ECONOMIC UPDATE: REVIEW OF MONETARY POLICY REPORT

Monetary Policy Rate (MPR) Maintained at 13.5%.

28/07/2021

Introduction

On Monday 26th July 2021, the Monetary Policy Committee (MPC) of the Bank of Ghana concluded its 101st regular meeting. The Committee maintained the policy rate at 13.5% citing the following reasons:

- ✓ The growth rebound which began in the last quarter of 2020 has continued into the first half of 2021. However, the Committee was concerned about the continued sluggishness in new lending by banks which could undermine the growth momentum.
- ✓ The committee indicated that budget deficit exceeded its target in the first five months mainly on the back of revenue underperformance. Hence the realignment of revenue performance to support the fiscal consolidation efforts.
- ✓ Also, at 76.6 percent of GDP in May 2021, the level of public debt raises debt sustainability concerns and the Committee reiterated the importance and urgency of fiscal consolidation efforts.
- ✓ Headline inflation has eased sharply and reverted within the medium-term target band, driven mainly by the tight monetary policy stance and some base drift effects. The latest forecast remains broadly unchanged with inflation projected to remain within band and around the central path in the forecast horizon barring any upside risks from fiscal pressures.

1. Global Developments

- ✓ Global macroeconomic conditions and developments have not changed significantly. Recent surveys affirm the strong growth recovery process following from the Covid-19 shock, driven mainly by continued policy support, mass vaccinations, and removal of restrictions on movements across several advanced countries.
- ✓ Notwithstanding the progress made at reviving these economies, recent developments associated with the rapid spread of new Covid-19 variants, vaccine hesitancy in some advanced economies and lack of vaccine availability across emerging market and developing economies, have heightened uncertainties and could potentially undermine the recovery efforts.
- ✓ Global financing conditions have tightened somewhat as prospects of strong growth and higher inflation expectations pushed up borrowing costs in advanced economies.
- ✓ However, the continued pursuit of accommodative monetary policy by major central banks has moderated sovereign and corporate bond spreads and so far, contained capital flow reversals, and supported the rebound in equity markets and higher portfolio flows to emerging market economies.
- ✓ In broad terms, financing conditions remain favourable and supportive of the recovery process.
- ✓ Since the beginning of the year, headline inflation in several advanced and emerging market economies have picked up sharply above targets, driven mainly by energy price pressures, and supply constraints amidst increased consumer demand as economies re-open.
- ✓ However, the expectation is that over the medium-term, headline inflation will return to target, moderated by the still sizeable spare capacity, slack in labour market conditions and restrained wage growth.
- ✓ In emerging market and frontier economies, the pace of price movements would be dictated by currency movements and Covid-related supply-side constraints.

According to the latest IMF world economic outlook update, the global economy is projected to grow at 6.0 percent in 2021 and 4.9 percent in 2022. The 2021 global forecast is unchanged from the April 2021 WEO,

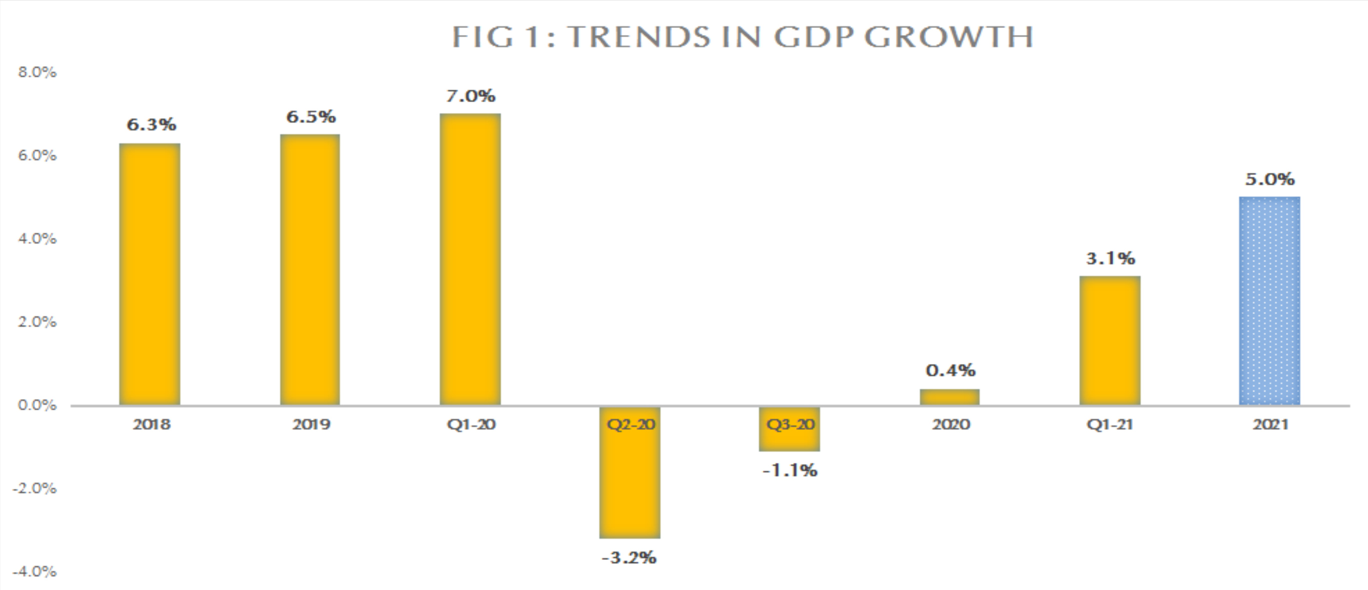
but with offsetting revisions. Prospects for emerging market and developing economies have been marked down for 2021, especially for Emerging Asia. By contrast, the forecast for advanced economies is revised up. These revisions reflect pandemic developments and changes in policy support. Vaccine access has emerged as the principal fault line along which the global recovery splits into two blocs: those that can look forward to further normalization of activity later this year (almost all advanced economies) and those that will still face resurgent infections and rising COVID death tolls. The recovery, however, is not assured even in countries where infections are currently very low so long as the virus circulates elsewhere.

Risks around the global baseline are to the downside. Slower-than-anticipated vaccine rollout would allow the virus to mutate further. Financial conditions could tighten rapidly, for instance from a reassessment of the monetary policy outlook in advanced economies if inflation expectations increase more rapidly than anticipated. A double hit to emerging market and developing economies from worsening pandemic dynamics and tighter external financial conditions would severely set back their recovery and drag global growth below this outlook's baseline.

2. Domestic Economy

Real Sector Developments

- ✓ In the domestic economy, the Ghana Statistical Service, reported an estimated GDP growth of 3.1 percent for the first quarter of 2021, yet another sign of strong recovery from the impact of the pandemic, even though still lower than the pre-pandemic growth of 7.0 percent recorded for the first quarter of 2020.
- ✓ Non-oil GDP grew at 4.6 percent, from 7.9 percent growth in the same comparative period.
- ✓ Beyond the first quarter GDP outturn, high frequency economic indicators for the second quarter of the year point to a sharp pickup in economic activity relative to last year.
- ✓ The BoG's updated Composite Index of Economic Activity (CIEA) recorded a strong annual growth of 33.1 percent in May 2021, relative to the contraction of 10.2 percent recorded in the corresponding period of 2020.
- ✓ The sharp increase broadly reflects some base-drift effects as well as improvement in industrial production activities, domestic consumption, pick up in import activities, steady rise in construction activities and a rise in air-passenger arrivals, during the period.
- ✓ The Ghana Purchasing Managers Index, which gauges the rate of inventory accumulation by managers of private sector firms and measures dynamics in economic activity, pointed to some sustained levels of business activity in June 2021.
- ✓ The latest confidence surveys by the Bank of Ghana reflected mixed sentiments. Consumer sentiments softened on the back of a variety of factors including the implementation of the recently announced revenue measures contained in the 2021 Budget, while business sentiments remained somewhat broadly unchanged due to expectations of improvement in company growth prospects.



Source: Ghana Statistical Service, GCB Research

In the outlook, the committee noted that, the growth rebound which began in the last quarter of 2020 has continued into the first half of 2021. However, the Committee was concerned about the continued sluggishness in new lending by banks which could undermine the growth momentum. This slow growth in lending reflects increased credit risks on account of uncertainties in the business environment due to the impact of Covid-19 pandemic on the real sector, coupled with very high yields offered on Government securities due to increased Government borrowing. This crowding-out effect continues to keep the credit to GDP gap below the long-term trend and is likely to delay recovery of the economy and discourage banks from strengthening their credit underwriting processes to manage credit risks from lending to underserved sectors of the economy.

Notwistanding the sluggishness in lending that could undermine growth, our expectation is for a bounce back in real GDP growth to 5.0% in 2021, from 0.4% in 2020. The growth will be underpinned by a rebound in hydrocabons, gold and the services sectors. With external demand and prices picking up in 2021, oil production will increase. Gold production is expected to continue to rise amid high global prices, combined with government efforts to curtail illegal mining, which will boost formal sector activity. Services, which were affected by lockdown measures and falling private consumption in 2020, will recover somewhat in 2021 as most containment measures are lifted and private consumption picks up. The agricultural sector will also register growth, benefiting from government investment to improve crops and cocoa yields.

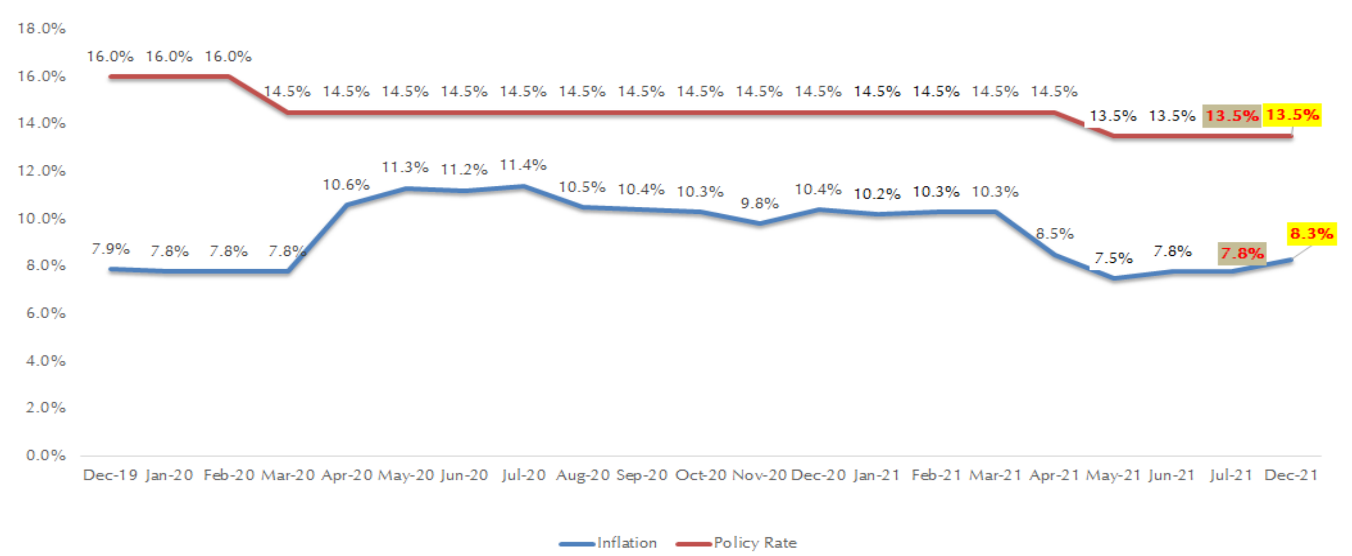
3. Price Developments

Inflation

- ✓ Current developments indicate moderation in price pressures during the second quarter of 2021. Two readings since the last MPC meeting showed significant decline in headline inflation from 10.3 percent in March 2021 to 7.5 percent in May 2021, before ticking up to 7.8 percent in June 2021.
- ✓ This trend has pushed down inflation to below the central path of the medium-term target band. The downward trajectory of inflation was largely driven by the tight monetary policy stance and some base drift effects, which reflected in both food and non-food prices.
- ✓ Food inflation dipped markedly from 10.8 percent in March to 6.5 percent in April, to 5.4 percent in May 2021 and then up to 7.3 percent in June 2021.

- ✓ Non-food inflation on the other hand has declined persistently, falling from 10 percent in March to 8.2 percent in June 2021.
- ✓ In line with these trends, underlying inflationary pressures broadly eased across all the BoG's core measures of inflation over the same period. The core inflation measure which excludes energy and utility, declined from 10.9 percent in March 2021 to 8.6 percent in April, 7.3 percent in May, before ticking up slightly to 7.5 percent in June.
- ✓ The overall weighted inflation expectations index declined in June 2021, on account of lower businesses and financial sector inflation expectations, despite the slight pick-up in consumer inflation expectations.

FIG 2: TRENDS IN INFLATION AND POLICY RATE



Source: Bank of Ghana, GCB Research

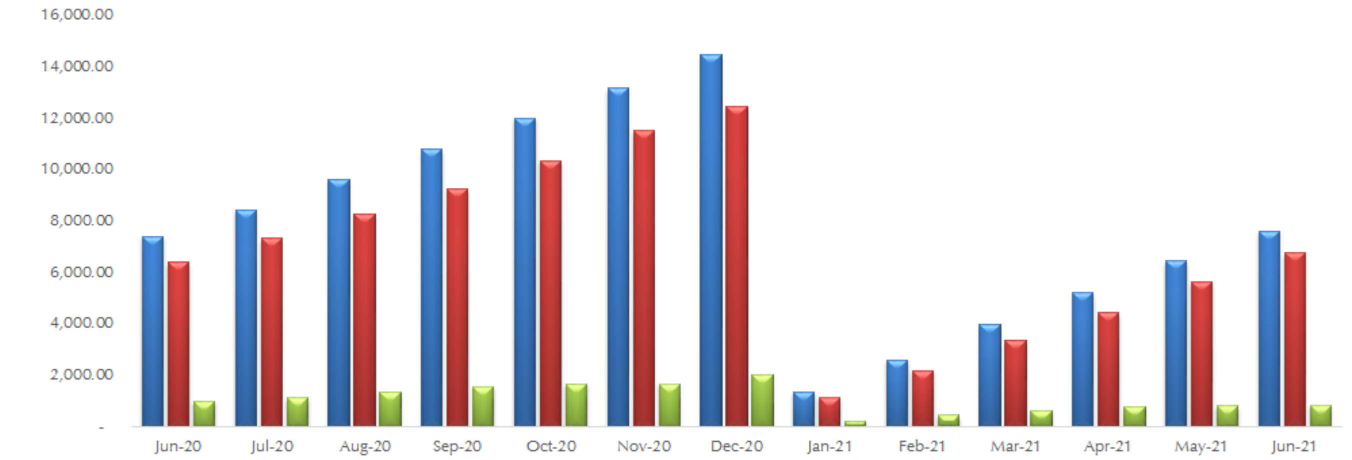
According to the MPC, Headline inflation has eased sharply and reverted within the medium-term target band, driven mainly by the tight monetary policy stance and some base drift effects. The latest forecast remains broadly unchanged with inflation projected to remain within band and around the central path in the forecast horizon barring any upside risks from fiscal pressures. From our point of view, inflation will moderate in 2021 to 8.3±0.2%, from 10.4% in 2020. Although domestic demand is still fairly weak, supply-side price pressures (including food prices, rising global commodity prices and supply-chain disruption due to the pandemic) are keeping inflationary expectations elevated even though within the target band of the BoG. 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. For the month of July 2021, we forecast inflation of 7.8±0.2%.

4. External Sector Developments

- ✓ On the external sector, commodity prices broadly reflected developments in the global economy.
- ✓ Crude oil prices have remained bullish since the beginning of the year due to a rebound of economic activity alongside production limits by OPEC+. The average price of crude oil went up by 46.0 percent on a year-to date basis to US$73.3 per barrel in June 2021.
- ✓ Gold prices declined marginally by 1.2 percent to average US$1,829.3 per fine ounce in June 2021. Gold prices have rallied since the pandemic started due to the safe-haven appeal of the metal amid an uncertain global environment.

- ✓ The average price of cocoa however, decreased by 6.7 percent to trade at US$2,493.0 per tonne due to ample supply from major cocoa producers and reduced demand from processors and consumers, especially in Europe.
- ✓ These price developments impacted on exports performance in the first half of 2021. Despite volume declines in gold and crude oil exports, total exports increased by 2.7 percent to US$7.6 billion mainly due to higher prices realized from crude oil and gold exports.
- ✓ Total imports also increased by 5.7 percent to US$6.8 billion largely due to a 61.2 percent jump in the value of refined petroleum products imports.
- ✓ The moderated export receipts relative to imports resulted in a lower trade surplus of US$837.5 million, compared with a surplus of US$1.0 billion recorded for the corresponding period of 2020.
- ✓ The current account deficit for the first half of 2021 was estimated at US$926.1 million (1.3 percent of GDP) compared with US$548 million (0.8 percent of GDP) for the same period in 2020. This was on the back of the lower trade surplus and higher net investment income outflows.
- ✓ Private individual transfers have however remained resilient with net inflows of US$1.6 billion in the first half of the year, despite the uncertain global environment.
- ✓ The capital and financial accounts recorded an inflow of US$3.3 billion compared with US$1.6 billion for the same period in 2020, driven by higher portfolio and foreign direct investments inflows.
- ✓ As a result of these developments, the overall balance of payments recorded a surplus of US$2.4 billion in the first half of 2021, against a surplus of US$1.0 billion in the corresponding period of 2020.
- ✓ The improved balance of payments outturn supported the build-up in Gross International Reserves (GIR) to US$11.0 billion, equivalent to 5.0 months of import cover at the end of June 2021. At end December 2020, Gross International Reserves stood at US$8.6 billion (or 4.0 months of import cover).

FIG 3: TRENDS IN EXPORTS AND IMPORTS (USD MILLION)



	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
Export	7,386.80	8,438.30	9,620.60	10,789.60	12,001.30	13,162.80	14,452.80	1,355.40	2,594.70	3,961.90	5,210.90	6,445.30	7,593.20
Import	6,390.50	7,323.40	8,271.60	9,244.00	10,332.30	11,518.10	12,437.40	1,135.40	2,161.90	3,329.20	4,430.60	5,647.60	6,755.60
Trade Balance	996.30	1,114.90	1,349.00	1,545.60	1,669.00	1,644.70	2,015.40	220.00	432.80	632.70	780.30	797.70	837.60

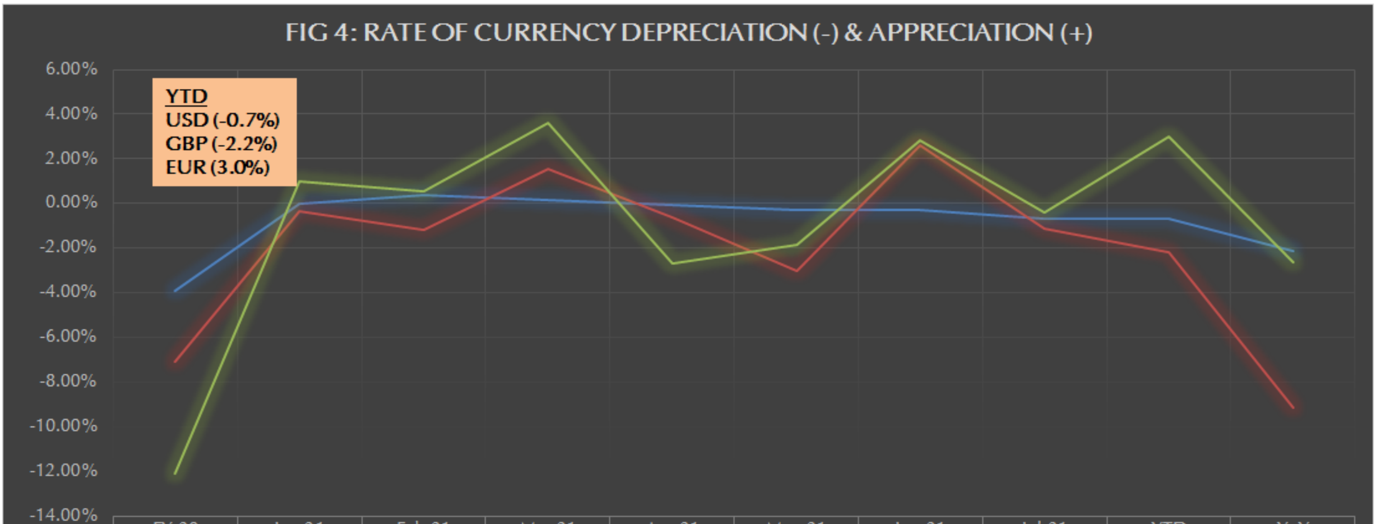
Source: Bank of Ghana

The external accounts have been affected by the economic fallout from the pandemic, owing mainly to falling oil export revenue. However, Ghana's other major export commodities (gold and cocoa, which account for about 40% and 10% of export earnings, compared with 30% for oil) held up well in 2020, which cushioned the overall impact on the current account. Consequently, the trade account remained comfortably in surplus in 2020. We expect the surplus to widen 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 as oil prices decline in the medium term.

The services account will remain in deficit in 2021 and beyond 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 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. 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 1.8% of GDP in the medium term. The deficits will be financed through external borrowing and FDI flows.

Exchange Rate Developments

- ✓ On exchange rate performance, available data as at July 22, 2021 shows that cumulatively, the Ghana Cedi recorded a depreciation of 0.6 percent against the US dollar, compared with a depreciation of 2.5 percent for the same period of 2020. As at July 27, 2021 the cedi has cumulatively depreciated by 0.7% to the dollar.
- ✓ The Ghana cedi also depreciated by 1.2 percent against the Pound Sterling but appreciated by 3.6 percent against the Euro over the same period. Also as at July 27, 2021, the cedi saw a depreciation of 2.2% against the pound and an appreciation of 3.0% against the Euro.



	FY-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	YTD	YoY
USD	-3.93%	0.00%	0.40%	0.15%	-0.06%	-0.26%	-0.27%	-0.65%	-0.69%	-2.1%
GBP	-7.08%	-0.32%	-1.19%	1.56%	-0.64%	-3.00%	2.62%	-1.13%	-2.18%	-9.1%
EUR	-12.07%	1.02%	0.55%	3.61%	-2.66%	-1.86%	2.83%	-0.39%	2.98%	-2.6%

Source: Bank of Ghana & GCB Research.

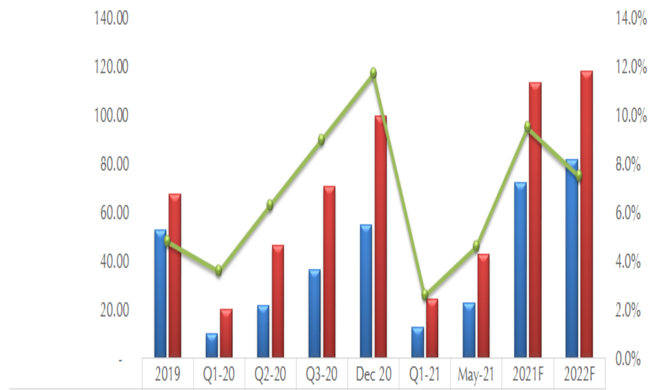
Looking ahead, after depreciating by nearly 4% in 2020—reflecting the pandemic and heightened uncertainty ahead of the elections—the cedi has been more stable in the first seven months of 2021, and was trading at GH¢5.80:US$1 at July 27, 2021. Our expectation therefore is for the cedi to remain fairly 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 GHS5.81:US$1, GHS8.12: £1 and GHS6.87: €1 respectively by the end of the third quarter of 2021.

Fiscal Developments

Fiscal/Debt Situation

- ✓ Provisional data on the budget execution for the first five months of 2021 indicated an overall broad cash budget deficit of 4.6 percent of GDP, against the target of 4.4 percent of GDP.
- ✓ The primary balance also recorded a deficit of 1.6 percent of GDP compared to the target deficit of 0.9 percent of GDP.
- ✓ Over the period, total revenue and grants amounted to GH¢22.6 billion (5.2 percent of GDP), below the projected GH¢26.0 billion (6.0 percent of GDP).
- ✓ Total expenditures and arrears clearance amounted to GH¢42.7 billion (9.8 percent of GDP), marginally below the programmed target of GH¢45.0 billion (10.4 percent of GDP).
- ✓ These developments impacted the stock of public debt which increased to 76.6 percent of GDP (GH¢332.4 billion) at the end of May 2021, compared with 76.1 percent of GDP (GH¢291.6 billion) at the end of December 2020.
- ✓ Of the total debt stock, domestic debt was GH¢170.8 billion (39.4 percent of GDP) while the external debt was GH¢161.5 billion (37.2 percent of GDP).

FIG 5: GOVERNMENT REVENUE & EXPENDITURE



	2019	Q1-20	Q2-20	Q3-20	Dec 20	Q1-21	May-21	2021F	2022F
Revenues (GHS Bn)	52.97	10.35	22.01	36.30	55.10	12.80	22.60	72.50	81.70
Expenditure (GHS Bn)	67.67	20.06	46.35	70.90	100.10	24.30	42.70	113.80	118.30
Fiscal Deficit %	4.8%	3.6%	6.3%	9.0%	11.7%	2.6%	4.6%	9.5%	7.5%

FIG 6: GHANA'S DEBT STOCK @ MAY 21 9GHS BN)

	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
May-21	161.5	170.8	332.4
% of GDP	37.2%	39.4%	76.6%

Source: Bank of Ghana.

According to the MPC, the budget deficit exceeded its target in the first five months mainly on the back of revenue underperformance. Going forward, expenditure has to be aligned to revenue performance to support the fiscal consolidation efforts. At 76.6 percent of GDP in May 2021, the level of public debt raises debt sustainability concerns and the Committee reiterated the importance and urgency of fiscal consolidation efforts. Greater efficiency in debt management would be required, especially in the face of potential further tightening of global financing conditions which could heighten rollover risks and access to new financing in the outlook. This calls for strong vigilance and complementarity in fiscal and monetary policies to signal to the markets a strong commitment to consolidation.

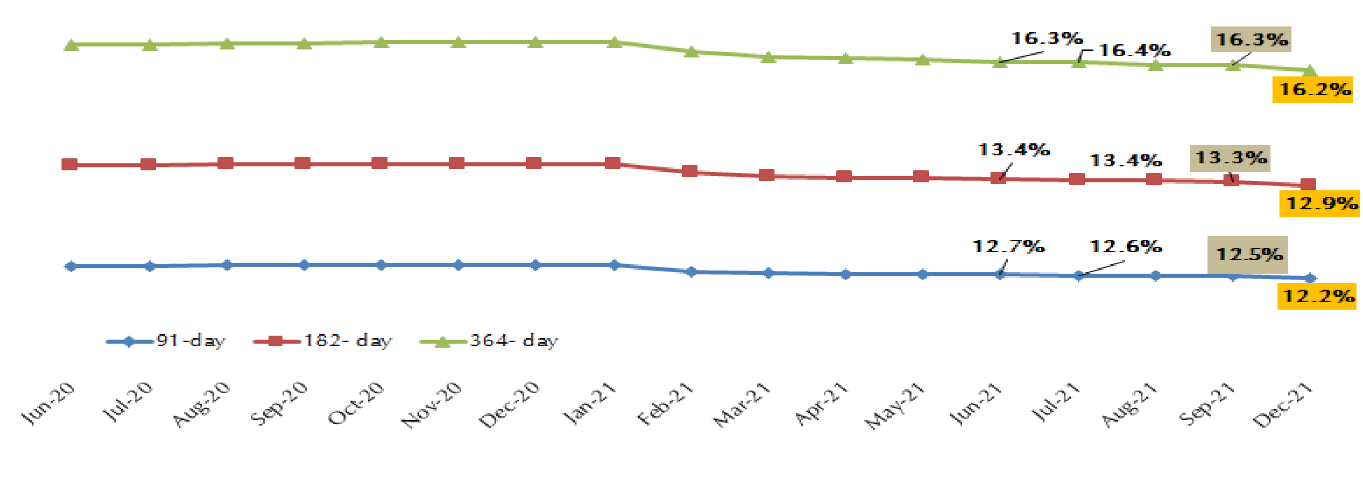
We project that fiscal deficit will narrow marginally to 9.5% of GDP in 2021, from 11.7% of GDP in 2020 due to ongoing infrastructure development, wage settlements, energy Independent Power Producers (IPP) payments, the potential for arrears build-up, potential for scaled-up expenditures associated with COVID-19 waves and industrialisation projects. 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.

5. Monetary Developments and Debt Market

- ✓ The latest trends in monetary aggregates showed a slightly higher pace of growth in total liquidity. Broad money supply (M2+) recorded a 21.3 percent annual growth in June 2021 mainly driven by Net Domestic Assets (NDA) of the banking sector. This compared with 20.3 percent growth in the same period of 2020.
- ✓ Reserve money, on the other hand, increased significantly by 41.2 percent, relative to 16.6 percent recorded in the corresponding period of 2020. The high growth in reserve money largely reflected a net build-up in foreign reserves, higher purchases of cocoa as well as the lingering impact of the Covid-related fiscal stimulus of the prior year.
- ✓ Developments in interest rates broadly showed a downward trend across the yield curve. The 91-day and 182-day Treasury bill rates declined to 12.7 percent and 13.4 percent respectively in June 2021 from about 14.0 percent for both instruments in June 2020.
- ✓ Similarly, the rate on the 364-day instrument decreased marginally to 16.3 percent from 16.9 percent over the same comparative period.
- ✓ Rates on all the medium- to long-term instruments generally declined over the review period.
- ✓ The weighted average interbank rate declined to 12.9 percent in June 2021 from 13.8 percent a year earlier, consistent with the reduction in the Monetary Policy Rate (MPR) in May 2021 and supported by improved liquidity conditions on the interbank market.
- ✓ In a similar trend, the average bank lending rates declined marginally to 20.6 percent in June 2021 from about 22.0 percent in the corresponding period of 2020.

FIG 7: INTEREST RATES

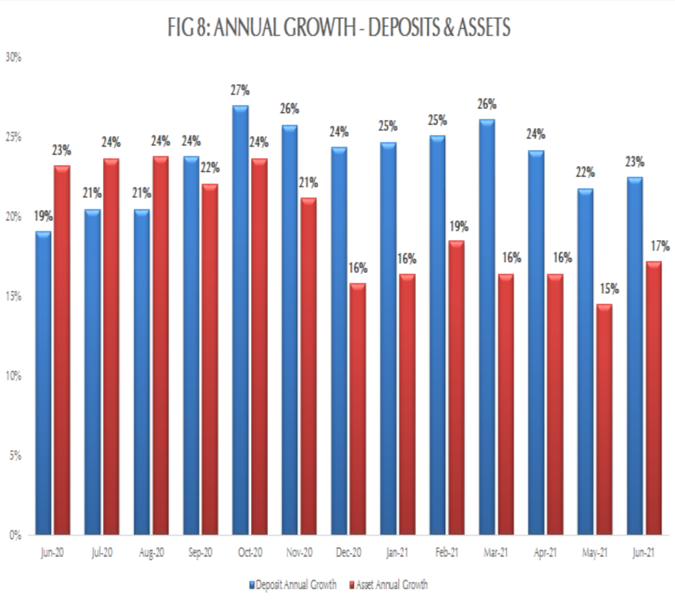


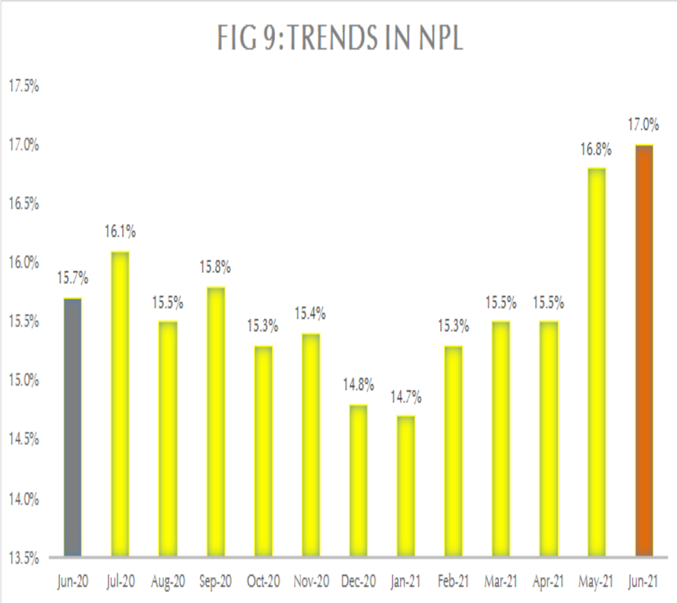
Source: Bank of Ghana & GCB Research.

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 13.32% respectively. The 364-day instrument is also forecast at 16.3% for the same period.

6. Banking Sector Developments

- ✓ Performance of the banking sector during the first half of 2021 reflected sustained growth in total assets, investments and deposits.
- ✓ Total assets increased by 17.2 percent to GH¢162.9 billion, on account of strong growth of 28.8 percent in investments in government securities to GH¢75.7 billion.
- ✓ Total deposits recorded a year-on-year growth of 22.5 percent to GH¢110.3 billion on the back of strong liquidity flows.
- ✓ Overall, the impact of the pandemic on the industry's performance has been moderate. As evidenced by the financial soundness indicators, the banking sector has remained solvent, liquid, profitable and well-capitalized.
- ✓ The industry's Capital Adequacy Ratio of 20.8 percent at end-June 2021 was well-above the regulatory minimum threshold.
- ✓ Core liquid assets to short-term liabilities was 27.5 percent compared with 29.2 percent a year ago.
- ✓ Net interest income grew by 19.4 percent, higher than the 16.5 percent growth a year ago.
- ✓ Net fees and commissions also grew stronger by 19.6 percent, compared with 10.3 percent growth recorded during same period last year, reflecting a gradual recovery in trade finance-related and other ancillary businesses of banks.
- ✓ Operating income accordingly rose by 15.7 percent marginally higher than the growth rate of 15.0 percent, a year earlier.
- ✓ Implementation of cost control measures by banks resulted in lower operating costs which increased by 7.3 percent, lower than the 12.9 percent growth in the same period of 2020.
- ✓ Growth in loan loss provisions slowed to 8.4 percent, compared with the 29.3 percent growth a year ago. Profit before tax accordingly increased by 32.1 percent to GH¢3.6 billion, higher than the growth of 14.0 percent a year ago.
- ✓ However, gross advances recorded sluggish annual growth of 5.7 percent, relative to 15.7 percent growth in the same period of 2020.
- ✓ Similarly, private sector credit growth has remained sluggish over the past year, broadly reflecting the heightened credit risks associated with the Covid-19 pandemic. Annual nominal growth in private sector credit slowed to 6.8 percent in June 2021 compared with 14.2 percent in the corresponding period of 2020.
- ✓ In real terms, private sector credit contracted marginally by 1.0 percent compared to 2.8 percent growth a year earlier.
- ✓ For the first half of 2021, New Advances totaled GH¢16.0 billion, marginally above the GH¢15.8 billion for same period in 2020.
- ✓ Non-Performing Loans (NPL) ratio increased to 17.0 percent in June 2021 from 15.7 percent in June 2020 arising partly from the pandemic-induced repayment challenges in some of the badly affected sectors as well as some bank-specific loan recovery challenges.
- ✓ The total deposits from Savings and Loans Companies and Finance Houses, Rural and Community Banks, and Microfinance companies grew by 30.0 percent year-on-year to GH¢10.8 billion, while total advances increased by 16.0 percent to GH¢7.48 billion.





Source: Bank of Ghana

7. Our Outlook for the Policy Rate

After dropping the policy rate to 13.5 percent in May 2021, BoG has maintained the policy rate as was expected per our prior report in May. 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. However, the MPC report did indicate a concern of continued sluggishness in new lending by banks which could undermine the growth momentum. They believe that the slow growth in lending reflects increased credit risks on account of uncertainties in the business environment due to the impact of Covid-19 pandemic on the real sector, coupled with very high yields offered on Government securities due to increased Government borrowing. If this trend persists, it will not come as surprise if there is a marginal drop in the rate again by the BoG. On the other hand, monetary tightening by the BoG will only arise in the near future on the back of inflationary pressures due to unanticipated shocks. Meanwhile, according to BoG, their latest inflationary forecast remains broadly unchanged with inflation projected to remain within band and around the central path in the forecast horizon barring any upside risks from fiscal pressures. On that basis, we do not expect any adjustments in the policy rate in the next five (5) months.

8. Implications for GCB Bank

1. Data from the MPC indicate that the recovery process from the pandemic gained some momentum evidenced by the latest high frequency indicators and Q1 GDP figures. The key drivers of economic activity during the period were industrial production activities, domestic consumption, import activities and construction activities. Hence, a bounce back in these sectors of the economy and their value chain creates enormous opportunities for deposit mobilisation and asset creation by the business units of the Bank. That notwithstanding, we employ business managers as well as Relationship Managers to be weary of Covid stricken sectors like the hospitality and aviation sectors.
2. The report also indicated that Non-Performing Loans (NPL) ratio increased to 17.0 percent in June 2021 from 15.7 percent in June 2020 arising partly from the pandemic-induced repayment challenges in some of the badly affected sectors. This is a warning that the risk of credit arising out of the pandemic continues to persist in the economy. We therefore advise the need for the Bank to be stringent in its credit underwriting to prevent loan losses.
3. Meanwhile opportunity exists for investing in attractive Government bonds by the Treasury department on high yields offered on Government securities due to increased Government borrowing.

4. Also, we expect the marginal easing in rates to reflect in the pricing of our asset and liability products.