic with new variants and vaccination challenges, varying degrees of economic scarring and output losses, and limited fiscal space in emerging market economies among others, may slow the global recovery process.

On the domestic front, economic activities have picked up strongly, evidenced by the outcome of high frequency economic indicators from the BoG. The projected growth in the extractive industries and recovery in industry and the services sectors should work their way in supporting the recovery in growth in the medium-term.