ECONOMIC UPDATE: REVIEW OF MONETARY POLICY REPORT

Monetary Policy Rate (MPR) Maintained at 13.5%.

28/09/2021

Introduction

On Monday 27th September 2021, the Monetary Policy Committee (MPC) of the Bank of Ghana concluded its 102nd regular meeting. The Committee maintained the policy rate at 13.5% citing the following reasons:

- ✓ Domestic economic growth continues to recover from the impact of the pandemic. High frequency economic indicators point to continued recovery in economic activity, even though below pre-pandemic levels.
- ✓ Although consumer confidence picked up, weakening business sentiments, stemming from supply disruptions, is adversely impacting input costs, driving down short-term company prospects.
- ✓ Also, while credit to the private sector saw a marginal pickup, the trends remain below expectations largely on account of pandemic-related risk aversion.
- ✓ The latest data suggests that fiscal consolidation efforts appear to be on track, but with some inherent risks associated with wage settlements and energy sector payments, amid low revenue mobilization.
- ✓ In addition, debt sustainability concerns remain, which warrants additional fiscal consolidation efforts, carefully balanced with sustainable growth strategies and efficient debt management strategies.
- ✓ Inflation has risen sharply over the last two readings, driven mainly by sustained food price increases. Although food inflation has pushed overall inflation close to the upper limit of the band, core inflation remains relatively subdued. In the view of the Committee, the increase in inflation is mainly due to food inflation which is expected to abate with the onset of the harvest season.
- ✓ This notwithstanding, the latest forecast indicates that inflation will remain within the medium-term target band, but closer to the upper limit in the near-term, in the absence of further unexpected shocks.
- ✓ Hence the Committee see a fairly balanced risks to inflation and growth in the outlook and decided to maintain the policy rate.

1. Global Developments

- ✓ The global economic recovery has continued, notwithstanding the spread of the Delta variant of the COVID-19 virus, and production constraints stemming from supply chain bottlenecks arising from the pandemic.
- ✓ Although the global economic outlook point to a rebound in 2021, these forecasts are subject to the evolution of the COVID-19 pandemic including the spread of emerging variants of the virus and the pace of vaccination campaigns around the world, and continued policy support.
- ✓ Global financial conditions have broadly remained supportive of the recovery process largely due to the continued accommodative stance of major central banks. Policy rates in major advanced economies are expected to remain low despite emerging inflationary pressures and stronger growth rebound.
- ✓ Yields on longer-dated bonds have declined in recent months amid concerns about the potential impact of the Delta variant of the COVID-19 virus on the global economic recovery, while sovereign spreads in emerging markets and developing economies have remained relatively compressed.
- ✓ The US Federal Reserve has now provided more clarity on the timing of scaling back its asset purchase programme, indicating that it is likely to begin in November 2021 and complete the process by mid-2022.
- ✓ However, previous uncertainties associated with the timing of the tapering of asset purchase programmes by the US Fed and other Central Banks in Advanced Economies have weighed on equity prices and capital

flows to Emerging Market and Developing Economies, exerting some downward pressures on local currencies.

- ✓ Global price developments data show a sharp rise in headline inflation above target in several Advanced and Emerging Market Economies, on account of higher energy prices, disruptions to supply chains and increased aggregate demand pressures as economies re-open, alongside supply side constraints.
- ✓ There is however, the general assessment that headline inflation will revert to target over the medium-term, supported by continued slack in labour market conditions and restraint in wage growth.
- ✓ The above developments—the recovery in global growth conditions, the tightening of global financing conditions, and rising global inflation trends—are likely to have spillover effects on the Ghanaian economy, mainly through their potential impacts on trade, portfolio flows, financing, and exchange rate movements.

Looking ahead, the IMF is projecting the global economy to grow at 6.0 percent in 2021 and 4.9 percent in 2022. 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.

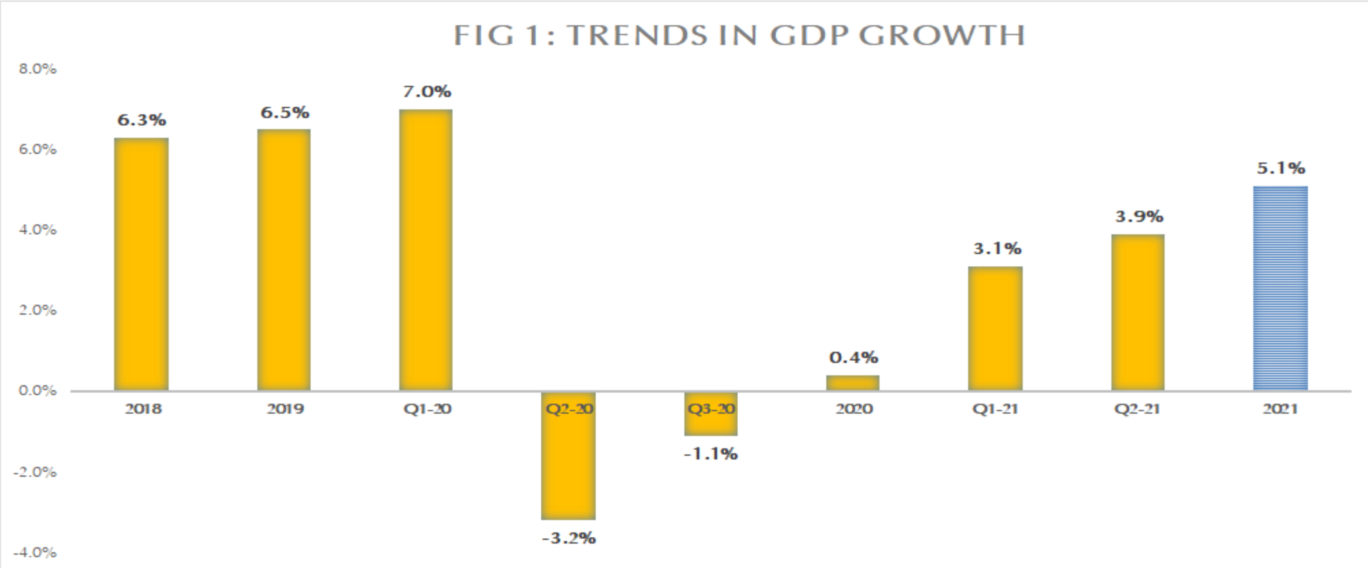
2. Domestic Economy

Real Sector Developments

- ✓ Developments continue to point to sustained recovery in economic activity following the downturn at the peak of the pandemic. The latest data from Ghana Statistical Service (GSS) indicate a stronger pick up in the annual GDP growth to 3.9 percent in the second quarter of 2021, from the 3.1 percent recorded in the first quarter, and a 5.7 percent contraction recorded in the same period of 2020.
- ✓ Non-oil GDP, for the same period, grew by 5.2 percent, compared with a contraction of 5.8 percent recorded for the same period in 2020.
- ✓ The stronger growth performance in the second quarter reflects the sharp rebound experienced in the cocoa sub-sector which grew by 27.6 percent; supported by equally stronger growth of 18.7 percent in Hotels & Restaurants, 13.8 percent in Real Estate, and 10.7 percent in trade.
- ✓ This stronger performance was however, moderated by a contraction of 18.9 percent in the mining and quarrying sub-sector, on account of a 10.8 percent contraction in the production of oil and gas.
- ✓ The Bank of Ghana's (BoG) update of the Composite Index of Economic Activity (CIEA) for July 2021 reflected continued recovery in domestic economic activity. The real CIEA recorded a 20.0 percent year-on-year growth in July 2021, compared with 20.2 percent in June 2021, and 3.9 percent growth in July 2020. The growth in the indicators were somewhat broad-based with port activity, imports, domestic VAT, and air-passenger arrivals accounting for the increase.
- ✓ The Ghana Purchasing Managers Index (PMI) fell in August 2021 mainly on the back of rising input costs. The decline in the Purchasing Managers Index was consistent with the results of the BoG's latest

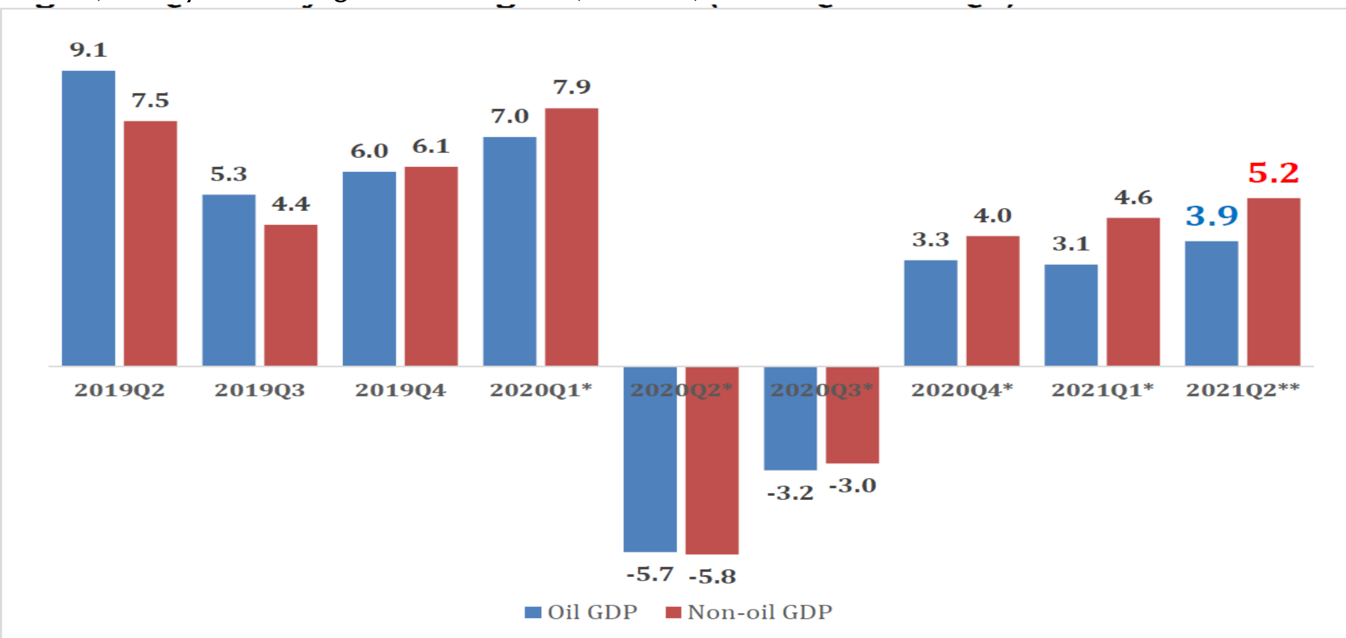
confidence surveys, conducted in August 2021, and which indicated some softening of business sentiments.

- ✓ The survey results revealed the inability of businesses to meet their short-term company targets driven by high input costs, unavailability of raw materials, weak consumer demand, and rising labour costs.
- ✓ Consumer confidence, on the other hand improved, reflecting optimism about current and future economic conditions.



Source: Ghana Statistical Service, GCB Research

FIG 2: Quarterly real GDP growth rate (2019Q2-2021Q2)



Source: Ghana Statistical Service

Table 1: Year-on-year growth rates in 2nd quarter of 2021

Sector	Expanding sub-sectors		Contracting sub-sectors	
Agriculture (5.5%)	Fishing	12.7%		
	Forestry & Logging	11.9%		
	Livestock	5.7%		
	Crops	4.5%		
Industry (-4.3%)	Water Supply, Sewerage, Waste Management & Remediation Activities	20.5%	Mining & Quarrying	-18.9%
	Electricity	9.5%		
	Manufacturing	8.3%		
	Construction	2.4%		
Services (11.0%)	Health & Social Work	22.5%		
	Information & Communication	20.0%		
	Hotel & Restaurants	18.7%		
	Real Estate	13.8		
	Education	11.8%		
	Trade, Repair of Vehicle, Household Goods	10.7%		
	Transport & Storage	7.6%		
	Public Administration & Defence, Social Security	6.6%		
	Finance & Insurance	5.1%		
	Other Personal Service Activities	4.9%		
	Professional, Administrative & Support	3.1%		

Source: Ghana Statistical Service

In the outlook, to support full recovery in economic activity, the Committee has decided to maintain the COVID-19 related macro-prudential measures, put in place by the Bank of Ghana for the time being. This is due to weakening business sentiments, stemming from supply disruptions, is adversely impacting input costs, driving down short-term company prospects. Also, while credit to the private sector saw a marginal pickup, the trends remain below expectations largely on account of pandemic-related risk aversion.

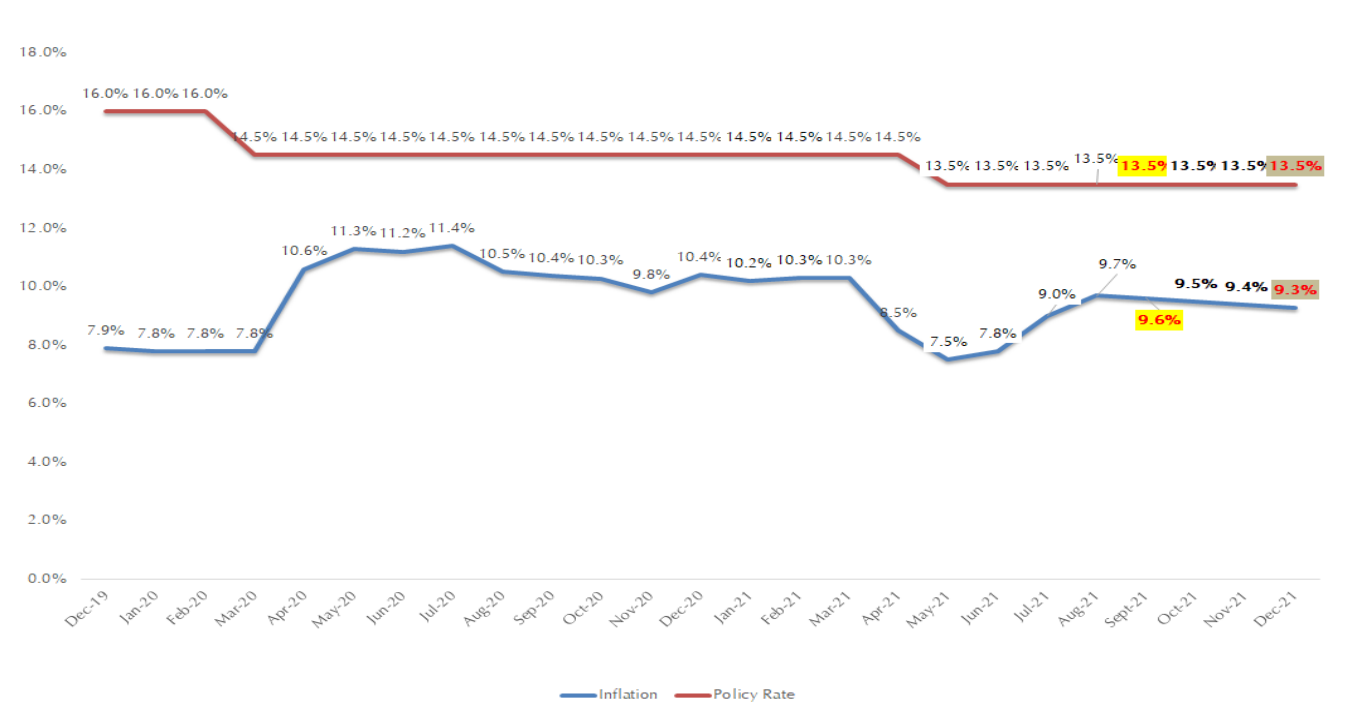
Notwistanding the sluggishness in lending that could undermine economic activity in the real sector, our expectation is for a bounce back in real GDP growth to 5.1% in 2021, from 0.4% in 2020. This will be on the back of a pick up in global and domestic conditions. The key hydrocarbons sector is expected to drive growth. Also, gold production will also bounce back coupled with the services sector. Furthermore, the agriculture sector is expected to drive growth given that it is benefiting from government efforts to improve cocoa and crop yields.

3. Price Developments

Inflation

- ✓ Price developments indicate an increase in the general price level during the third quarter of 2021. Two readings since the last MPC meeting showed significant increase in headline inflation from 7.8 percent in June 2021, to 9.0 percent in July, and further up to 9.7 percent in August, closer to the upper limit of the medium-term target band.
- ✓ The upward trajectory of inflation was mainly driven by a surge in food prices over the period. Food inflation increased from 7.3 percent in June to 9.5 percent in July, and then to 10.6 percent in August 2021.
- ✓ Non-food inflation also rose marginally from 8.2 percent, 8.6 percent, and then 8.7 percent over the same comparative months.
- ✓ The above trends are beginning to reflect in underlying inflation as all BoG's core measures of inflation increased over the period. The core inflation measure, which excludes energy and utility, increased from 7.5 percent in June 2021 to 8.9 percent in July, and then to 9.5 percent in August.
- ✓ The weighted inflation expectations index also picked up in July 2021, reflecting higher inflation expectations by businesses, consumers and the financial sector.

FIG 3: TRENDS IN INFLATION AND POLICY RATE



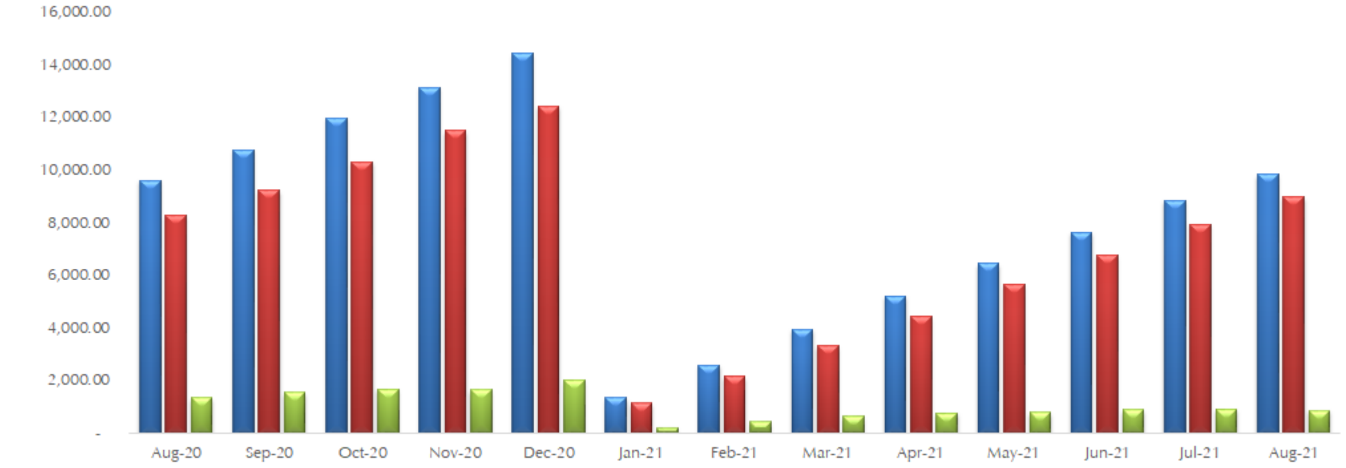
Source: Bank of Ghana, GCB Research

Inflation has risen sharply over the last two readings, driven mainly by sustained food price increases. Although food inflation has pushed overall inflation close to the upper limit of the BoG target band (6-10%), core inflation remains relatively subdued. In the view of the Committee, the increase in inflation is mainly due to food inflation which is expected to abate with the onset of the harvest season. This notwithstanding, the latest forecast indicates that inflation will remain within the medium-term target band, but closer to the upper limit in the near-term, in the absence of further unexpected shocks. The ongoing supply side pressure (high food prices, rising global commodity prices and supply-chain disruption, owing to the pandemic) is expected to keep inflation high for the rest of the year. We forecast inflation to end the year 2021 at 9.3±0.2%, from 10.4% in 2020. For the month of September 2021, we forecast inflation of 9.6±0.2%.

4. External Sector Developments

- ✓ International prices of the three major export commodities reflected mixed trends in the year to August 2021.
- ✓ Crude oil prices have remained bullish on account of OPEC+ production cuts which has led to steady draws on global oil inventories. The average price of crude oil went up by 40.4 percent on a year-to-date basis to US$70.5 per barrel in August 2021.
- ✓ Gold prices declined by 3.9 percent to average US$1,789.6 per fine ounce in August 2021, due to pressure from the strong US dollar.
- ✓ The average price of cocoa also decreased marginally by 1.0 percent to trade at US$2,555.9 per tonne due to ample supply from major cocoa producers.
- ✓ These price developments, together with production changes, impacted the trade account over the first eight months of the year. Total export receipts increased by 2.4 percent on a year-on-year basis to US$9.9 billion supported by higher prices realised from gold (up by 6.2 percent), cocoa (up by 4.2 percent), and crude oil prices (up by 58.1 percent). However, the impacts were moderated by a sharp decline in the volume of gold and crude oil exports by 20.9 and 20.1 percent on a year-on-year basis respectively, despite the 23.9 percent growth in volumes of cocoa beans exports.
- ✓ Total imports, on the other hand, increased by 8.6 percent to US$8.98 billion. This was driven mainly by a 58.5 percent increase in the value of refined petroleum products imports arising from increased demand as the economy returned to normalcy from last year's lockdown period.
- ✓ The higher import bill relative to export receipts resulted in a lower trade surplus of US$874.8 million in the year to August 2021, compared with a surplus of US$1.4 billion recorded in the same period of 2020.
- ✓ Gross International Reserves stood at US$11.4 billion (equivalent to 5.2 months of import cover), at the end of August 2021.

FIG 4: TRENDS IN EXPORTS AND IMPORTS (USD MILLION)



	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21
Export	9,620.60	10,789.60	12,001.30	13,162.80	14,452.80	1,355.40	2,594.60	3,961.60	5,209.90	6,451.20	7,649.70	8,865.00	9,857.20
Import	8,271.60	9,244.00	10,332.30	11,518.10	12,437.40	1,135.40	2,161.90	3,329.20	4,431.20	5,650.80	6,760.00	7,936.90	8,982.40
Trade Balance	1,349.00	1,545.60	1,669.00	1,644.70	2,015.40	220.00	432.70	632.40	778.70	800.40	889.70	928.10	874.80

Source: Bank of Ghana

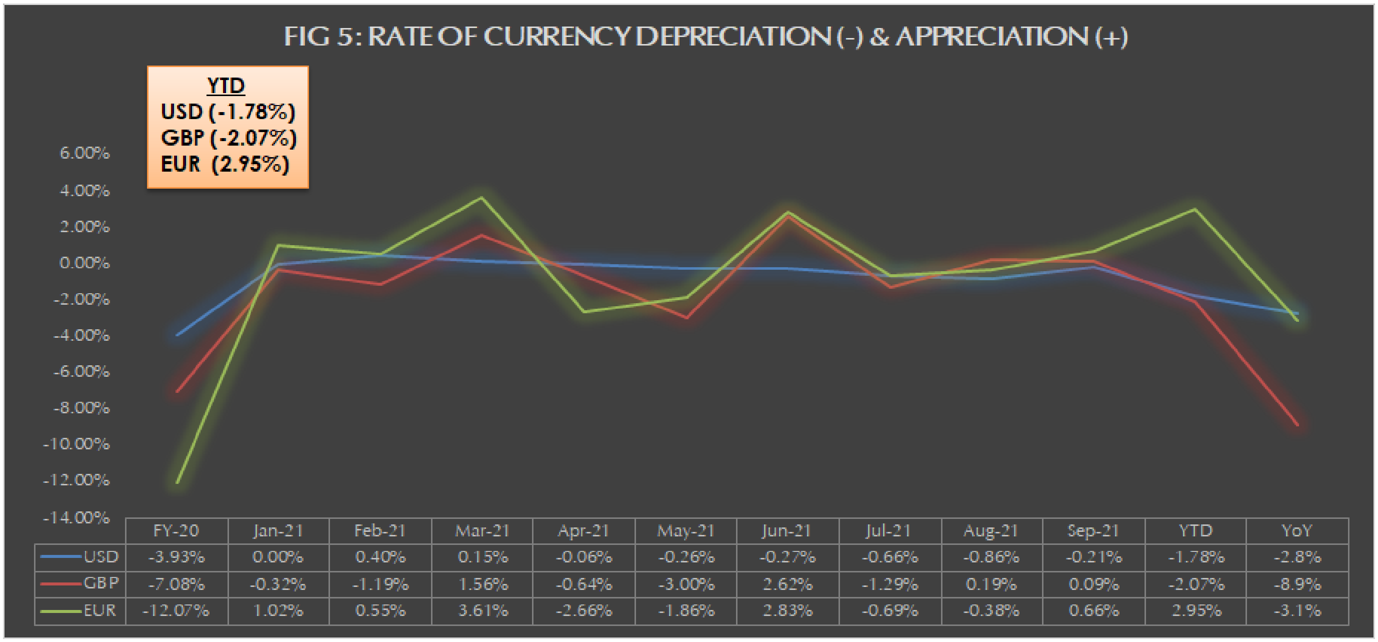
On the external sector, the Committee was of the view that the external payments position remained strong despite the decline in the trade surplus due to a stronger import growth and a widening current account deficit which has been adequately financed with external inflows from portfolio and foreign direct investments.

We expect the trade surplus to narrow in 2021 on the back of moderate production especially in crude oil and gold in spite of higher average oil and gold prices on the international commodities market. The trade surplus will steadily decline in the medium term, reflecting sluggish export growth relative to imports as oil production volumes remain flat until 2025 and as oil prices decline over the medium term.

The services account will remain in deficit in 2021 and beyond, 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.

Exchange Rate Developments

- ✓ The strong reserves build-up over the year provided some buffer to the local currency, which came under some demand pressures from commerce, manufacturing, and energy sectors as economic activity picked up in the third quarter.
- ✓ Cumulatively, available data as at September 27, 2021 shows that the Ghana Cedi recorded a depreciation of 1.8 percent against the US dollar, compared with a depreciation of 3.0 percent for the same period of 2020.
- ✓ The Ghana cedi also depreciated by 2.1 percent against the Pound Sterling but appreciated by 2.9 percent against the Euro over the same period.



	FY-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	YTD	YoY
USD	-3.93%	0.00%	0.40%	0.15%	-0.06%	-0.26%	-0.27%	-0.66%	-0.86%	-0.21%	-1.78%	-2.8%
GBP	-7.08%	-0.32%	-1.19%	1.56%	-0.64%	-3.00%	2.62%	-1.29%	0.19%	0.09%	-2.07%	-8.9%
EUR	-12.07%	1.02%	0.55%	3.61%	-2.66%	-1.86%	2.83%	-0.69%	-0.38%	0.66%	2.95%	-3.1%

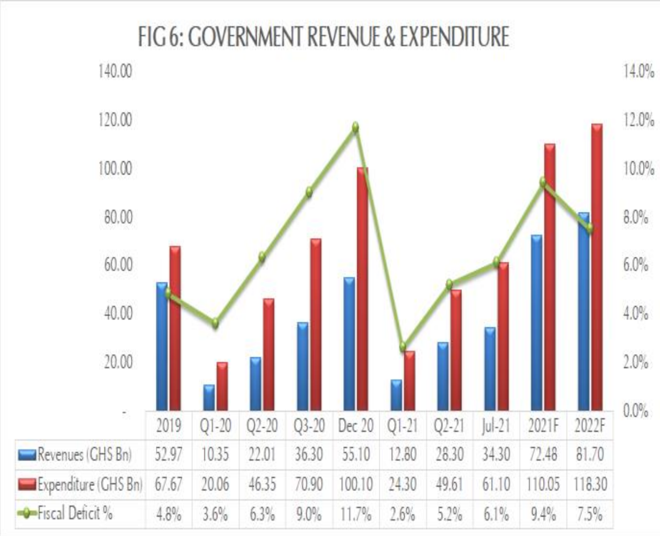
Source: Bank of Ghana & GCB Research.

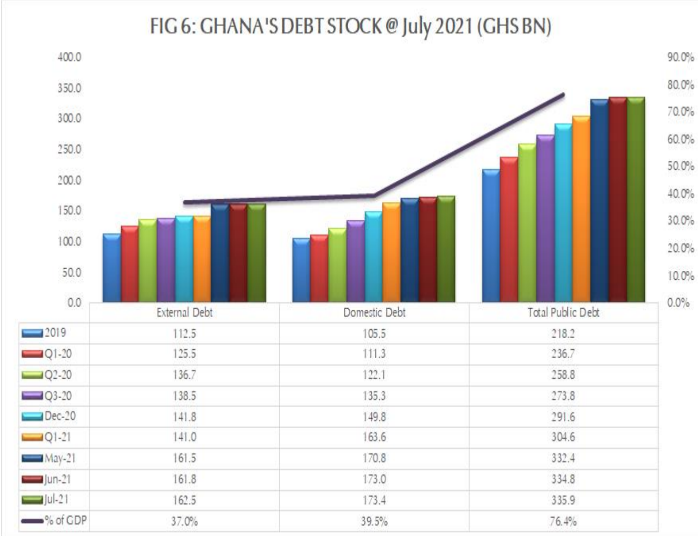
The Ghana Cedi has performed strongly with a year-to-date depreciation of 1.8 percent against the dollar. The country's higher sovereign spread has not shifted foreign investor behaviour as net monthly purchases of securities on both the debt and equity markets remain relatively favourable. In the outlook, rising interest rates in advanced economies on account of tapering may pose some risks. However, the strong reserve build-up and foreign exchange inflows from the recent Special Drawing Rights (SDR) allocation by IMF and the expected syndicated cocoa loan proceeds should help cushion any currency pressures in the near-term. We expect the cedi to weaken slightly in the remainder of 2021, ending the year at GH¢5.92: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.

Fiscal Developments

Fiscal/Debt Situation

- ✓ Provisional data on the budget execution for the period January to July 2021 indicated an overall broad cash fiscal deficit of 6.1 percent of GDP, against the target of 5.7 percent of GDP. This was due to higher revenue shortfalls.
- ✓ The corresponding primary balance was a deficit of 1.9 percent of GDP compared to the target deficit of 1.3 percent of GDP.
- ✓ Over the period, total revenue and grants amounted to GH¢34.3 billion (7.8 percent of GDP), below the projected GH¢38.8 billion (8.8 percent of GDP).
- ✓ Total expenditures and arrears clearance amounted to GH¢61.1 billion (13.9 percent of GDP), which was below the programmed target of GH¢63.8 billion (14.5 percent of GDP).
- ✓ These developments impacted the stock of public debt which increased to 76.4 percent of GDP (GH¢335.9 billion) at the end of July 2021, compared with 76.0 percent of GDP (GH¢291.6 billion) at the end of December 2020.
- ✓ Of the total debt stock, domestic debt was GH¢173.4 billion (39.5 percent of GDP) while the external debt was GH¢162.5 billion (37.0 percent of GDP).





Source: Bank of Ghana.

According to the MPC, the latest data suggests that fiscal consolidation efforts appear to be on track, but with some inherent risks associated with wage settlements and energy sector payments, amid low revenue mobilization. In addition, debt sustainability concerns remain, which warrants additional fiscal consolidation efforts, carefully balanced with sustainable growth strategies and efficient debt management strategies. The expectation on fiscal policy implementation in the remaining months of the year will be shaped by revenue collection efforts and strict alignment of expenditures with revenue inflows to ensure attainment of the fiscal deficit target for the year.

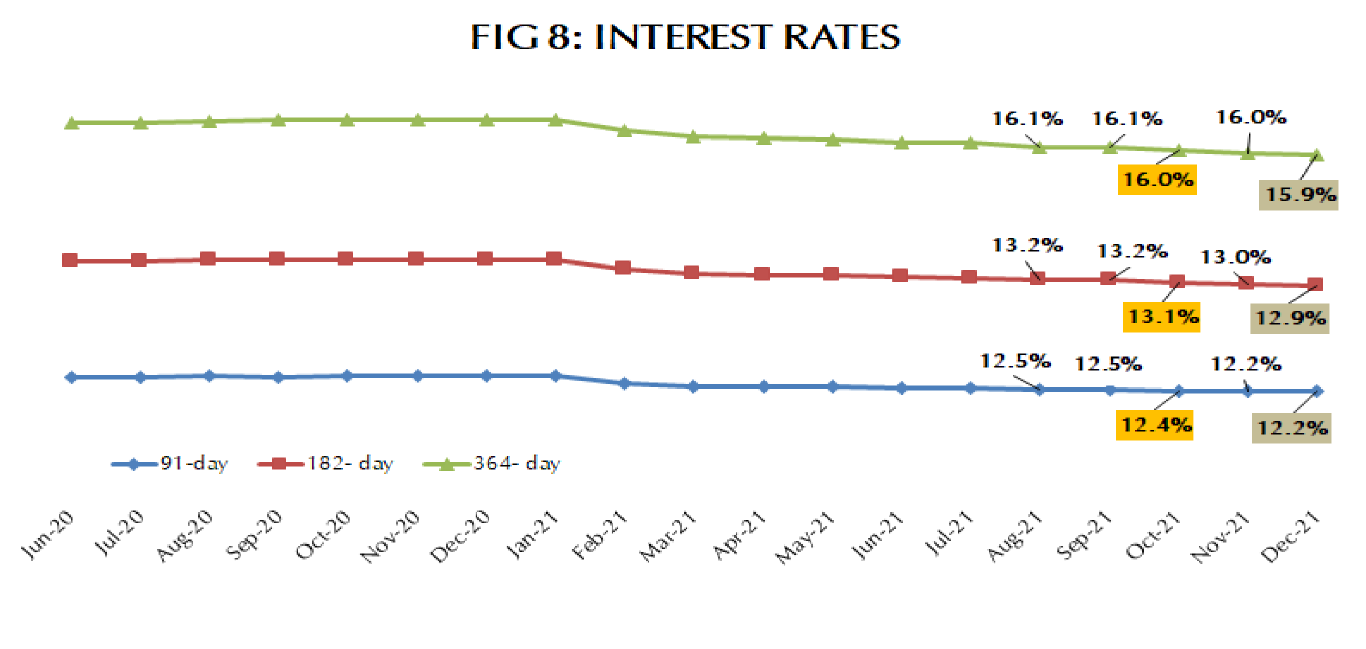
From our point of view, efforts to improve tax collection methods, including some temporary measures such as a 1-percentage-point increase in the national health insurance levy and the value-added tax (VAT) rate, will help to boost government receipts in the last quarter. Also, we expect spending to 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 9.4% of GDP in 2021, from 11.7% of GDP in 2020.

The public debt/GDP ratio peaked at an estimated 76.0% at end-2020; we expect it to trend upwards marginally closing the year at about 77% before declining to 69% in the medium term due to output growth. 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.

5. Monetary Developments and Debt Market

- ✓ The pace of growth in total liquidity moderated in August 2021. Broad money supply (M2+) increased, on a year-on-year basis, by 20.2 percent in August 2021, compared with the 24.8 percent growth recorded in August 2020. The slower growth was due to a contraction in the Net Foreign Assets (NFA) of the banking sector.
- ✓ Reserve money, on the other hand, increased significantly by 36.7 percent, compared with 20.2 percent over the same comparative period, largely reflecting the net build-up in the Bank's foreign reserves, higher cocoa purchases than anticipated, and continued implementation of COVID-related policy measures.

- ✓ Money market interest rates continued on the downward path across the yield curve. The 91-day and 182-day Treasury bill rates declined to 12.5 percent and 13.3 percent respectively, in August 2021, from 14.0 percent and 14.1 percent respectively, in August 2020.
- ✓ Similarly, the rate on the 364-day instrument decreased marginally to 16.2 percent from 16.9 percent over the same comparative period.
- ✓ Except for rates on the 15-year and 20-year bond which remained unchanged at 19.8 percent and 20.2 percent, respectively, rates on all other medium- to long-term instruments generally declined.
- ✓ The weighted average inter-bank rate declined to 12.6 percent from 13.6 percent, largely reflecting improved liquidity conditions on the inter-bank market, which had transmitted to lending rates.
- ✓ Consequently, average lending rates of banks declined marginally to 20.5 percent in August 2021 from 21.4 percent recorded in the same period of 2020, consistent with developments in the inter-bank market.



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 last quarter of 2021 with the 91-day and 182-day bills projected to close the year at 12.2% and 12.9% respectively. The 364-day instrument is also forecast at 15.9% for the same period. This is a reflection of government debt management strategy of re-profiling its debt into long term, reliant on borrowing from external sources and the drop in the MPC rate to 13.5%.

6. Banking Sector Developments

- ✓ The banking sector remained strong and well-capitalised, with stronger growth in total assets, investments and deposits.
- ✓ Total assets increased by 16.7 percent to GH¢166.4 billion as at end-August 2021, driven mainly by a 28.0 percent year-on-year growth in investments to GH¢80.3 billion.
- ✓ Growth in gross advances rose by 8.7 percent as at August 2021 from the end-June position of 5.7 percent.
- ✓ Strong liquidity flows during the period resulted in a 21.8 percent annual growth in total deposits to GH¢111.6 billion.

- ✓ Financial Soundness Indicators (FSIs) have remained strong over the period. The industry's Capital Adequacy Ratio was 20.7 percent at the end of August 2021, well-above the regulatory minimum threshold of 11.5 percent.
- ✓ Core liquid assets to short-term liabilities was 24.7 percent in August 2021 compared with 29.0 percent a year ago.
- ✓ Over the same comparative period, net interest income grew by 17.9 percent to GH¢8.3 billion, marginally lower than the 18.7 percent growth a year ago.
- ✓ Net fees and commissions grew strongly by 21.8 percent to GH¢1.85 billion, higher than the growth of 8.9 percent for same period last year, reflecting the continued recovery in trade finance-related and other ancillary businesses of banks.
- ✓ Total operating income rose by 15.7 percent, marginally below the corresponding growth rate of 17.0 percent.
- ✓ Cost control measures within the banking sector continued to support profit performance with operating costs increasing by 9.0 percent, lower than the 12.1 percent increase for same period in 2020.
- ✓ Loan loss provisions also increased by 5.3 percent, compared with the 29.5 percent growth a year ago.
- ✓ Profit before tax accordingly increased by 27.4 percent to GH¢4.9 billion, higher than the growth of 19.2 percent a year ago.
- ✓ Private sector credit growth has not fully recovered to pre-pandemic levels due to lingering supply-side risk aversion from the shock of the pandemic as well as slower-than-expected growth in demand for loans that are backed by bankable projects.
- ✓ Annual nominal growth in private sector credit slowed to 9.5 percent in August 2021 compared with 14.3 percent, in the corresponding period of 2020.
- ✓ Similarly, real private sector credit contracted marginally by 0.1 percent compared to a growth of 3.4 percent, recorded over the same comparative period.
- ✓ New loans and advances by banks totalled GH¢21.6 billion in the year to August 2021, marginally above the GH¢20.7 billion for the same period in 2020.
- ✓ The Non-Performing Loans (NPL) ratio increased from 15.5 percent in August 2020 to 17.3 percent in August 2021, reflecting in part the general pandemic-induced repayment challenges as well as some bank-specific loan recovery challenges.
- ✓ **The latest stress tests conducted on the banking sector show that banks remained resilient under mild to moderate stress conditions supported by strong capital and liquidity buffers and the regulatory reliefs introduced during the pandemic.**
- ✓ The Specialized Deposit-Taking Institutions (SDIs) and Non-Bank sub sectors continued to reflect gains after the clean-up process. In July 2021, the balance sheet of the Savings and Loans, Finance Houses, Rural and Community Banks and Micro-Finance Institutions improved, compared with July 2020. This was driven by a strong growth of 27.0 percent in deposits relative to 15.7 percent growth in July 2020, and gross advances also increased by 17.3 percent compared with a contraction of 19.3 percent over the same comparative period.

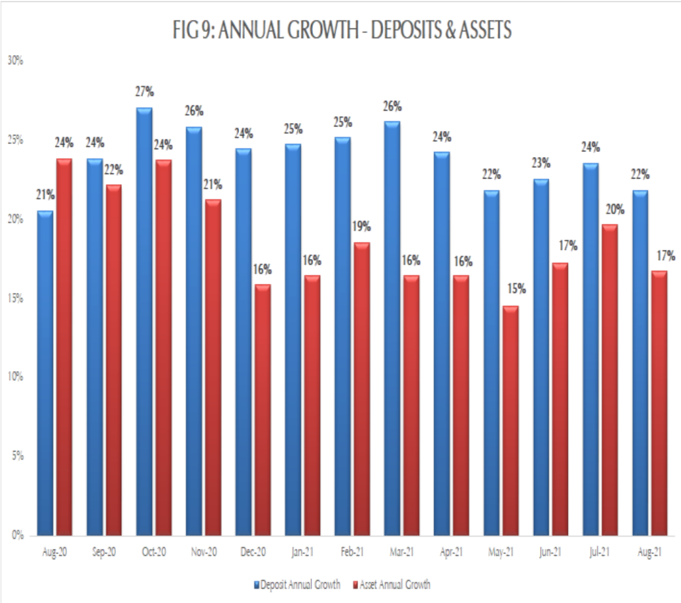


FIG 9: ANNUAL GROWTH - DEPOSITS & ASSETS

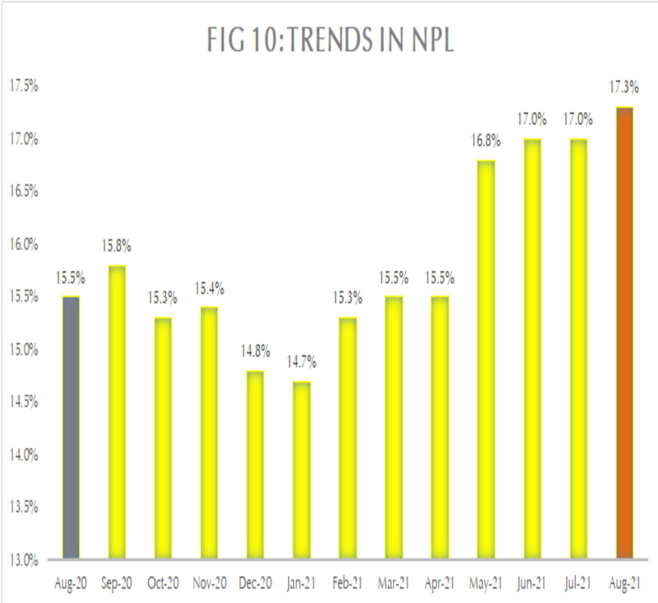


FIG 10: TRENDS IN NPL

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 again as was expected per our prior report in July citing fairly balanced risks to inflation and growth in the outlook. The Committee also did indicate that a close monitoring of the inflation situation is however warranted to respond swiftly to prevent potential second round effects on headline inflation from the rising food inflation. The Committee stands ready to respond appropriately as needed if this particular risk materialises. The BoG dropped the policy rate earlier in the year to facilitate a reduction in cost of borrowing and stimulate credit creation for economic recovery and growth. But this has since not materialized as expected due to continuing increase investments by Banks in high-yielding Government securities to improve their earnings while moderating their credit risk due to uncertainties in the business environment. The trend of increased domestic financing of the deficit (driven by high-yielding Govt. paper held largely by banks) is crowding out credit to the private sector. If this trend persists, it will not come as a surprise if there is a marginal drop in the rate again by the BoG to stimulate credit and domestic demand. On the other hand, monetary tightening by the BoG will only arise in the near future on the back of inflationary pressures- (that may push inflationary expectations beyond the BoG target band) due to unanticipated shocks. Meanwhile, according to BoG, their latest inflationary forecast remains broadly unchanged with inflation projected to remain within the medium-term target band, but closer to the upper limit in the near-term, in the absence of further unexpected shocks. On that basis, we do not expect any adjustments in the policy rate in the next three (3) months.

8. Implications for GCB Bank

1. The second quarter GDP figures released by the Ghana Statistical Service indicates that developments continue to point to sustained recovery in economic growth with a GDP of 3.9% in June compared to 3.1% in Q1-21. Non-oil GDP, for the same period, grew by 5.2%. This reflects sharp rebound experienced in the cocoa sub-sector which grew by 27.6 percent; supported by equally stronger growth of 18.7 percent in Hotels & Restaurants, 13.8 percent in Real Estate, and 10.7 percent in trade. The CIEA also indicated broad-based growth in economic activities from port activity, imports, domestic VAT, and air-passenger arrivals. These growth sectors 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 inherent risk in certain sectors of the economy due to the pandemic.

2. As we go into the last quarter of the year, our expectation is for further increase in import trade. This will be on the back of traders/importers and manufacturing companies restocking 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.
3. Persistently, the MPC report has reiterated unpleasant credit environment with a marginal uptick in Non-Performing Loans (NPL) ratio to 17.3% as at August 2021 from 17.0 percent in June 2021 and compared to 15.5% same period last year reflecting in part the general pandemic-induced repayment challenges as well as some bank-specific loan recovery challenges. This is an indication that credit risk appears elevated and that we are not out of the clutches of the pandemic and hence credit needs to be carefully monitored. Also, the BoG's business confidence survey has revealed the inability of businesses to meet their short-term company targets driven by high input costs, unavailability of raw materials, weak consumer demand, and rising labour costs. This could affect loan repayment and recoveries and exacerbate the Bank's NPLs. To minimise this situation, constant monitoring of loan portfolios by Relationship Managers (RMs) is required to detect early warning signs of loan deterioration for possible restructuring, provisioning and recovery.
4. Furthermore, opportunity exists for investing in attractive Government bonds by the Treasury department on high yields offered on Government securities due to increased Government borrowing.
5. Also, we expect the marginal easing in rates currently and into the near future to reflect in the pricing of our asset and liability products especially FDs.