GCB BANK LIMITED

Planning and Research Monthly/Quarterly Economic Updates **Issue 26** **August 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	Oct-21	Nov-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%	9.0%	9.0%*	9.0%	9.0%	9.1%	9.1%
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%	13.5%	13.5%
91-Day Treasury Bill	14.1%	14.1%	13.1%	12.9%	12.8%	12.8%	12.7%	12.6%	12.5%	12.5%	12.4%	12.2%	12.2%
182-Day Treasury Bill	14.1%	14.1%	14.0%	13.7%	13.6%	13.5%	13.4%	13.4%	13.2%	13.1%	13.1%	13.0%	12.9%
1-Year Bond Rate	17.0%	17.0%	16.9%	16.6%	16.5%	16.5%	16.3%	16.4%	16.1%	16.1%	16.0%	16.0%	15.9%
FX Rate (USD/GHS)	5.7602	5.7604	5.7374	5.7288	5.7322	5.7473	5.7626	5.8011	5.8517	5.8570	5.8622	5.8675	6.0300
FX Rate (GBP/GHS)	7.8742	7.8996	7.9945	7.8619	7.9222	8.1672	7.9590	8.0633	8.0482	8.0506	8.0530	8.0554	8.0578
FX Rate (EUR/GHS)	7.0643	6.9929	6.9545	6.7182	6.8958	7.0268	6.8333	6.8808	6.9068	6.9089	6.9109	6.9130	6.9151
Gold (US$/oz)	1,895.10	1,850.30	1,728.80	1,715.60	1,767.70	1,905.30	1,771.60	1,817.20	1,818.10	1,868.24	1,813.18	1,813.97	1,824.61
Cocoa (US$/ton)	2,424.35	2,401.55	2,507.04	2,347.85	2,382.00	2,456.00	2,363.34	2,356.79	2,484.58	2,574.00	2,559.44	2,561.56	2,529.78
WTI (US$/bbl)	48.52	52.20	61.50	59.16	63.58	66.32	73.47	73.95	68.50	67.63	68.59	68.37	68.06
Brent (US$/bbl)	51.80	55.53	64.42	62.74	66.76	69.32	74.62	76.33	72.99	72.38	71.68	71.79	71.20
*Forecast - GDP, Inflation													

Executive Summary

Macro Indicators	Current Situation	Outlook
Economic growth	• High frequency economic indicators for the second quarter of the year point to a sharp pickup in economic activity relative to last year according to the BoG. 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.	• 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 the budget execution for the first six months of 2021 indicated an overall broad cash budget deficit of 4.6 percent of GDP, against the target of 5.2 percent of GDP. • The primary balance also recorded a deficit of 2.2 percent of GDP compared to the target deficit of 1.6 percent of GDP. • Over the period, total revenue and grants amounted to GH¢28.3 billion (6.5 percent of GDP), below the projected GH¢32.4 billion (7.5 percent of GDP). • Total expenditures and arrears clearance amounted to GH¢49.6 billion (11.4 percent of GDP), marginally below the programmed target of GH¢53.1 billion (12.2 percent of GDP).	• Looking ahead, after falling in 2020, fiscal revenue will increase in 2021, driven largely by a rise in global oil prices. Revenue will also be supported by tax increases, including some temporary measures, such as a 1-percentage-point increase in the national health insurance levy and the value-added tax (VAT) rate. • Our expectation is for spending to fall as a proportion of GDP in 2021, but not particularly rapidly in the context of the sharp increase in 2020 as the authorities continue to seek 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	• Developments in the fiscal space impacted on 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).	• 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	• There was a marginal uptick in inflation for the month of July to 9.0%, which was more than one percentage point higher than the 7.8% recorded in June 2021. The increase in price levels was driven by both food and non-food. • The Food and Non-alcoholic beverages recorded a year-on-year inflation rate of 9.5 % for July 2021 compared to 7.3% in June. • The Non-Food group also recorded a year-on-year inflation rate of 8.6 percent in July 2021 up by 0.4 percentage points compared to 8.2% in June.	• Ongoing supply-side pressures will keep inflation high over the remainder of the year but within the medium term target of 6-10% of the BoG. • We forecast inflation to end the year at **9.1±0.2%.** For the month of August 2021, we forecast inflation **9.0±0.2%.**
Interest Rate	• The 91-day and 182-day Treasury bill rates declined to 12.46 percent and 13.22 percent respectively in August 2021 from 12.56 percent and 13.36 percent for both instruments in July 2021. The corresponding period a year ago was 14.06 percent for the 91-day and 14.08 percent for 182-day. • Similarly, the rate on the 364-day Government instrument declined to 16.11 percent in August from 16.40 percent in July. It stood at 16.38 percent over the same comparative period in 2020. • The monetary policy rate was unchanged at 13.5% in the last MPC meeting in July 2021 with the committee sighting risk to inflation and growth as the basis of maintaining the policy rate. • The interbank market rates fluctuated between 12.63% and 12.59% in the month of August 2021 largely due to the drop in the policy rate.	• In the outlook, as supply-side price pressures, including high food prices, new taxes, rising global commodity prices and pandemic-related supply-chain disruption, are likely to keep inflation elevated in the second half of 2021, the BoG will be reluctant to ease monetary policy further. • We forecast interest rates on the short end of the money market to be relatively stable for the rest of the year 2021 with the 91-day and 182-day bill projected at **12.5%** and **13.1%** respectively for the month of September. The 364-day instrument is also forecast at **16.1%** for the same period.
Exchange Rate	• The cedi depreciated against the dollar and the EUR by 0.86% and 0.38% respectively in the month of August 2021. Against the GBP, it appreciated by 0.19% in the month of August. This compares favourably with a depreciation of 0.66%, 1.29% and 0.69% against the dollar, GBP and the EUR separately in the month of July. • Year to date, the cedi has depreciated by 1.55% and 2.16% against the dollar and GBP respectively. It has however appreciated by 2.28% against the EUR. • Year on Year, the cedi has seen a cumulative depreciation of 2.85%, 5.57% and 1.67% respectively to the dollar, GBP and the EUR.	• We expect the cedi to weaken slightly in the remainder of 2021, ending the year at GH¢6.03:US$1 (from GH¢5.76:US$1 at end 2020) owning to a strong international reserve position of the country, monetary policy support and narrowing current account deficit. We then expect gradual depreciation in the medium term, owing to Ghana's sustained current-account deficit. • An upside risk to the cedi in the short term is when the Fed starts its initiation of an end to the tapering of its bond purchase program sometime in 2021. This could trigger interest rate hikes and begin to shape investor behaviour with potential impact on the outflow of investor funds on the domestic bond market. When this happens demand for hard currency will outstrip supply and put pressure on the cedi. • We therefore project the cedi to be trading at GHS5.86:US$1, GHS8.05:£1 and GHS6.91:€1 respectively by the end of September 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. • Trade Transactions	

02 Economic Developments

Global Overview-*Fault Lines Widen in the Global Recovery*

Economic prospects have diverged further across countries since the April 2021 World Economic Outlook (WEO) forecast. 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.

The global economy is projected to grow 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. The 0.5 percentage-point upgrade for 2022 derives largely from the forecast upgrade for advanced economies, particularly the United States, reflecting the anticipated legislation of additional fiscal support in the second half of 2021 and improved health metrics more broadly across the group.

Recent price pressures for the most part reflect unusual pandemic-related developments and transitory supply-demand mismatches. Inflation is expected to return to its pre-pandemic ranges in most countries in 2022 once these disturbances work their way through prices, though uncertainty remains high. Elevated inflation is also expected in some emerging market and developing economies, related in part to high food prices. Central banks should generally look through transitory inflation pressures and avoid tightening until there is more clarity on underlying price dynamics. Clear communication from central banks on the outlook for monetary policy will be key to shaping inflation expectations and safeguarding against premature tightening of financial conditions. There is, however, a risk that transitory pressures could become more persistent and central banks may need to take pre-emptive action.

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.

Multilateral action has a vital role to play in diminishing divergences and strengthening global prospects. The immediate priority is to deploy vaccines equitably worldwide. A $50 billion IMF staff proposal, jointly endorsed by the World Health Organization, World Trade Organization, and World Bank, provides clear targets and pragmatic actions at a feasible cost to end the pandemic. Financially constrained economies also need unimpeded access to international liquidity. The proposed $650 billion General Allocation of Special Drawing Rights at the IMF is set to boost reserve assets of all economies and help ease liquidity constraints. Countries also need to redouble collective efforts to reduce greenhouse gas emissions. These multilateral actions can be reinforced by national-level policies tailored to the stage of the crisis that help catalyze a sustainable, inclusive recovery. Concerted, well-directed policies can make the difference between a future of durable recoveries for all economies or one with widening fault lines—as many struggle with the health crisis while a handful see conditions normalize, albeit with the constant threat of renewed flare-ups.

Table 1: Overview of the World Economic Outlook Projections

Table 1. Overview of the *World Economic Outlook* Projections
(Percent change, unless noted otherwise)

	Year over Year						Q4 over Q4 2/		
			Projections		Difference from April 2021 WEO Projections 1/			Projections	
	2019	2020	2021	2022	2021	2022	2020	2021	2022
World Output	**2.8**	**−3.2**	**6.0**	**4.9**	**0.0**	**0.5**	**−0.5**	**4.8**	**3.9**
Advanced Economies	**1.6**	**−4.6**	**5.6**	**4.4**	**0.5**	**0.8**	**−3.0**	**5.9**	**2.6**
United States	2.2	−3.5	7.0	4.9	0.6	1.4	−2.4	8.0	2.8
Euro Area	1.3	−6.5	4.6	4.3	0.2	0.5	−4.7	4.8	2.7
Germany	0.6	−4.8	3.6	4.1	0.0	0.7	−3.3	4.9	1.4
France	1.8	−8.0	5.8	4.2	0.0	0.0	−4.6	4.5	2.5
Italy	0.3	−8.9	4.9	4.2	0.7	0.6	−6.5	4.7	2.9
Spain	2.0	−10.8	6.2	5.8	−0.2	1.1	−8.9	7.4	2.8
Japan	0.0	−4.7	2.8	3.0	−0.5	0.5	−1.0	2.2	1.6
United Kingdom	1.4	−9.8	7.0	4.8	1.7	−0.3	−7.3	7.3	2.1
Canada	1.9	−5.3	6.3	4.5	1.3	−0.2	−3.1	5.4	3.6
Other Advanced Economies 3/	1.9	−2.0	4.9	3.6	0.5	0.2	−0.7	4.1	2.9
Emerging Market and Developing Economies	**3.7**	**−2.1**	**6.3**	**5.2**	**−0.4**	**0.2**	**1.6**	**3.9**	**4.9**
Emerging and Developing Asia	5.4	−0.9	7.5	6.4	−1.1	0.4	3.6	4.3	5.9
China	6.0	2.3	8.1	5.7	−0.3	0.1	6.3	4.2	6.2
India 4/	4.0	−7.3	9.5	8.5	−3.0	1.6	1.5	4.2	4.9
ASEAN-5 5/	4.9	−3.4	4.3	6.3	−0.6	0.2	−2.7	4.5	6.3
Emerging and Developing Europe	2.5	−2.0	4.9	3.6	0.5	−0.3	−0.2	3.4	3.5
Russia	2.0	−3.0	4.4	3.1	0.6	−0.7	−1.9	3.9	2.7
Latin America and the Caribbean	0.1	−7.0	5.8	3.2	1.2	0.1	−3.4	3.2	2.5
Brazil	1.4	−4.1	5.3	1.9	1.6	−0.7	−1.2	2.2	1.9
Mexico	−0.2	−8.3	6.3	4.2	1.3	1.2	−4.6	5.0	3.2
Middle East and Central Asia	1.4	−2.6	4.0	3.7	0.3	−0.1	. . .	. . .	. . .
Saudi Arabia	0.3	−4.1	2.4	4.8	−0.5	0.8	−3.9	4.8	3.5
Sub-Saharan Africa	3.2	−1.8	3.4	4.1	0.0	0.1	. . .	. . .	. . .
Nigeria	2.2	−1.8	2.5	2.6	0.0	0.3	−0.6	2.6	2.4
South Africa	0.2	−7.0	4.0	2.2	0.9	0.2	−4.2	1.2	3.1
Memorandum									
World Growth Based on Market Exchange Rates	2.4	−3.6	6.0	4.6	0.2	0.5	−1.2	5.2	3.5
European Union	1.8	−6.0	4.7	4.4	0.3	0.5	−4.4	5.1	2.8
Middle East and North Africa	0.8	−3.0	4.1	3.7	0.1	0.0	. . .	. . .	. . .
Emerging Market and Middle-Income Economies	3.5	−2.3	6.5	5.2	−0.4	0.2	1.6	3.9	4.9
Low-Income Developing Countries	5.3	0.2	3.9	5.5	−0.4	0.3	. . .	. . .	. . .
World Trade Volume (goods and services) 6/	**0.9**	**−8.3**	**9.7**	**7.0**	**1.3**	**0.5**	**. . .**	**. . .**	**. . .**
Advanced Economies	1.4	−9.2	8.9	7.1	0.4	0.7	. . .	. . .	. . .
Emerging Market and Developing Economies	−0.2	−6.7	11.1	6.9	2.8	0.2	. . .	. . .	. . .
Commodity Prices (US dollars)									
Oil 7/	−10.2	−32.7	56.6	−2.6	14.9	3.7	−27.6	50.8	−6.5
Nonfuel (average based on world commodity import weights)	0.8	6.7	26.5	−0.8	10.4	1.1	15.4	17.1	−2.3
Consumer Prices									
Advanced Economies 8/	1.4	0.7	2.4	2.1	0.8	0.4	0.4	3.0	1.9
Emerging Market and Developing Economies 9/	5.1	5.1	5.4	4.7	0.5	0.3	3.2	5.1	4.1
London Interbank Offered Rate (percent)									
On US Dollar Deposits (six month)	2.3	0.7	0.3	0.4	0.0	0.0	. . .	. . .	. . .
On Euro Deposits (three month)	−0.4	−0.4	−0.5	−0.5	0.0	0.0	. . .	. . .	. . .
On Japanese Yen Deposits (six month)	0.0	0.0	0.0	0.0	0.1	0.0	. . .	. . .	. . .

Note: Real effective exchange rates are assumed to remain constant at the levels prevailing during May 5–June 2, 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 and April 2021 WEO forecasts. Countries whose forecasts have been updated relative to April 2021 WEO forecasts account for approximately 90 percent of world GDP measured at purchasing-power-parity weights.
2/ For World Output, the quarterly estimates and projections account for approximately 90 percent of annual world output at purchasing-power-parity weights. For Emerging Market and Developing Economies, the quarterly estimates and projections account for approximately 80 percent of annual emerging market and developing economies' output at purchasing-power-parity weights.
3/ Excludes the Group of Seven (Canada, France, Germany, Italy, Japan, United Kingdom, United States) and euro area countries.
4/ For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with fiscal year 2011/12 as a base year.
5/ Indonesia, Malaysia, Philippines, Thailand, Vietnam.
6/ Simple average of growth rates for export and import volumes (goods and services).
7/ Simple average of prices of UK Brent, Dubai Fateh, and West Texas Intermediate crude oil. The average price of oil in US dollars a barrel was $41.29 in 2020; the assumed price, based on futures markets (as of June 2, 2021), is $64.68 in 2021 and $63.02 in 2022.
8/ The inflation rate for the euro area is 1.8% in 2021 and 1.3% in 2022, for Japan is −0.1% in 2021 and 0.6% in 2022, and for the United States is 4.0% in 2021 and 3.3% in 2022, respectively.
9/ Excludes Venezuela.

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

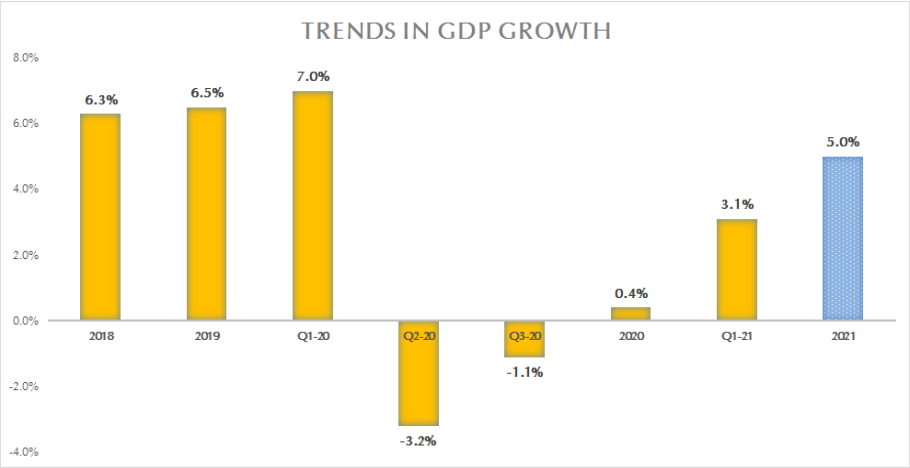
On the domestic front, the Ghana Statistical Service, reported an estimated real GDP growth rate of 3.1 percent for the first quarter of 2021, yet another sign of strong recovery from the impact of the pandemic, even though still lower than the pre-pandemic growth of 7.0 percent recorded for the first 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.

Also, the Ghana Purchasing Managers Index (PMI), 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.

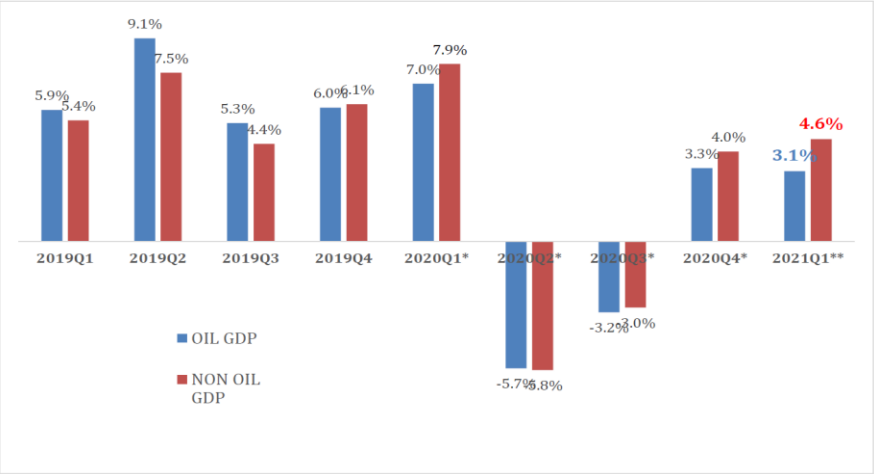
Furthermore, the latest confidence surveys by the Bank of Ghana reflected mixed sentiments. Consumer sentiments softened on the back of a variety of factors including the implementation of the recently announced revenue measures contained in the 2021 Budget, while business sentiments remained somewhat broadly unchanged due to expectations of improvement in company growth prospects.

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)

In the outlook, the economy narrowly avoided recession in 2020, with real GDP growth of 0.4%. We forecast real GDP growth of 5.0% in 2021 as global and domestic conditions pick up. Growth will be fairly broad-based across the main sectors. Oil production volumes in Ghana were only modestly affected by the fallout from the pandemic, with a small downturn in 2020, but some exploratory activity was deferred as energy majors cut spending. Oil output volumes will pick up slightly in 2021. 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 in 2021 as most strict containment measures are lifted (although some restrictions will remain). The agricultural sector will also register growth, benefiting from government investment to improve cocoa yields.

In the medium term our expectation is that real GDP growth will average 3.9%, as we do not expect a return to the strong pre-pandemic annual growth rates of 6- 8%, as growth in the oil sector is constrained. The government is keen to develop the hydrocarbons sector, but we expect oil production to stay broadly flat at existing fields, and development work at new sites will be slow. In 2020 the Ministry of Energy mandated that the existing Sankofa oilfield (operated by Italy's Eni) unify operations with the adjoining Afina oilfield (managed by a Ghanaian energy company, Springfield), which has not yet been developed. Eni is disputing this ruling, arguing that unifying the fields is not commercially viable. We expect the legal case to be protracted, and therefore do not expect a jump in output from the site. Output at Ghana's other two oilfields—Jubilee and Tweneboa Enyenra Ntomme—will also remain flat. A final investment decision (FID)

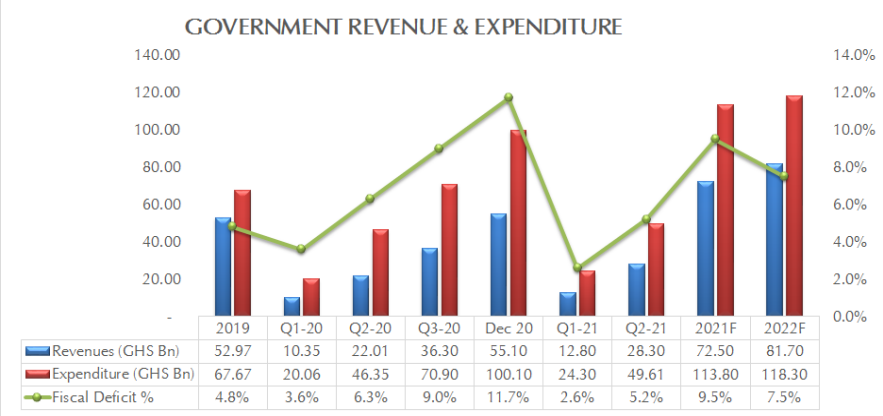
on Pecan, an offshore oilfield (managed by Aker Energy, a Norwegian firm) was originally scheduled for 2020, but was delayed indefinitely owing to the fallout from the pandemic. The firm is working on a revised plan for the field, with the intention of submitting the proposal to the government by the end of 2021. We expect the FID to be reached in 2022, but production would be unlikely until 2024. With output from existing fields staying broadly flat, oil production volumes are expected to remain stable in 2021-24 and increase from 2025, assuming that Pecan comes online.

Output from the gold sector will remain broadly flat in 2022, then increase from 2023 as the Ahafo North mine begins production. The agricultural sector will continue to grow, with increases in cocoa output and agro-processing through the Ghana CARES initiative. As the rollout of vaccines picks up from 2022, allowing lifting of restrictions, services will record stronger growth. Accordingly, real GDP growth will slow to 3% in 2022, and then pick up gradually, to 4.5% by 2025.

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 the budget execution for the first six months of 2021 indicated an overall broad cash budget deficit of 4.6 percent of GDP, against the target of 5.2 percent of GDP. The primary balance also recorded a deficit of 2.2 percent of GDP compared to the target deficit of 1.6 percent of GDP. Over the period, total revenue and grants amounted to GH¢28.3 billion (6.5 percent of GDP), below the projected GH¢32.4 billion (7.5 percent of GDP). Total expenditures and arrears clearance amounted to GH¢49.6 billion (11.4 percent of GDP), marginally below the programmed target of GH¢53.1 billion (12.2 percent of GDP).

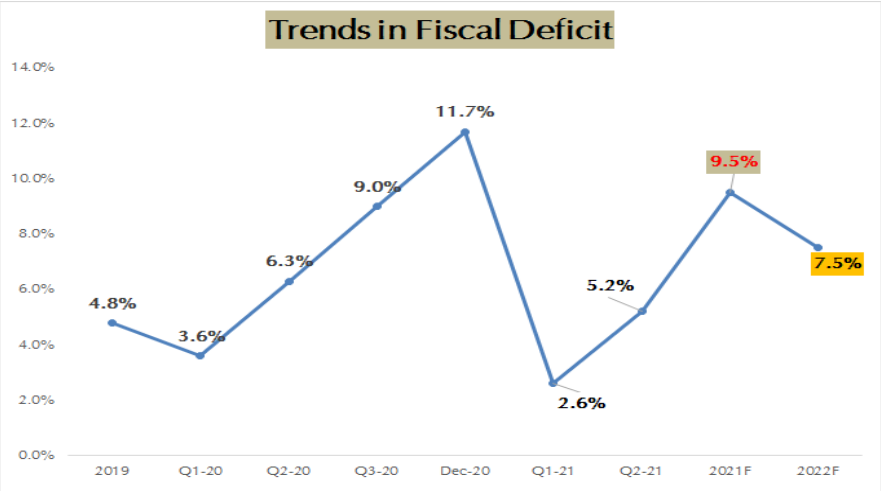
Fig 3: Trends in Budget Deficit



	2019	Q1-20	Q2-20	Q3-20	Dec 20	Q1-21	Q2-21	2021F	2022F
Revenues (GHS Bn)	52.97	10.35	22.01	36.30	55.10	12.80	28.30	72.50	81.70
Expenditure (GHS Bn)	67.67	20.06	46.35	70.90	100.10	24.30	49.61	113.80	118.30
Fiscal Deficit %	4.8%	3.6%	6.3%	9.0%	11.7%	2.6%	5.2%	9.5%	7.5%

Source: MoFEP/Budget Statement

Fig 4: Trends in Budget Deficit



Source: MoFEP/Budget Statement

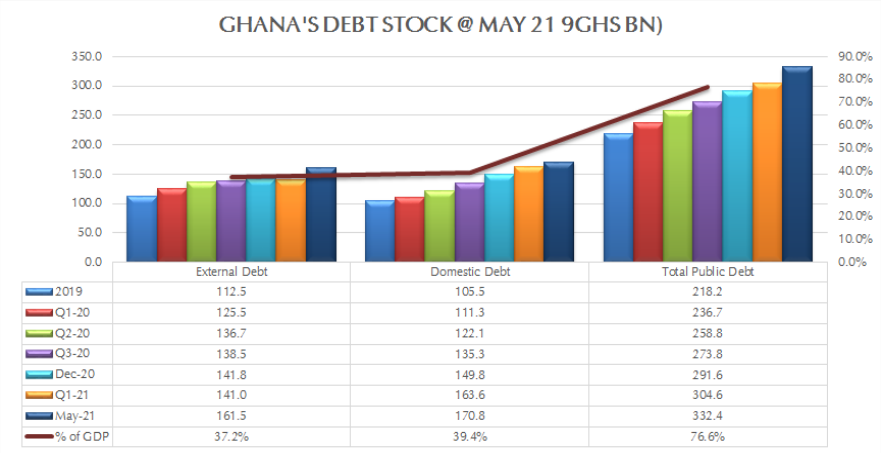
Looking ahead, after falling in 2020, fiscal revenue will increase in 2021, driven largely by a rise in global oil prices. Revenue will also be supported by tax increases, including some temporary measures, such as a 1-percentage-point increase in the national health insurance levy and the value-added tax (VAT) rate, which have been imposed in 2021 to raise funds for the vaccine rollout. Non-oil revenue will increase slowly in 2021 as the economy recovers, but will pick up more firmly from 2022 as growth accelerates. Efforts to improve tax collection methods, through measures such as digitalising services, will help to boost government receipts over the medium term and will ensure that revenue continues to rise, even once oil prices moderate in 2023 -25.

Government expenditure rose sharply in 2020 in response to the pandemic—with increased healthcare spending and social security payments and election related spending. Our expectation is for spending to fall as a proportion of GDP in 2021, but not particularly rapidly in the context of the sharp increase in 2020 as the authorities continue to seek to limit the fallout from the pandemic. In the medium term, spending will stabilise as a share of GDP as ongoing infrastructure development (largely in road and rail projects) prevents further public spending cuts. 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 5.1% of GDP by 2025, as the Fiscal Responsibility Act (FRA) is further delayed, owing to fiscal pressures.

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

Developments in the fiscal space impacted on 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: 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
May-21	161.5	170.8	332.4
% of GDP	37.2%	39.4%	76.6%

Source: Bank of Ghana

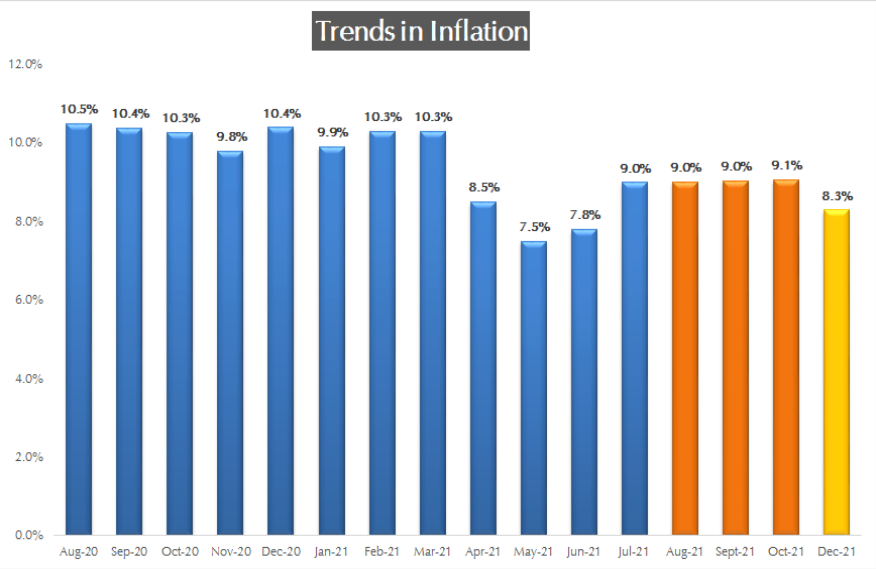
After peaking at 76.1% at end-2020, we expect the public debt/GDP ratio to trend downwards to 72.1% at end-2021, as the economy grows. In the medium term, we expect it to trend downwards, to 69%. The government will remain reliant on borrowing from both external and domestic sources. Ghana plans to borrow a total of US$5bn in 2021 through two Eurobond issues (of which US$3bn was raised in March; the remainder is expected by November). This will be used to roll over existing obligations and to finance the fiscal deficit.

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

Current developments indicate moderation in price pressures between April to June averaging 7.9%. However, there was a marginal uptick in inflation for the month of July to 9.0%, which was more than one percentage point higher than the 7.8% recorded in June 2021. The increase in price levels was driven by both food and non-food.

The Food and Non-alcoholic beverages recorded a year-on-year inflation rate of 9.5 % for July 2021 compared to 7.3% in June. The Non-Food group also recorded a year-on-year inflation rate of 8.6 percent in July 2021 up by 0.4 percentage points compared to 8.2% in June.

Fig 6: Inflation rate



Source: GSS/ GCB Research Forecast

Inflation will remain elevated in 2021, averaging 8.8%, 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 and supply-chain disruption, owing to the pandemic) lifted annual inflation in the first quarter of 2021. Inflation subsequently eased in the second quarter, but this largely reflects a higher base for comparison, as monthly inflation has remained steady. Ongoing supply-side pressures will keep inflation high over the remainder of the year but within the medium term target of 6-10% of the BoG. This will reflect monetary tightening. We forecast inflation to end the year at **9.1±0.2%.** For the month of August 2021, we forecast inflation **9.0±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.***

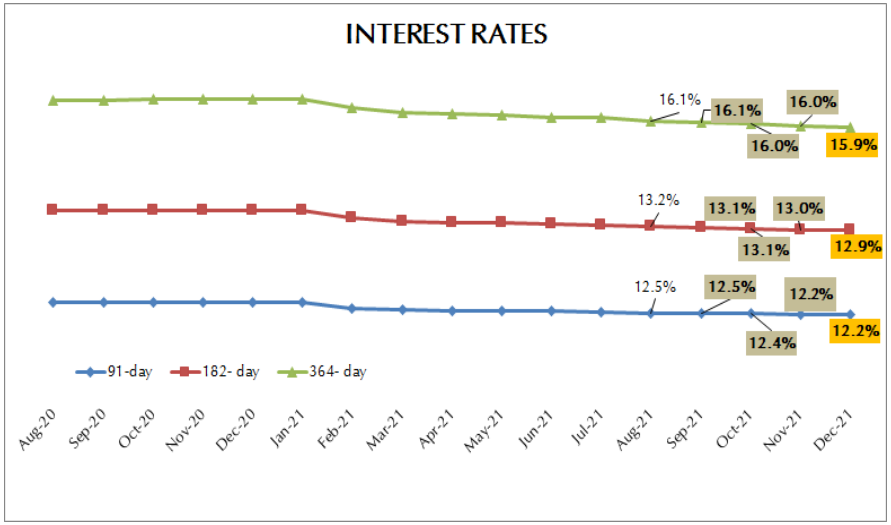
Developments in interest rates broadly showed a downward trend across the yield curve. The 91-day and 182-day Treasury bill rates declined to 12.46 percent and 13.22 percent respectively in August 2021 from 12.56 percent and 13.36 percent for both instruments in July 2021. The corresponding period a year ago was 14.06 percent for the 91-day and 14.08 percent for 182-day.

Similarly, the rate on the 364-day Government instrument declined to 16.11 percent in August from 16.40 percent in July. It stood at 16.38 percent over the same comparative period in 2020.

The monetary policy rate was unchanged at 13.5% in the last MPC meeting in July 2021 with the committee sighting risk to inflation and growth as the basis of maintaining the policy rate.

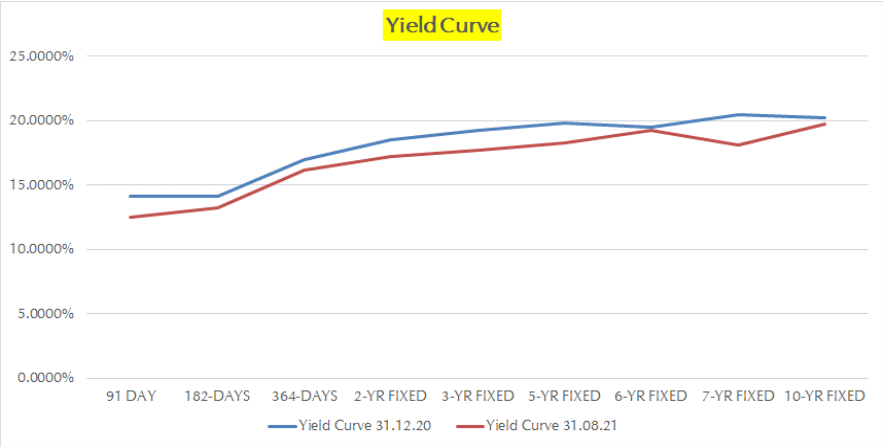
The interbank market rates fluctuated between 12.63% and 12.59% in the month of August 2021 largely due to the drop in the policy rate.

Fig 7: Interest rates



Source: Bank of Ghana/ GCB Research

Fig 8: Yield Curve



Source: Bank of Ghana/ GCB Research

After keeping rates unchanged for more than a year, the Bank of Ghana cut the policy rate by 100 basis points, to 13.5%, in May, in order to stimulate domestic demand, which is still fairly weak. As supply-side price pressures, including high food prices, new taxes, rising global commodity prices and pandemic-related supply-chain disruption, are likely to keep inflation elevated in the second half of 2021, the BoG will be reluctant to ease monetary policy further. We expect progressive monetary tightening in the medium term, with the rate rising to 16.5% in order to keep inflation within the target range of 8% (plus or minus two percentage points), amid firmer demand-side price

pressures and ongoing depreciation of the cedi against the US dollar.

Furthermore, we forecast interest rates on the short end of the money market to be relatively stable for the rest of 2021 with the 91-day and 182-day bill projected at **12.5%** and **13.1%** respectively for the month of September. The 364-day instrument is also forecast at **16.1%** 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.***

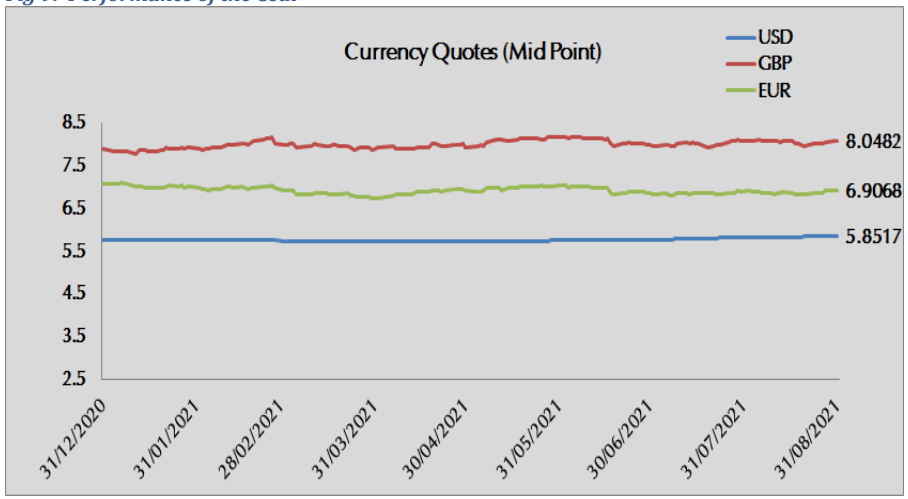
The cedi has been relatively stable in first eight months of year largely due to improved balance of payment outturn - which has supported the build-up in gross international reserves as well as favourable global financing conditions and forward sales of foreign exchange by the Bank of Ghana.

The cedi depreciated against the dollar and the EUR by 0.86% and 0.38% respectively in the month of August 2021. Against the GBP, it appreciated by 0.19% in the month of August. This compares favourably with a depreciation of 0.66%, 1.29% and 0.69% against the dollar, GBP and the EUR separately in the month of July.

Year to date, the cedi has depreciated by 1.55% and 2.16% against the dollar and GBP respectively. It has however appreciated by 2.28% against the EUR.

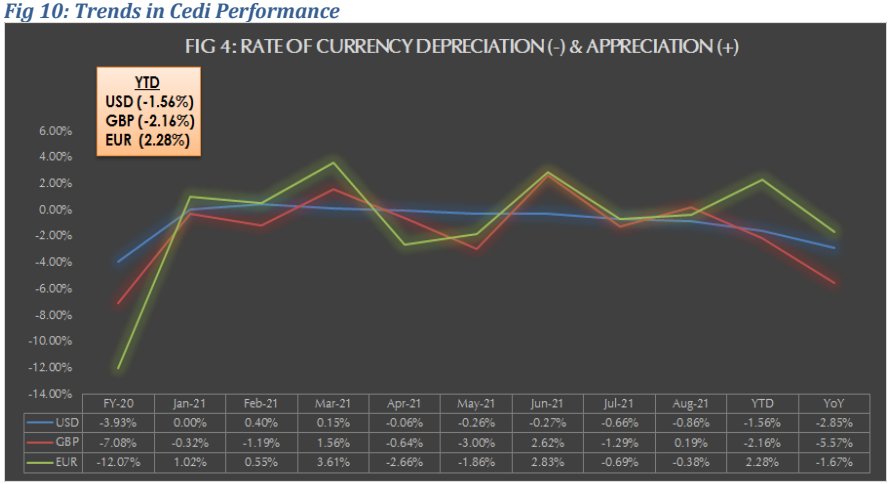
Year on Year, the cedi has seen a cumulative depreciation of 2.85%, 5.57% and 1.67% respectively to the dollar, GBP and the EUR.

Fig 9: Performance of the Cedi



Source: Bank of Ghana/ GCB Research

Fig 10: Trends in Cedi Performance



Source: Bank of Ghana/ GCB Research

As at the end of August, the cedi was trading at GHS5.8488/5.8546, GHS8.0438/8.0525 and GHS6.9034/6.9102 per the dollar, GBP and EUR respectively on the interbank market.

Table 2: Depreciation/Appreciation (%)

	FY-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	YTD	YoY
USD	-3.93%	0.00%	0.40%	0.15%	-0.06%	-0.26%	-0.27%	-0.66%	-0.86%	-1.56%	-2.85%
GBP	-7.08%	-0.32%	-1.19%	1.56%	-0.64%	-3.00%	2.62%	-1.29%	0.19%	-2.16%	-5.57%
EUR	-12.07%	1.02%	0.55%	3.61%	-2.66%	-1.86%	2.83%	-0.69%	-0.38%	2.28%	-1.67%

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 over the first eight months of 2021, as the BoG has been selling foreign exchange in the spot and forward markets. We expect the cedi to weaken slightly in the remainder of 2021, ending the year at **GH¢6.03:US$1** (from GH¢5.76:US$1 at end 2020). We then expect gradual depreciation in the medium term, owing to Ghana's sustained current-account deficit.

An upside risk to the cedi in the short term is when the Fed start its initiation of an end to the tapering of its bond purchase program sometime in 2021. This could trigger interest rate hikes on the international market and begin to shape investor behaviour with potential impact on the outflow of investor funds on the domestic bond market. When this happens demand for hard currency will outstrip supply and put pressure on the cedi. We therefore project the cedi to be trading at **GHS5.86:US$1**, **GHS8.05:£1** and **GHS6.91:€1** respectively by the end of September of 2021.

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

In the month of August 2021, the Government accepted total bids of GHS6 billions of bills and notes as against a total budget of GHS7 billion. Majority of the borrowings were for rollover of 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.

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

Date	91-days	182-days	364-days	2-years	3-years	5-yers	7-yers	10-yers	20-yers	Total
02/08/2021	267	211		1,530						2,009
09/08/2021	1,050	55	182							1,287
16/08/2021	986	172	159							1,317
23/08/2021	534	109								643
30/08/2021	1,051	156								1,208
Actual	3,888	704	341	1,530	-	-	-	-	-	6,463
Budget	3,800	680	450	1,200				1,000		7,130
Diff	(88)	(24)	109	(330)	-	-	-	1,000	-	667

Source: BoG/GCB Research

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

Despite the declines in the volume of 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.

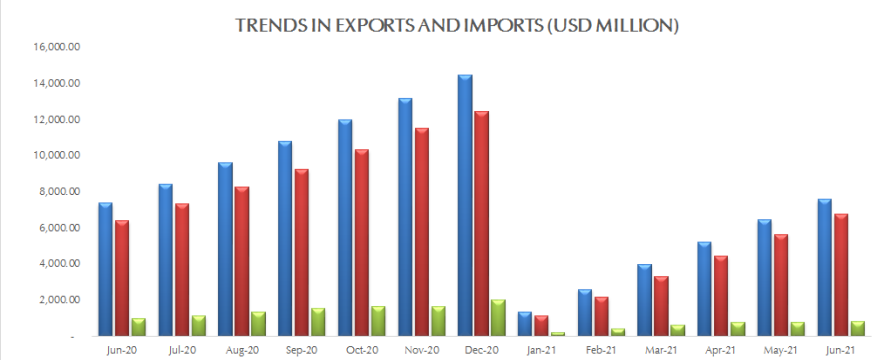
The capital and financial accounts recorded an inflow of US$3.3 billion compared with US$1.6 billion for the same period in 2020, driven by higher portfolio and foreign direct investments inflows. As a result of these developments, the overall balance of payments recorded a surplus of US$2.4 billion 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).

Gold exports as at the end of June 2021 stood at US$2,666.7 million (US$3,182.7 million in June, 2020) whilst Crude Oil exports amounted to US$1,757.1 million (US$1,421.3 million in June, 2020). That for Cocoa beans and products came in at US$1,741.8 million (US$1,542.5 million in June 2020).

On the imports side, oil imports were US$1,210.8 million in June 2021 (US$916.7 million in June, 2020) and non-Oil imports totalled US$5,544.8 million (US$5,473.8 million in June, 2020).

Fig 11: Trends in Exports and Imports



	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/ GCB Research

We expect the trade surplus to widen in 2021 as export earnings recover, reflecting higher average oil prices combined with increases in gold prices and production. The trade surplus will steadily decline in the medium term, reflecting sluggish export growth relative to imports as oil production volumes remain flat and as oil prices decline.

The services account will remain in deficit in 2021 and into the medium term, owing to expenditure on technical services for hydrocarbons projects, but the deficit will decline as a share of GDP as demand for tourism increases. The primary income deficit will also narrow, reflecting reduced interest payments on external debt. The secondary income account will continue to post large surpluses, underpinned by inflows of workers' remittances, but as coronavirus-related support eases, the surplus will moderate. Overall, we forecast that the current-account deficit will narrow to 2% of GDP in 2021 (from 3.2% of GDP in 2020), before widening steadily, to 3% of GDP in the medium term. The deficits will be financed through external borrowing and FDI flows.

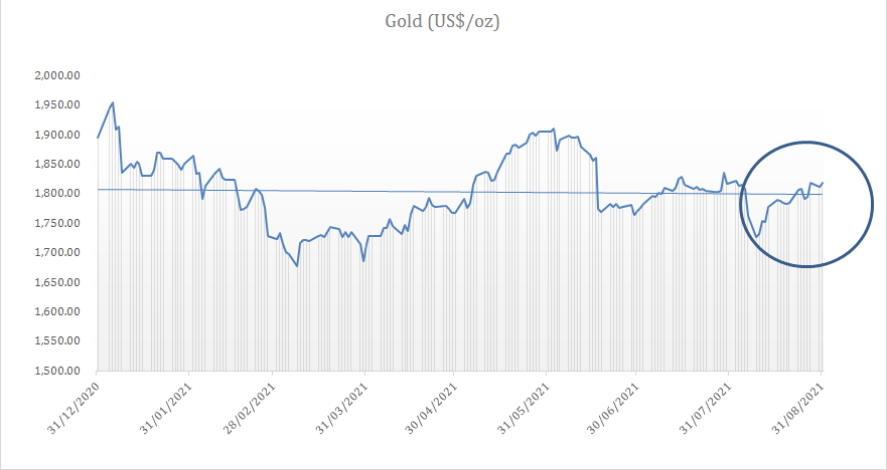
03 International Commodities Market

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

The gold price moved sideways but held support above the US$1,800/oz during the month of August. This has been on the back of the dollar trading sideways and declining US Treasury yields following softer than expected pending home sales.

Gold started the month of August trading at US$1,822.20/Oz and as at the end of the month it was trading at US$1,818.10/Oz down marginally by 1.0% compared to the month of July. The maximum price for the month stood at US$1,822.20/Oz and the minimum price was US$1,726.50/Oz, averaging US$1,788.37/Oz.

Fig.12: Gold



Source: Bloomberg Commodities

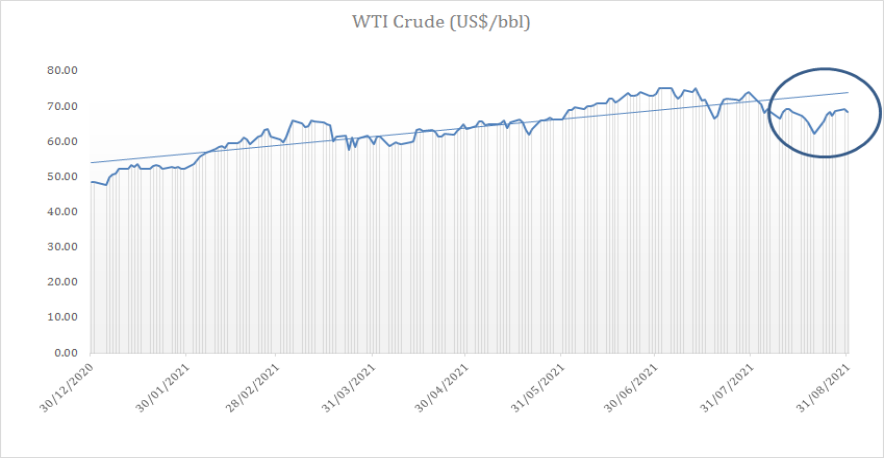
In the outlook, the yellow metal will be anchored by the outcome of the employment report next month. Yields should continue to move lower following Powell's signal to the markets that the Fed is likely going to remain dovish and will initiate the tapering of its bond purchase program sometime in 2021 which will support

gold for a while. Gold has been trading up at the end of August, with a weakening dollar giving the yellow metal a boost. Investors are now looking to U.S. economic data due in the first week of September to gains clues to when the U.S. Federal Reserve will begin asset tapering. Gold futures were up 0.33% to $1,818.15. The dollar, which normally moves inversely to gold, inched down and remained near two-week lows on the last day of August. The greenback steadied from its falls after Fed Chairman Jerome Powell did not provide a clear timeline for asset tapering and interest rate hikes during the previous week's Jackson Hole symposium. He only suggested that the asset tapering timeline could be "within 2021. However, Fed President Loretta Mester said she is not yet convinced that recent inflation readings will be enough to satisfy the conditions to begin asset tapering, despite the U.S. economy's continuing recovery from COVID-19. 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**$1,824.61.**

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

The price of crude oil witnessed its biggest loss in the month of August due to expected demand setbacks expected from the continues outbreak of Covid-19 with the delta variant and volatility in the dollar. WTI crude oil started the month of August at US$71.26/bbl and as at the end of the month it was trading at US$ 68.50/bbl indicating a decrease of 3.9% compared to July. The maximum price for the quarter was US$71.26/bbl and the minimum price was US$62.14/bbl bringing the average price to US$ 67.70/bbl.

Fig 13: Crude Oil



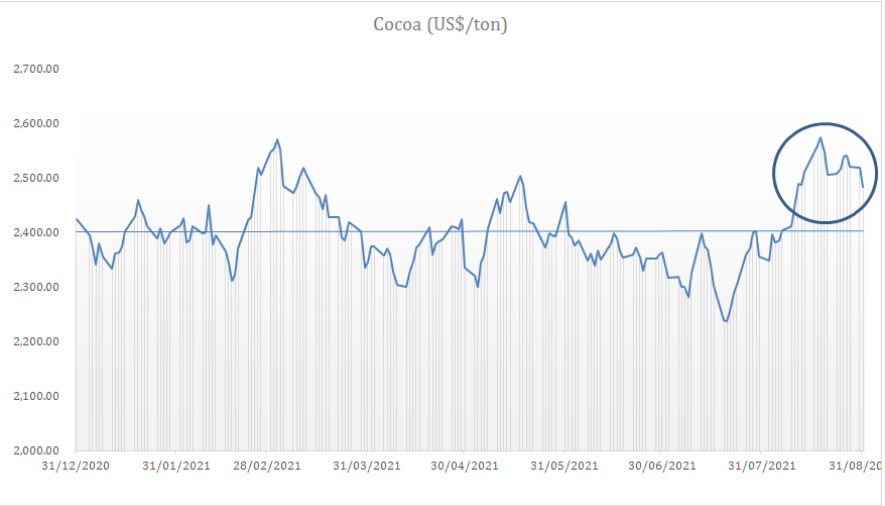
Source: Bloomberg Commodities

In the outlook, Oil was down in the early morning trading in the on the last day of the month of August, set for its biggest monthly loss since October 2020. The Organization of Petroleum Exporting Countries and allies (OPEC+) is expected to boost production further when it meets in the first week of September. U.S. Gulf Coast crude output is also slowly being restored after Hurricane Ida blew through the region. Brent futures were down 0.44% to $71.91 and WTI futures fell 0.46% to $68.89. OPEC+ will convene on 1/09/2021, where it is expected to boost supply by a further 400,000 barrels per day as the fuel demand outlook continues to improve. In the Gulf of Mexico, although crude producers are expected to gradually resume service after Hurricane Ida, local refineries are expected to take longer. It has been a roller-coaster month for the black liquid as investors reacted to global COVID-19 outbreaks involving the Delta variant and equal volatility in the U.S. dollar. However, the tide has turned in recent weeks, with the market a lot more comfortable that the recovery in demand has not been derailed by the COVID-19 Delta variant. However, the market will be watching the OPEC+ meeting for any signs that may confirm the rebound in demand. OPEC+ has already restored around 45% of the volume shut down in spring 2020 as the COVID-19 pandemic spread. Under a plan launched by Saudi Arabia's Energy Minister Prince Abdulaziz bin Salman, the cartel will return the remaining volume in monthly increments of 400,000 barrels a day until late 2022. On the basis of the above demand and supply factors we forecast the price of WTI Crude Oil to end the year at **US$ 68.06/bbl** and Brent Crude at **US$71.20/bbl.**

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

Cocoa has been trading higher in the month of August on signs of smaller supplies from the Ivory Coast in the month of August and the suspension of forward cocoa sales by Ivory Coast cocoa regulator for the 2021//22 season. Cocoa began the month of August trading at U$2,349.82/ton and by the end of the month it was trading at US$ 2,484.58/ton up by 5.7%. The highest price for cocoa recorded for the month was US$ 2,576.14/ton whilst the lowest price recorded was US$2,349.82/ton. The average price for the quarter stood at US$2,484.31/ton.

Fig 14: Cocoa



Source: ICCO

In the outlook, cocoa prices are forecast to trade sideways due on signs of smaller supplies from the Ivory Coast after the Ivory Coast government reported on 30/08/21 that Ivory Coast farmers sent 5,112 MT of cocoa to ports in the last week of the month of August, well below the 9,781 MT sent the same week last year. However, 2.41 MMT of cumulative cocoa was sent to Ivory Coast ports during Oct 1-Aug 29, up +6.2% y/y. Robust cocoa supplies from Ghana, the world's second-largest cocoa producer, are bearish for prices after the Ghana Cocoa Board reported on the 26/08/21 that it purchased 1.03 MMT of cocoa from farmers in the season of Oct 1 to Aug 19, the most in a decade. Ghana still has six more weeks left of cocoa purchases for the 2020/21 crop year. Cocoa prices had pushed higher over the past month up to a 5-1/2 month high in mid-Aug on signs of strengthening cocoa demand. IRI reported Aug 10 that U.S. retail sales of chocolate confections in the four weeks through July 11 rose +5.8% y/y. In addition, data on Aug 16 from the exporter group Gepex, a group of the world's six biggest cocoa grinders, showed that July Gepex cocoa processing rose +7.3% y/y to 50,088 MT. Meanwhile, cocoa prices continue to be undercut by concern that the spread of the Covid delta variant worldwide will reduce economic activity and demand for commodities, including cocoa. The Delta variant has forced renewed lockdowns across parts of Asia and Australia. Another factor that may drive prices down in the outlook is the abundant global cocoa supplies. 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. The above notwithstanding, global cocoa demand has improved and is a positive factor for prices. The Cocoa Association of Asia

reported July 16 that Asia Q2 cocoa grindings rose +9% y/y to 220,865 MT, stronger than expectations of +4% and a record increase for a Q2. Also, the National Confectioners Association reported that North American Q1 cocoa grindings rose +11.7% y/y to 123,719 MT, stronger than expectations of a +6% y/y increase. In addition, the European Cocoa Association reported July 13 that European Q2 cocoa processing rose +14% y/y to 356,854 MT, well above the consensus of +7.5% y/y and the largest Q2 increase in over ten years. 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$2,529.78 /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 debt market on the back of the drop in the MPC rate to reflect in the pricing of our asset and liability products. This we believe will go a long way to improve 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.

Trade Transactions

We project that there will be a resurgence in import trade in the last quarter of the year. This is expected as traders/importers and manufacturing companies restock for sale and production for the Christmas festivities and the new year. We therefore recommend the need for the Bank to strategically position itself to finance the trade needs of its corporate/commercial banking customers as well as prospective customers through Letters of Credit (LCs) to generate deposits as well as off-balance sheet revenues for the Bank. To be the Bank of choice, the availability of Fx becomes a critical commodity during this time of the year. This is therefore the time for Corporate banking and Treasury sales to intensify their efforts for Fx pipelines for such transactions. It will also provide opportunity for Fx trading by the Bank. This we believe will go a long way in enhancing the financial performance of the Bank in 2021.

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;
- import activities; and
- Industrial Production Activities.

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

05 Conclusions- *The need for Fiscal Consolidation Efforts and Superior Efficiency in Debt Management.*

On the global scale, although the process of global growth recovery is ongoing, driven by continued policy support and rising consumer confidence, the outlook remains uncertain. This is due to uneven vaccination across regions, rising Covid-19 infection rates fuelled by new variants of the virus, cases of vaccine hesitancy and divergence in the recovery across jurisdictions.

On the domestic front, on fiscal operations, the budget deficit exceeded its target in the first half of the year mainly on the back of revenue underperformance. Going forward, expenditure has to be aligned to revenue performance to support the fiscal consolidation efforts. Furthermore, at 76.6 percent of GDP in May 2021, the level of public debt raises debt sustainability concerns and hence the need for urgent fiscal consolidation efforts. Superior efficiency in debt management would be required, especially in the face of potential further tightening of global financing conditions which could heighten rollover threats and access to new financing in the outlook.